



The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Kuwait Investment Company (Pvt.) Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 28-Dec-2018 | AAA | A1+ | Stable | Maintain | - |
| 13-Jun-2018 | AAA | A1+ | Stable | Maintain | - |
| 14-Dec-2017 | AAA | A1+ | Stable | Maintain | - |
| 14-Jun-2017 | AAA | A1+ | Stable | Maintain | - |
| 06-May-2016 | AAA | A1+ | Stable | Maintain | - |

Rating Rationale and Key Rating Drivers

Development Financial institutions (DFIs) largely operate on turf common to commercial banks. Limited depth in participation towards development of long gestation projects, low funding base and high competition become their key challenges.

Joint Venture Financial Institutions are DFIs jointly conceived by the two sovereigns with primary objective of identifying and nurturing multiple development initiatives. Their ratings are mainly characterized by sovereign ownership, adequate standards of governance and relatively conservative risk appetite.

The ratings benefit from the company's strong financial profile emanating from robust risk absorption capacity and sound liquidity. Despite increasing credit offtake in the country, PKIC's lending book shrunk following a prudent lending and risk management approach. The management is cognizant of the opportunities and is contemplating an appropriate strategy. Nonetheless, the build-up of strategic equity investments in different companies provides a strong and stable income stream in the shape of dividends; hence, comforting the net profits. The company has focused on treasury operations where it is enhancing its participation in money market. The liquidity profile of the institution remains comfortable with access to financial institutions to support its treasury and lending operations. Going forward, the management, while continuing to prudently increase its advances book, would focus on non-fund based revenue stream.

The ratings are dependent on the management's ability to sustain its financial profile while managing the associated risks. Management's efforts to diversify its operations, finding a new niche for growth, while sustaining its profitability would remain critical.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Pakistan Kuwait Investment Company (Pvt.) Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Financial Institution(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18) |
| Related Research | Sector Study DFI(Jun-18) |
| Rating Analysts | Sehar Fatima sehar.fatima@pacra.com +92-42-35869504 |

The Pakistan Credit Rating Agency Limited
Profile

Structure Pak Kuwait Investment Company (Pvt.) Limited was incorporated as Private Limited Company on March 17, 1979 with the registered office in Karachi.

Background Kuwait Investment Authority has primarily investments in real estate, private equity, public equity, fixed income, and alternative investment markets across the globe.

Operations The objective of the company is to profitably promote industrial investment in Pakistan. Over the years, PKIC has played a pivotal role in promoting industrial activity, by way of equity and debt instruments in different sectors of the economy. It also developed a good and diversified portfolio of strategic and equity investments.

Ownership

Ownership Structure Pak Kuwait Investment Company (Pvt.) Limited is an equally owned joint venture between Pakistan and Kuwait. State Bank of Pakistan (SBP) manages the ownership interests of the Government of Pakistan, while Kuwait Investment Authority (KIA) represents the Government of Kuwait. The governments of Kuwait and Pakistan have been rated "Aa2 (Stable)" and "B3 (Negative)" respectively, by Moody's in 2018.

Stability The ownership structure has remained largely same since inception of the company. Hence, the structure is not expected to change in foreseeable future.

Business Acumen The business acumen of the sponsors is considered strong.

Financial Strength The financial strength is considered strong.

Governance

Board Structure The overall control of the company vests with six-member board of directors including the CEO and five non-executive directors having equal representation from both governments.

Members' Profile All the board members carry vast experience from diversified sectors. The Chairman of the board, Mr. Abdullah Abdulwahab Al-Ramadhan, a representative of KIA, has extensive experience in the field of finance and investment management.

Board Effectiveness The board has formulated three board committees for effective monitoring. All board members attended five board meetings conducted during the year. Minutes were detailed and well captured.

Financial Transparency Board has set-up a three member Internal Audit Committee, that reports to the Board. M/s KPMG Taseer Hadi & Co., Chartered Accountants, are external auditors of the Company, expressed an unqualified opinion in their audit report for the year ended December 31, 2017. An interim review was conducted for the six months period ending June 30th, 2018.

Management

Organizational Structure Well-defined organizational set-up of the company falls under the purview of the Managing Director except for Internal Audit and Risk Management Unit; who report to the Board Audit Committee and Board Risk committee respectively.

