# GuarantCo Ltd

## Financial Statements

## for the year ended 31 December 2019

**GuarantCo Ltd**

**Financial Statements for the year ended 31 December 2019**

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## Directors

| | Appointment | Position held until |
|---|---|---|
| ***Resident*** | | |
| Rajkamal Taposeea | 1 December 2014 | Ongoing |
| Patrice Maveyraud | 1 March 2015 | Ongoing |
| Cyril Wong | 1 April 2018 | Ongoing |
| ***Non-Resident*** | | |
| Yukiko Omura | 1 January 2013 | Ongoing |
| Layth Al-Falaki | 15 May 2018 | Ongoing |

**Fund Manager**
GuarantCo Management Company Limited — Appointment date: 09 May 2016

**Corporate Secretary**
Intercontinental Trust Limited — Appointment date: 01 April 2016
Level 3,
Alexander House,
35 Cybercity
Ebène
Mauritius

**Registered Office**
Level 3
Alexander House
35 Cybercity
Ebène
Mauritius

**Auditors**
Ernst & Young Mauritius
Level 9, Tower 1
NeXTeracom
Cybercity
Ebène
Mauritius

**GuarantCo Ltd**

**Directors' report**

The Directors present their report together with the audited financial statements of GuarantCo Ltd (the "Company") for the period ended 31 December 2019.

**Principal activities**

The Company's principal activity is to provide guarantees offered as credit enhancements in order to facilitate investments in infrastructure and consequently the development of local capital markets in low income countries.

**Result and dividends**

The results for the years are shown on page 7.

The Board of directors has not declared a dividend for the year under review (2018: nil).

**Statement of directors' responsibilities in respect of the financial statements**

Companies law requires the directors to prepare financial statements for each financial year which present fairly the financial position, financial performance and cash flows of the Company. In preparing those financial statements, the directors are required to:

(1) select suitable accounting policies and then apply them consistently;
(2) make judgements and estimates that are reasonable and prudent;
(3) state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
(4) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors have confirmed that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2001 and International Financial Reporting Standards ("IFRS"). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditors**

The auditors, Ernst & Young Mauritius, have indicated their willingness to continue in office.

By order of the Board

Director

Director

Date: 31 March 2020

**GuarantCo Ltd**

**Secretary's report**

**Under Section 166 (d) of the Companies Act 2001.**

We certify, to the best of our knowledge and belief, that the Company has filed with the Registrar of Companies, for the period ended 31 December 2019, all such returns as are required of the Company under the Companies Act 2001.

**Corporate Secretary**
International Trust Ltd
Level 3, Alexander House
35 Cybercity
Ebene 72201
Mauritius

Building a better
working world



# INDEPENDENT AUDITOR'S REPORT

# TO THE MEMBERS OF GUARANTCO LTD

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of GuarantCo Ltd (the "Company") set out on pages 7 to 46 which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the financial statements give a true and fair view of, the financial position of GurarantCo Ltd as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act 2001.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

The directors are responsible for the other information. The other information comprises the Directors' report and Secretary's Report as required by the Companies Act 2001, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GUARANTCO LTD (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 205 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF GUARANTCO LTD (CONTINUED)

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Companies Act 2001

We have no relationship with or interests in the Company other than in our capacity as auditor, tax advisors and dealings in the ordinary course of business.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

| | |
|---|---|
| ERNST & YOUNG<br>Ebène, Mauritius | DARYL CSIZMADIA, C.A. (S.A).<br>Licensed by FRC |

Date: 31 March 2020

**GuarantCo Ltd**

**Statement of Profit or Loss for the year ended 31 December 2019**

| | Notes | 31 December 2019 USD | 31 December 2018 USD |
|---|---|---|---|
| **Portfolio Result** | | | |
| Realised fees financial guarantee contracts at FVTPL | 9 | **15,868,426** | 11,646,382 |
| Change in fair value financial guarantee contracts and facility agreements at FVTPL | 26 | **(3,470,041)** | (6,284,924) |
| Net change in fair value of financial guarantee contracts and facility agreements at FVTPL | | **12,398,385** | 5,361,458 |
| Loan receivables impairments and expected credit loss adjustments | 30 | **(6,776,284)** | (1,011,988) |
| Other income and expenses | 9 | **1,562,248** | 1,087,306 |
| **Net Portfolio Result** | | **7,184,349** | 5,436,776 |
| | | | |
| **Finance Income** | | | |
| Net investment income[1] | 12 | **7,821,178** | 4,282,689 |
| (Loss) / gain on derivative financial instruments at FVTPL | 16 | **(312,247)** | 612,515 |
| Fair value gain / (loss) on financial instruments at FVTPL | 15 | **2,626,416** | (1,397,890) |
| **Net Finance Income** | | **10,135,347** | 3,497,314 |
| | | | |
| **Operational Expenses** | | | |
| Fund manager expenses | 10 | **(13,823,165)** | (12,013,539) |
| Administrative expenses | 11 | **(1,043,686)** | (1,486,286) |
| **Total Operational Expenses** | | **(14,866,851)** | (13,499,825) |
| | | | |
| **Result before Taxation** | | **2,452,845** | (4,565,735) |
| Taxation | 13 | **(322,274)** | (190,363) |
| **Total profit / (loss) for the period** | | **2,130,571** | (4,756,098) |

No other comprehensive income was recognised in the period ended 31 December 2019 (2018: nil); therefore, the profit for the year is also the total comprehensive income.

[1] The Company has choosen to rename "Interest income" as "Investment income".

The notes on pages 11 to 46 form an integral part of these financial statements.

**GuarantCo Ltd**

**Statement of financial position as at 31 December 2019**

| | Notes | 31 December 2019 USD | 31 December 2018 USD |
|---|---|---|---|
| **Assets** | | | |
| *Non-current assets* | | | |
| Loan receivables | 30 | **18,611,192** | 4,875,411 |
| Deferred expense | 17 | **310,520** | 236,613 |
| | | **18,921,712** | 5,112,024 |
| *Current assets* | | | |
| Financial guarantee contracts and facility agreements at FVTPL | 26 | **4,314,736** | 13,116,522 |
| Financial instruments at FVTPL | 15 | **120,190,582** | 213,145,735 |
| Derivative financial instruments at FVTPL | 16 | **-** | 112,849 |
| Trade and other receivables | 18 | **4,198,858** | 2,475,944 |
| Cash and cash equivalents | 19 | **158,299,245** | 62,076,780 |
| | | **287,003,421** | 290,927,830 |
| **Total Assets** | | **305,925,133** | 296,039,854 |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Share capital | 20 | **311,983,417** | 311,983,417 |
| Accumulated losses | | **(39,363,544)** | (41,494,115) |
| **Total Equity** | | **272,619,873** | 270,489,302 |
| **Liabilities** | | | |
| *Current liabilities* | | | |
| Financial guarantee contracts and facility agreements at FVTPL | 26 | **25,208,004** | 19,239,749 |
| Derivative financial instruments at FVTPL | 16 | **202,329** | 2,931 |
| Tax liability | 14 | **243,351** | 69,100 |
| Trade and other payables | 22 | **6,877,095** | 4,299,037 |
| Payable to related party | 21 | **774,481** | 1,939,735 |
| | | **33,305,260** | 25,550,552 |
| **Total liabilities** | | **33,305,260** | 25,550,552 |
| **Total Equity and Liabilities** | | **305,925,133** | 296,039,854 |

The financial statements have been approved by the Board of Directors and authorised for issue on 31 March 2020

Name

Name

The notes on pages 11 to 46 form an integral part of these financial statements.

**GuarantCo Ltd**

**Statement of Cash Flows for the year ended 31 December 2019**

| | Notes | 31 December 2019 USD | 31 December 2018 USD |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Proceeds from guarantee contracts | | **17,866,055** | 13,534,885 |
| Proceeds from loan repayments | 30 | **1,502,985** | 774,381 |
| Loans disbursed | 30 | **(9,843,933)** | (4,079,403) |
| Payments to suppliers | | **(863,963)** | (1,124,211) |
| Change in payable to related party | | **(1,124,467)** | 870,256 |
| Interest received | | **7,340,474** | 3,781,033 |
| GuarantCo Management Company Ltd. (GMC) management and performance fees | | **(14,950,595)** | (11,566,637) |
| Investment management fees | | **(406,456)** | (253,542) |
| **Net cash used in operating activities** | | **(479,900)** | 1,936,762 |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of shares | | **-** | 2,000,000 |
| **Net cash from financing activities** | | **-** | 2,000,000 |
| **Cash flows from investing activities** | | | |
| Net proceeds and disbursements from term deposits² | | **-** | 40,240,039 |
| Money Market Funds | 12 | **1,120,796** | - |
| Investment in TBEC through collateral account | | **-** | 1,468,480 |
| Net proceeds from repayments and disbursements by investment agents | 15 | **95,581,569** | 8,810,096 |
| **Net cash from investing activities** | | **96,702,365** | 50,518,615 |
| **Net increase in cash and cash equivalents** | | **96,222,465** | 54,455,377 |
| Cash & cash equivalents at beginning of year | 19 | **62,076,780** | 7,621,403 |
| **Cash & cash equivalents at end of year** | 19 | **158,299,245** | 62,076,780 |

The notes on pages 11 to 46 form an integral part of these financial statements.

² The Company is presenting these items on a net basis because they contain high volume of transactions.

