

ANNUAL REPORT - 2013



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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 |
| Manuel De la Rocha Vazquez | Director | 28-Mar-11 | 4-Oct-13 |
| Pietro Calice | Director | 28-Mar-11 | 13-Nov-13 |
| 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 Director |
| Susan Murage | Human Resources Director |
| David Ekabouma | Internal Control Director |
| Joshua Obengele | 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

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

Daly & Figgis

ABC Towers,
ABC Place, 6th 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

AUDITORS

Ernst & Young Mauritius

Level 9, NeXTeracom, Tower 1
Cybercity
Ebene
Republic of Mauritius

Ernst & Young Kenya

Kenya-Re Towers, Upper Hill
Off Ragati Road
P.O Box 44286-00100
Nairobi
Kenya

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

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

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

AGF is currently focusing its activities on the following countries: Cameroun, Ghana, Kenya, Togo, Mozambique, Senegal, Tanzania, Uganda and Zambia and will gradually increase to cover the whole of Africa. Transactions from other African countries other than the ones mentioned above can at present also be considered.

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 in key regional hubs.

Board of Directors

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



Abdoulaye Bio Tchané
Chairman
(Appointed on 28 June 2013)



Susan ULBAEK
Representing the Danish Government
(Resigned on 6 February 2014)



Manuel DE LA ROCHA VAZQUEZ
Representing the Spanish Government
(Resigned on 4 October 2013)



Pietro CALICE
Representing the African Development Bank
(Resigned on 13 November 2013)



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
Risk Manager



David
EKABOUMA
Chief Internal
Controller



Susan
MURAGE
Human Resources
Head



NK Passwell
SHAPI
Business Development
Head

Chairman's Address

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!

Abdoulaye Bio Tchané

CEO's Letter

I sit down to write this having spent three eventful and productive years, building an extraordinary team and establishing the African Guarantee Fund as a premier financial intermediary in Africa, my home. I remain grateful for the confidence that you have put in me in order to realize the stakeholders goals of establishing an African institution, with the unique capabilities and tools to engage the growing financial community in Africa, and to bring the much needed financing to the small and medium enterprises that will grow our economies and improve the lives of our brothers and sisters across this great continent.

We are happy to report that African's macroeconomic prospects remain quite favorable. In the past year, the continent maintained an average growth rate of nearly 4%. This is a full one percent higher than the overall global economy. Africa is demonstrating resilience to the persistent global and regional economic headwinds and finding its way day by day to the global stage as an example of sustained growth and a place of real opportunities.

Along with this steady growth, there is a deepening democratic experience across the continent. More and more freely elected governments are instituting reforms designed to spur domestic job growth and encourage a steady flow of private investment; both domestic and foreign. It is in these ever more competitive markets that we are seeking partners who share our values and commitments to fostering the growth of enterprise and industry in Africa. These continued reforms in economic governance and transparency, at all levels, continue to encourage us to take even bigger and bolder strides towards being an integral part of improving the economic situation in Africa. Still, we are keeping a cautious eye on these matters in each and every agreement we enter. To that end, this past year has seen considerable effort on our part in improving our ability to measure and account for risk in our new partnerships, as well as our existing portfolio. We have made substantial investments in an improved risk models, an enhanced and a highly functional credit management system, and a very strategic view on how we will utilize our capacity development fund, to improve the chances of the success of our partners and the small and medium enterprises they fund.

CEO's Letter (Cont'd)



All of these equip us with the expertise and tools to engage with donors, development finance institutions, and private investment community in more innovative and productive ways. We are reaching out to private investors, private equity firms, venture firms, and foundations to partner with them in an all-out effort to grow a prosperous SME community.

Year after year, our goals remain the same - We are designed to be a transactional response to the persistent development challenges of economic growth and job development in Africa. We have this firmly built into our now established culture of meeting the everyday challenges, with face of at once prudently deploying our capital and reaching for the maximum development results of our efforts. We are reaching a notable scale largely as a result of the growing confidence that the financial and donor communities are showing in our work. More and more donors and organizations are seeking to partner with us. We should view this as a real vote of confidence in our institution, methods, and knowledge of the rapidly changing economic environment here in Africa.

Our numbers tell the story this year. While you'll find them in great detail in this report, here are the highlights. In this past year, AGF presented and gained approval for 29 guarantee agreements in 2013, growing our portfolio at the rate of 53% by number of guarantees. Five of these partnerships have so far utilized our Bank Fund Raising Guarantee; a unique product in the SME space and one that is surely needed if we are ever going to help tackle with the mismatch of assets and liabilities in the banking system, which limits the issuance of loans with tenure for growth oriented SME's. We are committed to continue our effort to be the industry leaders, in thought and in action, to working with banks to develop and support the use of new and beneficial financial products for the SME community. The aggregate number of guarantee approved since AGF started operation is 48 for a total amount of USD 136 million. As at December 2013, more than 80% of guarantee requests approved were effectively issued to our PLIs, representing an amount of USD 94 million.

Our utilization rate is increasing, now approaching 12% across the portfolio with an expectation to grow gradually to closer full utilization as the individual guarantees mature. We expect this to grow at an even faster rate as we have built up our portfolio management effort, as well as the increasing use of the capacity building funds.

CEO's Letter (Cont'd)

Our work is getting increasingly well-known on a day-to-day basis. Our operations have undergone much scrutiny and the international donor and development finance community are giving us high marks indeed. There are four new investors and collaborators who have begun their due diligence on cooperating and investing in the fund.

Our analysis and systems have passed the scrutiny of USAID's well-established Development Credit Authority and they re-guaranteed one of our facilities, joining the African Trade Insurance in the list of our re-guarantor partners. I've been assured that these partners will continue to seek opportunities to partner with us.

Much of our effort over the past year has gone into design and implementation of a Risk Management system, which will enable us to continuously strengthen Risk Management process. Effort now will go to the design of a Monitoring and Evaluation system to measure both the economic and social impact of AGF guarantees and capacity building work. In our next annual report, figures on SMEs will be shown to all our stakeholders. We will measure the real impact of your investment and our work.

This year our new Chairman joined the team. We are pleased and honored to have Abdoulaye BIO TCHANE as our Chairman. Widely known and greatly respected in the international community, Mr. BIO TCHANE built a thirty year career in finance and development across Africa. He has held high level positions at the West African Economic & Monetary Union Central Bank and was the former Director of the Africa Department at the International Monetary Fund, as well as the President of the West African Development Bank (BOAD). Moreover, he is also widely acknowledged as the finance minister of Benin who spearheaded clear and transparent reforms and actively fought against corruption. He has also led the design and launch of the WAEMU stock market. Already, he has become a real partner for me and the team. Even in his short time with us, he has added tremendous value in assisting AGF chart a successful path towards fulfilling its goals.

