SHELTER - AFRIQUE

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA

2011

Annual Report & Financial Statements

Our Presence

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ACKNOWLEDGMENT OF SOURCES

1. UN Habitat (2005) Global Report on Human Settlements: Financing Urban Shelter.
2. Centre for Affordable Housing Finance (2011): Housing Finance in Africa – A review of some of Africa's Housing Finance Markets.
3. Economic Report On Africa 2012 (Economic Commission for Africa and African Union)
4. World Economic Situation and Prospects 2012 (United Nations)

Sovereign Shareholders:	43 African member countries as of 31 December, 2011
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, 2011:	US $ 300 million
Issued and Called up capital as of 31 December, 2011:	US $ 100 million
Paid up capital as of 31 December, 2011:	US $ 53.02 million
2011 loan approvals:	21 projects in 10 countries for a total approval of US $ 103.8 million
Cumulative loan approvals as of 31 December, 2011:	US$ 537 million
Cumulative Disbursements as of 31 December, 2011:	US$ 259 million
International rating by Moody's:	Ba1

The Shelter Afrique Centre

List of Abbreviations

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 Securities Exchange
ALCO	Assets and Liabilities Committee
MTN	Medium Term Note
ERM	Enterprise Risk Management
MENA	Middle East and North Africa

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 **June 07, 2012**
General Meeting of Shareholders
Shelter-Afrique

Dear Mr. Chairman,

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 Annual Report of the company for the period January 1, to December 31, 2011.

The report covers the year's activities and audited financial statements as well as the administrative budget for the period 1 January to 31 December, 2012.

Please accept, Mr. Chairman, the assurance of my highest consideration.

Mr. Elias Mpondela
Chairman of the Board of Directors

Board of Directors

Behind - Left To Right:

Mr. Corneille Karekezi
Mr. Alassane Bâ
Mr. Jean Paul Missi
Mr. Elias Mpondela (Chairperson)

Front - Left To Right:

Mr. Samuel Mivedor
Dr. Olatunbosun Ayileka
Mrs. Néné LY Soumare
Mr. Gabindadde-Musoke
Mr. Ali Boulares
Mr. Tirop Kosgey

Management

Mr. Yekini Olayanju *Mrs. Ruth Onyancha* *Mr. Alassane Bâ* *Mrs. Karen Kandie* *Mr. Femi Adewole*

Message from the Chairman of the Board of Directors

> "The 2011 results are an indication of the success achieved in implementing the strategic roadmap as encapsulated in the five-year Strategic Plan (2007-2011) amidst a most challenging world economic environment."

The world economy slowed in 2011, after a strong rebound from the financial crisis in 2010, owing to increased risks and uncertainties that are largely expected to remain in 2012 and beyond. The rate of economic growth therefore slowed down from 4 percent recorded in 2010 to 2.8 percent in 2011. Growth rates are expected to remain subdued and expected to be marginally higher at 3.5 per cent in 2012.

The negative effects of the triple crisis of 2007-2009 (food, energy, and finance) still linger, while the euro area sovereign debt crisis has further aggravated structural imbalances in the world economy and cast a doubt on the prospects for sustained growth and quick recovery.

The world economy is therefore entering a critical period full of uncertainties and challenges. The depth and complexity of the global crisis have so far defied policy responses from the developed country governments. The pursuit of tight fiscal austerity measures and reigning in interest rates to restore fiscal credibility has not yielded the expected results. In the short term, the euro area crisis might push the global economy into another recession with devastating consequences. Long-run structural problems, such as dysfunctional labour markets, increased income inequality and global imbalances in particular, have intensified and will need to be addressed. In addition, rising food and energy prices have already widened income inequality and stirred up discontent and social instability around the globe.

African economies quickly rebounded from the 2008 financial crisis as commodity prices rose and export revenues returned to pre-crisis levels, enabling them to finance the necessary investments. Subsequently though, growth in Africa fell from 4.6 per cent in 2010 to 2.7 per cent in 2011 mainly because the political turmoil in North Africa and the euro area crisis combined to slow growth in 2011. However, despite the uncertainties some African countries have grown at double digits, reflecting higher commodity prices and strong domestic demand. Yet even with the lacklustre global backdrop, Africa's economic outlook is quite positive, with growth of 5.1 per cent expected in 2012. The key downside risk lies in export revenues shrinking because of sharply lowered world commodity prices and adverse weather patterns.

While the global economy has improved from the negative growth levels in 2009, it is evident that despite the clear signs of recovery, the financial crisis is far from over and the economic environment remains extremely challenging going forward.

Against this backdrop, it is pleasing to note that Shelter Afrique posted remarkable growth in financial performance in 2011. The company recorded positive growth in profitability increasing net

profits by 21% to US$ 2.82 million, an increase from US$ 2.34 million in the previous year. The balance sheet has continued to strengthen, closing the year with an asset base of US$195 million, significantly stronger from US$ 132 million in 2010, which is an increase of 48%.
In terms of operational performance, Trade Finance product was introduced as a new product during the year. Additionally, significant increase in loan approvals were realised amounting to US$ 103.8 million against a target of US$100 million and last year's approvals of US$81.3 million. Loan commitments achieved amounted to US$ 57.5 million against a target of US$ 70 million and last year's amount of US$48.85 million. An amount of US$38 million was disbursed compared to US$34.06 million last year and a target of US$50. This has resulted to an increase in the Loans and advances portfolio from US$ 88.8 million to US$ 100.8 million. In addition to increased size of the portfolio, management continues to place focused attention to the quality of the portfolio in order to reduce Non-performing loans, which remains a key challenge to the institution.

Concerted efforts have been placed on building the internal capacity of the Human Resources. A new organisation structure has been put in place resulting to recruitment of additional professional staff while highly performing staff have been recognised through promotion. A new salary structure has also been put in place and salary adjustments implemented to make the remuneration competitive thus making Shelter Afrique an employer of choice in the labour market.

The 2011 results are an indication of the success achieved in implementing the strategic roadmap as encapsulated in the five-year Strategic Plan (2007-2011) amidst a most challenging world economic environment. The current five-year Strategic Plan (2012-2016) themed *"for transformation to be an investment grade institution"* will position the company to meet the growing challenges of an international financial player thus enabling it to be a real estate financier of choice in Africa.

In line with business growth, we intensified resource mobilisation efforts culminating in the drawdown of US$ 31.5 million on various lines of credit from our development partners mainly AfDB (US$ 20 million), AFD (EUR$5 million) and FMO (US$5 million). In addition, we established a KSHS 3 billion Medium Term Note (MTN) programme under which KSHS 2.5 billion (US$ 31 million) was raised in July 2011 and listed on the Nairobi Securities Exchange. The establishment of various lines of credit with key international financial players and our bond issuance in the Capital Markets both in Nairobi and the UEMOA are important milestones which attest to our international recognition and repute.

Timely increase in capital subscription obligations is the strongest and most unequivocal form of support that shareholders can demonstrate towards Shelter Afrique. I am therefore pleased to note that, in 2011 some shareholders continued their support of the Company by increasing their capital subscription thus increasing the paid up capital from US$ 47 million to US$ 53 million. With a called up capital of US$ 100 million, a total amount of US$ 47 million remains unsubscribed. An enhanced capital base will strengthen the company's balance sheet thus enabling it to fulfil its development mandate. Our thin balance sheet is currently inadequate for the large mandate of housing for all in Africa and is one of the key challenges to the company. On behalf of the Board of Directors, I sincerely convey my appreciation to those shareholders who have remained steadfast in discharging their capital subscription obligations. I also appeal to all shareholders to take up additional capital subscription in order to further strengthen the company's resources and leverage capacity.

The company's membership expansion drive received a major boost in the year when Ghana, having been admitted to membership during the last 30th Annual General Meeting in Nairobi in July 2011 subscribed to 4,472 shares valued at US$ 10 million. In addition to extending the Bank's area of coverage, the Ghana membership promises a significant boost to the company's capital and resource base. Cote d'Ivoire has applied for membership by signing the instrument of adherence and making capital subscription in respect of 299 shares. On behalf of the Board of Directors, I would like to express my deepest appreciation for the support and confidence that the government of Ghana and Cote d'Ivoire have placed in the company and look forward to Cote d'Ivoire's formal admission.

In line with the statutes and best practice, a new Board of Directors comprising representatives from the various country groupings, AfDB and Africa-Reinsurance was elected in June, 2011. I am honoured to be elected as Chairman of the new Board to succeed Ms. Elsie Tembo. I take this opportunity to welcome the new Board members on board and look forward to their support as we forge ahead to build on the firm foundation that has been laid by the outgoing Board.

My heartfelt appreciation goes to the outgoing board members, ably led by Ms. Elsie Tembo of Malawi for steering the Bank to great heights during the period they have been at the helm. The outgoing board deserves credit for successfully growing the company to its current size and stature and for putting in place strong corporate governance structures that have ensured that our institution remains highly regarded not only regionally, but also on the global arena.

I also take this opportunity to congratulate Management and Staff of the company for their dedication, team work and resilience which led to the remarkable achievements in 2011 and urge them to work even harder in the days ahead in order to surpass the record set in 2011.
Finally, on behalf of the Board, I would like to record our appreciation to the Annual General Meeting for their continued counsel, guidance and commitment in running the affairs of the company.

Elias Mpondela
Chairman of the Board of Directors

Strategic Overview

The year 2011 marked the end of implementing the company's Five-Year Strategic plan for the period 2007-2011. Although the plan period was dominated by the global financial crisis that impacted negatively on the financial performance of the company, the company demonstrated resilience in its operations and posted positive results throughout the plan period. Accordingly, the company realigned its lending policies and appraisal methodologies with key emphasis on preemptive risk management systems aimed at achieving quality at entry for each project loan.

Particular emphasis was also placed on capacity building through strengthening of professional staff category and training and development of its entire staff compliment and a total of 10 professional staff were recruited in 2011. The company also intensified its resource mobilization, business development, and commitment activities aimed at positioning itself as a real estate financier of choice and in line with the expectations of the corporate plan.

The new Five-Year Strategic plan (2012-2016) themed "for transformation to be an investment grade institution" will build on the established institutional capacity with a focus on positioning the institution as a reputable international financial player.
For the first time in its history, in 2011 the company achieved an international rating of Ba1 from Moody's, one of the top three international rating agencies. Moody's rating ranks the company among the best in Africa and positions it favourably in terms of future engagements with international financial markets for access to long term capital.

Following the 2009 decision by the Annual General Meeting to increase the called up capital from US$ 50 million to US$ 100 million, the company continued to mobilize existing shareholders to increase their share capital as well as attracting new membership. In 2011 a total of US$11,417,250 worth of equity was mobilized from new and existing members compared to US$ 1,911,245 in 2010 and is held in share capital and share premium in the Statement of Financial Position.

Business Development and Operations

In 2011, diversification into new markets included entry into Ghana and Zimbabwe enabling the Company to spread its investment risks. Trade Finance was also approved as a new product primarily to support existing clients to carry out import of building materials.

The year witnessed a record level of project approval worth US$ 103.8 million, against a target of US$ 100 million. This was 103.8% of the annual target and represented 28% growth compared to US$ 81.3 million approved in 2010. The approvals related to 21 projects in were well spread into 10 member states. The approvals were representative of four different products with Trade Finance becoming the latest product in Shelter Afrique's product portfolio.

The president of Ghana and representatives from the Ghanaian government host the MD of Shelter Afrique and the Director Business Development Operations; Mr. Femi Adewole after signing membership documents, Accra, Ghana

Resource Mobilisation

The company has built a reputation as a key player in the Capital Markets for mobilisation of local currencies in Kenya and UEMOA region where it has continued to issue and list bonds to meet its operational needs. In July 2011 it successfully issued a KSHS 3 billion (USD 37.5 million) Medium Term Bond listed on the Nairobi Securities Exchange with issuance to be done in two tranches. The first tranche amounting to KSHS 2.5 billion was issued while the second tranche of the balance is expected to be issued in 2012.

During the year we drew-down a total of US$ 31.5 million for operational purposes from existing lines of credit with our international financial partners; AfDB, FMO and AFD. We also utilised a total of US$ 777,691 in grant and technical assistance from AfDB and AFD for capacity building. This was utilised in staff training, policies and procedures reviews as well as enhancement of our ICT infrastructure.

Financial Performance

In 2011 the company recorded positive growth in profitability increasing net profits by 21% to US$ 2.82 million, up from US$ 2.34 million in the previous year. Net interest income grew 20% to US$7.12 million resulting from growth in interest income from loans and advances as well as from investments of liquid funds.

Foreign exchange losses reduced from a high of US$ 985,000 in 2010 to US$ 225,000 in the current year due to prudent measures put in place in the previous year to cap the foreign currency mismatches. These measures have maintained the net un-hedged currency position to less than 2% of total assets during the year.

Operating expenses grew by 17% to 4.9 million as the Company continued with strengthening the human resource capacity and investment in information technology. Consequently the Company successfully migrated the financial data system to an Oracle ERP system to provide a robust system to cater for increased business volumes and requirements.

The Company's Statement of Financial Position has continued to strengthen, closing the year with an asset base of US$195 million, up from US$ 132 million in 2010, an increase of 48%. This was largely due to increased liquidity and growth in the loan asset portfolio. Loans and advances grew 13% to US$100.79 million. Shareholders' funds grew 19% to stand at US$87.41 million as at the year end, with Ghana joining the Shelter Afrique membership as the 43rd African country.