**GuarantCo Ltd**

**Statement of Changes in Equity for the year ended 31 December 2019**

| | Share Capital | Accumulated losses | Total |
|---|---|---|---|
| | USD | USD | USD |
| **Balance at 1 January 2018** | 309,983,417 | (36,738,016) | 273,245,401 |
| **Transactions with owners of the Company:** | | | |
| Share purchase account | 2,000,000 | - | 2,000,000 |
| | 2,000,000 | - | 2,000,000 |
| Total comprehensive loss for the year 2018 | - | (4,756,099) | (4,756,099) |
| **Balance at 31 December 2018** | 311,983,417 | (41,494,115) | 270,489,302 |
| **Transactions with owners of the Company:** | | | |
| Issue of Shares | - | - | - |
| | - | - | - |
| Total comprehensive profit for the year 2019 | - | 2,130,571 | 2,130,571 |
| **Balance at 31 December 2019** | 311,983,417 | (39,363,544) | 272,619,873 |

The notes on pages 11 to 46 form an integral part of these financial statements.

## 1 Reporting entity

GuarantCo Ltd, the "Company", was incorporated in Mauritius under the Companies Act 2001 as a private company limited by shares.

The Financial Services Commission (FSC) issued a Category 1 Global Business Licence (GBL1) to the Company on 30 August 2005. Further to the changes made by the Finance (Miscellaneous Provisions) Act 2018 (FMPA 2018) to the Financial Services Act (FSA), the FSC is no longer empowered to issue any GBL1 as from 1 January 2019. Instead, the FSC may issue a Global Business Licence (GBL) if the company satisfies certain conditions. The Company will be deemed to hold a GBL as from 1 July 2021 under section 96A(1)(b) of the FSA.

The main activity of the Company is to provide local currency guarantees offered as credit enhancements in order to facilitate investments in infrastructure and the development of local capital markets in low income countries. Since 9 May 2016 GuarantCo Management Company Limited (GMC), a subsidiary of Stichting Cardano Development, has provided the Company with management, advisory and support services. GMC subcontracts part of its services to Intercontinental Trust Limited (ITL).

## 2 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Where necessary, comparative figures have been amended to conform with changes in presentation in the current period.

## 3 Basis of preparation

The financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative financial instruments) that have been measured at fair value through profit or loss.

## 4 Functional and presentation currency

These financial statements are presented in USD, which is the Company's functional and presentation currency. All values are rounded to the nearest USD, except when otherwise indicated.

## 5 Use of judgement and estimates

In preparing these financial statements, the Board has made judgements, assumptions and estimates that affect the application of the Company's accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

## 5 Use of judgement and estimates (Continued)

Information about judgements made and estimation uncertainties in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is set out below.

(a) Significant judgements

(i) *Going concern*

The Company's Board has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

(ii) *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the year are set out below.

***Fair value***

The financial statements have been prepared on a historic cost basis except for the following items:

| Items | Measurement basis |
|---|---|
| Financial guarantee contracts | Fair value |
| Debt instruments at fair value through profit or loss (FVTPL) | Fair value |
| Derivative financial instruments | Fair value |

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

For instruments for which there is no observable data, the Company uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value financial guarantees for which there is no active market. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

## 5 Use of judgement and estimates (Continued)

(ii) *Assumptions and estimation uncertainties (Continued)*

***Fair value (Continued)***

Outputs from models are always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The Company's Board (under recommendation by GMC's Risk and Finance Committee) determines the policies and procedures for classifying and measuring assets and liabilities as fair value. GMC's Risk and Finance Committee includes GMC's Chief Executive Officer (CEO), GMC's Chief Credit Officer (CCO), GMC's Chief Operating Officer (COO), GMC's Finance Director, Private Infrastructure Development Group Ltd.'s (PIDG Ltd.) Chief Risk Officer (CRO) and PIDG Ltd.'s Chief Financial Officer (CFO). PIDG Ltd. has been delegated the authority by the GuarantCo Board to oversee GuarantCo by their mutual parent entity the PIDG Trust.

At each reporting date, GMC's Risk and Finance Committee analyses the fair value for new assets and liabilities and the movements in the values of existing assets and liabilities required to be remeasured or re-assessed as per the Company's policies. For this analysis, GMC's Risk and Finance Committee verifies the major inputs applied when calculating the fair value. This includes agreeing the expected credit loss (ECL) approved by GMC's Credit and Portfolio Committees and other relevant information such as discounted future cashflows and cost of capital. GMC's Risk and Finance Committee also compares the change in the fair value of each asset and liability with relevant external sources (where possible) to determine whether the change is reasonable.

The results of any changes to the fair value of assets and liabilities is presented to the PIDG Ltd. Audit Committee and the GuarantCo Board for approval. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair-value related disclosures are summarised in Notes 25 - 27. The method of determination of fair value is detailed in Note 26 (i) - Determining the fair value of financial instruments - Issued financial guarantee contracts and facility agreements at FVTPL.

**5 Use of judgement and estimates (Continued)**

(ii) *Assumptions and estimation uncertainties (Continued)*

***Fair value (Continued)***

In determining the allowance for ECL, macroeconomic factors such as inflation rate, interest rate, gross domestic product (GDP) and various commodity prices were analysed for each region.

Scenarios in the ECL model are probability weighted depending on the likelihood of occurrence. These weightings are assigned based on expert judgement and prior macro-economic behaviour in the regions that the Company operates. The probability weightings assigned to the portfolio are outlined below:

| Scenario | South Asia | Central and West Africa | Southern Africa |
|---|---|---|---|
| Base | 60% | 45% | 60% |
| Upside | 15% | 20% | 15% |
| Downside | 25% | 35% | 25% |

***Risk from potential claim made under guarantee agreements***

The estimate for any liability arising from potential contingent claims made under any Guarantee is the most critical accounting estimate. There are several sources of uncertainty that need to be considered in first estimating the likelihood of any claim under a guarantee and secondly, estimating the liability that the Company will be called upon to pay on any such claim. These estimates are used to fair value the financial guarantee contract in addition to the consideration received for the guarantee at inception (discounted using a risk adjusted rate) and the cost of capital.

To this end, the Company calculates an Expected Credit Loss (ECL) for each financial guarantee contract. The ECL is determined by multiplying the Probability of Default (PD) of the obligor whose obligations are guaranteed by the expected Exposure at time of Default (EAD) and the Loss Given Default (LGD). Fair-value related disclosures for assets and liabilities that are measured at fair value or where fair values are disclosed, are summarised in Notes 25 - 27.

***Provision in respect of loan receivables and trade receivables***

The Company makes impairments for trade receivables based on days overdue for all customers.

For impairments on loan receivables, the Company considers loans to be credit-impaired. For this reason the Company recognises the lifetime ECL for these loans. The PD and LGD would be re-assessed at the time the loan is recognised and any cashflows will be discounted by the credit-adjusted EIR. Refer to accounting policies of financial assets in section h (i) - Financial assets and financial liabilities (IFRS 9) – initial recognition and subsequent measurement.

Outputs from models are always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk. The ECL calculated for each loan receivable is shown in Note 30 - Loan receivables.

**5 Use of judgement and estimates (Continued)**

(ii) *Assumptions and estimation uncertainties (Continued)*

***Estimation of probability of default and loss given default for transactions***

At each reporting date, the Company assesses whether there is objective evidence that the PD and LGD for a transactions needs to be revised.

When reviewing the PD the Company would consider the following:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as financial indebtedness or the borrower is not paid when due;
- for economic or legal reasons relating to the borrower's financial difficulty, such as it becomes unlawful or illegal for the borrower to comply with or to perform any of its obligation;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) a breach of the financial covenant.

The LGD for a transaction could change if any secured assets are impaired, if there is a downturn in a business cycle or if workout costs increase significantly.

**6 Significant accounting policies**

(a) *Foreign currency*

Transactions entered into by the Company in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary items are accounted for based on the classification of the underlying items.

(b) *Interest income*

The interest income is recognised on amortised cost instruments using the effective interest rate. For loans that are credit impaired, interest is recognised using the credit adjusted effective interest rate. Interest income includes the effective interest component on debt instruments designated at FVTPL.

(c) *Revenue recognition*

Revenue represents fee income from services provided and guarantees offered as credit enhancement. Fee income is an input when valuing financial guarantee contracts (See Note 26 - Determining the fair value of financial instruments - Financial guarantee contracts and facility agreements at FVTPL) and is recognised in the statement of profit or loss as and when these are received.

The Company earns guarantee fees on guarantees which are active and the underlying loan or bond has been disbursed, while commitment fees are earned where guarantees are active but the underlying loan or bond has not disbursed. In addition to this, depending on how a transaction is structured, the Company may earn upfront fees which would be charged when a transaction reaches financial close and annual monitoring fees.

(d) *Deferred expense*

Deferred expense consists of standby fees paid / payable to Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V. (FMO) with respect to the standby term loan facility. These fees are recognised systematically over the life of the facility on an effective yield basis and are presented in Administrative expenses.

**6 Significant accounting policies (Continued)**

(e) *Payable to related party*

The Company acts as an agent on behalf of the Private Infrastructure Development Group Trust (PIDG Trust) with respect to managing payments relating to costs associated with providing technical assistance to projects.

These payments are presented in the statement of financial position upon receipt and until disbursement to the respective projects.

(f) *Derivative financial instruments*

PIMCO on behalf of the Company hold derivative financial instruments to hedge foreign currency positions from the investment portfolio.