I, as the CEO, wish to express my deep appreciation for the continued support and guidance from the Board of Directors and you, the shareholders of AGF. Without your full and unwavering support, we would not have come this far. I know and I am confident that you will continue with your involvement and welcome new partners and shareholders who are seeking to join this important and useful effort. Finally, it is my joyful duty to salute my colleagues, the dedicated professional individuals who toil and strive every day to make our vision a reality.

CEO's Letter (Cont'd)

All of us together, will propel AGF all the way to our goal of increasing opportunities for the millions of entrepreneurs seeking to start and existing enterprises seeking to grow their businesses- Keeping Africa firmly on the road to widely shared prosperity.

Thank you

Felix A. Bikpo

Guarantees Activity

Guarantee activity highlights as at 31 December 2013

| | |
|---|--|
|  | 15 Countries in Africa |
|  | 26 Partner Lending Institutions |
|  | 48 Approved Guarantees |
|  | \$94 million Guarantee Agreements Signed |
|  | 220 Beneficiary SMEs |

During the year 2013, AGF issued guarantees for a total volume of \$93.9 million across Africa. The region with the most guarantees issued is the WAEMU (West African Economic and Monetary Union) region with 31% of the total volume, followed by WAMZ (West African Monetary Zone) and East Africa with 25% and 24% respectively. We are still growing our activity in Central and Southern Africa were the regions. Its currently stands at 11% and 9% respectively.

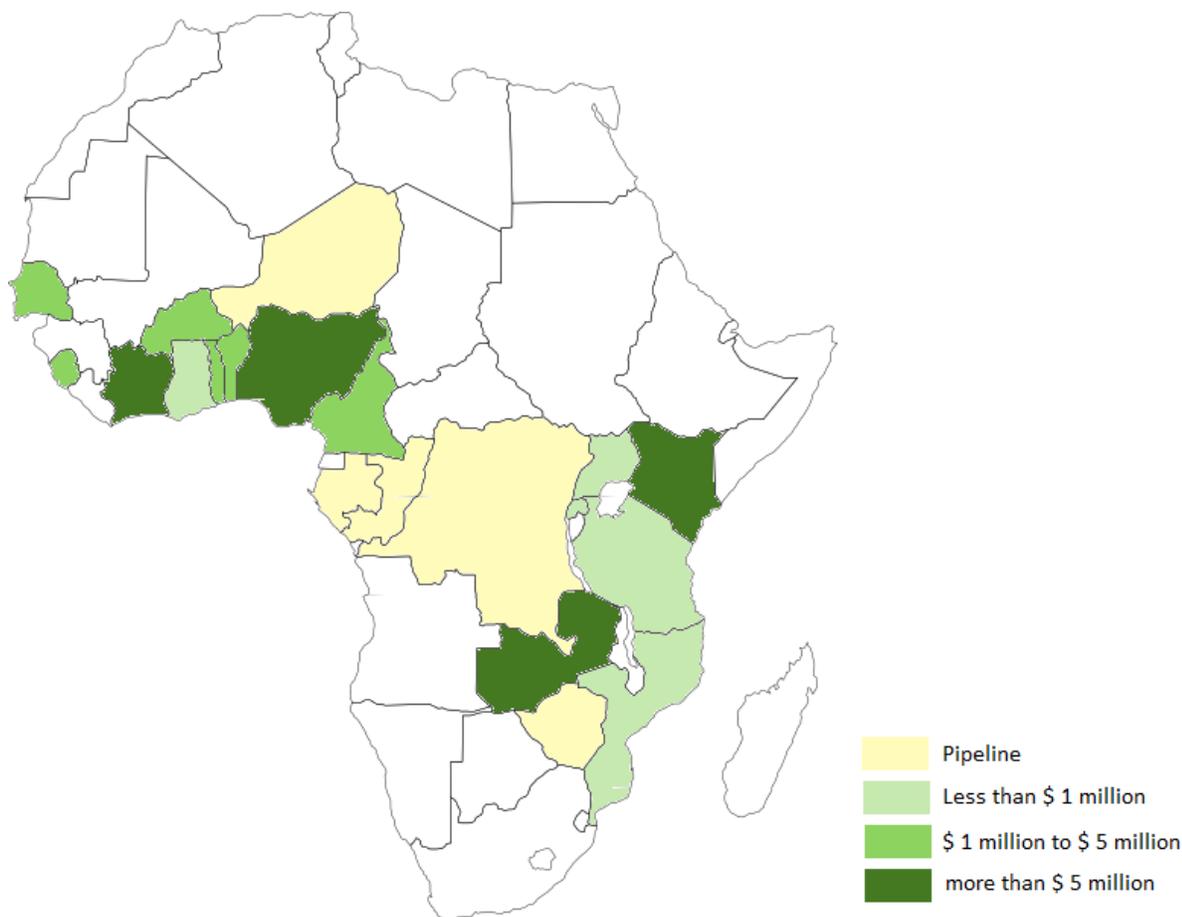
AGF re-guaranteed nearly 40% of its guarantee portfolio with the largest individual re-guarantee in Kenya and Nigeria; in line with our risk management policy.

The net volume of guarantee amounted to \$53 million compared to \$1.02 million the previous year.

Breakdown by region

| Region | Guarantees Issued | Re-Guarantees | Net Volume |
|-----------------|-------------------|---------------------|-------------------|
| Central Africa | 10,666,667 | (6,875,000) | 3,791,667 |
| East Africa | 22,631,373 | (9,900,000) | 12,731,373 |
| Southern Africa | 8,166,667 | (1,500,000) | 6,666,667 |
| WAEMU | 29,376,768 | (15,000,000) | 14,376,768 |
| WAMZ | 23,333,333 | (8,125,000) | 15,208,333 |
| | 94,174,807 | (41,400,000) | 52,774,807 |

Distribution of the net volume by countries



Breakdown by product

| Guarantee Product | 2013 |
|------------------------------|-------------------|
| Bank Fund Raising Guarantees | 8,382,353 |
| Loan Individual Guarantees | 2,004,219 |
| Loan Portfolio Guarantees | 83,788,235 |
| Re-guarantees | (41,400,000) |
| | 52,774,807 |

The most popular product was the loan portfolio guarantee, as our first year strategy was to focus on big African banking groups.

Income from guarantee activity

| Guarantee Product | 2013 |
|--------------------------------|----------------|
| Utilization fees | 68,238 |
| Assessment and commission fees | 545,377 |
| | 613,615 |

Treasury Management

Treasury assets for a value of \$46.3 million were made of Bonds, Fixed deposits in Kenya and London and cash at banks. The whole asset portfolio had a return of 2.39 with Bonds yielding the most.

The fixed income assets have been invested in USD and EUR denominated securities with 72% secured in USD, which have the highest return. 74% of the securities in the fixed income asset have a maturity equal or less than 3 years while 25% are expected to matured after 3years. The most return (2.5) is derived from bonds of maturity between 1 to 3 years.

