SHELTER AFRIQUE

Financing Affordable Housing for Africa

# 2017 ANNUAL REPORT

# Table of Contents



# List of Tables & Charts

# Company Information

**Shelter Afrique is the only pan-African finance institution that exclusively supports the development of the housing and real estate sector in Africa. A partnership of 44 African Governments, the African Development Bank (AfDB) and the Africa Reinsurance Company, Shelter Afrique builds strategic partnerships and offers a host of products and related services to support the efficient delivery of both affordable housing and commercial real estate.**

## Our Vision

An Affordable and Decent Home for all in Africa.

## Our Mission

To be the provider of affordable housing finance and advisory solutions through partnerships to addressing Africa's severe affordable housing need. Our goal is to be an Institution that our PARTNERS choose for their housing projects, EMPLOYEES are proud of and INVESTORS seek for long term results and impact.

## 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


TUNISIA
MOROCCO
ALGERIA
MAURITANIA
MALI
NIGER
CHAD
CAPE
VERDE
SENEGAL
GAMBIA
GUINEA
BISSAU
GUINEA
BURKINA
FASO
BENIN
TOGO
NIGERIA
SIERRA
LEONE
LIBERIA
IVORY
COAST
GHANA
CENTRAL AFRICAN
REPUBLIC
SOUTH
SUDAN
DJIBOUTI
SOMALIA
CAMEROON
EQUATORIAL
GUINEA
SAO TOME
GABON
CONGO
UGANDA
KENYA
DEMOCRATIC
REPUBLIC OF
CONGO
RWANDA
BURUNDI
TANZANIA
SEYCHELLES
MALAWI
ZAMBIA
MAURITIUS
ZIMBABWE
NAMIBIA
BOTSWANA
MADAGASCAR
SWAZILAND
LESOTHO
Member countries

# Letter of Transmittal

The Chairman

General Meeting of Shareholders

Shelter-Afrique

20th July 2018

**Dear Mr Chairman,**

In accordance with Article 30 of the Statutes of Shelter-Afrique, I have the honour, 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, 2017.

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. Nghidinua Daniel**
Chairman, Board of Directors

# Board of Directors

**Mr. Nghidinua Daniel**
Chairman / Group 2

**Arch. Aida Munano**
Group 1

**Alh. Yahaya Hameed Yakubu**
Group 3

**M. Ali Boulares**
Group 4

**Mr. Jean Paul Missi**
Group 5

**Dr Tunde Reis**
Group 6

**Mme Anikpo Yed Melei**
Group 7

**Ms Soula Proxenos**
African Development Bank

**Mr. Corneille Karekezi**
African Re Insurance Corporation

**Mr. Hardy Pemhiwa**
Independent Director

**Dr. Omodele Jones**
Independent Director

# Message from the Chairman of the Board of Directors

**In a decisive response to the unfortunate crisis that the Company experienced in later part of 2016, the year 2017 was characterised by a collective effort from the Board, the Shareholders, Lenders and the staff towards restructuring and turning around the fortunes of the Company.**

On this note, I am delighted to present to you our Annual Report for the year ended 31st December 2017 under the themes as outlined below.

**"While the global economy grew by 3.5% in 2017, compared to 3.2% in 2016, African economies in general experienced subdued or lower growth rates...."**

## Economic Environment

Affordable housing and access to basic urban infrastructure continue to be a priority across Africa, and Governments continue to explore more innovation as well as relying on existing tested development financing instruments such as Shelter Afrique for solutions.

The ability of African Governments to achieve the "shelter for all" goal and the ability of Shelter Afrique to make a meaningful contribution towards the realisation of that noble goal however greatly depend on the performance of the economies of member states as well as the resource base and operational efficiency within the Company respectively.

While the global economy grew by 3.5% in 2017, compared to 3.2% in 2016, African economies in general experienced subdued or lower growth rates, which in turn posed a challenge in the realisation of the desired goals of accelerated and inclusive growth and shelter. By extension, the performance of the economies of Shelter Afrique's shareholding member states had a direct bearing on the Company's performance during the period under review.

## Shareholders Contribution

Among the immediate critical challenges facing the Company is the very low fulfilment of shareholders' capital contributions by some member states. At the end of the year, shareholders' cumulative arrears on called capital subscriptions due and payable amounts to US$ 114,296,306. This fact continues to undermine and negatively impact the capacity of the Company to perform its mandate.

As such, this matter warrants reflection and resolution at this General Meeting.

## Turnaround Strategy

In order to stabilise and turnaround the Company, the Board, with the support of the shareholder and lenders, undertook a series of remedial measures designed to enhance accountability as well as to stabilise and turn-around the financial performance and position of the Company.

I am delighted to report that, while we are not yet out of the woods, we made a good start towards recovery. This is evident from the improvement recorded in the financial statements as well as by the Board implementing decisive institutional reforms, which were complemented by other supportive initiatives on the part of the shareholder and the lenders. These are as follows:-

- The adoption of measures to enhance the independence and effectiveness of the internal audit unit as well as enterprise risk management system to improve the detection and mitigation of foreseeable risks;
- Recruitment of new critical Management personnel (Chief Finance Officer and Company Secretary);
- Improved loan portfolio provisioning and classification standards;
- Improved loan portfolio collection with US$80 million against a budget of US$50 million;
- Negotiation of a Standstill Agreement with lenders with the objective of restructuring the debt repayment profile;
- The revision of Company's Statutes, including the Board Charter in order to address noted gaps in accountability and to enhance good corporate governance;
- An aggressive engagement with shareholding members, which has resulted in an increase

in equity capital base by an amount of US$46.1 million which was paid by the current Class A and B shareholders during 2017; and

- The formulation and approval of a new 5-Year Strategic Plan for the period 2018 – 2022, which provides for a new long-term strategy and business model that is focused on a sustainable capital base, an engaged team and a strong reputation.

## Financial Performance

It is pleasing to note, from the 2017 financial statements, that the combined measures taken by the shareholders in terms of equity subscriptions, the standstill arrangement with the lenders and actions by the Board have had a positive effect on the financial performance of the Company during the period under review.

Overall, the Company recorded a net loss of US$7.79 million, representing a 39% improvement year on year basis compared to the loss of US$12.68 million in 2016. The primary drivers for the reduced loss include a significant reduction in the loan impairment charge by 39% from US$18.00 million in 2016 to US$10. 90 million in 2017; reduced interest expense by 22% due to non-contraction of new borrowings and reduced debt load by 26% from US$236.16 million to US$173.65 million; and reduced operating expenses by 9% from US$9.72 million to US$8.85 million.

During the year under review, there was no underwriting of new businesses given the need to review the business model and for a new strategy. While this measure was necessary, it had a negative effect on the Company's revenue streams as evident from the decline of year on year interest and fee incomes by 19% and 17% respectively on the back of a 13% reduction of the loan book.

The size of the Balance sheet also contracted by 7% to US$311.85 million from US$336.50 million, and this is attributed to a 13% decrease in the loan asset on a net basis from US$283.11 million to US$247.40 million. A 41% increase in equity capital base to $131.6 million from $93.36 million was also recorded and is attributed to new equity subscriptions received during the year totalling $46.1 million. Cash and bank balances closed on an adequate base at US$41.43 million, representing a 30% increase from US$28.13 million, and reflecting the positive impact of the US$46,70 million equity subscriptions realised during the year and the positive operating cash flows.

The key performance indicators (KPIs) on Liquidity and Capital Adequacy Ratios recorded improvement from 8% to 13% and 18% to 27% respectively, although asset quality remains a challenge given a steep increase in the Non-Performing Loan Ratio from 19% to 37%.

The combined effect of the factors and subdued growth indicated above is that the Company is not in a position to declare a dividend this year. The Board is appealing for the understanding and patience of the shareholders in this regard as we continue to do our level best to make the Company profitable again. We believe the situation can and will be turned around through the implementation of the new Strategic Plan and with the continued support of the shareholders, lenders and stakeholders.

## Outlook

Like Robert South, the Board believes that "Problems can become opportunities when the right people come together".

Against the backdrop of a new Corporate Strategic Plan and unwavering support of shareholders, lenders, business partners and clients, Shelter Afrique remains a relevant tool for meeting the needs and expectations of its shareholders and stakeholders. The Board remains confident that Shelter Afrique is resilient and like the Phoenix will rise to its past glory again.

There is a mutual reinforcing link between the economic performance in the world and Africa and the performance of Shelter Africa as a business. Sustained growth and honouring of equity capital contributions by members, honouring of investment and loan repayment obligations by partners and clients coupled with operational efficiency and good corporate governance on the part of Shelter Afrique Board and Management is a winning recipe for success for all parties involved. The impact of Shelter Afrique' s activities in member countries is enormous and are not only in the form of the housing and related physical infrastructure developed, but also reflect in terms of direct and indirect jobs and real positive social change in the lives of beneficiaries who are citizens of shareholding countries. In this regard, the Board seeks the assistance of shareholding Governments not only in terms of equity capital contributions but also to urge business partners and clients of the Company in their countries to honour their investment and loan repayment obligations. Such payments will enable the Company to improve its capital base and financial position and to in turn sustain and expand its operations beyond its current coverage.

The Board remains optimistic that the future of an adequately resourced and well managed Shelter Afrique is only beginning to take shape given the enormous backlog of delivering substantial affordable housing deficit in its member countries. The new corporate strategy of the Company is among others designed to respond to and to take advantage of this and other identified developmental, and business demand needs in member states.

The challenge before us, as Shelter Afrique, is to demonstrate our continued relevance as a reliable partner and catalyst in the provision of affordable housing and urban development infrastructure in Africa. In this regard, our new strategy and business model, among others provide for the resumption of underwriting business from the third quarter of 2018, albeit under more rigorous due diligence procedures.

## Acknowledgement

In conclusion, I wish to express our gratitude and appreciation to all who played a part, directly and indirectly, that saw the Company through the turbulent year.

Special recognition goes to:

- The esteemed shareholders in general and especially those who stepped up and extended a lifeline to the Company at the time of need in the form new capital contributions in excess of US$48 million as of today. I wish to single out the contributions received from the Governments of Kenya, Cameroon, Ivory Coast, Mali, Morocco, Namibia, Nigeria, Rwanda and Zimbabwe as well as Africa Re-Insurance and the African Development Bank;
- Our Lenders for their continued partnership and support;
- Members of the Board, both past and present, for their invaluable stewardship and leadership role that steered the Company through the turbulent year. I wish to thank outgone Directors Ceferino Eburi Mata (Equatorial Guinea) David Gabindadde Musoke (Uganda) and Chike Akinamadu (Nigeria) who completed their term during the year. In the same vein, I thank Mr. Jean Paul Missi, the immediate past chairman of the Board, for his stewardship and steady hand whilst at the helm and the rest of my fellow Directors for their continued commitment to serve the Company with passion and dedication.
- Last but by no means least, the Board is very grateful to management and staff of the Company for their demonstrated tenacity, drive and continued commitment under very challenging circumstances. This includes Messrs. Stanley Tsikirayi and Raymond Davies who assisted the Company as Board Change Agent and Interim CFO respectively. I, on behalf of the Board, thank them all dearly.

**Mr. Nghidinua Daniel**
Chairman, Board of Directors

# Senior Management

**Mr. Femi Adewole**
Managing Director

**Mr. Said Diaw**
Acting Director, Business Development and Project Management

**Mr. Kingsley Muwowo**
Chief Finance Officer

**Mrs. Francesca Kakooza**
Company Secretary

**Mr Mouhamadou Gueye**
Head of Risk Management and Compliance

**Mr. Mohamed Barry**
Internal Auditor

**Mr. Stephen Onyait**
Head of Human Resources & Corporate Services

Executive Report

# A New Shelter Afrique, A New Strategy

**With the proportion of Africans living in urban areas projected to grow from 36 percent in 2010 to 50 percent of the total population by 2030, the continent's urbanisation rate is the highest in the world. This phenomenon can lead to economic growth, transformation, and poverty reduction if well managed. Alternatively, it can lead to increased inequality, urban poverty, and the proliferation of slums.**

If the potential that increasing urbanisation holds for Africa is to be realised, one of the most significant issues to be tackled by African governments and the private sector is how to meet the estimated demand for over 1.2 million new homes per annum for the foreseeable future.

The need for affordable housing is enormous, and the capital cost is too large for any one organisation to shoulder. According to the Global Impact Investment Network (GIIN) and a JPMorgan study* meeting Africa's affordable housing need would require USD 214–$786 billion of dollars of investment over ten years

Shelter Afrique (SHAF) is the only Pan- African Housing Finance Institution. Taking account of its current capital in relation to the capital required to address the backlog of housing need across the Continent effectively, it's most effective role, and opportunity for impact is to deploy its limited capital and intellectual property towards catalysing large-scale affordable housing supply.

Building on lessons learnt from the previous two strategic cycles (2007 -2011 and 2012 -2016), the Board and Management has developed a new strategy to guide the work of the Institution over the next five years with a view to repositioning the institution as a leading and effective catalyst in the housing market.

In that regard, the Company's Strategy for the period 2018 – 2022 is focused on:

- The recovery and reconstruction of the Institution following recent events which have undermined it. This will prepare the Company for a further phase of sustained growth and impact;
- Positioning SHAF to partner effectively with African governments and the private sector in providing affordable housing.

## Our Core Objectives

By December 2022, Shelter Afrique will have achieved three core objectives:

1. A Sustainable Capital Base – A strong focus on increasing the capital available to SHAF so it can be effective and have an adequate cushion against risks.
2. An Engaged Team – Following a fundamental transformation of the organisational structure and culture, the institution will have an effective, engaged and highly talented team with a shared passion and vision for delivering affordable housing in Africa.
3. A Reputation as an effective, reliable, and well-governed provider of affordable housing solutions that is a preferred partner to African governments and the private sector.

## The Five Goals

Attaining these objectives will support the achievement of the following five goals by 2022:

1

**Return the Company to sustainable profitability by the year 2019, and be prepared for a phase of significant growth from 2022 onwards.**

To achieve this, we will:

Cut costs so as to drive cost to income ratio down to/ or lower than

▼ **50%**

▲ **US$ 140M**

worth of shareholder equity capital will be raised by December 2022 with an initial injection of US$ 30M by December 2018.

Improve portfolio quality with non-performing loans lower than

▼ **15%**

Diversify and grow non-interest revenue to

▼ **15%**

Drive down the average cost of capital (debt) to

▼ **5%**

Achieve investment grade rating

**Baa1**

# 2

## Repair SHAF reputation and improve SHAF's impact and customer satisfaction.

To do this, we will:

- Ensure that all new Investments meet the IFC's Environmental and Social Performance Standards or similar benchmarks. In consultation with member countries, and global best practice ensure the efforts and capital of SHAF is optimally deployed.
- Report on impact to members annually. By September of 2018 establish a clear impact assessment model with an initial report by Q4 2018.

Measures to include:

Achieve a customer satisfaction rating of a minimum NPS score of

**70%**

Facilitate, directly and indirectly, the creation of up to

**12,500 jobs**

Facilitate, through our advisory, the supply of 5000 new or remodelled affordable homes by Dec 2019; increased by Dec 2022 to

**10,000 homes**

Facilitate the creation of at least

**5 affordable rental companies/ landlords**

Implement strong governance and ensure new statutes are implemented by

**Dec 2020**

3

## Develop a repository of information and advisory services that allow's governments to benchmark and develop sound housing policy through SHAF Foundation.

To do this, we will develop an outreach program that includes but is not limited to:

- Establishment of MOU or signed partnership(s) by October 2018 with like-minded organisations to create the intellectual repository of information and housing data including an Affordable Housing Index for the region.
- By March 2019, commence training and capacity building in housing finance in member countries through partnerships with appropriate organisations (e.g. (Centre for Affordable Housing Finance, Wharton University, African Union of African Housing Finance and various Universities ).

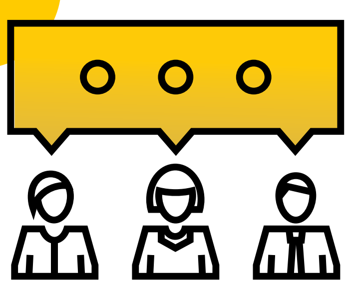
4

## Assist and provide support for African Countries to implement large-scale PPP housing projects:

We will:

- Assess the opportunities and propose to the board a structure and roll out a plan for approval in Q3. Identify potential partners and create standards and policies for this line of business for board approval by 2018 Q4;
- Have assisted at least seven countries to implement large-scale PPP projects providing over 50000 homes by December 2022.

5



## Establish an engaged staff team

We will:

- Achieve an organisational structure that aligns with the new strategy by June 2018 with a revision of the strategy to accommodate growth after 2022 (1st quarter 2019)
- Achieving an eNPS (staff engagement) score of 50 by December 2019 and a score of 70 by December 2022;

# Core Product Offers

## During the Strategy period we will offer four broad product lines:

**1** **Large PPP housing projects.**

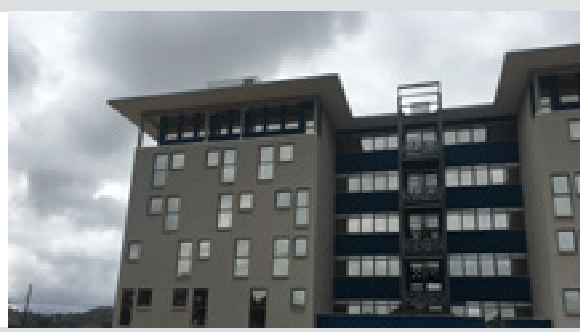
Work with governments and private sector to facilitate the creation and financing of large-scale affordable housing and land development projects. We will provide catalytic capital where necessary, support and advice to Governments in structuring the projects, mobilising financing (from third parties), overseeing implementation and creating value through new jobs.Some of these projects may include slum upgrading where SHAF will take a catalytic financial or no direct financial exposure.

**2** **Incubating new local institutions to manage and own rental housing.**

Less than 5% of the population of African Cities can access mortgages.  Alternative access through the formal rental housing is a critical element of solutions for addressing housing need.  We will provide advice and catalyst investment into the creation, development, or acquisition (where they already exist) of affordable housing property management companies.

**3** **Partnership with Local Financial Institutions.**

Support local financial institutions (through lines of credit from SHAF or advisory services) to help them improve access to financing for people on a modest income who require financing to buy their homes or to local SME developers building small scale housing projects and small, affordable housing landlords (along with the TUHF model).



**4** **Create a Pan African repository of information, best practices, and training.**

Through SHAF Foundation we will partner with like-minded organisations (e.g. the  African Union of Housing Finance, Centre for Affordable Housing Finance, Wharton University and Universities) to develop a housing data platform, training and capacity building to support the development of a sound housing market.

