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
28-Dec-2019	AAA	A1+	Stable	Maintain	-
28-Jun-2019	AAA	A1+	Stable	Maintain	-
31-Dec-2018	AAA	A1+	Stable	Maintain	-
18-May-2018	AAA	A1+	Stable	Maintain	-
29-Sep-2017	AAA	A1+	Stable	Maintain	-
13-Jan-2017	AAA	A1+	Stable	Maintain	-
13-Jan-2016	AAA	A1+	Stable	Initial	-

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). It is directly and indirectly owned by five highly rated sovereigns. Support of the sponsors is evident from most recent injection of $ 2mln by Dutch ministry of foreign affairs (DGIS) through the PIDG in 2018. GuarantCo mainly operates in low income, below investment grade countries. Its objective is to facilitate flow of debt capital to projects having bearing on infrastructure and a positive long-term impact by offering credit guarantees. GuarantCo is cautiously building its guarantee portfolio with adequate emphasis on diversification: geographical, entity and sector.

The company’s portfolio is tilted to Africa, although GuarantCo is focusing to gain more exposure in Asia. Recently, enhanced portfolio in india is evident of the same. Good investment income is supplementing core business over the years. Profitability has witnessed remarkable growth and during 9MCY19, total profit for the period is reported as $ 13.79mln after few years of weak profitability. Strong profitability is attributable to remarkable fair value gain on financial guarantee contracts and fair value gain on financial instrument where significant mark to market gain in bond portfolio is witnessed during the period. Liquidity and capitalization indicators remained good. GuarantCo Management Company, a fully owned subsidiary of Cardano Development, is the fund manager responsible for GuarantCo's commercial operations. The contract has been assigned for relatively a longer period which is expected to help the management, to pursue a well-conceived strategy to achieve profitability in the near term. GuarantCo's ratings are dependent on its robust ownership structure. The Company's ability to achieve desired growth in its guarantee portfolio is important to pull off from bottom-line losses. Meanwhile, close monitoring of asset quality remains critical.

Disclosure

Name of Rated Entity	GuarantCo Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_NBFC(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Credit Guarantee Institutions(Jun-19)
Rating Analysts	Sehar Fatima | sehar.fatima@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 to bridge 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 - 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 11% of GuarantCo's total paid-in capital, the agencies act jointly under the umbrella of the Private Infrastructure Development Group (PIDG).

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

Business Acumen The business acumen is considered strong as PIDG and FMO are associated with same business.

Financial Strength PIDG with consolidated strength of eight members is a donor financed trust while FMO is a development bank (51% owned by the Dutch government through Dutch Ministry of Foreign Affairs). Capital injections by sponsors on continuous basis signifies 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 qualified professionals with emerging and frontier market experience. The board comprises all non-executive directors.

Members' Profile Ms. Yukiko Omura is serving as the chairman of the board since two years now and carries three decades of experience in multilateral development agencies and leading investment banks.

Board Effectiveness Currently, there are no board committees in place.

Financial Transparency The Company's auditors, Ernst & Young, are among well reputed audit firms internationally. The Auditors have expressed an unqualified opinion on the company's financial accounts for CY18.

Management

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

Management Team Mr. Lasitha Parera, the CEO, joined GuarantCo in 2009 and was previously the Chief Investment Officer handling origination activities globally. The entire reporting line of GuarantCo terminates into CEO. The entire management team of the company carries extensive experience which bodes well for 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 ensuring compliance with related policies, make business plan and budget; performing due diligence and negotiate arrangements of new guarantees to be initiated; and continuous review and management 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 Guarantee Policy and operational guidelines which covers 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 in raising debt from financial institutions. Thus CGIs are 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's revenue source comprises two streams: (i) guarantee income (fees received from its clients on the committed guarantees) and (ii) income on its investment portfolio. During 9MCY19, realized fees on guarantee contracts at FVTPL witnessed inclining trend to stand at USD 11.8mln, up 25.9% YoY. Net change in fair value of financial guarantee contract marked positive hiked amount of USD 9.43mln as compared to (9MCY18: USD 4.68mln), significant uptick YoY. Both these massive increments led net portfolio income to USD 16.24mln (9MCY18: USD 4.93mln).

Performance During 9MCY19, finance income increased to USD 9.3mln, out of which USD 7.1mln is interest income. Immense increase in Net Portfolio Revenue, main contributor is "Realized fee on guarantees" (73% of T.Revenue), rest is from Fair Value Change and Others. Similarly the case with finance income, the sharp inclining trend is attributed to investment income, up by 74% relates to realized bonds in PIMCO & Fedility portfolios. As the lows in previous periods were ascribed by the implications of IFRS-9. Total net income stood at USD13.79mln as compared to reported net loss figure of USD 4.68mln.

Sustainability GCL's portfolio has major weight of investments in Africa as per mandate, and the 2nd largest exposure is in Asia, specifically in India (27.2%). The company has target of increasing the guarantee portfolio to USD 1bln by end-2020, along with increased portfolio exposure in Asia (specifically in India & Bangladesh).

Financial Risk

Credit Risk Diverse high credit risk guarantee portfolio focus towards countries below investment grade as per mandate. During 9MCY19, the overall quality of asset book remained manageable.