Finally as of 31 December 2013, AGF bond assets were all investment grade securities with 31% BBB and BBB- rated and 69% rated A and above.

Treasury Assets

| | Amount | Percentage | Return |
|---------------------------------------|-------------------|-------------|-------------|
| Earning Assets - Bonds | 42,690,770 | 92% | 2.59 |
| Earning Assets - Fixed Deposits | 2,814,695 | 6% | 3.00 |
| Non-Earning Assets | 802,892 | 2% | |
| Total Cash and Cash equivalent | 46,308,357 | 100% | 2.39 |

Bond Portfolio breakdown

| By Currency | Amount | Percentage | Return |
|--------------|-------------------|-------------|-------------|
| EUR | 11,900,413 | 28% | 2.39 |
| USD | 30,790,357 | 72% | 2.48 |
| Total | 42,690,770 | 100% | 2.45 |

| By Maturity | Amount | Percentage | Return |
|------------------|-------------------|-------------|-------------|
| Shorter than 1yr | 1,411,759 | 3% | 1.68 |
| 1yr to 3yrs | 30,454,836 | 71% | 2.50 |
| Over 3yrs | 10,824,175 | 25% | 2.42 |
| Total | 42,690,770 | 100% | 2.45 |

| By Rating | Amount | Percentage | Return |
|--------------|-------------------|-------------|-------------|
| AAA | 471,971 | 1% | 0.51 |
| AA+ | 978,709 | 3% | 1.57 |
| AA | 21,518,183 | 62% | 2.08 |
| A | 6,386,143 | 18% | 2.93 |
| BBB | 5,391,732 | 16% | 3.31 |
| BBB- | 7,944,032 | 23% | 2.74 |
| Total | 34,746,738 | 100% | 2.45 |

Financial Review

Statement of comprehensive income

| DESCRIPTION (Amount in USD) | 2013 | 2012 |
|-----------------------------|-------------|-------------|
| Operating Income | 1,979,417 | 57,585 |
| Operating Expenses | (3,279,046) | (2,736,085) |
| Grant | | 2,303,099 |
| Provision for Guarantees | (203,430) | 0 |
| Loss for the period | (1,503,059) | (375,401) |

Overview

Total income for the period amounted to USD USD 1.98 million compared to USD 57.6 thousands the previous year, up 3,337% as 2014 was the first year we had a real pickup in guarantee activity and a full year of treasury management.

During the same period, our expenses increased by 20% as we added new staffs and travelled to more countries in across Africa.

AGF received a grant of USD 2.3 millions during its first year (2012) of operation to cover its setup costs and operating expenses, but this year generated revenue to cover 60% of its operating expenses.

Financial Review (Cont'd)

Expenses Review

Total expenses for the period amounted to USD 3.28 million compared to USD 2.74 million the previous year. The breakdown of which is provided below:

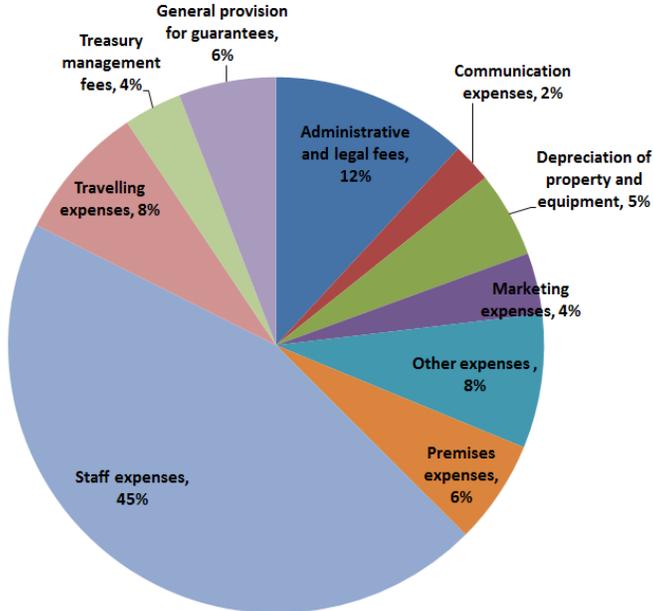


Chart1. Expenses breakdown

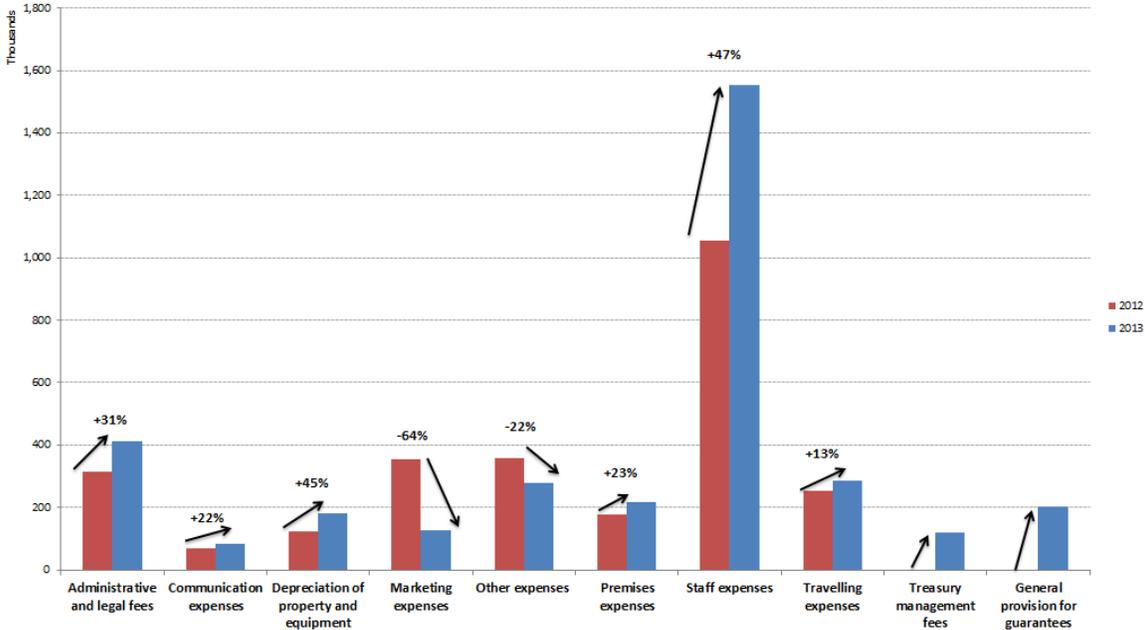


Chart2. Change in expenses 2012-2013

Financial Review (Cont'd)

Expenses Review (Cont'd)

Staff Expenses

Staff expenses amounted to USD 1.55 million as at 31 December 2013, from USD 1.05 million the previous year. This increase of 31% is explained by the increase in the number of employees.