The Minister for Housing and Chair of the Bureau Hon. Soita Shitanda rings the bell during the Listing Ceremony of Shelter-Afrique's Bond Issue of KSHS 2.5 billion on 20th September 2011. On looking is Shelter Afrique Staff, the C.E.O of Nairobi Securities Exchange Mr. Peter Mwangi and the C.EO. of Capital Markets Authority Mrs. Stella Kilonzo.

SELECTED FINANCIAL PERFORMANCE CHARTS

Chart 1: Net Interest Income

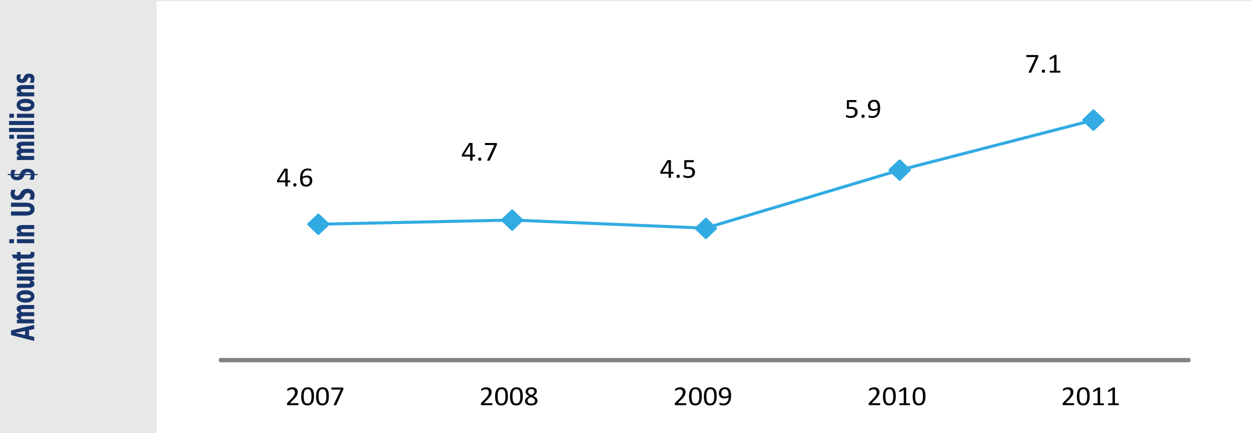


Chart 2: Total Assets

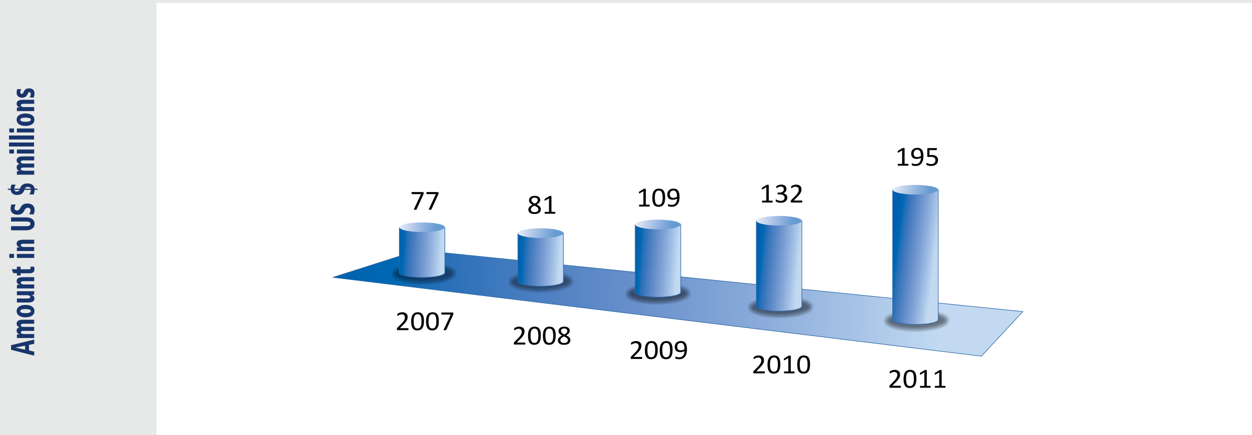


Chart 3: Shareholders' Funds

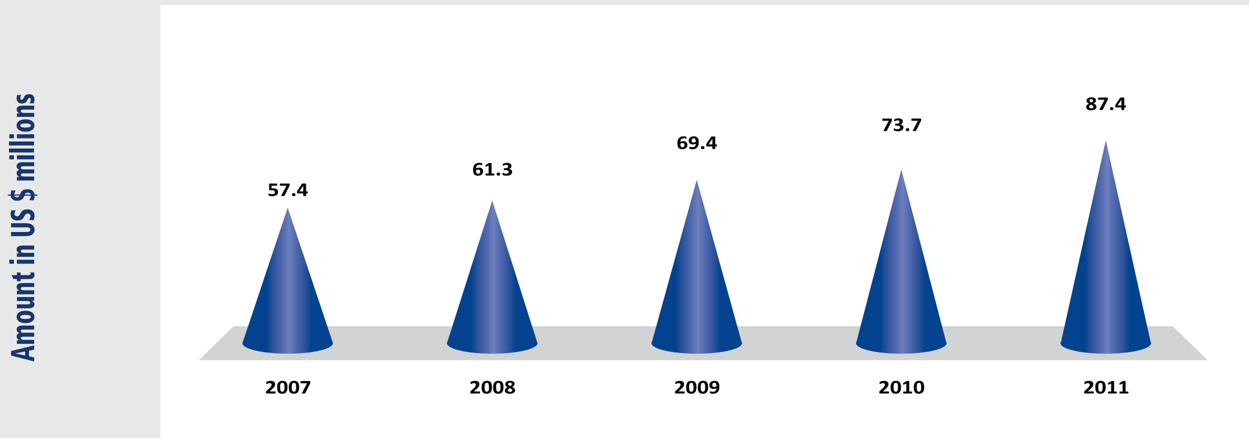


TABLE 1: KEY OPERATION AND FINANCIAL DATA (2007 - 2011) in US$ million

Year	2007	2008	2009	2010	2011
Approvals	41.22	54.29	67.1	81.34	103.81
Cumulative Approvals	230.63	284.92	352.02	433.36	537.17
Disbursement	24.15	17.81	30.3	34.06	36.29
Cumulative Disbursement	140.15	157.96	188.26	222.32	258.61
Total Assets	77.03	81.29	109.11	131.99	194.72
Profit for the year	4.14	2.61	0.429	2.01	2.82
Paid-Up Capital	38.65	40.23	46.31	47.73	53.02
Revenue Reserves	18.69	18.76	18.66	20.71	23.16
Provisions	0.096	0	2.84	0.74	1.46
ShareholdersFunds	57.42	61.41	69.43	73.68	87.41

TABLE 2: SELECTED FINANCIAL INDICATORS (2007 - 2011)in US$ million

Operating Results		2007	2008	2009	2010	2011
Gross Income	(a)	6.48	5.15	6.20	7.90	9.41
Operating Expenses	(b)	2.25	2.93	2.94	4.17	4.90
Operating Profit before provisions		3.13	2.22	3.26	3.73	4.75
Profit for the year		4.14	2.61	0.43	2.01	2.82
Administrative Expenses	(c)	2.12	2.78	2.76	3.91	4.67
Financial Position						
Net Loans and Advances		53.19	52.86	70.63	88.87	100.79
Financial Investments		17.12	21.67	24.16	28.69	78.02
Total Assets		76.94	81.29	109.11	131.99	194.72
Total Equity		57.42	61.33	69.43	73.68	87.41
Total Debt		19.52	19.96	39.68	58.31	107.31
Financial Ratios						
Total Debt to Total Assets (%)		25.37	24.55	34.61	42.60	53.68
Administrative expense ratio (%)	(d)	4.35	5.24	4.47	4.90	4.97
Debt/Equity ratio (%)		24.13	22.80	54.38	76.31	119.59
Earnings per share (US$)		109.47	66.20	10.26	42.77	55.95
Dividend per share (US$)		21.42	12.92	0.00	8.44	10.63

(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.

Asset Quality

The asset quality remained stable during the year, with 76% (75% in 2010) of the loans categorized in the normal category of the internal rating system, due to close monitoring and vetting of projects at entry level. Impairment charges for the year however, increased from US$0.74 million to US$1.46 million mainly due to implementation of a new policy to suspend interest on all non performing loans. Non-performing loans (NPL) were at 20% of the total projects loans portfolio, slightly above prior year level of 17% due to a downgrading of 3 loans.

Recovery efforts now focus on the seven largest loans that constituted 80% of the Non performing loans. These comprise UCBS (Senegal), IPTL (Tanzania), Akright (Uganda), Turnmile (Nigeria), Jammagen (Gambia) SCI Claire de Lune (Senegal) and GM Properties (Malawi)

Human Resources and Administration

The strong performance registered in 2011 is largely credited to the professionalism, commitment and team work of staff drawn from various member countries. To further strengthen the staff capacity, a new organogram including new Team Leader positions was implemented and provides the institution with the capacity to act quicker and grow the business. It also culminated in the recruitment and promotion of highly qualified staff at all levels in the organisation. The first tranche of the salary adjustment approved by the Board in 2010 aimed at providing a competitive remuneration was implemented with the second tranche scheduled for implementation in 2012.

Going forward, increased budgetary allocations have been made for staff continuous development and education to ensure that our people are well equipped with the relevant skills and competences to take the organisation to expected levels of performance stipulated in the 2012-2016 Strategic Plan.

Legal and Corporate Services

Following the election of a new Board of Directors, a two day induction workshop covering corporate governance and company operations was held in Mombasa in September, 2011 to orient the Directors with the requirements of their new responsibilities.

In addition, during the year a review of the adequacy of the institutional framework was carried out to ensure alignment with the business growth of the company. We expect to retain consultants to advice on a new framework for approval by the shareholders during 2013.

In response to increased business growth, a review and increase of firms of attorneys retained to support the business in member countries was carried out. This has resulted to improvement in project turnaround time in terms of legal documentation as well as faster and more effective debt recovery.

To strengthen corporate governance the company embarked on the recruitment of two Independent Directors in line with best practice in Board compositions. This is expected to strengthen the capacity in the Board and when fully implemented in 2012 the number of Board seats will increase from ten to twelve.

Risk Management & Planning

Risk is an inherent part of the business activities of the Company. Accordingly, the Company has continued to implement the Enterprise Risk Management (ERM) framework that was developed in 2010 to identify, asses, analyse and measure key business risks aimed at achieving an appropriate trade off between risk and returns. In order to protect the environment and in cognisant of its position as an environmental friendly Company, the Environmental and Social policies have provided the blueprint to ensure that all projects are socially and environmentally sustainable.

The Company continues to carry out due diligence of all the existing and potential customers for compliance with Anti Money Laundering and Anti-terrorism best practices.

The Company's risk function continues to be guided by various policies and procedures as well as measuring tools aimed at ensuring that the full ambit of risk categories are identified, assessed, measured, controlled and reported. Its focus is to ensure that risk management function brings impact through enhanced growth and profitability and supports the quality of the Company's assets as well as competitive positioning amongst its peers.

Information, Communication and Technology

In order to ensure that the Company exploits the capabilities offered by advances in technology, the Company has strengthened its ICT human resources capacity and continues to prioritise investment in technology in its budgetary allocation. In 2011 the company finalised the implementation of the state of the art Oracle System and successfully migrated its financial management and reporting functionalities from Access. In 2012, further ICT enhancements are expected in Business Development and Loan Administration.

Board of Directors Activities

The Annual General Meeting

The 30th Annual General meeting was held in Nairobi, Kenya on 15th June 2011 under the chairmanship of Hon. Soita Shitanda, Minister of Housing of the Republic of Kenya. During the meeting the shareholders approved and adopted the audited financial statements for the financial year ended December 31, 2010. The meeting also approved the declaration of dividends in compliance with the dividend policy. New statutory auditors were appointed in line with the statutes requirement on rotation of auditors every five years and M/s Ernst and Young replaced M/s Deloitte whose tenure of five years had come to an end. As in the previous years, the meeting was preceded by the Annual Symposium.

The meeting elected a new bureau comprising Kenya as Chair, Central Africa Republic as First Vice Chair and Chad as Second Vice Chair. This was to replace Uganda, Kenya and Chad as previous Chair, First and Second Vice Chair respectively.
In accordance with the statute, the tenure of the previous Board had come to an end after three years. A new Board was accordingly re-elected. The reconstituted country groupings elected countries that would represent them in the Board of Director and Alternate Director positions under Class "A".

The shareholders also considered and approved the admission of the Republic of Ghana to the Class "A" membership of Shelter Afrique making it the 43rd member country.

Reconstitution of the Board

The new Board of Directors was reconstituted comprising nominees from the countries representing various country groupings after the Annual General meeting and held its first meeting in September, 2011. To support and facilitate board affairs, members to the two Board committees; Administrative Affairs and Human Resources committee as well as the Risk and Audit committee were elected from amongst the Board members. In addition, the Board of Directors also elected a Chair, a Vice Chair and Chair for the two board committees. An induction programme was held in September in Mombasa, Kenya for the new Directors to familiarise themselves with the operational activities of the company and with their new responsibilities in the Board. The Board also reviewed and discussed emerging trends in Corporate Governance and how this would impact on their responsibilities and calendar of work.