# Corporate and Financial Management

## Financial Performance

The year 2017 showed great improvements in financial performance from the previous year, despite the Company operating under difficult circumstances. The Company started off with a low liquidity position which led to reduced operations in the year. However, concerted efforts were made by the shareholders and at an extraordinary meeting held in January 2017, the shareholders agreed to recapitalise the Company by making payments on the 2013 capital call and approving the 2017 capital call.

On financial results, the Company reported a reduced loss of US$ 7.79 million recording a 39% improvement from the previous year's loss of US$ 12.68 million. This was due to a significant reduction in impairment charges on loans and advances by 39% from US$18.00 million in 2016 to US$10. 90 million in 2017. Interest expense also reduced by 22% from 16.77 million in 2016 to US$ 13.08 million in the current year, as there was no new borrowing in the year. Operating expenses also reduced by 9%.

## Assets, Liabilities and Equity

Total assets reduced by 7%, from US$ 336.51 million to US$ 311.86 million, mainly due to reduced lending as the Company focussed on consolidating its financial position and shore up liquidity. Consequently, loans and advances reduced by 13% from US$ 283.11 million in 2016 to US$ 247.40 million in 2017.

Liquidity increased by 47% from US$ 28.13 million in 2016 to US$ 41.43 million in 2017 on the back of increased share capital receipts from shareholders. A total amount of US$ 46.14 million was received during the year which increased total paid up capital by 58%, from US$ 78.96 million in 2016 to 125.10 million. Shareholder funds increased from US$ 93.36 million to US$ 131.70 million in 2017. Debt reduced by 26% from US$236.16 million in 2016 to US$173.65 million as no additional debt was taken up in the year.

# Selected Financial Performance Charts

Chart 1: Shareholders' Funds 2013 - 2017 (US$ millions)

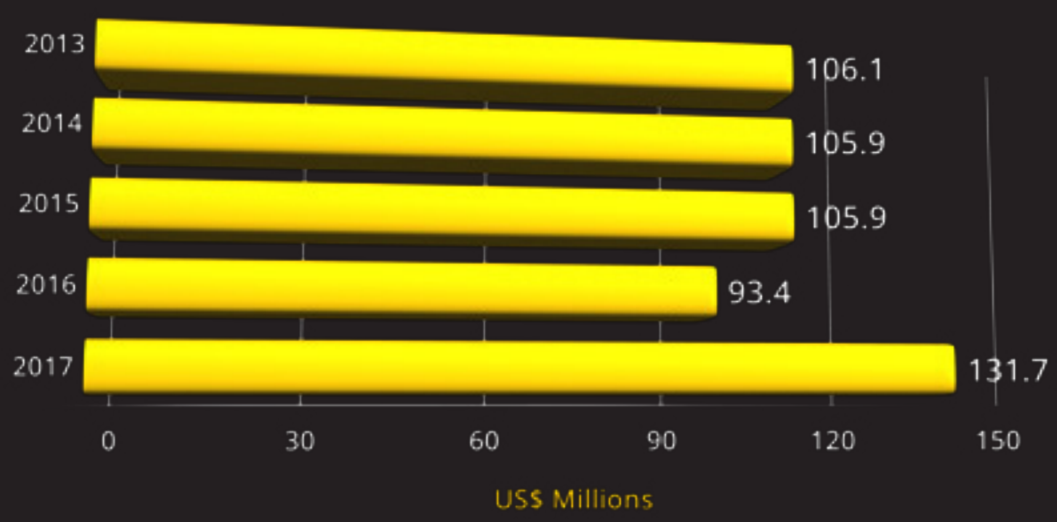
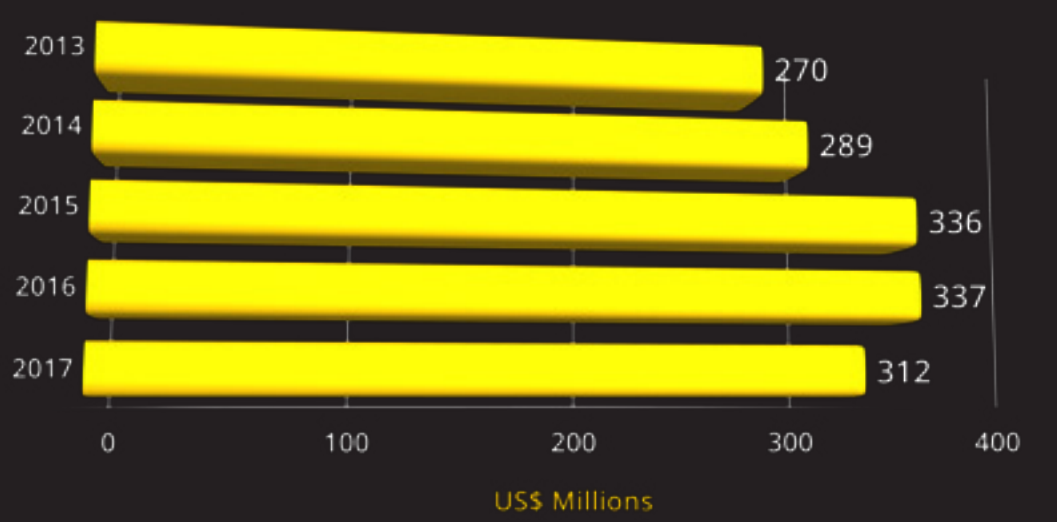



Chart 2: Total Assets 2013 - 2017 (US$ millions)



### Table 1: Key Operational and Financial Data – 2013 -2017 (Us$ Millions)

| Years | 2013 | 2014 | 2015* | 2016 | 2017 |
|---|---|---|---|---|---|
| Approvals | 104.50 | 141.13 | 129.73 | 89.43 | - |
| Cumulative Approvals | 787.33 | 928.46 | 1,058.19 | 1,147.62 | 1,147.62 |
| Disbursement | 79.73 | 73.11 | 103.65 | 51.40 | 27.52 |
| Cumulative Disbursement | 403.83 | 476.94 | 580.59 | 631.99 | 659.51 |
| Total Assets | 270.19 | 289.3 | 335.85 | 336.51 | 311.86 |
| Profit (Loss) for the year | 4.75 | 0.45 | (4.94) | (12.68) | (7.79) |
| Paid-Up Capital | 59.84 | 60.82 | 62.23 | 62.60 | 88.62 |
| Revenue Reserves | 29.43 | 27.85 | 22.91 | 9.49 | 1.73 |
| Provisions for the year | 2.28 | 4.83 | 10.14 | 19.20 | 10.90 |
| Shareholders' Funds | 106.09 | 105.90 | 105.86 | 93.36 | 131.70 |

* Certain amounts here do not correspond to the 2015 financial statements and reflect adjustments made in the 2016 financial statements

### Table 2: Selected Financial Indicators (Us$ Million)

| Years | 2013 | 2014 | 2015* | 2016 | 2017 |
|---|---|---|---|---|---|
| **Operating results** | | | | | |
| Gross Income | 13.17 | 14.15 | 15.12 | 16.68 | 14.13 |
| Operating Expenses | 6.83 | 8.24 | 10.09 | 9.72 | 8.85 |
| Operating Profit before provisions | 6.65 | 5.59 | 5.20 | 6.52 | 4.84 |
| Profit (Loss) for the year | 4.75 | 0.76 | (4.94) | (12.68) | (7.79) |
| Administrative Expenses (a) | 6.51 | 7.87 | 9.63 | 9.20 | 8.42 |
| **Financial Position** | | | | | |
| Net Loans and Advances | 195.41 | 216.85 | 274.28 | 283.11 | 247.40 |
| Financial Investments | 59.67 | 51.87 | 30.47 | 7.71 | 21.98 |
| Total Assets | 270.19 | 289.30 | 335.85 | 336.51 | 311.86 |
| Total Equity | 106.09 | 105.90 | 105.86 | 93.36 | 131.70 |
| Total Debt | 160.62 | 177.79 | 224.57 | 236.16 | 173.65 |
| **Financial Ratios** | | | | | |
| Total Debt to Total Assets (%) | 59.45 | 61.46 | 66.87 | 70.18 | 55.68 |
| Debt/Equity ratio (%) | 151.40 | 167.88 | 212.14 | 252.96 | 131.85 |
| Earnings (Loss) per share (US$) | 81.86 | 12.62 | (80.36) | (203.17) | (103.04) |
| Dividend per share (US$) | 15.86 | - | 6.82 | - | - |

a) Administrative expenses are operating expenses less depreciation and amortisation

* Certain amounts here do not correspond to the 2015 financial statements and reflect adjustments made in the 2016 financial statements.

# Business Operations

# Overview

**In 2017, Shelter-Afrique's business was negatively affected by the severe liquidity constraints which led to significant challenges and a general slowdown in the commercial operations. The business activities performed in 2017 were on the ongoing and new projects approved and committed in the previous years.**

From the first quarter of 2017, the Company experienced very severe liquidity constraints which threatened its ability to meet the obligations to lenders and borrowers. This effectuated to cancellation and prepayment of some loans, delayed disbursement to borrowers and negotiation with our lenders for a standstill agreement. The standstill agreement was for the deferment of the principal repayments to our lenders which were due during 2017. Some of the prior signing requirements of the standstill agreement were for Shelter-Afrique to suspend new loan approvals and commitments which delayed in pre-agreed terms and to bring on board cashflow projections to support the business.

Further to the liquidity constraints, the majority of our portfolio being in Kenya was affected by the long election period and capping of the interest rates. Similarly, the portfolio in Nigeria and Ghana was negatively impacted by the fluctuation of the forex exchange rates.

During 2017, the organisation focused and embarked on a stabilisation plan to overcome the critical liquidity position by:

a) Refocusing the business;
b) Capital raising from Shareholders;
c) Define a New Strategy for the period 2018-2022;
d) Restructuring the debts to our lenders;
e) Emphasising business support and recovery.

Through the support and cooperation of our lenders, prudent management of costs, loan prepayments by some of our borrowers and the support of its shareholders, the Company managed a medium-term stabilisation of its finances.

With the delayed disbursements, cancellation and prepayment of some loans, this consequently reduced the amount and number of projects disbursed in 2017, hence affecting the profitability and increasing the NPL ratio.

# Francophone West Africa Business Activities

The Abidjan Regional Office has actively developed deep and advanced negotiations with the Housing Authorities to promote Public and Private Partnerships (PPP) between SHELTER – AFRIQUE and the countries members. In Côte d'Ivoire, the PPP is related to the development of a pilot phase of 500 homes targeting low incomes households. The Republic of Central Africa has invited SHELTER – AFRIQUE to provide Advisory & Technical Assistance to conduct the feasibility studies for establishment of a National Housing Bank. Similar PPP arrangement negotiations were done with the Housing Authorities of Republic Democratic of Congo (DRC) for mass housing promotion. During the Year, we also proceeded the first disbursement of Oribat Project which comprises the construction of 163 affordable housing units within Abidjan.

The office also embarked on regional consultations simultaneously with other regional offices; this will be explored in the Investor Relations sections.

## ■ Loan Approvals

The table and chart below summaries the Company's cumulative approvals, commitments and disbursements between 2010 and 2017. The information also indicates that there were no further loan approvals and commitments during the year 2017.

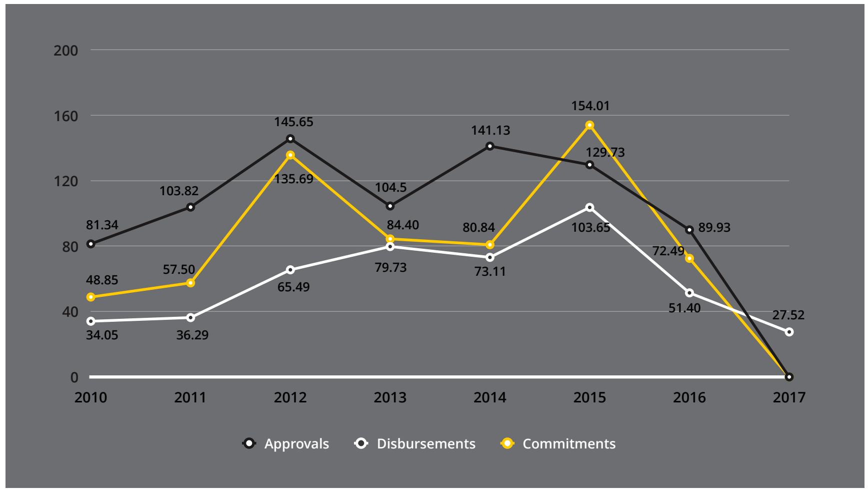
**Table 3: Cumulative approvals, disbursements and commitments between 2010 and 2017 (USD' 000, 000)**

| Years | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Approvals | 81.34 | 103.82 | 145.65 | 104.50 | 141.13 | 129.73 | 89.93 | 0.00 |
| Cumulative Approved Loans | 433.36 | 537.18 | 682.83 | 787.33 | 928.46 | 1,058.19 | 1,148.12 | 1,148.12 |
| Disbursements | 34.06 | 36.29 | 65.49 | 79.73 | 73.11 | 103.65 | 51.40 | 27.52 |
| Cumulative Disbursements | 222.32 | 258.61 | 324.10 | 403.83 | 476.94 | 580.59 | 631.99 | 659.51 |
| Commitments | 48.85 | 57.50 | 135.69 | 84.40 | 80.84 | 154.01 | 72.49 | 0.00 |
| Cumulative Commitments | 262.35 | 319.85 | 455.54 | 539.94 | 620.78 | 774.79 | 847.28 | 847.28 |

**USD**
# 89.9 M

Last loan amount approved in 2016 and for 16 projects

**Chart 3: Approvals, disbursements and commitments between 2010 and 2017**




There were no loan approvals in 2017. During this year the Company was experiencing financial constraints. Priority was on liquidity stabilsation and the commencement of debt restructuring, hence the negotiations of a standstill agreement. As part of the pre-conditions, the agreement required approval for new loans to be suspended. Therefore, the following statistics will not apply to this report:

- Loan Approval per Lending Instrument;
- Regional Distribution of Projects Approved;
- Approved Projects by Currency;
- Maturity Profile of Approved Facilities.

Loans were last approved in 2016 and for 16 projects at USD 89.9 million.

**USD**
# 72.5 M

Total amount committed to fourteen (14) loans in 2016

## Loan Commitments

Along the same lines as the Loan Approvals, there was no loan committed in 2017.

Fourteen (14) loans were committed during 2016 for USD 72.5 million.

## Loan Disbursements

The Company disbursed USD 27.5 million to 14 new and ongoing projects. This amount was exceptionally lower than the USD 51.4 million recorded for 2016. This was due to:

1. The 2017 financial constraints as highlighted above
2. No new loans were approved, additionally there were no newcommitments which led to a reduction in the loan book
3. Some loans were prepaid to augument the Company's minimum liquidity position ;
4. Some of the projects were completed and fully disbursed during the year;

The table below gives a summary of the year's disbursements:

**Table 4: Loan disbursements during 2017**

| No.s | Country | Client | US$ |
|---|---|---|---|
| 1 | All | Pan Africa Housing Fund | 837,995 |
| 2 | DRC | Mzuri Sana Development Sarl | 2,800,000 |
| 3 | Ghana | Emerald Properties Ltd. | 591,303 |
| 4 | Ivory Coast | Oribat Sarl | 1,817,258 |
| 5 | Kenya | Edenvale Developments LLP | 2,136,760 |
| 6 | Kenya | Everest Park Ltd. | 797,246 |
| 7 | Kenya | Karibu Homes Parktel Ltd. | 2,736,519 |
| 8 | Kenya | Nakuru Meadow Development Ltd. | 2,518,198 |
| 9 | Kenya | Richland Development Ltd. | 4,153,608 |
| 10 | Kenya | Spring Green Properties | 2,609,513 |
| 11 | Nigeria | CMB and Investment Co. Ltd. | 583,695 |
| 12 | Rwanda | Izuba Developers Ltd | 1,527,000 |
| 13 | Swaziland | Headquarters SPV Ltd | 3,177,190 |
| 14 | Zambia | Madison Capital Ltd. | 1,231,300 |
| | | Total (in US$) | 27,517,585 |

The table below gives a summary of the year's disbursements per country:

**Table 5: Loan disbursements per country during 2017**

| No.s | Country | US$ | Ratio |
|---|---|---|---|
| 1 | All (Pan Africa Housing Fund) | 837,995 | 3% |
| 2 | DRC | 2,800,000 | 10% |
| 3 | Ghana | 591,303 | 2% |
| 4 | Ivory Coast | 1,817,258 | 7% |
| 5 | Kenya | 14,951,844 | 54% |
| 11 | Nigeria | 583,695 | 2% |
| 12 | Rwanda | 1,527,000 | 6% |
| 13 | Swaziland | 3,177,190 | 12% |
| 14 | Zambia | 1,231,300 | 4% |
| | TOTAL (in US$) | 27,517,585 | 100% |

## ■ Portfolio Quality in 2017

Over the year 2017, the company was undergoing challenging moments that included a deteriorating quality of the portfolio. The company is still striving to resolve some of the challenges that were occasioned by the governance crisis that rocked the company in year 2016. The Shareholders were able to shore up the capital and the liquidity levels have improved.

However, the asset quality has not improved as had been anticipated. Some distressed but big accounts classified under the Watch loan category were downgraded into the Non-Performing category. This marked a substantial deterioration of the asset quality. Nonetheless, the Board and the Management has put in place very ambitions and aggressive collection and recovery efforts.

> **"... to address this issue successfully, we now need a focused interdepartmental approach to secure the urgently needed improvements."**

It is agreed that to address this issue successfully, we now need a focused interdepartmental approach to secure the urgently needed improvements. The Management is convinced that to be effective, a systematic, and an integrated approach to the management of the portfolio is very important.

The NPL to Gross Loans ratio substantially increased in the year 2017 in comparison to the year 2016. The main reasons for that are twofold: the increase in the non-performing loans and the continued decrease of the loan book due to recoveries and collections. The projected disbursements were lower than projected which is in line with the Board's decision to scale back on additional new business, more prudence on any additional financial exposure and concentrate more on collection and recoveries.

The Management has continued with the conservative approach in setting the loan loss provisions. This is particularly critical as the company is preparing to implement the provisions of the IFRS 9 which took effect from January 2018.