Derivatives are recognised at FVTPL. Refer to accounting policies of financial liabilities in section h - Financial assets and financial liabilities (under IFRS9) – initial recognition and subsequent measurement.

*(g) Income tax*

Income tax expense comprises current and deferred tax. It is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

*(i) Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

*(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

## 6 Significant accounting policies (Continued)

*(ii) Deferred tax (Continued)*

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; or
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

*(iii) Tax exposure*

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

## 6 Significant accounting policies (Continued)

*(h) Financial assets and financial liabilities (under IFRS 9)*

*(i) Financial assets*

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as either amortised cost or FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Company has elected to FVTPL its debt instruments because these financial assets are managed on a fair value basis. The Company outsources the management of these financial assets to third party investment manager PIMCO whose performance and remuneration is determined on the fair value movements of the debt instruments (within the mandates provided to them).

Derivative financial instruments are measured at FVTPL.

The Company does not have any financial assets at FVOCI.

***Subsequent measurement***

For the purposes of subsequent measurement, financial assets are classified in two categories:
- Financial assets at amortised cost; and
- Financial assets at FVTPL.

**6 Significant accounting policies (Continued)**

*(h) Financial assets and financial liabilities (under IFRS 9) (Continued)*

*(i) Financial assets (Continued)*

***Subsequent measurement (Continued)***

*Financial assets at amortised cost*

The Company measures financial assets at amortised cost if both of the following conditions are met:
- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets at amortised cost includes bank deposits, cash and cash equivalents, trade receivables and loan receivables.

*Financial assets at FVTPL*

The Company's financial assets at FVTPL include its investment portfolio which comprise of fixed income debt instruments, derivatives and related securities which are managed by PIMCO on behalf of GuarantCo.

Fixed income debt instruments have been designated at FVTPL as these instruments are part of a portfolio of financial assets managed on fair value basis. These financial assets are not held within a business model whose objective:
- is to hold financial assets in order to collect contractual cash flows; or
- collecting both contractual cash flows and selling.

Derivative financial instruments are designated at FVTPL.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

***Derecognition***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:
- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation

to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 6 Significant accounting policies (Continued)

*(h) Financial assets and financial liabilities (under IFRS 9) (Continued)*

*(i) Financial assets (Continued)*

***Impairment***

The Company recognises an allowance for ECL's for all debt instruments not held at FVTPL.

For impairments on loan receivables, the Company considers loans to be credit-impaired. For this reason the Company recognises the lifetime ECL for these loans. The PD and LGD would be re-assessed at the time the loan is recognised and any cashflows will be discounted by the credit-adjusted EIR.

For trade receivables, the Company applies (where necessary) a simplified approach in calculating ECLs. The Company, therefore, does not track changes in credit risk, but instead recognises a loss allowance, at each reporting date, based on historical credit loss experience within the industry.

*(ii) Financial liabilities*

***Initial recognition and measurement***

The Company's financial liabilities include financial guarantees, trade and other payables and derivative financial instruments. Financial liabilities are classified, at initial recognition, as either financial liabilities at FVTPL or at amortised cost.

*Financial liabilities at FVTPL*

Financial liabilities classified as financial liabilities at FVTPL include financial guarantee contracts and derivative financial instruments.

*Financial guarantee contracts*
The financial guarantee contracts have been designated at FVTPL because the Company is a credit business which is managed on a fair value basis. Its ability to write guarantees is predicated on the cash that it has received from its owners. This cash is invested and is also managed on a fair value basis. Financial liabilities can also be designated at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

The financial guarantee contracts which have been designated at FVTPL are recognised on the Company's statement of financial position once the guarantee is irrevocable from the Company's perspective.

The fair value of guarantee contracts is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. All significant inputs required to fair value the Company's financial guarantees are not based on observable market data, therefore, they are measured as Level 3 instruments in the fair value hierarchy. Refer to Note 5 - Use of judgement and estimates - (a) significant judgements, section (ii) - fair value. Fair-value related disclosures for assets and liabilities that are measured at fair value or where fair values are disclosed, are also summarised in Notes 25 - 27.

**6 Significant accounting policies (Continued)**

*(h) Financial assets and financial liabilities (under IFRS 9) (Continued)*

*(ii) Financial liabilities (Continued)*

***Initial recognition and measurement (Continued)***

*Financial liabilities at FVTPL (Continued)*

*Derivative financial instruments at FVTPL*
The Company may from time to time use derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value. These instruments are, therefore, measured as Level 2 instruments in the fair value hierarchy. Refer to Note 5 - Use of judgement and estimates - (a) significant judgements, section (ii) - fair value.

*Financial liabilities at amortised cost*

Financial liabilities measured at amortised cost include trade payables.

***Subsequent measurement***

*Financial liabilities at FVTPL*

For purposes of subsequent measurement, financial guarantees and derivative financial instruments are remeasured at fair value at each reporting date and changes therein are recognised in the statement of profit or loss.

The fair value of any financial guarantees are measured in the same way as they were on initial recognition. Refer to Note 26 - determining the fair value of financial instruments and Note 27 - fair-value - valuation process.

Net gain from financial instruments at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences.

Financial guarantees and derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

*Financial liabilities at amortised cost*

For purposes of subsequent measurement trade payable continue to be measured at amortised cost.

***Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

## 6 Significant accounting policies (Continued)

*(i) Cash and cash equivalents*

Cash consists of cash at bank and cash equivalents which are short term, highly liquid investments that are readily convertible to known amount of cash. This includes investments in money market funds which do not have a maturity date, but are readily convertible into an amount of cash that is known at inception and are subject to an insignificant risk of future changes in value.

*(j) Trade and other receivables*

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised at amortised cost. Refer to accounting policies of financial assets in section h - Financial assets and financial liabilities – initial recognition and subsequent measurement.

*(k) Trade and other payables*

Trade and other payables are amounts due to third parties for services provided in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current liabilities. If not, they are presented as non-current liabilities.

Payables are recognised at amortised cost. Refer to accounting policies of financial liabilities in section h - Financial assets and financial liabilities – initial recognition and subsequent measurement.

*(l) Related party*

Information on related party relationships is provided in Note 24 - Related party transactions.

## 7 Changes in accounting policies and disclosures - issued and effective

During the year a number of standards became effective. Those standards applicable to the Company have been described below:

| | Effective for accounting period beginning on or after |
|---|---|
| IFRS 16 Leases | 1 January 2019 |
| IFRIC 23 Uncertainty over income tax treatments | 1 January 2019 |

The Company has determined, following an assessment of these standards, amendments to existing standards and interpretations that there is no material impact on the Company's financial statements when they became effective.

## 8 Changes in accounting policies and disclosures - issued but not yet effective

The following standards, amendments to existing standards and interpretations were in issue but not yet effective. The Company would adopt these standards, if applicable, when they become effective. No early adoption of these standards and interpretations is intended by the Board of directors.

| | Effective for accounting period beginning on or after |
|---|---|
| IFRS 3 Business Combinations (Amendment to the definition of a "Business") | 1 January 2020 |
| IAS 1 and IAS 8 (Amendments to the definition of material) | 1 January 2020 |
| Conceptual Framework for Financial Reporting (Conceptual Framework) | 1 January 2020 |
| IFRS 17 Insurance contracts | 1 January 2021 |
| IFRS 10 and IAS 28 (Amendments to sale or contribution of assets between an investor and its associate or joint venture | Effective date deferred indefinitely |

The Company has determined following an assessment of these standards, amendments to existing standards and interpretations that there will be no material impact on the Company's financial statements when they become effective.

## 9 Fees from financial guarantee contracts

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| ***Realised fees financial guarantee contracts at FVTPL:*** | | |
| Guarantee fees | **13,773,436** | 9,004,575 |
| Upfront fees | **1,798,669** | 2,062,963 |
| Commitment fees | **40,230** | 319,575 |
| Monitoring fees | **256,091** | 259,269 |
| | **15,868,426** | 11,646,382 |
| ***Other income and expenses:*** | | |
| Interest on funded exposures | **845,590** | 506,489 |
| Other fees | **716,658** | 580,817 |
| | **1,562,248** | 1,087,306 |
| | **17,430,674** | 12,733,688 |

## 10 Fund manager expenses

On 9 May 2016 substantially all of the Company’s management, administration and reporting were contracted to GMC.

Under the terms of the Management Agreement dated 9 May 2016 between the Company and GMC, GMC is entitled to receive the following fees from the Company:

(i) Management fee:

A management fee equal to the actual operating expenses of GMC incurred in providing the agreed services to the Company, as set out in the Management Agreement. The management fee is paid quarterly in advance in accordance with the agreed operating budget of GMC, which is approved by the Company's Board prior to the start of each financial year.

In the event that GMC's operating expenses actually incurred are less than the aggregate management fees paid for the financial year then GMC will reimburse the difference to the Company less an agreed cost efficiency rebate.

(ii) Performance fee:

The performance fee comprises of (a) an annual performance fee and (b) a long term incentive plan (“LTIP”).

(a) Annual performance fee:

The annual performance fee is a capped amount that can be reduced depending on the level of success in achieving pre-agreed financial and development targets and also includes a portion at the discretion of the Company's board. A further reduction of up to 25% is applied to reflect payments expected under the LTIP discussed below. At the end of 2019 the Company had met some of its pre-agreed financial and development targets agreed for 2019 (2018: some of its pre-agreed financial and development targets agreed for 2018 were met). The performance fee amount is subject to approval by the PIDG Ltd. and Board in March 2020.