Meetings of the Board of Directors

During the year, the Board of Directors held four meetings and six committee meetings. In line with the Strategic plan and organisational priorities, the Board considered and approved various Board Papers comprising of policies, guidelines and strategies aimed at improving operational effectiveness. Key papers considered and approved included; Annual Administrative budget, Oracle implementation, proposals for the review of staff compensation and benefits , Human Resources strategy, Political and Credit Risk Insurance cover, audited financial statements and proposals on Social housing. Guided by the lending policies, the Board approved Loans and equity participations amounting $103.8 million for the financing of 20 projects spread over 10 countries. An amount of $ 5 million was approved towards investment in a Private Equity Fund that will cover several member countries.

The President of Kenya H. E. Mwai Kibaki, the Vice president Hon. Kalonzo Musyoka, The Minister for housing Hon. Soita Shitanda and the Assistant Minister Ministry of Housing Hon. Rev. Dr. Margaret Wanjiru with the Directors and Senior Management of Shelter Afrique after the opening of the 30th AGM at the KICC, Nairobi, Kenya

Box 1: The Annual Symposium

The Shelter-Afrique Symposium on "Mortgage Finance for Increased Access to Housing in Africa" was held on June 14th 2011. Preceding the AGM, participants from over 42 member countries represented their Governments in various capacities. Over 300 Government officials, experts and scholars in the mortgage finance sector attended the Symposium. The main objective of the symposium was to explore avenues on how mortgage finance can increase access to housing and innovations needed to come up with appropriate products to enable the low and middle income earners to access mortgage loans.

The Symposium was officially declared open by **His Excellency the President of the Republic of Kenya, President Mwai Kibaki.** He welcomed all the delegates to Kenya, and mentioned that the Government of Kenya is pleased to join Shelter Afrique shareholders and the 30th AGM. He urged all African countries to make housing development a priority as housing plays a critical to the social development of the continent. He emphasized that, housing problems in Africa are attributed to the highest urbanization experienced in the world. The urbanization challenge on the other hand is also creating real estate investment opportunities and the public and private sector need to invest more resources in the sector. The President concluded his address with the notion that the Symposium was important to his Government and participants should come up with concrete proposals to unlock liquidity to provide solutions to access for housing, making housing affordable to the low income earners, and also work toward reducing the interest rate to a single digit.

During the symposium various presentations were delivered by knowledgeable speakers including the Governor of the Central Bank of Kenya Prof. Njunguna Ndungu, Mr. Mamadou Bocar Sy, Directeur General of Banque de l'Habitat du Senegal, Representative of the Central Bank of Zambia Mr. Visscher Bbuku, Managing Director of the Housing Bank of Burkina Faso Mr. Piere Zerbo and the Managing Director of Abbey Building Society Mr. Madu Hamman. From the presentations there were a lot of synergies in terms of challenges experienced

A cross section of participants at the Annual Symposium

by the mortgage sector specifically in Zambia, Kenya, Senegal and Burkina Faso and in general across all countries on the continent.

In this respect, the symposium theme was extremely meaningful as witnessed by deliberations from various speakers and feedback from attendees on how the development of the mortgage sector can contribute towards growth of economies in Africa. Specific findings and recommendations was that stakeholders ranging from regulators, pension funds, development finance institutions, commercial banks and Governments should continue with collaborations to unlock the potential of the sector leading to long-term funding for mortgage finance institutions and end users.

The former Chairperson of Shelter Afrique Board of Directors; Ms. E.M Tembo, the MD of Shelter Afrique; Mr. Alassane BA; and the Governor of Central Bank of Kenya; Prof. Njuguna Ndung'u during the 30th AGM and Symposium of Shelter Afrique held on 13th to 16th June 2011, at KICC in Nairobi, Kenya

Business Development and Operations

During 2011, Shelter Afrique made major strides in its bid to remain the premier Pan-African housing institution. Business Development activities were focused on supporting the development of new housing projects, promoting new partnerships and strengthening existing ones.

A major highlight in year 2011 was the successful entry into the Ghanaian market. Upon Ghana's subscription to Shelter Afrique membership, the institution approved the first investment in the form of a US$ 5,000,000 Line of Credit to Ghana Home Loans, Ghana's leading mortgage financial institution. We also approved our first project in Zimbabwe following a successful mission to the country in July.

We continued to develop new products to meet the needs of our partners. In June 2011, the Board approved Shelter Afrique's Trade Finance Program. This opened up a new frontier for the institution's participation in pre and post-shipment financing of bulk construction materials and equipment purchase. We subsequently approved the first ever Trade Finance Line of Credit to BancABC Zimbabwe. The product is gaining popularity and several potential transactions across our member countries are under consideration.

During the year, the Board also approved Shelter Afrique's participation in the Pan African Housing Fund. This Private Equity Fund spearheaded by Shelter Afrique will address one of the key housing finance challenges in Africa by providing equity and quasi equity finance for developers. This is a major initiative that has received considerable interest from potential co-investors in the Fund. The first close of at least US$ 35 million is envisaged for July 2012.

Following a study commissioned during the year, the Institution has now developed a strategy which will help it play a greater role in facilitating increased supply of social housing in partnership with the public and private sector. This major step will ensure that Shelter Afrique can better support member countries in addressing the need for homes which are affordable to people on low income in their countries.

BREAKDOWN OF APPROVALS DURING 2011

Approvals grew to US$ 103.8 million during the year, against a target of US$ 100 million. This represented 28% growth compared to US$ 81.3 million approved in 2010. The approvals related to 21 projects in 10 member states. The approvals were representative of four different products with Trade Finance becoming the latest product in Shelter Afrique's product portfolio.

Chart 4: Approvals & Disbursements (2007-2011)

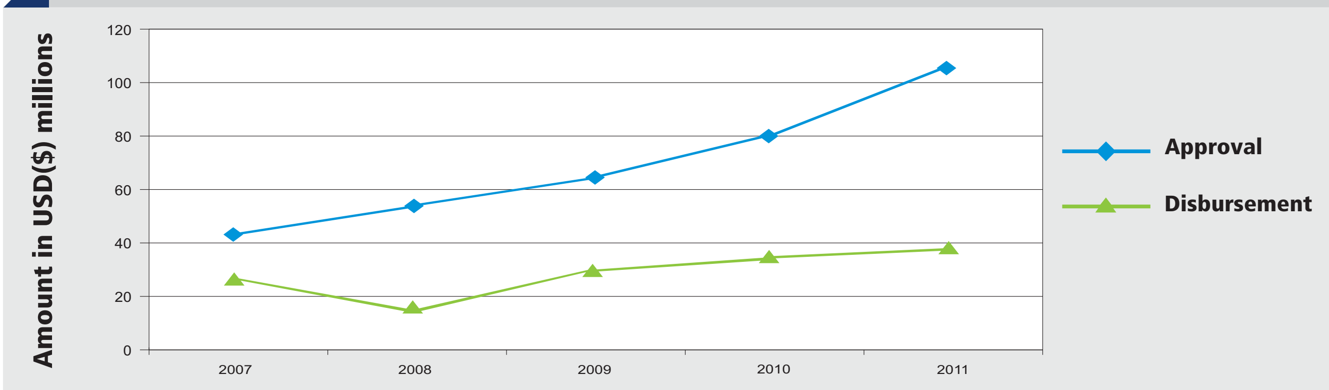


Chart 5: Cumulative approved loans (2007-2011)

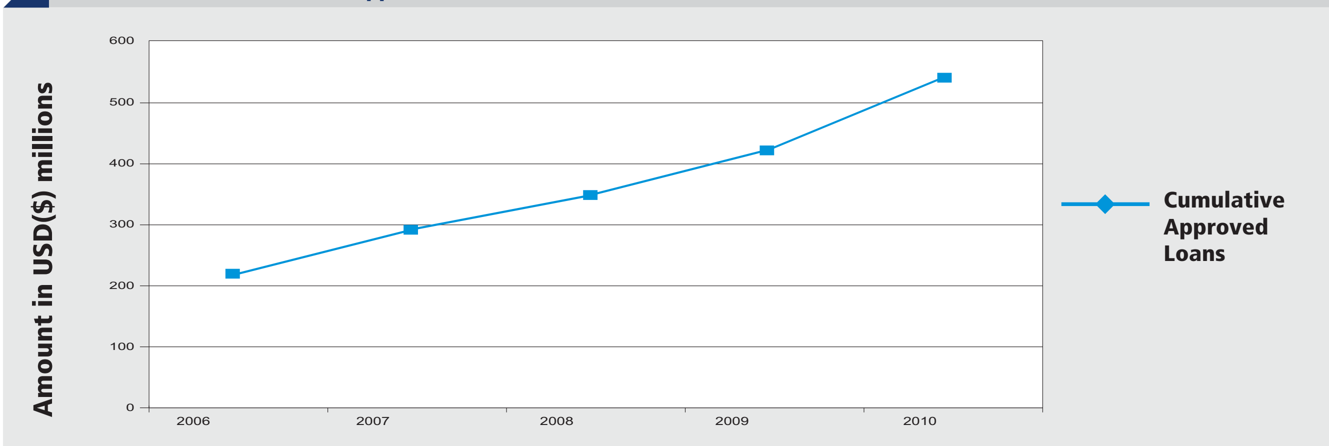


TABLE 3: 2011 LOAN APPROVALS

Country	Client	Amount Developer	Type of Instrument	type	US$	projects	Currency
All countries		PEF	EI	Equity	5,000,000	Hybrid	US$
Burkina Faso	WA	Housing Bank of Burkina	EI	Private	1,111,111	Hybrid	FCFA
DRC Congo	WA	Elolo Project-Immeuble Fizi	DL	Private	4,000,000	Housing	US$
DRC Congo	WA	IMD SPRL	DL	Private	7,000,000	Hybrid	US$
Ghana	WA	Ghana Home loans	LoC	Private	5,000,000	Housing	US$
Kenya	EA	Ol Tepesi	DL	Private	1,277,778	Housing	KSHS
Kenya	EA	Kasarani	DL	Private	6,222,222	Housing	KSHS
Kenya	EA	KPA Bellevue	DL	Private	2,055,555	Housing	KSHS
Kenya	EA	Prism Construction Ltd	DL	Private	3,555,555	Housing	KSHS
Kenya	EA	Edermann Property Ltd	DL	Private	5,077,778	Housing	KSHS
Kenya	EA	Lavington Project	DL	Private	2,666,667	Housing	KSHS
Kenya	EA	AMS Properties	DL	Private	6,577,778	Housing	KSHS
Madagascar	SA	Siema Sarl	DL	Private	2,627,278	Housing	US$
Malawi	SA	Mpico Mall	DL	Private	7,142,857	Commercial	Rand
Malawi	SA	FDH	TF	Private	3,500,000	Hybrid	US$
Morocco	NA	Lusopor Sarl	DL	Private	6,700,000	Housing	US$
Rwanda	EA	BMC properties Ltd	DL	Private	2,300,000	Commercial	US$
Tanzania	EA	National Housing Corporation	DL	Parastatal	14,500,000	Housing	US$
Zimbabwe	SA	FBC Bank	LoC	Private	5,000,000	Housing	US$
Zimbabwe	SA	CBZ Bank	LoC	Private	7,500,000	Housing	US$
Zimbabwe	SA	BancABC	TF	Private	5,000,000	Hybrid	US$
Total					**103,814,579**		

Real estate development remains the major beneficiary of the company's funding in line with the objective of increasing the supply of affordable housing in member states. 69% (2010: 56%) of the approvals went to direct lending products, 17% (2010: 41%) were Lines of Credit to financial institutions, 6% (2010: 3%) were equity investments and 8% (2010: Nil) of the approvals went to Trade Finance.

Table 4: Cumulative approvals and disbursement 2007-2011 (US $ million)

Year	2007	2008	2009	2010	2011
Approval	41.22	54.29	67.10	81.34	103.82
Cum. Approved loans	230.63	284.92	352.02	433.36	537.18
Disbursement	24.15	17.81	30.30	34.06	36.29
Cum. Disbursement	140.15	157.96	188.26	222.32	258.61
Commitment	19.40	23.50	51.30	48.85	57.50
Cum. Commitment	162.20	185.70	237.00	285.85	343.35

Chart 6: Loan Approvals per lending instrument: 2011

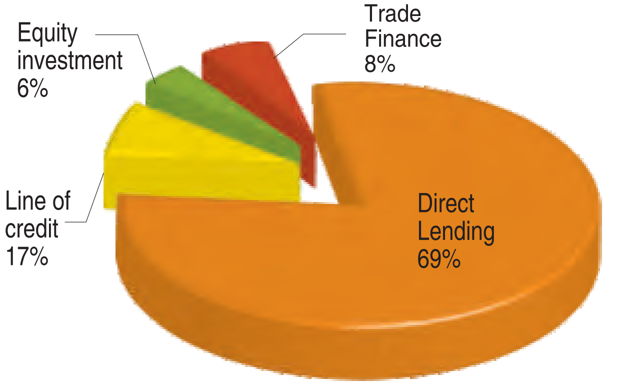
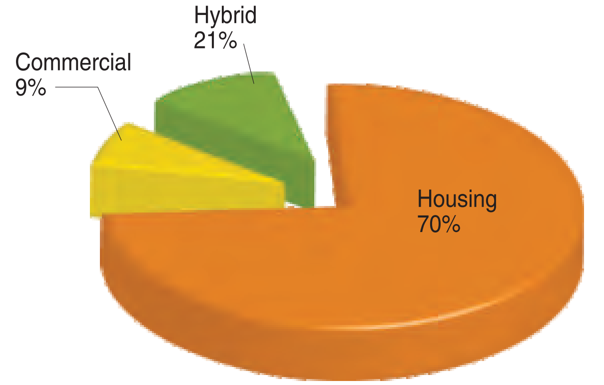


Chart 7: Cumulative approvals per project type 2011



The average loan size during the year was US$ 4.94 million per project, a 12.8% increase from US$ 4.38 million recorded in 2010. Tenors ranged from one year for trade finance products to 10 years for lines of credit.

