

ANNUAL REPORT 2014



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Business is just like an African board game, and the win is determined by the strategy one puts into play...

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Corporate Data

BOARD OF DIRECTORS	POSITION	DATE OF APPOINTMENT	DATE OF RESIGNATION
Bio Tchane Abdoulaye	Chairman	28-Jun-13	-
Susan Ulbaek	Director	5-Nov-12	6-Feb-14
Morten Christiansen	Director	7-Apr-14	
Luis Manuel Barranco Duque	Director	4-Mar-14	
Juneid Kodabux	Director	28-Mar-11	
Baba Abdullah Issah	Director	15-Jun-11	
Andrew E. Temu	Director	15-Jun-11	
Fakr-ud-deen Ali Peerbux	Director	22-Mar-12	

MANAGEMENT	POSITION
Felix A. Bikpo	Chief Executive Officer
John Wasielewski	CEO Advisor
Jules Ngankam	Chief Financial Officer
NK Passwell Shapi	Business Development Head
Josphat Ngaruiya	Human Resource Head
David Ekabouma	Chief Internal Controller
Joshua Obengele	Acting Risk Manager

ADMINISTRATOR & SECRETARY

Consilex Ltd
4th Floor, Les Jamalacs Building
Vieux Conseil Street, Port Louis
Republic of Mauritius

REGISTERED OFFICES

MAURITIUS

C/o Consilex Ltd
4th Floor, Les Jamalacs Building
Vieux Conseil Street
Port Louis
Republic of Mauritius

KENYA

7th Floor Mayfair Centre
Ralph Bunche Road
Nairobi
Kenya

Corporate Data (Cont'd)

LEGAL ADVISERS

Uteem Chambers 4 th Floor, Les Jamalacs Building Vieux Conseil Street Port Louis Republic of Mauritius	Daly & Figgis ABC Towers, ABC Place, 6 th Floor P.O Box 40034 - 0100 Nairobi, Kenya	Olswang UK: 90 High Holborn, WC1V 6XX, London France: 41, avenue de Friedland, 75008 Belgium: Avenue Louise 326 bte 26, B-1050 Brussels
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AUDITORS

Ernst & Young Mauritius
Level 9, NeXTeracom, Tower 1
Cybercity
Ebene
Republic of Mauritius

BANKERS

Commercial Bank of Africa Upper Hill Branch Mara and Ragati Road P.O. Box 75501-00200 Nairobi Kenya	Ecobank Gikomba Branch Muindi Bingu Street P.O Box 49584 -00100 Nairobi Kenya	CFC Stanbic Bank International Life House Branch P.O. Box 75501-00200 Nairobi Kenya
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Barclays Bank PLC International Banking Division 1st Floor, Barclays House 68-68A, Cybercity Ebene Mauritius	Barclays Bank PLC Intermediaries I London Offshore Corporate Barclays, 16th Floor 1 Churchill Place, London, E14 5HP United Kingdom
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AGF at a Glance



The African Guarantee Fund - for Small and Medium-Sized Enterprises Ltd (“AGF” or the "Company") has been incorporated in the Republic of Mauritius on 28 March 2011 as a private company limited by shares in accordance with the Companies Act 2001. It has been granted a Category 1, Global Business Licence by the Financial Services Commission. The registered office is located at C/o Consilex Ltd, 4th Floor, Les Jamalacs Building, Vieux Conseil Street, Port-Louis. AGF also has a branch in Nairobi (Kenya), registered as a branch of a foreign entity under the Kenyan Companies Act.

Vision

To be the leading non-bank Financial Institution which meets Africa’s financing provider’s needs, effectively serving Small and Medium Sized Enterprises (SMEs), maintaining our uncompromised principal as we grow.

Mission statement

The promotion of economic development and poverty reduction in Africa. The mission will support the achievement of the overall vision and to that end AGF aims to:

- To be more resource efficient;
- Build strong partnership between financial institutions and AGF;
- Reduce inability of SME/SMI to provide acceptable guarantees;
- Encourage and support banks and other financial intermediaries in the financing of SMEs by sharing risk; and
- Support capacity development of AGF partners by seeking to build their capacity and knowledge.

Operations

AGF has two lines of activity:

- Provision of partial financial guarantees;
- Support for capacity development of the partner financing institutions to help them improve their SME financing capabilities

Geographical presence

Whereas AGF is headquartered in Port Louis, Mauritius, its operations are managed out of its Nairobi, Kenya branch office. AGF will gradually roll out branch offices or affiliates in key regional hubs.

Board of Directors

The Board of Directors has the overall responsibility of providing the organization with broad policies and objectives, while ensuring that sufficient resources are available for operations and these resources are managed effectively.



**Abdoulaye Bio
Tchané**
Chairman



Morten Christiansen
Representing the Danish
Government



Luis Barranco Duque
Representing the Spanish
Government



Lilian Macharia Wanjiru
Representing the African
Development Bank (incoming)



Baba Issah



Andrew E. Temu



**Fakr-ud-deen Ali
Peerbux**



Juneid Kodabux

Senior Management Team

Whereas the Board is accountable to the shareholders for the performance of the organization, it has delegated day to day operations to Management.



Felix
ADAHI BIKPO
Chief Executive
Officer



John
Wasielewski
CEO Advisor



Jules
NGANKAM
Chief Financial
Officer



Joshua
Obengele
Acting Risk
Manager



David
EKABOUMA
Chief Internal
Controller



Josphat
Ngaruiya
Human Resources
Head



NK Passwell
SHAPI
Business
Development Head

Chairman's Address

Distinguished Shareholders,

Dear Directors,

Lady and Gentlemen,

It is my great honor to welcome you to the Annual General Meeting (AGM) of the African Guarantee Fund (AGF) for the year ended 31st December 2013. 2013 was a special year for our young institution because it was our first full year of operation which allowed us on one hand to test our vision and mission; on the other hand to assess the market's response to our activities.

I was appointed Chairman of the Board of directors in 2013 and it was a great privilege to oversee AGF's progress and grow into a more mature organization. I am delighted to report to you that our performance is in line with the objectives set for the year 2013. Through the implementation of our well-crafted business model, we are heading towards establishing the future largest guarantee fund in the African continent. The growth momentum that started in 2012 was confirmed in 2013 as we further strengthen our balance sheet, reaffirming the success of our core business.

AGF is operating in a favorable economic environment in the continent. Despite a slow recovery in the world economy, Sub-Saharan Africa's economies remained relatively strong with overall GDP growth rate at 5.1% in 2013 and expected to accelerate to 6.1% in 2014. Growth is fostered by stable macroeconomic policies, improvements in business environments, relatively high commodity prices, better supply of infrastructure and increasing trade and investment ties with emerging economies.

In a little more than a year of activities, AGF has developed a portfolio of guaranteed lending slightly over \$90 million. \$53 million were kept in our books, representing 46% of the financing granted by our partner financing institutions to almost 300 SMEs. Thus, during its first year of operations, AGF was able to achieve 3% of the objective set in its five-year strategic plan: "to ease the access to financing to 10, 000 SMES in the continent".

AGF foresees leveraging its guarantee capital to three times more in order to generate approximately \$2 billion of new lending to SMEs in the medium term and reach 10,000 African SMEs. We are currently leveraged on a 1:1 ratio with our paid-in capital. The boost in activities of our core business will help create thousands of jobs across the continent. AGF remains committed to facilitating youth employment and creating value by supporting viable SMES.

That being said, our achievements would not have been possible without the trust of our partners. On behalf of AGF, I would like to sincerely thank all banks and financial Institutions that chose to work with AGF to guarantee SME's activities across Africa. Together, we are strengthening and promoting the banking sector in Africa. We look forward to significantly

increasing the number of our partners and building long term relationships with them throughout the years.

Beyond its financial achievements, AGF's board and management have strengthened the institution by setting up stronger financial, operational, managerial and monitoring and evaluation procedures to ensure good financial governance.

The main reforms include:

- Implementing a sound risk management framework so that the risks assumed by AGF are properly assessed and monitored on a continuous basis.
- Adopting a human resource strategy to foster an institutional culture that is skilled, professional and diverse. Together, the management team is committed to driving the institution's growth.
- Enforcing conformity with the organization's bylaws.
- Designing a monitoring and evaluation tool.

The African Guarantee Fund's financial and organizational success has led to its international recognition. In 2013, AGF received two awards for its early good performance and leadership:

- Best SME Finance Company in Africa by the International Finance Magazine.
- Best Financial Institution for Financial inclusion in Africa by the African Bankers community.

We are proud of receiving these distinctions early in our activities as they are a testimony of AGF's acceptance by the international financial community. They also raise expectations for us but I am confident that we will exceed these expectations and fulfill our mission.

Looking ahead, AGF is consolidating its achievements in two ways: (i) first by raising additional capital to expand its activities; and (ii) second to build new partnerships with other guarantors, donors, philanthropies, business angels and others who share our approach and philosophy that is grounded in true risk sharing in financial loans to SMEs.

Regarding the capital level, in the next 3 years, we are seeking to increase our capital to USD 500 million, sourced from bilateral donors as well as from DFIs.

We are very excited about the prospects of partnering with other institutions that provide guarantees such as SIDA, DCA, ATI, AFD, the Islamic Development Bank and FSA. Their participation along with the original and potential shareholders will considerably strengthen our position and enhance our credibility in African markets.

As you can see, the African Guarantee Fund has an ambitious program ahead of her. It remains committed to becoming the leading guarantee institution in Africa and a strong contributor to financial operations that are innovative, create value and employment.

I would like to end by first congratulating AGF management, and more specifically the CEO, Felix Bikpo. It is their hard work and their commitment to the organization that enable us to make great strides.

I would like to also thank the members of the Board for their valuable guidance, support and prudent counsel. This Board is committed to ensuring enforcement of high level of compliance standards within AGF in line with international best practices. Thanks to them, we are building a professional and well governed organization.

