

Directors Report to the Members of Pakistan Institute of Corporate Governance (PICG) for the Year Ended 30 June 2021

The Board of Directors PICG is pleased to issue its report on the affairs of your Institute for the year 2020-2021.

OVERVIEW

This year has seen the completion of very important and progressive amendments to the Institutes Articles of Association under which the election of a new right sized board of nine elected (down from 14) members with one third mandatory women members, was held in early May 2021.

A proud first for the institute was electing its first woman Chair of the Board in the person of Dr. Shamshad Akhtar.

Near the outset of the year (mid – July 2020) also saw the induction by the board of Ahsan Jamil as the new President & CEO of PICG after a thorough and rigorous hiring process.

The year under review has been one of the most successful financial performance years with a notable turnaround for PICG from an operating deficit in FY2020 (-Rs.0.7m) to exceeding FY2021 budget targets significantly (to Rs.21.5m).

An ESG Task Force was approved by the board this year, co-founded in a PSX-PICG partnership; with Dr Shamshad as its Chair purposefully leading to convene and elevate the disparate local efforts on ESG; to combine through partnerships, to build-up and focus in bringing standardized ESG reporting for corporates and create a Pakistan ESG index. This aims to also build the absorptive capacity of our corporates to attract their fair share of the fast-growing global capital, now in the trillions of dollars and increasingly sensitive to Corporate ESG practices, into Pakistan's economy. This aspires to herald the new era of holistic Governance integrating E & S into the Governance lens; the criticality of which the unprecedented Covid-19 pandemic, global fires and floods have awoken us to with the urgency of acting now!

APPOINTMENT OF NEW BOARD

The Institute's Election of Directors ushered in the new Board able and willing to carry out their responsibilities for the progress and future success of the Institute. The election process was postponed as the Outgoing Board was considering several forward looking amendments in the Institute's Articles of Association with a view to suitably amend the provisions with respect to board composition, members' voting rights, induction of 1/3rd Independent directors, and most significantly induction of minimum 1/3rd women directors. The proposed amendments were approved by the Board in their 84th Meeting held consecutively on 21st and 25th January , 2021. An Impediment Report filed with the SECP under Sub-section (2) of Section 158 of the Companies Act, 2017 granted further extension for holding election of directors up to May 15, 2021.

With the support of its general body, who approved the proposed amendments to the Institute's Articles of Association in the Extra Ordinary General Meeting held on 19th March 2021, the Institute was enabled to move forward on its progressive governance agenda to reduce board size to nine, induct 1/3rd independent directors as well as an independent Chair, 1/3rd women directors on the Institute's board, and a participatory procedure for voting. In their 86th meeting held on 2nd April 2021, the Board of Directors fixed the number of Directors to be elected in the general meeting at nine (9) subject to the provisions of section 154 of the Companies Act, 2017. The notice of the EOGM being circulated to all members on 19th April 2021, both via email and courier, the Extra Ordinary General Meeting for election of directors was held on 10th May 2021 at 10:00 A.M. via Zoom videoconferencing.

Following the consecutive withdrawal on 3rd and 4th May 2021 of one nomination from Class 'A' and one from Class 'C' respectively, the number of candidates - who had offered themselves to be elected in each of the classes, i.e., three (3) candidates to be elected in Class 'A', and four (4) candidates to be elected in Class 'B' and Class 'C' - being equal to the number of directors to be elected, all candidates in both Class A and Classes B and C were deemed to be elected unopposed in terms of Article. 31 of the Institute's Articles of Association.

