SHELTER - AFRIQUE

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA

2010

Annual Report

Meeting Africa's housing needs

Our Presence

Shelter - Afrique Centre, Longonot Road, Upperhill, P.O. Box 41479 - 00100 Nairobi, Kenya
Tel: +254 20 2722305-9 • Fax: +254 20 2722024/2721211 • Email: info@shelterafrique.org • www.shelterafrique.org

Table of Contents

List of Tables, Graphs and Boxes

LIST OF TABLES

LIST OF GRAPHS & CHARTS

LIST OF BOXES

Sovereign Shareholders:	42 African member countries as of 31 December, 2010
Institutional Shareholders:	The African Development Bank, African Reinsurance Corporation
Mission:	To assist private and public sector institutions in Africa identify, finance and implement housing and related urban infrastructure projects that will facilitate the achievement of the goal of housing for all.
Authorised Capital as of 31 December, 2010:	US $ 300 million
Issued and Called up capital as of 31 December, 2010:	US $ 100 million
Paid up capital as of 31 December, 2010:	US $ 47.73 million
2010 loan approvals:	20 projects in 12 countries for a total approval of US $ 81 million
Cumulative loan approvals as of 31 December, 2010:	US$ 433 million
Cumulative Disbursements as of 31 December, 2010:	US$ 222 million
First time international rating by Moody's:	Ba1

The Shelter Afrique Centre

List of Abbreviations

AML	Assets and Liabilities Management Committee
APPT	Apartment(s)
APPT & Off	Apartments & Offices
KSHS	Kenya Shillings
US $	United States Dollars
WAEMU	West African Economic & Monetary Union
CFAF	Common currency used in UEMOA zone
XOF	Amount expressed CFA F
DL	Direct Loan
BHS	Banque de l'Habitat de Sénégal (Senegal Housing Bank)
GDP	Gross Domestic Product
LOC	Line of Credit
PPP	Public Private Partnership
AfDB	Africa Development Bank
Africa Re	Africa Reinsurance Corporation
Forex	Foreign Currency Exchange difference
MOU	Memorandum of Understanding
DFI's	Development Finance Institutions
FMO	Netherlands Development Corporation
AFD	Agence Francaise Development
NSE	Nairobi Stock Exchange

Our Vision

To be the leading player in strategic partnership among key stakeholders for the efficient delivery of real estate and other related services in Africa.

Our Mission

To assist private and public sector institutions in Africa identify, finance and implement housing and related urban infrastructure projects that will facilitate the achievement of the goal of housing for all.

We achieve this mission through:

- Provision and expansion of affordable and sustainable financial resources available for housing programmes,
- Collaborative partnerships with all actors in the shelter delivery process,
- Adoption of sound management practices that emphasize superior performance, teamwork and continuous improvement in our services,
- Sharing information on the best means of providing quality shelter.

We believe that as we build a house, we build a family and a nation.

This is our commitment to the people of Africa.

Our Core Values

Shelter Afrique subscribes to the following values and principles that will enable it deliver high quality services to all stakeholders:

- Effective corporate governance
- Strong client focus
- Transparent and open communication with staff and partners
- Confidence in the ability of its staff to deliver quality services and meet set objectives
- Teamwork as a forceful instrument for solving problems
- High ethical standards that must make our transactions above board
- Corporate social responsibilities
- Total commitment to the ideals of Shelter Afrique and regional integration

Letter of Transmittal

The Chairman
General Meeting of Shareholders
Shelter-Afrique

June 15, 2011

Honorable Ministers,

In accordance with Regulation 9 of the General Regulation of Shelter-Afrique, I have the honor, on behalf of the Board of Directors, to submit herewith, the Report of the Company's activities for the period January 1, 2010 to December 31, 2010 with the accompanying audited financial statements covering the same period and the corresponding Report of the External Auditors.

The Report also provides an overview of the business environment under which the Company operated during the period.

Please accept, your Excellencies, the assurance of my highest consideration.

Ms. E.M. Tembo
Chairperson of the Board of Directors

Standing - left to right:

Mr. A. Boulares
Mr. Samuel Mivedor
Mr. Alassane Bâ
Mr. L. Y. Abubakar
Mr. F. M. Carbah

Sitting - left to right:

Mr. B. Ndayitwayeko
El Hadj B. Diarra
Ms. E. M. Tembo
Mr. B. Kamara
Mr. T. Kosgey

Mr. S. Diaw *Mr. Y. Olayanju* *Mr. A. Bâ* *Mr. A. Dieng'* *Mrs. K. Kandie* *Mr. V. Harawa*

It would be noted that operating profit of US$ 3.73 million before impairment charges was higher in the year than historical levels (averaged US$3 million over the last 4 years).

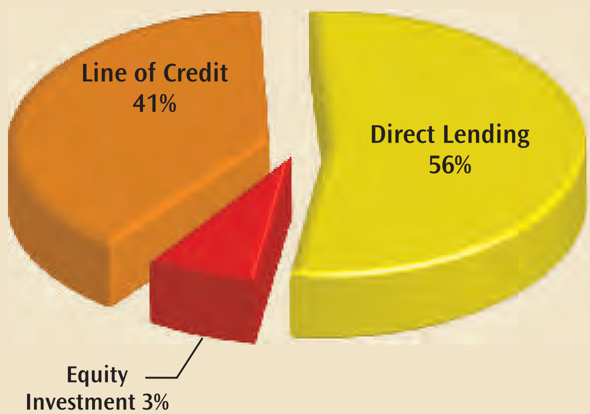
Distinguished Shareholders,

It gives me great pleasure, on behalf of the Board of Directors, to welcome once again, distinguished shareholders and delegates to the 30th Annual General Meeting (AGM) of our Company and to present to this august assembly, our Company's Annual Report and Audited Accounts for the financial year ended 31st December, 2010. The report highlights the progress your Company has made during 2010 and the key drivers behind its operational and financial performance over the reporting period. It further highlights some key events during the year that have shaped the company's operating environment and the year's operating activities and presents the external auditors' report to the shareholders, including the audited financial statements for the year ended 31st December, 2010.

Operational Performance

2010 was a year of transformation for the Company in many ways. Our performance reached new levels operationally with a better operating platform. During year 2010, the Board and Management worked tirelessly to take the Company to the next level for a better institutional and operational capacity in order to deliver superior returns to the shareholders for the coming years.

Chart 1: Loan Approvals per lending instrument: 2010



Lending in 2010 was particularly strong. Shelter-Afrique approved 20 projects to grow its loans and equity books 26% to stand at USD 89 million in 2010 compared to US$71 million in 2009. Loan approvals during the year reached an unprecedented level of US$81 million against US$67 million registered in 2009, an increase of 21%. Cumulative loan approvals thus increased by 23% to US$ 433 million. About 51% of our investments have been channeled in support of the development of physical housing for residential and commercial real estates. The Company committed US$53 million during the year to financing new housing projects in member countries. The financial instruments are well diversified. Direct loans, lines of credit and equity investment represented 56%, 41% and 3% respectively of the loan approvals. The average size of the transaction is USD 4 million against USD 3 million in 2009, with 12 countries benefiting from the financing. The Non Performing Loans (NPL) was 17% of the gross loans outstanding in 2010 against 18% in 2009. Thus, the risk profile of the portfolio improved albeit marginally, but with a positive outlook. Disbursement in the year was also modest, slowed down by the strong internal review process. Disbursement reached US$ 34 million in 2010 against USD 33 million in 2009, bringing cumulative disbursement to US$222 million. For the first time since its inception, the Company has taken equity in two transactions, one in a Joint Venture in Kenya and the other in a financial institution for secondary mortgage in West Africa Economic and Monetary Union comprising 7 francophone countries.

Financial performance:

2010 was a positive year from liquidity and financial performance perspective. Operating income before impairment charges grew by 33%, having increased from US$5.93 million in 2009 to US$7.90 million in 2010, while operating profit for the year grew by 25% to US$3.73 million. The positive growth in operating income was largely underpinned by strong growth in net interest and fee income, up by 31% and 44% respectively. It would be noted that operating profit of US$3.73 million before impairment charges was higher in the year than historical levels (averaged US$3 million over the last 4 years). This is despite the increase in operating expenses which was at an all time high during the year, having increased by 42%, mainly due to the continued investment in human capacity, information technology, and other organizational strengthening efforts. Consequently cost-income ratio increased to 53%, from 50% in 2009.The potential synergies from capacity building and other institutional reforms are expected to be fully realized in the medium term.

Underlying net profit remained positive having increased from US$0.43 million in 2009 to US$2 million. The growth in net profit was constrained by impairment charges on past projects long in arrears and foreign exchange translation loss on the back of increased volatility in the Euro operating currency in particular, during the year. While net interest margin was basically at the 2009 level of 5.2%, net profit margin improved from 6.67% in 2009 to 22% and earnings per share increased from US10.26 in 2009 to US$42.77. Consistent with the Company's dividends policy, a dividend of US$402,975 has been proposed, representing US$8.44 per paid up ordinary share (2009: nil) and a dividend cover of 5X.

Asset Quality

Asset quality improved during the year with over 75% of the loan portfolio classified under the "Normal" category compared to 63% in 2009 mainly driven by stricter risk management and an enhanced credit review process. Loans classified as "Normal" are either not past due or are past due but not impaired. Consequently provisions held against non-performing loans (NPLs) significantly decreased by 74% to US$0.74 million in 2010. NPLs reported a marginal improvement standing at 17% of the outstanding loan balance against 18% in 2009. About 50% of these loans are grouped within the "substandard" category, representing loans in arrears for over 90 days but less than 180 days. These loans however are still operative but represent a heightened degree of default risk and are closely monitored.

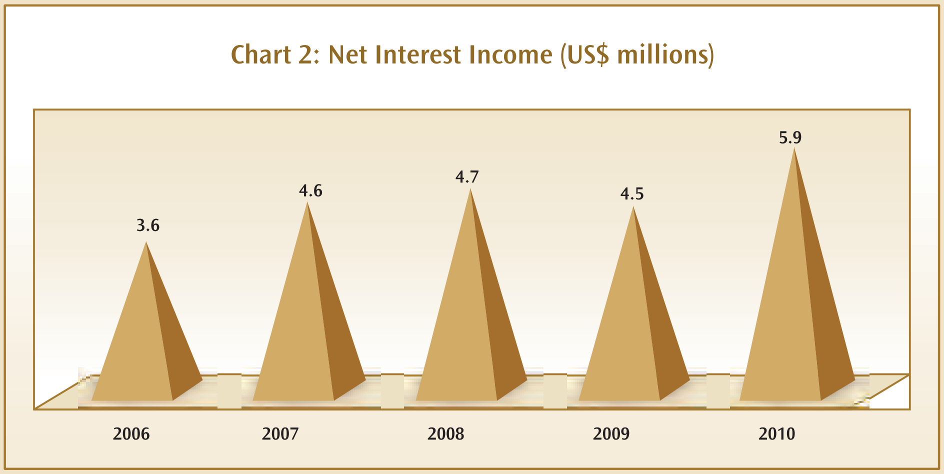
The Company's policy for provisioning for impairment on loans which follows International Financial Reporting Standards (IFRS) requires a fair assessment of whether any of the Company's loan assets based on objective evidence, is impaired. If any such evidence exists, the recoverable amount of the asset is estimated and an impairment loss recognized in the income statement whenever the carrying amount of the asset or its book value exceeds its recoverable amount.

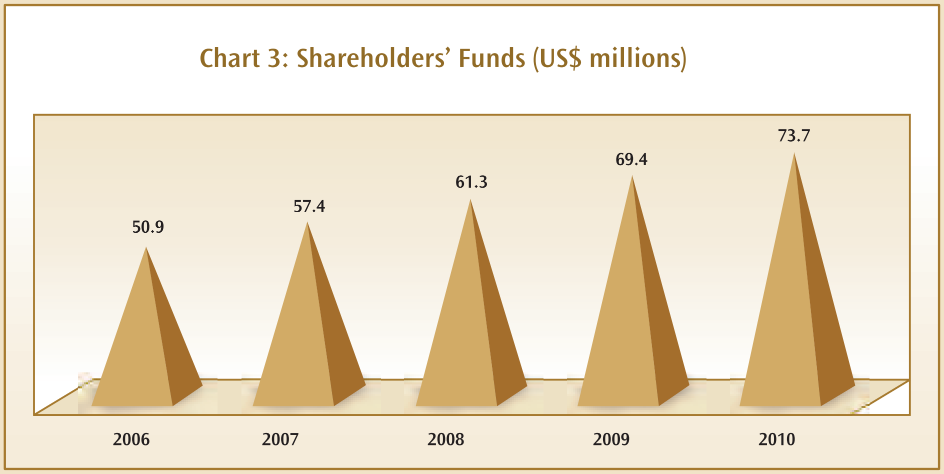
The impairment loss so recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows(interest and principal repayments and disposal of securities, if any), discounted at the financial asset's original effective interest rate.

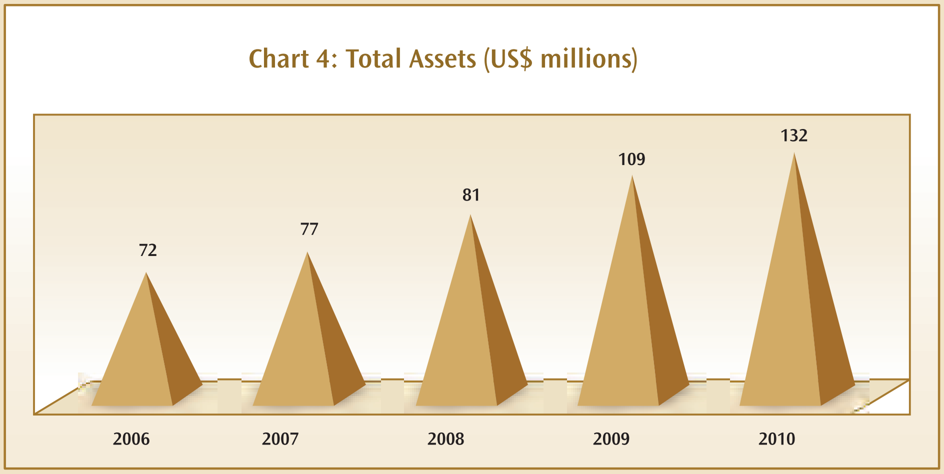
Balance Sheet

Total Assets grew by 21% during the year to stand at US$ 132 million as at 31st December, 2010, due largely to growth in loan asset and improved liquidity. Loans and advances grew 26% to US$ 89 million, supported by strong liquidity growth (+12%) resulting from the drawdown from approved Lines of Credit. Thus, shareholders' funds grew 6% to stand at US$74 million at the year end.

SELECTED FINANCIAL PERFORMANCE CHARTS







Box 1: Strategic Agenda

The Company's operations during the year were defined by our strategic objective of building shareholder value, through improvement in efficiency, processes and building capacity and growth.

The Board of Directors and its different committees held many sessions to drive the process of building a stronger capacity for a healthier financial intermediation. To that end many policies were approved including a new credit process, the equity investment, the Anti Money Laundering (AML) policy and environment and social impacts policy. All business processes concerning the operations were revisited and updated. The disbursement manual and title discharge process were updated to take into account the new operational context and the use of external lawyers and independent project managers to improve the monitoring of the projects. Internal audits were carried out to identify the weaknesses in the business process and the projects implementation. A new recruitment process was undertaken: 6 professionals and 3 Assistants were recruited under the new dispensation. The different committees including ALCO, Credit Committee and Loans Monitoring Committee were frequently held. Corporate governance is up to the best practice and segregation of tasks is working very well. The franchise of the Company is growing due to better visibility resulting from the many road shows that were carried out in different countries during the year. Non-performing loans were critically investigated and key lessons have been learnt and used for the financing of new projects.

On the front of membership drive, the Republic of Ghana formally signed the instruments of subscription and adherence to Shelter-Afrique's membership while positive progress was recorded regarding the membership of South Africa.

During 2010, the Board approved the creation of a Representation Office in Nigeria aimed at significantly improving the Company's market reach in the West Africa sub-region. The Board and Management will continue to take advantage of opportunities created for partnering with the local banks not only in Nigeria and the region but across all our member countries.

