The Pakistan Credit Rating Agency Limited

Rating Report

GuarantCo Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2024	AAA	A1+	Stable	Maintain	-
27-Jun-2023	AAA	A1+	Stable	Maintain	-
30-Jun-2022	AAA	A1+	Stable	Maintain	-
30-Jun-2021	AAA	A1+	Stable	Maintain	-
30-Jun-2020	AAA	A1+	Stable	Maintain	-
28-Dec-2019	AAA	A1+	Stable	Maintain	-
28-Jun-2019	AAA	A1+	Stable	Maintain	-
31-Dec-2018	AAA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

GuarantCo Limited, an international Joint Venture development financial institution, is the local currency guarantee arm of the Private Infrastructure Development Group (PIDG). The company was established to mobilize investment for infrastructure projects and to support the development of local capital markets. The support from GuarantCo's shareholders, which include five highly rated sovereigns through the Private Infrastructure Development Group (PIDG) Trust, has significantly contributed to the assigned rating. During CY24, Global Affairs Canada became the new member of the PIDG group which further strengthened the ownership profile. Guarantco’s solid liquidity buffer and high development impact bode well for the rating. The rating also signifies sustained confidence in GuarantCo's financial stability and strategic initiatives, bolstered by investments from several international funding agencies. The company aims to develop local capital markets by providing credit solutions to finance infrastructure projects to boost economic growth. GuarantCo Management Company (GMC), a fully owned subsidiary of Cardano Development (CD), is the fund manager responsible for GuarantCo's commercial operations comprising execution and management of investment portfolio. CD incubates innovative financial risk management products that develop local financial markets in emerging and frontier economies. GuarantCo mainly operates in low-income, below-investment-grade countries as per its mandate with a vision to assist in the alleviation of poverty. In pursuit of its vision, in 2013, the company entered the Pakistani market with its guarantee business. It has provided guarantees in various domains, including energy, oil distribution, digital communication infrastructure, and multiple other sectors. Following its success in Pakistan, the company, with support from PIDG, developed InfraZamin Pakistan (IZP) as a successor to its guarantee business in Pakistan. IZP is a local credit guarantee institution that has been rated ‘AAA’ by PACRA. The successful maturity of business deals indicates the efficient risk management of the company. Asset quality remains a concern as pressures are building up in key markets as Pakistan has been hit by a series of unique challenges, including inflation, and economic slowdown. However, the economy has started reflecting signs of recovery which adds comfort to ratings. During CY23, GuarantCo registered an increase in guarantee income and investment income. Consequently, the company recorded a profit in the full year. Apart from this, liquidity indicators also remained in a good range.

GuarantCo's ratings are dependent on its robust ownership structure & strong liquidity buffer. Prudent expansion and close monitoring of asset quality and internal obligor rating remain critical.

Disclosure	
Name of Rated Entity	GuarantCo Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Non-Banking Finance Companies Rating(Jun-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Credit Guarantee Institutions(Jun-23)
Rating Analysts	Muhammad Usman Ameer | usman.ameer@pacra.com | +92-42-35869504

Profile

Structure GuarantCo Limited (GuarantCo) was incorporated in Port Louis, Mauritius on August 25, 2005, as an unlisted company.

Background GuarantCo is a Joint Venture Financial Institution with international operations. GuarantCo's registered office is located in Mauritius.

Operations The key objectives of establishing the entity are to, i) support infrastructure projects in low-income countries via guarantee provisions which in turn, enable the said projects to raise debt financing and, ii) development of local financial debt markets. Thus, GuarantCo facilitates bridging the funding gap that the local debt market would fail to meet due to capacity constraints, exposure limits, and other covenants.

Ownership

Ownership Structure The ultimate ownership of GuarantCo lies with five governments United Kingdom, Netherlands, Sweden, Switzerland, and Australia. Shareholders are five highly rated sovereigns - the United Kingdom (AA- by Fitch), Switzerland (AAA by Fitch), Sweden (AAA by Fitch), Netherlands (AAA by Fitch), and Australia (AAA by S&P). With the exception of the Netherlands Development Finance Company (FMO), which contributes 10% of GuarantCo's total paid-in capital, the agencies act jointly under the umbrella of the Private Infrastructure Development Group (PIDG). GuarantCo also has stand-by debt facilities made available by non-shareholding sponsors such as the AFD and the government of Canada.

Stability The company's ownership structure is expected to remain the same in the foreseeable future.