Market Risk Current portfolio is spread across seventeen countries and nine sectors. The current portfolio size as at end-Sep19 stood at USD 801.8mln (end-Dec18: USD 789.2mln, end-Dec17: USD 579.3mln), showing an upward trend. The country wise segregation analysis reveals highest concentration in India (Sep19: 27.2% ; Dec18: 29%) followed by Nigeria (Sep19: 10.9%, Dec18: 17%). Sector wise highest concentration lies in energy supply (Sep19: 33%, Dec18: 31%), followed by multi -sector composition (Sep19: 19%, Dec18: 18%).

Liquidity And Funding Strong liquidity profile reflected by sizable liquid assets on the book as liquidity ratio for end-Sep19 stated as 201.4% to its gross guarantees, due to size able increase in bank deposits reported as USD 154mln as USD 52mln in corresponding period. The significant increase in bank deposits is because GuarantCo has moved its investment with Fidelity from a Bond portfolio into a Money Market Fund. It is reported as cash on the balance sheet due to its high liquidity.

Capitalization Sound capitalization level as evident by healthy capital to guarantee portfolio. Callable-capital facility by DFID and a standby facility by FMO is available. The USD 30mln facility by FMO, which was finalized in CY16, upon utilization, will be converted into debt. Additionally, the USD 50mln (GBP 40mln) facility provided by UK (DFID), is signed by DFID and has been made available for utilization under the GuarantCo's funding agreement in 2017.

GuarantCo Limited

Balance Sheet	30-Sep-19	31-Dec-18	31-Dec-17	31-Dec-16
	9M	*Annual*	*Annual*	*Annual*
ASSETS				
Earning Assets				
1. Deposits with Banks	154,136	62,077	48,716	46,250
2. Investments	120,405	213,259	223,354	213,442
3. Gaurantee Contracts	15,995	13,117	16,475	-
Trade and other receivables	12,290	7,351	7,970	13,712
Deferred expenses	311	237	135	-
Deferred Tax	-	-	-	-
TOTAL ASSETS	**303,136**	**296,040**	**296,649**	**273,404**
LIABILITIES				
Current Liabilities				
1. Derivative Financial Instruments	-	3	503	-
2. Financial Guarantee Contracts & Facility Agreements FVTPL	12,686	19,240	16,313	-
3. Trade and other payables	5,006	4,299	5,299	2,688
4. Provision - Guarantee payable				10,194
Other Liabilities	1,162	2,009	1,290	4,855
EQUITY				
TOTAL EQUITY	284,283	270,489	273,245	255,668
TOTAL LIABILITIES & EQUITY	**303,136**	**296,040**	**296,649**	**273,404**

INCOME STATEMENT	30-Sep-19	31-Dec-18	31-Dec-17	31-Dec-16
Portfolio Revenue - Net	16,242	5,437	9,473	8,207
Finance Income	9,358	3,497	4,921	6,380
Fund Manager Fee & Administrative expenses	(11,583)	(13,500)	(10,825)	(11,377)
Profit Before Taxation	14,017	(4,565)	3,569	(4,019)
Taxation	(223)	(190)	(247)	(59)
Net Income	**13,794**	**(4,756)**	**3,322**	**(3,286)**

RATIO ANALYSIS	30-Sep-19	31-Dec-18	31-Dec-17	31-Dec-16
Profitability Ratios				
1. ROE	14.9%	-1.7%	1.2%	-1.3%
Liquidity Ratios				
1. Liquid Assets/Gross Guarantees	201.4%	121.7%	113.6%	90.6%
2. Liquid Assets/Equity	54.3%	23.0%	17.9%	101.6%
Capital Adequacy				
1. Equity/Total Assets	93.8%	91.4%	92.1%	97.1%
2. Equity/Gross Guarantees	208.4%	119.5%	113.9%	89.2%

Rating Scale | Corporate

2019

Credit Rating Scale & Definitions

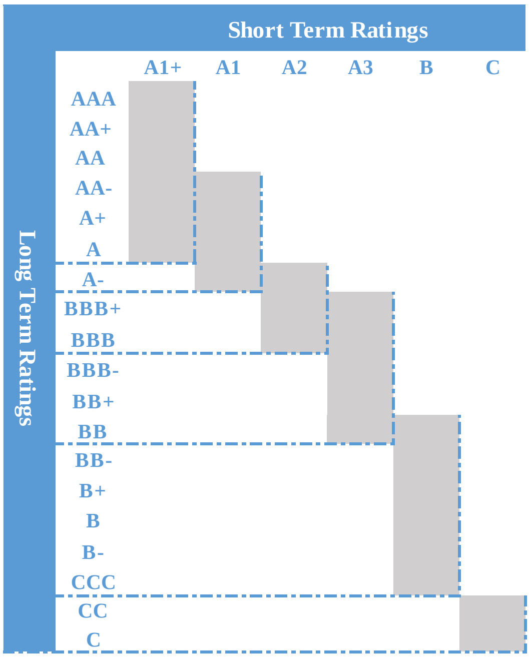
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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 conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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.
(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)
Proprietary Information