Marketing

Marketing costs were reduced by 64%, from 355 thousands to 127 thousands. We moved from the aggressive and global marketing conducted during our first year of operation to a more direct one.

Marketing costs are essentially composed of the fees paid to the Advertising Company for AGF's promotional strategy and materials.

Administrative and Legal

Administrative and legal costs totaled USD 411 thousands and USD 313 thousands as at 31 December 2013 and 31 December 2012, respectively.

Administrative and legal costs mainly included: Governance cost (USD 86,441), Board Costs (USD 158,344), Administrative and Secretarial fees (USD 48,900), Legal fee (USD 57,732) and Work Permits (USD 29,663).

Travelling expenses

Travelling expenses totaled USD 284 thousands and USD 252 thousands as at 31 December 2013 and 31 December 2012 respectively; an increase of 13%.

In 2012 the travelling expenses were mainly driven by the travels in relation to the promotion of AGF whereas in 2013 it was led by travels to meet our business partners and monitor our guarantee portfolio.

Premises

Premises costs increased by 23%, from USD 176 thousands to USD 217 thousands.

The increase is due to the combined effect of the number of office spaces rented out, the number of months of rents paid and adjustment of the lease to inflation.

Other Operating Expenses

Other operating expenses totaled USD 280 thousands and USD 359 thousands as at 31 December 2013 and 31 December 2012, respectively.

Staff recruitment (USD 46,581), staff training (USD 97,555), consultancy (USD 32,246) and audit fees (USD 23,230) represent more than 71% of the total other expenses incurred in 2013.

Staff recruitment corresponds to the total cost (fees and candidates travel expenses paid to the recruiting agencies). The number of recruits for 2013 was 5.

Staff training relates to the cost incurred in relation with the credit management system.

Financial Review (Cont'd)

Statement of Financial Position

Cash at bank

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

| DESCRIPTION | 2013 | 2012 |
|-----------------------------------|------------------|-------------------|
| Barclays Bank (MAURITIUS) | 477,245 | 34,182,792 |
| CFC Stanbic (KENYA) | 325,647 | 202,273 |
| Commercial Bank of Africa (KENYA) | 1,295,162 | 1,141,517 |
| Ecobank (KENYA) | 1,519,533 | 761,138 |
| HSBC (MAURITIUS) | - | 12,000,000 |
| TOTAL | 3,617,587 | 48,287,720 |

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 1.06 million and USD 0.57 million at 31 December 2013 and 31 December 2012, respectively. The Company focuses its capital expenditures as follows:

| DESCRIPTION | 2013 | 2012 |
|---------------------------------------|------------------|----------------|
| Office outfitting | 687,100 | 228,420 |
| Office equipment | - | 154,832 |
| Office furniture | 277,274 | 155,746 |
| Motor Vehicle | - | - |
| IT equipment | 101,433 | 29,229 |
| Total Property & Equipment | 1,065,807 | 568,227 |

Shareholders contributions

Shareholders contributions remained unchanged as at 31 December 2013 and are detailed as follows:

| DESCRIPTION | 2012 | 2011 |
|--------------------------|-------------------|-------------------|
| Denmark | 20,000,001 | 20,000,001 |
| Spain | 20,000,001 | 20,000,001 |
| African Development Bank | 10,000,001 | 10,000,001 |
| TOTAL | 50,000,003 | 50,000,003 |

Corporate Governance

The Board of Directors considers good governance practices to be essential in developing and sustaining any successful business. The Board exercises oversight on Management through the following committees:

Treasury Management Committee (TMC)

This committee has the Board's delegated authority over AGF's Treasury. It has the responsibility of setting the investment policy to be approved by the Board and executed by Management. The TMC meets at least once a month and reports to the Board on a quarterly basis on the performance of AGF's investment portfolio as well as compliance with treasury management policy.

Investment (Guarantee) Committee

This committee is responsible for approving the policies and guidelines for origination, appraisal, structuring and approval of guarantees. It is also responsible for approving acceptable risk thresholds as well as setting guarantee approval limits for Management. It also approves guarantee applications above the limit set for Management and up to the limit (i.e. USD 1.5 million) delegated to it by the Board.

Capacity Development Committee (CDC)

This committee guides the Trustees of the Capacity Development Trust Fund in the management of the Fund. It reviews all applications for capacity development assistance prepared by Management. It also, together with the Trustees, reviews annual work plans submitted by Management. In addition, it reviews periodic performance reports submitted by Management and ensures that selection of capacity development consultants by Management is within the rules approved by the Trustees.

Audit Committee

The Audit Committee is responsible for reviewing internal controls including financial and business. It also reviews internal audit function, mandates audit activities and facilitates dialogue between auditors and management regarding outcome of audit activities. It proposes external auditors as well as their remuneration to the Board and ensures that there is compliance with all applicable laws, regulations as well as set operating standards.

Human Resources Committee

This committee is a means by which the Board provides a strategic oversight role and guidance on the human resources management practices of AGF. Its primary responsibility includes reviewing, monitoring and making recommendations to the Board of Directors on AGF's human resources strategy and policies.

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 2013.

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 comprehensive income on page 21.

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

DIRECTORS

The directors in office during the year are as stated on page 5.

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 2013, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period 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 control 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

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 2013.



.....
Consilex Ltd
CORPORATE SECRETARY

Date: 05 JUN 2014

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 the African Guarantee Fund – For Small and Medium-Sized Enterprises Ltd, “the Company”, on pages 26 to 65 which comprise the statement of financial position as at 31 December 2013, 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' Responsibilities 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 control as the directors determine is necessary to enable the preparation and fair presentation 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 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' judgment, 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 control. 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 26 to 65 give a true and fair view of the financial position of the Company as at 31 December 2013, 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.

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



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, including the opinion, has been prepared for and only for the Company's members, as a body, in accordance with Section 205 of the Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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: 05 JUN 2014

Financial Statements

For the year ended 31 December 2013



Statement of Comprehensive Income

As at 31 December 2013

| | <u>Note</u> | <u>2013</u> | <u>2012</u> |
|--|-------------|---------------------|--------------------|
| | | USD | USD |
| Income | | | |
| Income from guarantees: | | | |
| Utilization fees | | 68,238 | - |
| Assessment and commission fees | | 545,377 | 10,175 |
| Administration income | | 139,130 | - |
| Income from investments | 8 | 1,037,553 | 47,410 |
| Grant fund utilized | 9 | - | 2,303,099 |
| Net foreign exchange differences | | 189,119 | - |
| | | <u>1,979,417</u> | <u>2,360,684</u> |
| Expenses | | | |
| Administrative and legal fees | 11 | (411,011) | (312,743) |
| Communication expenses | 11 | (82,208) | (67,461) |
| Depreciation of property and equipment | 13 | (179,089) | (123,354) |
| Amortization of intangible assets | 14 | (6,365) | (1,819) |
| Marketing expenses | 11 | (127,392) | (354,788) |
| Net foreign exchange differences | | - | (34,389) |
| Other expenses | 11 | (279,955) | (358,907) |
| Premises expenses | 11 | (216,793) | (176,207) |
| Staff expenses | 10 | (1,552,816) | (1,053,842) |
| Travelling expenses | | (284,377) | (252,575) |
| Treasury management fees | | (121,177) | - |
| Guarantee expenses | | (17,863) | - |
| General provision for guarantees | | (203,430) | - |
| | | <u>(3,482,476)</u> | <u>(2,736,085)</u> |
| Loss before tax | | (1, 503,059) | (375,401) |
| Income tax expense | 12 | - | - |
| Loss for the year | | (1,503,059) | (375,401) |
| Other comprehensive income for the year | | - | - |
| Total comprehensive loss for the year | | (1,503,059) | (375,401) |