REGIONAL DISTRIBUTION OF PROJECTS

Projects approved during year 2011 were a good balance of regional representation. To this end 43% of the amount approved was in support of projects in the Eastern Africa region including Kenya, Tanzania and Rwanda. The Kingdom of Morocco represented Northern Africa with 6% of the approvals while Southern Africa represented by Zimbabwe, Malawi and Madagascar received 30% of the approvals. 16% of the approvals went to Western Africa, including the first ever transaction in Ghana and an equity investment in Burkina Faso. The remaining 5% went to the Pan African Housing Fund which is focused on investing in qualifying projects from all member countries.

COMMITMENTS AND DISBURSEMENTS

During year 2011, Shelter Afrique achieved commitments of US$ 57.5 million against an annual target of US$ 75 million. This represented a 77% achievement and a 17.7% growth compared to US$ 48.85 achieved in the previous year.

Disbursements during the year stood at US$ 36.29 million, a 12% increase compared to US$ 34.06 million achieved in 2010. The annual disbursement target was US$ 50 million.

Our Business Development and Operational activities in 2011 were based on strong partnerships with the private and public sector organisations. By offering a wide range of lending products on competitive terms, Shelter Afrique expects to continue to be a partner and lender of choice among its member states.

2011 PROJECTS PROFILE

LINE OF CREDIT TO GHANA HOME LOANS LIMITED-GHANA

The Line of Credit was approved for an amount of US$ 5,000,000 to support the financial institution's mortgage origination business. Through the facility, Ghana Home Loans will provide mortgages to eligible borrowers for home purchase, house construction, home extension and home improvement. The average loan size will be about US$ 65,000 generating approximately 77 mortgage facilities. The transaction marked Shelter Afrique's entry into the Ghanaian market, following the country's subscription to Shelter Afrique's membership. The facility will help to bridge the gap in long term funding in the Ghanaian market.

TRADE FINANCE LINE OF CREDIT TO BancABC ZIMBABWE

The Trade Finance Line of Credit for an amount of US$ 5,000,000 was approved with an aim of supporting BancABC's trade-related advances to local companies exclusively for the purpose of pre- and post-shipment finance and other financing of working capital necessary for the performance of foreign building/construction trade contracts. This transaction was the first of its kind following the Board's approval of Shelter Afrique's Trade Finance Program in June 2011.

THE PAN-AFRICAN HOUSING FUND

The Pan-African Housing Fund is a new Private Equity Fund focused on addressing the housing and real estate sector's challenges through equity and quasi equity lending instruments. The Board approved an investment of USD 5,000,000 into the Fund which would in turn be used to leverage additional funding from other investors for optimal impact. Towards this end, several fund raising efforts have resulted to a promising pipeline of possible co-investors with expectations to achieve first close of at least US$35 million by July 2012. A capable Fund Manager has formally been appointed.

FIVE STAR GARDENS PHASE II – KENYA

This project is sponsored by Mensa Properties Ltd and located at Athi River, Kenya. It entails the development of 296 units of two-bedroom and three-bedroom apartments for outright sale to the public. The Board of Directors approved Kenya Shillings 600,000,000 as debt finance to the project. The transaction is co-financed with Housing Finance-Kenya and is an advancement of the partnership that Shelter Afrique and Housing Finance entered into through a Memorandum of Understanding in 2009. The project's development impact is primarily through increased

Chart 8: Loan approvals per type of client 2011

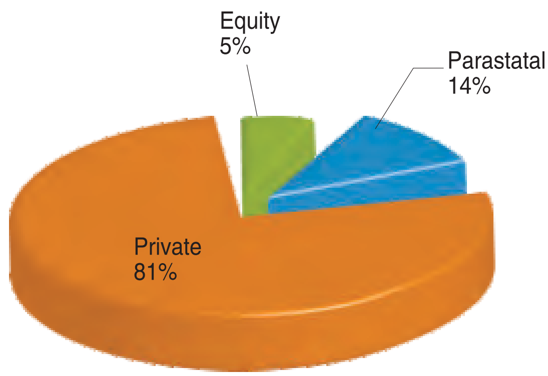


Chart 9: Cumulative Approvals Per Region 2011

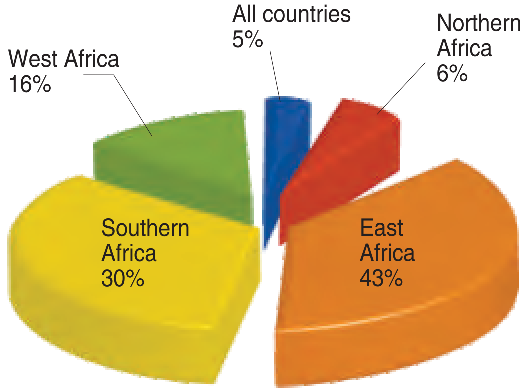
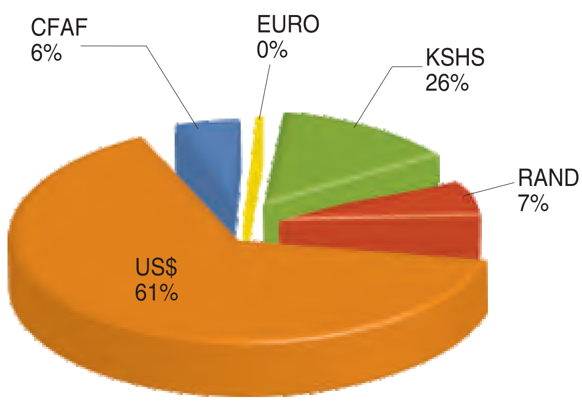


Chart 10: Approval per currency: 2011




Everest Project: A joint Venture Project between Shelter Afrique and Everest Park Ltd


Oakpark Project (Phase 2) Nairobi, Kenya


Shaba Village Project (Prism Investment) Athi river, Kenya


SIFMA 3 : 350 apartments at Sikoro, Mali


Taj Shopping Mall - Nairobi, Kenya


Simbamanyo 2: 40 Nos. furnished and serviced suites - Kampala, Uganda


Sipres Al Azhar_ Rufisque, Senegal


Lyn Marie apartments, Nairobi, Kenya

accessibility for affordable housing by the middle income segment in Kenya.

SEKKALA RESIDENCE- KINGDOM OF MOROCCO

This project is sponsored by Lusopor Sarl and is located in Tamesna, 20 kilometres from Rabat. The two-phased development entails construction of 819 apartment units in 38 blocks and 6 commercial buildings. The Board approved an investment of US$ 6,700,000 as debt finance towards Phase I of the project. The project is co-financed with a local financial institution, BMCE Bank, making it the first co-financing transaction by Shelter Afrique in the Kingdom of Morocco.

RESIDENCE ESPERANCE- MADAGASCAR

This project is sponsored by SOCIETE D'IMPORT ET EXPORT DE MADAGASCAR (SIEMA) and is located at Fort-Dauphin City. The project entails construction of 17 units of 5-bedroom houses, targeting the high income market. The Board approved USD 2,600,000 to support the project. The developer is a repeat client; having benefited from two previous facilities whose performance has been satisfactory. Shelter Afrique is committed to supporting the growth and maintaining long term relationships with partners that share common objectives.

FIZI BUILDING- DEMOCRATIC REPUBLIC OF CONGO

Sponsored by Elolo SPRL, Fizi Building is a 10-storey building comprising 40 apartments; some for outright sale and the rest for rental. The project is located in Kinshasa. The Board approved a US$ 4,000,000 debt financing to support the project. The US$ 6.6 million project targets the middle income market in Kinshasa and is strategically located in Gombe area of Kinshasa. The transaction has enabled Shelter Afrique to increase its operational presence in the Democratic Republic of Congo.

The MD of Shelter Afrique and the Director Business Development Operations; Mr. Femi Adewole during the Loan agreement signing between Shelter Afrique and Banc ABC Project in Zimbabwe

WORLD ECONOMY

The World Economy contracted to grow at 2.8 per cent in 2011, down from 4 per cent in 2010, largely because of decreased demand and greater uncertainty. Gross domestic product (GDP) growth declined to 1.3 per cent in 2011 from 2.7 per cent in 2010 on both demand and supply factors. High unemployment and depressed consumer and business confidence flouted as fear of a second recession became widespread resulting in stagnated domestic demand. The outlook for the world economy remains gloomy, with growth expected at 3.5 per cent in 2012.

Inflation

World inflation edged up from 2.5 per cent in 2010 to 3.7 per cent in 2011, but is expected to ease to 2.6 per cent in 2012 with similar trends for developed and developing economies. With such gloomy global prospects monetary policy in major economies is likely to remain accommodative in 2012, in order to induce domestic demand and stimulate economic growth.

World commodity prices

The index for world commodity prices approached a historical high in April 2011, and apart from crude oil, all major commodity category price indices registered record highs in the first half of 2011. Movements in 20111 stem from both the demand and supply sides. First the political unrest in the MENA region severely disrupted the region's oil supply pushing energy prices on the global market. On the other hand, demand from emerging economies continued to present strong support to high commodity prices, although this effect weakened as economies cooled in the fourth quarter of 2011. In addition, the increasing concerns over global growth prospects and risk aversion re-emerged in the second quarter of 2011 becoming the major downward driver of prices.

Foreign Currency

The US Dollar depreciated in the first three quarters of 2011 but reversed trend in the last. Increased real exchange rate volatility towards the end of 2011 in world currencies was largely attributable to shifts in US monetary policy and the worsening euro area debt crisis.

AFRICAN ECONOMY

After a decade of impressive economic growth, Africa's momentum slowed in 2011, due to lingering indirect effects of the 2007-2009 global economic and financial crisis further compounded by the contraction of economic activity in North Africa due to political unrest. However, many African countries have sustained strong impetus, supported by rising commodity prices and by strong domestic demand owing to growing incomes and improving economic and political governance. Growth prospects remain highly optimistic, with output for the continent as a whole expected to recover strongly in 2012 and growth momentum expected to continue in the medium term.

The EU debt crisis and any subsequent deterioration in the global economic environment presents downside risks that are likely to have negative effects on growth prospects particularly through trade linkages and reduced capital flows. Indications are that Africa is poised to weather such risks and uncertainties. For more than a decade now, Africa has deepened domestic sources of growth, and has strengthened both intra-trade and trade with fast growing economies in Asia and Latin America. This trend would help the continent mitigate the growth impact of a possible decline in trade with, and capital flows from the euro zone.

Primarily because of the political unrest in North Africa and the continued slump in the developed economies, Africa's economic growth fell to pre- global crisis levels by nearly a half in 2011 to 2.7% from 4.6 percent in 2010. North Africa recorded zero growth in 2011, down from 4.2 per cent in 2010. The intensity and persistence of the social and political unrest in North Africa increased investor risk aversion sharply, prompting a reversal in capital flows, decline in investment and a collapse of tourism. Production and export of oil, the mainstay of North Africa were also disrupted. However, outside North Africa, growth was solid at 4.5 per cent in 2011 a marginal decline from 4.8 per cent recovery of 2010.

Commodity prices

Although higher commodity prices have benefited commodity-exporting countries, rising food and energy prices especially have impacted negatively on African countries that are not commodity exporters, particularly with heavy impacts on their balance of payments. Steeper food and fuel prices have hit hard on low-income households exacerbating social tension and sparking food riots in some countries.

Employment

High levels of unemployment, particularly among the youth remain a major challenge with continental growth rarely translating into strong and notable jobs growth. Unemployment was highest in North Africa at 9.8 per cent compared to 7.9 per cent in the rest of Africa in 2011. The failure of economies to generate adequate growth is partly because recent growth has been driven by the capital intensive extractive industries such as mining and oil exploration that have limited forward and backward linkages with the rest of the economy. There is therefore need to diversify sources of growth toward developing pro-poor sectors inroads into reducing high unemployment and poverty rates.

Inflation

Continent-wide consumer price inflation rose to 8.4 per cent in 2011, from 7.7 per cent in 2010. This was initially sparked by higher food and fuel prices. In several African countries and in particular in the Horn of Africa, severe drought contributed to a sharper increase in inflation mainly for food.

HOUSING TRENDS IN AFRICA

Housing Trends in Africa

Economic growth, one of the highest rates of urbanization and a growing middle class are presenting new opportunities and challenges for housing. Evidence of these challenges is found in the high backlog figures – an estimated 2.1 million units in South Africa; 1.25 million units in Zimbabwe; 2 million units each in Kenya and Madagascar; 3 million units in Tanzania; 1.2 million units in Algeria; and 300 000 in Namibia. Botswana's Self Help Housing Association projects a backlog of about fifteen years and the Mauritian National Housing Development Corporation has a waiting list of some 20 000 units.