The Future

Recent events in the global markets suggest that economic recovery is well underway and the necessary preconditions for a sustained rebound continue to fall into place in support of the markets amid Europe challenges. The economic resurgence in the developed world is expected to spur demand for Africa commodities and increase the African export volumes as well as foreign aid and investment into the region. Nevertheless, the economic expansion or recovery will likely remain tentative and fragile, and will be a concern as global markets experienced headwinds during the last quarter of 2010 concerning rising inflation in emerging markets, the possible spread of the fiscal crisis in Europe and geopolitical tensions. Demand for housing in most member countries will however, remain moderate-to-high, allowing the company to remain optimistic in the area of business development. Shelter-Afrique will continue to entrench its position in the Africa Housing market by diversifying its products and establishing partnerships, and will act swiftly to take up emerging opportunities following the rebound in economic activities.

Underpinned by the on-going institutional reforms, a changing work environment being created by the implementation of the information technology strategy and other organizational strengthening efforts, as well as the continued improvement in business systems and processes in 2011, we would build and consolidate on the initiatives we have started.

Appreciation

Our performance in 2010 reflects the challenging business environment under which the company operated. We continue to appreciate the support, insight and strategic leadership provided by our Board of Directors and Management. We thank our Shareholders for their continued confidence in us and in pledging their unflinching support and commitment to realizing our growth potential in the years ahead through share capital increase.

On behalf of my fellow Directors, I would like to offer my appreciation to our staff who have continued to show strong commitment and dedication to the course of this Company. They join me in expressing gratitude to our Shareholders.

Ms. E.M. Tembo
CHAIRPERSON

Despite challenging market conditions, the demand for housing in Africa continued to grow tremendously, partly due to the unprecedented growth in population in most member countries and the high growth in urbanization. The new and encouraging trend is the growing attention of the Governments to the housing sector. More and more housing issues are high in the government's agenda for the development of the sector. However, many challenges remain.

Developers struggled to meet the high demand for housing amidst challenges facing the industry such as high cost of construction, limited construction finance, limited equity and paucity of serviced land among others. In order to address the issue of serviced land, developers took it upon themselves to provide the necessary infrastructure needed, but this meant that the house would only be affordable to the middle income target market and above as the related cost would ultimately be passed on to the buyer.

Housing for the lower income continued to receive limited attention. African governments have nevertheless realized that the private sector can best provide housing for the poor and many have taken steps to encourage private sector participation in the production of lower cost housing. The Private Public Partnership (PPP) for housing provision is taking off in many countries.

Shelter-Afrique's Plan of business is primarily based on growth through expansion of activities and diversification of products to be funded through borrowings and equity. It also envisions involvement in all the different segments of the housing market, including social and low-income housing. During the year, the Company commissioned a study on developing and implementing a social housing programme in Shelter-Afrique and member countries. The objective is to put in place a framework for establishing social housing in selected member countries in collaboration with development partners and member governments with a view to promoting greater access to affordable housing and infrastructure services to a wider segment of the poor and low-income families. The study will also identify strategies for mobilizing and deploying resources for such social housing programmes and projects.

Under its current strategy however, Shelter-Afrique largely targets low-middle income residential real estate where demand is insatiable.

Interest rates environment

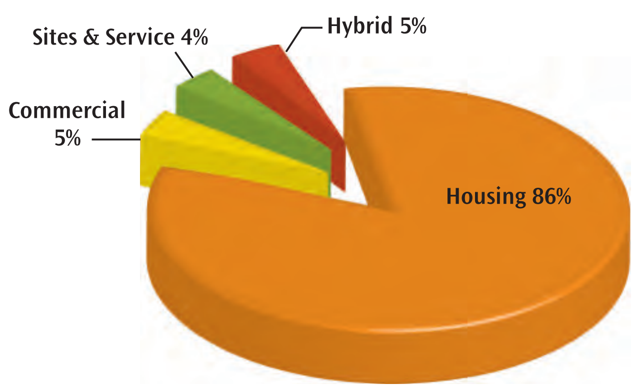
Global short-term interest rates remained at their low as a stimulus to spur economic growth while at the local front, both the lending interest rate and the interest rate spread remained high, reflecting the high cost of credit risk, thus making access to credit very difficult for the low and middle income families. During the second half of 2010, there were conscientious efforts by most central banks to decrease short-term interest rates as inflation remained quiescent and muted. Many countries like Kenya, Mauritania and Nigeria decreased their reference interest rates.

2010 Strategic and Operational focus

The Company's major pre-occupation in 2010 was mobilization of resources from the international financial market including Development Financial Institutions and drawdown from established lines of credit in support of the lending activities and other key operational areas identified in the 2010 budget and strategic plan 2007-2011. In this respect, liquidity remained strong during the year while loan approvals and disbursement levels were at an all time high, principally targeting direct lending and extension of line of credit facilities to financial mortgage institutions for on-lending to private developers.

The 2010 operational programmes emphasized capacity building, improvement and streamlining of the business processes, and quality of the credit review process. The budget to support them therefore maintained institutional capacity building, although this line was largely funded through technical assistance provided by AfDB, AFD and World Bank FIRST programmes.

Chart 5: Cumulative Approvals Per Project Type



2010 Operational Highlight

In 2010, the company approved 20 projects in 12 countries for a total of USD$ 81.34 million raising the cumulative approval to USD $ 433.36 million as at 31st December 2010. During the same period, disbursements stood at USD$ 34.06 million. This raised the cumulative disbursement to USD$ 222.32 million. In terms of funding, construction of houses, apartments and villas received most funding with (86%) followed by Commercial building and Hybrid at (5%) respectively, and Site & Services (4%).

Key Financial and Operational Highlights from 2010 Results:

- Net Interest Income grew 31% to US$5.91 million.
- Operating Profit before impairment charges was higher than historical levels. It was up 25% to US$3.73 million.
- Impairment charges significantly reduced from US$2.84 million to US$0.74 million.
- Net profit jumped to US$2 million from US$0.43 million helped by lower impairment charges and strong growth in net interest and fee income compared to 2009. It was however constrained by the unfavourable impact of currency translation rate.
- Underlying earnings per share was up 300% to US$42.77.
- Total Assets grew 21% on the back of improved liquidity and growth in loan assets to stand at US$132 million.
- Liquidity represented by cash and cash equivalent improved 13% despite increased disbursement while loan assets grew 26%.
- Shareholders' funds were up 6% to stand at US$74 million.
- Capital Adequacy Ratio of 61% at the end of June 2010 remains strong compared with commercial banks and is relatively similar to ratios of other MDBs.
- The mismatch in financial assets and liabilities decreased in 2010 to about 1% from 9% in 2009 with minimal exposure to currency exchange rate movements. This was achieved on the back of foreign exchange translation loss of US$0.98 million.
- Moody's Investors Service for the first time assigns Shelter-Afrique a "Ba1" long-term foreign currency issuer international rating with stable outlook. The rating compares well with other similar DFI's rated by Moody's.

Graph 1: Financial Performance 2007 - 2010 (in US$ million)

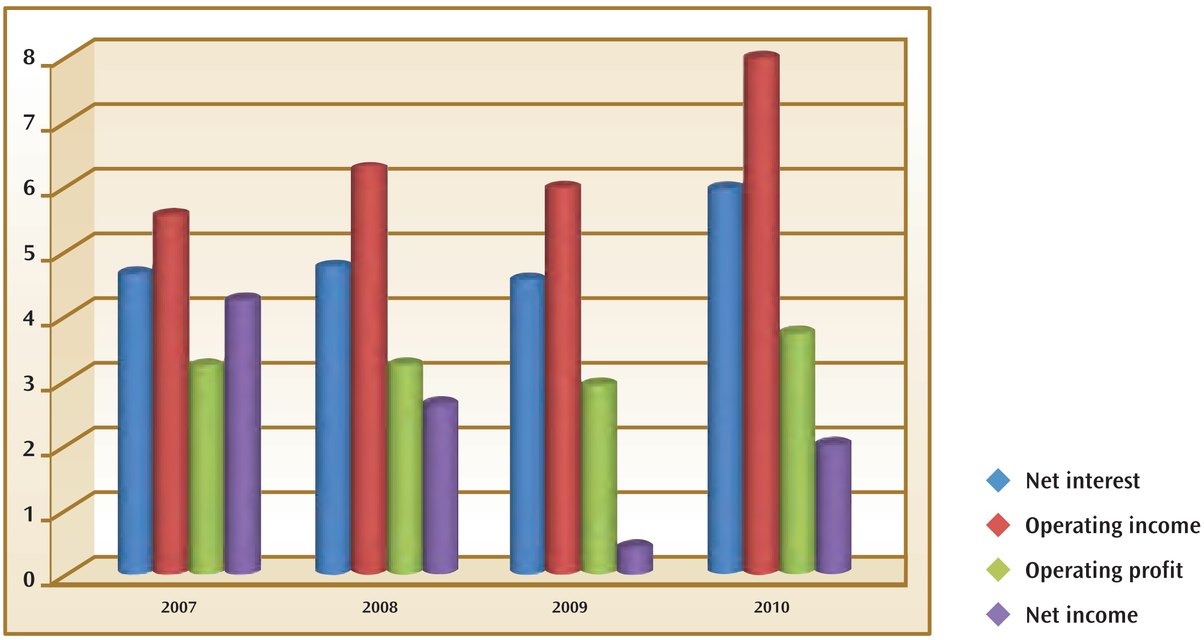


Table 1: 2010 Loan Approvals

	Country	Borrower	Loan Amount (US $ equiv.)	Currency	Instrument	Housing Type
1	CAMEROON	SIC	3,380,000	EURO	DL	Housing
2	KENYA	NGOLU	1,000,000	KSHS	DL	Housing
3	KENYA	ITOGA	5,000,000	KSHS	DL	Housing
4	KENYA	Translakes Estate	2,875,000	KSHS	DL	Housing
5	KENYA	KMA	7,000,000	KSHS	DL	Housing
6	KENYA	Everest Ltd	1,500,000	KSHS	Equity Investment	Housing
7	MADAGASCAR	EJJ	4,300,000	USD	DL	Hybrid
8	MALI	SIFMA	2,444,444	CFAF	DL	Housing
9	MAURITANIA	Mauritania Leasing	4,500,000	USD	LoC	Housing
10	NAMIBIA	NHE	6,849,315	RAND	DL	Housing
11	NIGERIA	AG Homes	7,000,000	USD	LoC	Housing
12	NIGERIA	Skye Mortgages Ltd	7,000,000	USD	LoC	Housing
13	RWANDA	KTM	3,300,000	USD	DL	Housing
14	RWANDA	SUNRISE	2,100,000	USD	DL	Housing
15	RWANDA	BHR	2,400,000	USD	LoC	Housing
16	RWANDA	BRD	5,200,000	USD	LoC	Housing
17	TOGO	CRRH	1,000,000	USD	Equity Investiment	Housing
18	UGANDA	Simbamanyo	1,000,000	USD	DL	Housing
19	ZAMBIA	NHA	6,500,000	USD	DL	Housing
20	ZIMBABWE	Banc ABC	7,000,000	USD	LoC	Housing
	TOTAL		**81,348,759**			

Table 2: Key Operation and Financial Data (2005 - 2010) In US$ million						
Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Approvals	29.75	31.09	41.22	54.29	67.1	81.34
Cumulative Approvals	158.3	189.41	230.63	284.92	352.02	433.36
Disbursement	16.62	17.39	24.15	17.81	30.3	34.06
Cumulative Disbursement	98.61	116.00	140.15	157.96	188.26	222.32
Asset	61.24	71.62	77.03	81.29	109.11	131.99
Net Income	2.05	3.34	4.14	2.61	0.429	2.01
Paid-Up Capital	36.29	36.99	38.65	40.23	46.31	47.73
Reserves	10.61	13.95	18.69	18.76	18.66	20.71
Provisions	0.41	0.00	0.096	0	2.84	0.74
Shareholders' Funds	47.31	50.94	57.42	61.41	69.43	73.68

Table 3: Selected Financial Indicators (2005 - 2010) In US$ million							
		2005	**2006**	**2007**	**2008**	**2009**	**2010**
Operating Results							
Gross Income	(a)	3.95	5.27	5	6.18	5.93	7.90
Operating Expenses	(b)	1.49	1.94	2.25	2.93	2.94	4.17
Operating Profit before provisions		2.00	2.83	3.13	2.22	2.99	3.73
Profit for the year		2.05	3.34	4.14	2.61	0.43	2.01
Administrative Expenses	(c)	1.39	1.84	2.12	2.78	2.76	3.91
Financial Position							
Net Loans and Advances		40.56	44.20	53.19	52.86	70.63	88.87
Financial Investments		16.52	22.10	17.12	21.67	24.16	28.69
Total Assets		61.24	71.62	76.94	81.29	109.11	131.99
Total Equity		47.32	50.94	57.42	61.33	69.43	73.68
Total Debt		13.93	20.68	19.52	19.96	39.68	58.31
Financial Ratios							
Total Debt to Total Assets (%)		22.75	28.87	25.37	24.55	34.61	42.60
Administrative expense ratio (%)	(d)	3.80	4.34	4.35	5.24	4.47	4.90
Debt/Equity ratio (%)		21.65	28.22	24.13	22.80	54.38	76.31
Earnings per share (US$)		56.40	90.17	109.47	66.20	10.26	42.77
Dividend per share (US$)		11.28	18.03	21.42	12.92	0.00	8.44

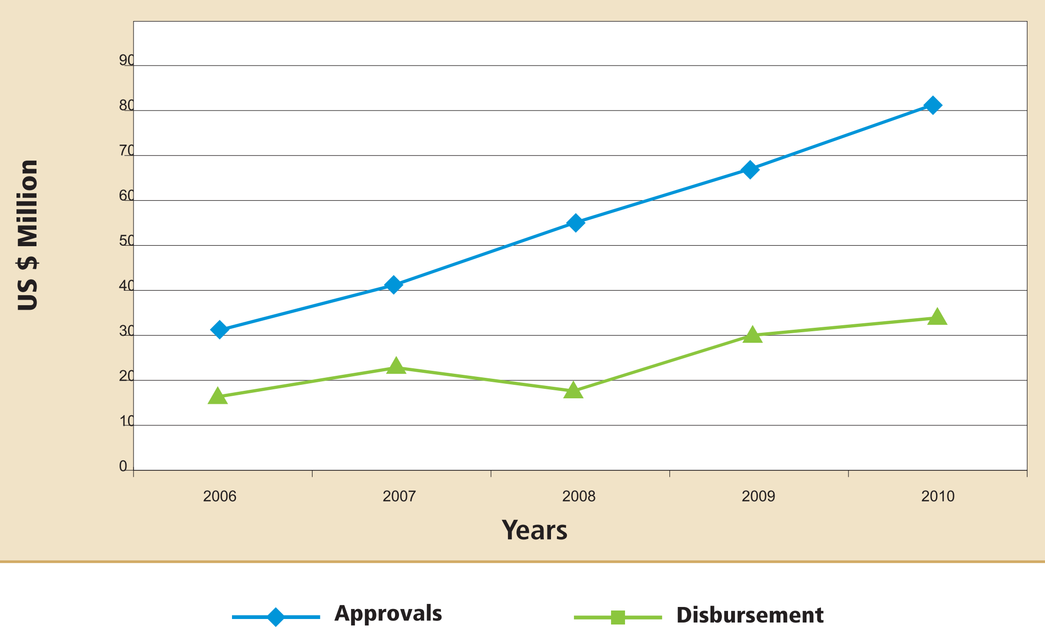
(a) Gross income exclude grant income.

(b) Operating Expenses exclude grant expenses.