The notes on pages 26 to 65 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2013

| | <u>Note</u> | <u>2013</u> USD | <u>2012</u> USD |
|--|-------------|--------------------|--------------------|
| Assets | | | |
| Cash and cash equivalents | | 3,622,660 | 48,295,959 |
| Held-to-maturity financial assets | 7 | 42,690,770 | - |
| Receivables | 15 | 526,808 | 173,854 |
| Prepayments | | 111,515 | 113,848 |
| Intangible assets | 14 | 321,831 | 207,390 |
| Property and equipment | 13 | 1,305,517 | 1,099,095 |
| Total assets | | 48,579,101 | 49,890,146 |
| Liabilities | | | |
| Provisions | 17 | 5,700 | 46,400 |
| General provision for guarantees | 18 | 203,430 | - |
| Trade and other payables | 16 | 202,089 | 211,586 |
| Other liabilities | 16 | 13,506 | 8,088 |
| Unearned fees | | 33,363 | - |
| Total liabilities | | 458,088 | 266,074 |
| Net assets attributable to shareholders | | 48,121,013 | 49,624,072 |
| Represented by: | | | |
| Issued capital | 19 | 50,000,003 | 50,000,003 |
| Accumulated losses | | (1,878,990) | (375,931) |
| Total equity | | 48,121,013 | 49,624,072 |

The financial statements were approved and authorised for issue by the Board of Directors on and were signed on its behalf by:

.....
Director

.....
Director

The notes on pages 26 to 65 form an integral part of these financial statements.

Statement of Changes in Equity

As at 31 December 2013

| | USD | Issued capital USD | Accumulated losses | Total USD |
|---|-------------------|--------------------------|-----------------------|-------------------|
| At 1 January 2012 | 29,000,003 | | (530) | 28,999,473 |
| Issue of shares | 21,000,000 | | - | 21,000,000 |
| Loss/total comprehensive loss for the year | - | | (375,401) | (375,401) |
| At 31 December 2012 | 50,000,003 | | (375,931) | 49,624,072 |
| 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 |

The notes on pages 26 to 65 form an integral part of these financial statements.

Statement of Cash Flows

As at 31 December 2013

| | Note | 2013 USD | 2012 USD |
|---|------|---------------------|--------------------|
| Opening balance | | 48,295,959 | 29,770,513 |
| Operating activities | | | |
| Profit before tax | | (1,503,059) | (375,401) |
| <i>Adjustment to reconcile profit before tax to net cash flows:</i> | | | |
| <i>Non cash item:</i> | | | |
| Bad debts recognised | | - | - |
| General provision | | 203,430 | - |
| Provision movements | | (40,700) | 46,400 |
| Depreciation charge on property and equipment | 13 | 179,089 | 123,354 |
| Amortisation of intangible assets | 14 | 6,365 | 1,819 |
| Write-off of tangible assets | 13 | - | 3,211 |
| Income from bonds | | (966,837) | - |
| Grant fund utilized | 9 | - | (2,303,099) |
| <i>Movement in working capital:</i> | | | |
| Receivables | | (352,954) | (109,641) |
| Prepayments | | 2,333 | (88,126) |
| Other liabilities | | 38,781 | (117,050) |
| Trade and other payables | | (9,497) | 123,585 |
| Income tax paid | | - | (530) |
| Net cash flows from operating activities | | (2,443,049) | (2,695,478) |
| Investing activities | | | |
| Acquisition of property and equipment | 13 | (385,511) | (568,227) |
| Acquisition of intangible assets | 14 | (120,806) | (209,209) |
| Acquisition of bonds | | (43,713,911) | - |
| Acquisition of intangible assets | | - | - |
| Acquisition of a subsidiary, net of cash acquired | | - | - |
| Interest on bonds received | | 1,989,978 | - |
| Net cash flows used in investing activities | | (42,230,250) | (777,436) |
| Financing activities | | | |
| Proceeds from issue of ordinary share capital to shareholders | | - | 21,000,000 |
| Grant received from shareholders | 9 | - | 998,360 |
| Net cash flows from financing activities | | - | 21,998,360 |

Statement of Cash Flows (Cont'd)

As at 31 December 2013

Non cash items (not included in cash flow statement)

| | | |
|--|------------------|-------------------|
| Assets acquired under finance lease | - | - |
| Revaluation gain - property, plant and equipment | - | - |
| Fair value of investment properties | - | - |
| Fair value gain - available for sale investments | - | - |
| Closing balance | 3,622,660 | 48,295,959 |

The notes on pages 26 to 65 form an integral part of these financial statements.

Notes to the Financial Statements

As at 31 December 2013

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 finance from the financial sector by African Small and Medium sized enterprises (SMEs). 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 2013 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.

Notes to the Financial Statements

As at 31 December 2013

2. BASIS OF PREPARATION (CONTINUED)

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 2013

3. CHANGE IN ACCOUNTING STANDARDS

3.1. ACCOUNTING STANDARDS INTERPRETATIONS AND AMENDMENTS ADOPTED DURING THE YEAR

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 2013:

| | Effective for accounting period beginning on or after |
|--|--|
| <u>NEW OR REVISED STANDARDS</u> | |
| IFRS 10 Consolidated Financial Statements | 1 st January 2013 |
| IFRS 11 Joint Arrangements | 1 st January 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | 1 st January 2013 |
| IFRS 13 Fair Value Measurement | 1 st January 2013 |
| IFRS 14 Regulatory Deferral Accounts | 1 st January 2016 |
| IAS 19 Employee Benefits | 1 st January 2013 |
| IAS 27 Separate Financial Statements (2011) | 1 st January 2013 |
| IAS 28 Investments in Associates and Joint Ventures (2011) | 1 st January 2013 |
| <u>AMENDMENTS</u> | |
| Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) | 1 st July 2012 |
| Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) | 1 st January 2013 |
| Government Loans (Amendments to IFRS 1) | 1 st January 2013 |
| Annual Improvements 2009-2011 Cycle | 1 st January 2013 |
| <u>INTERPRETATIONS</u> | |
| IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine | 1 st January 2013 |

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

Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income

This standard amends IAS 1 Presentation of Financial Statements to revise the way other comprehensive income (OCI) is presented.