Management Team All the team members carry vast experience from diversified sectors. Mr. Mansur Khan, CEO is associated with the company since Feb'14, carries over 30 years of diversified experience in the banking and development sector locally and abroad.

Effectiveness The management meets regularly to discuss the departments performance.

MIS The department heads monitor performance on daily basis through different MIS reports being generated through system and reports to the CEO.

Risk Management Framework Cognizant of the risk associated with operations, Pak Kuwait has installed and implemented various models and manuals to minimize the company wide risks.

Business Risk

Industry Dynamics DFI industry has grown with achieving a CAGR of 11% in the lending portfolio and 10% in funding, over a span of 5 years. Portfolio quality is improving with better risk monitoring and conservative lending. Going forward, to compete with the other financial institutions (commercial banks primarily), the industry players need to identify new niche for the expansion of DFIs operations.

Relative Position Pak Kuwait Investment Company (Pvt.) Limited is one of the big players in the market. Marked 5% share in the lending portfolio of JVFI industry, while it has been able to tap 29% of the JVFI industry's funding base.

Revenues Interest earned witnessed an uptick to stand at PKR 696mln (9MCY17: PKR 562mln), up ~24% YoY. Net interest margin improved to PKR 638mln (9MCY17: PKR 484mln), up 32% YoY driven by significant decline in interest expense.

Performance Other operating income is witnessed surge in 9MCY18 primarily on account of stable share in profit from associates and increased gains on sale of investment (9MCY18: PKR 2,645mln; 9MCY17: PKR 1,880mln). The cost to net revenue clocked in at ~15% (CY17: 17%) as revenue base enhanced. Augmented by other income and reversal of provisions, the Company's reported profit stood at PKR 2,270mln (9MCY17: PKR 1,451).

Sustainability Going forward, focus on strengthening the credit processes while tapping new customers. Strengthening non-fund based revenues through new products for entering into new sectors.

Financial Risk

Credit Risk Despite the decline in company's loan book during 3QCY18 by 38% (CY17: 24%), total assets increased slightly by 2% (3QCY18: PKR 29,622mln; CY17: PKR 29,129mln) on account of rise in investment book. Advances portfolio was passively managed (20% decline in gross advances). In CY17, top three sector exposure were Textile (54%), Power (14%) and Petroleum (10%). Infection ratio inched up (9MCY18: 31%; CY17: 27%) primarily driven by decline in advances. However, exposures are fully provided (9MCY18: 100%; CY17: 99%).

Market Risk During 9MCY18, Company's investment in Government securities increased by 20% (9MCY18: PKR 5,400mln; CY17: PKR 4,500mln), which comprises 23% of the total investments. Within the government securities T-Bills and PIBs have weightage of 93% and 7% respectively as at end-Sep18. The top sectors for equity investments remained Banks, Power and Oil & Gas. Despite consistent competition in the banking industry, Meezan Bank after tax profit grew by 32% YOY (9MCY18: PKR 4.8bln; CY17: PKR 6.3bln). Given strategic nature and healthy performance of majority of the investments, market risk is considered minimal. However, Company is planning to sell off Pak Kuwait Takaful.

Liquidity And Funding Assets and Liabilities Committee is responsible for supervising interest rate risks and maturity mismatch management. Liquid assets are on the higher proportion with deposits and borrowings (9MCY18: 658%; CY17: 335%), thus provide comfortable cushion to borrowings and deposits. With expansion in funding base, maintaining the liquidity level would remain central for the company. Company's funding profile remained tilted towards bank borrowings (100%), while there is no funding through COIs.

Capitalization A strong equity base (9MCY18: PKR 26bln; CY17: PKR 24bln), mainly comprising Tier-I capital provides comfort to absorb the impact of any adverse macroeconomic performance related shocks. Pak Kuwait's capital adequacy 41% remained above regulatory requirement.