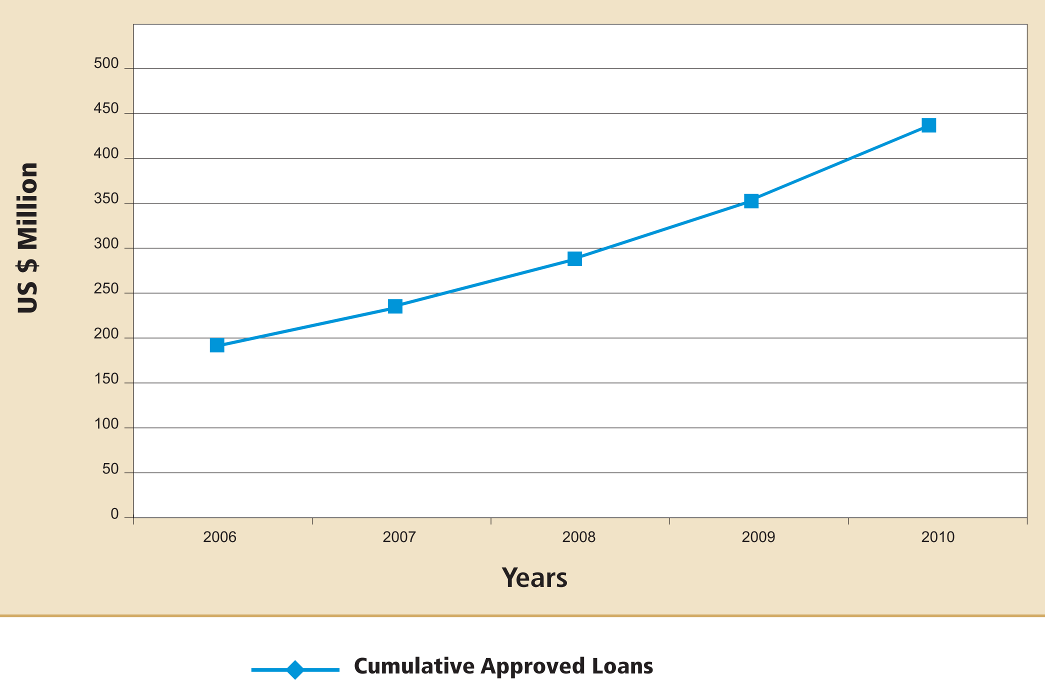
(c) Administrative expenses exclude depreciation, amortisation and other provisions.

(d) Administrative expenses as a percent of average project loans.

Graph 2: Approvals and Disbursements 2006-2010 (US$ M)



Graph 3: Cumulative Approvals 2006-2010



BOARD AND COMMITTEE ACTIVITIES

Annual General Meeting 2010

The 29th Annual General Meeting was held in Kampala, Uganda in June, 2010. The meeting witnessed a respectable level of participation of shareholders and potential ones including Ghana and Mozambique. Institutions represented included United Bank for Africa (UBA), Uganda Development Bank, Ecobank and Social Security Fund of Rwanda amongst others. The high level of participation underscores shareholders' support and renewed interest in Shelter-Afrique.

The Meeting elected a bureau comprising Uganda as Chairperson, Chad as First Vice Chairperson and Central African Republic as the Second Vice Chairperson. During the Meeting, shareholders considered and approved the Company's 2009 Audited Accounts and Reports as well as the appointment of External Auditors.

Annual General Meeting's Symposium

The 2010 Annual Symposium whose theme was "Housing Policies in Africa: Implementation effectiveness, Impact and Lessons learnt" was officially declared open by His Excellency, Mr. Henry Kajura, the second Deputy Prime Minister of Uganda. The Symposium primary objective was to share national experiences on the Housing Policies and to learn from one another's experiences with a view to improving implementation performance and impact in respective national efforts to provide decent accommodation to the nationals. Lessons learnt from the presentations and discussions would better inform Shelter-Afrique and ease its entry-points to partnership with Africa member countries. Contributions were made by various speakers including delegates. Papers presented included "Uganda: Housing Policy Interventions", "Housing Policy in Cameroon: Implementation effectiveness, Impact and Lessons Learned", and "a Review of Nigeria's National Housing Policy: The Antecedents and a Prognosis", which were well researched and acknowledged.

A cross-section of participants at the 29th AGM held in Kampala, Uganda

Meetings of the Board of Directors and Board Committees

During the year under review, four meetings of the Board were successfully held during which the Board of Directors considered and approved 20 projects in the total amount of US$81 million, and policy documents aimed at strengthening the effectiveness of the Company's operations. These included Policy documents on Base Rate Determination, Enterprise Risk Management Framework, Anti Money Laundering, Environment and Social Impacts, Equity Investment and revised Lending policies. The Committee of the Board for Audit and Risk held two meetings to review among others, the 2009 draft audited financial statements, the 2011 Administrative and Capital Expenditure budget document, Enterprise Risk Management Project , Semi-Annual Risk Management Report and Internal Audit Reports, while the Committee of the Board for Administrative Affairs and Human Resources also had two meetings during 2010 to consider amongst others, the Staff Salary Structure and benefits and the Internal Promotion Policy document.

A cross section of participants at the Annual Symposium

ECONOMIC AND SECTOR ENVIRONMENT

International environment

2010 has turned out to be a surprisingly good year for the global economy. It represented the year in which economies healed and began to gain momentum. Global output has probably risen by about 5%, well above its trend rate. China's economy has not suffered a hard landing while United States mid-year slowdown did not become a double dip recession.

Since the end of the recession in the first half of 2009, global economic recovery has made tremendous progress. Global output has been on the rise since the start of the review year and business activities have been generally improving globally. According to the International Monetary Fund (IMF), global activity expanded at an annualized rate of approximately 3.5% in the third quarter of 2010 against forecasted performance of 5%. In general terms private consumption was robust in emerging and developing economies and was largely underpinned by increased private demand, sound economic policies and improved capital flows.

During the second half of 2010, global financial conditions improved significantly as evidenced by rising equity markets, tightening of risk spread and easing of bank lending conditions to small and medium sized enterprises (SMEs). However, real estate markets and household income remained weak in some major developed economies such as United States.

Africa enjoyed a period of strong economic growth, although less than that recorded in developing Asia. The economy as a whole kept up the pace of the global economy into the year, but with significant divergences across individual countries. The growth was attributed to an improved political environment, favorable economic conditions and sound macroeconomic management. Many African countries endeavored to spur growth by lowering interest rates and introducing fiscal stimulus packages. As a result of the continuing global economic recovery and the recent rebound in commodity prices generally, Africa's gross international reserves have shown a significant improvement since the mid-2009 and generally stabilized during the course of 2010.

Nevertheless, the continent continues to face challenges in sustaining high economic growth and improving living conditions for its growing population. These challenges include rapid urbanization, high poverty levels and geopolitical considerations.

African currencies witnessed divergent trajectories during 2010, with a number of currencies recording some depreciation against the US dollar, varying from 6% for the Tunisian dinar, 4.8% for the WAEMU franc, 2.4% for the Kenyan shilling, and 1.4% for the Egyptian pound. In contrast, the South African rand registered gains against a basket of major currencies, reflecting the continuous inflow of foreign capital to the country, relatively high commodity prices, and weakness in the US dollar.

REGIONAL ENVIRONMENT

Urban and housing sector

In November 2010, UN-Habitat (the United Nations Human Settlements Programme) published a pertinent report on the state of African cities. The report confirmed that Africa is the fastest urbanizing continent in the world and that by 2030 "Africa's collective population will become 50 percent urban" (UN-Habitat, 2010:1).

One of the central "faces" of Africa's rapid urbanization in most if not all of its large cities is "non-standard, poor-quality housing units which the UN calls "urban slums". According to UN-Habitat, Africa currently has a slum population of 199 million people and this represents 62% of its urban population. As the scale of urbanization increases, the task of providing appropriate and affordable housing to the urban poor has persisted as one of the most intractable problems facing developing countries. Housing is becoming an increasingly expensive commodity in all countries

The African housing sector has emerged as nearly unique as an investment opportunity in the last decade, delivering three-fold returns, surviving the global and domestic recession and now back into capital growth as an asset class. The growth had been driven by rising demand among "the middle segment" in the wake of new financing options and the expansionary policy in many African countries in choosing to reduce interest rates.

The Africa's middle class is growing tremendously and needs affordable housing. The property markets offer a tale of encouraging growth. There is, however, a major challenge of affordability. Affordability and access is reduced by the prohibitive costs of borrowing, the risks of foreign currency loans in volatile economies, and a high cost of building materials. Often, people simply cannot access financial services.

Despite the challenges Shelter-Afrique remain committed and is becoming more pro-active, experimenting with new products to address the housing sector needs across the continent.

Mortgage loan environment

The key to creating a vibrant real estate sector in Africa is the emergence of a competitive mortgage market. African financial institutions are changing their more conservative lending practices and seeking to widen their customer base.

The mortgage industry is still in its infant stage, except South Africa. Mortgage loans in South Africa represent more than 30% of GDP while Kenya has the best ratio in Sub Saharan African which is 2% of GDP. It is evident that there is a huge potential for growth in the mortgage sector. Mortgage finance institutions in Africa has increased the size of the mortgage loans, while some mainstream banks are also offering home loans to clients that they would not have considered economically viable a decade ago. Mortgage financiers have been persuaded to enter the market because of the growing size of the continent's middle class, which the World Bank estimates will increase to 43 million by 2030.

The scenario in sub-Saharan Africa is that the mortgage market remains undeveloped against the background of a growing middle class in need of affordable homes. Growing economies in countries such as Nigeria, Ghana, Zambia, Angola and Kenya have attracted investors to grow the mortgage finance sector. It is also important to note that growing the mortgage market is depended on key fundamentals such as a stable macro-economic environment, availability of long-term finance, efficient payment systems and a strong legal and regulatory framework to ensure repayment and foreclosures in case of default. To date, many countries are realizing the long term benefits of the sector and are implementing strategies to complement the sector to ensure that the sector contributes to financial development.

Financial sector

As in other developing countries, financial markets in African countries are dualistic-with formal and informal sectors, and characterized by a high degree of segmentation and fragmentation. The formal financial sector is bank-dominated. The vulnerability of the financial sector has been notably characterized by a high degree of concentration of bank loan portfolios. This large credit exposure to a relatively small numbers of borrowers is said to reflect the high perception of risks of commercial banks, which prefer to lend to a few corporations,-namely those located at the upper end of the market, than to expand lending to clients that are new, but little known and are perceived too risky.

STATUS OF OPERATIONAL ACTIVITIES

The key operational achievement in year 2010 was the approval by the Board of the revised lending policy and new equity investment policy. The revision of the lending policy will go a long way in assisting to streamline lending operations, improve processes and standardize appraisal actions with a view to improving asset quality. The new amendments were justified by the lessons learnt, Shelter Afrique's growth strategies and the new operating principles based on the co-financing of projects, the augmentation of the support to financial intermediaries and the necessity to diversify the financial products.

The equity investment policy is in line with the Strategic Plan aiming at diversifying the Company's financial products and is also in consonance with the international best practices.

Company Operations

During the year 2010, the company achieved geographical and product diversification at approval level. The approvals of the revised lending policy and new equity policy enabled increased interventions with Financial Institutions and facilitated the approval of a straight equity investment deal in the West African region and investment in a joint venture deal in Kenya. Also worth noting is the company's deliberate intervention in the low and lower middle income segment through National Housing bodies within its respective member countries. Approval totaling US$ 16.73 million (21% of total approvals) were made to National Housing Enterprise – Namibia, National Housing Authority – Zambia and SIC – Cameroon.

Breakdown of Approvals during 2010

During 2010, a total of US$ 81.35 million in new loans and equity investment facilities were approved for 20 projects in twelve (12) member countries, an increase of 21.24% over the previous year. Total commitments during the year amounted to US$ 48.85 million representing 12 projects in 7 countries compared to US$ 51.33 million committed in 2009.

Loan and Equity investment Size

Average loan size was about US$ 4.38 million per project with tenors ranging between 3 and 12 years compared to US$ 2.82 million per project achieved in 2009. The increase resulted from the ability of the Company to on-lend more resulting from the focus on bigger transactions. During the year , two equity investments amounting to US$ 2.50 million were realized.

Real estate development remains the major beneficiary of Company's funding in line with the objective of increasing the supply of affordable housing in member countries. Direct lending accounted for 56% of total loan approvals while lines of credit to financial institutions and equity investments accounted for the remaining 44%. Statistics for year 2009 was 84% and 16%, respectively.

Approvals by Client type

In value terms, lending to the private sector and the cooperative accounted respectively for 60% and 9% of loan approvals, while the parastatal sector and other organizations where governments are part of the shareholding accounted for the remaining 31%. During the year 2010, Shelter Afrique continued to provide financial and technical assistance for housing and urban development activities to member's countries. By partnering with Shelter Afrique, the private sector again played a key role in the housing industry thus limiting the government roles in direct provision of housing.

Partners and Leveraging

Partnership is one of the key pillars for growth of the Company. During the year under review, Shelter Afrique focused on the implementation of Memorandums of Understandings (MOU) that had been signed with strategic partners. To give few examples, Shelter Afrique entered into a joint venture agreement with Everest Ltd for the phase 1 of Mavoko Municipality Housing Program consisting of 240 units in Kenya. The financier for this project will be Housing Finance of Kenya with whom an MOU was signed in 2009. In addition, Shelter Afrique is keen to build and maintain its partnership with the main player in the UEMOA Zone, through Equity participation in Caisse Regionale de Refinancement Hypothecaire (CRRH) along with BOAD, BIDC and local Commercial Banks.

Performance of Project Portfolio

A comparison between approvals, commitments, disbursements to projects and evolution of the project portfolio for fiscal years 2006 to 2010 is as shown in the Table below. The table reveals that cumulative loan approvals increased from the 2009 figure of US$ 352 million to US$ 433 million representing an increase of 23%. Cumulative commitments (signed loans) stood at US$ 286 million as at 2010 year end, an increase of 21% over the previous year. They amounted to 66% of cumulative approvals. Some US$ 34.06 million was disbursed during the year bringing the cumulative disbursements to US$ 222 million, an increase of about 18%. Cumulative disbursements stood at 78% of cumulative commitments by end of 2010.

Approvals by Lending Instrument

In value terms, during year 2010 Direct Lending accounted for 56% of total loan approvals, down from 63% registered in the previous year. This is due to the strategic decision taken by management to intervene in various member countries through Lines of Credits to Financial Institutions which will subsequently on-lend the funds to developers or individuals for mortgages. In this regard, approvals for the Lines of Credits increased steadily from 29% the previous year to 41% in 2010. Equity investments approvals accounted for the balance of 3%.

Geographical Distribution

In 2010, East Africa maintained its domination of Shelter Afrique's approved loans portfolio accounting for 39% of approvals, though down from 49% in 2009. Meanwhile, West Africa region approvals decreased steadily and accounted for 27% down from the 40% in 2009. Southern and Central Africa region accounted for 30% and 4%, respectively. The growth in approvals for the Southern Africa region is as a result of the efforts undertaken to increase our activities in that region during the year 2010. However since Shelter-Afrique's inception till 2010, West Africa cumulative approvals dominate at 43% followed by East Africa at 37%, Southern Africa at 12% and Central Africa at 8%. Business development programmes through road shows and related activities will continue to be intensified in member countries with a view to identifying and preparing viable projects for financing.

Lending Terms

To enable Shelter-Afrique increase its investments in member countries, new limits have been defined. For High, Medium and Low business risk country, the limits are set at 10%, 30% and 40% of Shelter-Afrique's total assets respectively. In addition, with a view to providing more financial assistance to well established borrowers, risk profile for individual borrowers and developers was created and new limits assigned to them. Total lending to any single borrower shall be based on the risk profile as determined by the risk department. Thus, for High risk clients the limit was set to 15% of equity/shareholders' funds while for Medium and Low risk clients they were at 20% and 25% respectively. For the necessity of the harmonization of the Lending Policy with those of solid and reputable co-financiers, the level of equity can be below 30% for co-financed projects. For Lines of credit specifically, facility to any single financial institution shall not exceed 10% of Shelter-Afrique's equity or 50% of borrower's equity whichever is less.

Equity terms

As per the new Equity Participation Policy, Shelter Afrique's total equity investment portfolio shall not exceed 25% of its shareholders' fund. The Company shall also not invest more than 10% of its shareholders' funds in any single investment. Moreover, the level of the investment shall guarantee a seat on the investee board. As a rule, Shelter Afrique shall only invest in or with companies or project that have in place and operate stringent Anti-Money Laundering/Financing Terrorism and Environment and Social Management policies. Finally, a clear exiting strategy is critical to achieving Shelter Afrique's investment objectives that enable the company to dispose of the investment at a price consistent with the required rate of return.