Notes to the Financial Statements

As at 31 December 2013

3. CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

3.1. ACCOUNTING STANDARDS INTERPRETATIONS AND AMENDMENTS ADOPTED DURING THE YEAR (CONTINUED)

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft;
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

This amendment had no impact on the Company's financial position and performance.

Amendments to IFRS 7 - Disclosures — Offsetting Financial Assets and Financial Liabilities

This standard amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosures to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. No such arrangements were made by the Company.

Annual Improvements 2009-2011 Cycle

The following are annual improvements to existing standards:

- **IFRS 1** — Permits the repeated application of IFRS 1, borrowing costs on certain qualifying assets;
- **IAS 1** — Clarifies the requirements for comparative information;
- **IAS 16** — Clarifies the classification of servicing equipment;

Notes to the Financial Statements

As at 31 December 2013

3. CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

3.1. ACCOUNTING STANDARDS INTERPRETATIONS AND AMENDMENTS ADOPTED DURING THE YEAR (CONTINUED)

- **IAS 32** — Clarifies that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes; and
- **IAS 34** — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments.

The amendments described above did not have any impact on the Company's financial position. However necessary disclosures were made to take into consideration these changes in the standards.

3.2 ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards, amendments to existing standards and interpretations were in issue but not yet effective. They are mandatory for accounting periods beginning on the specified dates, but the Company has not early adopted them:

New or revised standards and interpretations:

| | Effective for accounting period beginning on or after |
|--|---|
| IFRS 9 Financial Instruments – Classification and measurement of financial assets, Accounting for financial liabilities and derecognition- | 1 st January 2018 |
| IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities | 1 st January 2014 |
| Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) | 1 st January 2014 |
| Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) – effective 1 January 2014 | 1 st January 2014 |
| Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) | 1 st January 2014 |
| Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) | 1 st July 2014 |
| Annual Improvements 2010-2012 Cycle | 1 st July 2014 |
| Annual Improvements 2011-2013 Cycle | 1 st July 2014 |
| IFRIC 21 Levies | 1 st January 2014 |
| IFRS 14 Regulatory Deferral Account | 1 st January 2014 |

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.

Notes to the Financial Statements

As at 31 December 2013

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

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, 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.

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (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.

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.

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. 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.

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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.

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.

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial year end.

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

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.

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

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 financial year-end 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.

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.

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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.

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to the Financial Statements

As at 31 December 2013

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Notes to the Financial Statements

As at 31 December 2013

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes certain estimates and assumptions regarding the future. Estimates 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 and assumptions. The estimates 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 continue to be prepared on the going concern basis.

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.

Notes to the Financial Statements

As at 31 December 2013

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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.

Impairment losses on financial guarantee contracts

The Company reviews its individually significant guarantee contracts at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular management's judgement is required in the estimation amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors.

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 2013

6. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks, operational risks and interest rates 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.

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)

| | 2013 | | | 2012 | | |
|---------------------------------|------------------|------------|-----------|-------------------|------------|-----------|
| | Balance | Rating | | Balance | Rating | |
| | USD | Short Term | Long Term | USD | Short Term | Long Term |
| Barclays Bank(*) | 477,245 | A-2 | A- | 34,182,792 | A-1 | A+ |
| CFC Stanbic (**) | 325,647 | F3 | BBB | 202,273 | B | BB- |
| Commercial Bank of Africa (***) | 1,295,162 | - | - | 1,141,517 | - | - |
| Ecobank (**) | 1,519,533 | B | B- | 761,138 | B | B- |
| HSBC | | A-1 | A+ | 12,000,000 | A-1 | A+ |
| Total | 3,617,587 | | | 48,287,720 | | |

(*) Rating by Standard & Poors, (**) Rating by Fitch, (***) No independent rating available

An amount of USD 8,239 representing cash in hand was not included in the table.

Notes to the Financial Statements

As at 31 December 2013

6. FINANCIAL RISK MANAGEMENT (Cont'd)

Credit risk (continued)

Held-to-maturity financial assets (Bonds)

| 2013 | |
|---------|-------------------|
| Rating* | Book Value |
| AAA | 471,971 |
| AA+ | 978,709 |
| AA | 21,518,183 |
| A- | 6,386,143 |
| BBB- | 7,944,032 |
| BB+ | 5,391,732 |
| | 42,690,770 |

*Source: Bloomberg

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.

| Bond Counterparty | Book Value | Percentage |
|----------------------------|-------------------|---------------|
| Dubai Government | 16,534,184 | 38.7% |
| African Export-Import Bank | 7,944,029 | 18.6% |
| Croatia | 6,386,142 | 15.0% |
| Slovenia Government | 5,391,729 | 12.6% |
| Belgium Kingdom | 4,984,003 | 11.7% |
| General Electric | 978,711 | 2.3% |
| Hong Kong Government | 471,972 | 1.1% |
| TOTAL | 42,690,770 | 100.0% |

Notes to the Financial Statements

As at 31 December 2013

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 all coupon rates are fixed and the bonds are intended to be held to maturity.

Foreign exchange risk

Foreign currency is the risk that Company net 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 | |
|----------------------------|-------------------|------------|-------------------|--------|------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Assets | 36,208,753 | 49,811,654 | 8,938,746 | 12,069 | 7,407,104 | 5,354,569 |
| Liabilities | 347,440.50 | 172,728.49 | - | - | 9,548,879 | 7,989,442 |
| Closing rate | 1.00 | 1.00 | 1.37 | 1.32 | 86.30 | 85.59 |
| Net exposure in USD | 35,861,312 | 49,638,926 | 12,284,519 | 15,931 | (24,818) | (30,785) |

Sensitivity to 10 pips* move USD 12,285

*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 1.3000 (1 EUR = 1.3 USD) and the rate changes to 1.3010, the price has changed by 10 pips.

Notes to the Financial Statements

As at 31 December 2013

Fair values of financial assets

| | Carrying Amount | Fair Value |
|---|-------------------|-------------------|
| | 2013 | 2013 |
| Held-to-maturity financial Assets | | |
| <i>Hong-Kong Government Bond</i> | 471,972 | 471,641 |
| <i>Dubai Government Bond</i> | 16,534,184 | 16,492,859 |
| <i>General Electric Capital</i> | 978,711 | 975,692 |
| <i>Belgium Kingdom</i> | 4,984,003 | 4,968,527 |
| <i>Republic Slovenia 2015</i> | 580,745 | 579,720 |
| <i>Croatia 2015</i> | 530,267 | 528,771 |
| <i>Croatia 2017</i> | 4,861,461 | 4,841,374 |
| <i>Republic of Slovenia 2016</i> | 5,805,398 | 5,782,907 |
| <i>African Export- Import Bank 2016</i> | 7,004,242 | 6,976,491 |
| <i>African Export- Import Bank 2014</i> | 939,787 | 938,351 |
| Total | 42,690,770 | 42,556,333 |

Fair value calculated as present value expected cash over remaining life of financial assets (as of 31 December 2013).