## 10 Fund manager expenses (Continued)

(b) Long term incentive plan ("LTIP"):

From time to time, the Company and GMC may agree additional performance related targets to further align the interest of GMC with the long term strategic objectives of the Company. At the time of agreeing additional performance related targets with GMC, the Company will also agree the LTIP triggers and corresponding compensation. In 2016, the Company agreed to pay GMC an LTIP fee when GuarantCo's portfolio met or exceeded USD 1 billion. The LTIP is funded by retaining up to 25% of the performance fee paid to GMC under the annual performance fee. In the event that the LTIP is triggered but not fully funded, GuarantCo is obligated to pay GMC the balance between the amount withheld from any performance fee payments and the corresponding LTIP fee. At the end of 2019 the LTIP driver was not met and therefore, no amount was payable by the Company in 2019 with respect to the LTIP.

In addition to this the Company and GMC may agree specific revenue sharing payment, to be paid by the Company upon the realisation of an agreed upside event relating to a specified activity or investment that is not in the normal course of business for the Company. No revenue sharing payments were agreed in 2019.

Analysis of fund management fees:

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Management fee | **8,549,744** | 8,229,096 |
| Management fee rebate | **-** | (198,250) |
| Performance fee | **5,273,421** | 3,982,693 |
| | **13,823,165** | 12,013,539 |

## 11 Administrative expenses

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Leverage facility expenses | **63,693** | 50,267 |
| Consultancy fees | **276,190** | 211,168 |
| Secretarial, legal and advisory services (i) | **(152,002)** | 537,300 |
| Directors' travel expenses | **7,228** | 27,874 |
| Directors' fees | **46,211** | 87,781 |
| Company administration fees | **54,541** | 49,652 |
| PIDG expenses (ii) | **169,272** | 45,504 |
| Audit and tax services | **64,335** | 24,398 |
| Environmental and advisory fees | **10,262** | 32,555 |
| Investment Management Fees and custodian fees | **387,738** | 329,380 |
| Marketing expenses | **-** | 319 |
| Other administrative expenses | **116,218** | 90,088 |
| | **1,043,686** | 1,486,286 |

(i) In the current year the Company recovered legal fees from its clients, resulting in a net recovery.

(ii) PIDG costs include management fees charged by PIDG Ltd. less any payments received from PIDG Trust with respect to PIDG Ltd. See Note 24 – related party transactions.

## 12 Net investment income

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Interest on bank deposits | **729,677** | 788,489 |
| Loss on foreign exchange | **(74,186)** | (31,015) |
| Investment income | **6,044,891** | 3,525,215 |
| Money market fund income | **1,120,796** | - |
| | **7,821,178** | 4,282,689 |

The investment income relates to realised bond interest income on PIMCO and Fidelity portfolios of investments. See Note 15 - Fixed income and related securities.

## 13 Taxation

The Company, being the holder of a Category 1, Global Business License, is liable to income tax in Mauritius on its taxable profit arising from its world-wide income at the rate of 15%. The Company's foreign sourced income is eligible for a foreign tax credit which is computed as the lower of the Mauritian tax and the foreign tax on the respective foreign sourced income. The foreign tax for a GBL1 company is based on either the foreign tax charged by the foreign country or a presumed amount of foreign tax: the presumed amount of foreign tax is based on 80% of the Mauritian tax on the relevant foreign sourced income. In computing its total foreign tax credit, the Company is allowed to pool all its foreign sourced income. Capital gains are outside the scope of the Mauritian tax net while trading profits made by the Company from the sale of shares are exempt from tax.

As from 1 July 2021, the company will not be allowed to compute its foreign tax according to a presumed amount of 80% of the Mauritian tax of the relevant foreign sourced income. Furthermore, transactions with GBL corporations and non-residents will not necessarily be considered to be foreign sourced income. Effective as from 1 January 2019, the company may apply a partial exemption on its foreign dividend income, interest income and profits from foreign permanent establishments: the partial exemption is computed at 80% of the relevant foreign sourced income. The partial exemption is not mandatory: the company may apply the credit system if it so wishes.

## 13 Taxation (Continued)

*(i) Income tax expense*

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Income tax expense (Note 13(ii)) | **(322,274)** | (110,805) |
| Overprovision of income tax in prior year | **-** | 164,725 |
| Withholding tax paid | **-** | (244,283) |
| | **(322,274)** | (190,363) |

*(ii) Reconciliation of effective income tax rate*

| | | |
|---|---|---|
| Profit / (loss) before tax | **2,452,845** | (4,565,735) |
| Add: non allowable expenses | | |
| Net foreign exchange loss on bank balances | **74,186** | 31,015 |
| Impairment of loan receivables | **6,776,284** | 1,011,988 |
| Investment management and custodian fees | **387,738** | 329,380 |
| Secretarial, legal and advisory services | **-** | 362,125 |
| Unrealised loss in fair value financial guarantee contracts | **3,470,041** | 6,284,924 |
| Loss on financial instruments at FVTPL | **-** | 1,397,890 |
| Loss on derivative financial instruments at FVTPL | **312,247** | - |
| | **13,473,341** | 4,851,588 |
| Less: | | |
| Exempted bank interest | **(104,476)** | (545,582) |
| Gain on derivative financial instruments at FVTPL | **-** | (612,515) |
| Gains on financial instruments at FVTPL | **(2,626,416)** | - |
| Chargeable income | **10,742,449** | 3,693,491 |
| Tax liability at 15% | **1,611,367** | 554,024 |
| Less: Credit for foreign tax | **(1,289,094)** | (443,219) |
| | **322,273** | 110,805 |

## 14 Tax liability

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Opening balance | **(69,100)** | (220,332) |
| Income tax expense for the period (Note 13(i)) | **(322,273)** | (110,805) |
| Tax paid during the period | **81,310** | 97,312 |
| Overprovision of income tax in prior year | **66,713** | 164,725 |
| Tax liability at the end of the period | **(243,351)** | (69,100) |

## 15 Financial instruments at FVTPL

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| At 1 January | **213,145,735** | 223,353,721 |
| Net change | **(95,581,569)** | (8,810,096) |
| Fair value movement | **2,626,416** | (1,397,890) |
| At the end of the period | **120,190,582** | 213,145,735 |

| **PIMCO (Debt instruments at FVTPL)** | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| At 1 January | **114,202,474** | 112,910,079 |
| Net change | **4,378,280** | 3,121,464 |
| Fair value movement | **1,609,828** | (1,829,069) |
| At the end of the period | **120,190,582** | 114,202,474 |

| **Fidelity (Debt instruments at FVTPL)** | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| At 1 January | **98,943,261** | 110,443,642 |
| Net change | **(99,959,849)** | (11,931,560) |
| Fair value movement | **1,016,588** | 431,179 |
| At the end of the period | **-** | 98,943,261 |

(a) PIMCO

In June 2014, following Board and Counter-Guarantor approval, USD 65 million was initially invested by PIMCO (the "manager") through BNY Mellon (the "custodians") in fixed income and related securities with 50% of the securities to be capable, under normal circumstances, of liquidation in full within three business days, provided that GuarantCo will provide PIMCO with seven days prior written notice of its intention to liquidate. At the time of reporting none of the financial assets were either past due or impaired.

As at 31 December 2019, total cash invested with PIMCO amounted to USD 107,500,000 (31 December 2018: USD 107,500,000).

Breakdown of investments held at 31 December:

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Financial instruments at FVTPL | **120,190,582** | 114,202,474 |
| Cash | **616,913** | 574,540 |
| Derivatives | **(202,329)** | (2,931) |
| | **120,605,165** | 114,774,083 |

The total fees relating to PIMCO for the period up to and including Q4 2019 totalled USD 127 thousand (Q4 2018: USD 124 thousand). Fees are payable quarterly in arrears and are computed based on the market value of the portfolio as reported on the Investment Management's statement computed by averaging the month end market value for each month at the end of the following periods 31 March, 30 June, 30 September and 31 December.

## 15 Financial instruments at FVTPL (Continued)

(b) Fidelity International

In July 2014, following Board and Counter-Guarantor approval, USD 65 million was initially invested by Fidelity International (the "manager") through BNY Mellon (the "custodians") in fixed income and related securities with 50% of the securities to be capable, under normal circumstances, of liquidation in full within three business days, provided that GuarantCo will provide Fidelity international with seven days prior written notice of its intention to liquidate. At the time of reporting none of the financial assets were either past due or impaired.

In July 2019, the Board agreed to liquidate the investments in the Fidelity portfolio and invest the proceeds in the Institutional Liquidity Fund (ILF) which is managed by Fidelity. Units in the ILF do not have a maturity date, but are readily convertible into an amount of cash that is known at inception and are subject to an insignificant risk of future changes in value. For this reason GuarantCo's investments in the money market fund have been classified in "substance" as cash and cash equivalents.

Breakdown of investments held at 31 December:

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Financial instruments at FVTPL | **-** | 98,943,261 |
| Cash | **2,344** | 15,653,611 |
| Derivatives | **-** | 112,849 |
| | **2,344** | 114,709,721 |

The total fees relating to Fidelity for the period up to and including Q4 2019 totalled USD 105 thousand (Q4 2018: USD 207 thousand). Fees are payable quarterly in arrears and are computed based on the market value of the portfolio at 31 March, 30 June, 30 September and 31 December.

(c) The market value of the securities does not include derivative instruments.

(d) The Company invests in marketable debt instruments in high credit quality securities. The markets for these investments is highly liquid and therefore the Company classifies these instruments as current assets.