Table 4: Status of Project Portfolio (US $ million)

	2006	2007	2008	2009	2010
Approval	31.09	41.22	54.29	67.10	81.34
Cum. Approved loans	189.41	230.63	284.92	352.02	433.36
Disbursement	17.39	24.15	17.81	30.30	34.06
Cum. Disbursement	116.00	140.15	157.96	188.26	222.32
Commitment	18.30	19.40	23.50	51.30	48.85
Cum. Commitment	142.80	162.20	185.70	237.00	285.85

Chart 5: Cumulative Approvals Per Project Type

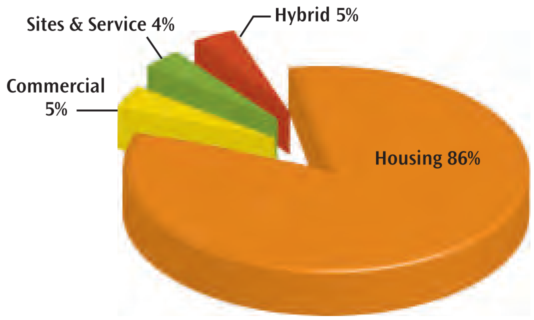


Chart 6: Cumulative Approvals Per Region

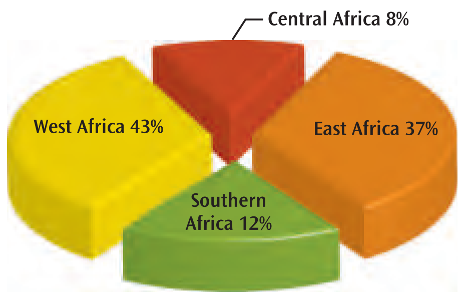
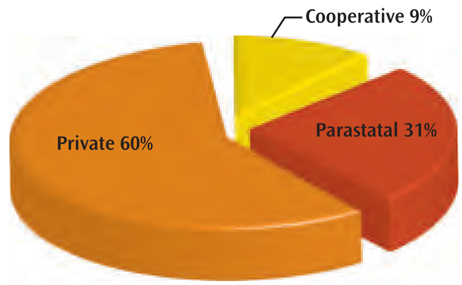


Chart 7: Loan Approvals by type of Client: 2010



2010 PROJECTS PROFILE

LINE OF CREDIT TO BANQUE DE L'HABITAT DU RWANDA (BHR), RWANDA

The line of credit was approved for an amount of US$ 2,400,000 to finance at least 45-55 housing units directly through mortgage or indirectly through funding developers, housing units range from USD 30,000-100,000. BHR pipeline includes mortgage applications worth USD 3.8 million mainly in Kigali. The LoC will address the housing backlog in Kigali and will help Shelter-Afrique to enhance product diversification and to be in line with the new business model

IMMEUBLE 22 HIPPODROME, HIGH STANDING RESIDENTIAL BUILDING PROJECT, CAMEROON

This project was approved for Société Immobiliere du Cameroun (SIC), for a loan of EURO 2,600,000 to co-finance the construction of a 10 storey building consisting of 32 high standing apartments and related infrastructure services in Yaounde for sale. The site is located in Hippodrome Estate, a prime area of Yaounde, on plot No. 610 and measures 1,276 m^2. The building will have high comfort equipments, recreation space, outside and basement parking and an elevator. This is an experimental project for SIC in order to respond to an increasing demand of high standing housing in Cameroon from Diaspora members and well-off clients.

EQUITY PARTICIPATION IN CAISSE REGIONALE DE REFINANCEMENT HYOTHECAIRE (CRRH), UEMOA

Equity participation in the Secondary Mortgage Institution for West African Economic and Monetary Union member's countries, for an equivalent of CFAF 509,000,000 (US$ 1,000,000). The main sponsor is BOAD which is the development bank for WAEMU. CRRH is designed to support long term lending activities by Primary Mortgage Lenders (PML) in UEMOA area. Investing in CRRH will allowed Shelter-Afrique to develop it portfolio in WAEMU area as mortgage availability will increase real demand for housing therefore increase construction finance needs.

EVEREST PARK: JOINT VENTURE BETWEEN EVEREST LTD AND SHELTER AFRIQUE

Shelter Afrique investment in the Joint Venture of Kshs 120m (US$ 1.5m) was approved in December. The project consists of construction of 380 units comprising one, two, three and four bedroom low cost houses in Nairobi's outskirts. The whole project cost is estimated at Kshs 1.084 billion (US$ 13.55m) and will be done in two phases over a period of 4 years.

Everest Ltd has partnered with Shelter-Afrique to develop the project under a Joint Venture arrangement. The project will be financed by a mix of debt and equity and a debt finance of Kshs 315m (US$ 3.94m) has been secured from Housing Finance Company of Kenya. This is the first project of this kind of financing model by Shelter Afrique and its success is expected to set the basis for future projects/interventions.

National Housing Enterprise (NHE), Namibia

A corporate loan for NHE was approved in March 2010 for Rand 50 million (US$6.8m) to go towards part financing National Housing Enterprise (NHE's) pipeline of housing projects located in various townships in the country for sale and rental purposes. The pipeline of projects is worth US$ 21 m and the target market for the completed units is the low to middle income group NHE will also be involved in providing end user financing for some of the completed units. .

National Housing Authority (NHA), Zambia

The corporate loan of US$6.5 million was approved for NHA in June, 2010 for a real estate development program of 345 nos 3-bedrooms semi-detached and stand alone units plus related infrastructure services in Lusaka, ZAMBIA, for outright sale and rental to the public. The program will be implemented in two phases comprising 200 nos and 145 nos housing units respectively. The loan is structured in such a way that it will be a revolving facility whereby the sales obtained in the first phase will be injected into the second phase and repayment of the principal will only commence after the second phase is completed. Target market for the completed units is the middle income group

Chart 8: Approval per currency: 2010

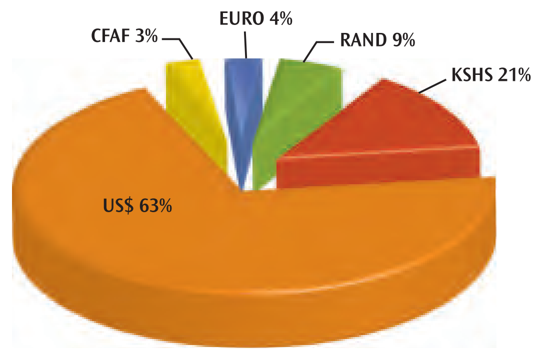


Chart 9: Approval per loan maturity: 2010

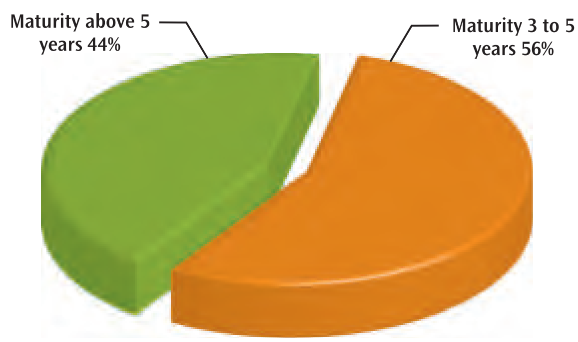
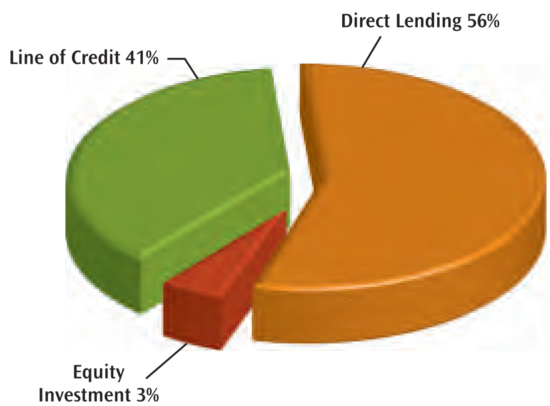


Chart 10: Loan Approval per lending instrument: 2010



Dar-Es-Salaam, Tanzania: Integrated Properties Tanzania Ltd. Bahari Beach residential town houses

Nairobi, Kenya: Ngolu Heights project

Lagos, Nigeria: Nicon Town by Chevron Staff Thrift and Credit Cooperative Society Ltd

Mombasa, Kenya: Eden Beach Project

Dakar, Senegal: A completed Sebel Invest Housing Project

Nairobi, Kenya: Marlborough Ltd. Serene Valley Apartments

Nairobi, Kenya: Sawada Villas in Syokimau

Banjul, Gambia: Jarama Residence Project

Box 2: Developmental and social impacts of Shelter Afrique's operations in 2010

Being a Development Finance Institution, Shelter Afrique selects its projects for financing based on the both economic and financials merits. The best projects are those showing the maximum economic and social benefits and as well as strong projected cash flows to meet the debt service obligations. Shelter Afrique's objective is not profit maximizing but it needs to generate reasonable net profit in order to grow its activities and withstand against all type of risks, especially the credit and financial risks.

Like previous years, the projects selected in 2010 follow these general principles. The selected projects are in 2 categories: mortgage financing and construction financing.

Mortgage financing:

7 transactions amounting USD 34 million have been granted to financial intermediaries for on lending to circa.660 buyers in Rwanda, Mauritania, Zimbabwe and Nigeria. All beneficiaries of the loans will be part of the middle income Group. The mortgage industry is the fastest growing banking business in Africa. It grows at 30-35% in average due to the burgeoning middle class in Africa. The trend is very positive due to the decrease of the interest rate over the last 3 years thanks to the low inflation rate. The mortgage is becoming affordable. In Senegal, the mortgage is granted in a single digit. In Kenya, it is constantly decreasing. Many buyers can get a mortgage at 12-14%. Many banks in Africa like Ecobank, Bank of Africa and Standard Bank are able to provide mortgage. The development of the mortgage is very good for the social cohesion and the promotion of democratic values in the society. Shelter Afrique is increasingly interested in developing mortgage through microfinance institutions to lend to lower end of the middle income segment for housing improvement and incremental constructions.

For the first time, Shelter Afrique and BOAD alongside many commercial banks have created a Secondary Mortgage Institution (SMI) for West African Economic and Financial Community. This financial institution will help to make mortgage more affordable in this region. The objective is to make mortgage at single digit interest rate. This institution will help many more households gain access to mortgage facility. Shelter Afrique is expecting to support more SMIs creations in other parts of Africa. We believe that our maximum development impact lies in financial capacitation whereby we either support the creation of financial institutions or provide liquidity necessary to lend for mortgage. This type of transactions will get a special attention.

Construction finance:

13 projects have been financed for construction and outright sale in Madagascar, Kenya, Cameroun, Zambia , Namibia and Mali. The total was USD 47 million. The development impacts are meaningful. The financing has been used to build housing by using Small and Medium Enterprises (SME) to build the houses and the necessary infrastructure. The number of SMEs recorded working in the different projects are around 100. The loan to Societe Immobiliere et Fonciere du Mali is an excellent example for maximum demonstration effects and opportunities for SMEs. In November 2011 there were 18 SMEs working in the site generating around 2000 employments.

The construction finance will assist to create 1500 units providing a shelter for around 7500 people. This is an increase of about 30% compared to the previous year. The sweet spot of Shelter Afrique projects lays in residential projects targeting middle income group.

Many projects will give lot of opportunities for commercial banks to provide mortgage. As usual, the business model of Shelter Afrique involves always commercial banks being the off takers of the units built through the mortgage provision to the buyers. Through the partnership with Housing Finance in Kenya, this institution is getting many opportunities to give mortgage to potential buyers in the project supported by Shelter Afrique.

We are transferring knowledge to some banks for the internal development of expertise for construction finance. The co-financing we developed with Ecobank is very beneficial for this institution in terms of capacity building for construction finance.

In many projects, we are exploring to encourage the use of renewable energy and the harvest of rain. For the near future, projects using green energy will get a discount on the interest rate.

In 2010, Shelter Afrique launched for the first time in its history a Joint Venture financing whereby Shelter Afrique and a developer having a land partner to develop the land. The financial instrument used by Shelter Afrique is an equity financing. The first project is realized in Kenya. This type of financing has a very high development impact.

Overall impacts:

Shelter Afrique is always trying to crowd in commercial banks in the construction and mortgage finance. This is part of its business model based on the partnership between Shelter Afrique and commercial banks to improve the provision of houses for the middle income group. The general impacts on mortgage and housing are very good and Shelter Afrique continues to play a leading role in the construction finance. Due to the high risk associated with construction finance, many banks are still very reluctant to provide this type of financing. Shelter Afrique is strong in bridging the gap on the construction finance. For mortgage, the Company is encouraging the creation of innovative institutions to promote the development of mortgage with an affordable interest rate, preferably a single digit interest rate. The Company will promote the availability of risk capital to support the developers for bigger projects to be realized within budget and timelines. The Company will therefore launch a private equity fund independently managed. The role of the Company as a catalyst for the financing will be strengthened with this fund.

SIFMA

The company had co-financed a project of 300 housing units in Mali with Société Immobilière et Foncière du Mali (SIFMA) and Ecobank, Mali. The project is among the public private partnership within the framework of development of 10,000 social housing according to the Social and Economic development program launched by the Government of Mali. Office Malien de l'Habitat (OMH), representing the Government of Mali's interests and SIFMA had signed in November, 2009 a partnership agreement for the construction of 300 social housing units in Sicoro-Kati, Mali. The project involving 8 local SMEs in construction has both social and economic impact through the creation of 3,093 employment opportunities in various fields.

Box 3: Africa Housing Market Revolution

The last decade was, no doubt, impressive and encouraging for the economic and social development in Africa. Commodities boom, real estate growth including housing construction, IT advancement and financial sector reforms have combined to spur economic growth and help to lift many people from abject poverty. African middle class is growing, creating one of the most important pillars for the future social progress and the promotion of democratic values for a better Africa. Middle class is an aspiration and an economic reality in many African countries. One of its attributes is the ability to own or rent a house which is the most important economic and social asset. So far the virtuous circle that permits the middle class to own a house is not fully working well due to many constraints. Many reforms on the housing policies need to be carried out to unlock the potential for a growing housing sector in Africa in order to add 2-3 percentage points to economic growth. This will take Africa to a new level of average economic growth around 7-8% per annum. This requires strong leadership in the housing sector and other related sectors including the financial sector, building materials, infrastructure and land. The impact of the housing sector on all these sectors and especially on poverty alleviation requires more investments and support from the international development finance institutions in respect of policy formulation and mortgage development.

Policy formulation:

The best investment that the Government with the support of international development finance institutions can do is to make the right choice for policies. It would appear simple but in reality this is the most difficult task for the public management. It requires leadership, vision, planning and ability to implement over many years with a periodic assessment and corrections, when necessary. A cursory review of the Sub Saharan housing sector excluding South Africa has revealed that only a few countries have made some progress on housing policies and their implementation. These countries include Kenya, Senegal, Mali, Tanzania, Namibia and Rwanda although the level of mastery of housing policies varies from one country to another. The reform to improve the allocation of Government budget and lending to housing sector has improved slightly due to an ambitious policy spearheaded by the Ministry of Housing and Urban Development. The starting point for a right framework for the housing development is the existence of a Ministry in charge of Housing and Urban Development. History tells that the aggregate of Housing Department and infrastructure is neither optimal for the housing nor for the infrastructure. The overweight of infrastructure require a stand-alone Ministry. In the context of amalgamation, infrastructure overshadows housing. Countries having a stand-alone Ministry for Housing and related matters have a better chance to develop the housing sector, especially housing for middle income earners.

The new dimension of urbanization in Africa (30-50% of Africans live in towns) calls for the creation of a Ministry for Housing and Urban development. This is a way to maximize the benefits of public policies and will help ameliorate financial and intellectual allocation of resources. Failing to do so is suggestive of weak leadership in the sector and general weakness in global leadership for social development. Housing is undoubtedly next to food. No social progress or social cohesion within a country can be achieved without a decent shelter for the citizens.

Having a dedicated and well staffed Ministry with adequate financial resources is just the starting point. A lot remains to be done in order to promote the ownership of houses for the middle and lower income brackets. The latter requires more support from the Government through rental programmes and targeted subsidies for the rent and ownership. Putting public money in the housing is surely a good use of public financial resources. The economic and social benefits are tremendous. The social dividend outweighs by far the financial sacrifice. Furthermore, it is very important to improve the productivity of the Ministry for Housing, especially in the areas of the land management, approval of the permit of construction and the discharge of the mortgage. So far, in general, the ministries in charge of housing and land have low productivity and the whole process is long and bureaucratic. The cost of low quality of service is one of the high hidden costs for housing deliveries. The improvement of housing supply requires lot of reforms on the service deliveries concerning the land, the mortgage and the different approval process for the construction. The old saying that "time is money" is very relevant for this sector. Everyday lost in administration approvals leads to higher cost for construction. This cost is borne by the buyers, especially the middle income. The inefficiency of the Government combined with the lack of infrastructure increases the cost by 20-50% depending on the country. In many countries, the cost of the land is inflated. The rare space where there is infrastructure, the price is very high while the area where there is lack of infrastructure the price of the land is very low but the cost is very high to produce the required infrastructure.