Table 5: Growth by Regions (real GDP growth in percentage)

	2009	2010	2011	2012
Africa	3.1	4.9	3.7	5.8
Central Africa	2.6	4.7	5.3	5.7
Eastern Africa	5.7	6.2	6.7	6.7
Northern Africa	3.5	4.6	0.7	5.1
Southern Africa	-0.5	3.3	4.5	5.5
Western Africa	5.6	6.7	6	6.8

Source: African Development Bank

In all of these cases, it is the process of housing delivery that is, in part, undermining the rate of supply with developers facing a wide range of challenges: poorly access to land, expensive finance and lack of infrastructure. These and other difficulties have limited growth in the sector but significant opportunities exist. With policy makers increasingly recognizing the importance of investment in housing and its contribution to regional economic growth the projections are that housing is estimated to have a compound growth rate of 4.5% per annum between 2008 – 2020, third to Banking (6.2%) and education / telecom (4.9% each). *(McKinsey (2010) Lions on the move: The progress and potential of African Economies)*

This macro-economic context presents significant opportunities for Shelter Afrique.

Box 2: REGIONAL HOUSING TRENDS (SELECT MARKETS)

Southern Africa

Zimbabwe: There is an acute supply of housing in Zimbabwe. Due to liquidity constraints that the country experienced during the decade of turmoil, capacity for supply of housing units both by private and government entities was seriously jeopardized. The Ministry of Local Government estimates that about 560 000 units are required across all housing market segments. According to Knight Frank (2011), as a result of the low supply of housing units, there is a high demand for rental properties – however the low incomes of most consumers in the country hamper prospects.

On the demand side, Zimbabwe has had a strong tradition of financing through building societies including the Central African Building Society (CABS) (now part of the Old Mutual group), Commercial Bank of Zimbabwe (CBZ) Building Society (formerly Beverley Building Society), FBC (formerly Zimbabwe Building Society) and ZB Building Society (formerly Inter market Building Society) although the commercial banking sector also offer mortgages. Building societies have the largest share of deposits in the country exceeding commercial banks. Access to housing finance was generally confined to the middle- to higher-income earners through these building societies and banks. Nevertheless some, including CBZ had begun to make inroads into lower-income segments.

The country's is on an economic recovery path which is creating opportunities to grow the housing finance sector

REGIONAL HOUSING TRENDS (SELECT MARKETS) (continued)

given the existence of organized associations of land developers and established financial institutions. This gives a significant positive outlook for the future.

West Africa

Ghana : A recent study by UN Habitat reports that Ghana's housing need is expected to hit 5.7 million units by 2020. The analysis highlights that housing in the country has never been a significant component of the country's national economic planning, but has been seen rather as part of its welfare sector. As much as 90 percent of Ghana's housing stock has been produced through self-build. According to the Ghana Real Estate Developers Association, the slow pace of residential property construction is now changing. Since 2005, completions and new building plan approvals have increased. Permit approvals for registered real estate developers and parastatal real estate developers have more than doubled. This has not changed the predominant self-build form of housing delivery, however. There is some delivery of housing by the government. Players include the Social Security and National Insurance Trust and the State Housing Company. Housing developments driven by the state, which primarily targets the public service, have, however, been unable to significantly dent the demand.

A growing, relatively stable, well-managed economy provides prospects for even greater demand for housing. With greater awareness and acceptance of mortgage products in the country and finalisation of reforms to the land administration system, the mortgage industry has significant potentials for growth.

Niger: The rate of housing supply is insufficient to meet the demand which is estimated to be escalating at about 40,000 housing stock per annum by the Ministry in charge of housing (Ministere De l'Equipement De l'Habitat et de l'Amenagement du territoire). Access to mortgage finance is extremely limited, and if available, interest rates and loan tenure make the cost of borrowing very high. As such, the majority of the population cannot afford housing. Although there has been a reform in land administration, registration of properties to obtain full ownership rights of land and property (Titre Froncer, TF) is still a challenge. The difficulties encountered are being addressed through a reform system adopted by UEMOA (Union Monetaire Ouest Africaine) countries in 2006 to simplify the process of obtaining full ownership of land titles.

Penetration of formal financial services is very low in Niger. Currently, there are 10 commercial banks, a Bank of Agriculture (Bagri) established in 2011 and one mortgage institution (Banque d' Habitat) created in 2011 but with a low operating capacity. Prior to 2000, the government of Niger offered housing finance and government subsidized homes to civil servants through a public and private owned credit and loans institution known as Credit du Niger (CDN) and a government owned housing development company, Societe Nationale d'urbanisme et de Construction Immobiliere (SONUCI). SONUCI is still operating but CDN was liquidated in 2011 to pave way for Banque d'Habitat. The liquidity constraints has been the major challenge facing the banking sector and especially in Niger as only two lenders Bank of Africa and Eco Bank are offering mortgage financing.

Opportunities in the country is stimulated by the adoption of the Niger Republic's national policy and regulation on Habitat in December 1998 is aimed at lessening the bureaucratic procedures for housing finance and orientation for promoting housing development. The propositions includes creation of a national housing scheme, national research centre for promoting construction material & technology and the transformation of a commercial bank (Credit du Niger) into a housing finance bank. The policy is aimed at encouraging private investments in real estate developments.

East Africa

Kenya: Based on population growth and rapid urban migration (the current rate is 22 per cent), it is estimated that the housing backlog is 2 million units per annum. In order to address this backlog and cater for new family formation, it is estimated that between 250,000 – 300,000 units need to be produced annually, over five times the number of formal housing units currently being supplied.

The mortgage industry has witnessed modest growth with a total of about 13 803 mortgage loans worth US$ 655 million as of end of 2011. The main providers of mortgages are Housing Finance, Savings & Loan, East African Building Society, Standard Chartered Bank, Barclays Bank and Stanbic Bank. Nevertheless mortgage lending is still accessible to only a tiny minority – mortgage lending as a

REGIONAL HOUSING TRENDS (SELECT MARKETS) (Continued)

percentage of GDP sat at 2.6 per cent in 2010. There have been some efforts to expand this reach by the industry. New entrants and aggressive marketing has resulted in some newer products. For example, fixed rate mortgages have been made available for between 10 and 20 year terms. Some banks have recently introduced 100 percent financing for the full value of a house. Some lenders also introduced mortgage insurance against the risk of a loss of income. The Retirement Benefit Authority in 2009 allowed that pension contributions of up to 60 percent could be used to secure a mortgage. This has the potential to leverage assets worth US$3.625 billion. The government has also put in place measures to encourage lending by banks. For example, the Central Bank of Kenya reduced cash reserve ratios for banks in 2009, intended to free up more money for lending.

The country offers numerous opportunities to further grow the sector which includes the active capital market which has been a useful arena for local finance institutions to raise money to fund real estate related investments, which often has been oversubscribed. Shelter Afrique has been among the players issuing bonds in the market along other local financiers such as Housing Finance and the Kenya Commercial Bank.

North Africa

Morocco: Currently, the annual urban growth rate is between 3% and 5% which is about 120,000 housing units needed per annum to meet the demand. The current housing production rates are inadequate to reduce the housing backlog. The country introduced a new Finance Act in 2011 which aims, among other things, to improve the provision of social housing in the sector. Some of the measures include apportioning 70 per cent percent of affordable housing projects covering both urban and rural areas by the government, to property developers, who would be rewarded on the quality and safety of housing projects through tax exemptions. The Moroccan housing market is currently burdened by a lack of availability of affordable housing, land ownership titling encumbrances, and poor financial infrastructure. The Government made great strides towards reducing the housing gap at the lower income end of the affordability spectrum. However, overall government involvement in the housing sector has traditionally introduced rigidities and crowded private investment. Movements toward greater transparency and financial liberalization indicate a future where there are many opportunities for increased private sector involvement in all levels of the country housing sector.

The private sector accounts for 85 percent of housing construction in Morocco, but many private developers and contractors are reluctant to build low-income housing because financing is not easily available. Under current banking conditions, developers must put up equity contributions ranging between 30-50 percent of the total investment cost. Financing for mortgage lending is in short supply. Only one institution, the state-owned Credit Immobilier et H"telier (CIH), provides any significant mortgage financing for low-cost housing in urban areas. The low and middle income households in Morocco are the most limited financing options, both because of their inability to afford down payments and also their inability to access capital markets for long term loans. The main challenge facing the housing sector in Morocco and other Northern African c countries is the lack of affordable housing, not a lack of available housing stock.

There are ample opportunities in the country with the Finance Act of 2010, the affordable housing market is expected to receive a boost in supply of housing. Also this Act promises to contribute to the growth of the construction industry, especially the small and medium businesses, many of which might be focused in the affordable housing sector. Shelter-Afrique strategies going forward is forging strategic partnerships private developers, local finance institution and explore the opportunities available to increase the housing stock supply in the country.

The above is a snapshot of the housing context in selected countries where Shelter Afrique operates. However, the key themes of opportunity, reforms and potential are common. The time for housing finance in Africa appears to have come.


Loan Agreement signing ceremony between Shelter Afrique and Elolo project (DR Congo)


The President of Ghana, H.E. John Atta Mills shakes hands with the MD of Shelter Afrique after signing membership documents, Accra, Ghana


The President of the Republic of Kenya H.E Mwai Kibaki and the Minister for Housing Hon. Soita Shitanda are briefed by the Director of Finance, Mrs. Karen Kandie on the operations of Shelter Afrique during the 30th AGM. Looking on is Mr. Alassane BA the Managing Director


Loan Signing between Shelter Afrique and AMS Properties (MENSA) Phase 2, Nairobi, Kenya


The MD with the Ministers for housing in Kenya and South Sudan respectively during the AMCHUD meeting - Nairobi, Kenya


Mr. Said Diaw, Team Leader, Project Portfolio Management (PPM) with the Managing Director of Marlborough (Serene Valley) project; Mr. Nick Stock, Nairobi, Kenya


Shelter Afrique Staff during Inspection of projects


The MD of Shelter Afrique and the Representative of Elolo Project (DR Congo), just after signing of the Loan Agreement

SHELTER - AFRIQUE

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA

Annual Report and Financial Statements

31 December 2011

Ernst & Young

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	Kenya Commercial Bank Limited P O Box 30012 - 00100, Nairobi GPO KENYA
	Citibank N.A. P O Box 30711 - 00100 Upperhill, Nairobi KENYA
	BNP Paribas 2, Place de l'opera B P 6542 75060 Paribas Cedex 02, Paris FRANCE
	Citibank New York c/o Citibank N.A. P O Box 30711 - 00100, Upperhill, Nairobi KENYA
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AUDITORS	Ernst & Young Certified Public Accountants (Kenya) P O Box 44286-00100 Nairobi KENYA

BOARD OF DIRECTORS

Chairperson	Ms. E. M. Tembo (up to 15.06.2011) Mr. Elias Mpondela (from 15.06.2011)
Vice Chairperson	Mr. V. Ndayitwayeko (up to 15.06.2011) Mrs. Nene LY Soumare (from 15.06.2011)

DIRECTORS	ALTERNATE DIRECTORS	REPRESENTING
Class "A" Shareholders		
Ms. E. M. Tembo (up to 15/06/2011) Mr. Elias Mpondela (from15.06.2011)	* (From Namibia)	Botswana, Lesotho, Malawi, Namibia, Swaziland, Zambia.
Mr. V. Ndayitwayeko (up to 15.06.2011) Mr. David Gabindadde-Musoke (from15.06.2011)	* (From Rwanda)	Burundi, Central African Republic, Chad, Djibouti, Equatorial Guinea, Gabon, Gambia, Liberia, Madagascar, Rwanda, Tanzania, Uganda.
Mr. E. M. Baba Diarra (up to 15.06.2011) Mrs. Nene LY Soumare (from15.06.2011)	*(From Togo)	Guinea, Burkina Faso, Mali, Senegal, Togo.
Mr. A. Boulares	*(From Mauritania)	Algeria, Mauritania, Morocco, Tunisia.
Mr. F. M Carba (up to 15.06.2011) Mr. Jean Paul Missi (from15.06.2011)	*(From Niger)	Benin, Congo, Democratic Republic of Congo, Cameroon, Mauritius, Niger, Seychelles.
Mr. L. Y. Abubakar (up to 15.06.2011) Dr. Olatunbosun Ayileka (from15.06.2011)	*(From Guinea Bissau)	Cape Verde, Guinea Bissau, Nigeria, Sao Tome & Principe.
Mr. T. Kosgey	*(From Zimbabwe)	Kenya, Zimbabwe, Somalia, Sierra Leone.
Note: Ghana joined Shelter Afrique membership during the year and is yet be allocated a country grouping.		
Class "B" Shareholders		
Mrs Eunice Mbogo (up to 15.06.2011) Mr. Corneille Karekezi (from15.06.2011)	Ms. Eunice Mbogo	African Reinsurance Corporation
Mr. J.M. Gharbi (up to 31.12.2010) Mr. Samuel Mivedor (from31.12.2010)	African Development Bank	African Development Bank

SENIOR MANAGEMENT

Mr. A. Bâ	Managing Director
Mrs. K. Kandie	Director, Finance
Mr. Y. Olayanju	Director, Risk and Planning
Mrs. R. Onyancha	Director, Corporate Affairs and Secretariat
Mr. F. Adewole	Director, Business Development and Operations

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

Report of the Directors

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2011, 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 37 of the financial statements. The profit for the year transferred to revenue reserve amounts to US$2,818,344 (2010 –US$ 2,014,876).

4. DIVIDENDS

The Directors recommend the payment of a dividend of US$ 563,616 which represents US$ 10.63 per paid up ordinary share (2010 - US$ 402,975).

5. RESERVES

The reserves of the Company are set out on page 39 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 31.

In Accordance with the Company's Charter, the directors hold office for a term of three years and are, therefore not subject to retirement by rotation annually.

7. AUDITORS

Ernst & Young have expressed their willingness to continue in office in accordance with Article 31 of the Company's Charter.

BY ORDER OF THE BOARD

Company Secretary
2nd April, 2012
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 31.