(e) The Company limits its exposure to credit risk by investing only in liquid debt securities. The maximum exposure to credit risk for debt securities classified as financial instruments at FVTPL, cash and derivatives at 31 December 2019 is as follows:

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| United States Dollar | **108,796,230** | 223,023,967 |
| Great Britain Pound Sterling | **2,321,466** | 1,773,263 |
| Euro | **1,181,535** | 4,685,599 |
| Australian Dollar | **4,832,929** | 975 |
| Canadian Dollar | **3,475,350** | - |
| | **120,607,509** | 229,483,804 |

## 16 Derivative financial instruments

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Derivatives PIMCO | **(202,329)** | (2,931) |
| Derivatives Fidelity | - | 112,849 |
| | **(202,329)** | 109,918 |

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Unrealised (loss) / gain on derivative financial instruments at FVTPL | **(202,329)** | 109,918 |
| Realised (loss) / gain on derivative financial instruments at FVTPL | **(109,918)** | 502,597 |
| (Loss) / gain on derivative financial instruments at FVTPL | **(312,247)** | 612,515 |

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

PIMCO on behalf of the Company hold derivative financial instruments to mitigate the Company's foreign currency exposure. PIMCO undertakes an assessment of the effectiveness of the hedging instruments in accordance with its policies which are in place and are reviewed from time to time.

## 17 Deferred expense

*Standby fees*

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| At 1 January | **236,613** | 134,795 |
| Movement during the period | **137,600** | 152,085 |
| Amortised during the period | **(63,693)** | (50,267) |
| **At the end of the period** | **310,520** | 236,613 |

(i) The standby fees amortised relate to the stand-by facility agreement between the Company and Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V. ("FMO") which was signed in December 2016.

(ii) Standby fees are amortised over the five years (i.e. until the expiry of the facility in December 2021).

## 18 Trade and other receivables

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Accrued interest on fixed deposit account | **72,878** | 160,078 |
| Fund Manager fees paid in advance | **2,604,471** | 198,250 |
| Guarantee fees | **747,553** | 1,064,318 |
| Other receivables | **773,956** | 1,053,298 |
| | **4,198,858** | 2,475,944 |

Trade receivables are non-interest bearing and are generally on terms of 30 days. An ECL allowance has not been made for receivables because these substantially relate to financial guarantee contracts which are fair valued. The fair value of financial guarantee contracts includes an ECL allowance. See Note 26 - Determining the fair value of financial instruments.

## 19 Cash and cash equivalents

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| Cash on deposit - Barclays Bank Mauritius Ltd. | **7,064,516** | 27,871,767 |
| Cash on deposit - Industrial and Commercial Bank of China (Thai) Public Company Ltd. | **-** | 12,567,173 |
| Cash on deposit - Standard Chartered Bank | **17,350,981** | - |
| Cash held with investment agents (Note 15 (a) and (b)) | **619,257** | 16,228,151 |
| Cash at bank | **4,643,695** | 5,409,689 |
| Money market funds (i) | **128,620,796** | - |
| | **158,299,245** | 62,076,780 |

(i) Money market fund relates to units in Institutional Liquidity Fund (ILF) which is managed by Fidelity. See Note 6 - Significant accounting policies- (i) Cash and cash equivalents and Note 15 - Financial instruments at FVTPL - (b) Fidelity International.

## 20 Share Capital

| *Issued and fully paid ordinary shares* | **31 December 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Number of shares** | **USD** | Number of shares | USD |
| At 1 January | **312,073,175** | **311,983,417** | 310,073,175 | 309,983,417 |
| Share purchase account | **-** | **-** | 2,000,000 | 2,000,000 |
| | **312,073,175** | **311,983,417** | 312,073,175 | 311,983,417 |

| *Callable capital facility (i)* | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| At 1 January | **50,981,392** | 54,090,602 |
| Committed | **-** | - |
| Revaluation | **2,083,083** | (3,109,210) |
| At the end of the period | **53,064,475** | 50,981,392 |

| *The Shareholding structure of the Company is as follows:* | **31 December 2019** | 31 December 2018 |
|---|---|---|
| Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. | **10.90%** | 10.90% |
| Private Infrastructure Development Group Trust (PIDG Trust) | **89.10%** | 89.10% |
| | **100%** | 100% |

(i) Department For International Development (UK) (DfID) has made a callable capital facility available to the Company through the PIDG Trust in an amount of GBP 40 million (not to exceed USD 62 million). Under the terms of the facility, if the ratio of the Company's portfolio (being its outstanding guarantee commitments) to its equity has reached or exceeds 5:1 at the end of two consecutive months, the Company may request the amount of GBP 40 million to be disbursed under the facility. GuarantCo will receive such funds in the form of an equity subscription by the PIDG Trust, its controlling entity. The facility will terminate on 30 June 2026.

## 21 Payable to related party

| | 31 December 2019<br>USD | 31 December 2018<br>USD |
|---|---|---|
| At 1 January | **1,939,735** | 1,069,479 |
| Funds received during the year (Note 24) | **144,364** | 1,905,312 |
| Funds disbursed during the year | **(1,309,618)** | (1,035,056) |
| **At the end of the period** | **774,481** | 1,939,735 |

The Company acts as an agent on behalf of PIDG Trust with respect to managing payments relating to costs associated with providing technical assistance to projects. These payments are presented in the statement of financial position upon receipt and until disbursement to the respective projects.

## 22 Trade and other payables

| | 31 December 2019<br>USD | 31 December 2018<br>USD |
|---|---|---|
| Fees due to Fund Manager (Note 24) | **5,269,327** | 3,978,599 |
| Fees received in advance | **133,523** | - |
| Cordiant fees - Calcom | **270,787** | 39,761 |
| Other payables | **1,203,459** | 280,677 |
| | **6,877,095** | 4,299,037 |

## 23 Fixed and floating charge

As at 31 December 2019, the Company had no fixed or floating charges (2018: nil) over its bank accounts.

## 24 Related party transactions

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| ***(i) Private Infrastructure Development Group Trust (PIDG Trust)*** | | |
| (The PIDG Trust is one of two shareholders in the Company, the other shareholder being Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (FMO)) | | |
| Technical Assistance Facility (TAF) payments received (Note 21) | **144,364** | 1,905,312 |
| Technical Assistance Facility (TAF) payable (Note 21) | **774,481** | 1,939,735 |
| Payments received in respect of PIDG Ltd. management fee. | **1,232,893** | 601,585 |
| ***(ii) Private Infrastructure Development Group Ltd. (PIDG Ltd.)*** | | |
| (PIDG Ltd. is a subsidiary of the PIDG Trust. It oversees PIDG's operations and is the effective "holding company" for all PIDG companies). | | |
| *(a) Transactions during the period* | | |
| Management fees charged | **1,402,165** | 647,089 |
| *(b) Loan to PIDG Ltd.* | | |
| In March 2019, the Company granted a revolving loan facility (of up to USD 5 million) to PIDG Ltd.. | | |
| PIDG Ltd. will only utilise this facility if there is a risk that it will have insufficient funds to meet its financial obligations as they fall due because it has not received sufficient funding from PIDG Trust in time to enable it to meet its financial obligations as they fall due. The facility is unsecured. Interest is charged, if drawn, at 3% above the 1 month USD LIBOR. As at 31 December 2019 the facility had not been utilised. | - | - |
| ***(iii) Compensation of key Board personnel*** | | |
| Directors' remuneration and short term benefits | **46,211** | 87,781 |
| ***(iv) GuarantCo Management Company Ltd. (GMC)*** | | |
| (GMC provides the Company with management, advisory and support services under an exclusive long term contract). | | |
| *(a) Transactions during the period* | | |
| Management and Performance fees (Note 10) | **13,823,165** | 12,013,539 |
| *(b) Outstanding balances* | | |
| Management and Performance fees payable (Note 22) | **5,269,327** | 3,978,599 |
| ***(v) Administration fees*** | | |
| *(a) Transactions during the period* | | |
| Administration fees | **223,813** | 95,156 |

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

## 25 Fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities and trade receivables and payables, including their levels in the fair value hierarchy. It does not include fair value information for the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | Carrying amount | Fair Value Level 1 USD | Level 2 USD | Level 3 USD | Total USD |
|---|---|---|---|---|---|
| **31 December 2019** | | | | | |
| (i) **Financial assets measured at fair value** | | | | | |
| Financial guarantee contracts | **4,314,736** | **-** | **-** | **4,314,736** | **4,314,736** |
| Debt instruments at FVTPL | **120,190,582** | **120,190,582** | **-** | **-** | **120,190,582** |
| | **124,505,318** | **120,190,582** | **-** | **4,314,736** | **124,505,318** |
| (ii) **Financial liabilities measured at fair value** | | | | | |
| Financial guarantee contracts | **25,208,004** | **-** | **-** | **25,208,004** | **25,208,004** |
| Derivative financial instruments | **202,329** | **-** | **202,329** | **-** | **202,329** |
| | **25,410,333** | **-** | **202,329** | **25,208,004** | **25,410,333** |
| **31 December 2018** | | | | | |
| (i) **Financial assets measured at fair value** | | | | | |
| Financial guarantee contracts | 13,116,522 | - | - | 13,116,522 | 13,116,522 |
| Debt instruments at FVTPL | 213,145,735 | 213,145,735 | - | - | 213,145,735 |
| Derivative financial instruments | 112,849 | - | 112,849 | - | 112,849 |
| | 226,375,106 | 213,145,735 | 112,849 | 13,116,522 | 226,375,106 |
| (ii) **Financial liabilities measured at fair value** | | | | | |
| Financial guarantee contracts | 19,239,749 | - | - | 19,239,749 | 19,239,749 |
| Derivative financial instruments | 2,931 | - | 2,931 | - | 2,931 |
| | 19,242,680 | - | 2,931 | 19,239,749 | 19,242,680 |

## 26 Determining the fair value of financial instruments

(i) *Financial guarantee contracts and facility agreements at FVTPL*

The fair value of issued financial guarantees is equal to the consideration received and the present value of the guarantee fees over the financial guarantee contract term less the ECL (which is equal to PD of the obligor whose obligations are guaranteed, the expected EAD and the LGD assumptions) less the cost of capital.

