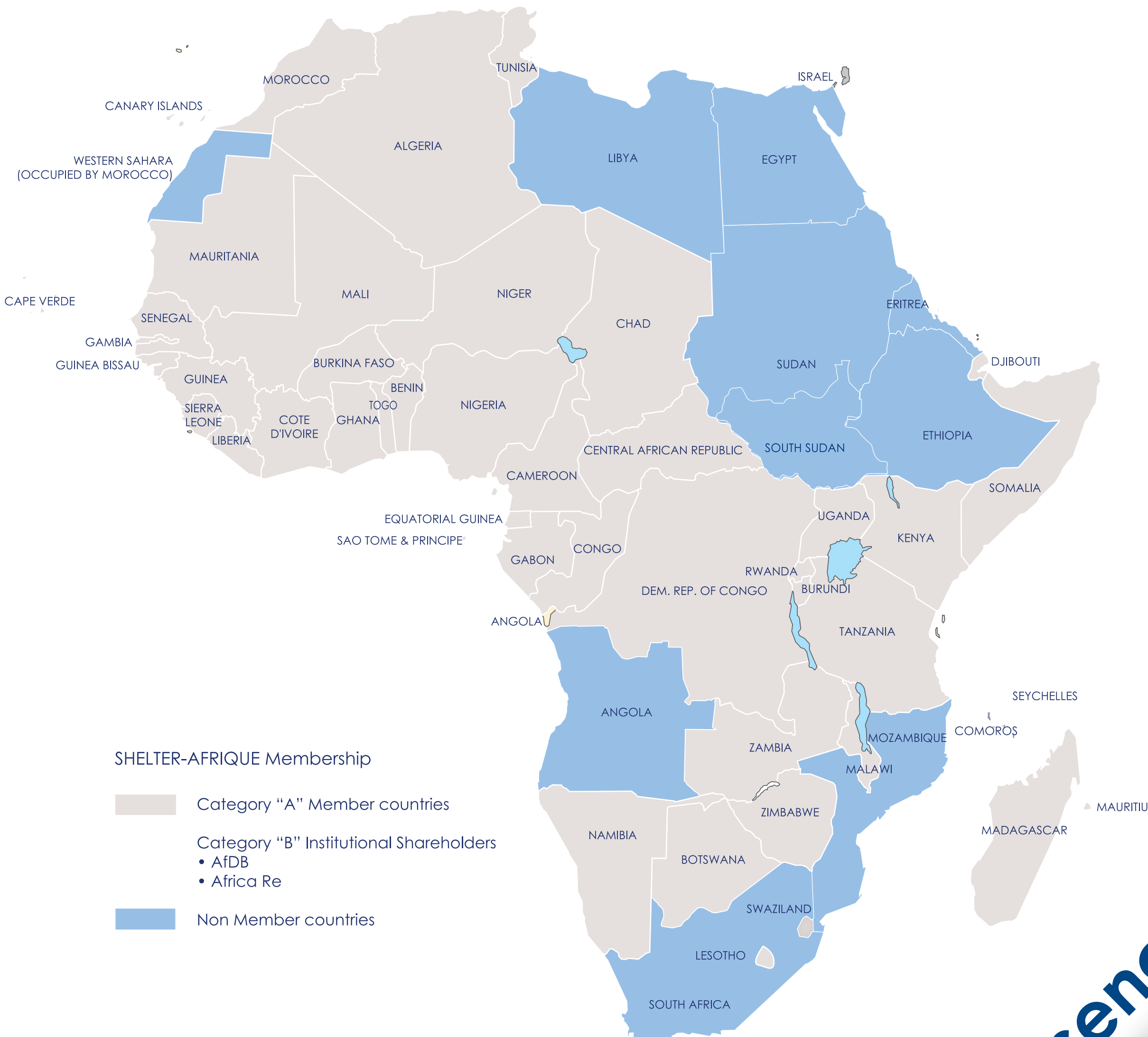
SHELTER AFRIQUE

Financing Affordable Housing for Africa

2013

ANNUAL REPORT AND FINANCIAL STATEMENTS

Our Presence



Shelter Afrique was established in 1982 by African governments, the African Development Bank (AfDB), African Reinsurance Corporation (Africa-Re) and CDC (UK's Development Finance Institution) with the mandate of mobilizing resources for housing development in Africa.

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FACT SHEET ON SHELTER AFRIQUE

Sovereign Shareholders:	44 African member countries as at 31 December, 2013
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
Authorized Capital as at 31 December, 2013	US $ one billion
Callable Capital	US $ 500 million
Issued and Called up capital as at 31 December, 2013	146,114 ordinary shares of US$ 1,000 each
Paid up capital as at 31 December, 2013	US $ 59.84 million
2013 loan approvals	19 projects in 10 countries for a total approval of US $ 104.5 million
Cumulative loan approvals as at 31 December, 2013	US$ 787 million
Cumulative Disbursements as at 31 December, 2013	US$ 404 million
International rating by Moody's	Ba1

LIST OF ABBREVIATIONS

AFD	Agence Francaise Development
AfDB	Africa Development Bank
Africa Re	Africa Reinsurance Corporation
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
APPT	Apartment(s)
APPT & Off	Apartments & Offices
BHS	Banque de l'Habitat de Sénégal (Senegal Housing Bank)
FCFA	Common currency used in UEMOA zone
GDP	Gross Domestic Product
DFI's	Development Finance Institutions
DL	Direct Loan
ERM	Enterprise Risk Management
FMO	Netherlands Development Corporation
Forex	Foreign Currency Exchange difference
HR	Human Resource
KCB	Kenya Commercial Bank
KSHS	Kenya Shillings
LOC	Line of Credit
MOU	Memorandum of Understanding
MTN	Medium Term Note
NSE	Nairobi Securities Exchange
PPP	Public Private Partnership
US$	United States Dollars
WAEMU	West African Economic & Monetary Union
XOF	Amount expressed FCFA

MISSION STATEMENT

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 and provision of excellent services
- 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
- Efficient administrative and risk management systems
- 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 **6 June 2014**
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 and Audited Financial Statements of the company for the period January 1, to December 31, 2013.

The report also covers a review of the company's activities, the international and African economic environments under which it operated during the period.

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

Mr. Corneille Karekezi
Chairman of the Board of Directors

BOARD OF DIRECTORS


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1 Mrs. Néné LY Soumare (Vice Chairperson) • 2 Mr. Corneille Karekezi (Chairman)
3 Mr. Jean Paul Missi • 4. Mr. Ali Boulares • 5 Mr. Samuel Mivedor • 6 Mr. Lawal Abubakar
7 Mr. Hardwork Pemhiwa • 8 Rev. Howard L. Sikwela • 9 Arch. Mariamu El Maawy
10 Mr. Gabindadde –Musoke

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

After recording a slowdown in 2012, the world economy strengthened somewhat in 2013, especially during the second half of the year. The improved global growth was underpinned by recovery in Europe and the strengthening of the US economy. This was supported by improved performance of the Euro Zone economies after the abating of the sovereign debt crises in Greece, Spain, Portugal and Italy. The US economy, which remains at the center of global economic events, continued to perform well in 2013, registering strong consumer demand. While growth in advanced economies strengthened in 2013, growth in emerging market and developing economies has slowed down. Despite this slowdown, the emerging market economies continued to account for the bulk of global growth in 2013.

According to the World Bank, Global growth is projected to accelerate to 3.2 percent in 2014, up from 2.4 percent in 2013, on the back of improved and continued recovery in the major high-income economies (the United States, the Euro Area and Japan). Much of the initial acceleration will reflect a pick-up in the growth of advanced economies, which appear to be slowly and finally emerging from the global financial crisis that led to recessions and years of extreme weakness in many of these economies. Growth prospects for 2014 are, however, sensitive to the continued tapering of monetary stimulus in the United States, which began at the beginning of 2014, as well as to the structural shifts taking place in China's economy.

Stronger external demand from advanced economies is expected to support growth in many emerging market and developing economies, although domestic weaknesses in some of the countries remain a concern. However, growth in emerging and developing economies could be negatively affected by the noted continued tapering of monetary stimulus in the United States, which could reduce or reverse capital flows to these economies as result of changing investor's risk appetite for emerging economies investments. Financial markets and capital flow volatility have increased in emerging market economies since May 2013 when the US Federal Reserve's communicated its plan of tapering asset purchases, indicating that the exceptionally accommodative monetary policy followed over the last few years was reaching a turning point. Portfolio shifts and some capital outflows are likely with continuing tapering of the monetary stimulus, which could reduce liquidity in developing countries. Commodity export dependent developing economies could also be affected by the slowing growth and demand in China.

Growth in sub-Saharan Africa remained robust in 2013 and is expected to accelerate somewhat in 2014, maintaining the positive trend of recent years and reflecting the continuing optimism in Africa's development prospects. The continuing robust growth in sub-Saharan Africa economies was driven by strong domestic consumption demand in most of the regions, as well as increased spending on infrastructure development projects and fixed capital formation. Growth was further supported by high commodity prices for the commodity exporting countries. While a number of the African countries recorded some of the highest growth in the world in 2013, growth in South Africa, the region's largest economy - before the recent upward review of the GDP computation of the Nigerian economy which made it the largest in Africa - slowed further due to protracted labour disputes, low private investment and weaker consumption as a result of slowing growth of disposable income and weakening consumer confidence.

According to IMF's October 2013 World Economic Outlook, growth in sub-Saharan Africa is projected to increase from about 5 percent in 2013 to 6 percent in 2014. The prospects for improved growth will be underpinned by continuing investment in infrastructure, energy, and natural resources projects, as well as increased output from investment projects coming on stream. However, the recent weakness in international commodity prices as a result of the slowdown in China, may delay investment in natural resources projects in a number of countries. Furthermore, growth in sub-Saharan Africa could be negatively affected by the tapering of the monetary stimulus in the US which could reduce or reverse capital flows to the region.

Against this backdrop of Global and African economic environment, I am pleased to report to the shareholders that Shelter Afrique registered remarkable growth in its operations and reported exceptional financial results in 2013. The Company posted a 41% growth in net profits to US$ 4.75 million from US$ 3.37 million record in the previous year. Total assets registered equally strong growth of 41% to US$ 270 million at end of 2013 compared to US$ 192 million at the end of previous year. The robust growth in total assets was underpinned by strong growth of the loan book to US$ 195.4 million at the end of 2013 from US$ 145.1 million at the end of 2012. The growth in total assets was aided by additional capital injection, borrowings and retained earnings. Total borrowings rose to US$ 160.6 million in 2013 against US$ 92.5 million in the previous year.

During the year under review, the Company registered mixed experience in its operations. Total disbursements rose to US$ 79.7 million, against the US$ 65 million disbursed in 2012, while loan approvals recorded a 28% drop to US$ 104.5 million (2012: US$ 145.7 million) as a result of stringent screening for new entrants to the portfolio to ensure that only good quality assets were booked. As a result of the emphasis on quality loan commitments, which represent the signed loans, declined by 38% to US$ 84.40 compared to US$ 135.7 million loans signed in 2012. Management's continued focus on the quality of the loan portfolio bore fruits, with Non-Performing Loans ratio declining appreciably to 10% in 2013. The effort to maintain the quality of the loan portfolio will be maintained.

The Company stepped up resource mobilization efforts in order to meet its operational objectives and the increasing demand for housing finance, raising US$ 114.5 million

The Managing Director signs the EUR3.7M Line of Credit from the AFD as the French Ambassador, Mr Remy Marechaux looks on in 2013 from financial institutions and capital markets. Funding was received from development partners such as the African Development Bank, the Agence Française de Développement and the European Investment Bank, as well as lines of credit from banks. Lines of credit were negotiated with banks to meet short term liquidity needs, especially in Kenya and the CFA zone. Additional financial resources were raised from capital markets in local currencies. During the year, the Company issued a bond on the Nairobi Securities Exchange in local currency equivalent to US$ 57.9 million which was very successful and oversubscribed by 43%.

During 2013, Management implemented various Human Resources and Organisational Development initiatives that were approved by the Board. These initiatives are aimed at transforming Shelter Afrique into a high performing organisation and raising its rating. The initiatives included the development of a new Target Operating Model (TOM) and Organisational Structure which were approved by the Board in October 2013, and are being implemented in phases, spanning 6 months to 3 years. In addition, a new performance management policy and system, which define the purpose of performance management and how it will be carried out, were approved by the Board and implemented with effect from 1st January 2014. A new competency framework based on the Company's values of leadership, accountability, integrity, teamwork, excellence, diversity, and innovation was developed.

A balanced scorecard approach to performance management was also adopted and now forms the basis for tracking Shelter Afrique's performance on the basis of key performance indicators contained in the Strategic Plan, which include net income growth, portfolio growth, portfolio quality (NPL), resource mobilization (share capital and debt), as well as departmental efficiency targets. To strengthen employee's relationship further, a Staff Council was launched as a consultative body and a forum for staff engagement with Management on matters relating to organizational and policy changes, staff welfare; as well as developing and implementing programs to foster staff integration and corporate social responsibility.

The Company continued to enhance its risk management capabilities. During the year under review, risk management approach was largely defined by the alignment of robust risk management practices with the Company's strategic goals. Risk management supported competitive positioning, process improvements underpinned by development of staff capacity and a robust ICT platform to improve the quality of the Company's balance sheet. 2013 witnessed substantive automation of work processes, design of a disaster recovery system and business continuity plan, and enhance risk awareness culture throughout the organisation, acquisition of appropriate Risk Assessment System and Risk Management Tools.

A number of risk management projects have been launched. The following achievements are notable: ICT systems have been upgraded and staff members sufficiently equipped with tools they require to perform their duties and tasks. The Company's Web Site has been revamped and upgraded to serve as a point of sale (POS) for its services.

During 2013, the Internal Audit Unit fully implemented the work program approved by the Board. The Internal Audit Unit carried out 11 missions and the implementation of the outcomes of Audit is well advanced. All reports were discussed by the Audit Committee and the recommendations presented to the Board for approval. The Company finalized the implementation of Audit Common Language (ACL) for internal audit activities, which has improved data analysis. In the same way, the Audit Universe Matrix, which summarized all activities and processes within the organization has been finalized and will serve as the foundation for next year internal audit planning. This Matrix will help to plan a Long Term Audit Planning for 5 years and also the audit resources management based on risk.

During the Annual General meeting held in N'Djamena (Chad) on 12 June 2013, Shareholders approved the increase of authorised capital to US$ 1 billion from US$ 300 million and the increase of issued and called up capital to US$ 146.11 million from US$ 100 million, in order to support the Company's growth and increase its operational capacity and profitability. It was also agreed to reinstate Callable Capital at US$ 500 million. In this regard, Shareholders are to discharge their additional capital subscription obligations over a five-year period up to 2018. I am pleased to note that, we continued to receive shareholder support through the payments of additional share capital during the year. Of particular mention are Nigeria, Rwanda, Chad, Zambia and Mali who paid in additional share capital, while a number of other members ploughed back their 2012 dividends, resulting in additional capital totalling US$ 6.36 million in 2013. On behalf of the Board of Directors, I sincerely convey my appreciation to those Shareholders who have remained steadfast in discharging their capital payment obligations. I also appeal to all Shareholders to take up the additional allocated and called up share capital in order to further strengthen the Company's resources to enable it to fulfil our mandate of providing funding for the increasing demand for affordable housing in our member countries, especially in urban areas. Timely increase in capital subscription obligations is the strongest and most unequivocal form of support that Shareholders can demonstrate and it goes a long way in enhancing the rating of the institution and strengthening its capacity to mobilize resources for housing development in the continent. However, there's still a lot of ground to be covered, as a total of US$ 86.27 million still remains unsubscribed against the total called up capital of US$ 146.11 million. I would therefore like to call on the esteemed Shareholders to pay the called capital in full in order to strengthen the Company's capital base. An enhanced capital base will strengthen the Company's balance sheet, thus enabling it to mobilize more financial resources to fulfil its development mandate.

On behalf of the Board of Directors, I would like to express my deepest appreciation for the support and confidence that all member countries and institutional shareholders have placed in the Company and look forward to welcoming more member countries and seeing greater capital contributions in the coming year.

In conclusion, I am pleased to note that operationally, financially, and strategically, 2013 has been a very good year for the Company. I would like to thank our development partners, clients, management and staff who have worked with us to achieve the commendable operational and financial results registered in 2013.

Another notable aspect of the past twelve months is the review of the organization's legal and governance framework. After several consultations, the consultants submitted their final report. The process will now move into the phase of additional consultations with members, comparable organizations, and other stakeholders with a view to submitting a report for consideration of members at the 34th Annual General Meeting to take place in 2015. Without pre-empting the outcome of the review, its importance lies in the fact that it will re-orient our organization's structure and operational purpose towards greater relevance in the delivery of its mandate to Africa and in its global standing.