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 28 to the financial statements for the year ended 31 December 2011.

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 2011.

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. S. Mivedor, and meets twice a year. Other members are two non-executive Directors, Mr. A. Boulares and Mr. J.P. Missi. 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. C. Karekezi. The other members are two non-executive appointees of the Board Mr. T. Kosgey and Mr. Gabindadde-Musoke. 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 independence 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. In addition, the Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs).

Director
2nd April 2012

Director
2nd April 2012

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
2nd April 2012

Director
2nd April 2012

We have audited the accompanying financial statements of The Company For Habitat And Housing In Africa (Shelter - Afrique), which comprise the statement of financial position as at 31 December 2011, 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 information as set out on pages 37 to 70.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements 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 effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, the results for the year and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young

Certified Public Accountants (Kenya)

4th April, 2012

Nairobi

	Note	2011 US$	2010 US$
INTEREST AND SIMILAR INCOME	3	12,143,026	9,089,543
INTEREST EXPENSE AND SIMILAR CHARGES	4	(5,025,001)	(3,182,894)
NET INTEREST INCOME		7,118,025	5,906,649
FEE AND COMMISSION INCOME	5	2,055,476	1,826,937
GRANT INCOME	6	781,570	567,587
OTHER INCOME	7	240,743	173,004
OPERATING EXPENSES	8	(4,903,052)	(4,173,316)
GRANT EXPENDITURE	9	(777,691)	(563,707)
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	14(c)	(1,462,123)	(736,431)
NET FOREIGN EXCHANGE (LOSSES)/ GAINS		(225,469)	(985,847)
JOINT VENTURE GAIN/(LOSS)		(9,135)	-
PROFIT FOR THE YEAR		2,818,344	2,014,876
OTHER COMPREHENSIVE INCOME			
NET GAIN ON REVALUATION OF BUILDINGS	17(i)	-	320,731
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,818,344	2,335,607
		-	-
EARNINGS PER SHARE	15	55.95	42.77

Statement of Financial Position

At 31 December 2011

	Note	2011 US$	2010 US$
ASSETS			
Bank and cash balances		8,322,414	8,536,223
Short term bank deposits	12	73,813,078	24,130,148
Corporate bonds	13	4,208,326	4,563,737
Loans and advances to customers	14(a)	100,791,554	88,868,545
Other receivables	16 (a)	1,626,508	1,235,016
Investment in Joint Venture	16 (b)	1,401,500	-
Property and equipment	17	3,952,305	4,092,583
Prepaid operating lease	18	135,782	139,661
Intangible assets	19	469,935	422,874
TOTAL ASSETS		194,721,402	131,988,787
EQUITY AND LIABILITIES			
LIABILITIES			
Borrowings	20	51,848,190	25,726,589
Medium term notes	21	52,680,900	30,501,064
Other payables	22	1,838,669	1,103,791
Dividends payable	23	673,463	535,317
Deferred income	24	266,267	440,732
TOTAL LIABILITIES		107,307,489	58,307,493
SHAREHOLDERS' FUNDS			
Share capital	25(a)	53,021,000	47,727,000
Share premium	25(b)	9,256,656	3,233,406
Revaluation surplus		1,980,035	2,011,720
Revenue reserve		23,156,222	20,709,168
TOTAL SHAREHOLDERS' FUNDS		87,413,913	73,681,294
TOTAL EQUITY AND LIABILITIES		194,721,402	131,988,787

The financial statements on pages 37 to 70 were approved by the Board of Directors on 2nd April 2012 and were signed on its behalf by:-

Director
2nd April, 2012

Director
2nd April, 2012

	Share capital US$	Share premium US$	Revaluation surplus US$	Revenue reserve US$	Total equity US$
At 1 January 2010	46,306,000	2,743,161	1,722,674	18,662,607	69,434,442
Share capital	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
At 1 January 2011	47,727,000	3,233,406	2,011,720	20,709,168	73,681,294
Share capital	5,294,000	6,023,250	-	-	11,317,250
Total comprehensive income	-	-	-	2,818,344	2,818,344
Transfer of excess depreciation on revaluation	-	-	(31,685)	31,685	-
Dividends payable	-	-	-	(402,975)	(402,975)
At 31 December 2011	53,021,000	9,256,656	1,980,035	23,156,222	87,413,913

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

Statement of Cash Flow

For The Year Ended 31 December 2011

	Note	2011 US$	2010 US$
OPERATING ACTIVITIES			
Net cash used in operations	26(a)	(5,099,295)	(11,874,691)
INVESTING ACTIVITIES			
Purchase of equipment		(59,982)	(124,963)
Purchase of intangible assets		(79,739)	(16,895)
Proceeds from disposal of equipment		-	18,384
Net cash used in investing activities		(139,721)	(123,474)
FINANCING ACTIVITIES			
Dividends paid	23	(264,829)	(528,774)
Proceeds from capital subscriptions	25(c)	11,317,250	1,911,245
Proceeds from borrowed funds	26(c)	45,763,335	22,303,678
Repayment of borrowed funds	26(c)	(19,163,663)	(1,092,610)
Proceeds from debt securities	26(d)	27,442,371	-
Repayment of debt securities	26(d)	(7,476,915)	(3,260,974)
Interest paid on borrowed funds	26(c)	(536,042)	(707,629)
Interest paid on debt securities	26(d)	(2,373,370)	(2,794,896)
Net cash generated from financing activities		54,708,137	15,830,040
INCREASE IN CASH AND CASH EQUIVALENTS		49,469,121	3,831,875
CASH AND CASH EQUIVALENTS AT 1 JANUARY		32,666,371	28,834,496
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26(b)	82,135,492	32,666,371

1 ACCOUNTING POLICIES

Statement of compliance

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

Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters effective 1 July 2010
- IAS 24 Related Party Disclosure effective 1 January 2011
- IAS 32 Classification of Rights Issue effective 1 February 2010
- IFRIC 14 Prepayment of a Minimum Funding Requirement effective 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010
- Improvements to IFRSs (May 2010), the effective date of each amendment is included in the IFRS affected.

Adoption of these revised standards and interpretations did not have any material effect on the financial performance or position of the Company.

The principal effects of these changes are as follows:

Listed below are standards and interpretations that have been issued, but have no significant impacts on the financial statements

IFRS 1 First-time Adoption of International Financial Reporting Standards (Revised)

The IASB issued an amendment to IFRS 1 to allow the first-time adopters to utilize the transitional provision in IFRS 7 Financial Instruments: Disclosures, relieving them from providing comparative information in the disclosures required by the amendment in the first year of application. The Company is not a first time IFRS adopter and therefore amendments to IFRS 1 have no impact on the financial statements.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. There were no changes in related parties.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company.

1 ACCOUNTING POLICIES (Continued)

IFRIC 14 *Prepayments of a Minimum Funding Requirement*

The IFRIC gives guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The interpretation is effective retrospectively for annual periods beginning on or after 1 January 2011. The Company adopted this amendment as of 1 January 2011. It does not have an impact on the financial position or performance of the Company as the Company is not required to make any prepayment of a minimum funding requirement.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The IFRIC clarified that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instrument issued. If the fair value of the equity instrument issued is not reliably determinable, the equity instrument should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability extinguished and the fair value of the equity issued is recognized in profit or loss. This interpretation is effective prospectively for financial years beginning on or after 1 July 2010. The adoption of this interpretation has no effect on profit or loss nor equity of the Company as the Company has not entered into such debt for equity swap.

2.4 Changes in accounting policy and disclosures (cont'd)
Improvements to IFRSs

In May 2010 the IASB issued its annual amendments to International Financial Reporting Standards (IFRSs) and the related Basis for Conclusions and guidance made. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project.

The amendments primarily deal with a view to remove inconsistencies and clarify wording. Shelter Afrique has adopted the following amendments to standards as they come to effect for the reporting period beginning on 1 January 2011:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: The amendments give first time adopters additional exemptions and transitional arrangements. The Company is not a first time IFRS adopter, therefore, the amendments to IFRS 1 have no impact on the financial statements.

- IFRS 3 Business Combinations: The first amendment clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). It is effective for annual periods beginning on or after 1 July 2010 and applied retrospectively. This has no impact on the Company as the Company has no contingent consideration upon business combinations.

- IFRS 3 Business Combinations: The second amendment limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS. It is effective for annual periods beginning on or after 1 July 2010 and applied prospectively. The amendment has no impact on the Company.

- IFRS 3 Business Combinations: The final amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested — they are part of NCI and measured at their market-based measure; if unvested — they are measured at market-based value as if granted at acquisition date, and allocated between NCI and post-combination expense. It is effective for annual periods beginning on or after 1 July 2010 and applied prospectively. The amendment has no impact on the Company.

1 ACCOUNTING POLICIES (Continued)

- IFRS 7 Clarification of Disclosures: The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments and amends certain credit risk disclosures. It is effective for annual periods on or after 1 January 2011 and applied retrospectively. The amendment has no impact on the Company.

- IAS 1 Presentation of Financial Statements: amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. It is applicable prospectively to annual periods beginning on or after 1 January 2011. The Company elects to present such analysis in the statement of change in equity.

- IAS 27 Consolidated and Separate Financial Statements: amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier. It is applicable retrospectively to annual periods beginning on or after 1 July 2010. This has no impact on the Company financial statements.

- IFRIC 13 Fair value of award credit: amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. This has no impact on the Company as the Company does not have a customer loyalty programme.

Listed below are standards and interpretations that have been issued, but not yet effective as of 1 January 2011:

Standards issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt the standards when they become effective.

Amendments to IAS 19 Employee Benefits

The amendments to IAS 19 removes the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognized in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. The adoption of these amendments will require the Company to recognize the service cost and a net interest income or expense in profit or loss and the re-measurements of the pension assets and liabilities, i.e., actuarial gains and losses in the other comprehensive income. The Company has not early adopted these amendments.

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 require changes to the presentation of other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The effective date of the standard is 1 January 2013. The Company has not early adopted these amendments

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the Board's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in 2012. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. However, the effect will be quantified only in conjunction with the other phases when issued, to present a comprehensive picture.

1 ACCOUNTING POLICIES (Continued)

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. The standard establishes a single control model that applies to all entities. It will require management to exercise judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. It is effective for annual periods beginning on or after 1 January 2013. The adoption of IFRS 10 might change which entities are within the Company. The Company is in the process of assessing the effect of the new requirements but has not early adopted these amendments

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. The standard addresses two forms of joint arrangements,i.e., joint operations and joint ventures. To assess whether there is joint control IFRS 11 uses the principle of control in IFRS 10. The existing option to account for jointly controlled entities under IAS 31 using proportionate consolidation is removed in this standard. The effective date of this standard is 1 January 2013. The Company has not early adopted these amendments.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 includes all the disclosures that were previously in IAS 27, IAS 31 and IAS 28 Investment in Associates. A number of new disclosures are added to the existing requirements such as the judgments made to determine whether it controls another entity. This standard is effective for the annual periods beginning on or after 1 January 2013. IFRS 12 is a disclosure only standard and therefore will have no effect on profit or loss or the equity of the Company.

IFRS 13 *Fair Value Measurement*

IFRS 13 provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. The standard is effective for annual periods on or after 1 January 2013. The Company has not early adopted these amendments.

a) 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. The Company's functional and reporting currency is the United States Dollars (US$).

b) 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 services are received.

c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily taKSHS a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. 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.

1 ACCOUNTING POLICIES (Continued)

d) Interests in jointly controlled entities

The Company has contractual arrangements with other parties which represent joint ventures. These have contractual agreements to share control over other entities.

Where the joint venture is established through an interest in a jointly controlled entity, the Company recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of its net assets, less distributions received and less any impairment in value of individual investments. The Company's income statement reflects the share of the jointly controlled entity's results.

e) 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.

f) 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.

An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of changes in equity in the year the asset is derecognized.

g) 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.

1 ACCOUNTING POLICIES (Continued)

h) Property and equipment

Property and equipment are stated at cost or valuation, less accumulated depreciation and impairment losses. Repairs and maintenance costs are capitalized if the recognition criteria are complied with. All other repairs and maintenance costs are expensed as incurred. 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.

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%
ERP software	20.0%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

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.

i) Impairment of non-financial assets

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

j) Retirement benefit costs

The Company operates a defined contribution provident fund scheme for all its employees. The assets of the scheme are held in a separate 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$ 2.35 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.

k) Employee entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability of annual leave as services rendered by employees up to the year end.

1 ACCOUNTING POLICIES (Continued)

l) 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.

  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.

1 ACCOUNTING POLICIES (Continued)

l) Financial instruments (Continued)

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. A financial asset is impaired and impairment losses are incurred, if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss or event (or events) has an impact on the estimated future cashflows of the financial asset that can e reliably determined. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that are correlated with default.

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.

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.

m) 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 assesses at each year end whether its loans and receivables are impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised costs has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows 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. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan is known to be uncollectible, when all the necessary legal procedures have been completed, and the final loss has been determined, the loss 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.

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.