Mortgage loans:

The mortgage industry in Africa is at its infancy, except in South Africa.

Mortgage loans in South Africa represent more than 30% of GDP while Kenya has the best ratio in Sub Saharan African which is 2% of GDP. This means, beyond the gap, there are ample opportunities to grow this sector. The strategic thinking is encouraging in Africa. Many leaders in the banking sector in Africa are targeting the development of the mortgage industry whose annual growth is around 30% in countries like Kenya, Senegal and Rwanda. Banks like Standard Bank, Ecobank, Bank of Africa and Banque Internationale pour l'Afrique de l'Ouest (BIAO) among others, are putting in place the right strategy to develop mortgage loans. The progress recorded over the last years is very conducive for mortgage financing. Inflation has been generally contained permitting the lowering of interest rates.. In 2009-2010, many central banks reduced the interest rates. The Repo rate is around 6% in many countries. In many countries however, the constraint is not the mortgage but the supply of affordable houses. The local banks are always willing to lend individuals for mortgage but they are very reluctant to lend to developers. Surprisingly, the market is led by the supply. Shelter Afrique and some specialized financial institutions like Housing finance and Savings and Loans both in Kenya, and Banque de l'Habitat du Senegal, Senegal are the key players for the construction loan in order to facilitate mortgage lending. The expansion of banking in Africa has big potential especially for mortgage financing, if the right policies are implemented.

Some countries are taking some steps forward in order to develop a single interest rate for the mortgage loan. The creation of a Secondary Mortgage Institution (SMI) is a good financial innovation. This will give more incentives to banks to lend to individuals knowing that they can refinance the loans from the SMI at a very reasonable rate. Shelter Afrique and other institutions are really interested to see more SMIs in order to develop more mortgages and propel the virtuous circle for the mortgage industry. At the beginning, public money is needed to promote the SMIs to address the market failure. After a while, the public money will be disinvested and the market forces will take the relay. This is the way development finance should operate: take early risks and prepare to hand over to the market forces the activities after a preparation of the ground especially on the corporate governance, the profitability and the competition.

To take advantage of the new context for the mortgage industry, the potential borrowers should improve their saving habit. This will require some behavioral adjustments and the promotion of more cooperatives for housing and saving instruments. The general social environment should promote more savings through contractual institutions like the cooperatives and at an early stage from the first salaries. The critical period for saving promotion is the consumption and social behavior during the early revenues. Africans should learn from the Asians the culture of saving for the acquisition of social and economic assets like houses.

One of the biggest but not well known challenges is the profile of the housing estate developers. In many African countries, the developers are few and with limited financial and technical resources. This translates into small projects in developing estates with lack of economies of scale. The cost of inefficiency is paid by the buyers. The pricing model is based on cost plus margin due to the lack of competition between developers. In general, the housing sector is capital intensive and requires good corporate governance. No quick progress will be obtained without the support to developers in order to engage them on massive housing project creating the optimal size and reducing the cost of construction per sqm. The economic and financial size of the developers is a limiting factor for the supply of houses. In this context it's not surprising to see the banks very reluctant to avail the construction finance to developers. The risk profile of the developers is very high. Almost all developers are SMEs business and the lending policy for construction finance follow the same principle for lending to SMEs with lot of collaterals. No big champions exist so there are no market leaders able to show others the way.

The trend is encouraging though. Many investors and private equity funds are lining up for opportunities. The progress made by some countries in 3 years should inspire others to implement strong reforms on the land and related issues like the construction permit, the mortgage registration and the cost related to the stamp duty. Housing is very demanding in terms of the level of Government involvement, the interaction with the financial sector, the production of building materials and the land management. Fortunately, there are good examples in Africa. To name a few, for the Government involvement, the best examples are Mali and Namibia. The level of subsidies for housing is very high and well targeted. With regard to the efficiency of the capital markets to support the housing development, Kenya is leading. With regards SMIs, Tanzania and West African Economic and Monetary Union provide good examples. Rwanda tops East African countries for doing business in real estate. Other African countries should emulate these good examples and study the successful models of Tunisia and Morocco. The latter country is the most improved housing sector for the middle income and slum upgrading over the last decade.

GOVERNANCE AND CORPORATE MANAGEMENT

Commitment to Corporate Governance

The Company is fully committed to the principles of transparency, integrity and accountability. The Board's Audit and Risk Committee has the mandate of providing assistance to the Board in fulfilling its responsibility to the company and to the shareholders relating to its oversight of management and its auditors. This is in regard to corporate accounting, financial reporting practices, the quality and integrity of the financial reports of the Company, among other duties. The committee is also responsible for the Company's system of internal controls and for reviewing its effectiveness and advising on financial and risk management.

The Board's Committee on Administrative Affairs and Human Resources Policy Issues continues to advise on matters and policies relating to general administrative affairs and human resources of the company and make recommendations to the Board as well as monitor closely the implementation of the decisions of the Board on such matters amongst other duties.

Both the Board and Management remain committed to good Corporate Governance for value creation for the shareholders and enhancing the confidence of all the stakeholders in the company. To this end, the Board, during the review year 2010, continued to assume overall responsibility for the ultimate direction of the Company, the supervision and control of the executive management, while the executive management assumed the overall responsibility for the day-to-day management of the Company. The Directors meet quarterly when they review and decide on investment projects and oversee general management policies. Directors also serve on one or more of two standing committees, which help the Board discharge the oversight responsibilities through depth examinations of policies and procedures. During the year, the Board convened and held four ordinary meetings.

The Board comprises nine-non executive Directors with diverse skills and are drawn from various sectors of the economy. The Chairman, Vice-Chairman and Chairmen of Board committees are non-executive Directors. In order to enhance corporate governance, Shareholders during the year under review, directed the Board to appoint two professionals as independent Directors on its Board of Directors.

Credit Rating Review

During the review year, the Company commissioned Moody's Investors Service Limited to evaluate it for international credit rating. In February, 2011, the Company was assigned a "Ba1" long-term and Not-Prime short-term foreign currency issuer rating with a stable outlook. It is the first time the Company was evaluated for international rating and the first time Moody's has rated it. The "Ba1" rating reflects a strong capitalization and shareholder support, a low leverage ratio and a strong liquidity with a lack of callable capital and weak asset quality as reflected in high level of NPLs.

The rating which is forward-looking takes into consideration the potential deterioration of the Company's financial metrics as the Company continues the implementation of its growth's strategy.

Risk Management

The Company's risk management policies are designed to identify and analyse these risks, set appropriate risk limits and controls, monitor the risks and ensure adherence to limits by means of reliable and up-to-date information systems.

The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. Risk management is carried out by various committees under the supervision of the Board of Directors. Management in conjunction with these committees then identifies, evaluates and addresses financial risks in close co-operation with the Company's operating units.

- The Board considers and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. In addition, risk management and internal audit departments have now been established and are responsible for the independent review of risk management and the control environment. This will further be enhanced upon full implementation of various projects principal among them.

- Enterprise Risk Management (ERM) framework project to establish and adopt a robust Risk Management Framework for identifying, assessing, analyzing and measuring key business risks. The COSO-Based framework is being used to identify the key risks; key risk indicators and the key risk owners.

- Anti-Money Laundering (AML) project that culminated with an AML/CFT policy.

- Environmental & Social project that produced a policy and procedures that ensures projects financed by Shelter-Afrique are both socially and environmentally sustainable.

- Basel II capital adequacy framework project to ensure the company establishes a risk weighted assets and sets the minimum risk capital to cushing against unexpected losses. Globally, the Basel Accords are generally adopted by internationally active banks for tracking, reporting and exposing operational, credit and market risks.

Internal Audit

Internal Audit remains a key pillar of Shelter-Afrique's Corporate Governance.
As part of its annual work program approved by the Board, the Internal Audit Unit carried out the following key assignment, among others:

- Implementation of Shelter-Afrique Internal Control Framework
- Update of the Audit manual
- Billing process review
- Nigeria portfolio review
- Projects review in Senegal, The Gambia and Burundi
- Implementation of a new Internal audit charter

Appropriate recommendations were made for the improvement of projects management and credit review process. The implementation of these recommendations are being monitored by the Internal Audit Unit.

Adiva Plain fields-ARM Properties PLC Nigeria

20 Apartments by GCC in Gombe, Kinshasa.

Caribbean Park-Nairobi

Loan signing with Kenya Medical Association. In attendance was the Kenya Minister for Housing, Hon. Soita Shitanda.

Inspection mission to Ngolu housing project, Kenya by Shelter-Afrique portfolio management team.

A cross-section of participants at a road show held in Kampala, Uganda.

Loan signing ceremony, Sunrise housing project, Kenya.

Loan signing with ARM Properties Plc. Nigeria for a loan of US$7 million.

Loan signing with National Housing Authority, Zambia.

Shelter-Afrique's Management Team in a group photograph with the CEO of FMO, Mr. Nanno Kleiterp and his Senior Official Ms. Marjolein Landheer during an official visit.

Shelter-Afrique 's delegation in a group photograph with the Hon. Minister of Finance and Economic Planning, Dr. Kwabena Duffuor during a membership drive mission in Ghana.

SHELTER - AFRIQUE

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA

Annual Report and Financial Statements

31 December 2010

Deloitte & Touche

PRINCIPAL PLACE OF BUSINESS	**Shelter Afrique Centre** Longonot Road, Upper Hill P.O. Box 41479 00100 Nairobi GPO KENYA
PRINCIPAL BANKERS	**Barclays Bank Plc** Barclays International Banking Centre P.O Box 391, 38 Hans Cresent, Knightbridge London SW1X 0LZ ENGLAND
	Kenya Commercial Bank Limited P O Box 30012, 00100 Nairobi GPO KENYA
	Citibank N.A. P O Box 30711 - 00100 Upperhill, Nairobi KENYA
	UBS International Inc. 1285 Avenue of Americas New York, NY 10019 USA
	BNP Paribas 2, Place de l' opera BP 6542 75060 Paribas Cedex 02, Paris FRANCE
	Citigroup Institution Group New York c/o Citibank N.A. P O Box 30711 - 00100 Upperhill, Nairobi KENYA
	Ecobank 8, Avenue L.S. Senghor B.P. 9095 CD Dakar SENEGAL
	Merrill Lynch International Bank Limited 2 World Financial Centre, New York, NY U.S.A
SOLICITORS	**M/s Waruhiu K'Owade & Ng'ang'a Advocates** P.O. Box 47122 Nairobi KENYA
AUDITORS	**Deloitte & Touche** Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi KENYA

BOARD OF DIRECTORS

Chairperson	Ms. E. M. Tembo	(elected 14.6.2010)
Vice Chairperson	Mr. V. Ndayitwayeko	(elected 14.6.2010)

DIRECTORS	ALTERNATE DIRECTORS	REPRESENTING
Class "A" Shareholders		
Ms. E. M. Tembo	*	Botswana, Lesotho, Malawi, Mauritius, Namibia, Seychelles, Swaziland, Zambia, Zimbabwe.
Mr. V. Ndayitwayeko	Mr B. Bassoukpalo	Burundi, Central African Republic, Chad, Congo, Djibouti, Equatorial Guinea, Gabon, Madagascar, Rwanda, Sao Tome & Principe, Somalia, Tanzania, Uganda.
Mr. E. M. Baba Diarra	Mr. T.O. BAH	Cape Verde, Democratic Republic of Congo, The Gambia, Guinea, Guinea Bissau, Mali, Senegal.
Mr. N Djama (up to 15/05/10) Mr. A. Boulares (from 16/05/10)	*	Algeria, Mauritania, Morocco, Tunisia.
Mr. F. M. Carbah	Monsieur A. Serkindia	Benin, Burkina Faso, Cameroon, Liberia, Niger, Sierra Leone, Togo.
Mr. L. Y. Abubakar	*	Nigeria
Mr. T. Kosgey	Arch. M. N. Mugwanja	Kenya
Class "B" Shareholders		
Mr. B. Kamara	Mr. G. Otieno	African Reinsurance Corporation
Mr. J.M. Gharbi	Mr. T. de Kock	African Development Bank

SENIOR MANAGEMENT

Mr. A. Bâ	Managing Director
Mrs. K. Kandie	Director, Finance
Mr. Y. Olayanju	Senior Advisor, Planning, Monitoring and Evaluation
Dr. J. Djofack	Team Leader, Risk Management
Mr. A. Dieng'	Team Leader, Internal Audit
Mr. V. Harawa	Acting Company Secretary
Mr. S. Diaw	Acting Director, Business Development & Operations

* The Directors / Alternate Directors are yet to be appointed.

The directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2010, which show the state of the financial affairs of the company.

1. **LEGAL CAPACITY**
   The company is a Pan-African housing finance and development institution, established by African Governments, the African Development Bank, the African Reinsurance Corporation and the CDC Company plc (now ACTIS) in 1982 to address the need for an innovative and sustainable housing delivery system in Africa. It is an international body with juridical personality and full legal capacity established by the Constituent Charter of Shelter Afrique. In the Republic of Kenya, the Constituent Charter has the force of law in accordance with the Shelter - Afrique Act 1985. Its principal office is situated in Nairobi, Kenya.

2. **PRINCIPAL ACTIVITY**
   The principal activity of the company is the provision of financial and technical assistance for housing and urban development activities in Africa.

3. **RESULTS**
   The results for the year are set out on page 9 of the financial statements. The profit for the year transferred to revenue reserve amounts to US$ 2,014,876 (2009 – US$ 429,469).

4. **DIVIDENDS**
   The directors recommend the payment of a dividend of US$ 402,975 which represents US$ 8.44 per paid up ordinary share (2009 - nil).

5. **RESERVES**
   The reserves of the company are set out on page 40 of the financial statements.

6. **DIRECTORS**
   The directors who served during the year and to the date of this report are as stated on page 33.

7. **AUDITORS**
   Deloitte & Touche have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Company Secretary

28th March, 2011 Nairobi

The Company for Habitat and Housing in Africa (Shelter - Afrique) is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the company's business is conducted in accordance with high standards of corporate governance. Of particular importance to the company are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 3.

The Board is responsible for formulating company policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the company and implements corporate governance policies of the company.

The Board comprises nine non-executive Directors. The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman, Vice-Chairman and Chairmen of Board committees are non-executive Directors.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the company's Statutes and General By-Laws and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least three times annually. During the year, the board convened and held four ordinary meetings. In accordance with the company's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The Company Secretary is always available to the Board of Directors.

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 8 to the financial statements for the year ended 31 December 2010.

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the company and its Directors or Management except those disclosed in Note 16 to the financial statements for the year ended 31 December 2010.

2. BOARD COMMITTEES

The Board has in place two main committees, namely the Board Audit and Risk Committee and the Administrative Affairs & Human Resource Policy Issues Committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the company's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the company is delegated to the Managing Director.

a) Board Audit and Risk Committee

The Audit Committee is chaired by a non-executive director Mr. J.M. Gharbi and meets twice a year. Other members are two non-executive directors Mr. T. Kosgey and Mr. El Hadj M. Baba Diarra. The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors, as well as Risk Management department and also monitors implementation of audit recommendations, on behalf of the Board.

b) Administrative Affairs & Human Resource Policy Issues Committee

The Administrative Affairs & Human Resource Policy issues Committee is chaired by a non-executive Director Mr. B. Kamara. The other members are two non-executive appointees of the Board Mr. Mr. V. Ndayitwayeko and Mr. A. Boulares. The Committee meets at least once a year and is responsible to assist in, and make recommendations on, the formulation by the Board and review of the general administrative and procurement policies of the Company and the Company's Policies on Human Resource requirements.

3. RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the company's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the Internal Auditor. The internal Auditor reports administratively to the Managing Director and functionally to the Audit and Risk Committee. As part of the independency required by Shelter-Afrique corporate governance, the Internal Audit annual work program and budget are separately approved by the Audit and Risk Committee, which also reviews and approves Audit reports and internal audit annual report. The company has in place a chain of controls which include, but are not limited to, an annual budgeting process, a regular review of strategic initiatives, a well defined organizational structure which is kept under regular review by the Board and a review of quarterly financial and operating information by Management and the Board.

4. BUSINESS ETHICS

The company conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the company recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The company assists its staff to undertake continuous professional and development training programmes to fulfill their potential. This process is appropriately managed to align staff development with the company's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board meets quarterly for scheduled meetings to review the Company's performance against business plans as well as to formulate and implement strategy and on other occasions to deal with any issue that requires attention between the quarterly meetings. During the year, the Board held four ordinary meetings.

8. COMPLIANCE

The company operates within the requirements of the Constituent Charter, the Shelter Afrique Act (1985), its Statutes and General By-Laws and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

Director
28th March, 2011

Director
28th March, 2011

Statement of Directors' Responsibilities

The company's Statutes require the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the provisions of the company's Statutes, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the company's Statutes. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Director

28th March, 2011

Director

28th March, 2011

We have audited the accompanying financial statements of The Company For Habitat And Housing In Africa (Shelter - Afrique), set out on pages 36 to 68, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the and the provisions of the company's Statutes, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Certified Public Accountants (Kenya)

28th March, 2011
Nairobi

Statement of Comprehensive Income

For the Year Ended 31 December 2010

	Note	2010 US$	2009 US$
INTEREST AND SIMILAR INCOME	3	9,089,543	6,439,487
INTEREST EXPENSE AND SIMILAR CHARGES	4	(3,182,894)	(1,923,631)
NET INTEREST INCOME		5,906,649	4,515,856
FEE AND COMMISSION INCOME	5	1,826,937	1,267,690
GRANT INCOME	6	567,587	3,880
OTHER INCOME	7	173,004	145,412
OPERATING EXPENSES	8	(4,173,316)	(2,937,983)
GRANT EXPENDITURE	9	(563,707)	-
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	14(b)	(736,431)	(2,836,264)
NET FOREIGN EXCHANGE (LOSSES)/ GAINS		(985,847)	270,878
PROFIT FOR THE YEAR		2,014,876	429,469
OTHER COMPREHENSIVE INCOME			
NET GAIN ON REVALUATION OF BUILDINGS	17(I)	320,731	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,335,607	429,469
EARNINGS PER SHARE	15	42.77	10.26

	Note	2010 US$	2009 US$
ASSETS			
Bank and cash balances		8,536,223	9,007,569
Short term bank deposits	12	24,130,148	19,826,927
Corporate bonds	13	4,563,737	4,334,672
Loans and advances to customers	14(a)	88,868,545	70,629,950
Other receivables	16	1,235,016	922,049
Property and equipment	17	4,092,583	3,831,360
Prepaid operating lease	18	139,661	143,541
Intangible assets	19	422,874	415,742
TOTAL ASSETS		131,988,787	109,111,810
EQUITY AND LIABILITIES			
LIABILITIES			
Borrowings	20	25,726,589	4,460,895
Medium term notes	21	30,501,064	33,299,078
Other payables	22	1,103,791	709,763
Dividends payable	23	535,317	1,064,091
Deferred income	24	440,732	143,541
TOTAL LIABILITIES		58,307,493	39,677,368
SHAREHOLDERS' FUNDS			
Share capital	25(a)	47,727,000	46,306,000
Share premium	25(b)	3,233,406	2,743,161
Revaluation surplus		2,011,720	1,722,674
Revenue reserve		20,709,168	18,662,607
TOTAL SHAREHOLDERS' FUNDS		73,681,294	69,434,442
TOTAL EQUITY AND LIABILITIES		131,988,787	109,111,810

The financial statements on pages 36 to 68 were approved by the Board of Directors on 28th March, 2011 and were signed on its behalf by:-

Director
28th March, 2011

Director
28th March, 2011

Statement of Changes in Equity

For the Year Ended 31 December 2010

	Share capital US$	Share premium US$	Revaluation surplus US$	Revenue reserve US$	Total equity US$
At 1 January 2009	40,229,000	627,896	1,754,359	18,723,625	61,334,880
Capital subscriptions received	6,077,000	2,115,265	-	-	8,192,265
Total comprehensive income	-	-	-	429,469	429,469
Transfer of excess depreciation on revaluation	-	-	(31,685)	31,685	-
Dividends declared for year 2008	-	-	-	(522,172)	(522,172)
At 31 December 2009	46,306,000	2,743,161	1,722,674	18,662,607	69,434,442
At 1 January 2010	46,306,000	2,743,161	1,722,674	18,662,607	69,434,442
Capital subscriptions received	1,421,000	490,245	-	-	1,911,245
Total comprehensive income	-	-	320,731	2,014,876	2,335,607
Transfer of excess depreciation on revaluation	-	-	(31,685)	31,685	-
At 31 December 2010	47,727,000	3,233,406	2,011,720	20,709,168	73,681,294

The revaluation surplus relates to the revaluation of the company's buildings which are carried at valuation less accumulated depreciation and impairment, if any.

	Note	2010 US$	2009 US$
OPERATING ACTIVITIES			
Net cash used in operations	26(a)	(11,874,691)	(13,607,665)
INVESTING ACTIVITIES			
Purchase of equipment	17	(124,963)	(179,086)
Purchase of intangible assets	19	(16,895)	(134,437)
Proceeds from disposal of equipment		18,384	518
Net cash used in investing activities		(123,474)	(313,005)
FINANCING ACTIVITIES			
Dividends paid	23	(528,774)	(563,303)
Proceeds from capital subscriptions	25(c)	1,911,245	8,192,265
Proceeds from borrowed funds	26(c)	22,303,678	3,285,224
Repayment of borrowed funds	26(c)	(1,092,610)	(5,086,044)
Proceeds from debt securities	26(d)	-	26,230,972
Repayment of debt securities	26(d)	(3,260,974)	(5,595,975)
Interest paid on borrowed funds	26(c)	(707,629)	(654,144)
Interest paid on debt securities	26(d)	(2,794,896)	(1,058,076)
Net cash generated from financing activities		15,830,040	24,750,919
INCREASE IN CASH AND CASH EQUIVALENTS		3,831,875	10,830,249
CASH AND CASH EQUIVALENTS AT 1 JANUARY		28,834,496	18,004,247
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26(b)	32,666,371	28,834,496

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(a) New standards and interpretations and amendments to published standards effective for the year ended 31 December 2010

Amendments and revised standards

- IFRS 1, First-time adoption of International Financial Reporting Standards – revised and restructured (effective for annual periods beginning on or after 1 July 2009).
- IFRS 1, First-time adoption of International Financial Reporting Standards – amendments relating to oil and gas assets and determining whether an arrangement contains a lease (effective for annual periods beginning on or after 1 January 2010).
- IFRS 2, Share-based payment – amendments relating to company cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010).
- IFRS 3 (Revised 2008), Business Combinations – comprehensive revision on applying the acquisition method (effective for annual periods beginning on or after 1 July 2009).
- IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; and IAS 31, Interests in Joint Ventures – consequential amendments arising from amendments to IFRS 3 (effective for annual periods beginning on or after 1 July 2009).
- IAS 39, Financial Instruments: Recognition and Measurement – amendments for eligible hedged items (effective for annual periods beginning on or after 1 July 2009).
- Various improvements resulting from May 2008, April 2009 and May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2009 and 1 January 2010).

New interpretations

- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for transfers received on or after 1 July 2009).

(b) New and amended interpretations in issue but not yet effective in the year ended 31 December 2010

Amendments and revised standards

- IFRS 1, First-time Adoption of International Financial Reporting Standards – limited exemption from comparative IFRS 7 disclosures for first-time adopters (effective for annual periods beginning on or after 1 July 2010).
- IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets (effective for annual periods beginning on or after 1 January 2011).
- IFRS 9, Financial Instruments – Classification and Measurement (effective for annual periods beginning on or after 1 January 2013).
- IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets) (effective for annual periods beginning on or after 1 January 2012).

1 ACCOUNTING POLICIES (Continued)

(b) New and amended interpretations in issue but not yet effective in the year ended 31 December 2010 (Continued)

Amendments and revised standards (Continued)

- IAS 24, Related Party Disclosures – revised definition of related parties (effective for annual periods beginning on or after 1 January 2011).
- Various improvements resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2010 and 1 January 2011.
- IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues (effective for annual periods beginning on or after 1 February 2010).

New interpretation

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).

(c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Improvements to IFRSs issued in 2009 and 2010

The application of improvements to IFRSs issued in 2009 and 2010 has not had any material effect on amounts reported in the financial statements.

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

1 ACCOUNTING POLICIES (Continued)

(c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (Continued)

IFRS 9, Financial Instruments (Continued)

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a signficant impact on amounts reported in respect of the Companys' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IAS 24 Related Party Disclosures (as revised in 2009)

This modifies the definition of a related party and simplifies disclosures for government-related entities.

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting except for the revaluation of certain property and financial instruments, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below.

Income recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

In the normal course of business, the company earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the the services are received.

1 **ACCOUNTING POLICIES (Continued)**

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest basis.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in United States Dollar at the rates of exchange ruling at the end of the reporting period. Transactions in foreign currency during the period are translated at the rates of exchange ruling at the dates of the transactions. The resulting gains or losses are dealt with in profit or loss

In preparing the financial statements of the Company, transactions in currencies other than its functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are recognised in profit or loss in the period in which they arise.

Intangible assets

Intangible assets comprise the cost of acquired computer software programmes. Expenditure on acquired computer software programmes is capitalised and amortised using the straight-line method over their estimated useful lives, generally not exceeding five years.

Government and other grants

Government and other grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received after which they are then recognised at their fair value. These grants are subsequently amortised to profit or loss as follows:

Government of Kenya land grant	-	amortised over the same period of the lease of the land and at equivalent amounts.
The Fund for African Private Sector Assistance (FAPA) grant – African Development Bank (ADB)	-	amortised to profit or loss as the amounts are utilized in accordance with the grant agreement.
Agence Francaise de Development (AFD) grant	-	amortised to profit or loss as the amounts are utilized in accordance with the grant agreement.
FIRST – a World Bank executed trust fund	-	amortised to profit or loss as the amounts are utilized in accordance with the grant agreement.

Property and equipment

Property and equipment are stated at cost or valuation, less accumulated depreciation and impairment losses. Depreciation is calculated on the straight line basis, at annual rates estimated to write off the cost or valuation of the assets over their expected useful lives. Increases in the carrying amount arising on revaluations are credited to a revaluation surplus through other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to profit or loss.

1 ACCOUNTING POLICIES (Continued)

The annual depreciation rates in use are:

Leasehold buildings	2.38 & 2.56%
Office equipment, furniture and fittings	12.5%
Motor vehicles	25.0%
Computers	25.0%
Residential furniture and fittings	12.5%

Leasehold buildings are written off over the estimated useful life of the building, or the lease, whichever is less. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal company that is classified as held for sale) and the date that the asset is derecognised. Excess depreciation on the revaluation surplus is transferred from the revaluation reserve to revenue reserve.

Impairment

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

Retirement benefit costs

The Company operates a provident fund for all its employees. The assets of the scheme are held in a seperate trustee administered fund that is funded by both the Company and employees. For the Kenyan employees, the company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). The Company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to approximately US$ 2.60 per month per employee.

The company's contributions to the above schemes are charged to profit or loss in the year to which they relate.

Employee entitlements

The monetary liability for employees' accrued annual leave entitlement at the end of each reporting period is recognized as an expense accrual.

Financial instruments

Financial assets

Classification

A financial asset or liability is recognised when the Company becomes party to the contractual provisions of the instrument. As at the reporting date, the classification of the Company's financial assets was as follows:

- Loans and receivables:
  - Cash and bank balances, loans and advances to customers, corporate bonds.

- Held to maturity:
  - Short term deposits, corporate bonds.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Management determines the appropriate classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a borrower with no intention of trading the receivable. Loans and advances are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost.

(iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

(iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

Recognition and derecognition of financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to retained earnings through profit or loss.

Impairment of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

If it is probable that the Company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in profit or loss for the period.

1 ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

When a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the profit or loss for the year. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the profit or loss for the year.

Financial liabilities

After initial recognition, the Company measures all financial liabilities other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment on an ongoing basis. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Company, or national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The Company follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be required to be measured at fair value and not amortised cost.

Property, plant and equipment

Critical estimates are made by the directors in determining useful lives and depreciation rates for property and equipment.

		2010 US$	2009 US$
3	**INTEREST AND SIMILAR INCOME**		
	Loans and advances	8,262,223	5,767,670
	Placements with financial institutions	827,320	671,817
		9,089,543	6,439,487
4	**INTEREST EXPENSE AND SIMILAR CHARGES**		
	Funds from financial institutions and capital markets	3,135,687	1,899,317
	Bank charges	47,207	24,314
		3,182,894	1,923,631
5	**FEE AND COMMISSION INCOME**		
	Appraisal fees	483,711	402,823
	Front end fees	470,774	521,232
	Penalties	347,752	173,939
	Commitment fees	251,685	132,536
	Other project fees	273,015	37,160
		1,826,937	1,267,690
6	**GRANT INCOME**		
	Government of Kenya land grant (note 24)	3,880	3,880
	FAPA grant (note 24)	250,209	-
	AFD interest advantage grant (note 24)	90,495	-
	FIRST - World Bank executed trust fund (note 24)	223,003	-
		567,587	3,880
7	**OTHER INCOME**		
	Rental income	131,136	124,611
	Gain on disposal of equipment	11,959	-
	Miscellaneous income	29,909	20,801
		173,004	145,412
8	**OPERATING EXPENSES**		
	Staff costs (note 10)	2,477,522	1,682,283
	Depreciation of property and equipment (note 17)	178,046	144,590
	Amortisation of prepaid operating lease (note 18)	3,880	3,880
	Amortisation of intangible assets (note 19)	9,763	10,439
	Auditors' remuneration	22,500	20,000
	Directors' costs	307,478	314,910
	Loss on disposal of equipment	-	885
	Impairment provision for credit risk for corporate bonds	71,200	-
	Other administration costs	1,102,927	760,996
		4,173,316	2,937,983

	2010 US$	2009 US$
9 GRANT EXPENDITURE		
FAPA grant (note 24)	250,209	-
AFD interest grant (note 24)	90,495	-
World Bank grant (note 24)	223,003	-
	563,707	-
10 STAFF COSTS		
Salaries and wages	2,064,643	1,449,890
Terminal benefits	251,005	140,496
Leave pay	86,925	38,792
Staff welfare	2,341	4,584
Other costs	72,608	48,521
Total staff costs (note 8)	2,477,522	1,682,283

11 SEGMENT INFORMATION

The principal activity of the Company is the provision of financial and technical assistance for housing and urban development activities in Africa. It operates as one single operating entity with no separately identifiable reportable segments. In identifying the entire Company as the single reportable segment, management considered the fact that reports regularly reviewed by the chief operating decision maker in order to allocate resources and to assess performance are based on the operations of the company as a whole. No single customer accounts for over 10% of the company's total revenues.

The accounting policies of the entity have been set out in note 1 to these financial statements.

The following table details the revenues attributable to project loans disbursed as well as information about the company's non-current assets by geographical location. These have been aggregated on the basis of the country in which the individual project is based.

Country	Revenue attributable to project loans		Non-current assets	
	2010 US$	2009 US$	2010 US$	2009 US$
Kenya	2,681,782	1,254,517	4,655,118	4,390,643
Nigeria	1,830,962	1,120,136	-	-
Senegal	1,382,347	1,235,629	-	-
Others*	4,194,069	3,425,078	-	-
	10,089,160	7,035,360	4,655,118	4,390,643

11 SEGMENT INFORMATION (Continued)

* Represents 19 other countries whose amounts are individually less than 10% of the total gross amount.