During the year 2013 Mrs Susan Ulbaek (representing the Danish Government), Mr. Pietro CALICE (representing the African Development Bank), Mr. Manuel de la Rocha Vasquez (representing the Spanish Government) resigned from the Board. I would like, on behalf of all of you, to reiterate our best wishes for their future endeavors. I would also like to welcome their replacements who are respectively, Mr. Morten Christiansen, Mr. Luis Barranco and shortly Mrs Lilian Macharia.

As for me, I will pursue my guidance and advisory to AGF for the next year. I look forward to working with you all and to achieving great accomplishments.

Thank you!

CEO's Letter

Dear Shareholders.

Three years ago, your company started operations, with all the hope and uncertainty that accompany all startups, in an environment shaken by the global financial, economic and social crisis. Obviously this brings its own challenges. In spite of that your company was able to grow its activity contributing to direct the financings to the African SMEs in order to support the growth of the economies of this Continent.

With this letter, I want to inform you of our achievements during the year 2014, as well as our challenges and issues we face in the coming months and years.

Business Activity

I - Guarantees Activity

Guarantee activity highlights as at 31 December 2014



By the end of 2014, AGF had issued guarantees for a total volume of \$171 million across Africa, compared to \$93 million in 2013, The region with the highest concentration is the WAEMU (West African Economic and Monetary Union) region with 36% of the total volume.

AGF re-guaranteed nearly 30% of its guarantee portfolio in line with our risk management strategy.

The net volume of guarantees amounted to \$97 million compared to \$53 million the previous year.

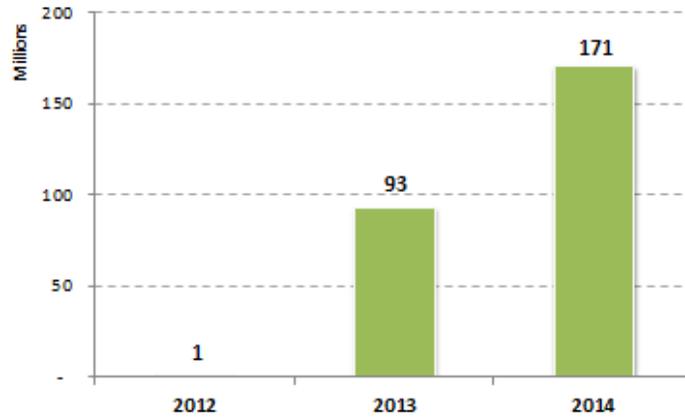


Figure 1 : Guarantees volume from 2012 to 2014

Guarantees Volume by product type

In 2014 AGF issued financial guarantees in support of the following:

- Loans made by Partner Financing Institutions (PFIs) to SMEs through a hybrid approach (on Portfolio and Individual basis);
- Long term Funds raised (.i.e., issuance of bonds/notes and lines of credit) by PFIs in support of their SME long term financing activities

The Loan Portfolio Guarantees (LPG) represented 81% of AGF's portfolio and were issued to strong PFIS. LPG's are structured to ease the mobilization of credit to SMEs by removing AGF from the daily requirements of issuing, approving, monitoring and collecting loans.

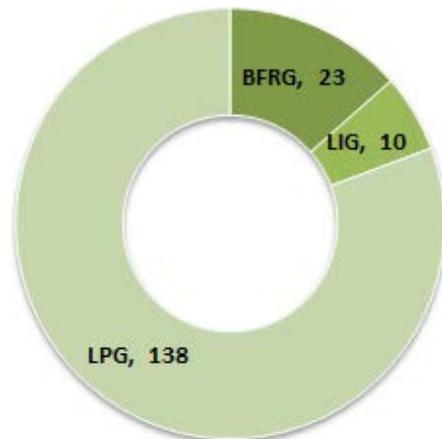


Figure 2 : Guarantees volume by product type

Guarantees Volume by approval body

In line with AGF risk policies, guarantees are submitted to a three level approval process. Approval criteria like size, estimated risk, and the nature of the transaction determine which level of approval is required.

The three approval bodies are:

- The Boards of Directors
- The investment committee
- Management

In the past year two-thirds of the guarantees volume were approved by the Board of Directors. This figure reflects the fact that AGF portfolio is mainly composed of LPG's. LPG require a deeper assessment by AGF at the upstream level as the downstream level is mainly managed by the lenders.

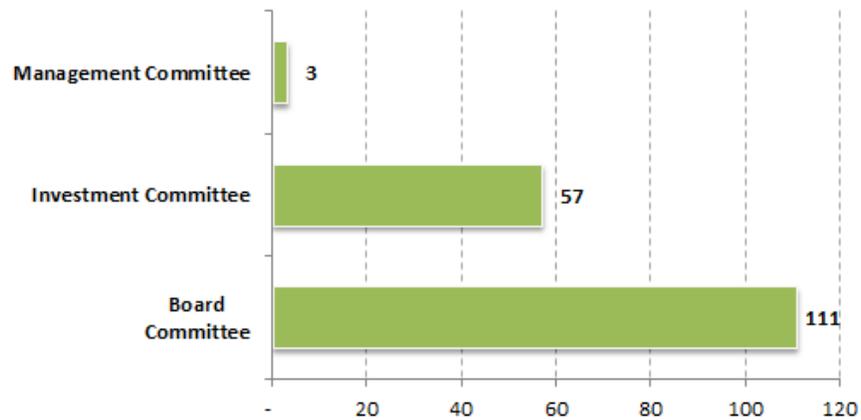


Figure 3 : Guarantees volume by approval body

Guarantee Volume by region and country

AGF signed guarantee agreements in 23 countries in Africa since inception.

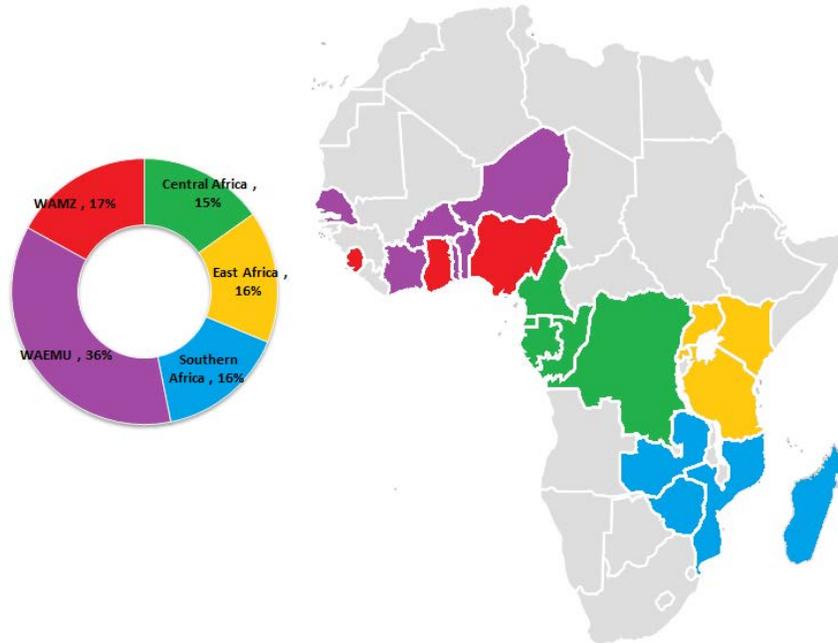


Figure 4 : Guarantees volume by region and country

In full compliance with our risk management policies AGF commitments are geographically well distributed.

Guarantee Volume by tenor

91% of the guarantees issued covered financings by banks to SMEs for a period that exceeds 2 years. There is a concentration medium term loans (84%). As a consequence, the average tenor of AGF guarantees portfolio stood at 55 months as at end 2014, compared to 37 months in 2013. AGF has committed to increase the tenor of the SMEs loans in order to support their creation, their expansion and their modernization.

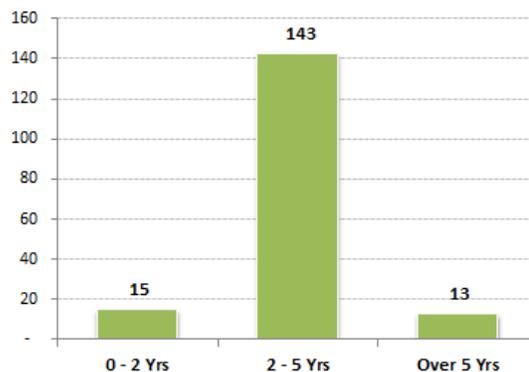


Figure 5 : Guarantees volume by tenor

Guarantees Portfolio Risk Status

Our guarantees risk assessments are performed on countries, lenders, borrower, and transaction structures of the proposed guarantees on a CAMELS methodology.

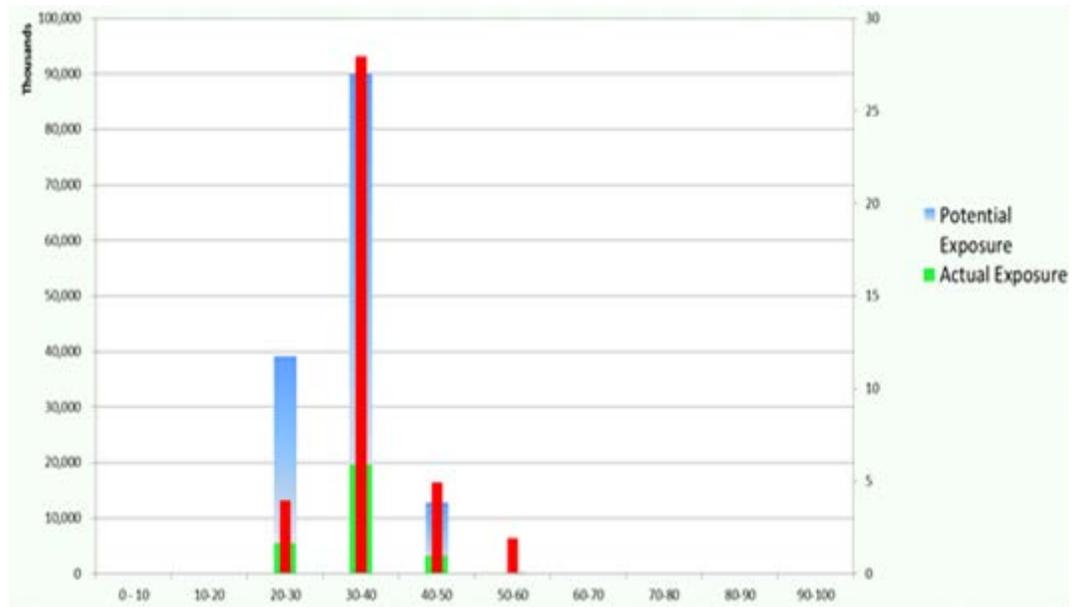


Figure 6 : Portfolio breakdown by CAMELS risk score

As of December 2014, the portfolio is well diversified over CAMELS Risk Scores in a normal distribution curve, with a median Risk Score of between 30-40 both by number and value. 90% of portfolio by value and 74% by number of PLI has risk score of between 0 and 40.