The Management has prioritised the issue of improvement of the quality of the portfolio. It is clear that high volume of NPLs causes significant drag on a company's performance regarding:

1. ▼ **Net Interest Income**
2. ▲ **Loan Loss Provisions**
3. ▲ **Capital Requirements** due to the increased high-risk weighted assets
4. ▼ **Credit Ratings** and increased cost of funding
5. ▼ **Risk Appetite** for new lending
6. ▲ **More Resources,** time and costs to resolve the problem

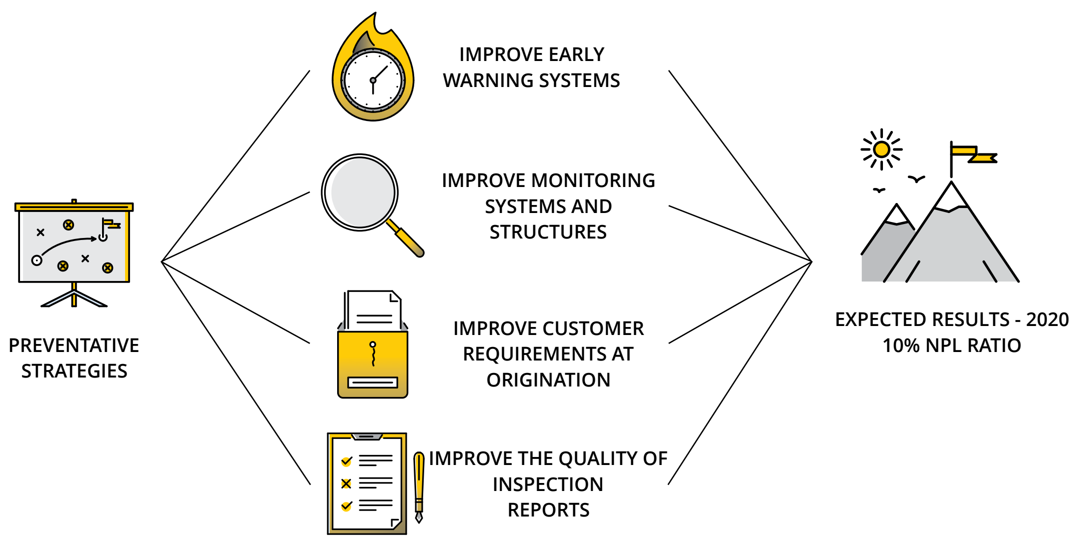
## Portfolio Improvement Framework

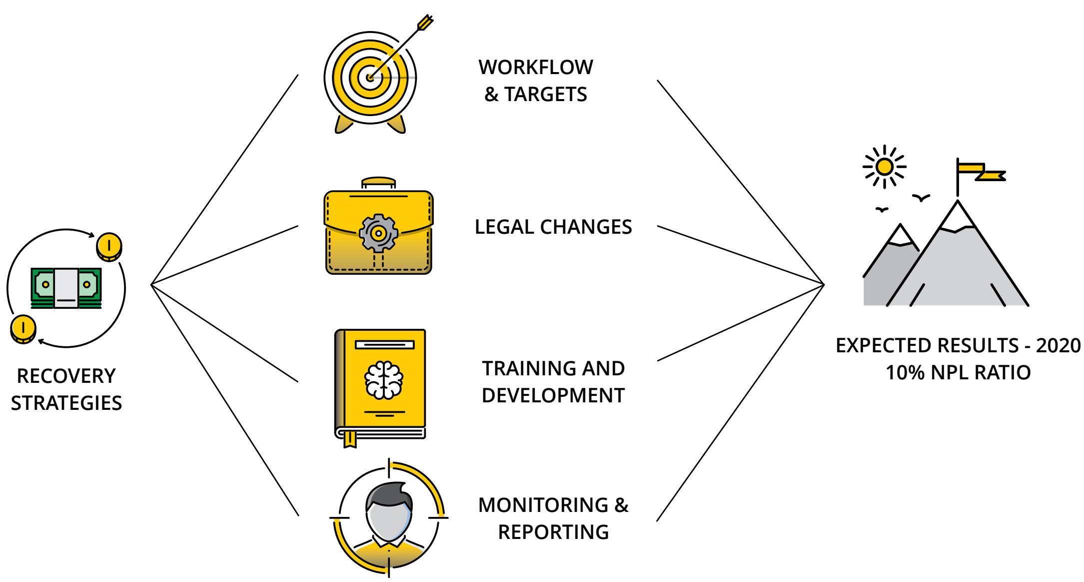
The Management has put in place a framework for long-term improvement of the portfolio comprising of two interdependent aspects:

a) Preventative Actions primarily targeted at ensuring that currently performing assets are aggressively and proactively managed to prevent deterioration. The medium-term objective is to have 75% of the portfolio in the normal category by December 2020.

b) Proactive and Recovery Actions targeted at work-out of the current non-performing portfolio or where necessary speedy recovery of underlying collateral.

An overview of the framework is as follows:



The improvement plan will be underpinned by changes to existing arrangements for managing the portfolio. The key change is a strengthening of the BSRU (Business Support and Recovery Unit) to provide a single point and coordinated management of non-performing loans. Alongside this, Management will implement a restructure and strengthening of the Project and portfolio team currently managing the performing loans. The overriding principle is to ensure that each loan has a designated person responsible for developing individual action plans and retaining accountability for agreed outcomes.

The Management has also proposed a review of the existing recovery strategies and action plans per each file. After review of the existing strategies, the unanimous position has always been the need to incorporate fresh and new solutions to the management of NPLs. Experience has demonstrated that at times out of court settlements could be better than a legal process that could be expensive and take exceptionally long time to settle a matter. On that basis, the Management has been encouraging alternative dispute resolution mechanisms and negotiations alongside the use of the legal foreclosure processes.

In a nutshell, with all the efforts and changes to the management of the distressed accounts as well as the performing portfolio, the Management is convinced the future is bright and the quality of the assets will not only stabilise but also improve.

**"The key change is a strengthening of the BSRU (Business Support and Recovery Unit) to provide a single point and coordinated management of non-performing loans."**

# Investor Relations

**At the Extra Ordinary General Meeting held on 31st January 2017 in Nairobi-Kenya, Ministers and Officials representing SHELTER AFRIQUE'S shareholders endorsed a tripling of the institution capital resources to nearly US$ 116 million. This substantial increase was to allow SHELTER AFRIQUE to address the financial crises that occurred as results of utilising available resources more quickly than previously expected.**

As at 31st December 2017, 11 shareholders have paid subscription up to a total of US$ 46.1 million out of US$116 million. The contributions received came in from the following Shareholders:

**Table 6: Shareholder Contributions as at 31st December 2017**

| | Class A Shareholders | US$ |
|---|---|---|
| 1 | Cameroon | 2,127,771 |
| 2 | Kenya | 9,542,540 |
| 3 | Mali | 5,133,738 |
| 4 | Morocco | 3,732,739 |
| 5 | Namibia | 1,770,378 |
| 6 | Nigeria | 5,959,179 |
| 7 | Republic of Cote d'Ivoire | 3,576,819 |
| 8 | Rwanda | 323,266 |
| 9 | Zimbabwe | 2,228,273 |
| | Class B Shareholders | |
| 10 | African Development Bank | 8,198,494 |
| 11 | Africa Re Group | 3,546,000 |
| | TOTAL | 46,139,198 |

While the above is helpful, it is a long way from the capital injection expected from Shareholders, and outstanding contributions will be instrumental to help SHELTER AFRIQUE implement the 2018-2022 Strategy. Additionally, it will help sustain a high level of funding including member countries large housing PPP programmes, in response to the overwhelming demand of housing on the Continent.

## ■ Why does SHELTER AFRIQUE need a Capital Increase?

Due to growing demand for long-term capital in the housing sector in many African markets, SHELTER AFRIQUE now needs to increase its capital base and to go by its current strategy (2018-2022), a capital mobilisation phase was initiated in 2017. The ambition is to raise USD140 million over five years, with USD 30 million recommended in 2018.

Currently, the institution organically generated resources are not sufficient to sustain its lending activities of financing long-term housing investments. Based on the current capital levels, Shelter Afrique can only sustain any lending activities through expansion of its capital base to ensure an adequate level of funding required for housing development related investments in Africa.

With this in mind, a series of regional investor relations meeting was held. See the report from the meetings below, more regional consultations are expected in 2018.

Image courtesy of © kuyohphotgraphy2017

**A model stands at the African Heritage House Festival in Nairobi. Shelter Afrique was a sponsor of the event**

## Anglophone West Africa

The Anglophone West Africa Regional meeting was held on the 4th & 5TH of October 2017 in Accra, Ghana.  The Inaugural Regional Consultative Meeting for Anglophone West African countries was hosted in partnership with the Republic of Ghana at the Alisa Hotel on the. The meeting brought together 11 participants from 4 member countries. The African Development Bank was also represented at the meeting by a senior member of the Bank's Special Operations Unit.

A member of Shelter Afrique Board, Alh. Yakubu Yahaya who is also the Director of Housing at the Ministry Housing was also in attendance and played a critical role in hosting the meeting.

The overriding objective of the meeting was to provide a platform where shareholders would discuss and share their respective countries housing objectives and agenda and for SHELTER Afrique to identify opportunities to support Shareholders in the delivery of their priority objectives. It was also a platform for shareholders to share their experiences, learn from one another and to offer them insights on the future products of SHELTER-AFRIQUE's Corporate Strategy.

**More specifically, the objectives of the meeting were:**

- To familiarise the participants with SHELTER-AFRIQUE's mandate, past interventions, and the future direction of the institution, specifically the proposed product offering during the 2018 – 2022 Strategic Period
- To review member countries' agenda on housing and identifying their priority projects/programs that require SHELTER-AFRIQUE's intervention.
- Defining areas of possible intervention by SHELTER-AFRIQUE
- For each country, establishing a roadmap, time frame and key performance indicators in the implementation of the roadmap.

The consultative forum took place over two days and was structured in such a way that each country had an opportunity to walk the audience through a 30-minute presentation followed by a discussion through answering questions and providing clarifications.

On the second day, the participants had an opportunity to visit two project sites currently under implementation as Public-Private Partnerships by the Ministry of Works and Housing. The first project was an urban regeneration project and the second was an affordable housing scheme comprising over 1,000 houses along the Accra-Tema motorway.

## East African Region

The East African Regional meeting was held on the 19th of September 2017 at the Shelter Afrique headquarters, it was attended by Kenya and Rwanda.

The objective of the meeting was to present member countries with the full-suite of SHAF products and service offering and the new strategy.

Participants were encouraged to give feedback on the new strategy, especially as it relates to their objectives and goals.

There was a general appreciation of the proposed products, and members felt that the products would fit well into their housing strategies/agenda. There was also an appreciation that the products were targeted towards the low-income segment and that SHAF will be working more with governments and parastatals.

**Some of the highlights of the meeting and priority areas Shelter Afrique should explore to add value:**

1. Housing Policies for Government
2. There is a slum upgrading Programme
3. Tenant purchase program for civil servants.
4. Large-Scale affordable homes over the next five years (200,000 per year)
5. Key programs over the next five years include Police housing and social housing plus related infrastructure
6. Tax incentives for affordable housing projects, including but not limited to serviced land, tax incentives and reasonably priced loans among others.

# Francophone West Africa Region

The Francophone Regional Consultation was held on Meeting on 14th and 15th of September 2017 at the Novotel Hotel, Abidjan, Ivory Coast.

Five Countries attended (Mali, Togo, Niger, Guinea Conakry and Niger).

The meeting's objectives were to:

- Have an overview of each country housing policy, strategy;
- Review key priorities housing programs for each country;
- Discuss key challenges and alternatives solutions;
- Explain key needs of each country expects from SHAF;
- Indicate tentative milestones to elaborate a roadmap per country;

## Challenges faced by the countries in providing affordable housing in the respective countries

- Limited visibility on the capacity of the states to raise funds for housing programs;
- The states don't have the adequate technical capacity to handle their ambitious housing programs;
- Except for Guinea Conakry where State has a large land bank with titles to avail through a PPP-program, most the countries have a serious challenge to access land and are obliged to buy from the private sector at a very high price;
- Some of the countries don't have a clear and well-articulated PPP institutional and legal framework in place yet;
- Lack of legal framework supporting co-ownership agreement;
- Inefficient institutional framework to effectively monitor tax exemption granted to housing PPP programs;
- Self- build remains dominant in many countries;
- Governments adopt inadequate financing structure to promote social housing programs;
- The Target populations for social housing programs have very low purchasing power;
- Low and inadequate appetite from local financial partners for social housing programs;
- High construction cost;
- Limited financial, technical and logistic capacity of developers and contractors;
- The very low industrialisation of housing production sector

## Some of the expectations of the countries towards SHAF:

- Innovative financing structure to promote social housing & SHAF to provide PPP – solutions;
- Raising long-term financing and building platform where countries members will exchange experience;
- Sign and MOU with SHAF to develop a PPP – Housing Program;

The United Nations office in the Kingdom of eSwatini, which was financed by Shelter Afrique

## Southern Africa Region

The Southern Africa Regional meeting was held on 27-28 September 2017 was the first consultative meeting in the region. The meeting brought together over 37 participants from Six countries in Southern Africa to share their experiences, to learn from one another and to debate the future products of Shelter Afrique to be included in the corporate strategy of 2018-2022.

The Regional meeting took place over two days and was structured in such a way that each country had an opportunity to walk the audience through a 30-minute presentation followed by a discussion through answering questions and providing clarifications.

Feedback from the Regional Meeting was positive-participants appreciated Shelter Afrique efforts for creating a platform bringing together member states to consult on the future of the organisation specifically with the new product offerings. The meeting also provided an opportunity for participants to network and learned from one another and a chance to explore ideas.

### The specific objectives of the meeting/seminar were as the following:

- Familiarizing the participants with the mandate of Shelter Afrique, past interventions and the future direction of travel beyond 2018 regarding new product offering.
- A review of the member country's housing programs and identify the priority projects that require Shelter Afrique's intervention.
- Define areas of intervention for SHAF.
- Establish a roadmap and timeframe and Key Performance Indicators.

### Key Takeaways are as follows:

1. The resources available to support various countries programmes should be availed in local currencies or the South African Rand (ZAR). Shelter Afrique and member states to generate a pipeline that will unlock the availability of the ZAR.
2. Local authorities in most countries own the land banks and to access land for construction, implementing agencies should acquire the un-serviced land from the local authorities. Shelter Afrique to explore working relationships with Local Authorities in the Region to ensure that the land is at least serviced before it is offered for sale to the implementing agencies.
3. No countries should be left behind, and Shelter Afrique should try its best to implement programmes in each member state. Shelter Afrique to work closely with line Ministry in each country and other housing delivery players in Southern Africa to ensure that no country is left behind.
4. Shelter Afrique to improve its communication with the Member States and to an extent involve the participation of the National Housing Authorities as they are the key implementers of most Governments housing programmes.

## MoU with the UN-Habitat for the Realisation of The New Urban Agenda in Africa

A memorandum of Understanding was signed with the UN-Habitat, the United Nations agency responsible for Human Settlement and Housing.

The MoU which was signed during the 26th General Council of UN-Habitat in Nairobi, Kenya will see the two organisations work towards the delivering of an ambitious agenda for affordable housing on the continent. The ceremony which took place during a side-event at the 26th GC was attended by government and senior representatives of member countries and staff of Shelter Afrique as well as the staff of UN-Habitat.

The MoU between the two organisations is set to deliver on the creation of a funding mechanism for housing and housing-related infrastructure in Africa by 2018 which will aim to raise a total of $1 billion by 2020. It will also elaborate a Pan-African Slum Eradication program based on best practices and successfully implement such a program in 20 countries by 2021.

Shelter Afrique and UN-Habitat also want to jointly create a coalition of large employers in Africa to implement **"Employer-Sponsored Housing Programs in Africa"**. The programme should pledge to produce 100,000 housing units by 2020.

In addition to this, the two organisations expect to create a Rental Housing Promotion Initiative that will influence regulation and create the enabling environment for Rental Housing in Africa. Lastly, the organisations also want to immediately address the creation of a 360-degree Housing Policy Review to provide feedback to governments on policy flaws and Gaps and establish a monitoring mechanism to evaluate progress.

**The Deputy Executive Director for UN-Habitat Dr Aisa Kirabo Kacyira shakes hands with the Managing Director, Shelter Afrique, Mr Femi Adewole during the MoU signing between UN-Habitat and Shelter Afrique**

## The 5000 for 5000 Housing Competition

5000 *for* 5000
HOUSING COMPETITION
A SHELTER AFRIQUE INITIATIVE

In 2017, the Winners of the 5000 for 5000 Housing Competition were announced. The competition was launched at the 2016 Annual General Meeting in Abuja, Nigeria. The competition sought to stimulate and reward innovative thinking about how a liveable and sustainable home can be designed and produced at a capital cost of no more than US$5000 equivalent to the end user.

Shelter Afrique would then commit to developing 5000 of these units across the continents over a period, hence the name. Over 120 submissions were made for the competition from various countries across the world.

A panel of judges comprised of housing experts in Africa was convened in May of 2017 to review the submission, led by Professor Jerry Magutu of University of Nairobi. The panel also included Dr Michael Majale a researcher based in Uganda, Mamadou Gueye the Chief Operating Officer of Housing Bank, Senegal, Steve Rukwaro, a Quantity Surveyor based in Kenya and lastly, Nina Martiz an architect based in Namibia.

The judges measured each submission against the following criteria; Sustainability, Practicability, Supply Chain Innovation and beauty and aesthetic.

At the end of the process, three winners were selected. First place was awarded to *Teteh & Associates* of Ghana; second place was awarded to *Morphosis Limited* of Kenya and third place was awarded to *Sharon Davis Design* of New York, United States.

A cash prize of $100,000.00 is expected to be shared among the first three winners

The judges report also singled out and commended *Hydraform* of South Africa, *Adengo Architecture* of Uganda, *XTEK Systems* of South Africa and *Architect Collaborative* of Botswana for the innovation and potential of their submissions.

The top ten submissions will be presented to shareholders in a compendium as part of an effort at innovation for large-scale housing in Africa.

# Human Resources and Administration

Image courtesy of © kuyohphotgraphy2017

A model stands at the African Heritage House Festival in Nairobi. Shelter Afrique was a sponsor of the event

**The Human Resources and Corporate Services strategic priorities for 2017 included: proactive management of staff and administrative costs; maximising the value of Shelter Afrique properties to generate additional income; addressing the policy gaps identified in the Deloitte report; and aligning people and the organisation to the new strategic priorities. In addition, strengthening staff engagement, strengthening performance management, and strengthening service delivery through automation of key processes.**

The following achievements were realised during the fourth year.