As a consequence the following Directors were declared at the EOGM to be the Directors of the Pakistan Institute of Corporate Governance for a term of three years commencing from 10th May 2021:

CLASS A (by election)

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|--------------------|---|
| Dr. Fakhara Rizwan | Pakistan Stock Exchange |
| Mr. Faisal Akhtar | Overseas Investors Chamber of Commerce & Industry |
| Mr. Yousaf Hussain | Pakistan Banks Association |

CLASS A (by nomination)

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|--------------------|--|
| Ms. Musarat Jabeen | Nominee Securities and Exchange Commission of Pakistan |
| Mr. Saleem Ullah | Nominee State Bank of Pakistan |

CLASS B

| | |
|-----------------|--|
| Mr. Ahsan Iqbal | Lifetime Individual Member (Independent) |
|-----------------|--|

CLASS C

| | |
|----------------------------|--|
| Dr. Shamshad Akhtar | Honorary Lifetime Member (Independent) |
| Mr. Wasif A. Rizvi | Corporate Member (Independent) |
| Mr. Muhammad Ashraf Bawany | Corporate Member (Independent) |

In their 88th meeting held post EOGM on 10th May, 2021, the new Board of Directors unanimously elected Dr. Shamshad Akhtar as the new Chairperson of the Board.

BOARD COMPOSITION AND REMUNERATION

The Institute's New Board is now composed of ten members, including three women directors and the CEO. There are four Independent Directors, five Non-executive Directors, and the CEO is the only Executive Director.

The Board has five sub-committees – Audit Committee, Human Resource and Remuneration

Committee, Nomination Committee, Investment Resource Mobilization and Business Development Committee; and Research Advocacy and Strategy Committee. The Board has recently finalized the constitution of one new Board sub-committee which is the Research Advocacy and Strategy Committee which held its first meeting in Q1 of 2021-2022. The Board Investment Committee has been reconstituted as the Board Investment Resource Mobilization and Business Development Committee. The names of the Board Members, and composition of Board's sub-committees are given in the Statement of Compliance with the Listed Companies (Code of Corporate Governance Regulations) 2019. No remuneration is paid to the directors as they serve on the Board *pro bono* with the exception of the President & CEO.

MACROECONOMIC OUTLOOK

As an immediate response to COVID-19, the Socio-economic Impact Assessment and Response Plan developed by the Government of Pakistan, relevant ministries and UN agencies proposed five work streams connected by a strong environmental sustainability imperative.

The Board had been deliberating how the pandemic had highlighted ESG preparedness of those organizations that were ahead of the curve on integrating sustainability risks and opportunities into their business operations and corporate reporting. The resultant of these discussions was the creation of the ESG Task Force conceptualized by the Outgoing PICG Board and co-founded by the Pakistan Stock Exchange and PICG under a memorandum of understanding with Dr. Shamshad Akhtar leading the Task Force as Chair.

The Task Force is being steered by the Chairperson's vision to enhance the quality and comparability of the ESG information provided by corporate issuers in Pakistan. The intention is to integrate various ESG factors increasingly relevant to different stakeholders particularly the global investors' process by developing an ESG Index of businesses in Pakistan.

The Task Force has received enormous support from stakeholders with the Securities and Exchange Commission, the State Bank, and The Institute of Chartered Accountants of Pakistan as well as leading Pakistani corporates and banks promptly nominating their representatives on the Task Force to facilitate its work.

The Institute will keep members duly informed on the proceedings of the Task Force to widen the scope of this important endeavor that PICG has jointly undertaken with PSX under the leadership of Dr. Shamshad Akhtar and with the full support of Board Members.

INSTITUTE'S OPERATIONS

Director Training Program

In the COVID-19 scenario, the Institute successfully launched its first ever virtual Directors Training Program and successfully transitioned its entire training schedule including its specialized workshops to the new online world. The transition to a virtual training platform has boosted the Director Training

Program (DTP) with enhanced participation rates. During the year ended 30 June 2021, the Institute conducted 11 DTPs with 178 participants compared to 11 programs last year with 115 participants.

Specialized Training Programs

The Institute has also started diversifying its revenue sources through specialized training workshops on related topics. In keeping with its efforts towards program diversification, the Institute continued to develop other programs in addition to those held last year. These include the Anti-Money Laundering workshop necessitated by the proactive AML/CFT regulatory regime in Pakistan driven by SECP's AML/CFT Guidelines and the State Bank's AML/CFT/CPF Regulations. The workshop addresses money laundering as a potential indicator of terrorist funding and other global crimes, making AML training even more necessary. The other significant specialized training program rolled out this year is Harassment of Women in the Workplace which presents a positive approach for organizations seeking to understand and prevent sexual harassment in the workplace. The Institute's objective in launching this program is to encourage mandatory and regular anti-harassment training as an essential part of organizational HSE policies.