II - Treasury Management

Treasury assets stood at \$58.8 million and generated a return of 2.67%.

The fixed income assets have been invested in USD and EUR denominated securities with 80% in USD. AGF bond assets were all investment grade securities with 27% BBB rated and 73% rated A- and above.

Treasury Assets

	Amount	Percentage	Return
Earning Assets - Bonds	54,901,427	93%	2.65%
Earning Assets - Fixed Deposits	3,774,941	6%	3.00%
Non-Earning Assets	112,937	0.2%	
Total Bonds, Cash and Cash equivalent	58,789,305	100%	2.67%

Bond Portfolio breakdown

By Currency	Amount	Percentage	Return
EUR	10,431,271	19%	2.37%
USD	44,470,156	81%	2.71%
Total	54,901,427	100%	2.65%

By Maturity	Amount	Percentage	Return
Shorter than 1yr	16,470,428	30%	2.21%
1yr to 3yrs	17,568,457	32%	2.91%
Over 3yrs	20,862,542	38%	2.77%
Total	54,901,427	100%	2.65%

By Rating	Book Value	Percentage
AAA	3,248,091	6%
AA+	6,138,482	11%
AA	20,210,874	37%
A	2,619,111	5%
A-	8,117,136	15%
BBB	14,567,733	27%
Total	54,901,427	100%

III - Financial Review

Statement of comprehensive income

(in USD thousands)	2014	2013	2012
Operating Income	5,381	1,979	58
Operating Expenses	(6,205)	(3,279)	(2,736)
Grant	0	0	2,303
Provision for Guarantees	(136)	(203)	0
Loss for the period	(959)	(1,503)	(375)

Overview

Total income for the period amounted to USD USD 5.38 million compared to USD 1.98 million the previous year, up 172%. This increase was driven by the growth of the guarantee business by 85% and the treasury activity by 40%.

During the same period, our expenses increased by 90%, mainly due to foreign exchange loss as EUR depreciated significantly to the USD and in part to the increase of the staff members due the higher volume of activity.

Income Review

Total income excluding grants

(in USD thousands)	2014	2013	2012
Guarantee business	3,731	614	10
Treasury management	1,442	1,038	47
CD administration	189	139	-
Foreign exchange gain	-	189	-
Other income	20	-	-
Total Income	5,381	1,979	58

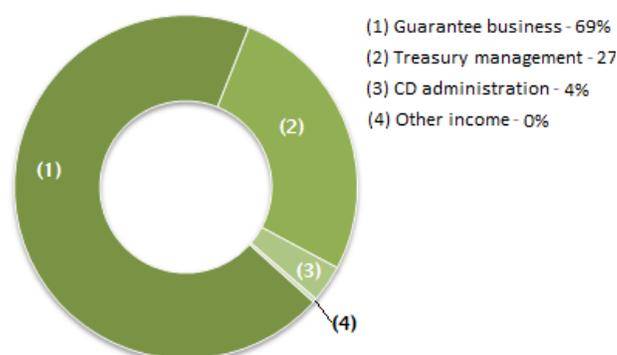


Figure7. Revenues breakdown

AGF income increased from \$1.98 million in 2013 to \$5.38 million in 2014, representing a growth of 1.72%. The guarantee business generated 69% of 2014 income.

Expenses Review

Total expenses for the period amounted to USD 6.340 million compared to USD 3.482 million the previous year.

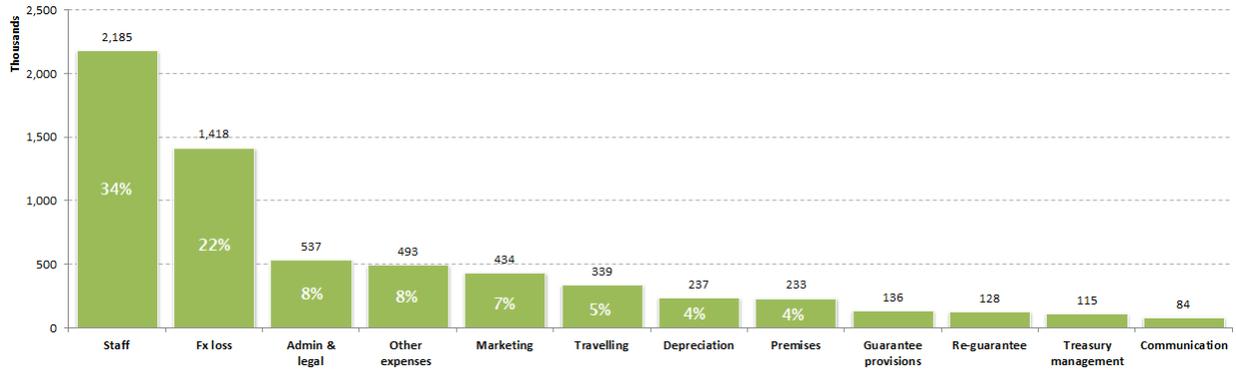


Figure 8. Expenses breakdown

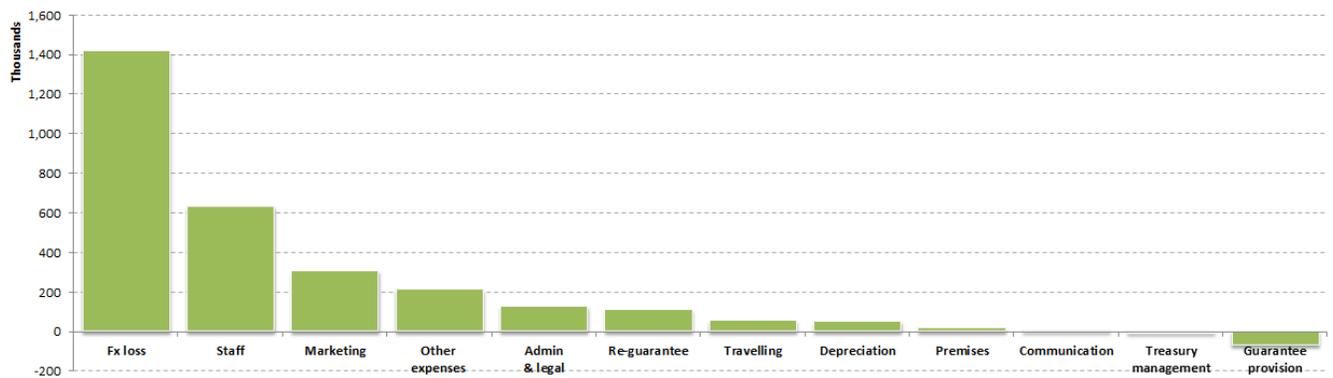


Figure 9. Variances in expenses from 2013 to 2014

III - Financial Review (Cont'd)

Statement of Financial Position

Cash at bank

Cash at bank at 31 December 2014, 2013 and 2012 is detailed as follows:

(in USD thousands)	2014	2013	2012
Barclays Bank (MAURITIUS)	2,017	477	34,183
CFC Stanbic (KENYA)	107	326	202
Commercial Bank of Africa (KENYA)	776	1,295	1,142
Ecobank (KENYA)	982	1,520	761
HSBC (MAURITIUS)	0	0	12,000
TOTAL	3,882	3,618	48,288

The Company remains debt free, other than trade payables and other liabilities in the ordinary course of business.

Capital expenditures

Capital expenditures amounted to USD 1.166 million in 2014. The Company focused its capital expenditures as follows:

(in USD thousands)	2014	2013	2012
Office outfitting	760	537	228
Office equipment	97	116	155
Office furniture	202	230	156
Motor Vehicle	40	41	0
IT equipment	64	63	29
Assets under construction	0	318	0
Total Property & Equipment	1,163	1,306	568

Shareholders contributions

The Danish Government, via DANIDA, increased AGF capital by 16.5 million in 2014.

Shareholders	2014	2013	2012
DANIDA (Denmark Government)	36,500	20,000	20,000
AECID (Spain Government)	20,000	20,000	20,000
African Development Bank	10,000	10,000	10,000
TOTAL	66,500	50,000	50,000

Partnerships



No institution can solve the challenges faced by the SMEs on its own. AGF has a distinctive power to bring together a variety of players to address the challenges collectively.

Partnering for Business

AGF has concluded guarantee deals with 35 financial institutions across Africa, making up to USD 400 million available financing for the SMEs.



Figure 10 : List of some of the financial institutions AGF signed guarantee contracts with

Partnering for Impact



The African Guarantee Fund and the Swedish International Development Cooperation Agency (SIDA) have signed a USD 50 million re-guarantee partnership agreement. The re-guarantee is intended to strengthen AGF's ability to issue guarantees in support of Financial Institutions incremental financing of African SMEs, with the ultimate goal of catalyzing private sector capital for sustainable economic development in Africa.



Partnering for Innovation

To address challenges faced by the SMEs to access financing, non-traditional mechanisms have to be developed to complement traditional funding flows.