## ■ Management of Staff / Administrative costs and income from properties

a) Given the liquidity crisis, a key priority for 2017 was the management of operational costs. As At 31st December 2017, the total expenditure on operating expenses (staff and administrative) was US$ 7.6 million against an annual budget of US$ 9.0 million. This represented a US$ 1.4 million or 15% saving.. Despite high costs of consultancies that had not been anticipated in the budget, these savings were realised through freeze of new recruitments and replacements, optimising the use of existing staff, competitive tendering and negotiation/ renegotiation of service contracts.

b) Despite the above savings, the Cost to income ratio remained high with the end of year ratio of 78 compared to the target of 54. This was due to declining loan book and income, as well provisions. During the year 2018, management will carry out organisation redesign and develop a new resourcing plan to align with the new strategy and finance model. At the least operating costs will be maintained at the 2017 level during 2018(no increase).

The department greatly contributed to the generation of additional income and minimisation of costs related to maintenance of unoccupied properties. As at 31st December 2017, the rental income from Shelter Afrique properties was US$ 165,498 against an annual budget of US$ 110,000, this represents a 50% increase. This is attributed to 95% occupancy of Shelter Afrique centre, and lease of the residential property is previously housing the Managing Director, and rent from properties converted to assets.

## ■ Addressing policy gaps identified in the Deloitte report

The report of the forensic audit identified key policy gaps that needed to be resolved through new policies, policy clarifications and effective implementation. During the year 100% of gaps in human resources and administrative policies were addressed. These included: monetisation of housing benefits for the Managing Director to remove the administrative burden of providing benefits in kind, the introduction of telephone policy with expenditure limits, review of education grant to ensure parity, review of disciplinary appeals policy to provide for all staff to appeal to the Board. Verification and tagging of all company assets were done. The management and security of company records in both hard and electronic forms was strengthened. A whistleblowing policy was also introduced.

With regard to Information and Communications Technology, initiatives implemented include strengthening password management, routine system testing and backups, and automation of accounting for imprest.

## ■ Re-aligning the organisation structure and resourcing to the post-crisis priorities and a new strategy

a) Other than the positions of Chief Finance Officer and Company Secretary that need to be filled as part of the new strategy, operations were sustained with a staff complement of 52 against a budget of 56. New business development was suspended, and staff redeployed to management of current portfolio, business support and recovery, loans management unit and risk management. As a result, total staff costs at the end of 2017 amounted to US$ 5.2 million against a budget of US$ 6.4 million. This represents a saving of US$ 1.1 million (18%).

PKF Consulting Limited (EA) has been contracted to develop a new organisation structure and resourcing plan in the context of the new strategy and finance model. This will provide clarity to departments/ business units, grading structure, and staff numbers. They will also develop and implement a change plan for transition from old to the new organisation.

## ■ Strengthening staff engagement

a) The post-crisis situation caused a lot of anxiety and uncertainty among staff . While some staff left the organisation (10%) a majority (90%) stayed demonstrating continued confidence in the organisation.

b) Management developed and implemented an annual communication plan to regularly share organisational turnaround plan, performance, challenges and achievements with staff through Town Hall meetings, departmental meetings and focus groups around specific issues.

c) Staff were actively involved in the development of the new strategy and brainstorming around the organisational culture required to implement the new strategy successfully.

d) Capitalizing on feedback and insights generated from the strategy cultural SWOT analysis and a cultural assessments conducted by the Board Change Agent, Management will in the second half of 2018 develop and start implementation of a cultural change program.

Shelter Afrique staff interact during the 2017 end of year party

## Information Technology

### ■ Automation of Business Processes and enhancement of ICT infrastructure

Despite budget constraints, some business automation and ICT infrastructure enhancements were implemented during the year.

Four projects were successfully implemented, and these include interconnection of head office and regional offices using virtual private networks(VPN) technology, development of corporate intranet, upgrade of local area network (LAN) in Abuja Regional office, and completion of IT Network Infrastructure improvement project in head office.

Most significantly, the Head Office Internet connectivity bandwidth was upgraded from 10 to 20 MB with an 18% cost reduction through a change of a service provider and re-negotiation of terms.

Three projects are under implementation and will be completed within the first half of 2018 namely: centralization of network access points in head office to improve security and ease of use; SWIFT implementation to automate payment processing; and upgrade of windows platform and adoption of office365 to enhance collaboration within and outside organisation to support decentralized organisation envisaged in new strategy.

In 2018 the focus will be development of Information Technology strategic plan to be harmonized with the corporate strategy 2018-2022, and implementation of a new Loan Management System.

## Corporate & Legal Services

It is encouraging to note that during the year the Board adopted the e-Board, which is a technology-based way of holding meetings and engaging with each other outside the formal meetings. This had a direct positive impact on how the Board conducts its business, including more frequent and fruitful engagement and reduction of paperwork. The company's legal and governance framework remains work-in-progress as some of the proposals were pushed forward by the Shareholders during in the AGM in Abuja, Nigeria.

Another front to corporate services was the successful hosting of the Board meetings and the Annual General Meeting in Abuja, Nigeria. They all went according to plan and the year demonstrated growth in Board and shareholder ownership of the meetings.

The Legal Unit underwent some fundamental changes by having the legal officers join the business teams in the four regional business units formed by the Company with one lawyer assigned to each region. This has led to a better and closer working relationship between the legal department and the business team which in turn will lead to better service delivery to the clients.

**US$ 46.1M**

**was received from shareholders over the course of the year in the form of capital injection**

# Risk Management

**The management of risk is an inherent part of the business activities of Shelter Afrique and risk management is a key focus area for the company. 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. To this end, the Company regularly reviews its risk management policies and procedures, reviews the risk register and updates it to reflect changes in the emerging best practices. The company continued to pay attention to the five risk categories which are deemed to have a direct impact in the daily operations; they include credit, market (Foreign exchange and interest rate risk), liquidity and operational risk.

## Credit Risk

Due to liquidity crisis the company experienced in 2017, there was a decision on non-admission of new business as well as slow down on disbursements; the company recorded some early repayments by some good clients especially on LoCs. This eventually has seen the portfolio shrinking by 9.8%, the equation on the portfolio thus tilted in favour of project finance at 55% and LoCs at 45%. Joint Ventures and equity participation were also active in SHAF books albeit on a slow proportion. The net effect of this has exposed the company to the risk of default by its clients and eventually increased deterioration of the company assets due to the non performing assets. Key leading factors for the deterioration of the asset quality were marketing, poor project implementation, lack of equity as well as the diversion of funds. To address these challenges, the management through a board approval has reconstituted the Business Recoveries and Support Unit (BSRU) with additional resources with a mandate to exclusively deal with the Non-performing loans and recover SHAF money back. As at December 2017, the gross NPL closed at 36.92% compared to 17.51% in 2016. A key focus for 2018 will be to bring this ratio down by first preventing additional loans falling into NPL and at the same time working out the portfolio in NPL to either recover the money or make the loans to perform.

Earnings dropped by 16% during the year 2017 due to the combined effect of the portfolio shrinking (-8%) and the decision to suspend interest accrual on NPL project (loss of revenue of USD 7.5m)

SHAF's board of directors have adopted a new strategic plan for the period 2018-2022. Refocusing the business on public sector's clients with better risk profile and more impact is one of its key pillars. Reconsolidating the institution through a stronger risk management framework is another key pillar.

### IFRS 9 Implementation

In its efforts to ensure full compliance to International Financial Reporting Standards, the company has engaged a consultant who will guide in full adoption and internal capacity building to ensure full adherence to IFRS 9 implementation which comes into effect on January 1st, 2018. This is aimed to replace IAS 39 on assets impairment and measurement.

## Market risk

The company continued to operate in a very competitive and challenging environment being affected by factors which are not within its control. Factors such as fluctuating exchange rates, interest rates continued to affect the company's business operations. In Kenya which is SHAF's key market, the banking sector was re-strategizing and rebuilding their products to mirror the effect of the interest rate capping as well as what has been seen a highly regularized market. From the CBK data, there were indications that the interest rate capping has negatively affected the growth in the mortgage market, a key element in SHAF business.

During the year 2017, the company reported a net foreign exchange loss of US$ 397,948. This was mainly due to realized loss from the settlement of currency swaps entered into to address the shortfall in Kes currency. During the year, the open position for CFA currency was significantly reduced through conversion of the currency to Euro. Key focus for 2018 will be to close the gap for Kes currency to mitigate any effect on currency fluctuation more so depreciation. To improve on the management of the foreign exchange risk, risk continues to monitor adherence of the revised FX policy, in this policy the open position limits has been reduced and the base changed to capital to ensure the company's exposure to FX risk is appropriately managed.

## Liquidity Risk

Being a financial institution, one of the key parameters which SHAF should keenly look for are the liquidity related ratios. This demonstrates the company's ability to honour its obligations as and when they fall due. In course of 2017, the company experienced one of the worst liquidity crisis in the recent times due to the negative media coverage. The company was cash strained and as part of measures to address this, the board directed that no new business should be underwritten as well as slow down of disbursement on committed projects. The company also embarked on a standstill negotiation with the lenders with an objective to restructure the obligations falling due on capital payments. The company received strong support from the shareholders in form of capital injection and a total of US$ 46.1m was received in course of the year. The liquidity ratio closed at 13% as at December 2017 compared to 8% in December 2016, this was however below the policy limit of 15%. Key focus for 2018 will be to signing of the standstill agreement as well as conclude on the negotiation with lenders for loan restructure. The ultimate objective will be to ensure business stabilization in order to resume full business.

## Operational Risk

The company continues to closely monitor and identify key risks which may arise from deficiencies or non adherence to the policies and procedures in its daily operations, people as well as systems, this will result in operational risks. To achieve this, the company has identified and implemented tools which are aimed at properly managing operational risk.

During 2017, the Company continued to operationalize the tools developed for the implementation of enterprise-wide risk management (ERM) framework. The company continued to monitor operational risk through the tool of ERM i.e Enforcement of risk control self-assessment (RCSA) process in order to strengthen operational risk as well as enterprise wide risk management. Key focus for 2018 will be to review the entire Enterprise Risk Management (ERM) framework aimed at inculcating risk culture in the organisation. This is also a key pillar for the 2018-2022 strategic plan.

## Capital Risk

Capital risk is managed and monitored regularly in order to ensure that there is adequate capital for the company's operations as well as ensure the company has company has sufficient capital buffer to cushion the company from any external shocks. The minimum capital adequacy ratio (CAR) is calculated in accordance with Basel II capital framework. At the end of 2017, due to the support from the shareholders through capital injection, the common equity tier 1 capital increased and closed at US$ 130 million and capital adequacy ratio of 26.62% compared to 19.86% in December 2016, this fell within the minimum internally set ratio of 25%. This impressive rebound is however threatened by the loss position being posted by the organisation.

## Withdrawal from credit rating

For more than five years now, SHAF has voluntarily subscribed to credit rating from both Global Credit Rating as well as Moody's Rating Agency. However, in an effort to give the company an opportunity to retool and re-strategize on its business due to the recent events, there was a decision to withdraw from these credit rating services temporarily with effect from July 2017. Once the business operations normalize, then SHAF will re engage the rating agencies.

# Internal Audit Unit

The primary function of the Internal Audit is to provide an objective and independent assurance to the Board, that adequate management processes are in place to identify and monitor the organisation's key risks. The function further ensures that effective internal controls and risk management processes are in place to manage those risks. Shelter Afrique's Internal Audit Unit independently audits and evaluates the effectiveness of the organisation's risk management, internal controls and governance. The unit operates under an Internal Audit Charter approved by the Board in 2017. The charter defines the roles, objectives authority and responsibilities of the audit function.

During 2017, over 80 percent of the approved audit plan was executed. Out of 26 planned activities,21 activities were completed. As the year progressed, new areas of concerns came about necessitating a continuous review and adjustment of the audit activities in the plan.

The implementation of audit recommendations was categorised into two, internal and external audit recommendations. The implementation of internal audit recommendations stood at 70 percent while 30 percent remained unresolved. As for the External Audit report, 52 percent were implemented while 48 percent were unresolved.

During 2017, the Board by implementing recommendations from the forensic report has taken a decision to enhance internal audit capacity. Therefore, the organisation has started a process to arrange for internal audit co-sourcing. The process is planned to be completed by February 2018.

Chart 4: 2017 Internal Audit Work Plan Status

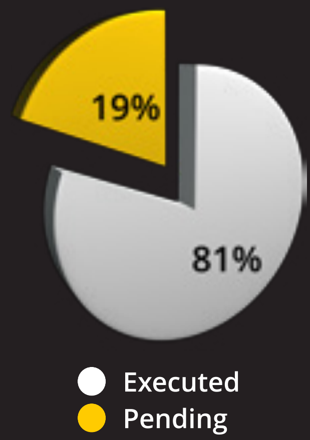



Chart 5: Internal Audit Recommendations Status

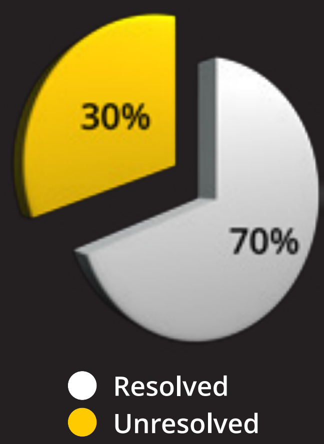
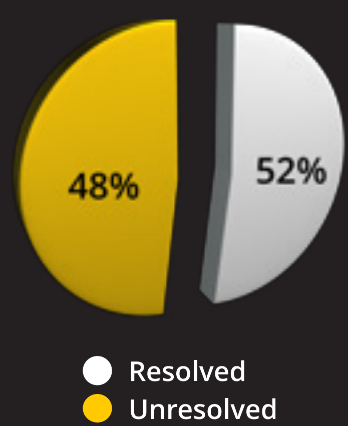



Chart 6: External Audit Recommendation Status



# The 2017 Shelter Afrique Symposium

## ■ Theme: "THE NEW URBAN AGENDA, HOUSING AND SHELTER AFRIQUE – VICTORIA FALLS, ZIMBABWE JULY 5TH 2017

On 21st October 2016, African Governments signed up for the New Urban Agenda in Quito, Ecuador, a non-binding agenda for making cities safe, sustainable and resilient. The New Urban Agenda sets global standards for sustainable urban development during a period in which the world is experiencing the most rapid urbanisation in history.

More than any other continent, Africa is facing extreme rapid urbanisation. This is a challenge that Shelter Afrique and other Regional Institutions will tackle with African Governments and their agencies in delivering the New Urban Agenda. It is for this reason that the 2017 Symposium aimed at achieving the following objectives:

a) Shareholders to discuss in a plenary session how Shelter Afrique can be repositioned to act as the key inter-regional vehicle in the New Urban Agenda;

b) For Shelter Afrique to explore in a workshop session the required capital to effectively play a role in (a) above and how this capital can be mobilised for delivery of affordable housing projects;

c) For Shareholders to explore appropriate governance structures required to ensure that Shelter Afrique can sustainably fulfil its mandate.

## ■ Plenary Session

There was a keynote address from Honorable Fashola, contributions from four speakers as well as submissions by participants. From all these, it emerged as follows:

1. Housing should be a priority in the debate surrounding sustainable urbanisation and implementation of the same should be a lifetime and generational approach.
2. Shelter Afrique should endeavour to work with both Public and Private sector to deliver affordable housing.
3. The governance and administrative structure of Shelter Afrique need to be strengthened if the institution is to achieve its mandate.
4. Rental housing should be viewed as a first step towards the home provision and governments should put in place policies to support rental housing programs.
5. Shelter Afrique should expand its mandate to being a resource centre for housing and providing technical advice in addition to providing housing finance.

## ■ Finance Break Away Session

The moderator of the session, Mr Gabriel Negatu presented the current financial situation of Shelter Afrique. Some of the key highlights of his presentation are as follows:

- Shelter Afrique would run out of cash in 2017 unless the shareholders contribute an additional $33 million above the amounts already paid.
- The cause of the company's financial difficulties was weak capitalisation due to the Shareholders failure to meet their capital contribution commitments.
- Shelter Afrique required cash injections of $33 million in 2017, $80 in 2018 and 2019 to fully recover from the crisis.

A question was then posed to the participants on how Shelter Afrique can get sufficient and timely capital subscription to sustain the organisation. The outcome of the deliberations is detailed below:

1. African countries should mobilise resources specifically for the housing sector and housing-related infrastructure from special levies. Africans needs to find its solutions rather than counting on the international community to address our housing needs.
2. The expectations of Africa go beyond SHAF's capabilities. Shelter Afrique should be able to leverage its equity to attract additional funding to finance larger scale projects.
3. It is the responsibility of the Board of Directors and Management ensure all the lending that is done is aligned with available resources so that the company does not experience a liquidity crisis.
4. SHAF has been lax in the collection of the overdue subscriptions. The institution should introduce steep penalties for delayed payments before the end of July. The AGM should consider auctioning the shares of the countries in arrears.
5. Shelter Afrique should provide member countries (Ministries of Housing) with a value proposition to increase shareholding as this ultimately needs to be presented to the Ministries of Finance to justify the release of funds.
6. To increase its impact, SHAF should hold joint planning sessions with Member Counties to understand the country priorities and, make sure that SHAF intervention is in support the countries housing policies.
7. The AGM should review the company's statutes and allow the company to raise equity outside is membership.
8. The issue of affordability needs to be addressed. We will never be able to raise enough funding to meet the housing gap. For instance, we need to use local material to bring the cost down. We also need trade financing for imports of material from overseas.
9. Homeownership through shared equity. This allows a homeowner to gain entry through owning part of a home and when income rises purchase the remainder. These need an equity partner — either a financial institution or a government-backed provider.
10. Governments could stimulate the supply of rental housing through various policies which are flexible and cover a wide range of target groups and rental housing types.
11. Governments could also support the supply of rental housing by providing subsidies and tax incentives.
12. Long-term capital is essential for financing rental housing. This can be accessed through bonds, pension funds and insurance companies.
13. Successful rental housing programs have been implemented across the world. A case study from India was shared with the participants where relaxation of floor space index and offering of transferable development right (TDR) was used to create available space in a congested area.
14. Other successful rental housing schemes that were presented included: Johannesburg Housing Company ( JHC) where more than 4,000 rental houses had been developed and OMH- Mali where PP model has been used to develop more than 6,000 rental units

## Governance Breakaway session

The moderator of the session, Mr Steve Mainda opened the session by highlighting the fact that Shelter Afrique had undergone two major crisis in the last six years which had a negative financial impact on the company. Both these crisis were caused by weak corporate governance structures. He then posed a question to the participants as to what shelter Afrique needed to do to ensure it was better governed. A summary of the deliberations is shown below:

1. Board Members need to improve the frequency of communication to the General Assembly to at least once a quarter.
2. Board members representing country groupings need to communicate to other members of the group after each Board session to keep them updated on the discussion at the Board meetings.
3. The Annual General Meeting should evaluate the performance of Board members on an annual basis.
4. Shareholding in the company should be open to Non-regionals to generate new capital and also improve governance structures.