Business Acumen The business acumen is considered strong as PIDG and FMO are associated with the same business. During CY24, Global Affairs Canada became the new member of the PIDG group which further strengthened the ownership profile.

Financial Strength PIDG with a consolidated strength of eight members is a donor-financed trust while FMO is a development bank (51% owned by the Dutch government through the Dutch Ministry of Foreign Affairs). Capital injections by sponsors on a continuous basis signify a commitment to support. Although no formal commitment exists, the likelihood of support from the sponsors is high in case of need.

Governance

Board Structure GuarantCo's five-member BOD comprises non-executive directors - qualified professionals with emerging and frontier market experience.

Members' Profile Mr. Philippe Valahu serves as the chairperson of the board of directors, who also happens to be the board of InfraCo Africa. Mr. Philippe has more than three decades of experience in emerging markets infrastructure projects and export finance and risk management in Latin America, sub-Saharan Africa, and Asia.

Board Effectiveness Since CY18, all sub-board committees' functions have been delegated to PIDG for the smooth functioning of operations.

Financial Transparency The Company's auditors, Binder Dijker Otte (BDO) LLP, are among the well-reputed audit firms internationally.

Management

Organizational Structure Management of the guarantee portfolio is outsourced to GuarantCo Management Company Limited (GMC), a fully owned subsidiary of Cardano Development. The Treasury investment book is subcontracted to PIMCO and Fidelity.

Management Team Mr. Layth Al-Falaki (CRO at PIDG and Non-Executive Director on the Emerging Africa Infrastructure Fund's boards) has been appointed as Chief Executive Officer of GuarantCo. Mr. Falaki has assumed his office since mid-January 2022. The entire reporting line of GuarantCo terminates into CEO. The entire management team consists of five Executive Officers, who carry extensive experience which bodes well for the risk profile of the company.

Effectiveness On May 9, 2016, GuarantCo Management Company Limited (GMC) took over the management agreement from Frontier Markets Fund Manager Limited (FMFML) - the manager of GuarantCo since 2006. GMC is a 100% subsidiary of Cardano Development. The scope of GMC's core responsibilities is to; identify new business opportunities ensure compliance with related policies, make business plans and budgets; perform due diligence and negotiate arrangements for new guarantees to be initiated; and continuously review and manage of business portfolio and guarantee products.

MIS Various manuals and policies have been put in place by the PIDG to overlook all management functions.

Risk Management Framework RMF comprehensively covers; i) measurement tools/models (Project rating model), ii) establishment of limits (guarantees, investments), and iii) policies and procedural manuals related to overall risk management. RMF has developed a Guarantee Policy and operational guidelines that cover credit, market, liquidity, and operational risks and will be consistent with PIDG operational policies and procedures.

Business Risk

Industry Dynamics Credit Guarantee Institutions (CGIs) facilitate lending by providing credit guarantees against the risk of default of issuers. These guarantees help these entities raise debt from financial institutions. Thus, CGIs are a vital source of financial assistance to these entities. Globally, most CGIs are mandated to promote business, financial markets, and infrastructure development activities mainly in less developed segments.

Relative Position GuarantCo is a specialized financial guarantor. It issues guarantees to enhance the credit quality of debt instruments, mainly loans, and bonds issued in local currency to finance infrastructure projects in emerging markets.

Revenues GuarantCo generates revenue from two primary sources: (i) guarantee income, which consists of fees received from clients for the committed guarantees, and (ii) income derived from its investment portfolio. In CY23, GuarantCo realized fees on financial guarantee contracts at fair value through profit or loss (FVTPL) amounting to USD 15.4mln, higher than the USD 12.2mln recorded in the previous year CY22. Additionally, the net investment income earned during the year amounted to USD ~7mln, an increase from USD 3.6mln in CY22. Furthermore, there was a negative balance of USD 5.6mln in the change in the fair value of financial guarantee contracts and facility agreements at FVTPL, indicating a decline since last year's CY22 clocking in at 56.3mln.

Performance In CY23, GuarantCo reported a profit after tax of USD 4mln against the loss after tax amounting to USD 26.7mln in CY22, which represents a recovery since last year attributable to healthy investment income and positive balance of adjustments made for credit risk and recoveries of funded exposures.

Sustainability GCL's portfolio has a major weight of guarantees/exposures in South Asia as per mandate, specifically towards South and South East Asia. The company has been aiming to expand its guarantee portfolio in the upcoming years.