Given the bespoke nature of the financial guarantees, their fair value cannot be readily determined by market prices or observable inputs only. The price required at the subsequent measurement date is therefore determined by non-observable inputs (Level 3), determining the expected loss under the guarantee over the remaining lifetime of the guarantee

*Financial guarantee contracts and facility agreements*

| | **31 December 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **USD** | | USD | |
| | **Assets** | **Liabilities** | Assets | Liabilities |
| BBB- | **33,336** | **54,213** | 246,673 | - |
| BB+ | **37,599** | **-** | 129,450 | - |
| BB | **1,411,589** | **227,490** | - | - |
| BB- | **-** | **-** | - | 829,026 |
| B+ | **1,133,191** | **359,626** | - | 1,050,823 |
| B | **545,791** | **2,160,418** | 371,019 | 3,506,752 |
| B- | **119,340** | **629,390** | 408,305 | 981,111 |
| CCC+ | **1,033,890** | **47,925** | 28,518 | 66,011 |
| CCC | | **-** | 11,932,557 | - |
| C | **-** | **7,426** | - | 279,794 |
| D | **-** | **21,721,516** | - | 12,526,232 |
| | **4,314,736** | **25,208,004** | 13,116,522 | 19,239,749 |
| **Restructured guarantees** | | | | |
| Accugas (Note a) | **11,300,000** | **-** | - | - |
| | **15,614,736** | **25,208,004** | 13,116,522 | 19,239,749 |

(a) Accugas Ltd. was restructured in 2019. The loan was restructured with new terms and has been derecognised as a financial instrument under fair value through profit or loss. Accugas has been classified as a loan receivables measured at amortised cost. Refer to Note 30 for more details.

**26 Determining the fair value of financial instruments (Continued)**

(i) *Financial guarantee contracts and facility agreements at FVTPL (Continued)*

The following table shows the movements in fair value of financial guarantees (Level 3 financial instruments) during the year:

| | Discounted future fees | Life time ECL | Cost of capital | Re-classifications | Fair value |
|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD |
| At 1 January 2018 | 32,328,166 | 26,956,873 | 5,209,595 | - | 161,698 |
| New financial guarantee contracts in the year | 29,580,915 | 16,647,340 | 4,079,759 | - | 8,853,816 |
| Movement during the year | (6,130,886) | 10,205,027 | (1,197,173) | - | (15,138,740) |
| At 31 December 2018 | 55,778,195 | 53,809,240 | 8,092,181 | - | (6,123,226) |
| New financial guarantee contracts in the year | 25,545,057 | 19,403,607 | 4,358,797 | - | 1,782,653 |
| Movement during the year | (26,376,147) | (8,205,051) | (1,618,402) | 11,300,000 | (5,252,693) |
| At 31 December 2019 | 54,947,106 | 65,007,795 | 10,832,576 | 11,300,000 | (9,593,267) |

(ii) *Debt instruments at FVTPL - Fair value information*

Fair value on debt instruments at FVTPL is disclosed in Note 15.

(iii) *Issued Derivative Financial Instruments - Fair value information*

Fair value on derivatives is disclosed in Note 16.

## 27 Fair value - valuation process

*Valuation process - financial guarantee contracts and facility agreements at FVTPL*

Financial guarantee contracts are valued at Level 3 in the fair value hierarchy, based on a model that reflects the consideration received for the guarantee at inception (discounted using a risk adjusted rate), ECL and the cost of capital.

The ECL of a financial guarantee contract is determined by multiplying the obligors PD by their expected EAD and LGD.

The PD is derived from Internal Rating (IR) methods. The lifetime PD is calculated for each guarantee. This is the anticipated probability of a default occurring during the life of the guarantee. The IR is determined by using a model which incorporates forward-looking information and identifies main risk drivers. The risks drivers identified are calibrated based on historical data over a suitable time period.

The LGD for each guarantee is the amount that the Company could lose if a guarantee was paid. LGD can be expected to change over the life of the project. Factors that influence this will include:

- amortisation of the underlying facility relative to asset value; and
- the risk profile of the underlying credit transaction, e.g. risk decreases at the successful completion of a construction stage.

For this reason the LGD for each transactions is reviewed at least annually over the lifetime of the guarantee and are subject to the review and approval of the GMC’s Portfolio Committee.

The LGD model is reviewed annually as part of the Company's Model Governance & Control Policy and is subject to the approval of GMC’s Portfolio Committee.

The EAD is the gross exposure under a guarantee upon default of the obligor. The EAD used to calculate the fair value of a guarantee is the maximum exposure of the guarantee at the reporting date.

The Level 3 valuation uses the following significant unobservable inputs for determining the fair value:

| *Description* | *Definition* |
|---|---|
| Cost of capital | The opportunity cost of making a specific investment. It is the rate of return that could have been earned by putting the same money into a different investment with equal risk. |
| FX | The percentage by which a currency is expected to move against the USD over the lifetime of the guarantee. |
| Probability of default | The likelihood of a default over the life of the transaction which is expressed as a percentage. |
| Recovery rate | The extent to which principal and accrued interest on defaulted debt can be recovered, expressed as a percentage of face value. The recovery rate can also be defined as the value of a security when it emerges from default. |

## 27 Fair value - valuation process (continued)

*Valuation process - financial guarantee contracts and facility agreements at FVTPL (Continued)*

In cases where the Company has obtained risk mitigation for guarantees issued, the reported fair value reflects the gross exposure under the guarantee to the Company.

*Sensitivity analysis*

The uncertainty of each significant input reflects the measure of uncertainty that the Company faces in estimating each significant input (1 is less uncertain, 5 is most uncertain) over the lifetime of each guarantee and the contribution to the outcome (1 is low, 5 is high). The sensitivity of the inputs is expressed in terms of the impact being linear or non-linear:

| USD | Uncertainty (1-5) | Contribution (1-5) | Reasonable possible changes | Change in fair value |
|---|---|---|---|---|
| Cost of capital | 1 | 1 | 0.50% | 739,450 |
| FX | 3 | 3 | 10.00% | 1,707,980 |
| Probability of Default | 3 | 5 | 1.00% | 4,998,014 |
| Recovery Rates | 3 | 4 | 10.00% | 3,477,136 |

The significant inputs are country and counterparty specific and reviewed at least annually by the Portfolio Committee.

## 28 Financial risk management

The Company is exposed to a variety of risks which include financial, operational, capital, liquidity, market and political risks. The Board of GuarantCo has delegated authority to three GMC committees established in 2018 who are now responsible for each of these risks. The three committees are Credit Committee, Portfolio Committee and Risk and Finance Committee. GMC seeks to monitor and control the Company's risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. The Board and GMC believe they have in place effective procedures for evaluating and managing the market, credit and other risks to which the Company is exposed.

The credit review is performed by GMC's Credit Committee. This committee determines the type and extent of transaction exposure that may be taken and also establishes the risk parameters guiding these decisions. Exposures above a certain threshold or outside risk appetite are escalated to the PIDG Credit Committee. GMC's Portfolio Committee reviews and monitors risk exposure on an ongoing basis and the Risk and Finance Committee is responsible for managing operational risk, ensuring the Company is compliant with its licensing conditions and any applicable laws, ensure financial performance is in line with budget and perform central treasury function for the Company. The PIDG Risk Committee and PIDG Audit Committee review the activities of the GMC committees and provide oversight over the activities of GuarantCo.

The Board of directors regularly reviews and manages its capital structure to maintain a balance between its liabilities and equity level and also ensures that the Company is adequately capitalised to meet economic and regulatory requirements.

As 31 December 2019, all commitments were fully financed by the issue of equity capital.

There is a risk under the stand-by facility agreement (signed with FMO in December 2016) that FMO fails to meet its contractual obligations to fund the Company. This risk is mitigated by the credit standing of FMO.

**28 Financial risk management (Continued)**

The Company's exposure to financial risks are as follows:

(a) Credit risk
(b) Liquidity risk
(c) Market risk

*(a) Credit risk*

The Company is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions, and other financial instruments. The Company performs ongoing credit evaluation of its customers' financial conditions. It is the Company's policy to extend credit guarantee facilities to a diversity of creditworthy counter-parties so that the Company has no significant concentration of credit risk. The demographic spread of the counter-parties and the default risk of the industry and country in which the counter-party operates has an influence on this.

*(b) Liquidity risk*

The Company monitors rolling forecasts of its liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable, external regulatory or legal requirements.

In addition to this, GMC's Risk and Finance Committee reviews each month the maximum amount that could be called on each project, to ensure the Company has sufficient cash to meet any call on these contingent liabilities.