AGF has built partnerships with two important institutions to pool their expertise and skills to support SMEs with high potential for growth seeking funding.

Innovation 1: Syndicated loan for SMEs

Larger companies have access to more funding sources than smaller businesses, such as the syndicated lending market. Syndicated loans are huge in size and more than one bank pool their resources to finance the loan. SMEs do not have access to such loans because of the size of their financing needs.

AGF and the GICAM (Groupement inter-patronal du Cameroun) set a pilot project for financing and support SMEs in Cameroon via syndicated loan mechanism.

A protocol agreement worth USD 100 million was signed between the two institutions and a consortium of banks (SGBC, BICEC, Afriland First Bank, Ecobank, BGFI).



Figure 11 : Syndicated Loan Structure

The GICAM (Groupement inter-patronal du Cameroun) is an incorporated association comprising of businesses, unions and professional groups. Its main purpose is to serve businesses through training, defending the interests of business and the views of their leaders to ensure that they benefit from a favorable business environment. GICAM has over 350 members to date consisting of 15 professional associations and unions.

Innovation 2: Capital Market for SMEs



BRVM and AGF signed a partnership to boost SME financing. The agreement aims to promote small businesses' access to capital markets.

This partnership was born from the fact that SMEs often do not have access to the regional financial market, although it can be an effective way to access the funding.

The BVRM will open a third compartment dedicated to SMEs and AGF will issue guarantees to equity investors.

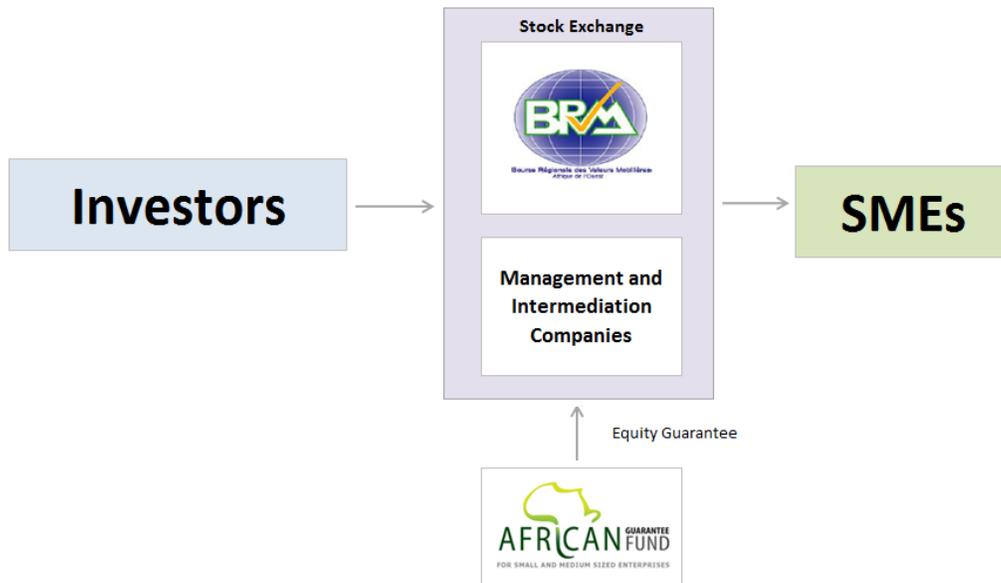


Figure 12 : SMEs Access to Capital Market

Partnering for Risk Efficiency

AGF partnered with 2 Development Finance Institutions with an objective of sharing risk.



The African Trade Insurance Agency is a multilateral financial institution providing export credit insurance, political risk insurance, investment insurance and other financial products to help reduce the business risks and costs of doing business in Africa. ATI facilitates exports, foreign direct investment into and trade flows within the continent.

AGF signed a re-guarantee agreement of USD 8,5M with ATI



Development Credit Authority seeks to prove the commercial viability of underserved markets so that lending and investment continues. DCA uses partial credit guarantees to mobilize local financing in developing countries. By opening up local channels of financing, USAID is empowering entrepreneurs.

AGF signed a re-guarantee agreement of USD 2,4M with DCA

Looking Ahead

We continue to build an outstanding and recognised franchise. We have a proven and solid strategy. We believe that our future outlook is very good. By continuing to leverage our resources and partnerships coupled with effective credit risk management practices we believe that we are on track to achieve financial sustainability by the end of 2015. Though some areas may require some modifications, looking forward, our strategy will stay essentially the same. We are in an excellent position to meet the objectives set to us by the Board of Directors.

Critical to the success of our strategy is the strength of and continued growth of our capital base. Financial sustainability will set a necessary base for confidence in our targeted investment partners. Our legal structure and various investor classes will allow the AGF to attract private investors to complement and further enhance our existing public resources. To that end, as was mentioned by the Chairman, we are in advanced discussions with some Europeans and Asian DFIs for additional capital injection. Resource mobilization is everyone's responsibility and we require continued and increased support from you, our founding Shareholders. I will continue to engage all of your continued assistance and support in this effort. I am taking this opportunity to publicly express our appreciation to the Danish Government for recently increasing their equity contribution by USD 16.5 million in 2014.

Our growth will be organic and external. An appropriate marketing strategy coupled with the development of new products, such as the equity guarantee and non-asset based transactions, will spur organic growth. We are finalizing the acquisition of a guarantee fund operating in West Africa which will add regional capacity, reduce operating costs, and contribute to our growth in the coming years.

Now, with a proven concept, market recognition, and a maturing portfolio, we believe that it is time to assess the additionality, monitor and evaluate the real social and economic impacts of our activity. Establishing and institutionalizing a dynamic monitoring and evaluation function based on global best practices will be a top priority for us in the coming year.

Finally, I want to thank the Board of Directors for their continuing support and inspiring advice. I salute my colleague and staff of the AGF for their continued commitment and extraordinary effort they make every day for the success of this amazing initiative.

Report of the Directors

The directors present their commentary, together with the audited financial statements of African Guarantee Fund - for Small and Medium-sized Enterprises Ltd (the "Company") for the year ended 31 December 2014.

Principal Activity

The principal activity of the Company is to significantly increase the access of African Small and Medium sized enterprises (SMEs) to finance from the financial sector. The Company has two lines of activity:

- Provision of partial financial guarantees on product and portfolio basis; and
- Support for capacity development of the client financial institutions to help them improve their SME financing capabilities.

The Company has a branch registered in Nairobi, Kenya. It is registered as a branch of a foreign entity under the Kenyan Companies Act.

Results and Dividends

The result for the period is as shown in the statement of profit or loss and other comprehensive income on page 7.

The directors do not recommend the payment of any dividend for the year under review.

Directors

The directors in office during the year are as stated on page 1.

Directors' responsibilities in respect of the financial statements

The Company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the Company's statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and Companies Act 2001.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

Auditors

The auditors, Ernst & Young, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual Meeting of the shareholder.

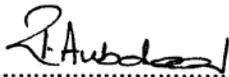
Certificate from Company Secretary

CONSILEX
a Rogers enterprise

**AFRICAN GUARANTEE FUND – FOR SMALL AND MEDIUM-SIZED ENTERPRISES LTD
CERTIFICATE FROM THE SECRETARY**

4.

We certify to the best of our knowledge and belief that we have filed with the Registrar of Companies all such returns as are required of African Guarantee Fund - For Small and Medium - Sized Enterprises Ltd (the "Company") under the Companies Act 2001, for the year ended 31 December 2014.



.....
Consilex Ltd
CORPORATE SECRETARY

Date: 28 April 2015

Consilex Ltd

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Port Louis, Mauritius

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BRN. C06057540

Independent Auditors' Report to the Members of African Guarantee Fund – For Small and Medium-Sized Enterprises Ltd

Report on the Financial Statements

We have audited the financial statements of African Guarantee Fund – For Small and Medium-Sized Enterprises Ltd (the "Company") on pages 7 to 38 which comprise the statement of financial position as at 31 December 2014 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 a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act 2001, and for such internal controls 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements on pages 7 to 38 give a true and fair view of the financial position of the Company as at 31 December 2014 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.



6.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AFRICAN GUARANTEE FUND - FOR SMALL AND MEDIUM-SIZED ENTERPRISES LTD
(CONTINUED)**

Report on the Financial Statements (Continued)

Other matter

This report has been prepared solely for 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 auditors' 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.

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 auditors 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
Ebène, Mauritius

DARYL CSIZMADIA, C.A. (S.A)
Licensed by FRC

Date: 28 APR 2015

Financial Statements

For the year ended 31 December 2014



Statement of Comprehensive Income

As at 31 December 2014

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
		USD	USD
Income			
Income from guarantees			
Utilization fees		426,891	68,238
Assessment and commission fees		1,213,351	545,377
Income from investments	9	1,441,610	1,037,553
Administration income		188,842	139,130
Net foreign exchange differences		-	189,119
Fair value gain on financial guarantee contracts	8(b)	2,091,138	-
Other income		19,614	-
		<u>5,381,446</u>	<u>1,979,417</u>
Expenses			
Administrative and legal fees	11	(537,486)	(411,011)
Communication expenses	11	(84,084)	(82,208)
Depreciation of property and equipment	13	(229,528)	(179,089)
Amortization of intangible assets	14	(7,968)	(6,365)
Marketing expenses	11	(434,467)	(127,392)
Other expenses	11	(493,090)	(279,955)
Premises expenses	11	(233,395)	(216,793)
Staff expenses	10	(2,184,971)	(1,552,816)
Travelling expenses		(339,181)	(284,377)
Treasury management fees		(114,729)	(121,177)
Guarantee expenses		(128,099)	(17,863)
General provision for guarantees		(135,748)	(203,430)
Net foreign exchange differences		(1,417,507)	-
		<u>(6,340,253)</u>	<u>(3,482,476)</u>
Loss before tax		(958,807)	(1,503,059)
Income tax expense	12	-	-
Loss for the year		(958,807)	(1,503,059)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(958,807)	(1,503,059)