We would like to express our gratitude to the host country for the continued support to the Company in various areas. The Government of Kenya has supported the Company in quick processing of diplomatic and immigration requirements and we continue to enjoy all the rights and privileges in the Hosting Agreement. In addition, we continue to work closely with the Ministry of Land Housing and Urban Development in Kenya, particularly in the area of social housing.

I would like to sincerely thanks all the Board Members, who despite the challenges in the year, managed to steer and guide the Company to its current size and especially ensuring the laid down corporate governance structures were adhered to. This has 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 2013 and urge them to work even harder in the days ahead in order to surpass the record set in 2013.

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, and express my sincere gratitude to the host country for hosting and facilitating the auspicious occasion of our Annual General Meeting.

Thank you all very much.

Mr. Corneille Karekezi
Chairman of the Board of Directors

SENIOR MANAGEMENT

Mr. Alassane Ba
Managing Director

Mr. Yekini Olayanju;
Director, Risk Management and Compliance

Mr. Godfrey Waweru;
Director, Financial Management and Control

Mr. Femi Adewole;
Director, Business Development and Operation

Mr. Vipya Harawa;
Director, Corporate Affairs and Secretariat

Mr. Mohamed Barry;
Team Leader, Internal Audit

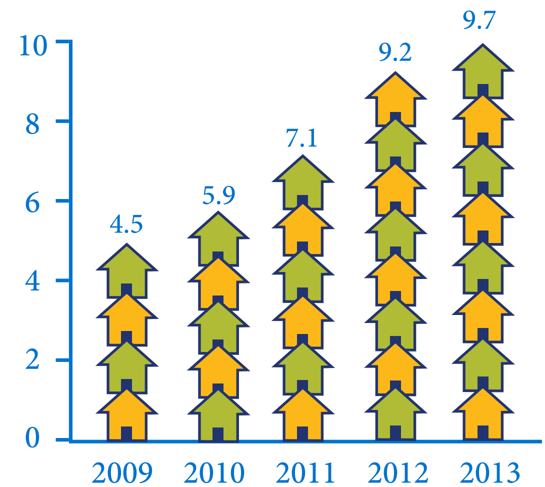
THE STRATEGIC OVERVIEW

The Board of Directors approved the Company's 5-year Strategic Plan for the period 2012-2016 in 2012. The key strategic objectives are to enhance the Company's growth and strengthen its capacity in order to respond to the growing demand for affordable housing and related infrastructure services, especially for the growing urban population. This will be achieved by enhancing the growth of the company's operations to have more impact, strengthening its financial position (having a bigger and better balance sheet) and mobilising more financial resources to provide funding for the increased demand for house development and mortgage financing in member countries. The Company also continues to be guided by its strategic objective of building shareholder value through improvements in efficiency and performance. To this end, various initiatives aimed at transforming Shelter Afrique into a high performing organisation have been implemented.

Overall, the performance for the year was good in line with our strategic focus to build a bigger and better Balance Sheet. Total assets grew by 41%, from US$ 192 million to US$ 270 million. A key strategic objective in 2013 was the improvement of asset quality and focus on resource mobilization. Efforts to improve asset quality were directed towards ensuring that there's good quality of assets on entry as well as working out solutions for long outstanding non-performing loans. To this end, the Company made great achievements in reducing the NPL ratio (ratio of non-performing loans to total assets) from a high of 18% in 2013 to stand at 10% in the year under review.

Bell ringing ceremony on the start of trading of the Kenya Shillings 5 billion (US$ 58 million) bond

Chart 1: Net interest income (US$ millions)



RESOURCE MOBILIZATION

The company stepped up resource mobilization efforts in order to meet its operational objectives and the growing demand for housing finance, raising US$ 114.5 million in 2013 from financial institutions and capital markets compared to US$ 8.5 million raised in the previous year. Funding was received from development partners such as the African Development Bank, the Agence Française de Développement (AFD) and the European Investment Bank, as well as lines of credit from banks. Lines of credit were negotiated with banks to meet short term liquidity needs, especially in Kenya and the CFA zone. Additional financial resources were raised from capital markets in local currencies with the focus being on Kenya shillings and FCFA from the West African capital market. During the year, the Company issued a bond on the Nairobi Securities Exchange in local currency equivalent to US$ 57.9 million (Kenya Shillings 5 billion). The bond issue was very well received by the market and was oversubscribed by 43%. Work to issue a FCFA 10 billion (US$ 10.0 million) bond on the West Africa Securities Exchange (BRVM) was also well advanced by the end of the year, and the issue was concluded in the first months of 2014. The FCFA 10 billion bond issue was very successful and closed two weeks before the close date after receiving 164% oversubscription. As Shelter Afrique exhaust potential funding from development partners, the company will need to raise more and more financial resources from the capital markets in order to meet our ambitious operational growth objectives. Financial resources raised from the capital markets are becoming increasingly more expensive with the continuing tapering of monetary stimulus in the United States.

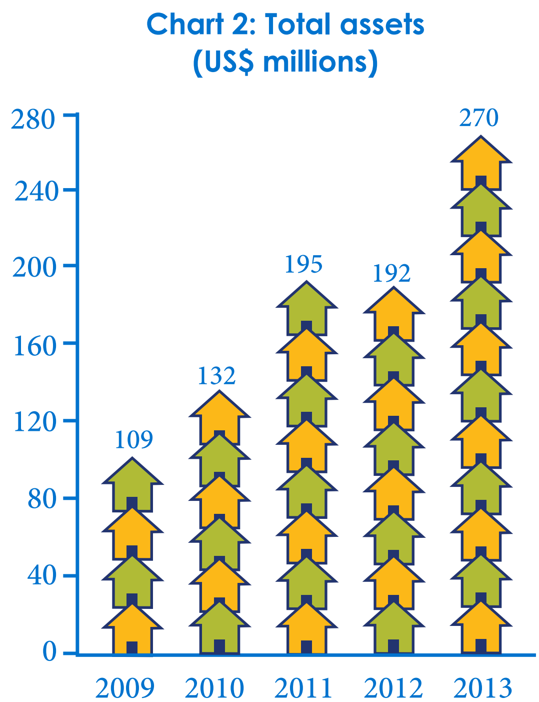
Table 1 - Key operation and financial data (2009-2013) -(Expressed in US million Dollars)

Year	2009	2010	2011	2012	2013
Approvals	67.1	81.34	103.81	145.65	104.50
Cumulative Approvals	352.02	433.36	537.17	682.83	787.33
Disbursement	30.3	34.06	36.29	65.49	79.73
Cumulative Disbursement	188.26	222.32	258.61	324.1	403.83
Total Assets	109.11	131.99	194.72	191.99	270.19
Profit for the year	0.429	2.01	2.82	3.37	4.75
Paid-Up Capital	46.31	47.73	53.02	56.11	59.84
Revenue Reserves	18.66	20.71	23.16	26.00	30.10
Provisions	2.84	0.74	1.46	2.18	2.28
Shareholders' Funds	69.43	73.68	87.41	95.66	106.09

TABLE 2: Selected financial indicators
(Expressed in US million Dollars)

Operating Results		2009	2010	2011	2012	2013
Gross Income	(a)	6.20	7.90	9.41	12.29	13.17
Operating Expenses	(b)	2.94	4.17	4.90	6.81	6.83
Operating Profit before provisions		3.26	3.73	4.75	5.39	6.65
Profit for the year		0.43	2.01	2.82	3.37	4.75
Administrative Expenses	(c)	2.76	3.91	4.67	6.49	6.51
Financial Position						
Net Loans and Advances		70.63	88.87	100.79	145.13	195.41
Financial Investments		24.16	28.69	78.02	35.66	59.67
Total Assets		109.11	131.99	194.72	191.99	270.19
Total Equity		69.43	73.68	87.41	95.66	106.09
Total Debt		39.68	58.31	107.31	92.49	160.62
Financial Ratios						
Total Debt to Total Assets (%)		34.61	42.60	53.68	48.18	59.45
Administrative expense ratio (%)	(d)	4.47	4.90	4.97	5.28	3.82
Debt/Equity ratio (%)		54.38	76.31	119.59	96.69	151.40
Earnings per share (US$)		10.26	42.77	55.95	61.81	81.86
Dividend per share (US$)		0.00	8.44	10.63	12.02	15.86

(a) Gross income exclude grant income
(b) Operating Expenses exclude grant expenses
(c) Administrative expenses exclude depreciation, amortization and other provisions.
(d) Administrative expenses as a percent of average project loans.



This requires further diversification of the company's funding base and building of new partnerships. The challenge which must be addressed will be to raise funds at competitive interest rates and pricing that is affordable to Shelter Afrique's borrowers.

FINANCIAL PERFORMANCE

In 2013 the company posted a 41% growth in net profit to close at US$ 4.75 million compared to US$ 3.37 million registered in the previous year. Net interest income grew by 5% to stand at US$ 9.68 million, resulting from growth in interest income on loans and advances.

Operating expenses remained stable at US$ 6.83 million against US$ 6.81 million recorded in 2012, as the Company achieved the target human resource capacity, which had been on an increase for the last four years. The cost to income ratio stood at 52% slightly below the previous year's level of 54%.

Loans and advances to customers grew by 35% to stand at US$195.41 million, up from US$ 145.13 million the previous year. Shareholders' funds grew by 11% to stand at US$106.09 million from US$ 95.66 million recorded in the previous year buoyed by additional share capital and dividend capitalization from some of the member countries.

THE ASSET QUALITY

During the year under review, a lot of effort was made to improve the quality of the company's assets. The efforts to improve asset quality were directed towards ensuring that there's good quality of assets on entry, as well as working out solutions for long outstanding non-performing loans, coupled with a thorough monitoring of the performing loan portfolio. To this end, the Company made great achievements in reducing the NPL ratio (ratio of non-performing loans to total assets) from a high of 18% in 2013 to stand at 10% in the year under review.

HUMAN RESOURCES AND ADMINISTRATION

During the year under review, Shelter Afrique implemented various Human Resources and Organisational Development initiatives aimed at transforming the company into a high performing organisation. The transformation to a High Performing Organisation is one of the essential ingredients for the company to attain Investment Grade status. These initiatives included the development of a new Organisational Structure and a new Target Operating Model (TOM), which were approved by the Board in October 2013 and is being implemented in phases spanning 6 months to 5 years. In addition, a new performance management policy and system were approved by the board and implemented in January 2014. The new policy defines the purpose of performance management and principles that will guide performance management process; roles of stakeholders in performance management; and how performance management information will be used to determine people management decision in Shelter Afrique. A new Competency Framework for the company was also approved. The new competency framework will be used to assess behavioural competencies based on the revised corporate values of leadership, accountability, integrity, teamwork, excellence, diversity and innovation.

A balanced scorecard approach to performance management was adopted and now forms the basis for tracking Shelter Afrique performance based on the key performance indicators in the corporate strategic plan namely; net income growth, portfolio growth, portfolio quality (NPL), resource mobilization (share capital and debt), and departmental efficiency targets.

Shelter Afrique also implemented initiatives to strengthen its employee relations policies and systems with a view to ensuring internal justice and employee voice. In this regards, new policies on discipline, grievance and non-harassment were approved by the Board and are under implementation. These policies provide comprehensive internal justice system for Shelter Afrique's the staff. A Staff Council was launched as a consultative body and a forum for staff engagement with management on matters relating to organizational and policy changes, staff welfare, as well as developing and implementing programs to foster staff integration and corporate social responsibility.

LEGAL AND CORPORATE SERVICES

The Board of Directors, Management, and staff concluded their initial input to the governance and institutional reform process in order to support the realization of the company's strategic objectives. This phase culminated into submission of the Consultants' final report. The next phase focuses on wider stakeholder consultations to achieve stakeholder's buy-in and benchmarking with international best practice.

The Company strengthened the legal services by recruiting two additional lawyers and a senior human resource expert as a step towards aligning legal and corporate services with business growth and general staff expansion. The Legal Unit made significant contributions towards reduction of non-performing loans through debt collection and support for out of court negotiations.

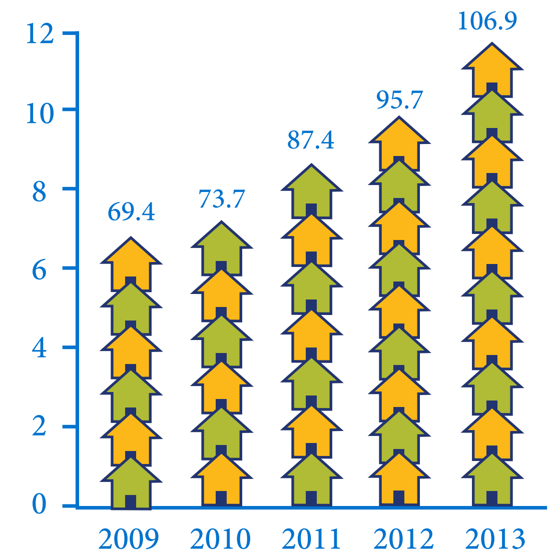
The 9th Board of Shelter-Afrique will be concluding a successful three-year term in June 2014. The elections of June 2014 will usher in the Company's 10th Board. Seven board positions will be allocated to member countries, while the two institutional shareholders are guaranteed one seat each. The remaining two seats will be allocated to independent directors, making a total of eleven directors in the full Board. An alternate director will be elected for each country grouping and institutional directors.

RISK MANAGEMENT & PLANNING

Risk is an inherent part of the business activities of Shelter-Afrique. Accordingly, the company has designed a risk management framework and governance structure to achieve an appropriate risk and reward equilibrium.

The risk management framework comprises a comprehensive set of policies, procedures and processes designed to identify, measure, monitor, and mitigate risks. The focus of the risk management function is to ensure that risk management brings impact through enhanced growth and profitability and supports the quality of the Company's assets, as well as competitive positioning amongst its peers. To this end, the Company regularly reviews its risk management policies and procedures,

Chart 3: Shareholders' funds (US$ millions)



reviews the risk register and updates it to reflect changes in the market place and emerging best practices.

In carrying out its work, the Risk management function participates in various management committees. These include Loans Committee, Asset & Liability Management Committee (ALCO), and Loans Monitoring Committee amongst others. The committees evaluate projects appraisal reports, assess the impact of non-performing loans, review investment strategies and performance, as well as address policy issues amongst others. In addition to independent risk management responsibilities, senior management take an active role in the oversight of the risk management process through various other committees.

During 2013, the Company operationalized the tools developed for the implementation of enterprise-wide risk management (ERM) framework. The tools have been developed to amongst others:

- Enhance risk management systems and processes.
- Effect meaningful changes in various credit and related policy documents.
- Develop customized toolkits to address gaps in reporting.
- Manage risk using methodologies compliant with Basel II and ERM COSO framework.

Specifically they are being used to measure various credit risks, including calculation of probability of default

(PD), loss given default (LGD), Value-at-Risk (VAR), and conducting scenario and gap analysis, on the back of a reliable and improved ICT platform.

INTERNAL AUDIT UNIT

The primary function of internal audit is to give objective and independent assurance to the Board that adequate management processes are in place to identify and monitor risks, and effective internal controls and risk management are in place to manage those risks. Shelter Afrique Internal Audit Unit independently audits and evaluates the effectiveness of the organization's risk management, internal controls and governance. The Unit operates under internal audit charter approved by the Board after the recommendation of Audit, Risk and Finance committee. This charter defines the role and objective, authority and responsibility of audit function.

During 2013, the internal audit annual plan approved by the Audit committee in October 2012 was fully executed. 6 projects and 3 internal processes were reviewed and the conclusions reported to the Board through the audit, risk and Finance Committees held in March and October 2013. In addition, two ad hoc missions which were requested by Management in order to improve internal controls were executed.

The unit has finalized the implementation of Audit Common Language (ACL), which will be helpful in data analysis given the company's increased use of Information and Communication Technology (ICT) in its operations. More transactions and processes are now computerized. In order to improve the internal audit risk assessment approach, the unit has finalized the Audit Universe Matrix. Based on that, the internal audit unit will implement a Long Term Audit Plan (5 years program) next year according to the risk level and the realization impact on the Shelter Afrique operations.

BOARD OF DIRECTORS ACTIVITIES
The Annual General Meeting

THE ANNUAL GENERAL MEETING

The 32nd Annual General Meeting of Shelter-Afrique took place at the Villa Resort Conference Centre in N'Djamena, Chad, on 12th June 2013. It was chaired by Honourable Gata Ngoulou Minister of Urban Planning, Housing & Surveys in the Government of Chad. During the meeting, shareholders took a major decision to increase the Company's authorised share capital from US$ 300 million to US$ 1 billion. The meeting also adopted the Company's Annual Report and Audited Accounts for the year ending 31st December 2012, approved a dividend of US$674,492 for that year as well as formation of the Shelter-Afrique Trust Fund. M/s Ernst and Young were re-appointed to serve a third year as the external auditors for the 2013 financial year. In keeping with the Company's tradition, the Annual General Meeting was preceded by the Annual Symposium and a thematic exhibition.