DFI

The Pakistan Credit Rating Agency Limited

Financials (Summary)

Pakistan Kuwait Investment Company (Pvt.) Limited

PKR mln

| BALANCE SHEET | 30-Sep-18 | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 |
|--|------------------|------------------|------------------|------------------|
| | 9M | Annual | Annual | Annual |
| Assets | | | | |
| Earning Assets | | | | |
| Advances | 2,382 | 3,166 | 4,314 | 4,997 |
| Debt Instruments | 1,790 | 1,114 | 1,380 | 1,438 |
| - Total Finances | 4,172 | 4,280 | 5,694 | 6,435 |
| Govt Securities | 5,400 | 4,500 | 3,089 | 6,645 |
| Equity Investments | 3,629 | 3,648 | 3,930 | 3,865 |
| Investments in Associates & Subsidiaries | 14,533 | 13,660 | 12,807 | 10,194 |
| - Total Investments | 23,562 | 21,808 | 19,826 | 20,704 |
| Others | 1,029 | 2,495 | 2,650 | 21 |
| Non Earning Assets | | | | |
| Non Earning Cash | 52 | 61 | 62 | 64 |
| Deferred Tax | - | - | - | - |
| Net Non Performing Finances | - | 1 | 108 | 117 |
| Fixed Assets & Others | 807 | 484 | 601 | 1,026 |
| Total Assets | 29,622 | 29,129 | 28,941 | 28,367 |
| Liabilities | | | | |
| Certificates of Investment | - | 3 | 4 | 180 |
| Borrowings | 1,423 | 2,562 | 2,662 | 6,247 |
| Interest Bearing Liabilities | 1,423 | 2,565 | 2,666 | 6,427 |
| Non Interest Bearing Liabilities | 2,074 | 1,757 | 1,588 | 1,324 |
| Equity | | | | |
| Total Equity | 25,882 | 24,128 | 22,822 | 19,727 |
| Revaluation Surplus | 243 | 679 | 1,865 | 889 |
| TOTAL LIABILITIES & EQUITY | 29,622 | 29,129 | 28,941 | 28,367 |

INCOME STATEMENT

| | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Interest/ markup earned | 696 | 741 | 1,028 | 1,229 |
| Interest/ markup expensed | (58) | (104) | (244) | (365) |
| Net Interest/ markup revenue | 638 | 637 | 784 | 864 |
| Other Income | 2,645 | 2,403 | 3,787 | 2,620 |
| Total revenue | 3,283 | 3,040 | 4,571 | 3,484 |
| Non Interest/ Non Markup expensed | (490) | (520) | (443) | (545) |
| Pre-provision Profit | 2,793 | 2,520 | 4,128 | 2,939 |
| (Provision)/ Reversal | 26 | 73 | 0 | (435) |
| Taxes | (549) | (743) | (676) | (676) |
| Net Income | 2,270 | 1,850 | 3,453 | 1,828 |

Ratio Analysis

Performance

| | | | | | |
|------------------------------|-------|---|-------|-------|-------|
| ROE | 12.1% | * | 7.9% | 16.2% | 9.6% |
| Cost-to-Total Net Revenue | 14.9% | | 17.1% | 9.7% | 15.6% |
| Capital Gains/ Total Revenue | 4.5% | | 3.0% | 7.0% | 10.1% |

Capital Adequacy

| | | | | | |
|-----------------------------------|-------|--|-------|-------|-------|
| Equity / Total Assets | 87.4% | | 82.8% | 78.9% | 69.5% |
| Capital Adequacy ratio as per SBP | 41.2% | | 41.3% | 39.8% | 38.9% |

Funding & Liquidity

| | | | | | |
|--------------------------------------|--------|--|--------|--------|--------|
| Liquid Assets/ Deposits & Borrowings | 658.3% | | 335.1% | 275.3% | 168.3% |
| Finances/ Deposits & Borrowings | 369.6% | | 211.9% | 271.9% | 125.4% |

Loan Loss Coverage

| | | | | | |
|--|--------|--|-------|-------|-------|
| Loan Loss Provisions/ Impaired Lending | 100.0% | | 99.9% | 93.0% | 92.8% |
| Net Impaired Lending/Total Equity | 0.0% | | 0.0% | 0.5% | 0.6% |

Pakistan Kuwait Investment Company (Pvt.) Limited

Dec-18

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Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

| Long Term Ratings | | Short Term Ratings | |
|--|---|--------------------|--|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments | A1+ | The highest capacity for timely repayment. |
| AA+ AA AA- | Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. | A1 | A strong capacity for timely repayment. |
| A+ A A- | High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions. | A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| BBB+ BBB BBB- | Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. | A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| BB+ BB BB- | Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met. | B | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. |
| B+ B B- | High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. | C | An inadequate capacity to ensure timely repayment. |
| CCC CC C | Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default. | | |
| D | Obligations are currently in default. | | |



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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