Statement of Financial Position

As at 31 December 2014

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
		USD	USD
Assets			
Cash and cash equivalents		3,887,878	3,622,660
Held-to-maturity financial assets	8(a)	54,901,427	42,690,770
Receivables	15	1,656,451	526,808
Prepayments		94,575	111,515
Intangible assets	14	417,567	321,831
Property and equipment	13	1,162,580	1,305,517
Financial guarantees	8(b)	2,091,138	-
Total assets		<u>64,211,616</u>	<u>48,579,101</u>
Liabilities			
Provisions	17	-	5,700
General provision for guarantees	18	271,052	203,430
Trade and other payables	16	250,559	202,089
Other liabilities	16	27,799	13,506
Unearned fees		-	33,363
Total liabilities		<u>549,410</u>	<u>458,088</u>
Net assets attributable to shareholders		<u>63,662,206</u>	<u>48,121,013</u>
Represented by:			
Issued capital	19	66,500,003	50,000,003
Accumulated losses		(2,837,797)	(1,878,990)
Total equity		<u>63,662,206</u>	<u>48,121,013</u>

Statement of Changes in Equity

As at 31 December 2014

	Issued capital	Accumulated losses	Total
	USD	USD	USD
At 1 January 2013	50,000,003	(375,931)	49,624,072
Loss/total comprehensive income for the year	-	(1,503,059)	(1,503,059)
At 31 December 2013	50,000,003	(1,878,990)	48,121,013
At 1 January 2014	50,000,003	(1,878,990)	48,121,013
Issue of shares	16,500,000	-	16,500,000
Loss/total comprehensive income for the year	-	(958,807)	(958,807)
At 31 December 2014	66,500,003	(2,837,797)	63,662,206

Statement of Cash Flows

As at 31 December 2014

	<u>Notes</u>	<u>2014</u> USD	<u>2013</u> USD
Operating activities			
Profit before tax		(958,807)	(1,503,059)
<i>Adjustment to reconcile profit before tax to net cash flows:</i>			
<i>Non cash item:</i>			
General provision		67,622	203,430
Provision movements		(5,700)	(40,700)
Depreciation charge on property and equipment	13	229,528	179,089
Amortisation of intangible assets	14	7,968	6,365
Write-off of tangible assets	13	2,408	-
Income from bonds		(1,376,214)	(966,837)
Foreign exchange loss from bonds revaluation		1,408,348	-
Fair value gain on financial guarantee contracts	8(b)	(2,091,138)	-
<i>Movement in working capital:</i>			
Receivables		(1,129,643)	(352,954)
Prepayments		16,940	2,333
Other liabilities		(19,070)	38,781
Trade and other payables		48,470	(9,497)
Income tax paid		-	-
Net cash flows from operating activities		(3,799,288)	(2,443,049)
Investing activities			
Acquisition of property and equipment	13	(85,316)	(385,511)
Acquisition of intangible assets	14	(103,704)	(120,806)
Acquisition of bonds		(16,235,014)	(43,713,911)
Interest on bonds received		3,988,540	1,989,978
Net cash flows used in investing activities		(12,435,494)	(42,230,250)
Financing activities			
Proceeds from issue of ordinary share capital to shareholders		16,500,000	-
Net cash flows from financing activities		16,500,000	-
Increase/decrease in cash and cash equivalents		265,218	(44,673,299)
Cash and cash equivalents at 1 January		3,622,660	48,295,959
Cash and cash equivalents at 31 December		3,887,878	3,622,660

Notes to the Financial Statements

As at 31 December 2014

1. GENERAL INFORMATION

The African Guarantee Fund - for Small and Medium-Sized Enterprises Ltd (the "Company") was incorporated in the Republic of Mauritius on 28 March 2011 as a private Company limited by shares in accordance with the Companies Act 2001. It has been granted a Category 1, Global Business Licence by the Financial Services Commission.

The registered office is located at C/o Consilex Ltd, 4th Floor, Les Jamalacs Building, Vieux Conseil Street, Port Louis.

The principal activity of the Company is to significantly increase the access of African small and medium size enterprises (SMEs) to finance.

The Company has two lines of activity:

- Provision of partial financial guarantees on product and portfolio basis; and
- Support for capacity development of the client financial institutions to help them improve their SME financing capabilities.

The Company has a branch registered in Nairobi, Kenya. It is registered as a branch of a foreign entity under the Kenyan Companies Act.

The financial statements of the Company for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on

2. BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

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

Basis of measurement

The financial statements have been prepared under the historical cost basis and are presented in US Dollars (USD), which is also the Company's functional currency.

Use of estimates and judgements

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 5.

Notes to the Financial Statements

As at 31 December 2014

3. CHANGE IN ACCOUNTING STANDARDS

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS and IFRIC interpretations adopted in the year commencing 1 January 2014:

	Effective for accounting period beginning on or after
<u>AMENDMENTS</u>	
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	01 January 2014
Offsetting Financial Assets and Financial liabilities – Amendments to IAS 32	01 January 2014
Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39	01 January 2014
IFRIC 21 Levies	01 January 2014
Annual Improvements 2010-2012 Cycle	01 January 2014

Where the adoption of the amendments is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of ‘currently has legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanism of clearing houses to qualify for offsetting and is applied retrospectively, the Company had no offsetting arrangements during the year.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent liabilities and contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 01 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 had no impact on the Company.

Notes to the Financial Statements

As at 31 December 2014

3. CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of the issuance of the Company financial statements are disclosed below.

	Effective for accounting period beginning on or after
<u>NEW OR REVISED STANDARDS</u>	
IRFS 9 Financial Instruments	01 January 2018
IRFS 14 Regulatory Deferral accounts	01 January 2016
IFRS 15 Revenue from Contracts with customers	01 January 2017
<u>AMENDMENTS</u>	
IAS 19 Defined benefits plan: Employee contributions, Amendments to IAS 19	01 July 2014
IFRS 10, IFRS 12, IAS 28 Investment Entities (Amendments)	01 January 2016
IFRS 11 Accounting for Acquisitions of interest in Joint Operations	01 January 2016
IAS 1 Disclosure Initiative – Amendments to IAS 1	01 January 2016
IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments)	01 January 2016
IAS 16 and IAS 41: Agriculture – Bearer plants – Amendments to IAS 16 and IAS 41	01 January 2016
IAS 27 – Equity Method in separate financial statements – Amendments to IAS 27	01 January 2016
Annual Improvements 2010-2012 Cycle	01 July 2014
Annual Improvements 2011-2013 Cycle	01 July 2014
Annual Improvements 2012-2014 Cycle	01 July 2016
IFRS 10 and IAS 28: Sale or Contribution of Assets between an investor and its associates or joint venture	01 January 2016

The Company is still evaluating the effect of these new or revised standards and interpretations on the presentation of its financial statements. No early adoption is intended by the Board of Directors.

Functional currency

Functional currency is the currency of the primary economic environment in which the entity operates. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash.

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES

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 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.

Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash together with other highly liquid short-term placements available on demand. These balances are subject to insignificant changes in fair value and are reported at amortised cost.

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity and investment purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised/(derecognised) on the date the Company commits to purchase/(sell) the instruments (trade date accounting).

Subsequent measurement

Subsequent to initial measurement, the Company's financial instruments are measured at either fair value or amortised cost, depending on their classification as follows:

Held- to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments that the Company intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Held-to-maturity investments are measured at amortised cost. The Company's held-to-maturity investments consists of investment in government bonds.

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate (EIR) method, less provision for impairment. The Company's receivables and cash and cash equivalent are classified into this category of financial assets.

Impairment provisions are recognised when there is objective evidence that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within other expenses in the statement of profit or loss and other comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value, which is generally equal to the premiums received or receivable, and then amortised over the life of the financial guarantee.

Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Premiums paid on financial guarantees received are amortised over the life of the exposure. Any claims under the guarantee are recognised when the rights are virtually certain

Impairment of financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

Asset carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Company has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts being recognised in profit or loss.

Property and equipment

Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Company and the cost of the item can be measured reliably. Expenditure which does not meet these criteria is recognised in profit or loss as incurred. Depreciation, impairment losses and gains or losses on disposal of assets are included in profit or loss.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their expected residual values.

The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each reporting date.

The estimated useful lives of tangible assets for the current financial year are as follows:

Office, furniture and office equipment	3 to 8 years
Computer and accessories	3 to 5 years
Motor vehicles	3 to 5 years

There has been no change to the estimated useful lives from those applied in the previous financial year

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost includes all the costs incurred to acquire and bring to use the specific assets. These costs are amortized on the basis of the expected useful lives.

Expenditure subsequently incurred on intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if necessary.

The estimated useful lives of intangible assets for the current financial year are as follows:

Softwares	1 to 5 years
Website	5 years

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash generating units). Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

Asset on which impairment losses has been recognised in prior periods are re-assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to profit or loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Impairment of non-financial assets (Continued)

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Company's control.

Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax

Direct taxation

Direct taxation includes current and deferred tax. Current tax and deferred tax are recognised in profit or loss or items recognised directly in equity or in Other Comprehensive income (OCI).

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted as at the reporting date.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. 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.

Current and 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 income 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.

Indirect taxation

Indirect taxes, including non-recoverable value added tax (VAT) and other duties, are recognised in profit or loss and their classification depends on the nature of the underlying transaction.

Related party transactions

A party is considered to be related to the Company if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Post-employment benefits – defined contribution plans

The Company operates defined contribution plans, based on a percentage of pensionable earnings funded by both employer and employees, the assets of which are generally held in separate trustee - administered funds. Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the Company is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as deferred income and released to profit or loss on a systematic and rational basis over the expected useful life of the related asset.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes.

Notes to the Financial Statements

As at 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessment fee and commission revenue

Assessment fee and commission revenue, are recognised as the related services are performed and there are no significant uncertainties in respect of related collections.