Notes to the Financial Statements

As at 31 December 2013

6. FINANCIAL RISK MANAGEMENT (Cont'd)

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.

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 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 | 214,547 | 270,137 | 682,330 | 2,368,480 | 41,877,242 | 45,412,736 |
| Receivables | 526,808 | - | - | - | - | 526,808 |
| Total financial assets | 3,191,997 | 1,442,155 | 682,330 | 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 |

| As at 31 December 2012 | On demand | 1 to 3 months | 3 to 6 months | 6 to 12 months | 12 months to 6 years | Total |
|------------------------------------|-------------------|---------------|---------------|----------------|----------------------|-------------------|
| Cash and cash equivalents | 48,295,959 | - | - | - | - | 48,295,959 |
| Bond coupons and principal | - | - | - | - | - | - |
| Receivables | 173,854 | - | - | - | - | 173,854 |
| Total financial assets | 48,469,813 | - | - | - | - | 48,469,813 |
| Payables | 211,586 | - | - | - | - | 211,586 |
| Other liabilities | 8,088 | - | - | - | - | 8,088 |
| Total financial liabilities | 219,674 | - | - | - | - | 219,674 |

Notes to the Financial Statements

As at 31 December 2013

6. FINANCIAL RISK MANAGEMENT (Cont'd)

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.

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.

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.

Notes to the Financial Statements

As at 31 December 2013

6. FINANCIAL RISK MANAGEMENT (Cont'd)

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 2013

7. HELD TO MATURITY FINANCIAL ASSETS

| | 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 |

8. INCOME FROM INVESTMENTS

| | 2013 | 2012 |
|---|------------------|---------------|
| | USD | USD |
| Interest received on fixed-term deposits in Kenya | 65,721 | 47,410 |
| Interest received on term deposits in London | 4,995 | - |
| Income from held-to-maturity financial assets | 966,837 | - |
| | 1,037,553 | 47,410 |

9. DEFERRED INCOME

| | 2013 | 2012 |
|----------------------------|------|-------------|
| | USD | USD |
| At 1 January | - | 1,304,739 |
| Grant received from DANIDA | - | 998,360 |
| Released to profit or loss | - | (2,303,099) |
| As at 31 December | - | - |

Notes to the Financial Statements

As at 31 December 2013

10. STAFF EXPENSES

Staff costs comprise:

| | 2013 | 2012 |
|---|------------------|-----------|
| | USD | USD |
| Wages and salaries | 1,263,964 | 748,918 |
| Short-term monetary benefits | 149,353 | 135,971 |
| Short-term non-monetary benefits | 35,791 | 103,619 |
| Defined contribution pension cost | 103,289 | 65,123 |
| Social security contributions and similar taxes | 419 | 211 |
| | 1,552,816 | 1,053,842 |

Notes to the Financial Statements

As at 31 December 2013

11. EXPENSES BY NATURE

| | 2013 | 2012 |
|--------------------------------------|----------------|----------------|
| | USD | USD |
| Consultancy | 86,441 | 111,334 |
| Board costs | 158,344 | 81,843 |
| Work permits | 29,663 | 41,096 |
| Administration and set-up fees | 48,900 | 40,025 |
| Legal and tax advisory fees | 57,732 | 31,735 |
| Other | 29,931 | 6,710 |
| Administrative and legal fees | 411,011 | 312,743 |
| Telephone | 67,834 | 56,822 |
| Courier and postage | 5,905 | 7,149 |
| Other | 8,469 | 3,490 |
| Communication expenses | 82,208 | 67,461 |
| Advertising | 127,392 | 351,134 |
| Other | - | 3,654 |
| Marketing expenses | 127,392 | 354,788 |
| Staff recruitment | 46,581 | 181,850 |
| Staff training | 97,555 | 47,500 |
| Consultancy | 32,246 | 42,520 |
| Audit fees | 23,230 | 35,808 |
| Office supplies | 18,126 | 24,836 |
| Computer maintenance cost | 21,657 | 5,199 |
| Bank charges | 8,545 | 5,143 |
| Sundry expenses | 32,015 | 16,051 |
| Other expenses | 279,955 | 358,907 |
| Rent | 129,244 | 121,171 |
| Service charges | 34,103 | 26,684 |
| Security and maintenance | 28,789 | 11,763 |
| Parking and electricity | 18,942 | 14,963 |
| Insurance | 5,715 | 1,626 |
| Premises expenses | 216,793 | 176,207 |

Notes to the Financial Statements

As at 31 December 2013

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

| | 2013 | 2012 |
|---|--------------------|------------------|
| Loss before tax | (1,503,059) | (375,401) |
| Non deductible expenses | | |
| Unrealized foreign exchange loss/(gain) | (189,119) | - |
| Depreciation of intangible asset | 6,365 | 1,819 |
| Depreciation of property and equipment | 179,089 | 123,354 |
| Non allowable expenses | (3,665) | 125,173 |
| Capital allowance for the year | (297,183) | (249,286) |
| Adjusted Profit/(loss) for tax purpose | <u>(1,796,577)</u> | <u>(499,514)</u> |
| Tax @ 15% | (269,487) | (74,927) |
| Foreign tax credit / tax deducted at source | 696 | - |
| Deferred tax asset not recognised | 269,487 | 74,927 |
| Income tax expense reported in profit or loss | <u>696</u> | <u>-</u> |

The unused tax losses not recognised in the books at 31 December 2013 amounts to USD 1,499,394 (2012: USD 499,514). 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.

Notes to the Financial Statements

As at 31 December 2013

12. TAX EXPENSES (CONTINUED)

| Year of Assessment | Expiry Year | 2013 USD | 2012 USD |
|--------------------|-------------|------------------|----------------|
| 2012 | 2017 | 499,514 | 499,514 |
| 2013 | 2018 | 1,796,577 | - |
| | | <u>2,296,091</u> | <u>499,514</u> |

Notes to the Financial Statements

As at 31 December 2013

13. PROPERTY AND EQUIPMENT

| | Office equipment | Fittings | Furniture | Computer equipment | Motor vehicles | Assets under construction | Total |
|--|---------------------|----------------|----------------|-----------------------|-------------------|------------------------------|------------------|
| | USD | USD | USD | USD | USD | USD | USD |
| At 1 January 2012 | 94 | - | - | 4,249 | 99,000 | 476,424 | 579,767 |
| Addition | 154,832 | 92,693 | 155,746 | 29,229 | - | 135,727 | 568,227 |
| Transfer from assets under construction | - | 476,424 | - | - | - | (476,424) | - |
| Transfer from deposits | - | - | 70,246 | 37,065 | - | - | 107,311 |
| Write offs | (94) | (3,095) | - | (22) | - | - | (3,211) |
| At 31 December 2012 | 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 |