5. Internal Audit function needs to be strengthened to be able to detect early warning signals within the organisation before the matters reach the press/whistleblowing agent.
6. Recruitment of Key positions (Managing Director, Company Secretary and Internal Audit) should be outsourced to a reputable recruitment firm.
7. The strategy of the organisation needs to be aligned with needs of member countries need. This will generate more support from shareholders financially and encourage them to be more invested in the company's affairs.

## Conclusion

The Symposium concluded that Shelter Afrique is instrumental in the implementation of the New Urban agenda and African governments should make housing a priority in the debate surrounding sustainable development. It was also acknowledged that, for Shelter Afrique to play this important role, member countries needed to pay their subscriptions promptly and leverage these resources to obtain additional funding from non-African investors to meet the mandate of the institution.

Shareholders also concluded that Shelter Afrique's governance structures needed strengthening and called for improved communication between the Board and the General Assembly and annual evaluation of Board members performance.


Traditional dancers welcome delegates to the 36th Annual General Assembly in Victoria Falls, Zimbabwe.

# Annual Report & Financial Statements

31 December 2017

# Corporate Information

FOR THE YEAR ENDED 31 DECEMBER 2017

## Principal Place Of Business

**Shelter Afrique Centre**
Longonot Road, Upper Hill
P O Box 41479 – 00100
Nairobi
Kenya

## Principal Bankers

**Citibank N.A.**
P O Box 30711 – 00100
Upper hill, Nairobi
Kenya

**Citibank New York**
C/o Citibank N.A.
P O Box 30711 – 00100
Upper hill, Nairobi
Kenya

**Commercial Bank of Africa**
P O Box 30437- 00100
Nairobi

**BNP Paribas**
Paris International Business Center
10, boulevard Malesherbes
75 008 Paris
France

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

## Solicitors

**Mamicha & Co. Advocates**
Pan Africa House, 3rd Floor,
No. 9 Kenyatta Avenue
P O Box 59304-00200
Nairobi, Kenya

**B.M. Mutie & Co. Advocates**
2nd Floor, MMID Studio,
Westlands Road, Westlands
P. O Box 14846-00100
Nairobi, Kenya

## Independent Auditors

**Deloitte & Touche**
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari,
P O Box 40092 - 00100,
Nairobi, Kenya

## Board Of Directors

- **Mr. Jean-Paul Missi** - Chairperson
- **Mr. Daniel Nghidinua** - Vice Chairperson

| Class "A" Shareholders (Countries) | | | |
|---|---|---|---|
| Directors | Alternate Directors | Countries /Institutions represented | % shareholding |
| **Mr. Nghidinua Mathews Daniel** (Namibia) | **Mrs. Dorcas W. Okalany** (Uganda) | Botswana, Lesotho, Malawi, Namibia, Rwanda, Tanzania, Uganda, Zambia | 9% |
| **Ms. Anikpo Yed Melei** (Ivory Coast) | **Mr. Brama Diarra** (Mali) | Burkina Faso, Burundi, Central African Republic, Chad, Djibouti, Equatorial Guinea, Guinea Bissau, Ivory Coast, Mali, Senegal | 15% |
| **Alhaji Yahaya Hameed Yakubu** (Ghana) | **Mr. Ouadja Kossi Gbati** (Togo) | Ghana, Guinea, Cape Verde, Togo | 8% |
| **Mr. A. Boulares** (Algeria) | **Mr. El Alj Toufik** (Morocco) | Algeria, Mauritania, Morocco, Tunisia | 9% |
| **Mr. Jean-Paul Missi** (Cameroon) | **Mrs. Moussavou Ida** Rachel (Gabon) | Benin, Congo, Democratic Republic of Congo, Cameroon, Gabon, Madagascar, Mauritius, Niger, Seychelles, Sao Tome & Principe | 9% |
| **Dr. P.M. Tunde Reis** (Nigeria) | **Mr. Muhamed** Manjang (Gambia) | Gambia, Liberia, Nigeria, Sierra Leone | 13% |
| **Arch. Aidah Munano** (Kenya) | **Eng. G.S. Mlilo** (Zimbabwe) | Kenya, Somalia, Swaziland, Zimbabwe | 15% |
| **Class "B" Shareholders (Institutions)** | | | |
| **Mr. Corneille Karekezi** | **Mr. Seydi Kone** | African Reinsurance Corporation | 5% |
| **Ms. Soula A.I. Proxenos** | **Mr. Rafael Jabba** | African Development Bank (AfDB) | 17% |
| **Total** | | | **100%** |

## Independent Directors

- **Mr. Hardwork Pemhiwa**
- **Dr. Omodele R. N. Jones**

## Senior Management

- **Mr. Femi Adewole** - Managing Director
- **Mr. Kingsley Muwowo** - Chief Finance Officer
- **Mrs. Francesca Kakooza** - Company Secretary
- **Mr. Mouhamadou Gueye** - Head of Risk Management and Compliance
- **Mr. Said Diaw** - Ag. Director, Business Development & Portfolio Management
- **Mr. Stephen Onyait** - Head of Human Resources & Corporate Services

## Internal Auditor

- **Mr. Mohamed Barry**

# REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2017, which show the state of the financial affairs of the Company.

## 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 Group plc 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.

## Principal Activity

The principal activity of the Company is the provision of financial and technical assistance for housing and urban development activities in Africa.

## Results

The results for the year are set out on page 63 of the financial statements. The loss for the year amounts to US$ 7,790,610 (2016: loss of US$ 12,680,766).

## Dividends

The dividend policy provides for distribution of dividend only if the net profit for the financial year concerned is at least US$ 1 million. In line with the dividend policy, the Directors do not recommend the payment of a dividend for the financial year 2017 (2016: Nil).

## Shelter Afrique Foundation

The Directors do not recommend the appropriation of any funds to the Foundation. (2016: Nil).

## Reserves

The reserves of the Company are set out on page 65 of the financial statements.

## Directors

The Directors who served during the year and to the date of this report are as listed on page 50. 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.

## Auditors

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

**By Order of the Board**

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**Company Secretary**
Nairobi

**27 April 2018**

# STATEMENT ON CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 DECEMBER 2017

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.

## 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 50.

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 seven Class 'A' Directors representing countries, two Class 'B' Directors representing Institutions, 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 six ordinary meetings as it designed and implemented a corporate turnaround strategy. 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' Remuneration**

The aggregate emoluments paid to Directors for services rendered during the financial year is disclosed in Note 36 to the financial statements for the year ended 31 December 2017.

**b) Related Party Transactions**

There have been no materially significant related party transactions or relationships between the Company and its Directors or management except for those disclosed in Note 36 to the financial statements for the year ended 31 December 2017.

## 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 organisational 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. As part of its turnaround strategy, the Board operated two ad hoc committees in 2017, one of which completed its duties during the year. The second is expected to attain its objectives during the calendar year 2018. The authority for the day-to-day running of the Company is delegated by Statute to the Managing Director. For the period of implementation of the turnaround strategy, the Board is operating an elevated level of oversight of delegated authorities.

## Risk Management & 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, Risk and Finance 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, Risk and Finance 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 organisational structure which is kept under regular review by the Board and a review of quarterly financial and operating information by management and the Board.  In implementing its turnaround strategy, the Board has taken steps to significantly enhance the operating independence and effectiveness of the internal audit unit. Steps are being taken to enhance the enterprise risk management system to improve the detection and mitigation of foreseeable risks and to eliminate silo management of risks. The Board requirement for the certification of the financial statements by the Chief Financial Officer and the Chief Executive Officer that is effective from this year's financial statements is an example of the robust measures being put in place to improve enterprise risk management.

## 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. Where recent events have revealed exceptions to this rule, the Board has adopted improved policies and procedures including, but not limited to the adoption of new Board Charter in 2017 provides for more robust operating rules for the Board of Directors.

## Responsibility for Staff Welfare & 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.

## Strategic Planning & Implementation

The Board meets quarterly for scheduled meetings to review the Company's performance against business plans as well as to formulate and oversee management's implementation of strategy and on other occasions to deal with any issue that requires attention between the quarterly meetings. The Board has recently implemented improved systems for meeting and/or holding management to account. During the year, the Board held six ordinary meetings in keeping with its elevated level of vigilance during a period of corporate recovery and turnaround. These meetings have included a significant element of Board time devoted to formulation of a new business strategy that should significantly enhance the value of the company's activities to the identified needs of stakeholders. It is anticipated that future annual reports shall give equal prominence to the reporting of the impact of the company's activities relative to our mission and vision as they have historically done to the reporting of the financial effect. A stronger and more attractive Shelter Afrique should emerge from the Board's turnaround strategy.

## 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. During the year, as part of its turnaround plan, the Board proposed to meetings of shareholders, certain amendments to the corporate statutes. They were accepted and are expected to contribute to an improved enterprise risk management system and to provide for a more robust capital structure and position. The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

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Director Director

**27th April 2018**

# STATEMENT OF DIRECTORS’ RESPONSIBILITIES

## ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Company’s Statutes require the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the Company, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Whilst the Company is currently undergoing a financial and management restructuring program, the Directors believe that the Company will continue to be a going concern for at least the next twelve months from the date of this statement. The auditors have included an emphasis of matter with regards to going concern in their auditors’ report on page 59.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 27th April 2018 and signed on its behalf by:

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Director Director

# CERTIFICATION OF FINANCIAL STATEMENTS BY THE CHIEF FINANCE OFFICER AND MANAGING DIRECTOR

We , Kingsley Muwowo and Femi Adewole certify that:

1. We have reviewed the Annual Report and Accounts for the Company for Habitat and Housing in Africa (Shelter Afrique) for the year ending 31st December 2017.
2. Based on our knowledge, this Annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual report;
3. Based on our knowledge, the financial statements, and other financial information included in this Annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Shelter Afrique as of, and for, the periods presented in this Annual report;
4. We are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the latest International Financial Reporting Standards) for Shelter Afrique and have: -
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is known during the period in which this Annual report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
5. We have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Company's Auditors and the Audit,Risk and Finance Committee of the Board of Directors:
   a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting, which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves Management or other employees who have a significant role in the Company's internal controls over financial reporting.

**27th April 2018**

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**Kingsley Muwowo**
Chief Finance Officer

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**Femi Adewole**
Managing Director

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER – AFRIQUE)

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of The Company for Habitat and Housing in Africa (the Company), set out on pages 63 to 121, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to Note 39 in the financial statements, which indicates that the board commenced a turnaround plan to address the liquidity risks which the company has been facing. These events or conditions, along with other matters as set forth in Note 39, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed this key audit matter</th></tr>
<tr><td>

**Impairment provision on loans and advances to customers**

Significant judgement is required by the Directors in assessing the impairment against advances.

Impairment provision amounting to US$ 41,746,386 (2016: US$ 34 789 002) against loans and advances balance of US$ 289,148,374 (2016:

US$ 317 903 052), shown in note 18 to the financial statements, represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the loans and advances that exhibit indicators of impairment.

The judgements applied in determining the impairment include :

**The probability that an advance will result in loss:**

As described in note 3(l)(ii) to the financial statements (Impairment of financial assets), at the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired.

Shelter Afrique's significant loan advances are for capital projects that span over a period of time. During the term of the loan, these projects may exhibit various indications of impairment such as breach of loan covenants and delays in capital projects impacting expected cash flows.

It requires significant judgement to assess the impairment indicators and mitigating circumstances to conclude as to whether an advance is objectively impaired or not.

**The expected realisable value of the collateral securing the advance:**

Due to the nature of Shelter-Afrique's loan advances, the collateral held is predominantly properties. In determining the quantum of impairment losses, the Directors estimate the present value of the expected cash inflows, which include the value of these collateral, over the expected realisation period.

Judgement is required to estimate the value of the collateral.

Impairment provisions on loans and advances to customers is a key audit matter due the significant judgements discussed above.

</td><td>

In evaluating the impairment against advances, we assessed the judgements applied by the Directors and our procedures included the following:

- Considering financial and non-financial information that may indicate impairment of loans and advances such as: number of days in arrears; matters that adversely impact progress of capital projects and financial strength of the borrower.

Using the financial and non financial information relating to sampled loans and advances, we assessed the reasonableness of the Directors' identification of non-performing loans.

- Examining on a sample basis the appraised fair value of the collaterals securing impaired advances.
- Assessing the adequacy of the impairment recognised based on the realisable value of collateral and the qualitative factors described above.

We found that the judgements applied in determining impairment against advances were within an acceptable range and that the provision estimate was reasonable.

</td></tr>
</table>

## Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditors report is the Corporate Information, Report of the Directors, Statement of Corporate Governance, Statement of Directors Responsibility, Certification of financial statements by the chief finance officer and managing director and the Shareholding information schedule and does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards, 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.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based

on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

***The engagement partner responsible for the audit resulting in this independent auditors' report is CPA F. Okwiri – P/No 1699.***

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya
2018

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017<br>US$ | 2016<br>US$ |
|---|---|---|---|
| Interest income | 5 | 24,728,593 | 30,545,413 |
| Interest expense and similar charges | 6 | (13,084,062) | (16,768,320) |
| Net interest income | | 11,644,531 | 13,777,093 |
| Fees and commissions income | 7 | 2,198,176 | 2,633,315 |
| Grant income | 8 | 49,901 | 80,915 |
| Other income | 9 | 241,290 | 253,583 |
| Operating income | | 14,133,898 | 16,744,906 |
| Operating expenses | 10 | (8,845,591) | (9,722,704) |
| Net foreign exchange losses | 11 | (397,948) | (134,171) |
| Grant expenditure | 12 | (46,022) | (77,036) |
| Impairment charge on loans and advances | 18 (B) | (10,895,060) | (18,004,670) |
| Recoveries on impaired loans and advances | | 39,908 | - |
| Other impairment charges – bank deposit | 15 (B) | - | (1,200,000) |
| Other impairment charges – other receivables and equity investments | 19 (B), 21 | (1,374,011) | - |
| Share of joint ventures loss | 20 | (405,784) | (287,091) |
| Loss for the year | | (7,790,610) | (12,680,766) |
| Other comprehensive income for the year | | - | - |
| Total comprehensive loss for the year | | (7,790,610) | (12,680,766) |
| Loss per share | 13 | (100.83) | (203.17) |

# STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | US$ | US$ |
| ASSETS | | | |
| Bank and cash balances | 14 | 19,455,234 | 20,432,294 |
| Short term bank deposits | 15 | 21,982,912 | 7,706,836 |
| Derivative financial assets | 16 | - | 62,346 |
| Properties held for sale | 17 | 4,810,108 | 4,890,434 |
| Loans and advances to customers | 18(a) | 247,401,988 | 283,114,050 |
| Other receivables | 19 | 2,385,049 | 4,004,258 |
| Investments in joint ventures | 20 | 4,557,538 | 4,978,971 |
| Equity investments – available for sale | 21 | 5,756,353 | 5,449,320 |
| Property and equipment | 22 | 5,191,898 | 5,459,737 |
| Intangible assets | 23 | 205,674 | 293,158 |
| Government grant | 24 | 112,505 | 116,385 |
| TOTAL ASSETS | | 311,859,259 | 336,507,789 |
| | | | |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 25(a) | 88,622,000 | 62,600,000 |
| Share premium | 25(b) | 36,474,074 | 16,359,068 |
| Revaluation reserve | 25(d) | 2,840,964 | 2,872,649 |
| Retained earnings | | 1,726,331 | 9,485,256 |
| Available-for-sale reserve | 25(e) | 351,773 | 351,773 |
| Special reserve – Shelter Afrique Foundation | 29 | 1,683,652 | 1,687,552 |
| TOTAL EQUITY | | 131,698,794 | 93,356,298 |
| | | | |
| LIABILITIES | | | |
| Other payables | 26 | 1,040,733 | 1,138,285 |
| Provisions | 27(iii) | 2,095,322 | 2,475,212 |
| Derivative financial liabilities | 16 | 585,958 | - |
| Dividends payable | 28 | 1,548,143 | 1,548,143 |
| Deferred income | 30 | 1,241,186 | 1,831,920 |
| Medium term notes | 31 | 28,811,711 | 47,160,130 |
| Lines of credit | 32 | 144,837,412 | 188,997,801 |
| TOTAL LIABILITIES | | 180,160,465 | 243,151,491 |
| TOTAL EQUITY AND LIABILITIES | | 311,859,259 | 336,507,789 |

The financial statements on pages 63 to 121 were approved by the Board of Directors on 27 April 2018 and were signed on its behalf by:

.................................................... ............................................