3 INTEREST AND SIMILAR INCOME

	2011 US$	2010 US$
Loans and advances	10,480,628	8,262,223
Placements with financial institutions	1,662,398	827,320
	12,143,026	9,089,543

4 INTEREST EXPENSE AND SIMILAR CHARGES

	2011 US$	2010 US$
Funds from financial institutions and capital markets	4,985,059	3,135,687
Bank charges	39,942	47,207
	5,025,001	3,182,894

		2011	2010
		US$	US$
5	**FEES AND COMMISSIONS INCOME**		
	Commitment fees	372,946	251,685
	Appraisal fees	492,628	483,711
	Front-end fees	519,746	470,774
	Penalty fees	386,538	347,752
	Other project fees	283,618	273,015
		2,055,476	1,826,937
6	**GRANT INCOME**		
	Government of Kenya land grant (note 24)	3,879	3,880
	FAPA grant (Note 24)	554,264	250,209
	AFD interest advantage grant (note 24)	223,427	90,495
	FIRST - World Bank executed trust fund	-	223,003
		781,570	567,587
7	**OTHER INCOME**		
	Rental income	143,395	131,136
	Gain on disposal of equipment	-	11,959
	Miscellaneous income	97,348	29,909
		240,743	173,004
8	**OPERATING EXPENSES**		
	Staff costs (Note 10)	3,041,396	2,477,522
	Depreciation of property & equipment	200,258	178,046
	Amortisation - Prepaid operating lease	3,879	3,880
	Amortisation of intangible assets	32,678	9,763
	Auditor's remuneration	20,500	22,500
	Directors costs	318,185	307,478
	Impairment provision for credit risk for corporate bonds	-	71,200
	Other administration costs	1,286,155	1,102,927
		4,903,052	4,173,316
9	**GRANT EXPENDITURE**		
	FAPA grant (Note 24)	554,264	250,209
	AFD interest grant (note 24)	223,427	90,495
	World Bank grant	-	223,003
		777,691	563,707

10. STAFF COSTS

	2011 US$	2010 US$
Salaries and wages	2,270,411	2,064,643
Terminal benefits	612,355	251,005
Leave pay	113,612	86,925
Other costs	45,018	74,949
Total staff costs(Note 8)	3,041,396	2,477,522

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	
	2011 US$	2010 US$	2011 US$	2010 US$
Kenya	3,364, 977	2,681,782	4,558,024	4,655,118
Nigeria	2,415,768	1,830,962		
Senegal	1,220,935	1,382,347		
Others *	5,533,909	4,194,069	-	-
	12,535,589	10,089,160	4,558,024	4,655,118

* Represents 21 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:

	2011 US$	2010 US$
Interest on loans (note 3)	10,480,628	8,262,223
Fee and commission income (note 5)	2,055,476	1,826,937
	12,536,104	10,089,160

11 SEGMENT INFORMATION (Continued)

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

	2011 US$	2010 US$
Property and equipment	3,952,308	4,092,583
Prepaid operating lease	135,782	139,661
Intangible assets	469,935	422,874
	4,558,025	4,655,118

12 SHORT TERM BANK DEPOSITS

Held to maturity:

	2011 US$	2010 US$
Call and fixed deposits	73,813,078	24,130,148

The effective interest rate for the bank deposits during the year was 4.3 % (2010 – 2.60%) per annum.

The bank deposits include amounts equivalent to US$ 25,569,918 (2010 – US $4,282,394) in local currencies of member countries. All the bank deposits mature within six months of the dates of placement.

13 CORPORATE BONDS

	2011		2010	
	Amortised cost US$	Market value US$	Amortised cost US$	Market value US$
Corporate bonds – held to maturity	4,008,326	3,623,194	4,363,737	4,175,235
Corporate bonds – loans and receivables	200,000	119,000	200,000	186,000
	4,208,326	3,742,194	4,563,737	4,361,235

The average effective interest rate for the corporate bonds during the year ended 31 December 2011 was 5.49 % (2010 – 5.62 per annum).

Maturity profile of corporate bonds:

	2011 US$	2010 US$
Maturing:		
One year to five years	695,765	150,000
Over five years	3,383,761	4,284,937
Held to perpetuity	200,000	200,000
	4,279,526	4,634,937
Impairment provision for credit risk	(71,200)	(71,200)
Net amount	4,208,326	4,563,737

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.

14 LOANS AND ADVANCES TO CUSTOMERS

	2011 US$	2010 US$
(a) Analysis of loans and advances		
At 1 January	86,961,131	69,550,229
Disbursements during the year	36,291,806	35,546,722
Repayments during the year	(25,145,209)	(15,983,036)
Currency translation adjustment	320,560	(2,152,784)
At 31 December:		
Principal loans and advances	98,428,288	86,961,131
Interest and fees receivable	7,664,622	5,823,606
Gross loans	106,092,910	92,784,737
Impairment provision for credit risk	(5,301,356)	(3,916,192)
Net loans and advances	100,791,554	88,868,545

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	2011 US$	2010 US$
The movement in the impairment provision was as follows:		
At 1 January	3,916,192	3,759,511
Amounts written off	-	(579,750)
Charge for the year	1,412,434	736,431
Currency translation adjustment	(27,270)	-
At 31 December	5,301,356	3,916,192

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 11.7% (2010 – 10.4%) per annum.

(c) Provision for credit risk	2011 US$	2010 US$
Impairment provision on principal	445,756	736,431
Project loans interest on suspense	966,678	-
	1,412,434	736,431
Provision on sundry debtors	49,689	-
At 31 December	1,462,123	736,431

(d) Analysis of gross loans by maturity	2011 US$	2010 US$
Maturing:		
Within one year	53,408,650	47,329,600
One year to five years	46,771,127	44,277,855
Over five years	5,913,133	1,177,282
	106,092,910	92,784,737

15 EARNINGS PER SHARE

	2011 US$	2010 US$
Profit for the year (US$)	2,818,344	2,014,876
Weighted average number of ordinary shares in issue	50,374	47,107
Basic earnings per share (expressed in US$ per share)	55.95	42.77

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 2011 and 31 December 2010.

16 (a) OTHER RECEIVABLES

	2011 US$	2010 US$
Staff loans	612,874	537,983
Other debtors and prepayments	1,089,802	723,511
	1,702,676	1,261,494
Less: Provision for doubtful amounts	(76,168)	(26,478)
	1,626,508	1,235,016

Staff loans and advances are granted in accordance with the Staff Rules and Regulations approved by the Board of Directors. The effective rate on staff loans and advances was 5.8% (2010-5.8%) per annum. These staff loans and advances have various terms.

16 (b) INVESTMENT IN JOINT VENTURE

This is a joint venture arrangement between Shelter Afrique and Everest Limited with effect from 01.02.2011. The purpose of the joint venture is to own, develop, construct, and sell the subject property and improvements as an investment for production of income. The property is located within Mavoko Municipality in Kenya.

The venturers have the following undivided interest in the Joint Venture: Shelter Afrique – 50% and Everest Limited - 50%. The term of the joint venture is expected to be 5 years, but may be extended beyond that period, by mutual written agreement of the venturers.

17 PROPERTY AND EQUIPMENT

	Freehold land and buildings US$	Office equipment, furniture and fittings US$	Computers US$	Motor vehicles US$	Residential equipment, furniture and fittings US$	Total Costs US$
COST OR VALUATION						
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 31st 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
At 1 January 2011	3,706,155	495,720	223,304	77,866	85,037	4,588,082
Additions	-	28,925	28,225	-	2,830	59,979
At 31st December 2011	3,706,155	524,645	251,529	77,866	87,867	4,648,061
DEPRECIATION						
At 1st 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)
As at 31st December 2010	-	296,035	138,822	29,717	30,925	495,499
At 1st January 2011	-	296,035	138,822	29,717	30,925	495,499
Charge for the Year	100,815	36,224	36,851	16,509	9,859	200,258
As at 31st December 2011	100,815	332,259	175,673	46,226	40,784	695,757
NET BOOK VALUE						
As at 31st December 2011	3,605,340	192,386	75,856	31,640	47,083	3,952,305
As at 31st December 2010	3,706,155	199,685	84,482	48,149	54,112	4,092,583

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$ 325,407 (2010 - US$323,733) which were fully depreciated. The normal annual depreciation charge on these assets would have been US$ 50,829 (2010 -US$ 52,637).

18 PREPAID OPERATING LEASE

	2011 US$	2010 US$
COST:		
At 1 January and at 31 December	200,000	200,000
AMORTISATION:		
At 1 January	60,339	56,459
Charge for the year	3,879	3,880
At 31 December	64,218	60,339
NET BOOK VALUE		
At 31 December	135,782	139,661

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

	2011 US$	2010 US$
COST:		
At 1 January	470,356	453,461
Additions	79,739	16,895
At 31 December	550,095	470,356
AMORTISATION:		
At 1 January	47,482	37,719
Charge for the year	32,678	9,763
At 31 December	80,160	47,482
NET BOOK VALUE		
At 31 December	469,935	422,874

The intangible assets relate to computer software. Included in intangible assets are assets with a cost of US$ 36,808 (2010 -US$ 36,808) which have been fully amortised. The normal annual amortisation charge on these assets would have been 9,202 (2010 –US$ 9,202).

20 BORROWINGS

	2011 US$	2010 US$
AfDB Line of Credit	29,500,000	10,000,000
AFD Line of Credit	12,129,375	6,689,858
FMO Line of Credit	10,000,000	5,000,000
Euro Loans from Merrill Lynch International Bank Limited	-	3,216,866
KSHS Bank overdraft with Ecobank Kenya	-	626,048
Interest payable on loans	218,815	193,817
	51,848,190	25,726,589
Analysis of borrowings by maturity:		
Maturing:		
Within one year	8,168,065	4,954,847
One year to five years	25,137,000	14,181,161
Over five years	18,543,125	6,590,581
	51,848,190	25,726,589

The Euro loans from Merrill Lynch International Bank Limited and overdraft with Ecobank were fully paid off during the year.

21 MEDIUM TERM NOTES

	2011 US$	2010 US$
CFA Loan – 3rd tranche (2008 – 2014)	4,721,634	5,694,649
CFA Loan – 4th tranche (2009 – 2014)	8,875,637	12,234,411
Kenya Shilling bond – 2009 - 2012	8,228,701	12,383,901
Kenya Shilling bond – 2011 - 2014	29,388,220	-
Interest payable on loans	2,054,782	610,813
Deferred charges on medium term notes	(588,074)	(422,710)
	52,680,900	30,501,064
Maturity analysis for the medium term notes:		
Maturing:		
Within one year	14,227,772	8,041,154
One year to five years	38,453,128	22,459,910
	52,680,900	30,501,064

21 MEDIUM TERM NOTES (Continued)

Analysis of medium term notes:

The third tranche of the Communauté Financière Africaine-Franc (FCFA) Loans (FCFA 2.79 billion-US$5,502,895) was raised in 2008 through CGF Bourse for the duration 2008 to 2014 at an interest rate of 6% p.a. The fourth tranche of CFA Loans (FCFA 6 billion-US$11,834,182) was raised in 2009 through CGF Bourse for the duration 2009 to 2014 at an interest rate of 6.75% p.a..

The Kenya Shilling Bond 2009 -2012 (KSHS 1 billion-US$11,755,288) was launched in 2009 through the Nairobi Securities Exchange for the duration 2009 to 2012 at an interest rate of 11% (KSHS 904.8 million-US$ 10,636,184) and 1.5% (KSHS 95.2 million)-US$ 1,119,104 above the 182 day treasury bill rate.

The Kenya Shilling Bond 2011 – 2014 (KSHS 2.5 billion-US$29,388,220) was launched in 2011 through the Nairobi Securities Exchange for the duration 2011 to 2014 at an interest rate of 12.5% (KSHS 1,083,210,000-US$ 12,733,445) and 1.5% above the 182 day treasury bill rate (KSHS 1,416,790,000-US$ 16,654,775). The medium term notes are all unsecured.

	2011 US$	2010 US$
22 OTHER PAYABLES		
Accruals	1,243,999	852,218
Leave pay	160,635	149,678
Terminal benefits	340,775	24,655
Rent deposits	65,348	53,945
Overpayment of share capital subscriptions	27,912	23,295
	1,838,669	1,103,791
23 DIVIDENDS PAYABLE		
At 1 January	535,317	1,064,091
Dividend declared	402,975	-
Dividend paid	(264,829)	(528,774)
At 31 December	673,463	535,317

The Directors recommend the payment of a dividend of US$ 563,616 which represents US$ 10.63 per paid up ordinary share (2010 - US$ 402,975). 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

	2011 US$	2010 US$
At 1 January	440,732	143,541
FAPA grant received in the year	313,231	538,500
FAPA grant expended in the year (note 6 and 9)	(554,263)	(250,209)
Amortisation of Government of Kenya grant (note 6)	(3,880)	(3,880)
AFD interest advantage grant for the year	293,874	103,275
AFD grant expenditure for the year (note 6 and 9)	(223,427)	(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	266,267	440,732

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 Building. 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 assisting in the diversification and product development. The deferred income is amortised to profit or loss as the amounts are utilised.

The World Bank grant was 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 of Eur 5 million (2010-Eur 5 million) from Agence Francaise de Developpement (AFD) at preferential interest rates below market rates.

25 SHARE CAPITAL

	2011 US$	2010 US$
(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: 39,925 ordinary shares of US$ 1000 each (2010 -34,631)	39,925,000	34,631,000
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	53,021,000	47,727,000

25 SHARE CAPITAL (Continued)

As a supranational development financial institution with a membership comprising 43 African States and two institutional members, subscription to the capital of the Company is made by all its members. 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.

(b) SHARE PREMIUM

	2011 US$	2010 US$
At end of year	9,256,656	3,233,406

Share premium arises from shareholders both new and current who take up more shares in the Company. The share premium is the difference between the par value (US$ 1,000 per share) and the current share price US$1,706 (2010-US$ 1,345) current shareholders and US$2,236(2010 - US$1,565 Sovereign & US$1,600 institutional) for new shareholders.