The above revenue reconciles to the statement of comprehensive income as follows:

	2010 US$	2009 US$
Interest on loans (note 3)	8,262,223	5,767,670
Fee and commission income (note 5)	1,826,937	1,267,690
	10,089,160	7,035,360

The above non-current assets reconcile to the statement of financial position as follows:

	2010 US$	2009 US$
Property and equipment	4,092,583	3,831,360
Prepaid operating lease	139,661	143,541
Intangible assets	422,874	415,742
	4,655,118	4,390,643

12 SHORT TERM BANK DEPOSITS

	2010 US$	2009 US$
Held to maturity:		
Call and fixed deposits	24,130,148	19,826,927

The effective interest rate for the bank deposits during the year was 2.6 % (2009 – 6.00%) per annum.

The bank deposits include amounts equivalent to US$ 4,282,394 (2009 – US $ 11,211,137) in local currencies of member countries. The Euro loans from Merrill Lynch International Bank Limited disclosed under note 18 are secured against the company's investments administered by Merill Lynch amounting to US$ 10,416,370 (2009 – US$ 12,047,022). This includes short term investments amounting to US$ 6,695,784 (2009 - US$ 8,497,801) included above. It also includes corporate bonds amounting to US$ 3,812,737 (2009 - US$ 3,549,221) (see note 12).

All the bank deposits mature within three months of the dates of placement.

13 CORPORATE BONDS

	2010 Amortised cost US$	Market value US$	2009 Amortised cost US$	Market value US$
Corporate bonds – held to maturity	4,363,737	4,175,235	4,134,672	3,963,197
Corporate bonds – loans and receivables	200,000	186,000	200,000	178,000
	4,563,737	4,361,235	4,334,672	4,141,197

The average effective interest rate for the corporate bonds during the year ended 31 December 2010 was 5.62 % (2009 – 5.00 %) per annum. The Euro loans from Merrill Lynch International Bank Limited disclosed under note 20 are secured against the company's investments administered by Merill Lynch amounting to US$ 10,416,370 (2009 – US$ 12,047,022). This includes corporate bonds amounting to US$ 3,812,737 (2009 – US$ 3,549,221) included above. It also includes short term investments amounting to US$ 6,695,784(2009 – US$ 8,497,801) (see note 12).

13 CORPORATE BONDS (Continued)

Maturity profile of corporate bonds:

	2010 US$	2009 US$
Maturing:		
Within one year	-	749,618
One year to five years	150,000	100,000
Over five years	4,284,937	3,285,054
Held to perpetuity	200,000	200,000
	4,634,937	4,334,672
Impairment provision for credit risk	(71,200)	-
Net amount	4,563,737	4,334,672

The company has reviewed the valuation of the corporate bonds. In the opinion of the directors, the current levels of provisions reflect a prudent assessment of the quality of the company's corporate bonds. The provision has been debited to the operating expense in the year.

14 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances

	2010 US$	2009 US$
At 1 January	69,550,229	50,263,955
Disbursements during the year	35,546,722	30,886,501
Repayments during the year	(15,983,036)	(12,131,371)
Currency translation adjustment	(2,152,784)	531,144
Principal loans and advances	86,961,131	69,550,229
Interest and fees receivable	5,823606	4,839,232
Gross loans	92,784,737	74,389,461
Impairment provision for credit risk	(3,916,192)	(3,759,511)
Net loans and advances	88,868,545	70,629,950

Currency translation adjustment relates to translation of loans denominated in currencies other than the US$ as at the end of the reporting period.

(b) Impairment on loans and advances

The movement in the impairment provision was as follows:

	2010 US$	2009 US$
At 1 January	3,759,511	923,247
Amounts written off	(579,750)	-
Charge for the year	736,431	2,836,264
At 31 December	3,916,192	3,759,511

In the opinion of the directors, the current levels of provisions reflect a prudent assessment of the quality of the company's loan portfolio. The effective interest rate was 10.4 % (2009 – 10.0%) per annum.

14 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Analysis of gross loans by maturity

	2010 US$	2009 US$
Maturing:		
Within one year	47,329,600	41,920,544
One year to five years	44,277,855	31,324,786
Over five years	1,177,282	1,144,131
	92,784,737	74,389,461

15 EARNINGS PER SHARE

	2010	2009
Profit for the year (US$)	2,014,876	429,469
Weighted average number of ordinary shares in issue	47,107	41,874
Basic earnings per share (expressed in US$ per share)	42.77	10.26

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the company by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares has been computed as a reasonable approximation of the number of ordinary shares outstanding during the period which is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time-weighting factor. There were no discontinued operations and no potentially dilutive shares outstanding at 31 December 2010 and 31 December 2009.

16 OTHER RECEIVABLES

	2010 US$	2009 US$
Staff loans	537,983	350,887
Other debtors and prepayments	723,511	719,319
	1,261,494	1,070,206
Less: Provision for doubtful amounts	(26,478)	(148,157)
	1,235,016	922,049

17 PROPERTY AND EQUIPMENT

	Freehold land and buildings US$	Office equipment, furniture and fittings US$	Computers US$	Motor vehicles US$	Residential furniture US$	Total US$
COST OR VALUATION						
At 1 January 2009	3,670,539	390,574	199,002	45,226	54,641	4,359,982
Additions	-	64,549	15,434	66,034	33,069	179,086
Disposals	-	(17,977)	(33,231)	-	(5,055)	(56,263)
At 31 December 2009	3,670,539	437,146	181,205	111,260	82,655	4,482,805
At 1 January 2010	3,670,539	437,146	181,205	111,260	82,655	4,482,805
Additions	-	75,804	43,527	-	5,632	124,963
Disposals	(5,200)	(17,230)	(1,428)	(33,394)	(3,250)	(60,502)
Revaluation surplus	40,816	-	-	-	-	40,816
At 31 December 2010	3,706,155	495,720	223,304	77,866	85,037	4,588,082
Comprising						
At cost	2,427,380	495,720	223,304	77,866	85,037	3,309,307
At valuation	1,278,775	-	-	-	-	1,278,775
	3,706,155	495,720	223,304	77,866	85,037	4,588,082
DEPRECIATION						
At 1 January 2009	93,305	286,650	116,288	45,226	20,246	561,715
Charge for the year	93,305	16,049	27,427	1,376	6,433	144,590
Disposals	-	(18,888)	(33,296)	-	(2,676)	(54,860)
At 31 December 2009	186,610	283,811	110,419	46,602	24,003	651,445
At 1 January 2010	186,610	283,811	110,419	46,602	24,003	651,445
Charge for the year	93,305	29,457	28,998	16,509	9,777	178,046
Disposals	-	(17,233)	(595)	(33,394)	(2,855)	(54,077)
Write back on revaluation	(279,915)	-	-	-	-	(279,915)
At 31 December 2010	-	296,035	138,822	29,717	30,925	495,499
NET BOOK VALUE						
At 31 December 2010	3,706,154	199,686	84,482	48,149	54,112	4,092,583
At 31 December 2009	3,483,929	153,335	70,786	64,658	58,652	3,831,360
NET BOOK VALUE (Cost basis)						
At 31 December 2010	1,694,434	199,686	84,482	48,149	54,112	2,080,863
At 31 December 2009	1,761,255	153,335	70,786	64,658	58,652	2,108,686

17 PROPERTY AND EQUIPMENT (Continued)

(i) The company's buildings were revalued on 31 December 2010 by Gimco Limited, independent professional valuers, on the basis of open market value. The revaluation surplus of 320,731 was credited to other comprehensive income. The company's policy is to revalue its property every five years.

(ii) Included in property and equipment are assets with a cost of US$ 323,733 (2009 - US$ 372,655) which were fully depreciated. The normal annual depreciation charge on these assets would have been US$ 52,637 (2009 - US$ 69,801).

18 PREPAID OPERATING LEASE

	2010 US$	2009 US$
COST:		
At 1 January and at 31 December	200,000	200,000
AMORTISATION:		
At 1 January	56,459	52,579
Charge for the year	3,880	3,880
At 31 December	60,339	56,459
NET BOOK VALUE		
At 31 December	139,661	143,541

The prepaid operating lease relates to leasehold land donated by the Government of Kenya for the construction of the Company's headquarters building. The land was donated in 1996 and its deemed value capitalised on acquisition is amortised over the duration of the remaining lease period. The related deferred income has been set out in Note 24 to these financial statements.

19 INTANGIBLE ASSETS

	2010 US$	2009 US$
COST:		
At 1 January	453,461	319,024
Additions	16,895	134,437
At 31 December	470,356	453,461
AMORTISATION:		
At 1 January	37,719	27,280
Charge for the year	9,763	10,439
At 31 December	47,482	37,719
NET BOOK VALUE		
At 31 December	422,874	415,742

The intangible assets relate to computer software. Included in intangible assets are assets with a cost of US$ 36,808 (2009 - US$ 24,130) which have been fully amortised. The normal annual amortisation charge on these assets would have been US$ 9,202 (2009 – US$ 6,033).

20 BORROWINGS

	2010 US$	2009 US$
ADB Line of Credit	10,000,000	-
AFD Line of Credit	6,689,858	-
FMO Line of Credit	5,000,000	-
Euro Loans from Merrill Lynch International Bank Limited	3,216,866	4,200,993
KSh Bank overdraft with Ecobank Kenya	626,048	224,469
Interest payable on loans	193,817	35,433
	25,726,589	4,460,895
Analysis of borrowings by maturity:		
Maturing:		
Within one year	4,954,847	4,460,895
One year to five years	14,181,161	-
Over five years	6,590,581	-
	25,726,589	4,460,895

The Euro loans from Merrill Lynch International Bank Limited are under a renewable revolving facility, at an average interest rate of 1.45% p.a. The facility is secured against the company's investments administered by Merill Lynch amounting to US$ 10,416,372 (2009 – US$ 12,047,022).

21 MEDIUM TERM NOTES

	2010 US$	2009 US$
CFA Loan – 1st tranche	-	764,181
CFA Loan – 3rd tranche	5,694,649	6,097,663
CFA Loan – 4th tranche	12,234,411	13,100,249
Kenya Shilling bond – 2nd tranche	12,383,901	13,189,132
Interest payable on loans	610,813	728,357
Deferred charges on medium term notes	(422,710)	(580,504)
	30,501,064	33,299,078
Maturity analysis for the medium term notes:		
Maturing:		
Within one year	8,041,154	2,549,548
One year to five years	22,459,910	30,749,530
	30,501,064	33,299,078

Analysis of medium term notes:

The first tranche of the Communauté Financière Africaine-Franc (FCFA) Loans (FCFA 3.5 billion) CFA loans was raised through a floatation by la Campaigne de Gestion Financiere et de Bourse SA (CGF Bourse). They are for the duration 2003 to 2010 at an interest rate of 6.25% p.a. The third tranche of CFA Loans (FCFA 2.79 billion) was raised in 2009 through CGF Bourse for the duration 2009 to 2014 at an interest rate of 6% p.a. The fourth tranche of CFA Loans (FCFA 6 billion) was raised in 2009 through CGF Bourse for the duration 2009 to 2014 at an interest rate of 6.75% p.a.

The second tranche of Kenya Shilling Bond (KSh 1 billion) was launched in 2009 through the Nairobi Stock Exchange for the duration 2009 to 2012 at an interest rate of 11% (Ksh 904.8 million) and 1.5% (Ksh 95.2 million) above the 182 day treasury bill rate.

The medium term notes are all unsecured.

22 OTHER PAYABLES

	2010 US$	2009 US$
Accruals	852,218	496,747
Leave pay	149,678	108,286
Terminal benefits	24,655	56,752
Rent deposits	53,945	33,724
Overpayment of share capital subscriptions	23,295	14,254
	1,103,791	709,763

23 DIVIDENDS PAYABLE

	2010 US$	2009 US$
At 1 January	1,064,091	1,105,222
Dividend declared	-	522,172
Dividend paid	(528,774)	(563,303)
At 31 December	535,317	1,064,091

The directors recommend the payment of a dividend of US$ 402,975 which represents US$ 8.44 per paid up ordinary share (2009 - nil). This dividend is subject to approval by shareholders at the Annual General Meeting and has not been recognised as a liability in these financial statements.

24 DEFERRED INCOME

	2010 US$	2009 US$
At 1 January	143,541	147,421
FAPA grant received in the year	538,500	-
FAPA grant expended in the year (note 6 and 9)	(250,209)	-
Amortisation of Government of Kenya grant (note 6)	(3,880)	(3,880)
AFD interest advantage grant for the year	103,275	-
AFD grant expenditure for the year (note 6 and 9)	(90,495)	-
FIRST - World Bank grant received in the year	223,003	-
FIRST - World Bank grant expended in the year (note 6 and 9)	(223,003)	-
At 31 December	440,732	143,541

The Government of Kenya grant relates to the carrying value of the land that was donated by the Government of Kenya in 1996 for the purpose of constructing the company's Headquarters. The deferred income is amortised over the same period of the lease of the land and at equivalent amounts. The recognition and disclosure of the related leasehold land has been set out in Note 18 of these financial statements.

The Fund for African Private Sector Assistance (FAPA) grant relates to amounts advanced to the company by the African Development Bank to assist in the fulfilment of the company's mandate to provide sustainable housing on the African continent. The nature of the activities funded include building Shelter Afrique's capacity in program management, human resource development and assiting in the diversification and prduct develoment. The deferred income is amortised to profit or loss as the amounts are utilised.

The World Bank grant was a a Bank-executed trust fund i.e. a non-cash techncial assistance granted by world bank to Shelter Afrique to assist in the development and implementation of a Risk Management (RM) framework. The amounts were fully expended in the year.

The AFD grant arises from a credit facility obtained in the year from Agence Francaise de Developpement (AFD) at preferential interest rates below market rates. As at the end of the reporting period, the preferential interest rate was 1.03% per annum while the market rate was 4.28% per annum. The deferred income is amortised to profit or loss as the amounts are utilised.

25 SHARE CAPITAL

	2010	2009
(a) SHARE CAPITAL		
Authorised:		
300,000 ordinary shares of US$ 1,000 each	300,000,000	300,000,000
Issued:		
100,000 ordinary shares of US$ 1,000 each	100,000,000	100,000,000
Paid up:		
Class A: Issued and fully paid: 34,631 ordinary shares of US$ 1000 each (2009 - 33,210)	34,631,000	33,210,000
Class B: Issued and fully paid: 13,096 ordinary shares of US$ 1,000 each	13,096,000	13,096,000
Total paid up ordinary shares	47,727,000	46,306,000
(b) SHARE PREMIUM		
At end of year	3,233,406	2,743,161

Membership in the company is open to both African Governments and African and non-African institutions, which are classified into Class A and Class B shareholders respectively. This classification is for distinction purposes only and does not imply any difference in rights attached to the shares.

(c) MOVEMENT IN PAID UP CAPITAL

	Number of shares	Ordinary Share US$	shares premium US$	Total US$
At 1 January 2009	40,229	40,229,000	627,896	40,856,896
Paid up in the year	6,077	6,077,000	2,115,265	8,192,265
At 31 December 2009	46,306	46,306,000	2,743,161	49,049,161
At 1 January 2010	46,306	46,306,000	2,743,161	49,049,161
Paid up in the year	1,421	1,421,000	490,245	1,911,245
At 31 December 2010	47,727	47,727,000	3,233,406	50,960,406

26 NOTES TO THE STATEMENT OF CASH FLOWS

	2010 US$	2009 US$
(a) Reconciliation of profit for the year to cash used in operations		
Profit for the year	2,014,876	429,469
Adjustments for:		
Interest expense on funds from financial institutions and capital markets	3,092,642	1,899,317
(Gain)/loss on disposal of equipment	(11,959)	885
Depreciation of property and equipment	178,046	144,590
Amortisation of prepaid operating lease	3,880	3,880
Amortisation of intangible assets	9,763	10,439
Net foreign exchange loss - borrowings notes	346,965	760,598
Net foreign exchange loss/ (gain) – medium term notes	580,504	(141,048)
Cash flows from operating profits before changes in operating assets and liabilities	6,214,717	3,108,130
Movements in:		
Loans and advances to customers	(18,238,595)	(17,764,650)
Corporate bonds	(229,065)	1,250,983
Other receivables	(312,967)	(324,356)
Other payables	394,028	126,108
Deferred income	297,191	(3,880)
Net cash used in operations	(11,874,691)	(13,607,665)
(b) Cash and cash equivalents:		
Bank and cash balances	8,536,223	9,007,569
Short term bank deposits	24,130,148	19,826,927
Cash and cash equivalents	32,666,371	28,834,496
(c) Analysis of movement in borrowings:		
At 1 January	4,460,895	5,568,723
Additional borrowings in the year	22,303,678	3,285,224
Repayments in the year	(1,092,610)	(5,086,044)
Interest expense for the year	415,290	586,538
Interest paid in the year	(707,629)	(654,144)
Net foreign exchange loss	346,965	760,598
At 31 December	25,726,589	4,460,895
(d) Analysis of movement in medium term notes		
At 1 January	33,299,078	12,550,426
Additional borrowings in the year	-	26,230,972
Repayments in the year	(3,260,974)	(5,595,975)
Interest expense for the year	2,677,352	1,312,779
Interest paid in the year	(2,794,896)	(1,058,076)
Net foreign exchange loss/ (gain)	580,504	(141,048)
At 31 December	30,501,064	33,299,078

27 COMMITMENTS

	2010 US$	2009 US$
Approved project loans	44,178,836	38,508,525
Office furniture, equipment and computerisation	523,382	244,763
Headquarters building structural repairs	-	357,836
Motor vehicles	-	51,965
	44,702,218	39,163,089

The Company's management is confident that future net revenues and funding will be sufficient to cover these commitments.