Utilization fee

The Company recognizes utilization fees received and receivable as deferred premium revenue at the inception of the contract. Deferred premium revenue is subsequently recognized as earned revenue over the contractual period or expected period of the contract in proportion to the amount of guarantee given.

As premium revenue is recognized, a corresponding decrease to the deferred premium revenue is recorded. The amount of protection provided is a function of the guaranteed principal amount outstanding. Accordingly, the proportionate share of premium revenue recognized in a given reporting period is a constant rate calculated based on the relationship between the loan payments made during the reporting period to guaranteed principal amount.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes certain estimates, judgements and assumptions regarding the future. Estimates, assumptions and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates, judgements and assumptions. The estimates, judgements and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Going concern

The Company's management 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 management 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 the going concern basis.

Notes to the Financial Statements

As at 31 December 2014

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Functional currency

The determination of functional currency of the Company is critical since recording of transactions and exchange differences arising thereon are dependent on the functional currency selected. The directors have considered those factors therein and have determined that the functional currency of the Company is the United States Dollar ("USD"), as it most faithfully reflects the underlying transactions, events and conditions that are relevant to the Company.

Deferred tax assets

The accounting policy for the recognition of deferred tax assets is described in accounting policy pertaining to tax. A deferred tax asset is recognised to the extent that it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and planning strategies. Deferred tax asset has not been recognised as the Company is still in its start-up phase and management is not expecting any liability with respect to deferred tax to arise in a foreseeable future.

Depreciation of tangible and intangible assets

Tangible and intangible assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account.

Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Provisions for losses on financial guarantee contracts

Provisions for guarantees consist of two types: General provisions and specific provisions

The general provisions represent funds set aside by the Company to pay for losses that are anticipated to occur in the future. Past history of loan defaults and recoverability show that the Company may suffer from losses due to the nature of its business. Therefore, it is prudent to create a general provision in addition to the specific provision.

The specific provisions are reserves taken for specific loans when there is objective evidence of impairment (IAS 39).

Notes to the Financial Statements

As at 31 December 2014

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Fair value gain on financial guarantee contracts

The valuation of financial guarantee contracts requires critical management assumptions on a number of factors that affect the future cash flows generated from the issue of financial guarantees by the Fund. These assumptions include estimating the utilisation rates over the period of guarantees issued, the expected default and recovery rates of said financial guarantees and the discount rate utilised to determine the present value of these net gains. Management have applied the following assumptions in this respect:

- average annual growth in utilisation of 10%
- default rate over the period of the contracts of 3.84%
- average recovery rate of 32%
- discount rate of 7.5%

6. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including credit risk, concentration risk liquidity risk, market risks (interest rate risk and foreign exchange risk) and operational risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors of the Company has established the Treasury Management, Investment/Guarantee, Capacity Development and Committees, which are responsible for developing and monitoring the Company risk management policies in their specified areas. All board committees report regularly to the Board of Directors on their activities.

Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its operating activities (primarily for other receivables) and from its financing activities, including cash at bank and other financial instruments.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as mean of mitigating the risk of financial loss from defaults. The cash at bank are maintained with reputable financial institutions.

Notes to the Financial Statements

As at 31 December 2014

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was:

Cash and Cash Equivalents (excluding cash in hand)

	2014			2013		
	Balance	Rating		Balance	Rating	
	USD	Short Term	Long Term	USD	Short Term	Long Term
Barclays Bank PLC (*)	2,016,864	A-2	A-	477,245	A-2	A-
CFC Stanbic Bank (**)	107,422	F1+ (ken)	AAA(Ken)	325,647	F3	BBB
Commercial Bank of Africa (***)	776,411	A1	AA-	1,295,162	-	-
Ecobank Kenya Limited (**)	981,666	B	B-	1,519,533	B	B-
Total	3,882,363			3,617,587		

(*) Rating by Standard & Poors, (**) Fitch National rating, (***) Rating by GCR

An amount of USD 5,515 (2013: USD 5,073) representing cash in hand was not included in the table.

Held-to-maturity financial assets (Bonds)

	2014	2013
Rating*	Book Value	Book Value
AAA	3,248,091	471,971
AA+	6,138,482	978,709
AA	20,210,874	21,518,183
A	2,619,111	-
A-	8,117,136	6,386,143
BBB	14,567,733	7,944,032
BB+		5,391,732
	54,901,427	42,690,770

Notes to the Financial Statements

As at 31 December 2014

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Receivables

Conventional Rating are not available for the PLI's (Partner Lending institutions) therefore PLI's credit risks are assessed through the CAMELS (Capital Adequacy, Asset quality, Management, Earnings, Liquidity, and market Sensitivity) analysis which establishes the Lender's ability to originate and monitor credit and its overall financial condition. The CAMELS analysis is designed to take the place of private rating agency assessments that are not available for the particular bank.

CAMELS Ratings definitions

Rating of 10 to 19: strong capital level; strong asset quality and credit administration practice, superior management; more than sufficient earnings to support operations and maintain adequate capital and allowance levels after consideration is given to asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings; strong liquidity levels and well developed funds management practices; and high risk management capabilities.

Rating 20 to 29: Sound in every respect. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. Most capable of withstanding the vagaries of business conditions and resistant to outside influences such as economic instability in their trade areas. Compliance with laws and regulations. Exhibit the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile, and give no cause for supervisory concern.

Rating 30-39: Fundamentally sound. Some weaknesses are present but are well within the board of directors' and management's capabilities and willingness to correct. Stable and capable of withstanding business fluctuations and compliance with laws and *regulations*. Overall risk management practices are sound relative to the institution's size, complexity, and risk profile. There are no material supervisory concerns.

Rating 40-49: Generally sound. Only moderate weaknesses are present and are generally within the Board of directors' and management's capabilities and willingness to correct. Stable and capable of withstanding business fluctuations provided that weaknesses are given due attention. Generally in compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile. There are currently no material supervisory concerns, but the bank is somewhat weaker than those in category 3 and may slip into category 5 if weaknesses are not corrected.

Notes to the Financial Statements

As at 31 December 2014

6. FINANCIAL RISK MANAGEMENT (Cont'd)

2014 breakdown for Receivables above \$1,000

	<i>Partner Lending Institutions Receivable Amount</i>	<i>CAMELS Score</i>
BGFI Bank Groupe	516,728	29%
Diamond Bank Group	183,647	32%
Focus Ironclad	150,304	37%
CBI - Coris Banque International CI	56,250	38%
Heritage Bank	50,000	48%
Jamii Bora	43,469	43%
Oikocredit	39,173	29%
Credit Bank Limited	33,249	38%
Focus Financial Services Ltd	33,162	40%
Met Holdings Ltd	25,000	49%
Oasis Capital	25,000	31%
ECB	21,817	39%
Banque Orabank Togo	18,801	33%
SIB - Societe Ivoirienne Banque	18,234	40%
Ecobank	14,925	31%
Zanaco	10,357	43%
Innovare/ VAELL	10,000	30%
Ecobank Cameroon	8,353	31%
CBA	7,387	22%
Ecobank Kenya	5,469	31%
Ecobank Burkina Faso	1,894	31%
I&M Bank Ltd	1,130	33%
Total	1,274,349	

Notes to the Financial Statements

As at 31 December 2014

6. FINANCIAL RISK MANAGEMENT (Cont'd)

2013 breakdown for Receivables above \$1,000

<i>Partner Lending Institutions</i>	<i>Receivable Amount</i>	<i>CAMELS Score</i>
Diamond Bank	93,750	32%
Ecobank Cote d'Ivoire	50,000	31%
Jami Bora	32,355	43%
Met Holdings Ltd	25,000	49%
ABC	23,503	48%
Ecobank Democratic Republic of Congo	12,500	31%
Orabank	10,697	35%
Union Savings & Loans	5,000	37%
CBA	1,210	22%
Jabali	1,034	39%
Total	255,049	

Concentration risk

Concentration risk is defined as a direct and/or indirect concentration of exposure to a single or group of counterparties, industry or geographic region. The Company has invested in fixed government bonds and its exposure to concentration risk at the reporting date is as follows:

Bond Counterparty	2014		2013	
	Book Value	Percentage	Book Value	Percentage
Dubai Government	15,866,833	28.90%	16,534,184	38.70%
African Export-Import Bank	6,824,420	12.43%	7,944,029	18.60%
Croatia	5,195,988	9.47%	6,386,142	15.00%
Slovenia Government	5,562,400	10.13%	5,391,729	12.60%
Belgium Kingdom	4,344,041	7.91%	4,984,003	11.70%
General Electric	946,791	1.72%	978,711	2.30%
Hong Kong Government	-	-	471,972	1.10%
Bank Nederlandse Gemeenten	2,602,098	4.74%	-	-
European Investment Bank	2,599,973	4.74%	-	-
Caisse d'amortissement de la dette sociale	2,589,593	4.72%	-	-
Bank of China Hong Kong	2,619,111	4.77%	-	-
South Africa	2,547,325	4.64%	-	-
Poland	2,554,736	4.65%	-	-
African Development Bank	648,118	1.18%	-	-
TOTAL	54,901,427	100.00%	42,690,770	100.00%

Notes to the Financial Statements

As at 31 December 2014

6. FINANCIAL RISK MANAGEMENT (Cont'd)

Market risk

Market risk arises from the Company's use of interest-bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

The Company is not sensible to interest rate risk changes due to the fact that all coupon rates are fixed and the bonds are intended to be held to maturity.

Foreign exchange risk

Foreign currency is the risk that the Company net financial asset will fluctuate because of changes in foreign currency risk.