Director Director

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share capital | Share premium | Revaluation reserve | Retained earnings | Available-for-sale reserve | Special reserve - Shelter Afrique Foundation | Total equity |
|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| 1 January 2016 | 62,232,000 | 16,074,604 | 2,872,649 | 22,909,269 | 351,773 | 1,423,737 | 105,864,032 |
| Issue of share capital | 368,000 | 284,464 | - | - | - | - | 652,464 |
| Loss for the year | - | - | - | (12,680,766) | - | - | (12,680,766) |
| Special reserve – Shelter Afrique Foundation | - | - | - | (318,534) | - | 318,534 | - |
| Payments on behalf of Shelter Afrique Foundation | - | - | - | - | - | (54,719) | (54,719) |
| Transfer to dividends payable | - | - | - | (424,713) | - | - | (424,713) |
| At 31 December 2016 | 62,600,000 | 16,359,068 | 2,872,649 | 9,485,256 | 351,773 | 1,687,552 | 93,356,298 |
| | | | | | | | |
| 1 January 2017 | 62,600,000 | 16,359,068 | 2,872,649 | 9,485,256 | 351,773 | 1,687,552 | 93,356,298 |
| Issue of share capital | 26,022,000 | 20,115,006 | - | - | - | - | 46,137,006 |
| Loss for the year | - | - | - | (7,790,610) | - | - | (7,790,610) |
| Payments on behalf of Shelter Afrique Foundation | - | - | - | - | - | (3,900) | (3,900) |
| Transfer of excess depreciation upon revaluation | - | - | (31,685) | 31,685 | - | - | - |
| At 31 December 2017 | 88,622,000 | 36,474,074 | 2,840,964 | 1,726,331 | 351,773 | 1,683,652 | 131,698,794 |

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 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | US$ | US$ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net cash generated from/(used in) operations | 34(a) | 46,730,421 | (5,121,236) |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of equipment | 22 | (54,733) | (462,623) |
| Purchase of intangible assets | 23 | (17,123) | (52,617) |
| Investment in equity instruments | 21 | (795,495) | (698,871) |
| Investment in Joint Venture | 20 | - | (3,057,750) |
| Proceeds from sale of property held for sale | 17 | 80,324 | - |
| Net cash used in investing activities | | (787,027) | (4,271,861) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Special Reserves - SH-AF Foundation payment | 29 | (3,900) | (54,719) |
| Dividends paid | 28 | - | (6,149) |
| Proceeds from capital subscriptions | | 46,137,006 | 640,053 |
| Proceeds from borrowed funds - lines of credit | 34(c) | 10,000,000 | 54,816,900 |
| Repayment of borrowed funds - lines of credit | 34(c) | (55,194,229) | (24,507,128) |
| Interest paid on borrowed funds - lines of credit | 34(c) | (8,613,372) | (7,674,936) |
| Repayment of medium term notes | 34(d) | (19,676,708) | (18,130,400) |
| Interest paid on medium term notes | 34(d) | (4,231,370) | (6,615,106) |
| Deferred costs | | - | (84,290) |
| Other finance charges paid | 34(e) | (1,061,805) | (1,552,145) |
| Net cash used in financing activities | | (32,644,378) | (3,167,920) |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 13,299,016 | (12,561,017) |
| EFFECT OF EXCHANGE RATE CHANGES | | - | (134,171) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 28,139,130 | 40,834,318 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 34(b) | 41,438,146 | 28,139,130 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

## 1. ACCOUNTING POLICIES

### Statement of compliance

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

**i) New standards and amendments to published standards effective for the year ended 31 December 2017**

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

<u>Amendments to IAS 12: Income Taxes</u>

Amends IAS 12 Income Taxes to clarify the following aspects:

a) Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;

b) The carrying amount of an asset does not limit the estimation of probable future taxable profits;

c) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and

d) An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

e) Effective for annual periods beginning on or after 1 January 2017.

<u>Amendments to IAS 7: Statement of Cash Flows</u>

Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Effective for annual periods beginning on or after 1 January 2017.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Makes amendments to the following standard:

IFRS 12: Disclosure of Interests in Other Entities - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations

Effective for annual periods beginning on or after 1 January 2017

### ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2017

The standards 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.

| New standards | Effective for annual periods beginning on or after |
|---|---|
| IFRS 9: Financial instruments | 1 January 2018 |
| IFRS 15: Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16: Leases | 1 January 2019 |
| IFRS 17: Insurance contracts | 1 January 2021 |

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition. The Key requirements of IFRS 9 are:

Classification and measurement

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2015 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment

The 2015 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. Credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Expected credit losses under IFRS 9 shall reflect an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. Also, the entity should consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses. An entity is required to incorporate reasonable and supportable information (i.e., that which is reasonably available at the reporting date). Information is reasonably available if obtaining it does not involve undue cost or effort (with information available for financial reporting purposes qualifying as such).

Derecognition

The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 at this stage. A detailed review is currently on-going and is expected to be completed within the first half of the year.

## IFRS 15 Revenue from Contracts with Customers

In May 2016, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

***Step 1:*** Identify the contract(s) with a customer
***Step 2:*** Identify the performance obligations in the contract
***Step 3:*** Determine the transaction price
***Step 4:*** Allocate the transaction price to the performance obligations in the contract
***Step 5:*** Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Directors of the Company do not anticipate that the application of IFRS 15 in the future may have a significant impact on amounts reported.

## IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the company anticipate that the application of IFRS 16 in the future may have an impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed by the Company.

## IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

The directors of the Company do not anticipate that the application of IFRS 17 in the future may have a significant impact on amounts reported.

### iii) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2017.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Basis of preparation

The financial statements are prepared on the historical cost basis of accounting except for the revaluation of certain property and financial instruments, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below. The Company's functional and reporting currency is the United States Dollars (US$).

### b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income and expense are recognised in profit or loss on the accrual basis. 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.

Dividend income from equity investments is recognised when the company's right to receive payment is established.

### c) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. These costs are recognised in profit and loss using the effective interest rate method.

### d) Investments in joint ventures

The Company has interest in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangements require unanimous agreement for financial and operating decisions among the venturers. The Company recognises its interest in the joint ventures using the equity method of accounting. Under the equity method, the interest in a 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. Any change in OCI of the joint venture is presented as part of the Company's OCI.

In addition, when there has been a change recognised directly in the equity of the joint venture, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the joint venture are eliminated to the extent of the interest in the joint venture. Distributions received from the joint venture reduce the carrying amount of the interest.

The financial statements of the joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying amount, and then recognises the loss as 'Share of profit of a joint venture' in the statement of profit or loss and other comprehensive income.

## e) Foreign currencies

The Company's financial statements are presented in United States Dollars (US$). The functional currency is the United States Dollars (US$).

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 in a 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).

## f) Intangible assets

Intangible assets comprise acquired computer software programmes. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company. Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on acquired computer software programmes is capitalised and amortised using the straight-line method over their estimated useful lives, which is four to five years. Amortisation is recognised within the operating expenses line item.

The intangible assets' useful lives and methods of amortisation are reviewed at each reporting date, and adjusted prospectively if appropriate.

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.

## g) Government and other grants

Government and other grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. 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. |
| **Agence Française de Développement (AFD) grant** | Amortised to profit or loss as the amounts are utilised in accordance with the grant agreement. |

## h) Property and equipment

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

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 recognised 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. Land is not depreciated. Depreciation is recognised in the statement of profit and loss and other comprehensive income.

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.

## i) 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 fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset. When the carrying amount of an asset 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 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 is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## j) Retirement benefit costs

The Company operates a defined contribution provident fund scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Company and employees. The Company's contributions to the above scheme are charged to profit or loss in the year to which they relate.

## k) Employee entitlements

Employee entitlements to service pay and annual leave are recognized when they accrue to employees. A provision is made for the estimated liability of service pay as a result of services rendered by employees up to the year end. Employees are entitled to a full month pay for every year of service completed. A provision is made for the estimated liability of annual leave and service pay as a result of services rendered by employees up to the year end. An actuarial valuation to determine the service pay liability was last carried out in December 2017.

## l) 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 (FVTPL), 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.

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

As at the reporting date, the classification of the Company's financial assets was as follows:

- Currency swap receivable
- Loans and receivables: loans and advances to customers, Bank and Cash balances, Short term deposits and staff loans
- Held-to-maturity investments: corporate bonds
- Available-for-sale financial investments: Equity investments

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 effective 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 advances 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 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, and which are not designated at fair value through profit or loss or available-for-sale, or do not meet the definition of loans and receivables. 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.

### 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 designated as available for sale or are not classified as (a) loans and advances, (b) held to maturity or (c) financial assets at fair value through profit and 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. They are then credited to 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. If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available, it becomes appropriate to carry the financial asset at cost or amortised cost rather than at fair value. The fair value-carrying amount of the financial asset on that date becomes its new cost or amortised cost, as applicable.

### 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**l) Financial instruments (Continued)**

**Subsequent Measurement (Continued)**

**ii) Held-to-maturity investments (Continued)**

**Impairment of financial assets (Continued)**

*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 assets*

For available-for-sale financial assets, 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 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 borrowings, medium term notes, and lines of credit.

*Subsequent measurement*

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

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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**l) Financial instruments (Continued)**

**Subsequent Measurement (Continued)**

**ii) Held-to-maturity investments (Continued)**

**Bank borrowings, Medium term borrowings and lines of credit**

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.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in profit or loss unless required by an accounting standard or interpretation, and is specifically disclosed in the accounting policies of the Company.

## m) 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.

## n) Dividends

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 (US$) of one million. The maximum amount that can be distributed is 20% of the profits after approval by the annual general meeting.

## o) Shelter Afrique Foundation

The Company has set up a Foundation to enhance Shelter-Afrique's visibility in corporate social responsibility to its member countries. The current policy approved by the Annual General meeting requires an appropriation of 15% of the profits in a given year provided that the Company has made profits in excess of United States dollar (US$) of one million. This Foundation is not yet operational.

## p) Deferred expenditure

Expenditure incurred in relation to a borrowing facility from which the Company will derive benefits over a period beyond the year in which the facility is secured, if material, is capitalized and amortized over the life of the facility. This relates to expenditure incurred to acquire long term facilities.

## q) Deferred income

Funds received in relation to loans and advances to customers from which the Company will derive benefits over a period beyond the year in which the funds are received, if material, are capitalized and amortized over the life of the facility. This relates to lump sum fees received from loans and advances to customers. Other deferred income relates to government grants, based on land donated by the Kenya government for the Headquarters building. The grant is amortised over the life of the building.

## r) Fair value measurement

The Company measures financial instruments such as derivatives, and non-financial assets such as inventory properties, at fair value at each balance sheet date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 21, 22 and 33
- Quantitative disclosures of fair value measurement hierarchy Note 33
- Investment in unquoted equity shares Note 21
- Property, plant and equipment under revaluation model Note 22
- Financial instruments (including those carried at amortized cost) Note 16

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

<u>IFRS13.9</u>

- In the principal market for the asset or liability

  OR

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

<u>IFRS 13.16</u>

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

<u>IFRS 13.22</u>

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

<u>IFRS 13.27</u>

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**Leases**

Determination

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*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the profit or loss. The company currently does not have any finance lease.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortized over the period of the lease. The amortization is recognized as an operating expense in profit or loss.

*Company as a lessor*

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

*Property held for sale*

Property swapped for debt as part of debt recovery process and is held as inventory, rather than for rental income or capital appreciation, is measured at the lower of cost and net realisable value. The cost includes the agreed price by the parties at the point of the debt swap. Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money, if material, less costs to completion and the estimated costs of sale.The cost of inventory recognised in profit or loss on disposal will be determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold. No revenue has been recognized during the current year.

*Hedge Accounting*

The Company uses derivative financial instruments, such as forward currency contracts and to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at cost on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

## (s) Segment reporting

The Company's business is offering loan products for housing development. As such, for segmental reporting, the Company is organised into a single operating segment. In view of this the Company does not report on separate business segments.

## 4. 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.

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management's judgement is required in the estimation 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 18 (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.

*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 and equipment*

Critical estimates are made by the Directors in determining useful lives and depreciation rates for property and equipment.  Revaluation of the land and buildings is done by a qualified firm of valuers every five years.  Property and equipment is described in more details on Note 22.

## 5. INTEREST INCOME

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Project finance loans | 13,859,212 | 17,822,009 |
| Lines of credit advances | 10,511,595 | 11,995,855 |
| | 24,370,807 | 29,817,864 |
| Placements with financial institutions | 357,786 | 727,549 |
| | 24,728,593 | 30,545,413 |
| **Geographical segmentation – interest income** | | |
| Eastern Africa | 12,469,618 | 15,090,022 |
| Southern Africa | 5,983,455 | 6,379,784 |
| Francophone West/Central Africa | 3,010,857 | 4,251,644 |
| Anglophone West Africa | 2,906,877 | 4,096,414 |
| | 24,370,807 | 29,817,864 |

The main types of loan products are:

Lines of credit - Short term and structured medium term financing to housing finance institutions and other institutions for on-lending to individuals and developers for new mortgages or refinancing of existing mortgages.

Project finance – Medium term construction / development loans to developers for development of new housing estates, infrastructure provision through site and services schemes, commercial projects (office buildings, rental housing, shopping centres, etc.)

These loans are classified as loans and receivables.

## 6. INTEREST EXPENSE AND SIMILAR CHARGES

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Funds from financial institutions and capital markets | 13,033,629 | 16,714,867 |
| Bank charges | 50,433 | 53,453 |
| | 13,084,062 | 16,768,320 |

## 7. FEES AND COMMISSIONS INCOME

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Commitment fees – Project finance | 637,207 | 582,347 |
| Appraisal fees – Project finance | (160,385) | 485,460 |
| Appraisal fees – Lines of credit | (60,000) | - |
| Front end fees – Project finance | 560,833 | 366,695 |
| Front end fees – Lines of credit | 87,072 | - |
| Penalty fees – Project finance | 305,777 | 426,362 |
| Management fees – Project finance | 682,666 | 649,497 |
| Management fees – Lines of credit | 43,939 | - |
| Other fees – lines of credit | 20,000 | 80,000 |
| Other project finance fees | 81,067 | 42,954 |
| | 2,198,176 | 2,633,315 |

| Geographical segmentation – fees and commissions income | | |
|---|---|---|
| Eastern Africa | 812,106 | 1,447,399 |
| Southern Africa | 280,151 | 222,870 |
| Francophone West/Central Africa | 591,701 | 629,561 |
| Anglophone West Africa | 514,218 | 333,485 |
| | 2,198,176 | 2,633,315 |

Commitment fees: These are fees payable by the borrower three months after signing of the loan agreement on any undisbursed loan amounts. They accrue at the rate of 0.85 per cent per annum on the undisbursed loan amount.

Appraisal fees: These are fees paid by the borrower 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. Fees in credit relate to fees refunded to clients on cancelled projects.

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

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

Management fees: These are fees for managing the projects and are charged at 0.5% of the outstanding loan balance.

Trade Finance fees: These are fees levied for the issuance and confirmation of trade finance instruments (e.g. letters of credit, guarantees, and performance bonds). They are charged at rates varying between 0.5% - 2% on the principal of the said trade finance instruments.

Other project fees: These include cancellation and termination fees payable by the borrower upon cancellation of the loan agreement and insurance costs for projects.

## 8. GRANT INCOME

| | 2017 | 2016 |
|---|---:|---:|
| | US$ | US$ |
| Government of Kenya land grant (Note 24) | 3,879 | 3,879 |
| Agence Française de Développement interest advantage grant (Note 30) | 46,022 | 77,036 |
| | 49,901 | 80,915 |

## 9. OTHER INCOME

| | 2017 | 2016 |
|---|---:|---:|
| | US$ | US$ |
| Rental income* | 165,498 | 185,589 |
| Gain on sale of inventory held for sale | 3,875 | - |
| Dividend Income-Equity participation | 10,385 | - |
| Interest on staff loans | 61,532 | 67,994 |
| | 241,290 | 253,583 |

**At the reporting date, the company had contracted with tenants for the following future lease receivables:*

**Operating lease income – commitments**

| | 2017 | 2016 |
|---|---:|---:|
| | US$ | US$ |
| Within one year | 257,429 | 173,791 |
| Within the second to fifth year inclusive | 827,715 | 751,550 |
| Later than five years | 35,390 | - |
| | 1,120,534 | 895,341 |

Leases are negotiated for an average term of six (6) years.

## 10. OPERATING EXPENSES

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(a) Operating expenses** | | |
| Staff costs (Note 10(b)) | 5,011,577 | 6,269,902 |
| Depreciation on property and equipment (Note 22) | 313,834 | 328,776 |
| Amortisation of intangible assets (Note 23) | 104,608 | 191,317 |
| Amortisation of grant income (Note 24) | 3,879 | 3,879 |
| Audit fees | 39,500 | 34,500 |
| Board of Directors' meetings | 693,436 | 558,331 |
| Official missions | 244,257 | 454,350 |
| Consultancy fees | 1,015,049 | 396,454 |
| Business promotion | 61,956 | 93,319 |
| Other administration costs* | 1,357,495 | 1,391,876 |
| | 8,845,591 | 9,722,704 |

**Other administrative costs comprise translation costs, recruitment, legal fees, printing, insurance, communication etc.*

| | 2017 | 2016 |
|---|---|---|
| **(b) Staff costs** | | |
| Salaries and wages | 4,443,008 | 4,687,661 |
| Post-employment benefits (Defined contribution plans) | 538,746 | 554,387 |
| Leave and Service pay | (41,701) | 983,872 |
| Other costs | 71,524 | 43,982 |
| Total staff costs (Note 10 (a) | 5,011,577 | 6,269,902 |

## 11. NET FOREIGN EXCHANGE LOSSES

| | | |
|---|---|---|
| Net losses on foreign currency transactions and revaluation | (397,948) | (134,171) |

## 12. GRANT EXPENDITURE

| | | |
|---|---|---|
| AFD interest advantage grant (note 30) | (46,022) | (77,036) |

## 13. LOSS PER SHARE

| | | |
|---|---|---|
| Loss for the year (US$) | (7,790,610) | (12,680,766) |
| Weighted average number of ordinary shares in issue | 77,266 | 62,416 |
| Basic loss per share (expressed in US$ per share) | (100.83) | (203.17) |

Basic loss per share are calculated by dividing the profit (loss) 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 2017 and 31 December 2016.

## 14. BANK AND CASH BALANCES

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Amounts in United States Dollars (US$) | 13,281,404 | 6,344,257 |
| **Amounts maintained in other currencies:** | | |
| Kenya Shillings | 1,200,156 | 4,815,558 |
| FCFA | 3,793,071 | 7,735,261 |
| Euro | 921,778 | 981,119 |
| South African Rand | 250,512 | 551,357 |
| Naira | 8,313 | 4,742 |
| | 6,173,830 | 14,088,037 |
| | 19,455,234 | 20,432,294 |

## 15. SHORT TERM BANK DEPOSITS

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(a) Call and term deposits with banks (Held-to-maturity):** | | |
| Amounts in United States Dollars (US$) | 21,015,784 | 9,038,165 |
| Less Provision for impaired asset (Note 15 b) | (2,000,000) | (2,000,000) |
| Amounts in United States Dollars (US$) | 19,015,784 | 7,038,165 |
| **Amounts maintained in other currencies:** | | |
| Kenya Shillings | 181,609 | 34,465 |
| FCFA | 747,978 | 634,206 |
| Euro | 2,037,541 | - |
| | 2,967,128 | 668,671 |
| | 21,982,912 | 7,706,836 |

### (b) Impaired asset – bank deposit

The provision for impaired asset of US$ 2,000,000 (2016: US$ 2,000,000) relates to a deposit held in Chase Bank Limited, a bank in Kenya that was placed under statutory administration on 7 April 2016 by the Central Bank of Kenya. An impairment charge of US$ 1,200,000 was recognised in 2016 (2017: nil) to adjust the cumulative impairment provision to US$ 2,000,000.

### (c) The effective interest rates per annum by currency were as follows:

| | 2017 | 2016 |
|---|---|---|
| United States Dollars (US$) | 1.82% | 3.32% |
| Kenya Shillings | 7.35% | 10.06% |
| FCFA | 3.91% | 3.75% |
| Euro | 0.75% | - |

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

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its asset and liability management, the Company uses derivatives for hedging purposes in order to reduce its exposure to foreign currency risks. This is done by engaging in currency swaps. In a currency swap, the Company pays a specified amount in one currency and receives a specified amount in another currency.