28 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Except for staff loans and advances disclosed in Note 15, there were no other related party transactions undertaken during the year. Interest income received on staff loans and advances during the year amounted to US$ 25,718 (2009 – US$ 20,019).

The remuneration of members of key management during the year was as follows:

	2010 US$	2009 US$
Salaries and other short-term benefits	784,658	587,332
Post employment benefits	101,316	82,914
	885,974	670,246
Directors' remuneration		
Fees for services as directors	104,000	92,000

29 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance. The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. Risk management is carried out by various committees under the supervision of the Board of Directors. Management in conjunction with these committees then identifies, evaluates and addresses financial risks in close co-operation with the Company's operating units.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. In addition, risk management and internal audit departments have now been established and are responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk.

29 FINANCIAL RISK MANAGEMENT (Continued)

a) Capital Risk Management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of statements of financial position, are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support new business growth;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- To allocate capital efficiently to support growth; and
- To manage exposures to movement in exchange rates.
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. Capital adequacy is monitored regularly by the Company's management and quarterly by the Board of Directors. The Company has undertaken to comply with Basel II capital adequacy framework which consists of setting an amount of minimum risk capital to cushion against unexpected losses. The capital structure of the Company consists of debt, which includes the borrowings and medium term notes disclosed in note 18 and 19 respectively and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in note 23. Cash and bank balances are not offset against the borrowings in determining the total debt as the company considers this not relevant to its risk management process in determining gearing ratios.

	2010 US$	2009 US$
Share capital and share premium	50,960,406	49,049,161
Revenue reserves	20,709,168	18,662,607
Revaluation surplus	2,011,721	1,722,674
	73,681,295	69,434,442
Borrowings	25,726,589	4,460,895
Debt securities	30,501,064	33,299,078
	56,227,653	37,759,973
Total capital	129,908,498	107,194,415
Gearing ratio	43%	35%

b) Credit Risk Management

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business and management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio. The credit risk management and control function is exercised primarily by the Loans Committee for the project loans and the Asset and Liabilities Committee for the investment activities.

In measuring credit risk on loans and advances to customers, the Company uses a Risk analysis and pricing framework to derive the risk rating and risk premium of the facility. The risk ratings are derived through consideration of the following components:

(i) The country business environment
(ii) The borrower`s financial strength
(iii) The project viability
(iv) The security package

29 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk Management (Continued)

All new projects undergo a minimum initial credit rating and are subjected to a rigorous project appraisal to ensure asset quality at the entry level. The appraisal process includes among others, enhanced due diligence conducted by international Credit Reference Bureaus, thorough screening against international financial sanction lists, Anti Money Laundering risk clearance, summary credit notes issued by the Risk Management Department, and approval by Loans Committee and the Board of Directors. The Assets and Liabilities Committees supervise the projects portfolio risk rating on a quarterly basis and may recommend adequate actions on loan recovery, in case of changes in country and project risk conditions. For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Company for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

The Company manages, limits and controls concentrations of credit risk wherever they are identified. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. The Assets and Liabilities Committee reviews the country risks and project risk on a quarterly basis to ensure compliance with country exposure limits and single obligor as stipulated by the risk management policy. The concentration of risk is spread across the various geographical spheres of operation as disclosed in note 10. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. The Company classifies its loans according to five categories namely Normal, Watch, Substandard, Doubtful or Loss. This internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Company:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral

The composition of the Company's project loan portfolio as at year end was as follows:

Class/Status	2010 Amount (US$)	2010 %	2009 Amount (US$)	2009 %
Normal	69,614,085	75.0	47,156,299	63.4
Watch	7,114,469	7.7	13,449,012	18.1
Substandard	7,654,376	8.3	7,503,412	10.1
Doubtful	5,676,327	6.1	3,224,350	4.3
Loss	2,725,480	2.9	3,056,388	4.2
Total	92,784,737	100.0	74,389,461	100.0

29 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk Management (Continued)

Classification of credit risk bearing assets

The maximum exposure to credit risk before collateral held or other credit enhancements attached is US$ 92,784,737(2009 - US$ 74,389,461) for project loans. This represents a worst case scenario of credit risk exposure to the Company at the comparative reporting dates, without taking account of any collateral held or other credit enhancements attached. For reported assets, this exposure is based on the net carrying amounts as reported in the statement of financial position.

The table below represents a classification of the company's project loans and other receivables as at 31 December 2010.

	Gross amounts US$	Impairment allowances US$	Net amounts US$	%
Neither past due nor impaired	41,429,950	-	41,429,950	45
Past due but not impaired	49,864,323	-	49,864,323	55
Impaired	2,751,958	(2,751,958)	-	-
	94,046,231	(2,751,958)	91,294,273	100

The table below represents a classification of the company's project loans and other receivables as at 31 December 2009.

	Gross amounts US$	Impairment allowances US$	Net amounts US$	%
Neither past due nor impaired	19,686,100	-	19,686,100	28
Past due but not impaired	51,817,255	-	51,817,255	72
Impaired	3,907,668	(3,907,668)	-	-
	75,411,023	(3,907,668)	71,503,355	100

Of the total gross amount of impaired receivables, the following amounts have been individually assessed as impaired:

	2010 US$	2009 US$
Loans and advances	3,916,192	3,759,511
Other receivables	26,478	148,157
	3,942,670	3,907,668

29 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk Management (Continued)

All new project
Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from both its loan and advances portfolio and debt securities based on the following:

- The amounts under the past due but not impaired categories are backed by bank guarantees from reputable banks and /or legal charges over the projects..
- 75% of the loans are categorised in the normal category of the internal rating system
- All of its investments in debt securities are in entities with good credit rating

c) Market Risk Management

The Company takes on exposure to market risks, which is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by the Assets and Liabilities Committee which in turn reports to the Board of Directors.

Market risk exposures are measured by the use of sensitivity analyses. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk. The market risk exposure for the company relates primarily to currency and interest rate risk.

Currency Risk

The Company undertakes certain transactions denominated in foreign currencies mainly the Kenya Shilling, CFA and Euro. This results in exposures to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters utilising matching of assets and liabilities. This is achieved primarily by borrowing and lending in the same foreign currencies and limiting the assets and liabilities mismatches to less than 5% of the company's total assets. The table below summarizes the Company's exposure to foreign currency exchange risk as at 31 December. Included in the table are the Company's financial instruments at carrying amounts, categorized by currency.

AT 31 DECEMBER 2010	US$	EURO	CFA	KSHS	TOTAL
ASSETS					
Bank and cash balances	6,447,360	743,280	782,671	562,912	8,536,223
Short term deposits	19,847,755	-	4,087,253	195,140	24,130,148
Corporate bonds	4,563,737	-	-	-	4,563,737
Loans and advances to customers	52,282,143	3,874,630	18,830,117	13,881,655	88,868,545
Total Financial Assets	83,140,995	4,617,910	23,700,041	14,639,707	126,098,653
LIABILITIES					
Borrowings	-	3,274,809	-	626,048	3,900,857
Debt securities	-	-	17,788,950	12,712,114	30,501,064
Lines of credit	15,045,489	6,780,243	-	-	21,825,732
Total Financial Liabilities	15,045,489	10,055,052	17,788,950	13,338,162	56,227,653
Net Position	68,095,506	(5,437,142)	5,911,091	1,301,545	69,871,000

29 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (Continued)

AT 31 DECEMBER 2009	US$	EURO	CFA	KSHS	TOTAL
Total Financial Assets	56,685,744	7,480,924	25,307,181	15,201,413	104,675,262
Total Financial Liabilities	436,584	4,236,426	19,784,071	13,891,286	38,348,367
Net Position	56,249,160	3,244,498	5,523,110	1,310,127	66,326,895

The following table details the sensitivity of the Company's profit to a 10% increase and decrease in the functional currency against the relevant foreign currencies. This sensitivity rate is based on the weighted average of the deviation from the mean rate in the year for each currency and represents management's assessment of the reasonably possible change in foreign exchange rates.

Currency	EURO	CFA	KSHS	
Impact (2010)	(543,714)	591,109	130,155	177,550
Impact (2009)	324,450	552,311	131,013	1,007,774

Interest Rate Risk

The company is exposed to both cash flow and fair value interest rate risks.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rates on loans to customers are pegged to the company's specific cost of funds which is usually Libor based. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The company also invests in fixed interest rate instruments. Interest rate risk is managed principally through monitoring interest gaps and by Board of Directors involvement in repricing brands. The Audit and Risk Committee is the monitoring body for compliance with these limits and is assisted by the Assets and Liabilities Committee as well as the Loans Committee.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

29 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (Continued)

AT 31 DECEMBER 2010	Up to 1 month US $	1 - 6 Months US $	6 - 12 Months US $	1 - 5 years US $	Over 5 years US $	Total US $
ASSETS						
Bank and cash balances	8,536,223	-	-	-	-	8,536,223
Short term deposits	17,363,161	4,791,753	-	1,975,234	-	24,130,148
Corporate bonds	-	74,270	-	150,000	4,339,467	4,563,737
Loans and advances to customers	15,205,961	16,682,065	11,525,078	44,278,189	1,177,252	88,868,545
Other Asets	17,337	86,882	104,711	267,019	56,592	532,541
Total financial assets	41,122,682	21,634,970	11,629,789	46,670,442	5,573,311	126,631,194
LIABILITIES						
Borrowings	2,283,068	1,617,790	-	-	-	3,900,858
Lines of credit	-	10,135,873	-	11,689,858	-	21,825,731
Debt securities	-	3,244,733	5,629,980	21,626,351	-	30,501,064
Total financial liabilities	2,283,068	14,998,396	5,629,980	33,316,209	-	56,227,653
Net interest rate sensitivity gap	38,839,614	6,636,574	5,999,808	13,354,23	5,573,311	70,403,541
At 31 DECEMBER 2009						
Total financial assets	29,372,028	29,419,881	9,651,356	31,590,170	4,679,359	104,712,794
Total financial liabilities	3,572,917	1,800,155	1,637,519	30,749,382	-	37,759,973
Net interest rate sensitivity gap	25,799,111	27,619,726	8,013,837	840,788	4,679,359	66,952,821

Based on a sensitivity rate of 50 basis points, all other variables held constant, the company's profit for the year would increase/decrease by US$ 352,018 (2009 – 334,764). A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

29 FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management

Liquidity risk is the risk that the Company will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. It is assisted in this function by the Assets and Liabilities Committee. The Company's liquidity management process includes:

- Day-to-day funding which is managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Company maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Matching the maturity profiles of financial assets and liabilities
- Managing the concentration and profile of debt maturities.
- Maintaining adequate reserves, banking facilities and reserve borrowing facilities
- Entering into lending contracts subject to availability of funds.
- An aggressive resource mobilisation strategy aimed at increasing lines of credit and other resources for lending.
- Investments in property and equipment that are properly budgeted for and performed when the company has sufficient cash flows.

Monitoring and reporting take the form of cash flow measurement and projections for specified key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The Company also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and bank balances, call deposits and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Company would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

The table overleaf presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected cash flows:

29 FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management (Continued)

AT 31 DECEMBER 2010	Up to 1 month US $	1 - 6 Months US $	6 - 12 Months US $	1 - 5 years US $	Over 5 years US $	Total US $
ASSETS						
Bank and cash balances	8,536,223	-	-	-	-	8,536,223
Short term deposits	17,363,161	4,791,753	-	1,975,234	-	24,130,148
Corporate bonds	-	74,270	-	150,000	4,339,467	4,563,737
Loans and advances to customers	15,205,961	16,682,065	11,525,078	44,278,189	1,177,252	88,868,545
Other receivable	17,337	789,352	104,711	267,019	56,592	1,235,011
Total financial assets (expected maturity dates)	41,122,682	22,337,440	11,629,789	46,670,442	5,573,311	127,333,664
LIABILITIES						
Borrowings	2,283,068	1,617,790	-	-	-	3,900,858
Medium term notes	-	2,140,114	6,057,993	22,725,667	-	30,923,774
Lines of credit	-	135,873	918,116	14,181,161	6,590,581	21,825,731
Dividend payable	242,415	292,902	-	-	-	535,317
Other liabilities	-	928,458	-	-	-	928,458
Total financial liabilities (contractual maturity dates)	2,525,483	5,115,137	6,976,109	36,906,828	6,590,581	58,114,138
Net liquidity gap	38,597,199	17,222,303	4,653,680	9,763,614	-1,017,270	69,219,526
At 31 DECEMBER 2009						
Total financial assets (expected maturity dates)	33,127,738	8,033,006	9,018,087	21,516,472	5,357,592	77,052,895
Total financial liabilities (contractual maturity dates)	4,141,701	6,360,652	2,290,624	6,625,803	760,890	20,179,670
Net liquidity gap	28,986,037	1,672,354	6,727,463	14,890,669	4,596,702	56,873,225

30 TAXATION

The company is exempted from all forms of taxation as provided for in the Shelter – Afrique Act 1985.

31 CURRENCY

These financial statements are presented in US Dollars (US$).

SCHEDULE OF SHAREHOLDERS AS AT 31 DECEMBER 2010

Class A: Countries		No of shares 31 December 2009	No of shares 31 December 2010	% of shareholding
1.	Algeria	4,220	4,220	9.11%
2.	Benin	306	306	0.66%
3.	Botswana	839	839	1.81%
4.	Burkina Faso	875	904	1.89%
5.	Burundi	300	300	0.65%
6.	Cameroon	1,648	2,392	3.56%
7.	Cape Verde	16	16	0.03%
8.	Chad	271	271	0.16%
9.	Central African Republic	73	163	0.59%
10.	Congo	516	516	1.11%
11.	Congo DRC	600	600	1.30%
12.	Djibouti	300	300	0.65%
13.	Gabon	1,283	1,283	2.77%
14.	Gambia	300	300	0.65%
15.	Guinea	409	419	0.88%
16.	Guinea Bissau	25	25	0.05%
17.	Guinea (Equatorial)	301	301	0.65%
18.	Kenya	6,137	6,267	13.25%
19.	Lesotho	500	500	1.08%
20.	Liberia	309	309	0.67%
21.	Madagascar	322	322	0.70%
22.	Malawi	517	517	1.12%
23.	Mali	951	1,236	2.05%
24.	Mauritius	53	53	0.25%
25.	Mauritania	115	115	0.11%
26.	Morocco	437	437	0.94%
27	Namibia	327	327	0.71%
28.	Niger	310	310	0.67%
29.	Nigeria	5,331	5,331	11.51%
30.	Rwanda	304	304	0.66%
31.	Sao Tome & Principe	16	16	0.03%
32.	Senegal	1,372	1,407	2.96%
33.	Sierra Leone	300	300	0.15%
34.	Somalia	71	74	0.02%
35.	Seychelles	10	10	0.65%
36.	Swaziland	228	228	0.49%
37.	Tanzania	317	317	0.68%
38.	Togo	162	162	0.35%
39.	Tunisia	300	300	0.65%
40.	Uganda	500	526	1.08%
41.	Zambia	1,987	2,054	4.29%
42.	Zimbabwe	52	54	0.11%
Class B: Institutions				
1.	African Development Bank	10,576	10,576	22.84%
2.	Africa Reinsurance Corporation	2,520	2,520	5.46%
Total		**46,306**	**47,727**	**100%**