The third most important training is the ESG 101 workshop, a natural corollary to the ESG Task Force, developed to raise corporate awareness on how an organization can manage risks and opportunities that shifting market and non-market conditions create with ESG. An ESG 202 training is underway to introduce participants to frameworks for measuring ESG at industry oversight level.

Board Evaluations Service

Pricing slabs have been set with long overdue increases commensurate with size of organization. The number of board evaluations completed this year were 37 (48%) compared to 25 last year in spite of price increases. Board Evaluations as an offering is positioning itself as a value accretive proposition to our customers and is a growing revenue generating product; as the assessment measures boards' performance against established criteria over time, and generates a comprehensive results report focusing on critical areas of improvement in board competence.

Databank of Independent Directors

As PICG has been assigned to develop and maintain the Independent Directors Databank by the Securities and Exchange Commission, the Institute has become the point of contact for individuals interested in board appointments as independent directors and companies seeking to enhance their Boards' capabilities through experienced, independent board members.

As of June 30, 2021, total registrants on the Databank increased to 2901 individuals (16%) and 563 companies (41%) over 2505 individuals and 400 companies last year; both reflecting sharp increases due to the pro bono pricing plus the efficacy of the Databank. A need to charge for this or a freemium model is under consideration at PICG.

Memberships

This year the Institute inducted 23 new members, 7 corporate members and 16 individual members compared to 10 new members, 4 corporate members and 6 individual members last year. The

approval criteria for members has been significantly enhanced by SECP vide SRO No 733 (1)/2018, applicable to charitable organizations and not for profit companies. This requires companies to ensure that their members comply with the fit & proper criteria as laid down in the regulations.

FINANCIAL REVIEW

The total revenue for the year from operations increased by Rs.29.81m (57%) to Rs.81.41m from last year. The main reasons for the increase in revenue is i) the increase in Director Training Program revenues of Rs.42.97m (56% increase); ii) Board Evaluation revenues of Rs.10.15m. (190% increase); and (iii) the increase in members fee (88% increase). Income from investments stood at Rs.10.50m compared to Rs.11.00m last year. The surplus for this year, after charging all expenses increased by 270% to Rs.29.91m compared to Rs.8.08m last year.

APPOINTMENT OF AUDITORS

The statutory auditors of the Institute M/s EY Ford Rhodes Chartered Accountants have completed their audit of the financial statements and the Statement of Compliance with the Code of Corporate Governance for the financial year ending 30 June 2021. EY Ford Rhodes were reappointed to act as external auditors of the Institute for the financial year ending June 30, 2020 in the AGM held on October 27, 2020. Although not mandatory for the Institute, the Board in compliance with best practices of the Code of Corporate Governance and reasons of cost had recommended that new auditors be appointed in their place.

GOVERNANCE & HUMAN RESOURCE MANAGEMENT

Renewal of NPO Certification

PICG has successfully renewed its NPO Certification up to FY2023 through the Pakistan Centre for Philanthropy (PCP) in order to avail tax credit under section 100(c) of Income Tax Ordinance 2002. The PCP is notified by the FBR to act as a Certification Agency for Non-Profit Organizations abiding by rules 211 to 220B of the Income Tax Rules 2002.

The certification renewal process was an extensive six month exercise that required the Institute's management team to work closely with the PCP certification team to furnish detailed reports with regard to the Institute's operational, financial, and strategic performance during the preceding three financial years. The process culminated in a full day evaluation visit by the PCP team at PICG's offices following which, the Institute's renewal application was approved by the PCP Certification Panel certifying that PICG meets the standards set by the FBR.

Approval of Policies and Procedures

With focus on broad policy concerns, the Board oversaw the policy-making process by the Executive Management Team led by the CEO. The Institute has successfully developed and implemented a complete portfolio of company policies and procedures, including CEO and Board performance evaluation, information technology, marketing, recruitment and selection, and compensation and benefits.