The table below shows the derivative financial instruments, recorded as net of the currency swaps - assets and liabilities at year-end:

**Derivative financial instruments**

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| At 1 January | 62,346 | 524,436 |
| Net receipts under swap agreements | - | 109,701 |
| Net payments under swap arrangements | (589,929) | (443,502) |
| Net accruals | 20,068 | - |
| Interest receivable | - | 25,493 |
| Foreign exchange adjustment | (78,443) | (153,782) |
| At 31 December | (585,958) | 62,346 |

## 17. PROPERTIES HELD FOR SALE

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **a) Buildings** | | |
| At 1 January | 3,455,113 | 3,113,046 |
| Additions | - | 351,521 |
| Reclassification from land | 214,081 | - |
| Sale of properties held for sale | (80,324) | - |
| Fair value adjustment | - | (9,454) |
| At 31 December | 3,588,869 | 3,455,113 |
| **b) Land** | | |
| At 1 January | 1,435,320 | 1,437,767 |
| Reclassification to buildings | (214,081) | - |
| Fair value adjustment | - | (2,446) |
| At 31 December | 1,221,239 | 1,435,320 |
| At 31 December | 4,810,108 | 4,890,434 |

The Company's properties held for sale comprise 11 apartments (2016: 11) in Eden Beach Resort & Spa in Mombasa Kenya, and 20 houses (2016: 21) and vacant land in Athi River, Kenya.

## 18. LOANS AND ADVANCES TO CUSTOMERS

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(a) (i) Analysis of loans and advances** | | |
| At 1 January | 297,154,392 | 273,236,648 |
| Disbursements during the year | 28,132,448 | 48,081,569 |
| Repayment during the year | (56,029,194) | (22,866,163) |
| Amounts written off during the year | (2,188,586) | (796,294) |
| Currency translation adjustment | 2,302,244 | (501,368) |
| At 31 December | | |
| Principal loans and advances | 269,371,304 | 297,154,392 |
| Interest and fees receivable | 19,777,070 | 20,748,660 |
| Gross loans | 289,148,374 | 317,903,052 |
| Impairment provision for credit risk | (41,746,386) | (34,789,002) |
| Net loans and advances | 247,401,988 | 283,114,050 |

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

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(ii) Analysis of loans and advances – profiling** | | |
| Current portion | 103,662,610 | 94,367,809 |
| Non-current portion | 143,739,378 | 188,746,241 |
| Net loans and advances | 247,401,988 | 283,114,050 |
| **(iii) Product analysis** | | |
| Loans and advances - Project finance | 138,561,977 | 148,695,807 |
| Loans and advances – Lines of credit | 108,840,011 | 134,418,243 |
| Net loans and advances | 247,401,988 | 283,114,050 |

| | | |
|---|---|---|
| **(b) Impairment on loans and advances** | | |
| At 1 January | 34,789,002 | 18,132,437 |
| Amounts written off (principal and interest) | (4,144,295) | (1,305,440) |
| Charge for the year | 10,895,060 | 18,004,670 |
| Currency translation adjustment | 206,619 | (42,665) |
| At 31 December | 41,746,386 | 34,789,002 |

In the opinion of the Directors, the current levels of provisions reflect a prudent assessment of the quality of the Company's loan portfolio. The effective interest rate was 11.45% (2016 –10.21%) per annum.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(c) Analysis of gross loans by maturity** | | |
| Maturing | | |
| Within one year | 145,408,997 | 129,156,810 |
| One year to five years | 129,451,282 | 159,104,683 |
| Over five years | 14,288,095 | 29,641,559 |
| | 289,148,374 | 317,903,052 |

## 19. OTHER RECEIVABLES

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(a) Analysis of other receivables** | | |
| Staff loans | 1,372,623 | 2,352,521 |
| Other debtors and prepayments | 2,004,976 | 1,759,325 |
| | 3,377,599 | 4,111,846 |
| Less: Provision – Other receivables | (992,550) | (107,588) |
| At 31 December | 2,385,049 | 4,004,258 |
| Current portion | 1,370,131 | 2,309,337 |
| Non-current portion | 1,014,918 | 1,694,921 |
| At 31 December | 2,385,049 | 4,004,258 |

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% (2016: 5.8%) per annum. The terms on the US$ denominated staff loans are at market rates.

The staff car loans and staff mortgage loans at the year-end are secured and settlement occurs in cash. The other category of staff loans are unsecured and settlement occurs in cash. For the year ended 31 December 2017, the company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Other debtors and prepayments are receivable over varying amounts of time depending on the nature of the debt, but generally within one year.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(b) Provisions for other receivables** | | |
| As at 1 January | 107,588 | 107,724 |
| Additional provision | 885,549 | - |
| Currency Exchange translation | (587) | (136) |
| At 31 December | 992,550 | 107,588 |

## 20. INVESTMENTS IN JOINT VENTURES

**Total carrying amounts of Joint ventures:**

| | | |
|---|---|---|
| Everest Park Project | 1,064,552 | 1,095,036 |
| Glenwood Gardens Project | 783,401 | 796,159 |
| Rugarama Park Estates Project | 2,445,070 | 2,814,070 |
| Kew Gardens Project | 264,515 | 273,706 |
| | 4,557,538 | 4,978,971 |

**Total share of Joint Ventures loss**

| | | |
|---|---|---|
| Everest Park Project | (22,563) | (40,716) |
| Glenwood Gardens Project | (7,009) | (179,586) |
| Rugarama Park Estates Project | (369,000) | (36,130) |
| Kew Gardens Project | (7,212) | (30,659) |
| | (405,784) | (287,091) |

### (a) Everest Park Project

Everest Park Project Joint Venture is a joint venture arrangement between Shelter Afrique and Everest Limited with effect from 1 February 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 joint venture was incorporated in Kenya and the principal place of business is Shelter Afrique Centre, Longonot road, Nairobi, Kenya. The joint venture is not a listed entity.

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 up to January 2021.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **Joint venture's statement of financial position:** | | |
| Property held for sale | 4,817,279 | 3,425,704 |
| Trade and other receivables | 49,487 | 60,435 |
| Cash and cash equivalents | 105,724 | 170,449 |
| Total current assets | 4,972,490 | 3,656,588 |
| Trade and other payables | 2,833,075 | 1,466,515 |
| Total current liabilities | 2,833,075 | 1,466,515 |
| Equity | 2,139,415 | 2,190,073 |
| Total equity and liabilities | 4,972,490 | 3,656,588 |
| | | |
| **Joint venture's statement of comprehensive income:** | | |
| Revenue | 2,906 | (3,615) |
| Other income | 3,464 | 29,977 |
| Gross profit | 6,370 | 26,362 |
| Administration expenses | (51,496) | (107,793) |
| Loss before tax | (45,126) | (81,431) |
| Income tax expense | - | - |
| Loss after tax | (45,126) | (81,431) |
| Share of joint venture's loss | (22,563) | (40,716) |
| | | |
| **Reconciliation of investment in joint venture** | | |
| 1 January | 1,095,036 | 1,235,429 |
| Share of loss | (22,563) | (40,716) |
| Less overstated share of joint venture's profit in previous year | - | (98,625) |
| Currency translation adjustments | (7,921) | (1,052) |
| At 31 December | 1,064,552 | 1,095,036 |

### (b) Glenwood Gardens Project

Glenwood Gardens Project is a joint venture between Shelter Afrique and Glenwood Gardens Limited with effect from 20 May 2015. The project is situated in Ndenderu, Ruaka, Kiambu County, Kenya. The purpose of the joint venture is to acquire, own, develop, construct, operate and sell the subject property and improvements as an investment for production of income. The joint venture was incorporated in Kenya and the principal place of business is Shelter Afrique Centre, Longonot road, Nairobi, Kenya. The joint venture is not a listed entity. The venturers have the following undivided interest in the Joint Venture: Shelter Afrique – 50% and Glenwood Gardens Limited - 50%. The term of the joint venture is up to 1 January 2022.

| | 2017 | 2016 |
|---|---:|---:|
| | US$ | US$ |
| Joint venture's statement of financial position: | | |
| Property held for sale | 5,514,999 | 4,910,149 |
| Cash and bank balances | 971,065 | 936,283 |
| Trade and other receivables | 45,533 | 251,000 |
| Total assets | 6,531,596 | 6,097,432 |
| Total liabilities | 4,341,934 | 3,877,714 |
| EQUITY | 2,189,663 | 2,219,718 |
| Total equity and liabilities | 6,531,596 | 6,097,432 |
| | | |
| **Joint venture's statement of comprehensive income:** | | |
| Other income | - | 18,738 |
| Gross profit | - | 18,738 |
| Administration expenses | (14,017) | (377,910) |
| Profit before tax | (14,017) | (359,172) |
| Income tax expense | - | - |
| Loss after tax | (14,017) | (359,172) |
| Share of joint venture's loss | (7,009) | (179,586) |
| | | |
| **Reconciliation of investment in joint venture** | | |
| 1 January | 796,159 | 977,408 |
| Share of loss | (7,009) | (179,586) |
| Currency translation adjustments | (5,749) | (1,663) |
| At 31 December | 783,401 | 796,159 |

### (c) Kew Gardens Project

Kew Gardens Project is a joint venture between Shelter Afrique and Itoga Investments Holdings Limited from 8 October 2013. The purpose is to develop, construct and sell property of the project located in Kilimani, Nairobi, Kenya. The joint venture was incorporated in Kenya and the principal place of business is Shelter Afrique Centre, Longonot road, Nairobi, Kenya. The joint venture is not a listed entity.

The venturers have the following undivided interest in the Joint Venture: Shelter Afrique – 19.8% and Itoga Investments Holdings Limited – 80.2%. The term of the joint venture is up to 31 December 2018.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **Joint venture's statement of financial position:** | | |
| Property held for sale | 11,335,095 | 10,120,256 |
| Land | 2,906,084 | 3,241,126 |
| Total assets | 14,241,179 | 13,361,382 |
| Total liabilities | 10,275,101 | 10,275,101 |
| Equity | 3,316,863 | 3,086,281 |
| Equity and liabilities | 14,241,179 | 13,361,382 |
| | | |
| **Joint venture's statement of profit and loss:** | | |
| Administration expenses | (36,427) | (154,845) |
| Loss before tax | (36,427) | (154,845) |
| Income tax expense | | - |
| Loss after tax | (36,427) | (154,845) |
| Share of joint venture's loss | (7,212) | (30,659) |
| | | |
| **Reconciliation of investment in joint venture** | | |
| 1 January | 273,706 | - |
| Additions | - | 306,175 |
| Share of loss | (7,212) | (30,659) |
| Currency translation adjustments | (1,978) | (1,810) |
| At 31 December | 264,515 | 273,706 |

### (d) Rugarama Park Estates Limited

Rugarama Park Estates Limited is a joint venture between Shelter Afrique and Banque Rwandaise de Development (BRD) to undertake a development and subsequent implementation of an affordable housing project. The project is situated in Rugarama, Nyarugenge district within the City of Kigali, partnered with BRD to co-finance the development of about 2,700 housing units and infrastructure services in Nyarugenge district, Kigali. The project is in collaboration with the City of Kigali.

The principal place of business in Nyarugenge, Kigali, Rwanda. The joint venture is governed by the laws of the Republic of Rwanda and is not listed.

The venturers have the following undivided interest in the Joint Venture: Shelter Afrique – 50% and Banque Rwandaise de Development (BRD) – 50%. The joint venture will terminate upon the completion and sale of all of the Houses and the payment of all Venture debts and distribution of all net sale proceeds.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **Joint venture's statement of financial position:** | | |
| Property held for sale | - | 8,781,000 |
| Cash and bank balances | 23,000 | 265,000 |
| Trade and other receivables | 7,020,000 | 829,000 |
| Property and equipment | 50,000 | 26,000 |
| Total assets | 7,093,000 | 9,901,000 |
| Total liabilities | 2,477,000 | - |
| Equity | 4,616,000 | 9,901,000 |
| Equity and liabilities | 7,093,000 | 9,901,000 |
| | | |
| **Joint venture's statement of profit and loss:** | | |
| Administration expenses | (114,000) | (72,000) |
| Exchange Differences arising from translation | (624,000) | |
| | | |
| Loss before tax | (738,000) | (72,000) |
| Income tax expense | - | - |
| Loss after tax | (738,000) | (72,000) |
| Share of joint venture's loss | (369,000) | (36,130) |
| | | |
| **Reconciliation of investment in joint venture** | | |
| 1 January | 2,814,070 | - |
| Additions | - | 2,850,200 |
| Share of loss | (369,000) | (36,130) |
| At 31 December | 2,445,070 | 2,814,070 |

## 21. EQUITY INVESTMENTS – AVAILABLE FOR SALE

| | Currency | At 1 January at Cost | Additions at Cost | Impairment | Investment Carrying amount |
|---|---|---|---|---|---|
| | | US$ | US$ | US$ | US$ |
| **31 December 2017** | | | | | |
| Measured at Cost | | | | | |
| Pan African Housing Fund LLC (Mauritius) | USD | 2,167,834 | 795,495 | (488,462) | 2,474,867 |
| Banque de L'Habitat du Burkina Faso (BHBF) | FCFA | 1,356,237 | - | - | 1,356,237 |
| Caisse Régionale de Refinancement Hypothécaire (CRRH), Togo | FCFA | 925,249 | - | - | 925,249 |
| Tanzania Mortgage Refinance Company Limited | USD | 1,000,000 | - | - | 1,000,000 |
| Total | | 5,449,320 | 795,495 | (488,462) | 5,756,353 |
| **31 December 2016** | | | | | |
| Measured at Cost | | | | | |
| Caisse Régionale de Refinancement Hypothécaire (CRRH), Togo | FCFA | 925,249 | - | - | 925,249 |
| Banque de L'Habitat du Burkina Faso (BHBF) | FCFA | 1,356,237 | - | - | 1,356,237 |
| Pan African Housing Fund LLC | USD | 1,468,963 | 698,871 | - | 2,167,834 |
| Tanzania Mortgage Refinance Company Limited | USD | 1,000,000 | - | - | 1,000,000 |
| Total | | 4,750,450 | 698,871 | - | 5,449,320 |

The Company's main equity investments are in Caisse Régionale de Refinancement Hypothécaire (CRRH), Banque de L'Habitat du Burkina Faso (BHBF), Pan African Housing Fund LLC, and Tanzania Mortgage Refinance Company Limited. The Company's participation is expressed in US $.

All investments were carried at cost as there were no readily available prices since the shares are not traded in an active market, and their fair values could not otherwise be reliably measured. The Company does not intend to dispose the shares in the short term, and none of the shares have been derecognized.

**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

17 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 Banque Ouest Africaine 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 as a result of recommendations of the audit firm, KPMG, in their report to shareholders of CRRH-UEMOA in May 2015, advising them on new share capital subscription that had been offered to development and financial institutions, at FCFA 12,076 per share. There have been no subsequent valuations for this instrument because there were no readily available prices since the shares are not traded in an active market, and its fair value could not otherwise be reliably measured.

**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, at a par value of FCFA 10,000, with a cost of FCFA 13,900 per share. The investment is carried at cost in the financial statements as the shares are not quoted in an active market and the fair value cannot otherwise be reliably measured.

**Pan African Housing Fund LLC**

The Pan African Housing Fund (PAHF) is a sector-specific private equity fund whose key objective is to promote directly and indirectly the provision of housing solutions in Africa. The current investors of Pan African Housing Fund LLC are Shelter Afrique, CDC Group plc (CDC), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), African Development Bank (AfDB), African Reinsurance Corporation (Africa Re), Eastern and Southern African Trade and Development Bank (PTA Bank) and Phatisa. The Pan African Housing Fund seeks to provide risk capital to real estate projects on a joint-venture basis to selected local developers and works closely with these developers to increase their capabilities across both technical and scale dimensions. The investment is carried at cost in the financial statements as the projects financed are still under construction. Management has reviewed the financial performance position of PAHF and concluded that there is objective evidence of impairment. An impairment loss of US$488,462 (2016: nil) has been recognized as a result. This impairment was determined as the difference between the carrying amount of the investment and its recoverable amount.

**Tanzania Mortgage Refinance Company Limited**

Tanzania Mortgage Refinance Company Ltd (TMRC) is a private sector institution whose main objective is the development and promotion of the mortgage finance market (and hence residential construction) through the provision of liquidity to mortgage lenders and development of the local bond market. The investment is carried at cost in the financial statements, as there is no active market for the shares and the fair value cannot otherwise be reliably measured.

## 22. PROPERTY AND EQUIPMENT

| | Leasehold land and buildings | Office equipment, furniture and fitting | Computers | Motor vehicles | Residential equipment, furniture and fittings | Total costs |
|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ |
| **COST OR VALUATION** | | | | | | |
| At 1 January 2016 | 4,729,790 | 744,067 | 401,274 | 196,293 | 213,565 | 6,284,979 |
| Additions | 242,327 | 114,988 | 68,673 | - | 36,634 | 462,623 |
| At 31 December 2016 | 4,972,117 | 859,055 | 469,947 | 196,293 | 250,199 | 6,747,602 |
| Comprising: | | | | | | |
| At cost | 3,274,701 | 859,055 | 469,947 | 196,293 | 250,199 | 5,050,186 |
| At valuation - 2015 | 1,697,416 | - | - | - | - | 1,697,416 |
| | 4,729,117 | 859,055 | 469,947 | 196,293 | 250,199 | 6,747,602 |
| At 1 January 2017 | 4,972,117 | 859,055 | 469,947 | 196,293 | 250,190 | 6,747,603 |
| Additions | 21,974 | 7,091 | 25,668 | - | - | 54,733 |
| Writeoffs | - | - | - | - | (8,739) | (8,739) |
| At 31 December 2017 | 4,994,091 | 866,146 | 495,615 | 196,293 | 241,451 | 6,793,597 |
| Comprising: | | | | | | |
| At cost | 3,296,675 | 866,146 | 495,615 | 196,293 | 241,451 | 5,096,180 |
| At valuation - 2015 | 1,697,416 | - | - | - | - | 1,697,416 |
| At 31 December 2017 | 4,994,091 | 866,146 | 495,615 | 196,293 | 241,451 | 6,793,597 |
| **DEPRECIATION** | | | | | | |
| At 1 January 2016 | - | 494,944 | 317,877 | 90,173 | 56,096 | 959,089 |
| Charge for the year | 151,404 | 64,098 | 44,739 | 45,148 | 23,387 | 328,776 |
| As at 31 December 2016 | 151,404 | 559,042 | 362,616 | 135,321 | 79,483 | 1,287,865 |
| At 1 January 2017 | 151,404 | 559,042 | 362,616 | 135,321 | 79,482 | 1,287,865 |
| Charge for the year | 148,920 | 64,596 | 49,845 | 24,660 | 25,813 | 313,834 |
| As at 31 December 2017 | 300,324 | 623,638 | 412,461 | 159,981 | 105,295 | 1,601,699 |
| **NET CARRYING AMOUNT** | | | | | | |
| As at 31 December 2017 | 4,693,767 | 242,509 | 83,155 | 36,312 | 136,156 | 5,191,898 |
| As at 31 December 2016 | 4,820,713 | 300,013 | 107,331 | 60,972 | 170,707 | 5,459,737 |

(i) The Company's buildings were last revalued on 31 December 2015 by Ebony Estates Limited, independent professional valuers, on the basis of open market value. The revaluation surplus of US$ 987,667 was credited to other comprehensive income.