The 32nd Annual General Meeting of Shelter-Afrique elected a new bureau comprising Honourable Gata Ngoulou, Minister of Urban Planning, Housing, & Surveys in the Government of Chad as Chairman; Honourable Mamadou Sanogo, Minister of Construction, Habitat, Sanitation, and Urban Planning in the Government of Cote d'Ivoire as 1st Vice Chairperson; and Honourable Emerine Kabanshi MP, Minister of Local Government and Housing in The Government of Zambia as 2nd Vice-Chairperson.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors met for all scheduled meetings and continued to exercise their oversight role over the institution. The Board also scheduled special meetings to short list and conduct interviews for the position of Managing Director. There was one resignation from the Board by Independent Director Mr. Abubakar A. Jimoh during the year. During the period, the Board has successfully passed transformational policies relating to the structure, operations, and staff management in the Company. It also considered and approved various Board papers including the Annual Budget, and loans to clients amounting in total to US$ 104.5 million.

THE ANNUAL SYMPOSIUM

Symposium's theme was "Strategies on Programs for Mass Delivery of Housing in Africa – Practical Approach and Structure." It was officially opened by the Prime Minister

Chad Minister of Urban Planning, Housing & Surveys, Honourable Gata Ngoulou with some Directors and the Managing Director planting a commemorative tree during the 32nd Annual General Meeting in N'Djamena of Chad, Mr. Joseph Djimrangar DADNADJI. The occasion presented an opportunity to the participants – drawn from various African Governments, investments funds, Financial Institutions, and other housing industry players – to carry out a situational analysis and share experiences on mass housing from their respective countries of origin.

Three key presentations touching on best practices and constraints of mass housing delivery were made. They included:

1) Case studies by the Housing Development Agency of South Africa, on the Brieckfield and N2 Gateway Priority Projects: This highlighted the importance of public-private partnership programs (PPP) for mass delivery of housing. Among lessons learnt is that a PPP project can only succeed if it is not only well structured for implementation, but also adequately funded from specialized institutions such as Shelter Afrique. Furthermore, identifying and managing the risks related to PPPs; effective management of programs and post-construction management were identified as key success factors.

2) The Experience of the National Housing Corporation (NHC) of Tanzania in Mass Delivery of Affordable Housing: Case studies of the KIBADA and USA RIVER Satellite City projects: This demonstrated the relevance of new PPP models that were based on innovation, appropriate technology and public awareness on new legislations, political will and leadership.

3) Presentation by the Ministry for Construction, Housing, Sanitation and Urban Development of Côte d'Ivoire: The ministry shared its experience on mass-housing delivery. The Government of Côte d'Ivoire has launched an ambitious program for the construction of 60,000 Social Housing units to be completed by 2015. Such operations would require mobilization of funding in the sum of CFA F 600 billion (nearly Euro 915 million). The low supply of housing in the country vis-à-vis the ever rising demand has resulted into a current estimated housing stock shortfall of a minimum of 600,000 units which the government intends to bridge with various Social Housing initiatives.

The participants from the various countries including Malawi, Uganda, Burkina Faso Chad among others, had opportunities to share their experiences in the delivery of mass housing projects. In the end, the unanimous conclusion was that actual and collective efforts ought to be made without delay to make up for the unprecedented housing deficit in Africa.

The Symposium also made it possible for players in the sector to reflect on modern construction methods in the delivery of mass housing projects, the financing structures for delivery and related business models. Political leadership and will as well as availability of land for housing were also identified as key success factors. Finally, players in the sector also unanimously agreed on the urgent need going forward to apply the best approaches and practices stemming from the Symposium and to share information within the industry. Shelter Afrique has committed to taking the lead on this, and has begun a process of shaping the conversation and thought on how mass housing projects can be delivered efficiently and effectively.

BUSINESS DEVELOPMENT AND OPERATIONS

The beginning of the 21st Century was heralded as the century of Africa Rising and indeed over the noughties [that is the years from 2000-2010] the Human Development Index [HDI] significantly increased; more and more African countries ended years of political violence and strife to embrace democracy and open society, industry and innovation also took hold, secondary school enrolment grew, life expectancy has greatly increased and Foreign Direct Investment has sky-rocketed on the continent. Across the board all indices of development and human living have largely improved on the continent; to a truth pockets of instability and strife still remain but by and large the continent has moved assuredly into the 21st Century.

13 years after breaching the new century, African Governments and African societies have looked to establish development and economic stability; we are a part of that vision, every day Shelter Afrique looks for ways to establish African families in affordable homes, every day we look for more ways to make the dream of home ownership a little more accessible, every day we are asking questions on how we can contribute to development and every day we are finding more answers and in 2013, Shelter Afrique continued to demonstrate its commitment towards affordable housing in Africa through various projects, partnership and innovative product development.

Internally a key objective during the year was to ensure that the institution's asset book remained healthy. There were two mutually inclusive strategies used to achieve this objective. On one hand, a lot of effort was put on remedial measures to ensure any distressed assets were turned-around profitably through a process that we will come to establish as a Loan Clinic. On the other hand, there was stringent screening for new entrants to the portfolio, to ensure only good quality assets were booked.

The emphasis on quality saw the number of transactions approved drop from 30 recorded in 2012 to 19 in 2013. Consequently, total approvals recorded a 28% drop to US$ 104.5 million (2012: US$ 145.65 million). We believe that this was a necessary and healthy measure to take as we can ensure that the quality of our portfolio is better and we are closer to our primary objective of providing affordable quality housing for all Africans.

A major highlight in year 2013 was the approval of two facilities in support of government agencies mandated to promote housing in Member states; it was an especially proud moment for us as it shows that member governments are starting to take their participation in providing affordable housing seriously. Towards this end, the Board approved CFA 4.42 billion (US$ 9 million) towards support of Société Nationale des Habitations à Loyer Modéré (SNHLM) in Senegal through Projet Diamniado which will house an estimated 565 African Families and US$ 9 million for National Housing & Construction Company Ltd (NHCC) in Uganda through Namungoona Phase IV which will house an estimated 162 African families. In total we can confidently say that these two facilities will house a total of 727 families.

In recent years we have placed strategic emphasis on developing Social Housing stemming from our strategic refocus on making housing affordable for all. During 2013 we made major strides towards supporting Social Housing initiatives. Recognizing the massive need for housing at the low-income bracket, the institution partnered with Rafiki Deposit Taking Microfinance in Kenya by extending a KES 100 million (US$ 1.18 million) line of credit. Under the funding model, the micro-finance institution will on-lend the funds to low income earners through its already established micro-finance framework and it is estimated that this line will help 450-600 families realise their hopes of home ownership.

Social Housing has not been our only strategic refocus in recent years; we have also placed emphasis on developing Private-Public Partnerships [PPP], we find that this is a way of increasing the participation of member states in providing affordable housing. Indeed we have also found that there is an increasing orientation by Member States to deliver housing through PPP model.

Given our years of experience and operations, given our range of operations across 44 African Countries and the membership of 44 African States, we are uniquely positioned to provide the requisite expertise and resources towards the successful implementation of PPP initiatives.

In 2013, CFA 4.8 billion (US$ 9.6 million) was approved in favour of Société Immobilière et Foncière du Mali (SIFMA) to support the Governments objective of delivering 600 housing units and related infrastructure services for low and middle income brackets. We will continue seeking similar opportunities and supporting them across Member States as we believe that the right to affordable and decent housing is one that should be available to every family on the continent.

Partnerships with Financial Institutions also remain a key avenue for Shelter Afrique to optimize its intervention, avail a risk-sharing platform and expand its reach. Lines of Credit amounting to over US$ 34 million were approved during the year. The funds are aimed at supporting the recipient financial institutions in their mortgage origination business, housing developers-support programs as well as trade financing within the housing delivery value chain. Other related opportunities entailed partnering with local financial institutions to support large housing schemes where risk-sharing was deemed appropriate.

BREAKDOWN OF APPROVALS DURING 2013

Approvals during the year amounted to US$ 104.5 million, a 28% drop from the US$ 145.65 million approved during 2012. The approvals related to 19 projects in 10 Member States distributed in Eastern, Western and Southern African Countries. The average loan size in 2013 was US$ 5.5 million, up from US$ 4.85 million recorded in 2012, reflecting a 13% growth.

Table 3: Cumulative approvals, commitments and disbursements 2009-2013 (US$ million)

Year	2009	2010	2011	2012	2013
Annual Approval	67.10	81.34	103.82	145.65	104.50
Cumulative Approved Loans	352.02	433.36	537.18	682.83	787.33
Annual Commitment	51.30	48.85	57.50	135.69	84.40
Cumulative Commitment	213.50	262.35	319.85	455.54	539.94
Annual Disbursement	30.30	34.06	36.29	65.49	79.73
Cumulative Disbursement	188.26	222.32	258.61	324.10	403.83

Chart 4: Approvals and disbursements 2009-2013 (us$ million)

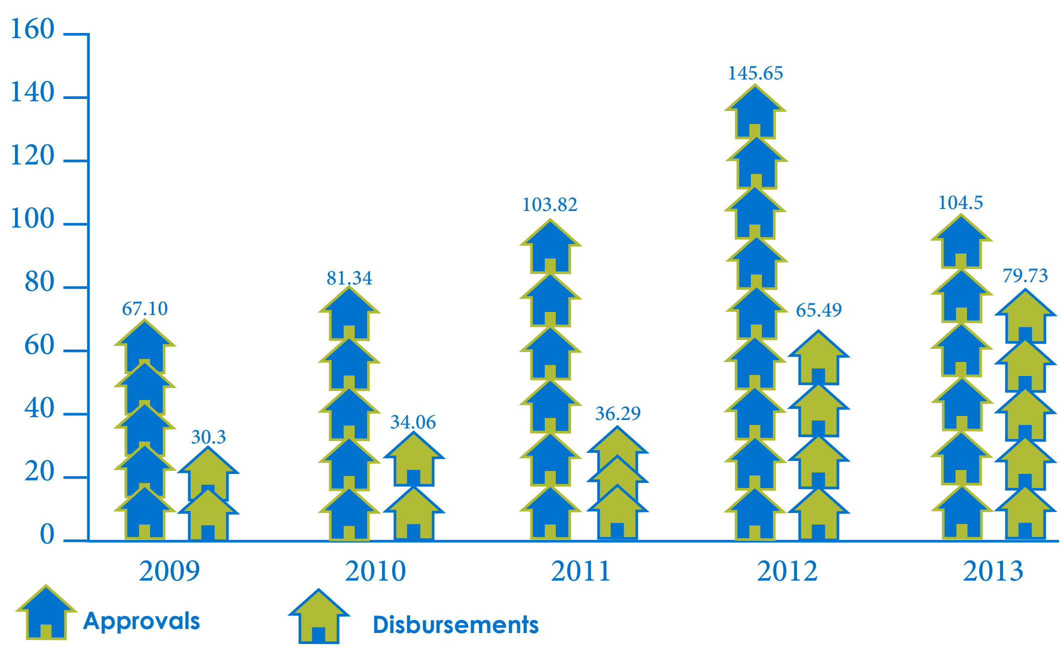


Table 4: 2013 Loan a pprovals

	Country	Region	Client/Project Name	Type of Instrument	Client Type	Amount US$	Type of Development	Facility Currency
1	Nigeria	Western	Evangel Properties Limited	Debt	Private	3,600,000	Residential	US$
2	Senegal	Western	Société Nationale des Habitations à Loyer Modéré (SNHLM)	Debt	Parastatal	9,000,000	Residential	FCFA
3	Zambia	Southern	Madison Capital Limited	Debt	Private	2,560,000	Residential	US$
4	Kenya	Eastern	Rafiki Deposit Taking Microfinance Ltd	Line of Credit	Financial Institution	1,176,470	Social Housing	KES
5	Kenya	Eastern	Everest Park Limited	Debt	Private	3,195,294	Residential	KES
6	Kenya	Eastern	Translakes	Debt	Private	2,258,824	Residential	KES
7	Zimbabwe	Southern	African Banking Corporation (BancABC)	Line of Credit	Financial Institution	5,000,000	Trade Finance	US$
8	Cote d'Ivoire	Western	Entreprise Ivoirienne de travaux de Construction, d'Entretien et de Rénovation des batiment (EICER SARL)	Debt	Private	5,473,946	Residential	FCFA
9	Rwanda	Eastern	Bio-Medical Centre Properties	Debt	Private	3,000,000	Commercial	US$
10	Rwanda	Eastern	Banque Rwandaise de Développement (BRD)	Line of Credit	Financial Institution	10,000,000	Residential	US$
11	Zimbabwe	Southern	Central Africa Building Society - CABS	Line of Credit	Financial Institution	9,600,000	Residential	US$
12	Zimbabwe	Southern	CBZ Bank	Line of Credit	Financial Institution	8,300,000	Residential	US$
13	Nigeria	Western	Customscope Kagini SPV Ltd	Debt	Private	3,900,000	Residential	US$
14	Mali	Western	Société Immobilière et Foncière du Mali (SIFMA)	Debt	Private –Public -Partnership	9,600,000	Residential	FCFA
15	Kenya	Eastern	Sigona Valley Properties Limited	Debt	Private	529,412	Residential	KES
16	Uganda	Eastern	National Housing & Construction Company Ltd (NHCC)	Debt	Parastatal	9,000,000	Residential	USD
17	Senegal	Western	Société Civile Immobilière CFI INVEST	Debt	Private	10,138,211	Residential	FCFA
18	Senegal	Western	Sertem IMMO	Debt	Private	2,072,711	Residential	FCFA
19	Ghana	Western	Supreme Genesis Investments Limited	Debt	Private	6,100,000	Residential	US$
TOTAL						104,504,867		

APPROVALS BY LENDING INSTRUMENT

At 67%, direct debt instruments to developers remain the most dominant form of funding by Shelter Afrique. However, the year 2013 saw a rise in approval of Lines of Credit to Financial Institutions to 28% of total approvals (2012: 9%). Approvals relating to Trade Finance contributed five percent of total approvals while there was no equity investment approved during the year. Tenors ranged from one year for trade finance products to 12 years for lines of credit.

The United States Dollar remained the dominant currency for Shelter Afrique's lending. Fifty-Eight percent of all loans approved were in US$ while 35% were in FCFA. Only seven percent of the approvals related to facilities denominated in Kenya Shillings [KSH].

MATURITY OF APPROVED FACILITIES DURING 2013

Majority of developments funded by Shelter Afrique are build-to-sell projects. Consistent with this reality, 67% of facilities approved during 2013 had tenors ranging from three years to five years. Lines of Credit benefited from longer tenors of up to 12 years. Facilities with tenors over five years represented 28% of approvals while trade finance facilities which are short-term in nature represented only five percent of approvals.

REGIONAL DISTRIBUTION OF PROJECTS

Approvals during the year 2013 had a good balance of regional representation. Western Africa continued its dominance with up to 48% of investments approved going to the region. Investments in Senegal, Cote d' Ivoire, Ghana, Mali and Nigeria contributed to this outcome. The Eastern Africa market continued to perform well too, with 28% of all approvals coming from the region. Southern Africa region contributed 24% of the annual approvals during 2013 while there were no approvals reported from the Northern African countries which we may attribute to the recent political instability in the region.

COMMITMENTS AND DISBURSEMENTS

During year 2013, we achieved commitments of US$ 84.4 million, which was a 38% decline from commitments made in 2012 (US$ 135.69 million). However, the institution recorded improved annual disbursements during the year relative to 2012. Disbursements amounted to US$ 79.73 million as compared to US$ 65.49 million recorded in the previous year, representing a 22% growth.