The table below shows the contractual maturities of the financial assets and liabilities at the reporting date, including interest payments and excluding the impact of netting agreements and analyses into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | **Less than 6 months USD** | **6-12 months USD** | **1 - 5 years USD** | **Total USD** |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| *Assets* | | | | |
| Financial instruments at FVTPL | **120,190,582** | **-** | **-** | **120,190,582** |
| Loan receivables | **-** | **-** | **18,611,192** | **18,611,192** |
| Trade and other receivables | **4,198,858** | **-** | **-** | **4,198,858** |
| Cash and cash equivalents | **158,299,245** | **-** | **-** | **158,299,245** |
| *Liabilities* | | | | |
| Trade and other payables | **(6,877,095)** | **-** | **-** | **(6,877,095)** |
| Derivative financial instruments at FVTPL | **(202,329)** | **-** | **-** | **(202,329)** |
| | **275,609,259** | **-** | **18,611,192** | **294,220,451** |
| 31 December 2018 | | | | |
| *Assets* | | | | |
| Financial instruments at FVTPL | 213,145,735 | - | - | 213,145,735 |
| Loan receivables | - | - | 4,875,411 | 4,875,411 |
| Derivative financial instruments at FVTPL | 109,918 | - | - | 109,918 |
| Trade and other receivables | 2,475,944 | - | - | 2,475,944 |
| Cash and cash equivalents | 62,076,780 | - | - | 62,076,780 |
| *Liabilities* | | | | |
| Trade and other payables | (4,299,037) | - | - | (4,299,037) |
| | 273,509,340 | - | 4,875,411 | 278,384,751 |

(i) Financial guarantee contracts at FVTPL which have a maximum exposure of USD 824,294,639 (2018: USD 747,264,302) per Note 29 (excluding loans and other receivables and facility agreements) have been excluded from the table above. These financial guarantee contracts may be called on demand in the event of default.

(ii) The table above also excludes financial guarantee fees receivable over the financial guarantee contract term.

**28 Financial risk management (Continued)**

*(c) Market risk*

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices - will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*(i) Currency risk*

The Company has financial assets and liabilities denominated in United States Dollar, Euro, Great Britain Pound Sterling, Australian Dollar, Central African CFA Franc and Canadian Dollar. Consequently, the Company is exposed to the risk that the exchange rate of the US Dollar relative to the foreign currencies may change in a manner which has material effect on the reported values of the Company's assets and liabilities which are denominated in foreign currencies.

*Currency profile*

The currency profile of the Company's financial assets and liabilities at the reporting date is summarised as follows:

| | **Financial assets** | **Financial Liabilities** | Financial assets | Financial Liabilities |
|---|---|---|---|---|
| | **31 December 2019** | | 31 December 2018 | |
| | **USD** | **USD** | USD | USD |
| United States Dollar | **272,868,775** | **32,287,429** | 288,421,737 | 23,541,717 |
| Euro | **1,713,297** | - | 4,819,887 | - |
| Great Britain Pound Sterling | **2,321,466** | - | 1,351,028 | - |
| Australian Dollars | **4,832,929** | - | 975 | - |
| Central African CFA franc | **20,402,795** | - | 1,209,614 | - |
| Canadian Dollar | **3,475,350** | - | - | - |
| | **305,614,612** | **32,287,429** | 295,803,240 | 23,541,717 |

*Sensitivity analysis*

At 31 December 2019, if the United States Dollar had weakened/strengthened by 8 percent (2017: 8%) against the following currencies, there would have been a similar increase/decrease in equity and profit or loss before tax by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| Effect on profit or loss | **31 December 2019** | 31 December 2018 |
|---|---|---|
| | **USD** | USD |
| Euro | **126,911** | 357,029 |
| Great Britain Pound Sterling | **171,960** | 100,076 |
| Australian Dollars | **357,995** | 72 |
| Central African CFA franc | **1,511,318** | 89,601 |
| Canadian Dollar | **257,433** | |
| | **2,425,617** | 546,778 |

*(ii) Interest rate risk*

The Company's income and operating cash flows are partly dependent on changes in market interest rates. The significant interest-earning financial assets are cash and cash equivalents, and interest on financial instruments (debt securities) at FVTPL. Interest income from these assets may fluctuate in amount, in particular due to changes in market interest rates. The Company's policy is to maximise returns on interest-bearing assets without loss of capital and within the constraints of the guarantee facility and the Company's treasury policy.

## 28 Financial risk management (Continued)

*(c) Market risk (Continued)*

*(ii) Interest rate risk (Continued)*

Cash is invested with Barclays Mauritius in short term fixed deposits at interest rates which vary depending on market rates. Financial instruments (debt securities) at FVTPL include short duration bonds. Interest rates vary depending on market rates. The Company has limited financial instruments with floating interest rates.

*(iii) Pricing risk*

Price risk is the risk of unfavourable changes in the fair values of quoted financial instruments (debt securities) as the result of changes in the levels of markets and the value of individual instruments. Price risk exposure arises from the Company's investments in short duration bonds which are managed by institutional fund managers (PIMCO and Fidelity) under a fund management agreement.

A sensitivity of the bond portfolios duration is presented in the tables below.

| | **Actual market value** | | **+/- 100 bps change** | | **Effect on profit or loss** |
|---|---|---|---|---|---|
| | **31 December 2019** | | **31 December 2019** | | **31 December 2019** |
| | **USD** | | **USD** | | **USD** |
| PIMCO | 120,605,165 | +/- | 117,546,542 | +/- | 3,058,623 |
| Fidelity | 2,344 | +/- | N/A | +/- | N/A |

| | Actual market value | | +/- 100 bps change | | Effect on profit or loss |
|---|---|---|---|---|---|
| | 31 December 2018 | | 31 December 2018 | | 31 December 2018 |
| | USD | | USD | | USD |
| PIMCO | 114,774,083 | +/- | 113,032,963 | +/- | 1,741,120 |
| Fidelity | 114,709,721 | +/- | 112,723,470 | +/- | 1,986,253 |

## 29 Political risk

The Company is exposed to political risk due to the nature of its activities, being the guarantor of loans / bonds raised by companies in Asia, Africa and the Middle East. As part of the risk analysis for any project, political risk is considered by PIDG Ltd. and GMC's Credit Committee before entering into a project and monitored thereafter as part of the general monitoring process of the project. The concentration of risk by country and counterparty are as follows (based on maximum amount guaranteed / paid out):

| | Guarantees | | Loan and Other Receivables[3] | | Total | |
|---|---|---|---|---|---|---|
| | **31 December 2019 USD** | 31 December 2018 USD | **31 December 2019 USD** | 31 December 2018 USD | **31 December 2019 USD** | 31 December 2018 USD |
| *Africa:* | | | | | | |
| Cameroon | **15,406,714** | 18,301,182 | **-** | - | **15,406,714** | 18,301,182 |
| Gabon | **24,491,786** | 58,444,319 | **-** | - | **24,491,786** | 58,444,319 |
| Ghana | **81,918,561** | 82,897,750 | **-** | - | **81,918,561** | 82,897,750 |
| Mali | **6,849,315** | 6,983,400 | **-** | - | **6,849,315** | 6,983,400 |
| Madagascar | **9,300,000** | - | **-** | - | **9,300,000** | - |
| Nigeria | **76,865,025** | 118,610,965 | **12,999,972** | 12,999,972 | **89,864,997** | 131,610,937 |
| South Africa | **2,504,239** | 5,519,359 | **-** | - | **2,504,239** | 5,519,359 |
| Tanzania | **670,000** | 1,908,824 | **-** | - | **670,000** | 1,908,824 |
| Uganda | **2,135,000** | 2,406,250 | **-** | - | **2,135,000** | 2,406,250 |
| Kenya | **71,137,029** | 60,000,000 | **-** | - | **71,137,029** | 60,000,000 |
| Togo | **25,100,000** | - | **-** | - | **25,100,000** | - |
| *Asia:* | | | | | | |
| Bangladesh | **63,426,373** | 13,472,581 | **-** | - | **63,426,373** | 13,472,581 |
| India | **189,555,966** | 198,774,326 | **28,830,302** | 26,568,155 | **218,386,268** | 225,342,481 |
| Indonesia | **8,800,652** | - | **-** | - | **8,800,652** | - |
| Papua New Guinea | **5,393,948** | - | **-** | - | **5,393,948** | - |
| Pakistan | **69,367,583** | 39,390,421 | **-** | - | **69,367,583** | 39,390,421 |
| Philippines | **13,667,372** | 20,242,482 | **-** | - | **13,667,372** | 20,242,482 |
| Thailand | **-** | 11,307,829 | **12,803,345** | 2,379,431 | **12,803,345** | 13,687,260 |
| Sri Lanka | - | 5,636,632 | **-** | - | - | 5,636,632 |
| Solomon Islands | **2,636,140** | - | **-** | - | **2,636,140** | - |
| Nepal | **25,136,283** | 24,931,963 | **-** | - | **25,136,283** | 24,931,963 |
| Vietnam | **78,104,773** | 78,436,019 | **-** | - | **78,104,773** | 78,436,019 |
| Jordan | **42,500,000** | - | **-** | - | **42,500,000** | - |
| Timor-Leste | **3,366,148** | - | **-** | - | **3,366,148** | - |
| Tonga | **3,325,592** | - | **-** | - | **3,325,592** | - |
| Vanuatu | **2,636,140** | - | **-** | - | **2,636,140** | - |
| Total | **824,294,639** | 747,264,302 | **54,633,619** | 41,947,558 | **878,928,258** | 789,211,859 |

[3] The amounts shown are gross of allowances for expected credit losses (ECL). The amount net of ECL's is USD 18,611,192 - per Note 30 - Loan receivables.