As of 31 December the Company's net exposure to foreign exchange risk was as follows:

	USD		EURO		KES	
	2014	2013	2014	2013	2014	2013
Assets	47,302,344	36,208,753	10,938,347	8,938,746	432,610	7,407,104
Liabilities	439,528	347,441	-	-	9,955,309	9,548,879
Closing rate	1	1	1.2098	1.3743	0.0110	0.0116
Net exposure in USD	46,862,816	35,861,312	13,233,212	12,284,519	(104,750)	(25,701)

Sensitivity to 10 pips* move USD 9,204

*Pip: A pip is the fourth digit after the decimal point. If a currency pair like EUR/USD is trading at an exchange rate of 1.2000 (1 EUR = 1.3 USD) and the rate changes to 1.2010, the price has changed by 10 pips.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities to ensure necessary access to sufficient liquidity at all times.

Notes to the Financial Statements

As at 31 December 2014

6. FINANCIAL RISK MANAGEMENT (Cont'd)

The table below summarises the maturity profile of the Company's financial assets and liabilities at 31 December based on contractual undiscounted payments.

As at 31 December 2014	On demand	1 to 3 months	3 to 6 months	6 to 12 months	12 months to 8 years	Total
Cash and cash equivalents	3,107,963	779,914				3,887,878
Bond coupons and principal	-	1,588,722	733,839	16,397,893	40,148,079	58,868,533
Receivables	1,656,451					1,656,451
Total financial assets	5,398,648	2,368,637	733,839	16,397,893	40,148,079	64,412,862
Payables	250,559	-	-	-	-	250,559
Other liabilities	27,799	-	-	-	-	27,799
Total financial liabilities	278,358	-	-	-	-	278,358

As at 31 December 2013	On demand	1 to 3 months	3 to 6 months	6 to 12 months	12 months to 6 years	Total
Cash and cash equivalents	2,450,642	1,172,018	-	-	-	3,622,660
Bond coupons and principal	-	270,137	896,877	2,368,480	41,877,242	45,412,736
Receivables	526,808	-	-	-	-	526,808
Total financial assets	2,977,450	1,442,155	896,877	2,368,480	41,877,242	49,562,204
Payables	202,089	-	-	-	-	202,089
Other liabilities	13,506	-	-	-	-	13,506
Total financial liabilities	215,595	-	-	-	-	215,595

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes to the Financial Statements

As at 31 December 2014

6. FINANCIAL RISK MANAGEMENT (Cont'd)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Ethical and business standards.
- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Development of contingency plans.
- Training and professional development.
- Risk mitigation, including insurance where this is effective.

Operational risk

Compliance with Company's standards is supported by a programme of regular reviews undertaken by the Internal Control department. The results of internal audit reviews are discussed with the management of the department to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

Capital management

The principal objective of the Company when managing capital is to earn the maximum risk-adjusted return that is compatible with keeping the capital intact in the medium and long term and being able to settle all obligations in full as they fall due.

Notes to the Financial Statements

As at 31 December 2014

7. FAIR VALUE MEASUREMENTS

Fair values of financial assets

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2014	2014	2013	2013
Held-to-maturity financial Assets				
<i>Hong-Kong Government Bond</i>	-	-	471,972	471,641
<i>Dubai Government Bond</i>	15,866,833	16,120,056	16,534,184	16,492,859
<i>General Electric Capital</i>	946,791	976,100	978,711	975,692
<i>Belgium Kingdom</i>	4,344,041	4,660,755	4,984,003	4,968,527
<i>Republic Slovenia 2015</i>	507,059	509,658	580,745	579,720
<i>Croatia 2015</i>	451,084	450,953	530,267	528,771
<i>Croatia 2017</i>	4,744,904	5,099,063	4,861,461	4,841,374
<i>Republic of Slovenia 2016</i>	5,055,341	5,226,560	5,805,398	5,782,907
<i>African Export- Import Bank 2016</i>	6,824,420	7,108,125	7,004,242	6,976,491
<i>African Export- Import Bank 2014</i>	-	-	939,787	938,351
<i>Bank Nederlandse Gemeenten</i>	2,602,098	2,979,750	-	-
<i>European Investment Bank</i>	2,599,973	2,948,400	-	-
<i>Caisse d'amortissement de la dette sociale</i>	2,589,593	2,897,100	-	-
<i>Bank of China Hong Kong</i>	2,619,111	3,119,548	-	-
<i>South Africa</i>	2,547,325	3,034,825	-	-
<i>Poland</i>	2,554,736	3,052,856	-	-
<i>African Development Bank</i>	648,118	684,821	-	-
Total	54,901,427	58,868,569	42,690,770	42,556,333

Fair value calculated as present value of expected cash over remaining life of financial assets (as of the reporting date).

Fair value measurement of financial liabilities

	Total	Level 1	Level 2	Level 3
	USD	USD	USD	USD
Financial guarantees fair value as at 31 December 2014	2,091,138	-	-	2,091,138

There has been no transfer between the level 1 and level 2 during the year

Notes to the Financial Statements

As at 31 December 2014

7. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flows analysis and option pricing models making as much use of available and supportable market data as possible).

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period.

Notes to the Financial Statements

As at 31 December 2014

8(a). HELD TO MATURITY FINANCIAL ASSETS

2014	Purchase value (\$ including commission)	Maturity Date	Coupon Rate	Book Value (\$)
Dubai Government Bond	17,201,215	05-Oct-15	6.70%	15,866,834
General Electric Capital	1,010,523	15-Feb-17	5.40%	946,791
Belgium Kingdom	5,048,483	28-Sep-19	3.00%	4,344,041
Republic Slovenia 2015	585,156	17-Mar-15	2.75%	507,059
Croatia 2015	517,108	05-Jan-15	6.50%	451,084
Croatia 2017	4,978,724	27-Apr-17	6.25%	4,744,904
Republic of Slovenia 2016	5,872,341	17-Feb-16	4.00%	5,055,341
African Export- Import Bank 2016	7,008,076	27-Jul-16	5.75%	6,824,420
Bank Nederlandse Gemeenten	2,598,433	16-Feb-21	4.375%	2,602,098
European Investment Bank	2,596,771	16-Feb-21	4.000%	2,599,973
Caisse d'amortissement de la dette sociale	2,593,450	17-Apr-20	2.000%	2,589,593
Bank of China Hong Kong	2,600,267	11-Feb-20	5.550%	2,619,111
South Africa	2,593,682	9-Mar-20	5.500%	2,547,325
Poland	2,602,338	21-Apr-21	5.125%	2,554,736
African Development Bank	650,073	2-Oct-18	1.625%	648,118
Total	58,456,640			54,901,427

2013	Purchase value (\$ including commission)	Maturity Date	Coupon Rate	Book Value (\$)
Hong-Kong Government Bond	493,124	1-Aug-14	5.13%	471,972
Dubai Government Bond	17,201,215	5-Oct-15	6.70%	16,534,184
General Electric Capital	1,010,523	15-Feb-17	5.40%	978,711
Belgium Kingdom	5,048,483	28-Sep-19	3.00%	4,984,003
Republic Slovenia 2015	585,156	17-Mar-15	2.75%	580,745
Croatia 2015	517,108	5-Jan-15	6.50%	530,267
Croatia 2017	4,978,724	27-Apr-17	6.25%	4,861,461
Republic of Slovenia 2016	5,872,341	17-Feb-16	4.00%	5,805,398
African Export- Import Bank 2016	7,008,076	27-Jul-16	5.75%	7,004,242
African Export- Import Bank 2014	999,161	13-Nov-14	8.75%	939,787
Total	43,713,911			42,690,770

Notes to the Financial Statements

As at 31 December 2014

8(b). FINANCIAL GUARANTEES

Fair value of financial guarantee contracts: USD 2,091,138

Sensitivity of the fair value gain on financial guarantee contracts to its main factors:

- If the average annual growth in utilisation is lower by 100 point to the management assumption (from 10% to 9%), the fair value gain will decrease by USD 135,692
- If the default rate over the period of the contract is higher by 100 point to the management assumption (from 3.84% to 4.84%), the fair value gain will decrease by USD 227,274
- If the average recovery rate is lower by 100 point to the management assumption (from 32% to 31%), the fair value gain will decrease by USD 9,236
- If the discount rate is higher by 100 point to the management assumption (from 7.5% to 8.5%), the fair value gain will decrease by USD 74,041

9. INCOME FROM INVESTMENTS

	2014	2013
	USD	USD
Interest received on fixed-term deposits in Kenya	60,739	65,721
Interest received on term deposits in London	4,657	4,995
Income from held-to-maturity financial assets	1,376,214	966,837
	1,441,610	1,037,553

10. STAFF EXPENSES

Staff costs comprise:

	2014	2013
	USD	USD
Wages and salaries	1,809,301	1,263,964
Short-term monetary benefits	245,272	149,353
Short-term non-monetary benefits	4,779	35,791
Defined contribution pension cost	125,027	103,289
Social security contributions and similar taxes	592	419
	2,184,971	1,552,816

Notes to the Financial Statements

As at 31 December 2014

11. EXPENSES BY NATURE

	2014	2013
	USD	USD
Administration Expenses	48,750	48,900
Board Expenses	230,347	158,344
Legal Costs	258,389	203,767
Administrative and legal fees	537,486	411,011
Telephone	69,057	67,834
Courier and postage	3,947	5,905
Other	11,080	8,469
Communication expenses	84,084	82,208
SME Championship	271,433	-
Conference Sponsorship	58,458	5,695
Newspaper Adverts	104,576	121,697
Marketing expenses	434,467	127,392
Rent	133,194	129,244
Service charges	33,262	34,103
Security and maintenance	36,344	28,789
Parking and electricity	23,672	18,942
Insurance	6,923	5,715
Premises expenses	233,395	216,793
Staff recruitment	27,964	46,581
Staff training	9,115	97,555
Consultancy	19,707	32,246
Audit fees	73,600	23,230
Office supplies	28,981	18,126
Computer maintenance cost	22,534	21,657
Bank charges	10,075	8,545
GARI Fund (Fonds de Garantie des Investissements Prives en Afrique de l'Ouest)	227,946	-
Gain or loss on disposal of assets	2,408	-
Sundry expenses	70,760	32,015
Other expenses	493,090	279,955

Notes to the Financial Statements

As at 31 December 2014

12. TAX EXPENSES

The Company being the holder of a Mauritian Category 1, Global Business Licence, is liable to income tax at the rate of 15% on its profit as adjusted for tax purposes. It is, however, entitled to a tax credit equivalent to the higher of actual foreign tax suffered and 80% of Mauritian tax chargeable on its foreign source income.