2013 SELECTED PROJECTS PROFILE PROJET DIAMNIADO – DAKAR – SENEGAL

The project is sponsored by Société Nationale des Habitations à Loyer Modéré (SNHLM) and is located in

Chart 5: Loan approval per lending instrument

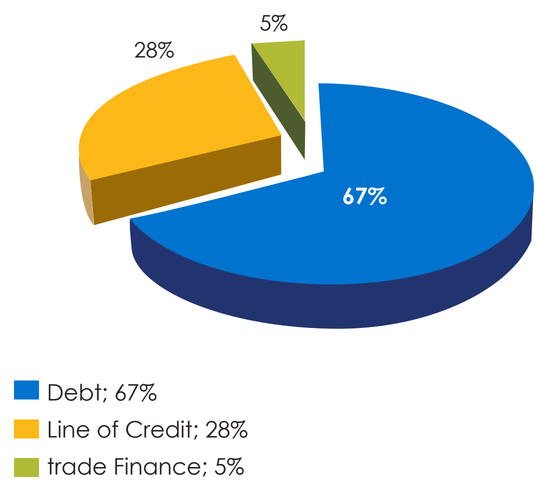


Chart 6: Distribution of 2013 loan approval by currency

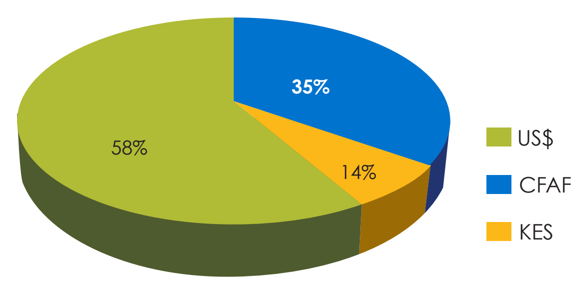
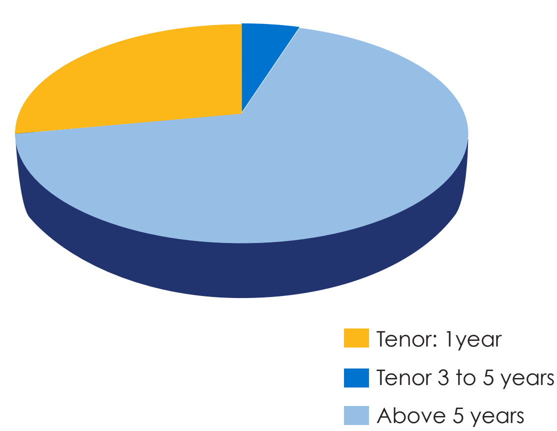


Chart 7: Maturity profile of approved facilities - 2013



Diamniado District, approximately 35 Km from the capital city of Dakar. The whole project entails the servicing of 4,531 plots and construction of 1,000 housing units in phases. Phase 1, for which Shelter Afrique is participating, consists of servicing of 1,810 plots and the development of economic residential houses of 565 Villas and Duplex units and related infrastructures for sale. The Board of Directors approved FCFA 4.42 billion (US$ 9 million) as debt finance to the project. The strength of this transaction lies in the fact that the borrower is a wholly owned government agency mandated to promote housing in Senegal. SNHLM is also a repeat client of Shelter Afrique with an impeccable record in delivery of similar projects. We envisage that this project will have huge development impact in the Senegalese housing sector owing to the fact that over 80% of the project targets the low income market and the members of the civil service in Senegal. We are confident that soon SNHLM will be opening its doors to 2,475 families

RAFIKI DEPOSIT TAKING MICROFINANCE LIMITED – NAIROBI – KENYA

In the current Corporate Plan (2012 – 2016), we identify Social Housing as one of our key strategic priorities. This has resonated with the public and private sectors in Member States as well as with international donors. Increasing access to housing finance by promoting products that match the affordability levels as well as the incremental building process favoured by low-income home owners features among the key areas of intervention for our social housing programme.

In this regard, the Board approved KES 100 million (US$ 1.1 million) to Rafiki Deposit Taking Microfinance Limited. The facility will be used for on-lending of small incremental loans

The Managing Director, Shelter Afrique and The CEO Rafiki DTM shake hands during the loan agreemnt signing.

Chart 8: Regional distribution of projects

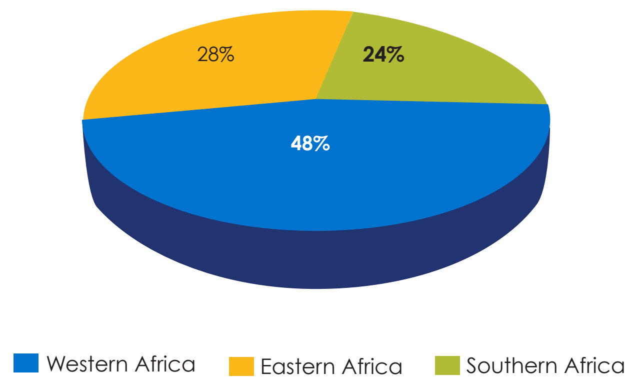


Chart 9: Cumulative approvals per project type 2013

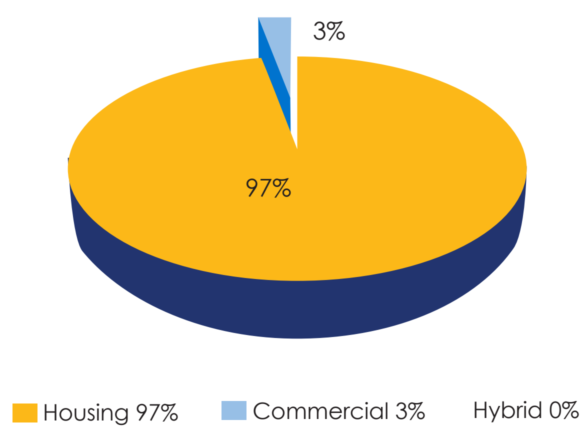
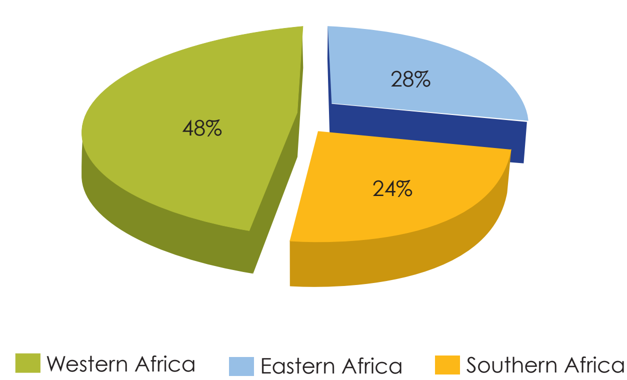


Chart 10: 2013 Cumulative approvals per region



for home ownership and other related activities. Specifically, funds will be used for the following activities: Buying already built houses (Mortgage Loans); Incremental Housing Development; Housing Infrastructure Improvement (Solar, Electricity, Water & Sanitation); Group Housing Schemes for registered groups. As a micro-finance institution, Rafiki DTM has built an appropriate framework and system to manage the facility whose successful implementation will be replicated across our Member States.

CUSTOMSCOPE KAGINI (SPV) LTD – ABUJA - NIGERIA

The Board of Directors approved a US$ 3.9 million facility to support Customs-Coop Kagini (SPV) Ltd in the construction of 90 housing units and associated infrastructure in Abuja, Nigeria. The housing scheme is part of an ambitious 5,000 units housing programme set to be rolled out by the Nigeria Customs Service (NCS) as part of its employee welfare programme across all regions in Nigeria. The project under consideration is in line with and as a result of this Customs' Service strategy to improve staff welfare.

To deliver the project, NCS has partnered with an experienced real estate developer, Coop Property Development Ltd through a Joint Venture Agreement that stipulates implementation modalities between the two parties. Support for this project provides us with an opportunity to participate in a mutually beneficial project, with an experienced developer and a key government agency as it plans to roll out the wider housing program sequentially in the medium to long term. This also serves the dual purpose of meeting our objective of providing affordable housing and our objective of increasing our PPP stock.

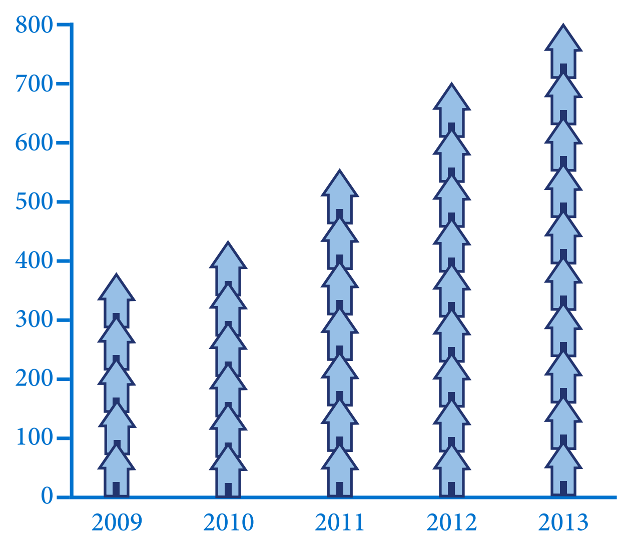
SIFMA 4 – SICORO KATI SANAFARA – BAMAKO - MALI

This project is sponsored by Société Immobilière et Foncière du Mali (SIFMA). It entails the development of 600 housing units and related infrastructure services for low and middle income market through a Public-Private-Partnership with the Government of Mali. The Board of Directors approved CFA 4.8 billion (US$ 9.6 million) to support this initiative. The development is bound by an agreement between SIFMA and Office Malien de l'Habitat (OMH) whereby the latter shall purchase all the units constructed. This is the second project of this nature and is part of the government's poverty reduction strategy.

The first project (300 units) was co-financed by Shelter Afrique. The total project cost is estimated at US$ 25.3 million and we will co-finance the transaction with a reputable local financial institution. This project ticks all our boxes on our strategic objective list; it is a PPP project that involves a financial institution that will provide housing to 600 families at the bottom of the pyramid. We envisage major developmental benefits associated with this scheme including but not limited to; social benefits related with home ownership, employment opportunities during and after implementation as well as positive linkages through the construction material supply value chain.

Others include tax generation for the government as well as support to the Government of Mali as it seeks to achieve its social mandate of provision of decent housing to its citizens and improving the standard of livings of its citizens

Chart 11: Cumulative approved loans 2009-2013



HOUSING TRENDS IN AFRICA

HOUSING SECTOR ENVIRONMENT

Rapid urbanization is becoming a reality on the continent and contributing to the growth of major African cities. More people are migrating to urban areas in search for jobs and business opportunities. This is significantly increasing the demand for housing in many countries. African cities are fastest growing compared to other emerging markets. Currently, about 40% of the continent's 1 Billion people live in cities and towns and according to UN Habitat research it is estimated that by 2030 the continent will be 50% urbanized. In a nutshell, African economies are booming. This has led to a growing middle class and increased demand for affordable houses, especially in urban centres. Empirical evidence has shown that the African middle class has been growing significantly and this has had immediate effects on the housing industry, from efforts to develop the mortgage market to the introduction of microfinance housing products to the development of alternative and cost efficient technologies and the efforts to reduce construction costs and fast track the construction of housing developments.

MORTGAGE MARKET

The mortgage market in Africa is still small by international standards. However, the sector is gradually growing and increasingly gaining policy attention. Positive growth is being observed in some of the markets such as Kenya, Uganda and others. In Kenya the mortgage market grew by 37% in 2012, culminating in total mortgages of 19,700 . On the other hand Uganda showed signs of growth by end December 2012 and was about 0.98% of the GDP. South Africa and Namibia remain the market leaders for Sub-Saharan Africa, challenged only by the performance

Sunset Paradise (Mombasa, Kenya)

KTM Project (Rwanda)

of some of the economies in North Africa such as Egypt and Tunisia.

Many initiatives have been taken in Africa to support the development of mortgage. The creation of Secondary mortgage institutions in Nigeria, Tanzania and WAEMU zone is really a game changer for the provision of mortgage loans. This is a new step forward for the integration between the housing sector and the financial markets for more and long term liquidity and at a reasonable cost. Unfortunately in Africa in many countries the interest rates are too high and compounding the issue of affordability.

TRENDS IN HOUSING FINANCE IN SELECTIVE MEMBER COUNTRIES IN EAST AFRICA, NORTH AFRICA, SOUTHERN AFRICA, CENTRAL AFRICA AND WEST AFRICA.

EAST AFRICA

Tanzania: The real estate market in Tanzania is beginning to transform and this is primarily driven by the change in legislation. Previously, Financial Institutions were cautious of lending funds to real estate investments, as foreclosure laws were not clear and offered limited protection to financiers. This has now been mitigated and relevant laws offers effective security instrument to financiers. It is clear that the legislative and legal environment in Tanzania is driving growth in the real estate sector.

Currently, Tanzania housing deficit is estimated at 3 million units valued at US$ 80 billion. The annual demand for houses in urban areas is about 200,000 units. In order, to reduce the backlog the government stamped the National Housing Corporation as the master developer and mandated the NHC to construct at least 15,000 units by end of 2015. In 2012, the National Housing Corporation secured about USD 100 million long-term funding both from local commercial banks and international development finance institutions to roll out the construction of the

Afrique Suites (Uganda)

housing units. Once again government efforts to spur the growth of the sector are attributed to the revision of the legislation to ensure participation of both private developers and banks.

Since the legislative and legal environment has begun to offer security and order, a lot of progress has been recorded in the sector as more commercial banks are introducing mortgage products as part of their lending activities. Moreover, the mortgage market has been growing steadily and total lending by the banking sector is about USD 96 million . The total number of mortgage loans grew rapidly from 1,889 at the beginning of 2013 to 2,784 by end of December 2013.

Worthy of mention and a factor that contributed in no small part to the growth and stability of the Tanzanian mortgage market is the establishment of the Tanzania Mortgage Refinancing Company (TMRC). The mandate of TMRC is to secure long-term funding at attractive rates, promote sound lending habits and best practices among banks. To date, the mortgage debt advanced by TMRC accounts for 11% of the market's outstanding mortgage debt. It is evident that as more lenders take up the liquidity opportunities offered by TMRC, mortgage lending in Tanzania will grow considerably.

The housing market in Tanzania provides enormous potential for growth, specifically with the large-scale housing units that are being constructed by the National Housing Corporation and the increasing demand for additional housing units. Beyond mortgage finance however, there are still real opportunities in the housing microfinance sector as the sector offers further opportunities towards home ownership for all Tanzanians.

NORTH AFRICA

Algeria: Housing finance is an under-developed sector in the country. Despite this, the mortgage lending is still available, but on a relatively small scale and is equivalent to about 1% of the country's GDP, and 6% of total bank lending. The total lending of banks towards the sector is highly concentrated towards commercial units than residential units. Mortgage providers are mostly State owned banks and account for 60% of the market share. The major mortgage lender in the market is the National Savings & Provident Fund. Its housing products offered to the market have a maximum duration of 20 years to 40 years and loans are available at both fixed and variable rates ranging between 5.75% and 7.5%.

On the supply side it is estimated that the country has a housing shortage of about 1.2 million units. To address the shortage, the government under the Ministry of Housing indicated plans to deliver about 647,000 houses in 2013/2014 and a further 265,000 in each of the coming years in order to reduce the backlog significantly. In addition, the government pledged between US$ 46 million to US$ 60 million to ensure that a minimum of 2.4 million units are constructed in 2017.

The outlook of the Algerian mortgage market shows positive signs, given the number of units to be constructed through the Government by 2017. Another positive attribute is the country's sound financial systems and the development of the legal framework, which are essential to the development of the sector.

SOUTHERN AFRICA

Zambia: The country's real estate sector is poised for some upward growth and is widely tipped to record sustained economic growth of approximately 7% over the coming years . In 2012 Zambia raised a Eurobond of about

Seimad 3 (Madagascar)

EJJ Villas (Diégo-Suarez, Madagascar)

US$ 700 million, which was earmarked for infrastructure development across the country. The country's steady year-on-year economic growth, FDI and investment in the real estate sector has seen the creation of jobs, increased access to housing, retail and office commercial developments. Major infrastructure projects are ongoing across the country and one noteworthy project includes Roma Park development, which is a mixed-use development with both commercial and residential components. At project maturity the development will exceed US$ 100 million. Also, the growth in real estate is not restricted to investments in the capital city. There are other planned significant developments going on in the North Western Province, which will translate into approximately 3,500 opportunities for home ownership.

On the supply side there is definitely a shortage of housing supply in many urban centers, particularly in rapid growing towns such as the Copperbelt and North Western Provinces where mining activities have resurged. Additionally, according to the UN Habitat research there is a backlog of 1.3 million units across the country and it is recommended that an annual delivery of at least 46,000 units will help close the deficit. Between 2001 and 2011 the delivery rate was only 11,000 units . The major challenge within the Zambia housing sector is affordability of units for the lower and middle-income bracket which is common with many African countries. The two key housing developers, the National Housing Authority and the Pension Scheme Authority have promoted housing delivery mainly to the upper middle and high-income earners excluding the rest.

Zambia's relative political stability, economic growth spurred by the mining sector, and growing middle class will see housing demand continue to increase in major urban areas around the country. However there remains vast potential and opportunity in the country's housing microfinance sector as an effective tool to provide housing to people in the lower-income bracket who are too often neglected.

CENTRAL AFRICA

Cameroon: Access to housing finance is acutely low to all demographics in Cameroon and only available to civil servants through Crédit Foncier du Cameroun, a government agency. About 2% of the population has access to mortgage finance from the formal banking system. The Government recognises the potential of the sector and has committed to inject capital into Crédit Foncier du Cameroun to make it easier for the middle income brackets to access funding to either build homes incrementally or take out mortgages. The country is 58% urbanized and the annual population growth is projected at 2.2% while the urbanisation growth is set at 6.5% annually.