In response to the SECP's Circular No.7 of 2021 dated March 12, 2021 recommending the development and implementation of Board level policies for gender diversity and combating workplace harassment, PICG developed its own comprehensive 'Anti-Harassment & Anti-Discrimination Policy' which is based on the Protection Against Harassment of Women at Workplace Act, 2010 which serves as a template for organizations seeking to enforce workplace safety and the Institute is geared to assist companies develop their own anti-harassment policies and processes.

Chairman of the Outgoing Board and Board Members were instrumental in guiding Management to develop the Institute's governance and HRM policies.

Implementing HR Best Practices

The COVID-19 pandemic has caused the Institute to rethink many aspects of its operations. Prioritizing workplace safety, the Institute allowed remote work to all employees while continuing uninterrupted business activity using internal communication software tools like Zoom. The transition to a virtual training platform has emerged from the Institute's focus on protecting the health and safety of staff, faculty, and members.

In their 90th annual budget meeting held on June 22, 2021 your New Board evaluated critical areas where increased investment will have the biggest impact, and approved an annual recruitment budget of Rs. 11.0m. To ensure talent acquisition and retention and fair compensation practices, Recruitment & Selection and Compensation & Benefits policies have been developed and approved by the Board.

Management's approach to human resource, wholly supported by the Board, is to focus on hiring the best people, training them well, managing their performance, compensating them fairly in terms of salary and benefits, and creating solid processes for recognition and promotion.

INTERNAL CONTROLS, STRATEGY AND RISK MITIGATION

The Board has an effective Internal Control framework in place that ensures the accuracy of accounting information and financial reporting and the Institute's compliance with laws and regulations. The Institute's internal auditors BDO evaluate the effectiveness of the internal controls and address internal and external risks. The Board actively discusses and implements recommendations from the Board Audit Committee. The Institute has an internal audit function that ensures the flow of accurate and timely information to the Audit Committee. A strong external audit function ensures the credibility of financial statements. An MIS is in place to provide concise and meaningful information.

The next phase for the Institute is the implementation of a digitization of its operations to streamline the Institute's business processes. Management is proactively exploring the right sized ERP and solution set along with hiring the right level of technology competence to support this digital transformation goal. This will help build an efficient system for reaching out to and engaging with corporate audiences for lifelong learning, embedding social media capabilities and CRM to build stronger relationships with new supporters and donors, and establishing a real-time accounting and budgeting system that increases internal communication and teamwork.

The main strategic risk to the Institute’s sustainability is uncertainty created by the current fluid business environment. However, the Management in consultation with the Board of Directors is developing short to medium term strategies to revamp the DTP, new program creation, hiring of people with relevant skill sets, and investment in technology. The Board expects these strategies to take shape in the coming year.

STAKEHOLDER ENGAGEMENT

As the COVID-19 crisis has tested board and executive leadership, the Institute has been widening its mandate of holistic governance by engaging with members through structured capacity building trainings on macro themes – directors’ duties and accountability, the governance of culture and most significantly, ESG.

With the engagement of new Board Members representing both apex and frontline regulators, the Institute is being encouraged to take a leadership role in contemporary governance debates like minority shareholder rights, and development of SME and NPO governance toolkits. New Board Members are also leveraging their networks to promote the Institute’s linkages with reputable international universities, global development institutions, local technology providers, and corporate donations and technical expertise for the Institute’s ESG agenda.

The Institute is also reengaging with the International Finance Corporation (IFC) to align with the IFC’s ESG work in emerging markets through access to the IFC Toolkit on Transparency and Disclosure and ESG Progression Matrix. The IFC’s ESG agenda in South and Southeast Asia is to integrate ESG norms into investment decisions, corporate governance frameworks such as codes, and stock exchange activities and corporate reporting. The Institute has also refreshed its partnerships with the International Corporate Governance Network (ICGN) and the Global Network of Director Institutes (GNDI).