## 29 Political risk (Continued)

**Exposure by rating**

| | Active and Disbursed in USD | Active and not Disbursed in USD | Funded Exposures in USD | Non-active in USD | Total Exposure in USD |
|---|---|---|---|---|---|
| BBB- | 62,423,660 | - | - | - | 62,423,660 |
| BB+ | 26,504,239 | 18,500,000 | - | 50,000,000 | 95,004,239 |
| BB | 78,104,773 | - | - | - | 78,104,773 |
| BB- | - | - | - | 100,000,000 | 100,000,000 |
| B+ | 98,439,801 | 17,137,145 | - | - | 115,576,947 |
| B | 71,208,107 | 51,807,728 | - | 25,100,000 | 148,115,835 |
| B- | 119,367,583 | - | - | 50,706,714 | 170,074,297 |
| CCC+ | 27,538,327 | - | - | - | 27,538,327 |
| CCC | - | - | 11,300,000 | - | 11,300,000 |
| C | 908,966 | - | 12,803,345 | - | 13,712,312 |
| D | 26,547,595 | - | 30,530,271 | - | 57,077,869 |
| | 511,043,052 | 87,444,873 | 54,633,616 | 225,806,714 | 878,928,258 |

## 30 Loan receivables

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| *(i) Calcom Cement India Ltd (Calcom)* | | |
| At 1 January | **9,555,120** | 10,329,501 |
| Repayments | **(1,211,849)** | (774,381) |
| Disbursements | **-** | - |
| | **8,343,271** | 9,555,120 |
| Allowance for ECL | **(7,028,274)** | (8,034,838) |
| At 31 December | **1,314,997** | 1,520,282 |
| *(ii) Vinca Development Private Ltd (Hubtown)* | | |
| At 1 January | **20,487,031** | 20,487,031 |
| Repayments | **-** | - |
| Disbursements | **-** | - |
| | **20,487,031** | 20,487,031 |
| Allowance for ECL | **(20,487,031)** | (20,487,031) |
| At 31 December | **-** | - |
| *(iii) Thai Biogas Energy Company Ltd (TBEC)* | | |
| At 1 January | **2,379,431** | - |
| Repayments | **(291,136)** | - |
| Disbursements | **9,843,933** | 2,379,431 |
| Revaluation | **871,117** | - |
| | **12,803,345** | 2,379,431 |
| Allowance for ECL | **(6,000,000)** | (713,829) |
| At 31 December | **6,803,345** | 1,665,602 |
| *(iv) Hello Products Ltd* | | |
| At 1 January | **1,699,972** | - |
| Repayments | **-** | - |
| Disbursements | **-** | 1,699,972 |
| | **1,699,972** | 1,699,972 |
| Allowance for ECL | **(764,988)** | (10,445) |
| At 31 December | **934,984** | 1,689,527 |
| *(v) Accugas Ltd.* | | |
| Transfer from financial guarantee contracts and facility agreements at FVTPL (see Note 26 (i)(a)) | **11,300,000** | - |
| Repayments | **-** | - |
| Disbursements | **-** | - |
| | **11,300,000** | - |
| Allowance for ECL | **(1,742,134)** | - |
| At 31 December | **9,557,866** | - |
| Total loan receivables | **18,611,192** | 4,875,411 |

(a) Loan receivables are originated as credit impaired assets. For this reason, the lifetime ECL is calculated for each loan receivable.

b) The total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period amounted to USD 2,456,239 ( 2018: Nil).

c) A reconciliation of the ECL on Loan receivables is included below:

| | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| At 1 January | 29,246,143 | 28,234,155 |
| Movement during the period | 6,776,284 | 1,011,988 |
| **At the end of the period** | 36,022,427 | 29,246,143 |

## 31 Events after the reporting period

The global outbreak of the novel coronavirus (Covid-19) in early 2020 is causing major disruptions to both social and economic activities. To date, global financial markets have seen significant downward trends with a high level of volatility and oil prices have fallen materially recently. GMC, the manager of the Company, and PIDG Ltd. are currently making an assessment of the possible outcome on the fair value of financial instruments assets as well as on the ECL and the impact (if any) to GuarantCo's rating; with special attention to industry sectors where the Company has major exposures.

As the situation is fluid and rapidly evolving, the Company does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak, however, it is anticipated the fair value of the financial instruments asset and ECL's for the underlying transactions, in which the Company currently guarantees, would be adversely affected as a result of market volatility and the deteriorating economic environment in which the transactions have to operate. The Company has exposures in twenty six countries with significant exposures in India (25%), Nigeria (10%) and Vietnam (9%) and in five sectors with significant exposures in energy (20%), social infrastructure (13%) and gas (9%). The Company is monitoring each of these countries and sectors carefully. The Company also has significant financial instruments assets in a short duration bond portfolio and money market funds both of which could be subject to significant price volatility because of mark-to-market (MTM) movements. In addition to this the money market fund, whilst highly liquid at the time of signing the Financial Statements, could be affected by high outflows and a rating downgrade. The impact of this outbreak on the Company's assets and exposures as well as on the macroeconomic forecasts will be incorporated in the Company's estimates on ECL provisions in 2020 and the fair value models for financial assets and collaterals will similarly be reassessed.

The Company has sufficient liquidity buffers to ensure any legal obligations that may arise are settled and for this reason the financial statements as presented have been prepared on a going concern basis.

**Detailed administrative expenses for the year ended 31 December, 2019**

(The information given below does not form part of the management accounts and is included solely for management).

**Administrative expenses**

| | 31 December 2019 USD | 31 December 2018 USD |
|---|---|---|
| ***Leverage facility expenses*** | | |
| Amortisation of commitment fees | **63,693** | 50,267 |
| | **63,693** | 50,267 |
| ***Consultancy fees*** | | |
| Rating fees | **135,127** | 144,598 |
| Other professional fees | **141,063** | 66,570 |
| | **276,190** | 211,168 |
| ***Secretarial, legal and advisory services*** | | |
| MDY- Secretarial and Legal | **25,121** | 175,175 |
| Vinca Development Private Limited | **-** | 79,624 |
| Others | **(177,123)** | 282,501 |
| | **(152,002)** | 537,300 |
| **Other administrative expenses** | | |
| Administration fee | **32,001** | 1,419 |
| Bank charges | **21,292** | 12,117 |
| Directors and officers insurance | **12,371** | 23,250 |
| Licence fees | **50,554** | 53,302 |
| | **116,218** | 90,088 |

**Discounted future fees of Guarantees in GuarantCo's Portfolio for the year ended 31 December 2019**
(The information given below does not form part of the audited statutory financial statement and is included solely for management).

Discounted fees that are taken into account are only the fees that are included in the guarantee contract:
- Upfront fees
- Guarantee fees
- Commitment fees
- Monitoring fees

The discount factors are based on the risk free local currency rate and risk adjustments.

| **Discounted fees by rating** | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| BBB- | **5,495,288** | 6,828,807 |
| BB+ | **2,377,363** | 151,671 |
| BB | **6,196,997** | - |
| BB- | **-** | 931,685 |
| B+ | **9,983,538** | 7,824,106 |
| B | **21,925,534** | 10,761,640 |
| B- | **5,810,849** | 4,456,120 |
| CCC+ | **2,834,755** | 578,118 |
| CCC | **-** | 12,333,456 |
| C | **46,259** | 394,799 |
| D | **276,523** | 11,517,793 |
| | **54,947,106** | 55,778,195 |

**Lifetime ECL of Guarantees in GuarantCo's Portfolio for the year ended 31 December 2019**
(The information given below does not form part of the audited statutory financial statement and is included solely for management).

The ECL is based on the remaining maturity of the guarantee, and calculated by multiplying the PD, LGD and EAD.

| **ECL by rating** | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| BBB- | **4,744,684** | 5,600,827 |
| BB+ | **1,620,881** | 3,577 |
| BB | **3,215,645** | - |
| BB- | **-** | 1,262,512 |
| B+ | **7,135,099** | 7,067,914 |
| B | **19,703,900** | 10,731,090 |
| B- | **5,326,274** | 4,119,634 |
| CCC+ | **1,484,289** | 398,889 |
| CCC | **-** | 373,779 |
| C | **52,321** | 641,198 |
| D | **21,724,702** | 23,609,820 |
| | **65,007,795** | 53,809,240 |

**Cost of Capital of Guarantees in GuarantCo's Portfolio for the year ended 31 December 2019**
(The information given below does not form part of the audited statutory financial statement and is included solely for management).

The Company uses a minimum capital requirement of 12%, and assumes a return on capital of 3%.

| **Cost of capital by rating** | **31 December 2019 USD** | 31 December 2018 USD |
|---|---|---|
| BBB- | **771,481** | 981,307 |
| BB+ | **718,883** | 18,644 |
| BB | **1,797,254** | - |
| BB- | **-** | 498,199 |
| B+ | **2,074,854** | 1,807,014 |
| B | **3,836,265** | 3,166,284 |
| B- | **994,627** | 909,293 |
| CCC+ | **364,508** | 216,725 |
| CCC | **-** | 27,120 |
| C | **1,363** | 33,395 |
| D | **273,341** | 434,201 |
| | **10,832,576** | 8,092,182 |