(c) MOVEMENT IN PAID UP CAPITAL

	Number of shares	Ordinary shares US$	Share premium US$	Total US$
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
At 1 January 2011	47,727	47,727,000	3,233,406	50,960,406
Paid up in the year	5,294	5,294,000	6,023,250	11,317,250
At 31 December 2011	53,021	53,021,000	9,256,656	62,277,656

26 NOTES TO THE STATEMENT OF CASH FLOWS

	2011 US$	2010 US$
(a) Reconciliation of profit for the year to cash used in operations		
Profit for the year	2,818,344	2,014,876
Adjustments for:		
Interest expense on funds from financial institutions and capital markets	4,959,226	3,092,642
(Gain)/loss on disposal of equipment	-	(11,959)
Depreciation of property and equipment	200,258	178,046
Amortisation of prepaid operating lease	3,879	3,880
Amortisation of intangible assets	32,678	9,763
Net foreign exchange loss - borrowings notes	565,899	346,965
Net foreign exchange loss/ (gain) – medium term notes	(879,402)	580,504
Cash flows from operating profits before changes in operating assets and liabilities	7,700,883	6,214,717
Movements in:		
Loans and advances to customers	(11,923,009)	(18,238,595)
Corporate bonds	355,411	(229,065)
Other receivables	(391,492)	(312,967)
Everest Joint Ventures	(1,401,500)	-
Other payables	734,878	394,028
Deferred income	(174,465)	297,191
Net cash used in operations	(5,099,295)	(11,874,691)
(b) Cash and cash equivalents:		
Bank and cash balances	8,322,414	8,536,223
Short term bank deposits	73,813,078	24,130,148
Cash and cash equivalents	82,135,492	32,666,371
(c) Analysis of movement in borrowings:		
At 1 January	25,726,589	4,460,895
Additional borrowings in the year	45,763,335	22,303,678
Repayments in the year	(19,163,663)	(1,092,610)
Interest expense for the year	623,870	415,290
Interest paid in the year	(536,042)	(707,629)
Net foreign exchange loss	(565,899)	346,965
At 31 December	51,848,190	25,726,589

26 NOTES TO THE CASHFLOW STATEMENT (Continued)

(d) Analysis of movement in medium term notes

	2011 US$	2010 US$
At 1 January	30,501,064	33,299,078
Additional borrowings in the year	27,442,371	-
Repayments in the year	(7,476,915)	(3,260,974)
Interest expense for the year	3,708,348	2,677,352
Interest paid in the year	(2,373,370)	(2,794,896)
Net foreign exchange loss/ (gain)	879,402	580,504
At 31 December	52,680,900	30,501,064

27 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments:

	2011 US$	2010 US$
Approved project loans	55,725,600	44,178,836
Office furniture and computerisation	245,300	523,382
Headquarter building structural repairs	263,000	-
Motor vehicles	100,000	-
	56,333,900	44,702,218

(b) Contingent liabilities:

The company is a defendant to legal proceedings filed against it by third parties and is also a plaintiff to legal proceedings filed by the company against third parties. As the company is in the financial industry, it is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of the pending or threatened legal proceedings (including litigations), the directors, having sought the advice of the company's legal counsel, are of the opinion that the outcome of these proceedings and claims will not have a material impact on the financial position or performance of the company.

The quantum has not been disclosed as these amounts are unverifiable.

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 16(a), 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$29,265 (2010– US$ 25,718).

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

	2011 US$	2010 US$
Salaries and other short-term benefits	695,022	784,658
Post employment benefits	86,012	101,316
	781,034	885,974
Directors' remuneration		
Fees for services as Directors	120,000	104,000

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. The risk management programme is premised on active Board and Senior Management oversight, adequate policies and procedures, adequate internal controls and risk monitoring as well as management information systems.

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 responsibility 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.

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 20 and 21respectively and equity attributable to equity holders, comprising issued and paid 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.

29 FINANCIAL RISK MANAGEMENT (Continued)

a) Capital Risk Management (Continued)

	2011 US$	2010 US$
Share capital and share premium	62,277,656	50,960,406
Revenue reserves	23,156,222	20,709,168
Revaluation surplus	1,980,035	2,011,721
	87,413,913	73,681,295
Borrowings/Lines of Credit	51,848,191	25,726,589
Debt securities	52,680,900	30,501,064
	104,529,091	56,227,653
Total Capital	191,943,004	129,908,948
Gearing ratio	54%	43%

b) Credit Risk Management

The Company taKSHS on exposure to credit risk, which is the risk that 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 and Loans Monitoring Committee for the project loans, and the Assets 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 and condition
(iii) The project viability
(iv) The security package

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 supervises 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.

29 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk Management (Continued)

The Company manages, limits and controls concentrations of credit risk wherever they are identified. The Company structures the levels of credit risk it undertaKSHS 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	2011 Amount US$	2011 %	2010 Amount US$	2010 %
Normal	80,200,390	76%	69,614,085	75.0%
Watch	3,885,129	4%	7,114,469	7.7%
Substandard	10,311,837	10%	7,654,376	8.2%
Doubtful	8,713,214	8%	5,676,327	6.1%
Loss	2,982,341	2%	2,725,480	2.9%
Total	106,092,910	100%	92,784,737	100.0%

Classification of credit risk bearing assets

The maximum exposure to credit risk before collateral held or other credit enhancements attached is US$ 106,092,910 (2010 - US$ 92,784,737) 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.

29 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk Management (Continued)

The table below represents a classification of the Company's project loans and other receivables as at 31 December 2011.

	Gross amounts US$	Impairment allowances US$	Net amounts US$	%
Neither past due nor impaired	54,085,563	-	54,085,563	52
Past due but not impaired	50,651,514	-	50,651,514	48
Impaired	3,058,509	(3,058,509)	-	-
	107,795,586	(3,058,509)	104,737,077	100

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

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

	2011 US$	2010 US$
Loans and advances	5,301,356	3,916,192
Other receivables	76,168	26,478
	5,377,524	3,942,670

All new projects

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..
- 76% 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 taKSHS 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.

29 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (continued)

Currency Risk

The Company undertaKSHS 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 2011	US$	EUR	CFA	KSHS	ZAR	Total
ASSETS						
Bank and cash balances	6,210,584	754,258	1,229,940	126,615	1,017	8,322,414
Short term deposits	48,243,160	4,944,527	3,692,778	16,780,436	152,177	73,813,078
Corporate bonds	4,208,325	-	-	-	-	4,208,325
loans and advances to customers	62,074,268	1,794,572	15,655,923	21,256,718	10,074	100,791,554
Total financial assets	120,736,337	7,493,357	20,578,641	38,163,769	163,268	187,135,372
LIABILITIES						
Debt securities	-	-	13,129,015	39,551,885	-	52,680,900
Lines of credit	39,698,180	12,233,448	-	-	-	51,931,628
Total financial liabilities	39,698,180	12,233,448	13,129,015	39,551,885	-	104,612,528
Net position	81,038,157	(4,740,090)	7,449,625	(1,388,115)	163,268	82,522,844

AT 31 DECEMBER 2010	US$	EUR	CFA	KSHS	Total
Total financial assets	83,140,995	4,617,910	23,700,041	14,639,707	126,098,653
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

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	EUR	CFA	KSHS	ZAR	TOTAL
Impact 2011	(474,009)	744,962	(138,812)	16,326	148,469
Impact 2010	(543,714)	591,109	130,155	-	177,549

29 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (Continued)

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 taKSHS 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.

	Upto 1month US$	1-6 months US$	6-12 months US$	1-5 years US$	over 5 years US$	Total US$
AT 31 December 2011						
Assets						
Bank and cash balances	8,322,414	-	-	-	-	8,322,414
Short term deposits	33,862,924	39,950,154	-	-	-	73,813,078
Corporate bonds	-	-	-	695,765	3,512,561	4,208,326
loans and advances to customers	20,426,026	15,652,259	12,029,009	46,771,127	5,913,133	100,791,554
Other assets	58,741	115,181	109,222	259,675	27,887	570,706
Total financial assets	62,670,105	55,717,594	12,138,231	47,726,567	9,453,581	187,706,078
Liabilities						
Lines of credit	833,000	3,360,441	3,974,625	25,137,000	18,543,125	51,848,191
Debt securities	2,266,181	12,549,665	8,476,835	29,388,220	-	52,680,900
Total financial liabilities	3,099,181	15,910,106	12,451,460	54,525,220	18,543,125	104,529,091
Net interest rate sensitivity gap	59,570,924	39,807,489	(313,228)	(6,798,652)	(9,089,544)	83,176,987
AT 31 DECEMBER 2010						
Total financial assets	41,122,682	21,634,970	11,629,789	46,670,442	5,573,311	126,631,194
Total financial liabilities	2,283,068	14,998,396	5,629,980	33,316,209	-	56,227,653
	38,839,614	6,636,574	5,999,809	13,354,233	5,573,311	70,403,541

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$ 415,885 (2010 –US$ 352,018). 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)

	Upto 1 month US$	1-6 Months US$	6-12 months US$	1-5 years US$	over 5Years US$	Total US$
AT 31 December 2011						
Bank and cash balances	8,322,414	-	-	-	-	8,322,414
Short term deposits	33,862,924	39,950,154	-	-	-	73,813,078
Corporate bonds	-	-	-	695,765	3,512,561	4,208,326
loans and advances to customers	20,426,026	15,652,259	12,029,009	46,771,127	5,913,133	100,791,554
Other receivables	58,741	740,272	539,935	259,675	27,887	1,626,510
Total financial assets (expected maturity dates)	62,670,105	56,342,685	12,568,944	47,726,567	9,453,581	188,761,882
Liabilities						
Medium term notes	2,266,181	12,549,665	8,476,835	29,388,220	-	52,680,900
Lines of credit	833,000	3,360,441	3,974,625	25,137,000	18,543,125	51,848,191
Dividends payable	-	673,463	-	-	-	673,463
Other liabilities	-	1,255,173	-	-	-	1,255,173
Total financial Liabilities (contractual maturity dates)	3,099,181	17,838,742	12,451,460	54,525,220	18,543,125	106,457,727
Net liquidity gap	59,570,924	38,503,943	117,484	(6,798,653)	(9,089,544)	82,304,156
AT 31 DECEMBER 2010						
Total financial asset (expected maturity dates)	41,122,682	22,337,440	11,629,789	46,670,442	5,573,311	127,333,664
Total financial Liabilitie (contractual maturity dates)	2,525,483	5,115,137	6,976,109	36,906,828	6,590,581	58,114,138
	38,597,199	17,222,303	4,653,680	9,763,614	1,017,270	69,219,526

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 United States Dollars (US$).

Management Information Schedule

For the Year Ended 31 December 2011

ADMINISTRATIVE BUDGET

	2012 US$	2011 US$
Personnel Costs	4,100,000	3,616,900
Board of Directors	450,000	463,600
Annual general meeting	139,000	147,000
Official Missions	370,000	491,500
Consultancies and translators	185,000	375,000
Business development and Symposium	90,000	100,000
Other operating expenses	453,000	443,000
Total Administrative Expenditure	**5,787,000**	**5,637,000**

SCHEDULE OF SHAREHOLDERS AS AT 31 DECEMBER 2011

	Class A: Countries	No of shares 31 December 2010	No of shares 31 December 2011	% of shareholding 31 December 2011
1	Algeria	4,220	4,220	7.96%
2	Benin	306	306	0.58%
3	Botswana	839	839	1.58%
4	Burkina Faso	904	904	1.70%
5	Burundi	300	300	0.57%
6	Cameroon	2,392	2,392	4.51%
7	Cape Verde	16	16	0.03%
8	Central Afr. Rep	271	271	0.51%
9	Chad	163	314	0.59%
10	Congo	516	516	0.97%
11	Democratic Republic of Congo	600	600	1.13%
12	Djibouti	300	300	0.57%
13	Gabon	1,283	1,283	2.42%
14	Gambia	300	300	0.57%
15	Ghana	0	4,472	8.43%
16	Guinea	419	419	0.79%
17	Guinea Bissau	25	25	0.05%
18	Guinea Equatorial	301	301	0.57%
19	Kenya	6,267	6,321	11.92%
20	Lesotho	500	500	0.94%
21	Liberia	309	309	0.58%
22	Madagascar	322	322	0.61%
23	Malawi	517	517	0.98%
24	Mali	1,236	1,236	2.33%
25	Mauritania	53	344	0.65%
26	Mauritius	115	115	0.22%
27	Morocco	437	437	0.82%
28	Namibia	327	327	0.62%
29	Niger	310	310	0.58%
30	Nigeria	5,331	5,511	10.39%
31	Rwanda	304	304	0.57%
32	Sao Tome & Principe	16	16	0.03%
33	Senegal	1,407	1,407	2.65%
34	Seychelles	300	300	0.57%
35	Sierra Leone	74	74	0.14%
36	Somalia	10	10	0.02%
37	Swaziland	228	228	0.43%
38	Tanzania	317	317	0.60%
39	Togo	162	162	0.31%
40	Tunisia	300	300	0.57%
41	Uganda	526	526	0.99%
42	Zambia	2,054	2,054	3.87%
43	Zimbabwe	54	200	0.38%
	Class B:			
	Institutions			
1	African Development bank	10,576	10,576	19.95%
2	Africa Reinsurance Corp.	2,520	2,520	4.75%
	TOTAL	**47,727**	**53,021**	**100%**