BUSINESS CONTINUITY

The Board is pleased to report that throughout the several waves of the pandemic, the Institute’s Management has been adaptable and responsive, and the Institute has continued to operate business as usual while limiting its health impacts on staff. Our members have played their part in this by stewarding their organizations through this extremely difficult time and continuing to participate in the Institute’s programs and availing the Institute’s services online.

CORPORATE SOCIAL RESPONSIBILITY

The Board has adopted corporate social responsibility into the Institute’s programming by offering a discounted DTP fee structure to women aspiring to board positions as well as for some board members of not for profit organizations. Discounted fee structure will now also be offered to board and senior management of small and medium sized businesses, particularly women-led SMEs. This CSR policy is embedded in the Institute’s agenda to promote diversity and inclusion.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

As required under the Listed Companies (Code of Corporate Governance) Regulations 2019 the Directors are pleased to state as follows:

- The financial statements of the Institute present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the Institute have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment. Proper accounting records have been maintained by the Institute.
- International Financial Reporting Standards, as applicable to the Institute, have been followed in preparation of financial statements and deviation, if any, from these have been adequately disclosed and explained.
- The Chief Executive Officer and the CFO have reviewed the financial statements and the Chairman's Review and Directors Report. They acknowledge their responsibility for true and fair presentation of the financial statements, accuracy of reporting, compliance with regulations and applicable accounting standards.
- The system of internal control is sound in design and effectively implemented and monitored.
- There are no significant doubts about the Institute's ability to continue as a going concern.
- The Institute has issued a statement of compliance with the code of corporate governance which has also been reviewed by the auditors of the Institute.
- There has been no material departure from the best practices of corporate governance.
- The Board of Directors of the Institute is committed to good corporate governance and appropriate steps are taken to comply with best practices.
- Comply and Explain on the Chair of the BHRR Committee not being an independent Director: having a woman chair for gender balance in committee leadership was deemed more important by the board. Moreover, as a not for profit we are not required by law to comply or explain but do so in the spirit and practice of Good Governance.

FUTURE OUTLOOK

As part of enhancing the Institute's brand equity and broadening the Institute's policy agenda, the Outgoing Board had approved changes in the PICG logo and the vision and mission statements. A significant shift underlies the new vision and mission statements which read as follows:

Our Vision

Enable good governance that creates shared prosperity, an ethical society and an inclusive, sustainable economy.

Our Mission

To create awareness of the benefit of good governance to business and society thereby catalysing best practice for long term sustainability

The Institute's vision is to urge our membership as well as our corporate clients to adopt a new governance paradigm that emphasizes a long-term, sustainable investment horizon. Thus, the integration of ESG into the Institute's capacity building and policy advocacy agenda, broadly applicable across all companies and industry sectors, is meant to provide an opportunity for institutional investors to identify and invest in Pakistani companies where ESG is at the center of the business process.

The Institute's mission is to develop contemporary directors possessing the relevant director skills and a thorough understanding of director duties and responsibilities, who will become valuable assets to the boards of Pakistani businesses. In furtherance of this mission, the Institute is aligning its team of experienced faculty and a range of external resources such as advanced corporate governance toolkits to revamp the Institute's flagship Director Training Program. The new course will comprise online and offline resources and face-to-face facilitation that bring it at par with the best global director training programs.

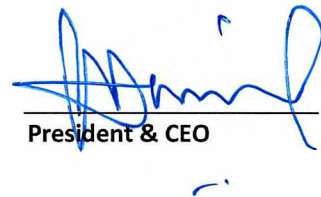
Lastly, a prudent investment policy, approved by the Board, gives stakeholders confidence that the Institute's assets are being managed in an appropriate and risk-adjusted manner.

ACKNOWLEDGEMENT

The Board wishes to acknowledge the contribution made by all stakeholders including directors, employees and members, faculty and the apex and frontline regulators, the Securities and Exchange Commission of Pakistan, the State Bank of Pakistan, and the Pakistan Stock Exchange.



Chairman Audit Committee
September 4, 2021



President & CEO