On the supply side Cameroon has a housing deficit of 100,000 units per annum. Government estimated that at least up to 1 million units need to be constructed by 2020. Of these, 300,000 units are needed in Duala and Yaoundé. The main players in the provision of housing in the country include the state owned- Société Immobilière du Cameroun (SIC) and Société d'Aménagement de Douala (SAD owned by the Douala City Council); these two players have been responsible for solving the housing challenges for the low and middle-income bracket.

SIC plans to build at least 100,000 units by 2020 in collaboration with local and foreign private construction companies with capacity to handle large-scale projects. Cameroon's housing sector is ready for investment in particular for residential units targeting the middle-income segment. In order to realise the full potential of

NHA Project (Zambia)

the housing market, the government should continue with the land reforms, and implement financial market reforms as recommended by the African Development Bank and the International Monetary Fund.

The Government should also continue with other instrumental reforms such as the microfinance sector to enable it to play a more significant role in housing finance. With the current economic growth, a huge housing backlog, growing middle class and capital inflows from investors the market is destined for sustainable growth. Most of the residential real estates in the country are highly concentrated at the high-end level as a result of affordability and access to finance. It is therefore critical that the focus is shifted to the middle and low-income segment, which presents the biggest opportunity for development of the sector to its full potential.

WEST AFRICA

Côte d'Ivoire: Affordable housing is a key legislative agenda for the Government of Côte d'Ivoire, specifically the need to strengthen the financing options available to both developers and buyers. The government has prioritised housing development and supported various projects in the country. Côte d'Ivoire has a housing deficit of over 600,000 units with demand most prevalent in urban centres. Additionally Habitat for humanity estimates that the annual housing deficit in Abidjan alone is about 12,000 units. In order, to lessen the deficit the government has put in place mechanism such as the mandate to the National Development Plan to construct 40,000 to 50,000 units by 2015 .

Sebel Oukam (Senegal)

Interbat Project (Côte D'Ivoire)

Despite the positive steps being taken by the government, the country's mortgage sector is non-existent or in its infancy stage. There are only four institutions involved in financing housing related products. These are the National Investment Bank, Support Fund for Housing, Urban Land Account and the Mobilisation Account.

Other notable players are Caisse Régionale de Refinancement Hypothécaire de l'UEMOA, regional mortgage institutions established in 2012 to unleash construction activities and housing development in the country and the Housing Bank BHCI, which is financing Social Housing projects and other real estate activities.

Finally, the country has gone through internal conflicts which greatly undermined the urban infrastructure. Despite the challenges the country emerged stronger after the 2010 elections and there is great potential to grow the sector which is dependent upon a number of factors, including improved fiscal regulations, enforcing monetary policy transmission and addressing challenges of access to land titles and construction permits.

SHELTER AFRIQUE

Financing Affordable Housing for Africa

Annual Report and Financial Statements

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS
Shelter Afrique Centre
Longonot Road, Upper Hill
P O Box 41479 - 00100
Nairobi
KENYA

PRINCIPAL BANKERS
Barclays Bank Plc
Barclays International Banking Centre
P O Box 391, 38 Hans Crescent, Knightsbridge
London SW1X 0LZ
ENGLAND

Kenya Commercial Bank Limited
P O Box 30012 -00100
Nairobi
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

Ecobank
8, Avenue L.S. Senghor
B P 9095 CD Dakar
SENEGAL

Merrill Lynch International Bank Limited
2 World Financial Centre, New York, NY
U.S.A.

SOLICITORS
M/s Waruhiu K'Owade & Ng'ang'a Advocates
P O Box 47122
Nairobi, KENYA

Ochieng Onyango, Kibet & Ohaga Advocates
P.O. Box 43170 – 00100
Nairobi, KENYA

AUDITORS
Ernst & Young
Certified Public Accountants (Kenya)
P O Box 44286-00100 Nairobi
KENYA

BOARD OF DIRECTORS		
Chairperson	Mr. Corneille Karekezi	
Vice Chairperson	Mrs. Nene LY Soumare	
DIRECTORS *Class "A" Shareholders*	**ALTERNATE DIRECTORS**	**REPRESENTING**
Mr. Bernard Namachilla (up to 21.05.2013) (Zambia) Dr.Chileshe L. Mulenga (from 21.05.2013 to 24.09.2013) (Zambia) Rev. Howard L. Sikwela (from 24.09.2013) (Zambia)	*(From Namibia)	Botswana, Lesotho, Malawi. Namibia, Swaziland, Zambia.
Mr. David Gabindadde-Musoke (Uganda)	* (From Rwanda)	Burundi, Central African Republic, Chad, Djibouti, Equatorial Guinea, Gabon,Gambia,Liberia,Madagascar, Rwanda, Tanzania, Uganda.
Mrs. Nene LY Soumare (Senegal)	* (From Togo)	Guinea, Burkina Faso, Mali, Senegal, Togo, Ivory Coast
Mr. A. Boulares (Algeria)	*(From Mauritania)	Algeria, Mauritania, Morocco, Tunisia.
Mr. Jean Paul Missi (Cameroon)	*(From Niger)	Benin, Congo, Democratic Republic of Congo, Cameroon, Mauritius, Niger, Seychelles.
Dr.Olatunbosun Ayileka (Nigeria) (up to 21.06.2013) Mr.Lawal Abubakar (Nigeria) (from 21.06.2013)	*(From Guinea Bissau)	Cape Verde, Guinea Bissau, Nigeria, Sao Tome & Principe
Mr. T. Kosgey (upto 19.06.2013) (Kenya) Mrs. Jane W. Mwangi (From 04.07.2013 to 07.11.2013) Kenya) Arch. Mariamu El Maawy (Kenya) (from 7.11.2013)	*(From Zimbabwe)	Kenya, Zimbabwe, Somalia, Sierra Leone, Ghana
Class "B" Shareholders		
Mr. Corneille Karekezi	Ms. Eunice Mbogo	African Reinsurance Corporation
Mr. Samuel Mivedor	From the African Development Bank	African Development Bank

Independent Directors:
Mr.Abubakar Jimoh (up to up to 01.10.2013)
Mr.Hardwork Pemhiwa
*The Alternate Directors are yet to be appointed.

SENIOR MANAGEMENT

Mr.Alassane Bâ	Managing Director
Mr.Yekinni Olayanju	Director, Risk and Planning
Mr.Vipya Harawa	Director, Corporate Affairs and Secretariat
Mr.Femi Adewole	Director, Business Development & Operations
Mr. Godfrey Waweru	Director, Finance

INTERNAL AUDITOR
Mr. Mohamed Barry

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 2013, 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 innovative and sustainable housing delivery systems 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. The Company is exempted from all forms of taxation as provided for in the Shelter – Afrique Act 1985.

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 retained earnings amounts to US$4,745,791(2012 – US$ 3,372,557).

4. DIVIDENDS

   The Directors recommend the payment of a dividend of US$ 949,135, which represents US$ 15.86 per paid up ordinary share (2012 - US$ 674,492, representing US$ 12.02 per paid up ordinary share).

5. TRUST FUND

   The Annual General Meeting approved in June 2013 the creation of a Shelter Afrique Trust Fund to be funded through the appropriation of up to 30% of the net profit for the year. In 2013, the amount recommended to be appropriated to the Trust Fund is US$ 1,423,737.

6. RESERVES

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

7. 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.

8. 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

15th March 2014
Nairobi

STATEMENT ON CORPORATE GOVERNANCE

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 of seven Class 'A' Directors representing countries, two Class 'B' Directors representing corporates, and two Independent Directors. The Directors have diverse skills and are drawn from various sectors of the economy. All Directors are non-executive.

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 31 to the financial statements for the year ended 31 December 2013.

b) Related Party Transactions

TThere 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 31 to the financial statements for the year ended 31 December 2013.

2. BOARD COMMITTEES

The Board has in place three main committees, namely the Audit, Risk & Finance Committee, the Investments Committee and the Administrative Affairs & Human Resource Policy Issues Committee. To discharge its mandate effectively, matters are discussed in detail in the three Committees before resolution by the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls and organizational structures 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 committees, as and when it is deemed necessary. The authority for the day-to-day running of the Company is delegated by Statute to the Managing Director.

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 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 fulfil 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.

6. 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.

7. 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

15th March 2014

....
Director

15th March 2014

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	Director
15th March 2014	15th March 2014

INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)

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 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 2013, the results for the year and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror – P/No. P.1145

Ernst & Young

Nairobi

26th March 2014

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 US$	2012 US$
INTEREST AND SIMILAR INCOME	3	18,339,397	15,870,027
INTEREST EXPENSE AND SIMILAR CHARGES	4	(8,655,896)	(6,668,787)
NET INTEREST INCOME		9,683,501	9,201,240
FEE AND COMMISSION INCOME	5	3,203,409	2,892,697
GRANT INCOME	6	309,797	499,643
OTHER INCOME	7	280,370	195,228
OPERATING EXPENSES	8	(6,832,770)	(6,814,472)
GRANT EXPENDITURE	9	(305,917)	(495,762)
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	13(c)	(2,284,510)	(2,177,609)
NET FOREIGN EXCHANGE GAINS/LOSSES		59,923	(37,749)
JOINT VENTURE GAIN/(LOSS)	15	253,961	(49,633)
PROFIT FOR THE YEAR		4,367,764	3,213,583
OTHER COMPREHENSIVE INCOME			
UNREALISED GAIN ON EQUITY INVESTMENTS	16	378,027	158,974
TOTAL COMPREHENSIVE INCOME		4,745,791	3,372,557
EARNINGS PER SHARE	11	81.86	61.81

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2013

	Note	2013 US$	2012 US$
ASSETS			
Bank and cash balances		4,334,950	1,636,963
Short term bank deposits	12	56,787,812	31,720,991
Loans and advances to customers	13(a)	195,411,454	145,132,521
Other receivables	14	2,173,474	1,707,335
Investment in joint venture	15	1,588,709	1,338,203
Equity participation	16	2,596,071	2,090,812
Corporate bonds	17	2,882,932	3,941,158
Grant	18	128,024	131,903
Property and equipment	19	3,708,965	3,869,198
Intangible assets	20	577,090	420,015
TOTAL ASSETS		270,189,481	191,989,099
EQUITY AND LIABILITIES			
LIABILITIES			
Bank borrowings	21	3,906,360	2,828,927
Medium term notes	22	89,642,358	45,597,300
Lines of credit	23	67,068,966	44,071,287
Other payables	24	2,847,982	2,525,587
Dividends payable	25	530,604	1,196,464
Deferred income	26	103,965	111,554
TOTAL LIABILITIES		164,100,235	96,331,119
SHAREHOLDERS' FUNDS			
Share capital	28(a)	59,842,000	56,114,000
Share premium	28(b)	14,230,752	11,598,784
Revaluation surplus		1,916,665	1,948,350
Retained earnings		29,562,828	25,837,872
Available for Sale Reserve		537,001	158,974
TOTAL SHAREHOLDERS' FUNDS		106,089,246	95,657,980
TOTAL EQUITY AND LIABILITIES		270,189,481	191,989,099

The financial statements on pages 37 to 81 were approved by the Board of Directors on.15th March 2014 and were signed on its behalf by:-

....

Director   Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital US$	Share premium US$	Revaluation surplus US$	Retained earnings US$	Available for Sale reserve US$	Total US$
At 1 January 2012	53,021,000	9,256,656	1,980,035	23,156,222	-	87,413,913
Issue of Share capital	3,093,000	2,342,128	-	-	-	5,435,128
Profit	-	-	-	3,213,583	-	3,213,583
Other Comprehensive Income	-	-	-	-	158,974	158,974
Total comprehensive income	-	-	-	3,213,583	158,974	3,372,557
Transfer of excess depreciation upon revaluation	-	-	(31,685)	31,685	-	-
Dividends payable (note 25)	-	-	-	(563,618)	-	(563,618)
At 31 DECEMBER 2012	56,114,000	11,598,784	1,948,350	25,837,872	158,974	95,657,980
At 1 January 2013	56,114,000	11,598,784	1,948,350	25,837,872	158,974	95,657,980
Issue of Share capital	3,728,000	2,631,968	-	-	-	6,359,968
Profit	-	-	-	4,367,764		4,367,764
Other Comprehensive Income	-	-	-	-	378,027	378,027
Total Comprehensive Income	-	-	-	4,367,764	378,027	4,745,791
Transfer of excess depreciation upon revaluation	-	-	(31,685)	31,685	-	-
Dividends payable (note 25)	-	-	-	(674,492)	-	(674,492)
At 31 December 2013	59,842,000	14,230,752	1,916,665	29,562,828	537,001	106,089,246

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 FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 US$	2012 US$
OPERATING ACTIVITIES			
Net cash used in operations	29(a)	(35,775,365)	(32,813,193)
INVESTING ACTIVITIES			
Purchase of equipment	19	(45,694)	(154,220)
Purchase of intangible assets	20	(274,295)	(55,098)
Proceeds from disposal of equipment		-	77,867
Investment in Equity Participation	16	-	(1,929,714)
Net cash used in investing activities		(319,989)	(2,061,165)
FINANCING ACTIVITIES			
Dividends paid	25	(879,445)	(40,617)
Proceeds from capital subscriptions	28(c)	6,359,968	5,435,128
Proceeds from borrowed funds - lines of credit	29(c)	31,718,573	-
Repayment of borrowed funds - lines of credit	29(c)	(9,397,710)	(8,301,888)
Proceeds from medium term notes	29(d)	56,759,957	5,812,021
Repayment of medium term notes	29(d)	(14,254,237)	(12,914,287)
Proceeds from bank borrowings	29(e)	25,128,412	2,730,656
Repayment of bank borrowings	29(e)	(24,437,802)	-
Interest paid on borrowed funds - lines of credit	29(c)	(1,104,740)	(883,467)
Interest paid on medium term notes	29(d)	(4,681,454)	(5,291,024)
Interest paid on bank borrowings	29(e)	(608,895)	-
Other finance charges paid	29(f)	(802,388)	(411,953)
Net cash generated from / (used in)/ financing activities		63,800,239	(13,865,431)
((DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		27,704,885	(48,739,789)
EFFECT OF EXCHANGE RATE CHANGES		59,923	(37,749)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		33,357,954	82,135,492
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29(b)	61,122,762	33,357,954

1 ACCOUNTING POLICIES

a) 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).

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 / improved IFRS and IFRIC interpretations effective as of 1 January 2013:

- IAS 1 Presentation of Financial Statements – Presentation of items of other comprehensive income
- IFRS 1 First-time Adoption of International Financial Reporting Standards -Government Loans
- IFRS 7 Financial Instruments: Disclosures -Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements-IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 19 Employee Benefits (Revised 2011)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The adoption of the standards or interpretations is described below:

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

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Company's financial position or performance.

IIFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment did not have an impact on the Company as the Company is not a first-time adopter of IFRS.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have an impact on the Company's financial position or performance.

1 ACCOUNTING POLICIES (Continued)

a) Statement of compliance (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) an investor has power over an investee;
(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
(c) The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 had no impact on the Company as the Company does not have any investments in entities which would constitute control.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This new standard did not affect the Company as the joint venture is accounted under the equity method.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable to the Company.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not impacted the fair value measurements carried out by the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 27.

IAS 19 Employee Benefits (Revised)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gain and losses that are now recognised immediately in other comprehensive income (OCI), with the "corridor method" no longer allowed, and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. Another significant amendment relates to the classification of short and long-term employee benefits. The classification is now made based on the expected timing of settlement, rather than employee entitlement. The amendment did not have an impact on the Company, as the Company operates a defined contribution scheme.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The new interpretation did not have an impact on the Company.

1 ACCOUNTING POLICIES (Continued)

a) Statement of compliance (continued)

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. This effective date has since been withdrawn. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will not have an effect on the classification and measurement of the Company's financial assets and financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 : Investment Entities (Amendments to IFRS 10, IFRS 12 and IFRS 27)

The key amendments include: • An investment entity must meet three elements of the definition and consider four typical characteristics, in order to qualify as an investment entity .An entity must consider all facts and circumstances, including its purpose and design, in making its assessment .An investment entity accounts for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which must be consolidated (investments in subsidiaries) or accounted for using the equity method (investments in associates or joint ventures) . An investment entity must measure its investment in another controlled investment entity at fair value . A non-investment entity parent of an investment entity is not permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled. The revised standard becomes effective for annual periods beginning on or after 1 January 2014 and will not have an impact on the Company as it is not an investment entity.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment. In addition, the IASB added two disclosure requirements. Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal. • Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal. The revised standard becomes effective for annual periods beginning on or after 1 January 2014 and may have an impact on future disclosure.