Deferred tax asset has not been recognised as the Company is still in its start-up phase and management is not expecting any taxable income to exceed existing unutilised tax losses in the foreseeable future.

The income tax expense for the year can be reconciled to the accounting profit or loss for the period ended 31 December as follows

	<u>2014</u>	<u>2013</u>
Loss before tax	(958,807)	(1,503,059)
Non deductible expenses		
Unrealized foreign exchange loss/(gain)	1, 417,507	(189,119)
General Provision for guarantees	135,748	-
Depreciation of intangible asset	7,968	6,365
Depreciation of property and equipment	229,528	179,089
Proportion of disallowed expenses	1,767,859	-
Non allowable expenses	3,558,610	(3,665)
Less Non taxable income:		
Fair value gain	(2,091,138)	-
Capital allowance for the year	(387,567)	(297,183)
Adjusted Profit/(loss) for tax purpose	121,097	(1,796,577)
Tax @ 15%	18,165	(269,487)
Foreign tax credit / tax deducted at source	(14,532)	696
Deferred tax asset not recognised	-	269,487
Income tax expense reported in profit or loss	3,633	696

Notes to the Financial Statements

As at 31 December 2014

12. TAX EXPENSES (CONTINUED)

The unused tax losses not recognised in the books at 31 December 2014 is NIL (2013: USD 1,499,394). Deferred tax asset has not been recognised in respect of tax losses carried forward as the Directors consider that it is not probable that future taxable profits will be available against which the unused tax losses can be utilised.

Year of Assessment	Expiry Year	2014 USD	2013 USD
2012	2017	499,514	499,514
2013	2018	1,499,394	1,499,394
2014	2019	-	-
		<u>1,995,275</u>	<u>1,998,908</u>

Notes to the Financial Statements

As at 31 December 2014

13. PROPERTY AND EQUIPMENT

COST	Office equipment	Fittings	Furniture	Computer equipment	Motor vehicles	Assets under construction	Total
	USD	USD	USD	USD	USD	USD	USD
At 1 January 2013	154,832	566,022	225,992	70,521	99,000	135,727	1,252,094
Additions	-	121,078	51,282	30,912	-	182,239	385,511
At 31 December 2013	154,832	687,100	277,274	101,433	99,000	317,966	1,637,605
At January 2014	154,832	687,100	277,274	101,433	99,000	317,966	1,637,605
Reclassification from Work in Progress	-	317,966	-	-	-	(317,966)	-
Additions	111	17,593	6,968	30,098	30,546	-	85,316
Disposals	-	-	-	(5,907)	-	-	(5,907)
At 31 December 2014	154,943	1,022,659	284,242	125,624	129,546	-	1,717,014

Notes to the Financial Statements

As at 31 December 2014

13. PROPERTY AND EQUIPMENT (CONTINUED)

DEPRECIATION	Office equipment	Fittings	Furniture	Computer equipment	Motor vehicles	Assets under construction	Total
	USD	USD	USD	USD	USD	USD	USD
At 1 January 2013	(19,354)	(70,443)	(16,479)	(13,723)	(33,000)	-	(152,999)
Charge for the year	(19,354)	(79,829)	(30,386)	(24,770)	(24,750)	-	(179,089)
At 31 December 2013	(38,708)	(150,272)	(46,865)	(38,493)	(57,750)	-	(332,088)
Charge for the year	(19,453)	(112,393)	(35,385)	(30,547)	(31,750)	-	(229,528)
Disposal adjustments	-	-	-	7,182	-	-	7,182
At 31 December 2014	(58,161)	(262,665)	(82,250)	(61,858)	(89,500)	-	(554,434)
NET BOOK VALUE							
At 31 December 2014	96,782	759,994	201,992	63,766	40,046	-	1,162,580
At 31 December 2013	116,124	536,828	230,409	62,940	41,250	317,966	1,305,517

Notes to the Financial Statements

As at 31 December 2014

14. INTANGIBLE ASSETS

	Software	Website	Assets under work in progress	Total
COST	USD	USD	USD	USD
At 1 January 2013	7,605	14,664	186,940	209,209
Additions	7,696	12,450	100,660	120,806
At 31 December 2013	15,301	27,114	287,600	330,015
Additions	504	-	103,200	103,704
At 31 December 2014	15,805	27,114	390,800	433,719
AMORTISATION				
At 1 January 2013	(108)	(1,711)	-	(1,819)
Charge for the year	(3,044)	(3,321)	-	(6,365)
At 31 December 2013	(3,152)	(5,032)	-	(8,184)
Charge for the year	(3,478)	(4,490)	-	(7,968)
At 31 December 2014	(6,630)	(9,522)	-	(16,152)
NET BOOK VALUE				
At 31 December 2014	9,175	17,592	390,800	417,567
At 31 December 2013	12,149	22,082	287,600	321,831

15. RECEIVABLE AND DEPOSITS

	2014	2013
	USD	USD
Other receivables	1,613,278	474,681
Deposits	43,173	52,127
	1,656,451	526,808

Notes to the Financial Statements

As at 31 December 2014

15. RECEIVABLE AND DEPOSITS (CONTINUED)

The fair values of other receivables classified as loans and receivables are not materially different to their carrying values.

Other receivables are interest free and are repayable on demand.

The fair values of other receivables classified as loans and receivables are not materially different to their carrying values.

Other receivables are interest free and are repayable on demand.

16. TRADE, OTHER PAYABLES AND OTHER LIABILITIES

	<u>2014</u>	<u>2013</u>
	USD	USD
Trade payables	48,113	33,384
Accrued payables	202,446	168,705
	<u>250,559</u>	<u>202,089</u>

Book values of trade payables and accruals approximate to their fair value at 31 December 2014 and 2013.

Trade payables are interest free and are repayable on demand.

	<u>2014</u>	<u>2013</u>
	USD	USD
OTHER LIABILITIES		
Contractor retention		11,941
VAT payable	1,800	240
Withholding tax	5,514	696
Sundry liabilities	20,485	629
	<u>27,799</u>	<u>13,506</u>

17. PROVISION

	<u>2014</u>	<u>2013</u>
	USD	USD
At 01 January	5,700	46,400
Provision utilized/made during the year	(5,700)	(40,700)
At 31 December	<u>-</u>	<u>5,700</u>

Notes to the Financial Statements

As at 31 December 2014

18 GENERAL PROVISION FOR GUARANTEES

Depending on the guarantee product, the Company take a general provision between 1% and 4% of the outstanding utilised volume.

The utilised volume of its financial guarantee as of 31st December stands at USD 25,770,440

19 SHARE CAPITAL

	2014		2013	
	Number	USD	Number	USD
Class B shares	1,000	10,000,000	1,000	10,000,000
Class C shares	5,650	56,500,000	4,000	40,000,000
Class D shares	3	3	3	3
	6,653	66,500,003	5,003	50,000,003

The Company has four classes of shares namely Class A Share, Class B Share, Class C Share and Class D share. Share rights on dividend, on redemption, voting and liquidation are defined below:

Class A Share, Class B Share and Class C Share

Class A Share, Class B Share and Class C is redeemable at the option of the Shareholder or at the option of the Company.

Class A Share, Class B Share and Class C Share confer on its holder the right to attend and exercise one vote at any Shareholders' Meeting at a poll.

In the event of the winding up of the Company, the holders of Class A Shares, Class B Shares and Class C shares shall be entitled to such portion of the assets of the Company as is set out in Clause 40 of the Constitution of the Company.

Class D Share

Class D Share shall not be entitled to any dividend.

Class D Share shall not be redeemable.

Class D Share have no voting rights and have no right to receive notice of, attend or participate in any Shareholders Meeting for as long as there is any other Classes of Shares in issue. If at any time there is no other Classes of Shares in issue then each Class D Share shall confer on its holder the right to exercise one vote at any Shareholders Meeting at a poll.

In the event of the winding up of the Company, the holders of Class D Shares shall be entitled to US\$ 1 for each Share held.

Notes to the Financial Statements

As at 31 December 2014

20 RELATED PARTY TRANSACTIONS

During the year ended 31 December 2014, the Company transacted with related entities. Details of the nature, volume of transactions and the balances with the related entities are as follows:

Description of transaction	2014	2013
	USD	USD
Remuneration and sitting allowance	498,425	505,821
Reimbursement of travel expenses	59,168	23,003
Capacity building's administration fees	252,896	139,130
	810,489	667,954

21 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	2014	2013
	USD	USD
Financial guarantees utilized	25,770,440	9,414,000
Financial guarantees re-guaranteed	(14,014,796)	-
Net exposure	11,755,644	9,414,000

Custodian fees

The Company pays custodian fee to Barclays Bank for holding its financial securities at the following rate:

Size	Price (per annum)
\$0-50m	25bps
\$50m-100m	20bps
\$100m+	15bps

Custody fees

	2014	2013
	USD	USD
Custody fees paid to Barclays Bank London PLC	114,249	121,204
	114,249	121,204

Notes to the Financial Statements

As at 31 December 2014

22. CONTINGENT LIABILITIES AND COMMITMENTS

Operating lease commitments

The lease is for a period of six years. They all are tenant repairing with upward rent reviews every 2 years.

The future minimum payments under non-cancellable operating leases are as follows:

	<u>2014</u>	<u>2013</u>
	USD	USD
Properties		
Within 1 year	143,160	134,197
After 1 year but within 5 years	305,656	440,037
	<u>448,816</u>	<u>574,234</u>

23. EVENTS AFTER REPORTING DATE

There are no significant events after the reporting date which require disclosure or amendment to be done to the financial statements.



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Promoters



The Government of Denmark through Danida



The Government of Spain through Aecid



The African Development Bank