Financial Risk

Credit Risk The current portfolio encompasses a diverse range of nineteen countries and eleven sectors. At end-Dec23, the size of the guarantee portfolio amounted to USD 1,032mln, indicating a 2% increase compared to the previous year-end figure of USD 1,008mln. At end-Dec23, the company's exposure across different Asian countries was primarily concentrated in India (34%), followed by Cambodia and Vietnam (19%), Bangladesh (11%) and Pakistan (8%).

Market Risk The investment portfolio experienced an incline of 3% and stood at USD 123mln as of the reporting period (CY22: USD 119mln). Investments constitute 41% of the company's total assets and are primarily composed of debt instruments measured at fair value through profit or loss (FVTPL).

Liquidity And Funding The company's liquidity profile improved during the review period, as reflected by a liquidity ratio of 226.7% for CY23 (CY22: 207.9%). The company has a repayable contribution agreement with the Canadian Department of Foreign Affairs, Trade, and Development (Global Affairs Canada or GAC), amounting to USD 32mln, which was signed on 20 March 2021 and disbursed in April 2021.

Capitalization The company demonstrates a robust level of capitalization, evident in a healthy capital-to-guarantee portfolio ratio of 417 times as of end-Dec23 (end-Dec22: 352 times). The shareholders' equity ratio for the company stood at 81.3% at end-Dec23, which is considered fairly adequate (end-Dec22: 83.7%).

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GuarantCo Limited

Balance Sheet	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20
	Annual	*Annual*	*Annual*	*Annual*
ASSETS				
Earning Assets				
1. Deposits with Banks	157,193	131,378	186,493	169,233
2. Investments	123,211	119,950	125,377	126,210
3. Gaurantee Contracts	861	978	2,989	4,119
Trade and other receivables	14,442	15,555	15,022	17,754
Deferred expenses	4,409	790	568	295
Deferred Tax	432	432	432	-
TOTAL ASSETS	**300,548**	**269,083**	**330,883**	**317,610**
LIABILITIES				
Current Liabilities				
1. Derivative Financial Instruments	56	81	166	203
2. Financial Guarantee Contracts & Facility Agreements FVTPL	9,800	4,331	62,683	30,451
3. Trade and other payables	45,607	38,310	36,989	5,411
4. Provision - Guarantee payable	-	-	-	95
Other Liabilities	734	1,220	1,272	1,706
EQUITY				
TOTAL EQUITY	244,352	225,141	229,773	279,744
TOTAL LIABILITIES & EQUITY	**300,548**	**269,083**	**330,883**	**317,610**
INCOME STATEMENT				
Portfolio Revenue - Net	15,290	(2,466)	(36,324)	11,832
Finance Income	9,739	(3,405)	(341)	7,715
Fund Manager Fee & Administrative expenses	(20,787)	(20,864)	(18,403)	(16,963)
Profit Before Taxation	4,242	(26,734)	(55,068)	2,583
Taxation	(155)	(25)	(48)	(459)
Net Income	**4,087**	**(26,760)**	**(55,116)**	**2,124**
RATIO ANALYSIS				
Profitability Ratios				
1. ROE	1.67%	-11.9%	-24.0%	0.76%
Liquidity Ratios				
1. Liquid Assets/Gross Guarantees	226.7%	209.8%	248.7%	234.1%
2. Liquid Assets/Equity	64.3%	58.4%	81.2%	60.5%
Capital Adequacy				
1. Equity/Total Assets	81.3%	83.7%	69.4%	88.1%
2. Equity/Gross Guarantees	196.9%	188.2%	183.3%	221.6%

Credit Rating

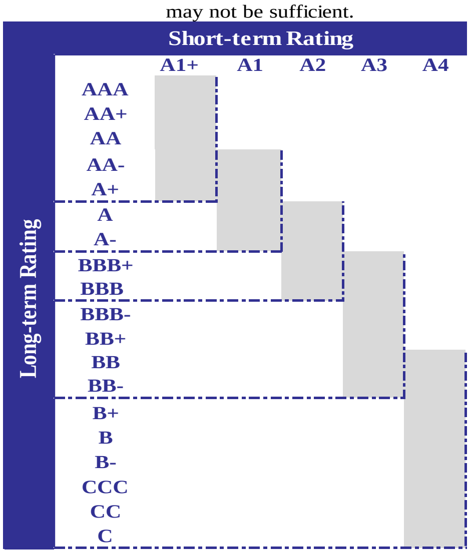
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
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