1 ACCOUNTING POLICIES (Continued)

a) Statement of compliance (continued)

Standards issued but not yet effective (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendment covers novations:

- That arise as a consequence of laws or regulations, or the introduction of laws or regulations
- Where the parties to the hedging instrument agree that one or more clearing counterparties replace the
- original counterparty to become the new counterparty to each of the parties
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing

All of the above criteria must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against th derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting. The revised standard becomes effective for annual periods beginning on or after 1 January 2014 and will not have an impact since the Company does not apply hedge accounting.

IFRIC 21 Levies (IFRIC 21)

IFRIC 21 is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached. The standard becomes effective for annual periods beginning on or after 1 January 2014.This new IFRIC is not expected to have an impact on the Company as no levies are incurred.

Annual Improvements May 2012

These improvements will not have an impact on the Company, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

1 ACCOUNTING POLICIES (Continued)

a) Statement of compliance (continued)
Annual Improvements May 2012 (continued)

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

b) 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$).

c) Revenue 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 drawdown 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.

d) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use or sale are capitalised 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.

e) Interest in a joint venture

The Company has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Company recognises its interest in the joint venture using the equity method of accounting. Under the equity method, the interest in the joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the venturer's share of profit or loss in the joint venture after the date of acquisition. The venturer's share of profit or loss is recognised in the venturer's profit or loss. Distributions received from the joint venture reduce the carrying amount of the interest.

1 ACCOUNTING POLICIES (Continued)

f) Foreign currencies

The Company's financial statements are presented in United States Dollars. The functional currency is the United States Dollar.

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value ina foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

g) Intangible assets

Intangible assets comprise acquired computer software programmes. Expenditure on acquired computer software programmes is capitalised and amortised using the straight-line method over their estimated useful lives, which is three to five years. Amortisation is recognised within the operating expenses line item.

An intangible asset is derecognised 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 profit or loss in the year the asset is derecognised.

h) 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. Grants are initially recognised as deferred income at fair value and are subsequently amortised to profit or loss as follows:

Government of Kenya land grant	amortised over the period of the lease of the land on a straight-line basis.
The Fund for African Private Sector Assistance (FAPA) grant – African Development Bank (ADB)	amortised to profit or loss as the amounts are utilised in accordance with the grant agreement.
Agence Française de Development (AFD) grant	amortised to profit or loss as the amounts are utilised in accordance with the grant agreement.

1 ACCOUNTING POLICIES (Continued)

i) Property and equipment

Property and equipment are stated at cost or valuation, less accumulated depreciation and impairment losses, if any. Repairs and maintenance costs and borrowing costs for long-term construction projects are capitalized if the recognition criteria are met. All other repairs and maintenance costs are recognised in profit or loss as incurred.

Freehold land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Revaluation surplus
In accordance with IAS 16, the nature of revaluation surplus results from valuation of assets with significant changes in fair value. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is done by professionally qualified valuers.

Changes in fair value are recognized in other comprehensive income and accumulated in equity under revaluation surplus

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off the cost or valuation of the assets over their estimated useful lives.

The annual depreciation rates in use are:

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%

Buildings on leasehold land are depreciated over the estimated useful life of the building, or the lease period, whichever is shorter. An item of property and equipment is derecognised 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 profit or loss in the year the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

1 ACCOUNTING POLICIES (Continued)

j) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU)fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or has decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal of 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.

k) 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.

l) Employee entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

m) Financial instruments

Financial assets

Recognition and measurement

A financial instrument is recognised when the Company becomes party to the contractual provisions of the instrument. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition and re-evaluates its portfolio every reporting date to ensure that all financial instruments are appropriately classified.

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, staff loans and corporate bonds.
- Held to maturity investments:- Short term deposits, corporate bonds.
- Available-for-sale financial investments - CFA equity participation

1 ACCOUNTING POLICIES (Continued)

m) Financial instruments (continued)

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date , i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the expected interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in Interest and similar income in profit or loss. The losses arising from impairment are recognised in profit or loss in impairment charge for loans and in operating expenses for other receivables.

Other receivables consist of all receivables which are of short duration with no stated interest rate and are measured are measured at amortised cost using the effective interest rate. An allowance is made for any unrecoverable amounts.

For the purpose of the statement of cash flows, cash equivalents include short-term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from date of disbursement or confirmation of the advance. Cash and cash equivalents are measured at amortised cost.

(ii) Held to maturity investments

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. After initial measurement, held to maturity investments are measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included Interest and similar income in profit or loss. The losses arising from impairment are recognised in profit or loss in operating expenses.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

(iii) Available-for-sale financial assets

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to profit or loss in operating expenses. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

1 ACCOUNTING POLICIES (Continued)

m) Financial instruments (continued)
(iii) Available-for-sale financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets)is derecognised when:
- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired 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 event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be 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 flows, such as changes in arrears or economic conditions that are correlated with default.

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in profit or loss.

Available for sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost

1 ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)
Available for sale financial investments (Continued)

and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.
The Company's financial liabilities include trade and other payables, bank overdrafts, and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Gains or losses on liabilities held for trading are recognised in profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

n) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss, net of any reimbursement.

In accordance with IAS 37, for each class of provision, the Company discloses:
(a) The carrying amount at the beginning and end of the period;
(b) Additional provisions made in the period, including increases to existing provisions;
(c) Amounts used (i.e. incurred and charged against the provision) during the period;
(D) Unused amounts reversed during the period; and
This is reflected in the specific notes in the explaining the financial statements.

1 ACCOUNTING POLICIES (Continued)

o) Dividends

In accordance with IAS 37,the distributions of profits to holders of equity investments in proportion to their holdings of the capital is done at the year-end provided the Company has made profits in excess of united states dollar of one million. The maximum amount that can be distributed is 20% of the profits after approval by the annual general meeting

q) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment losses on loans and advances

The Company reviews its individually significant loans and advances at each reporting date toassess whether an impairment loss should be recorded in profit or loss. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).The impairment loss on loans and advances is disclosed in more detail in Note 13 (b).

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 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.

2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

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.

Fair value of financial instruments

Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include other observable inputs, such as, sale of similar instruments in the market as and when they occur.

3. INTEREST AND SIMILAR INCOME

	2013 US$	2012 US$
Loans and advances	16,600,742	13,337,297
Placements with financial institutions	1,738,655	2,532,730
	18,339,397	15,870,027

4 INTEREST EXPENSE AND SIMILAR CHARGES

	2013 US$	2012 US$
Funds from financial institutions and capital markets	8,616,756	6,626,709
Bank charges	39,140	42,078
	8,655,896	6,668,787

5 FEES AND COMMISSIONS INCOME

	2013 US$	2012 US$
Commitment fees	734,037	435,323
Appraisal fees	552,899	757,969
Front-end fees	808,276	943,810
Penalty fees	379,134	305,228
Other project fees	729,063	450,367
	3,203,409	2,892,697

Commitment fees : These are non-refundable fees payable by the borrower three months upon signing of the loan agreement on any undisbursed loan amounts in order to accelerate disbursements stated at 0.85 per cent on the undisbursed loan amount.

Appraisal fees :These are non-refundable fees paid by the borrow to cater for any project appraisal expenses incurred when appraising the project. These are paid prior to the loan agreement being signed and are stated at 0.5 per cent on the loan amount.

Front end fees: These are non-refundable fees paid by the borrower upon signing of the loan agreement stated at 1 per cent on the loan amount.

Penalty fees : These are late payment charges levied on the outstanding invoice amount at different rates.

Other project fees : These include project management fees for managing the project , cancellation and termination fees payable by the borrower upon cancellation of the loan agreement

6 GRANT INCOME

	2013 US$	2012 US$
Government of Kenya land grant (note 18)	3,879	3,881
FAPA grant (note 26)	-	53,848
AFD interest advantage grant (note 26)	305,918	441,914
	309,797	499,643

7 OTHER INCOME

	2013 US$	2012 US$
Rental income	177,450	130,809
Gain on disposal of equipment		11,742
Dividend income-Equity participation	57,484	-
Miscellaneous income	45,436	52,677
	280,370	195,228

8 OPERATING EXPENSES

	2013 US$	2012 US$
Staff costs (note 10)	4,261,067	4,054,499
Depreciation on property and equipment (note 19)	205,926	213,930
Amortization of grant income (Note 18)	3,879	3,880
Amortization of intangible assets (note 20)	117,220	105,018
Auditor's remuneration	26,555	23,500
Directors' expenses	378,650	561,020
Other administration costs	1,839,473	1,852,625
	6,832,770	6,814,472

9 GRANT EXPENDITURE

	2013 US$	2012 US$
FAPA grant (note 26)	-	53,848
AFD interest advantage grant (note 26)	305,917	441,914
	305,917	495,762

10. STAFF COSTS

	2013 US$	2012 US$
Salaries and wages	3,607,933	3,466,246
Terminal benefits (Defined contribution plans)	445,516	388,711
Leave pay	199,469	189,477
Other costs	8,149	10,065
Total staff costs (Note 8)	4,261,067	4,054,499

11. EARNINGS PER SHARE

	2013 US$	2012 US$
Profit for the year (US$)	4,745,791	3,372,557
Weighted average number of ordinary shares in issue	57,978	54,568
Basic earnings per share (expressed in US$ per share)	81.86	61.81

Basic earnings per share are 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 2013 and 31 December 2012.

12. SHORT TERM BANK DEPOSITS

	2013 US$	2012 US$
Held to maturity:		
Call and fixed deposits	56,787,812	31,720,991

The effective interest rate for the bank deposits during the year was 4.15% (2012 – 2.64 %) per annum.

The bank deposits include amounts equivalent to US$ 41,825,298(2012 – US $7,656,170) in local currencies of member countries. All the bank deposits mature within three months from the dates of placement.

13. LOANS AND ADVANCES TO CUSTOMERS

(a) (i) Analysis of loans and advances

	2013 US$	2012 US$
At 1 January	140,856,996	98,428,288
Disbursements during the year	79,726,559	63,464,815
Repayment during the year	(30,803,689)	(21,265,924)
Amounts written off during the year(Principal)	(2,591,082)	-
Currency translation adjustment	1,633,401	229,820
At 31 December		
Principal loans and advances	188,822,185	140,856,999
Interest and fees receivable	10,995,417	11,365,870
Gross loans	199,817,602	152,222,869
Impairment provision for credit risk	(4,406,148)	(7,090,348)
Net loans and advances	195,411,454	145,132,521

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

(a) (ii) Analysis of loans and advances - profiling

	2013 US$	2012 US$
Current portion	65,289,193	63,612,973
Non-Current portion	130,122,261	81,519,548
Net loans and advances	195,411,454	145,132,521

(b) Impairment on loans and advances

	2013 US$	2012 US$
At 1 January	7,090,348	5,301,356
Amounts written off(Principal & Interest)	(5,041,947)	(226,683)
Charge for the year	2,284,510	2,078,365
Currency translation adjustment	73,237	(62,690)
At 31 December	4,406,148	7,090,348

In the opinion of the Directors, the current levels of provisions reflect a prudent assessment of the quality of the Company's loan portfolio. The effective interest rate was 10.46% (2012 – 10.14%) per annum.

13. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Provision for credit risk during the year

	2013 US$	2012 US$
Impairment provision on Project Loans advances	2,284,510	1,099,809
Project loans interest in suspense	-	978,556
	2,284,510	2,078,365
Provision on rent debtors	-	5,928
Provision on HQ service Charge	-	91,649
Provision on other receivables	-	1,667
At 31 December	2,284,510	2,177,609

(d) Analysis of gross loans by maturity

	2013 US$	2012 US$
Maturing		
Within one year	69,695,339	70,866,224
One year to five years	84,562,932	56,528,998
Over five years	45,559,329	24,827,647
	199,817,600	152,222,869

14 OTHER RECEIVABLES

	2013 US$	2012 US$
Staff loans	1,207,490	682,970
Other debtors and prepayments	1,088,772	1,148,420
	2,296,262	1,831,390
Less: provision for doubtful amounts	(32,387)	(32,406)
Provision HQ Service charge	(90,401)	(91,649)
At 31 December	2,173,474	1,707,335
Current portion	722,294	1,280,246
Non-Current portion	1,451,180	427,089
At 31 December	2,173,474	1,707,335

(b) Movement Provision doubtful amounts

	2013 US$	2012 US$
As at 1 Jan	32,406	76,168
Additional Provision	-	5,928
Currency Exchange translation	(19)	-
Less: Amount written off	-	(49,690)
At 31 December	32,387	32,406

(c) Movement Provision HQ Service charge

	2013 US$	2012 US$
As at 1 Jan	91,649	-
Additional Provision	-	91,649
Currency Exchange translation	(1,248)	-
At 31 December	90,401	91,649

14 OTHER RECEIVABLES (continued)

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% (2012-5.8 %) per annum. These staff loans and advances have various terms.

15 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.

Joint ventures 's statement of financial position:	2013 US$	2012 US$
Inventory property	971,280	8,078,861
Trade and other receivables	3,283,633	-
Cash and bank balances	314,192	340,322
Total current assets	4,569,105	8,419,184
Borrowings	918,507	3,157,094
Trade and other payables	474,988	2,585,683
Total current liabilities	1,393,495	5,742,778
EQUITY	3,177,403	2,676,405
Proportion of the Company's 's ownership	50%	50%
Carrying amount of the investment	1,588,709	1,338,203
Joint ventures 's statement of profit and loss:		
Revenue	8,233,396	-
Interest income	6,853	9,968
Other Incomes	2,085	1,867
Cost of sales	(7,662,919)	-
Gross profit	579,415	11,835
Administration expenses	(71,493)	(111,102)
Profit before tax	507,922	(99,267)
Income tax expense	-	-
Profit after Tax	507,922	(99,267)
Share of Joint ventures profits	253,961	(49,633)
Reconciliation of Investment in joint venture		
1 January	1,338,203	1,401,500
Share of (loss)/profit	253,961	(49,633)
Currency translation adjustment	(3,455)	(13,664)
At 31 December	1,588,709	1,338,203

16 CFA EQUITY PARTICIPATION

	2013 US$.	2012 US$
Caisse Régionale de Refinancement Hypothécaire (CRRH):		
Opening balance	1,084,647	-
Additions	-	923,548
Revaluation	10,503	158,974
Other fair value adjustments	(88,284)	-
Exchange difference	48,614	2,124
Closing balance	1,055,480	1,084,646
Banque de L'Habitat du Burkina Faso (BHBF) :		
Opening balance	1,006,166	-
Additions	-	1,006,166
Exchange difference	78,617	-
Revaluation	455,808	-
	1,540,591	1,006,166
Total Equity participation closing balance	2,596,071	2,090,812

Investment in Caisse Régionale de Refinancement Hypothécaire de l'UEMOA - CRRH

Caisse Régionale de Refinancement Hypothécaire (CRRH) is a regional mortgage-refinancing fund, created on 17th July 2010 as a limited company under Togolese law. The initial capital was FCFA 3,426 million comprising of 342,600 shares with a nominal value of FCFA 10,000 fully subscribed and paid up. Its main responsibility is to support the issuance of long-term loans by major mortgage lenders from the West African Economic and Monetary Unit (WAEMU) area.

The main sponsor of CRRH is the BanqueOuestAfricaine de Développement (West African Development Bank), while other shareholders include local banks. Shelter Afrique's investment comprises 46,000 shares at a par value of FCFA 10,000.

The fair value was adjusted a result of recommendations of the audit firm , KPMG, in their report to shareholders of CRRH-UEMOA , advising them on new share capital subscription that had been offered to development and financial institutions, at FCFA 10,896 per share. The new value of the equity investment by Shelter Afrique was revalued to FCFA 501,216,000 to reflect the new share price of FCFA 10,896 per share.

Investment in Banque de l'Habitat du Burkina Faso
Banque de L'Habitat du Burkina Faso (BHBF) is a limited company with a share capital of 5,000 million CFA Francs, with its headquarters in Ouagadougou, Burkina Faso. It was created by the government of Burkina Faso in 2006 to support the development of the housing sector and to strengthen the mortgage market in Burkina Faso. Shelter Afrique's investment comprises 52,632 shares. The par value of the shares is CFC Francs 10,000.

The first fair valuation was done in February 2013, following a capital increase resolution by shareholders at the annual general meeting, and that the new share price be set at FCFA 13,900 per share.

17. CORPORATE BONDS

	2013		2012	
	Amortized cost US$	Market Value US$	Amortized cost US$	Market Value US$
Corporate bonds – held to maturity	2,582,932	2,580,710	3,641,158	3,677,639
Corporate bonds – loans and receivables	300,000	275,731	300,000	281,221
	2,882,932	2,856,441	3,941,158	3,958,860

The average effective interest rate for the corporate bonds during the year ended31 December 2013 was 4.74 % (2012 –5.49%) per annum. The market value is as quoted on the New York Stock exchange where the securities are quoted.