Notes to the Financial Statements

As at 31 December 2013

13. PROPERTY AND EQUIPMENT (CONTINUED)

| DEPRECIATION | Office | Fittings | Furniture | Computer | Motor | Assets under | Total |
|----------------------------|-----------------|------------------|-----------------|-----------------|-----------------|----------------|------------------|
| | equipment | | | equipment | vehicles | construction | |
| | USD | USD | USD | USD | USD | USD | USD |
| At 1 January 2012 | (12) | - | - | (1,354) | (28,279) | - | (29,645) |
| Charge for the year | (19,342) | (70,443) | (16,479) | (12,369) | (4,721) | - | (123,354) |
| | | | | | | | - |
| At 31 December 2012 | (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) |
| NET BOOK VALUE | | | | | | | |
| At 31 December 2013 | 116,124 | 536,828 | 230,409 | 62,940 | 41,250 | 317,966 | 1,305,517 |
| At 31 December 2012 | 135,478 | 495,579 | 209,513 | 56,798 | 66,000 | 135,727 | 1,099,095 |

Notes to the Financial Statements

As at 31 December 2013

14. INTANGIBLE ASSETS

| | Software | Website | Assets under construction | Total |
|----------------------------|----------------|----------------|------------------------------|----------------|
| COST | USD | USD | USD | USD |
| At 1 January 2012 | - | - | - | - |
| Additions | 7,605 | 14,664 | 186,940 | 209,209 |
| At 31 December 2012 | 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 |
| AMORTISATION | | | | |
| At 1 January 2012 | - | - | - | - |
| Charge for the year | (108) | (1,711) | - | (1,819) |
| At 31 December 2012 | (108) | (1,711) | - | (1,819) |
| Charge for the period | (3,044) | (3,321) | - | (6,365) |
| At 31 December 2013 | (3,152) | (5,032) | - | (8,184) |
| NET BOOK VALUE | | | | |
| At 31 December 2013 | 12,149 | 22,082 | 287,600 | 321,831 |
| At 31 December 2012 | 7,497 | 12,953 | 186,940 | 207,390 |

Notes to the Financial Statements

As at 31 December 2013

15. RECEIVABLE AND DEPOSITS

| | 2013 | 2012 |
|-------------------|----------------|----------------|
| | USD | USD |
| Other receivables | 474,681 | 120,443 |
| Deposits | 52,127 | 53,411 |
| | 526,808 | 173,854 |

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

| | 2013 | 2012 |
|------------------|----------------|----------------|
| | USD | USD |
| Trade payables | 33,384 | 96,881 |
| Accrued payables | 168,705 | 114,705 |
| | 202,089 | 211,586 |

Book values approximate to fair value at 31 December 2013 and 2012.

Payables and other liabilities are interest free and are repayable on demand.

| | 2013 | 2012 |
|--------------------------|---------------|--------------|
| | USD | USD |
| OTHER LIABILITIES | | |
| Contractor retention | 11,941 | 4,663 |
| VAT payable | 240 | 2,973 |
| Withholding tax | 696 | - |
| Sundry liabilities | 628 | 452 |
| | 13,505 | 8,088 |

Notes to the Financial Statements

As at 31 December 2013

17. PROVISION

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|----------------------|
| | USD | USD |
| At 1 st January | 46,400 | - |
| Provision utilized/made during the year | <u>(40,700)</u> | 46,400 |
| At 31st December | <u>5,700</u> | <u>46,400</u> |

The provision made during the year is in respect of a pending dispute with a supplier. The amount has been set to cover the maximum expected loss to the Company on the resolution of this dispute with the supplier.

18. GENERAL PROVISION FOR GUARANTEES

Depending on the guarantee product, the Company takes 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 9,414,000.

Notes to the Financial Statements

As at 31 December 2013

19. SHARE CAPITAL

| | 2013 and 2012 | |
|---------------|---------------|-------------------|
| | Number | USD |
| Class B share | 1,000 | 10,000,000 |
| Class C share | 4,000 | 40,000,000 |
| Class D share | 3 | 3 |
| | 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 2013

20. RELATED PARTY TRANSACTIONS

During the period ended 31 December 2013, the Company transacted with related entities. Details of the nature, volume of transactions and the balances with the related entities are as follows:

| Related Party | Relationship | Description of transaction | 2013 USD | 2012 USD |
|--|------------------------|----------------------------------|----------------|------------------|
| Statement of comprehensive Income:- | | | | |
| DANIDA on behalf of Ministry of Foreign Affairs of Denmark | Shareholders | Grant and invoices paid/payable | - | 998,360 |
| Independent Directors | Directors | Director Fees | 30,600 | 23,280 |
| | | Reimbursement of travel expenses | 1,249 | 4,227 |
| Chairman | Board Chairman | Chairman's fees | 20,633 | - |
| CEO Advisor | CEO Advisor | CEO Advisor Remuneration | 54,588 | - |
| | | Reimbursement of travel expenses | 21,754 | - |
| Capacity Development Trust Fund | Common (AFDB & DANIDA) | Administration Fees | 139,130 | - |
| | | | 267,954 | 1,025,867 |

Notes to the Financial Statements

As at 31 December 2013

21. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|------------------|------------------|
| | USD | USD |
| Financial guarantees utilised | <u>9,414,000</u> | <u>1,023,000</u> |
| | <u>9,414,000</u> | <u>1,023,000</u> |

Other commitment

The Company has committed to pay USD 18,000 for the final outfitting of the 3rd floor space in its office in Kenya. Construction work will be concluded in January 2014.

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 |

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>2013</u> | <u>2012</u> |
|---------------------------------|-----------------------|----------------|
| | USD | USD |
| Properties | | |
| Within 1 year | 134,197 | 148,825 |
| After 1 year but within 5 years | 440,037 | 564,251 |
| After 5 years | - | 30,960 |
| | <u>574,234</u> | <u>744,036</u> |

Legal proceedings

Based upon available information and, where appropriate, legal advice being sought, the directors do not believe that there are any potential proceedings or other claims which will have a material adverse impact on the Company's financial position except those already accounted under Note 16.

Notes to the Financial Statements

As at 31 December 2013

22. EVENTS AFTER THE REPORTING PERIOD

New Shares Issuance: The Company issued 1,650 Class C shares during the month of January 2014 to DANIDA at the value of \$10,000 per share.

New share capital

| | Number | USD |
|---------------|--------------|-------------------|
| Class C share | 1,650 | 16,500,000 |
| | 1,650 | 16,500,000 |

The gradual target is to operate in all of Africa by the end of 2015.



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Promoters



The Government of Denmark
through Danida



The Government of Spain
through Aecid



The African Development Bank