	2013	2012
Maturing:		
One year to five years	753,897	596,743
Over five years	1,900,235	3,115,615
Held to perpetuity (with a maturity of over 50 years)	300,000	300,000
	2,954,132	4,012,358
Impairment provision for credit risk	(71,200)	(71,200)
	2,882,932	3,941,158

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.

18 GRANT

	2013	2012
Value of grant received	200,000	200,000
At 1 January	131,903	135.782
Released to the statement of profit or loss	(3,879)	(3,879)
At 31 December	128,024	131,903
Current	3,879	3,879
Non-current	124,145	128,024
	128,024	131,903
Amounts released to date:		
At 1 January	68,097	64,218
Charge for the year	3,879	3,879
	71,976	68,097

The grant 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 26 to these financial statements.

19 PROPERTY AND EQUIPMENT

	Freehold land US$	Office US$	Computers US$	Motor vehicles US$	Resident US$	Total costs US$
COST OR VALUATION						
At 1 January 2012	3,706,155	524,645	251,529	77,866	87,867	4,648,062
Additions	-	17,583	38,985	97,652		154,220
Disposals	-	-	-	(77,876)	-	(77,876)
At 31st December 2012	3,706,155	542,228	290,514	97,642	87,867	4,724,406
Comprising:						
At cost	2,427,380	542,228	290,514	97,642	87,867	3,445,631
At valuation	1,278,775	-	-	-	-	1,278,775
	3,706,155	542,228	290,514	97,642	87,867	4,724,406
At 1 January 2013	3,706,155	542,228	290,514	97,642	87,867	4,724,406
Additions	-	12,152	33,541	-	-	45,694
At 31 December 2013	3,706,155	554,380	324,055	97,642	87,867	4,770,100
DEPRECIATION						
At 1 January 2012	100,815	332,259	175,673	46,226	40,784	695,757
Charge for the Year	100,851	38,014	39,923	25,188	9,955	213,931
Disposals	-	-	-	(54,480)	-	(54,480)
As at 31 December 2012	201,666	370,273	215,596	16,934	50,739	855,208
At 1 January 2013	201,666	370,273	215,596	16,934	50,739	855,208
Charge for the Year	100,851	39,353	31,355	24,413	9,955	205,926
As at 31 December 2013	302,517	409,626	246,951	41,347	60,694	1,061,135
NET CARRYING AMOUNT						
As at 31 December 2013	3,403,638	144,753	77,105	56,303	27,173	3,708,965
As at 31 December 2012	3,504,489	171,955	74,918	80,708	37,128	3,869,198

19 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$466,715(2012 - US$410,600) which were fully depreciated. The normal annual depreciation charge on these assets would have been US$ 80,203(2012 -US$ 73,095).

(iii) No items of property, plant and equipment (PPE) have been disclosed as security. There are no restrictions on the titles.

20 INTANGIBLE ASSETS

	2013 US$	2012 US$
COST		
At 1 January	605,193	550,095
Additions	14,295	55,098
Work-in-progress (Loans Management system)	260,000	-
At 31 December	879,488	605,193
AMORTIZATION		
At 1 January	185,178	80,160
Charge for the year	117,220	105,018
	302,398	185,178
NET CARRYING AMOUNT		
At 31 December	577,090	420,015

The intangible assets relate to computer software, the major component being Oracle ERP which has been used since October 2010. Included in intangible assets are assets with a cost of US$ 60,871 (2012 -US$ 49,044) which have been fully amortised. The normal annual amortisation charge on these assets would have been US$ 15,218 (2012 –US$ 12,261).

21 BANK BORROWINGS

	2013 US$	2012 US$
Banque De L'Habitat Du Senegal	-	882,972
Banque Atlantique	3,801,039	1,912,452
Interest payable on loans	105,321	33,503
	3,906,360	2,828,927
Analysis of borrowings by maturity:		
Maturing:		
Within one year	3,906,360	2,828,927

Bank borrowings relate to short-term facilities obtained from Banque Atlantique at an interest rate of 6.875%. The facility is unsecured.

22 MEDIUM TERM NOTES

	2013 US$	2012 US$
CFA Loan – (2008 – 2014)	1,680,481	3,211,590
CFA Loan – (2009 – 2014)	3,158,758	6,036,995
Kenya Shilling bond – 2011 - 2014	19,319,961	29,060,103
Kenya Shilling bond – 2012 – 2015	5,793,092	5,812,021
Kenya Shilling bond – 2013 – 2018	57,930,916	-
Interest payable on loans	2,774,208	1,832,957
Deferred charges on medium term notes	(1,015,058)	(356,366)
	89,642,358	45,597,300
Maturity analysis for the medium term notes:		
Maturing:		
Within one year	27,847,449	16,143,875
One year to five years	61,794,909	29,453,425
	89,642,358	45,597,300

The Communauté Financière Africaine-Franc (FCFA (2008-2014) was for FCFA 2.79 billion-(US$5,502,895) and was raised in 2008 through CGF Bourse for the duration 2008 to 2014 at an interest rate of 6% p.a. The CFA Loan (2009-2014) for 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 2011 – 2014 for KShs 2.5 billion (US$29,388,220) was launched in 2011 through the Nairobi Securities Exchange for the duration 2011 to 2014. Fixed Interest rate is at 12.5% for bonds valued at KShs 1,083,210,000 (US$ 12,733,445) and 1.5% above the 182-day Treasury bill floating rate for bonds valued at KShs 1,416,790,000 (US$ 16,654,775).

The Kenya Shilling Bond 2012 – 2015 for KShs 500 million (US$5,812,021) was launched in 2012 through the Nairobi Securities Exchange for the duration 2012 to 2015 at a fixed interest rate of 12.75%.

The Kenya Shilling Bond 2013 – 2018 for KShs5 billion (US$57,930,916) was launched in 2013 through the Nairobi Securities Exchange for the duration 2013 to 2018.Interest rate is fixed at 12.75% for some KShs4,239,700,000 (US$ 49,121,941) and a floating rate of 1.5% above the 182-day Treasury bill rate forKShs760,300,000 (US$ 8,808,975).

The medium term notes are all unsecured.

23 LINES OF CREDIT

	2013 US$	2012 US$
AfDB line of credit	23,289,474	26,394,737
AFD line of credit	9,496,438	10,725,000
FMO line of credit	3,336,000	6,668,000
Ghana International Bank	3,571,429	-
AFD USD Loan	15,000,000	-
Commercial Bank of Africa - Euro	1,317,760	
Commercial Bank of Africa - USD	10,600,000	
Interest payable	457,865	283,550
	67,068,966	44,071,287
Analysis of borrowings by maturity:		
Maturing:		
Within one year	11,482,947	8,370,814
One year to five years	38,522,024	27,112,316
Over five years	17,063,995	8,588,157
	67,068,966	44,071,287
(ii) LINES OF CREDIT - PROFILING		
Current portion	11,482,946	8,370,814
Non-Current portion	55,586,020	35,700,473
	67,068,966	44,071,287

African development bank (AFDB) line of credit amounts to US$ 30Million. The first drawdown of US$ 10million was obtained in 2010. The second draw down of US$ 20million was obtained in 2011. Both loans are currently charged an interest rate of 1.9264% which is reset every six months. The loan will be fully repaid by February 2021.

Agence Française De Development (AFD) credit amounts to Euro 10Million. The first drawdown of Euro 5million was obtained in 2010 at an interest rate of 1.03%. The second draw down of Euro 5million was obtained in 2011 at 0.92%. Both loans are currently charged an interest rate of 1.9264% which is reset every six months. The loan will be fully repaid by April 2019.

NederlandseFinancierings-MaatschappijVoorOntwillelingslanden N.V. (FMO) credit amounts to US$ 10million. The first drawdown of US$ 5million was obtained in October 2010 at an interest rate of 3.56%. The second draw down of US$ 5Million was obtained in October 2011 at 3.83%. The loan will be fully repaid by October 2014.
All the above lines of credit are unsecured.

The Ghana International Bank loan of US$ 5 million was obtained during the year in March 2013 at an interest rate of 3 months libor plus a margin of 4.25%.

Agence Française De Development (AFD) loan relates to a US$ 20 million line of credit, a drawdown of US$ 15M was in April 2013 at an interest rate of 6 months libor plus a margin of 3.6%.

Commercial Bank of Africa (CBA) loan relates US$ 15million line of credit which can be drawn down in either Euro or united states dollar (US$). Euro 954,000 was drawn down in November 2013 at an interest rate of one year libor plus a margin of 4.75% and US$ 10.6 million was drawn down in December 2013 at an interest rate of one year libor plus a margin of 4.75%.

24 OTHER PAYABLES

	2013 US$	2012 US$
Accruals	2,175,458	1,812,551
Leave pay	379,748	264,511
Terminal benefits	197,829	357,154
Rent deposits	69,325	69,551
Share capital subscriptions (fractional shares)	25,622	21,820
	2,847,982	2,525,587

Fractional shares result from the payment of subscriptions by shareholders, whereby the amount paid is not sufficient to purchase a full share. The amounts are therefore held as amounts payable to the shareholders. Once the shareholders make subscriptions with additional fractions, those adding up to a full share price are transferred to shareholder's equity contribution, otherwise they are held as amounts payable

25 DIVIDENDS PAYABLE

	2013 US$	2012 US$
At 1 January	1,196,464	673,463
Dividend declared	674,492	563,618
Dividend paid	(879,445)	(40,617)
Dividend Written Back	(460,907)	-
At 31 December	530,604	1,196,464

The Directors recommend the payment of a dividend of US$949,135 which represents US$ 15.86 per paid up ordinary share (2012 - US$ 674,492, representing US$ 12.02 per share). 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.

Dividend written back refers to the amount declared as dividend however the respective shareholders opted to increase their share capital instead of receiving cash payments. Thus, the dividend was used to acquire additional shares.

26 DEFERRED INCOME

	2013 US$	2012 US$
At 1 January	111,554	266,267
FAPA grant expended in the year (note 6 and 9)	-	(53,848)
Amortization of Government of Kenya grant (note 6 and18)	(3,879)	(3,881)
AFD interest advantage grant for the year	302,207	344,923
AFD grant expenditure for the year (note 6 and 9)	(305,918)	(441,914)
At 31 December	103,965	111,554

26 DEFERRED INCOME (Continued)

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 AFD interest advantage grant arises from a credit facility obtained in 2010/2011 of Euro 10 million from Agence Française de Développement (AFD) at preferential interest rates below market rates. The AFD technical assistance is at 3.02% (adjusted discount rate) of the drawn down amount of Euro 10 Million on a reducing balance. The adjusted discount rate is the difference between what Shelter Afrique is paying on the credit facility and what it would have paid at the prevailing market rate. This is as per the credit facility agreement between AFD and Shelter Afrique. The interest advantage is what is classified as a grant since the funds are received at concessionary rates (different from the existing market rates).

27 FAIR VALUE HIERARCHY

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

In recognizing the instruments at fair value the Company uses level 3 of non-market observable valuation technique in disclosing the fair value of financial instruments. Additionally, a change of one or more of the inputs in the fair value calculation will not result in a significant change in fair value.

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2013:

	Level 1 US$.	Level 2 US$.	Level 3 US$.	Total US$.
Financial assets :				
Unquoted equity shares:				
Caisse Régionale de Refinancement Hypothécaire (CRRH)	-	1,055,480	-	1,055,480
Banque de L'Habitat du Burkina Faso (BHBF)	-	1,540,591	-	1,540,591
Corporate Bonds	2,882,932	-	-	2,882,932
Financial liabilities :				
Quoted debt instruments :				
Kenya Shilling Bond -2011-2014	19,319,961	-	-	19,319,961
Kenya Shilling Bond -2012-2015	5,793,092	-	-	5,793,092
Kenya Shilling Bond -2013-2018	57,930,916	-	-	57,930,916
Debt-CFA Loan 3 - 6% 2008-2014	1,680,291	-		1,680,291
Debt-CFA Loan 4 - 6.75% 2009-20	3,158,758		-	3,158,758
Lines of credit	-	67,068,966	-	67,068,966
Assets for which fair values are disclosed				
Loans and receivables				
Loans and advances to customers			195,411,454	195,411,454
Other receivables			2,173,474	2,173,474

27 FAIR VALUE HIERARCHY (Continued)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2013 are as shown below:

Description	Input	Sensitivity used	Effect on fair value
Loans and advances to customers	Discount for lack of liquidity of security	5%	9,770,573
	Discount for expected future default rates	2%	3,908,229
	Discount for deterioration of expected security value due to political instability in respective member countries	2%	3,908,229

28 SHARE CAPITAL AND SHARE PREMIUM

(a) SHARE CAPITAL

	2013 US$	2012 US$
Authorised: 1,000,000 ordinary shares of US$ 1,000 each	1,000,000,000	300,000,000
(2012: 300,000 ordinary shares of US$ 1,000 each) Issued and called: 146,114 ordinary shares of US$ 1,000 each	146,114,000	100,000,000
(2012: 100,000 ordinary shares of US$ 1,000 each) Paid up: Class A: Issued and fully paid: 46,746 ordinary shares of US$ 1000 each (2012–43,018)	46,746,000	43,018,000
Class B: Issued and fully paid: 13,096 ordinary shares of US$ 1,000 each	13,096,000	13,096,000
	59,842,000	56,114,000
Callable capital	500,000,000	-

As a supranational development financial institution with a membership comprising 44 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.

The callable capital is callable from existing shareholders.

28 SHARE CAPITAL AND SHARE PREMIUM (continued)

(b) SHARE PREMIUM

	2013 US$	2012 US$
At end of year	14,230,752	11,598,784

Share premium arises from shareholders both new and current who take up additional shares in the Company. The share premium is the difference between the par value (US$ 1,000 per share) and the current share price. The current share price is US$1,706 (2012-US$1,706) for current shareholders and US$2,236 (2012 - US$2,236) for new shareholders.

(c) MOVEMENT IN PAID UP CAPITAL

	Number of shares	Ordinary shares US$	Share premium US$	Total US$
At 1 January 2012	53,021	53,021,000	9,256,656	62,277,656
Paid up in the year	3,093	3,093,000	2,342,128	5,435,128
At 31 December 2012	56,114	56,114,000	11,598,784	67,712,784
At 1 January 2013	56,114	56,114,000	11,598,784	67,712,784
Paid up in the year	3,728	3,728,000	2,631,968	6,359,968
At 31 December 2013	59,842	59,842,000	14,230,752	74,072,752

29 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to cash used in operations

	2013 US$	2012 US$
Profit for the year	4,745,791	3,372,557
Adjustments for:		
Interest expense on funds from financial institutions and capital markets (note 4)	8,655,896	6,668,787
Gain on disposal of property and equipment	-	(11,742)
Depreciation of property and equipment (Note 19)	205,926	213,931
Amortization of grant income (Note 18)	3,879	3,879
Amortization of intangible assets (Note 20)	117,220	105,018
Foreign exchange (gain)/loss	(59,923)	37,749
Net foreign exchange loss - lines of credit	335,378	461,256
Net foreign exchange loss/ (gain) – medium term notes	475,079	33,149
Net foreign exchange loss/ (gain) – Bank borrowings	329,414	67,304
Cash flows from operating profits before changes in operating assets and liabilities	14,808,660	10,951,888
Movements in:		
Loans and advances to customers	(51,506,096)	(44,483,627)
Corporate bonds	1,058,226	267,168
Other receivables	(466,141)	(80,827)
Other payables	322,396	686,918
Deferred income	7,590	(154,713)
Net cash used in operations	(35,775,365)	(32,813,193)

29 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(b) Cash and cash equivalents:

For the purpose of the statement of cash flows, cash equivalents include the following balances in the statement of financial position:

	2013 US$	2012 US$
Bank and cash balances	4,334,950	1,636,963
Short term bank deposits	56,787,812	31,720,991
Cash and cash equivalents	61,122,762	33,357,954

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the company, and earn interest at the respective short-term deposit rates. At 31 December 2013, the company had available US$ 58.7 million of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

During the year, Shelter Afrique obtained approval from the Kenya Capital Markets Authority (CMA) for an eight(8) billion (US$ 92.7 million) Kenya shilling bond progamme. The first tranche of Kenya shillings five (5) billion (US$ 57.9 million) bond was successfully raised during the year 2013. The remaining tranche of Kenya shillings three (3) billion bond is projected to be raised in 2014.

Additionally, Shelter Afrique obtained approval to raise F CFA 10 billion(US$ 21million) within the West African Economic and Monetary Union (UEMOA). This is expected to be raised in 2014.

Other facilities from financial institutions include;

(i) The company also has various facilities granted by financial institutions including:
(ii) Letters of credit for US$ 10 million, expiring on 27 March 2014 from Barclays Bank of Kenya
(iii) Bonds , guarantees and Indemnities for US$ 10 million from Barclays Bank of Kenya
(iv) Revolving short term loans of US$2,317,237 (Kenya shillings 200M) with Commercial Bank of Africa

(c) Analysis of movement in line of credit:

	2013 US$	2012 US$
At 1 January	44,071,287	51,848,190
Additional borrowings in the year	31,718,573	-
Repayments in the year	(9,397,710)	(8,301,888)
Interest expense for the year	1,319,054	947,192
Interest paid in the year	(1,104,740)	(883,467)
Net foreign exchange loss	335,378	461,256
At 31 December	66,941,842	44,071,283

29 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(d) Analysis of movement in medium term notes

	2013 US$	2012 US$
At 1 January	45,597,300	52,680,900
Additional borrowings in the year	56,759,957	5,812,021
Repayments in the year	(14,254,237)	(12,914,287)
Interest expense for the year	5,868,149	5,276,541
Interest paid in the year	(4,681,454)	(5,291,024)
Net foreign exchange loss/ (gain)	475,079	33,149
At 31 December	89,764,794	45,597,300

(e) Analysis of movement in bank borrowings

	2013 US$	2012 US$
At 1 January	2,828,926	-
Additional borrowings in the year	25,128,412	2,730,656
Repayments in the year	(24,437,802)	(2,131)
Interest expense for the year	666,304	33,097
Interest Paid in the year	(608,895)	-
Net foreign exchange loss/ (gain)	329,414	67,304
At 31 December	3,906,359	2,828,926

(f) Other finance charges paid

	2013 US$	2012 US$
Interest expense on lines of credit	1,319,055	947,193
Interest expense on medium term notes	5,868,149	5,276,542
Interest expense on bank borrowings	666,304	33,098
Other financial charges	802,388	411,954
Total interest and similar charges	8,655,896	6,668,787

30 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments:

	2013 US$	2012 US$
Approved project loans	99,420,842	85,167,836
Office furniture and computerization	241,500	200,240
Headquarter building structural repairs	150,000	215,234
	99,812,342	85,583,310

30 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(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 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.

31 RELATED PARTY TRANSACTIONS

The related party transactions relate to key management personnel and Interest in joint venture

a) Key management Personnel

Except for staff loans and advances(amounting to US$ 1,207,490; 2012: US$ 682,970) disclosed in Note 14, there were no other related party transactions undertaken during the year between the Company and staff.The new staff loans advanced to key management staff in the year 2013 amounted to US$ 274,000. Interest income received on staff loans and advances during the year amounted to US$40,344 (2012– US$38,422).

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

	2013 US$	2012 US$
Salaries and other short-term benefits	786,918	816,750
Post-employment benefits	144,759	131,518
	931,677	948,268
Directors' remuneration		
Fees for services as directors	153,000	257,200

b) Investment in Joint Venture

The Company granted a loan to the Joint Venture for a total of US $3,162,276(2012: US$ nil) during the year, in order to retire an existing debt of the joint venture. The loan is denominated in Kenya Shilling and was advanced with a tenure of 6 months at a variable interest rate of 16.5%. Balances as at the year-end were:

	2013 US$	2012 US$
Loan balance	918,507	-
Interest charged on the loan	58,755	-
Total	977,262	-

32 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 minimize 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 tolerable 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 to which the company is exposed are credit risk, liquidity risk, market risk and other operational risk.

a) Capital Management

	2013 US$	2012 US$
Share capital and share premium	74,072,752	67,712,784
Retained earnings	29,562,829	25,837,872
Available for sale reserve	537,001	158,974
Revaluation surplus	1,916,666	1,948,350
	106,089,248	95,657,980
Bank borrowings	3,906,360	2,828,927
Lines of Credit	67,068,966	44,071,287
Medium term notes	89,642,358	45,597,300
	160,617,684	92,497,514
Total Capital	266,706,932	188,155,494
Gearing ratio	60%	51%

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement 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.

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Capital Management (continued)

The Company has a number of sources of capital available to it and seeks to optimize its debt to equity structure in order to ensure that it can consistently maximize 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 company has set a minimum capital adequacy ratio of 25%, these have so far been met. The capital adequacy ratio has been arrived by taking the company's core capital expressed as a percentage of its risk weighted assets.

The capital structure of the Company consists of debt, which includes the borrowings and medium term notes disclosed in notes 21 and 22, respectively, and equity attributable to equity holders, comprising issued and paid capital, reserves and retained earnings as disclosed in note 28. 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.

b) Credit Risk Management

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Company by failing to discharge a contractual 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 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's business environment
(ii) The borrower's financial strength and condition
(iv) The project viability
(v) 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 the 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.

The Company manages, limits and controls concentrations of credit risk wherever they are identified. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. The Assets and Liabilities Committee reviews the country risks and project risk on a quarterly basis to ensure compliance with country exposure limits and single obligor as stipulated by the risk management policy. The concentration of risk is spread across the various geographical spheres of operation as the Company has operations throughout Africa. 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.

32 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk Management (continued)

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	2013 US$	2013 %	2012 US$	2012 %
Normal	151,552,832	76%	115,633,427	76%
Watch	27,415,645	14%	9,841,840	6%
Substandard	12,812,389	6%	14,855,646	10%
Doubtful	8,036,736	4%	7,675,928	5%
Loss	-	0%	4,216,028	3%
Total	199,817,602	100%	152,222,869	100%
Less Provision	(4,406,148)		(7,090,348)	
Total	195,411,454		145,132,521	

Classification of credit risk bearing assets

The maximum exposure to credit risk before collateral held or other credit enhancements is US$ 199,817,598 (2012 - US$152,222,870) for project loans. This represents a worst-case scenario of credit risk exposure to the Company at the comparative reporting dates, without taking account of any collateral held or other credit enhancements. For reported assets, this exposure is based on the net carrying amounts as reported in the statement of financial position. As at 31 December 2013, collateral was held on project loans totalling US$ 199,817,598 (2012 – US$152,222,870) which provided sufficient cover against credit risk.

32 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 2013.

	Gross amounts US$	Impairment allowances US$	Net amounts US$	%
Neither past due nor impaired	119,734,454	-	119,734,454	61%
Past due but not impaired	59,234,022	-	59,234,023	31%
Impaired	20,849,126	(4,406,148)	16,442,978	8%
	199,817,602	(4,406,148)	195,411,454	100%

The table below represents a classification of the Company's project loans, other receivables and equity participation as at 31 December 2012.

	Gross amounts US$	Impairment allowances US$	Net amounts US$	%
Neither past due nor impaired	77,191,478	-	77,191,478	52
Past due but not impaired	49,991,126	-	49,991,126	34
Impaired	26,780,006	(7,122,754)	19,657,252	14
	153,962,610	(7,122,754)	146,839,856	100

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

	2013 US$	2012 US$
Loans and advances	4,406,148	7,090,348
Other receivables	32,387	32,406
	4,438,535	7,122,754

Ageing of arrears for past due but not impaired project loans

	2013 US$	2012 US$
0-3 months	46,224,673	44,755,255
3-6 months	13,009,349	4,358,954
6–12 months	-	876,912
	59,234,022	49,991,121

32 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk Management (Continued)

Currency Risk (continued)

All Current 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 categorized in the normal category of the internal rating system
- All of its investments in debt securities are in entities with good credit rating
- Countries are assessed and grouped into risk categories and maximum exposure limits set per country.

Credit risk from balances with banks and financial institutions as well as and equity investments is managed by the Company's treasury unit in accordance with the Company's policy. Investment of surplus funds is made only with approved counterparties who meet the minimum threshold requirement under the counterparty risk assessment process. The Company's maximum exposure to credit risk for other financial assets is shown below.

	2013 US$	2012 US$
Bank and cash balances	4,334,950	1,636,963
Short term bank deposits	56,787,812	31,720,991
Corporate bonds	2,882,932	3,941,158
Equity Investments	2,596,071	2,090,812
	66,601,765	39,389,924

c) Market Risk Management

The Company is exposed to market risks, which is the risk that the fair values or future cash flows of financial instruments and equity investments will fluctuate because of changes in market prices, such as interest rates and foreign exchange rates. 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 exposure is measured by the use of sensitivity analyses. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk. The market risk exposure for the Company relates primarily to currency and interest rate risk.

Currency Risk

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

32 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (Continued)

AT 31 DECEMBER 2013	US$	EUR	CFA	KSHS	ZAR	Total US$
ASSETS						
Bank and cash balances	3,206,567	8,292	694,234	396,970	28,887	4,334,950
Short term deposits	14,962,513	-	2,477	41,726,683	96,139	56,787,812
Corporate bonds	2,882,932	-	-	-	-	2,882,932
Loans and advances to customers	131,176,762	6,474,810	14,147,449	43,501,624	110,809	195,411,454
Total financial assets	152,228,774	6,483,102	14,844,160	85,625,277	235,835	259,417,147
LIABILITIES						
Bank borrowings	-	-	3,906,360	-	-	3,906,360
Debt securities	-	-	4,770,307	84,872,051	-	89,642,358
Lines of credit	56,239,086	10,829,880	-	-	-	67,068,966
Total financial liabilities	56,239,086	10,829,880	8,676,667	84,872,051	-	160,617,684
Net position	95,989,688	(4,346,778)	6,167,493	753,226	235,835	98,799,459
AT 31 DECEMBER 2012						
Total financial assets	121,585,006	6,293,726	17,576,847	36,731,344	244,710	182,431,633
Total financial liabilities	33,328,574	10,742,713	12,161,675	36,264,551	-	92,497,513
Net position	88,256,432	(4,448,987)	5,415,172	466,793	244,710	89,934,120

32 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (continued)

Currency Risk (Continued)

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

Currency	EURO	CFA	KSHS	ZAR	TOTAL
	10%	8%	11%	2%	
Impact 2013	217,339	246,700	32,779	2,358	499,176
	EUR	CFA	KSHS	ZAR	TOTAL
	10%	10%	10%	10%	10%
Impact 2012	(444,899)	541,517	46,679	24,471	167,768

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non–trading equity price risk exposure arises from equity securities classified as available-for-sale. A 10 per cent increase in the value of the company's available-for-sale equities at 31 December 2013 would have increased equity by $259,607(2011: $ 209,081). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment, which would reduce profitability by the same amount.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both the fair values and future cash flows of its financial instruments. 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 in the libor rates but may reduce losses in the event that unexpected movements arise for the libor rates. The Company also invests in fixed interest rate instruments. Interest rate risk is managed principally through monitoring interest gaps and by Board of Directors. 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 summarizes the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

32 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (Continued)

	Up to 1 month US$	1-6 months US$	6-12 months US$	1-5 years US$	over 5 years US$	Total sensitive balance US$	Non-interest bearing US$	Fixed Interest rate US$	Total US$
AT 31 December 2013									
Assets									
Bank and cash balances	-	-	-	-	-	-	4,334,950	-	4,334,950
Short term deposits	14,018,231	41,874,081	-	-	-	55,892,312	895,499	-	56,787,811
Corporate bonds	250,000	-	-	-	-	250,000	-	2,632,932	2,882,932
Loans and advances to customers	-	119,667,033	-	-	-	119,667,033	10,995,417	64,749,000	195,411,450
Total financial assets	14,268,231	161,541,114	-	-	-	175,809,345	16,225,866	67,381,932	259,417,143
Liabilities									
Bank borrowings	-	-	-	-	-	-	-	3,906,360	3,906,360
Lines of credit	-	53,778,662	-	-	-	53,778,662	457,866	12,832,438	67,068,966
Medium term notes	-	19,757,906	-	-	-	19,757,906	1,759,151	68,125,301	89,642,358
Total financial liabilities	-	73,536,568	-	-	-	73,536,568	2,217,017	84,864,099	160,617,684
Net interest rate sensitivity gap	14,268,231	88,004,546	-	-	-	102,272,777	14,008,849	(17,482,167)	98,799,459
AT 31 DECEMBER 2012									
Total financial assets	23,298,516	86,203,883	-	-	-	109,502,399	13,002,831	59,926,398	182,431,628
Total financial liabilities	987,512	42,863,098	-	-	-	43,850,610	(356,365)	49,003,270	92,497,515
	22,311,004	43,340,785	-	-	-	65,651,789	13,359,196	10,923,128	89,934,113

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$511,364 (2012–US$ 328,259). A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

32 FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management

Liquidity risk is the risk that the Company will be unable to meet its 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 fulfil 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 mobilization 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:

32 FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management (Continued)

	Up to 1 month US$	2-6 months US$	6-12 months US$	1-5 years US$	over 5 years US$	Open ended US$	Total US$
AT 31 DECEMBER 2013							
Financial assets							
Bank and cash balances	4,334,950	-	-	-	-	-	4,334,950
Short term deposits	14,498,989	42,688,010	-	-	-	-	57,186,999
Corporate bonds	-	-	-	748,850	4,144,690	2,064,000	6,957,540
Loans and advances to customers	39,302,730	25,058,318	24,117,713	102,856,195	52,974,436	-	244,309,392
Equity participation	-	-	-	-	-	2,596,071	2,596,071
Total financial assets	58,136,669	67,746,328	24,117,713	103,605,045	57,119,126	4,660,071	315,384,952
Financial liabilities							
Bank borrowings	-	-	4,179,219	-	-	-	4,179,219
Lines of credit	864,501	5,650,572	6,098,897	41,639,726	18,039,376	-	72,293,073
Medium term notes	10,611,273	54,513,122	42,011,983	82,042,878	-	-	189,179,255
Total financial liabilities	11,475,774	60,163,694	52,290,099	123,682,604	18,039,376	-	265,651,547
Net interest rate sensitivity gap	46,660,895	7,582,634	28,172,386	20,077,559	39,079,750	4,660,071	49,733,405
AT 31 DECEMBER 2012							
Total financial assets	61,882,243	27,711,205	14,539,041	57,361,021	28,072,671	-	189,566,181
Total financial liabilities	3,497,662	17,490,212	6,355,741	56,565,741	8,588,157	-	92,497,513
Net interest rate sensitivity gap	58,384,581	10,220,993	8,183,300	795,280	19,484,514	-	97,068,668

33 TAXATION

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

34 CURRENCY

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

Appendix 1
THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)
MANAGEMENT INFORMATION SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2013

	Class A: Countries	No of shares 31 December 2012	No of shares 31 December 2013	% of shareholding
1	Algeria	4,220	4,220	7.05%
2	Benin	306	306	0.51%
3	Botswana	839	839	1.40%
4	Burkina Faso	926	950	1.59%
5	Burundi	300	300	0.50%
6	Cameroon	2,393	2,436	4.07%
7	Cape Verde	16	16	0.03%
8	Central Afr. Rep	271	271	0.45%
9	Chad	315	1090	1.82%
10	Congo	516	516	0.86%
11	Democratic Republic of Congo	600	600	1.00%
12	Djibouti	300	300	0.50%
13	Gabon	1,283	1,283	2.14%
14	Gambia	321	321	0.54%
15	Ghana	6,315	6,315	10.55%
16	Guinea	419	419	0.70%
17	Guinea Bissau	25	25	0.04%
18	Guinea Equatorial	301	301	0.50%
19	Ivory Coast	855	855	1.43%
20	Kenya	6,375	6,514	10.89%
21	Lesotho	500	500	0.84%
22	Liberia	309	309	0.52%
23	Madagascar	322	327	0.55%
24	Malawi	517	517	0.86%
25	Mali	1,236	1,342	2.24%
26	Mauritania	639	639	1.07%
27	Mauritius	115	115	0.19%
28	Morocco	437	437	0.73%
29	Namibia	327	327	0.55%
30	Niger	310	315	0.53%
31	Nigeria	5,511	7,069	11.81%
32	Rwanda	305	901	1.51%
33	Sao Tome & Principe	16	16	0.03%
34	Senegal	1,407	1,407	2.35%
35	Seychelles	300	300	0.50%
36	Sierra Leone	74	74	0.12%
37	Somalia	10	10	0.02%
38	Swaziland	228	228	0.38%
39	Tanzania	317	317	0.53%
40	Togo	162	162	0.27%
41	Tunisia	300	300	0.50%
42	Uganda	526	526	0.88%
43	Zambia	2,054	2,531	4.23%
44	Zimbabwe	200	200	0.33%
	Class B:			
	Institutions			
1	African Development bank	10,576	10,576	17.67%
2	Africa Reinsurance Corp.	2,520	2,520	4.21%
	TOTAL	56,114	59,842	100.00%

Our Presence

Shelter Afrique was established in 1982 by African governments, the African Development Bank (AfDB), African Reinsurance Corporation (Africa-Re) and CDC (UK's Development Finance Institution) with the mandate of mobilizing resources for housing development in Africa.

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SHELTER AFRIQUE
Financing Affordable Housing for Africa

2013

ANNUAL REPORT AND FINANCIAL STATEMENTS