(ii) Included in property and equipment are assets with a cost of US$ 593,798 (2016: US$ 752,785) which have been fully depreciated. The normal annual depreciation charge on these assets would have been US$ 114,705 (2016: US$ 142,326).

(iii) If the leasehold land and buildings were carried at cost, their carrying amount would be is US$ 3,296,675 (2016: US$ 3,274,701).

## 23. INTANGIBLE ASSETS

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| COST | | |
| At 1 January | 1,046,238 | 993,621 |
| Additions | 17,123 | 52,617 |
| As at 31 December | 1,063,361 | 1,046,238 |
| AMORTIZATION | | |
| At 1 January | 753,080 | 561,764 |
| Charge for the year | 104,608 | 191,317 |
| NET CARRYING AMOUNT | 857,688 | 753,080 |
| At 31 December | 205,674 | 293,158 |

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$ 595,726 (2016: US$ 619,534) which have been fully amortised. The normal annual amortisation charge on these assets would have been US$ 126,749 (2016: US$ 132,701).

## 24. GOVERNMENT GRANT

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Value of grant received | 200,000 | 200,000 |
| At 1 January | 116,384 | 120,264 |
| Released to profit or loss (Note 8) | (3,879) | (3,879) |
| At 31 December | 112,505 | 116,385 |
| Current | 3,879 | 3,879 |
| Non-current | 108,626 | 112,506 |
| Amounts released to date: | 112,505 | 116,385 |
| At 1 January | 83,615 | 79,736 |
| Charge for the year | 3,879 | 3,879 |
| At 31 December | 87,494 | 83,615 |

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 30 to these financial statements.

## 25. EQUITY

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(a) Share Capital** | | |
| **Authorised:** | | |
| 1,000,000 ordinary shares of US$ 1,000 each | 1,000,000,000 | 1,000,000,000 |
| **Issued and called:** | | |
| 183,903 (2016: 146,114) ordinary shares of US$ 1,000 each | 183,903,058 | 146,114,000 |
| **Paid up:** | | |
| *Class A: Issued and fully paid:* | | |
| 68,902 (2016: 49,504) ordinary shares of US$ 1000 each | 68,902,000 | 49,504,000 |
| *Class B: Issued and fully paid:* | | |
| 19,720 (2016: 13,096) ordinary shares of US$ 1,000 each | 19,720,000 | 13,096,000 |
| | 88,622,000 | 62,600,000 |
| Callable capital | 500,000,000 | 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 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.

### (b) Share Premium

| | 2017 | 2016 |
|---|---|---|
| At end of year | 36,474,074 | 16,359,068 |

Share premium arises from new and current shareholders 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$ 1,773 (2016: US$1,773) for current shareholders and US$ 2,334 (2016: US$2,334) for new Shareholders.

### (c) Movement In Paid Up Capital

| | Number of shares | Ordinary shares | Share premium | Total |
|---|---|---|---|---|
| | US$ | US$ | US$ | US$ |
| At 1 January 2016 | 62,232 | 62,232,000 | 16,074,604 | 78,306,604 |
| Paid up in the year | 361 | 361,000 | 279,053 | 640,053 |
| Write Backs from Fractional Shares | 7 | 7,000 | 5,411 | 12,411 |
| At 31 December 2016 | 62,600 | 62,600,000 | 16,359,068 | 78,959,068 |
| At 1 January 2017 | 62,600 | 62,600,000 | 16,359,068 | 78,959,068 |
| Paid up in the year | 26,016 | 26,016,000 | 20,110,368 | 46,126,368 |
| Write Backs from Fractional Shares | 6 | 6,000 | 4,638 | 10,638 |
| At 31 December 2017 | 88,622 | 88,622,000 | 36,474,074 | 125,096,074 |

**(d) Revaluation Reserve**

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| At 1 January | 2,872,649 | 2,872,649 |
| Transfer of excess depreciation to retained earnings | (31,685) | - |
| At 31 December | 2,840,964 | 2,872,649 |

The revaluation reserve arises from the revaluation of buildings of the Company and is not distributable.

**(e) Available-For-Sale Reserve**

| | | |
|---|---|---|
| At 1 January and 31 December | 351,773 | 351,773 |

The available-for-sale reserve arises from the revaluation of equity investments and is not distributable.

## 26. OTHER PAYABLES

| | | |
|---|---|---|
| Accruals | 803,679 | 733,030 |
| Post-employment benefits | 129,351 | 329,070 |
| Rent deposits | 78,059 | 48,732 |
| Share capital subscriptions (fractional shares) | 29,644 | 27,453 |
| | 1,040,733 | 1,138,285 |

| (i) Movement of Share capital subscriptions (fractional shares) | | |
|---|---|---|
| At 1 January | 27,453 | 37,670 |
| From Increase in Capital subscriptions during the year | 2,191 | (10,217) |
| At 31 December | 29,644 | 27,453 |

**(ii) Share capital subscriptions (fractional shares)**

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.

## 27. PROVISIONS

**i) Leave pay**

| | | |
|---|---|---|
| At 1 January | 362,927 | 276,968 |
| (Decrease)/Increase in provision | (3,769) | 185,256 |
| Payment of leave pay | (66,933) | (99,297) |
| At 31 December | 292,225 | 362,927 |

Leave pay relates to employee entitlements to annual leave and home leave and are recognized when they accrue to employees.

### ii) Service pay

Description of the Service pay

The Company operates a gratuity arrangement for its employees which pays one month's salary pay for each year of service at the date of retirement or termination of an employee.

The benefits on the board approved Human Resources Policies and Procedures Manual are defined on retirement, resignation, termination, death or redundancy. The gratuity arrangement is defined a benefit in nature with benefits linked to past service and salary at time of exit. The arrangement is unfunded with no separate assets.

This provision is estimated using the projected unit credit method. The key assumptions utilised in determining this provision are a discount rate of 3.34% and a salary inflation rate of 0% for the next one year, then year 3.0% per annum.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Net liability at start of period 1 January | 2,112,285 | 1,374,785 |
| Net (income)/expense recognised in the statement of profit or loss | (43,302) | 419,969 |
| Net expense recognised in other comprehensive income | - | 380,634 |
| Adjustments | 1,235 | (228) |
| Benefits and Expenses paid | (267,121) | (62,874) |
| Net liability at end of period 31 December | 1,803,097 | 2,112,285 |

The Company also makes statutory contributions to the National Social Security Fund. Contributions are determined by local statute and are shared between the employer and employee. For the year ended 31 December 2017, the Company contributed US$ $ 1,364 (2016: US$ $1,389) which has been charged to the profit and loss account.

### iii) Total Provisions

| | | |
|---|---|---|
| Leave pay | 292,225 | 362,927 |
| Service pay | 1,803,097 | 2,112,285 |
| Total | 2,095,322 | 2,475,212 |

## 28. DIVIDENDS PAYABLE

| | | |
|---|---|---|
| At 1 January | 1,548,143 | 1,129,579 |
| Dividend declared for 2015 | - | 424,713 |
| Dividend paid out to shareholders | - | (6,149) |
| At 31 December | 1,548,143 | 1,548,143 |

The Directors do not recommend the payment of a dividend.

## 29. SPECIAL RESERVE – SHELTER AFRIQUE FOUNDATION

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| At 1 January | 1,687,552 | 1,423,737 |
| Transfer from retained earnings | - | 318,534 |
| Payments on behalf of - SH-AF Foundation | (3,900) | (54,719) |
| At end of year | 1,683,652 | 1,687,552 |

This amount is reserved for the Shelter Afrique Foundation whose formation was approved by the Annual General Meeting in June 2013. The Foundation is registered in Mauritius. An initial meeting of its Governing Council, drawn from the Directors of Shelter Afrique, was held in Mauritius in 2016. The Foundation was to receive seed capital from Shelter Afrique through appropriations of profit. The purpose of the fund was to mobilize funds for alleviating urban poverty with specific focus on providing grants and concessionary financing for housing projects targeted at very low income groups, support for innovation research aimed at development of new construction methods and processes, capacity building and general charitable projects.

The Directors do not recommend any appropriation to the Foundation in 2017.

## 30. DEFERRED INCOME

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| At 1 January | 1,831,920 | 1,498,636 |
| Amortization of Government of Kenya grant (note 8 and 24) | (3,879) | (3,879) |
| AFD interest advantage grant for the year | 79,305 | 164,614 |
| AFD grant expenditure for the year (note 8 and 12) | (46,022) | (77,036) |
| Deferred front end fees | (620,138) | 249,585 |
| At 31 December | 1,241,186 | 1,831,920 |

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).

Deferred front end fees relates to front end fees paid upfront for loans and advances, which has been deferred to future periods.

## 31. MEDIUM TERM NOTES

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| CFA bond – (2014 – 2020) | 12,743,865 | 14,332,868 |
| Kenya Shilling bond – (2013 – 2018) | 16,080,332 | 32,492,306 |
| Interest payable on loans | 827,536 | 1,463,931 |
| Deferred charges on medium term notes | (840,022) | (1,128,975) |
| | 28,811,711 | 47,160,130 |
| **Maturity analysis for the medium-term notes:** | | |
| Maturing: | | |
| Within one year | 19,708,950 | 19,814,977 |
| One year to five years | 9,102,761 | 27,345,153 |
| | 28,811,711 | 47,160,130 |

The Communauté Financière Africaine-Franc (FCFA (2014-2020) bond was for FCFA 10 billion-(US$18.5 million) and was raised in 2014 through CGF Bourse for the duration 2014 to 2020 at an interest rate of 6.6% p.a.

The Kenya Shilling Bond (2013 – 2018) for Kshs 5 billion (US$57.9 million) was launched in 2013 through the Nairobi Securities Exchange for the duration 2013 to 2018. Interest rate is fixed at 12.75% for some Kshs 4.2 billion (US$ 49 million) and a floating rate of 1.5% above the 182-day Treasury bill rate for KES 0.8 billion (US$ 8,808,975).

The medium term notes are all unsecured.

## 32. LINES OF CREDIT

| | Start Date | Maturity Date | Currency | 2017 | 2016 |
|---|---|---|---|---|---|
| | | | | US$ | US$ |
| African Development Bank (AfDB) | 2010 | 2021 | US$ | 10,868,421 | 13,973,684 |
| Agence Française de Développement (AFD) | 2010 | 2019 | EURO | 2,360,085 | 3,264,375 |
| AFD USD Loan | 2014 | 2023 | US$ | 13,750,000 | 16,250,000 |
| Commercial Bank of Africa USD | 2015 | 2018 | US$ | 3,000,000 | 3,000,000 |
| Commercial Bank of Africa-Multi Currency | 2014 | 2017 | KES | - | 417,254 |
| Commercial Bank of Africa-KES | 2015 | 2018 | KES | 8,233,905 | 8,293,832 |
| European Investment Bank | 2014 | 2020 | EURO | 9,440,729 | 12,643,137 |
| AFD KES social Housing | 2013 | 2023 | KES | 3,811,370 | 4,320,099 |
| CBA syndicated loan | 2014 | 2018 | US$ | 2,330,006 | 12,008,722 |
| AfDB Trade Finance | 2014 | 2018 | US$ | 17,500,000 | 20,000,000 |
| KFW BANKEGRUPPE | 2015 | 2024 | US$ | 26,250,000 | 30,000,000 |
| Ghana International Bank | 2016 | 2018 | US$ | 2,916,666 | 4,166,667 |
| Stanbic bank bridge loan facility | 2016 | 2017 | KES | - | 9,757,448 |
| CFA-Banque ouest africaine de développement (BOAD) | 2016 | 2020 | CFA | 7,467,109 | 7,962,705 |
| Debt CBA USD LOAN | 2016 | 2017 | US$ | - | 601,274 |
| Islamic Corporation for Development | 2015 | 2018 | US$ | 35,000,000 | 40,000,000 |
| Interest payable | | | US$ | 1,909,121 | 2,338,604 |
| | | | | 144,837,412 | 188,997,801 |

| Analysis of borrowings by maturity: | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| (i) Maturing: | | |
| Within one year | 80,608,731 | 102,315,904 |
| One year to five years | 63,960,598 | 72,887,956 |
| Over five years | 268,083 | 13,793,941 |
| | 144,837,412 | 188,997,801 |
| (ii) Lines of Credit – Profiling | | |
| Current portion | 80,608,731 | 102,315,904 |
| Non-Current portion | 64,228,681 | 86,681,897 |
| | 144,837,412 | 188,997,801 |

The effective interest rates were 4.47% per annum (2016: 3.81 %) for US denominated loans, 4.29% per annum (2016: 4.32%) for Euro denominated, 7.65% per annum (2016: 7.22%) for F CFA denominated loans and 13.39 % per annum (2016: 13.84 %) for Kenya Shillings denominated loans. All loans are unsecured.

During the year, the Company was in breach of certain loan covenants relating to its lines of credit. The Company has been in negotiations with lenders of the lines of credit for a standstill arrangement which limits the servicing of principal debt pending debt restructuring.

## 33. FAIR VALUE MEASUREMENT

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).

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank Borrowings, currency swaps receivables and payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**The following methods and assumptions were used to estimate the fair values:**

Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables.

The fair values of the quoted bonds are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

The fair values of the company's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The company's own non-performance risk as at 31 December 2017 has been assessed within the financial restructuring and is adequately covered. Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property.

As at 31 December 2017, the properties' fair values are based on valuations performed in 2015 by Ebony Estates Limited, accredited independent valuers.

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as at 31 December 2017.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | US$ | US$ | US$ | US$ |
| Land and buildings | - | 4,693,767 | - | 4,693,767 |
| **Financial liabilities :** | | | | |
| Quoted debt instruments: | | | | |
| Kenya Shilling Bond -2013-2018 | 16,080,332 | - | - | 16,080,332 |
| CFA Bond 5 - 6.60% 2014-2020 | 12,743,865 | - | - | 12,743,865 |
| Lines of credit | - | 144,837,412 | - | 144,837,412 |

The significant unobservable inputs used in the fair value measurement categorised within Level 2 and 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2017 are as shown below:

| Description | Valuation method | Significant unobservable inputs | Sensitivity | Effect on fair value<br>Increase/(Decrease) |
|---|---|---|---|---|
| Land and Buildings | Market Comparable Approach | Estimated rental value per sqm per month | 0.5% | 24,970 |
| Lines of credit | DCF | Own non-performance risk | 0.1% | 144,837 |

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities for 2016. Quantitative disclosures of fair value measurement hierarchy for assets and liabilities as at 31 December 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | US$ | US$ | US$ | US$ |
| Land and buildings | - | 4,820,713 | - | 4,820,713 |
| **Financial liabilities :** | | | | |
| Quoted debt instruments: | | | | |
| Kenya Shilling Bond -2013-2018 | 33,852,934 | - | - | 33,852,934 |
| CFA Bond 5 - 6.60% 2014-2020 | 14,332,868 | - | - | 14,332,868 |
| Lines of credit | - | 206,187,932 | - | 206,187,932 |

The significant unobservable inputs used in the fair value measurement categorised within Level 2 and 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2016 are as shown below:

| Description | Valuation method | Significant unobservable inputs | Sensitivity | Effect on fair value |
|---|---|---|---|---|
| Land and Buildings | Market Comparable Approach | Estimated rental value per sqm per month | 0.5% | 24,104 |
| Lines of credit | DCF | Own non-performance risk | 0.1% | 206,188 |
| | | Constant repayment rate | 2% | 4,123,759 |

## 34. NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Reconciliation of loss for the year to cash generated from/(used in) operations

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Loss for the year | (7,790,610) | (12,680,766) |
| **Adjustments for:** | | |
| Interest expense on funds from financial institutions and capital markets (Note 6) | 13,084,062 | 16,768,320 |
| Depreciation of property and equipment (Note 22) | 313,834 | 328,776 |
| Amortization of grant income (Note 24) | 3,879 | 3,879 |
| Amortization of intangible assets (Note 23) | 104,608 | 191,317 |
| Impairment loss on equity investment (Note 21) | 488,462 | - |
| Share of loss from joint ventures (Note 20) | 405,784 | 287,091 |
| Foreign exchange loss | - | 134,171 |
| Net foreign exchange loss - joint venture | 15,652 | 4,525 |
| Net foreign exchange loss–properties held for sale | - | 11,901 |
| Net foreign exchange loss/(gain) - lines of credit | 1,482,551 | (883,924) |
| Net foreign exchange loss/(gain) – medium term notes | 1,702,063 | (552,624) |
| Property and equipment writeoff (note 22) | 8,739 | - |
| Cash flows from operating profits before changes in operating assets and liabilities | 9,819,024 | 3,612,666 |
| Movements in: | | |
| Loans and advances to customers | 35,712,062 | (8,833,204) |
| Other receivables | 1,619,209 | (1,183,757) |
| Properties held for sale | - | (351,521) |
| Derivative financial assets | 62,346 | (462,090) |
| Other payables and provisions | (477,442) | 839,207 |
| Derivative financial liabilities | 585,958 | - |
| Deferred income | (590,736) | 333,284 |
| Net cash generated from/(used in) operations | 46,730,421 | (5,121,236) |

**(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:

| | 2017 | 2016 |
|---|---:|---:|
| | US$ | US$ |
| Bank and cash balances (Note 14) | 19,455,234 | 20,432,294 |
| Short term bank deposits (Note 15) | 21,982,912 | 7,706,836 |
| Cash and cash equivalents | 41,438,146 | 28,139,130 |

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. For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

**(c) Analysis of movement in line of credit:**

| | 2017 | 2016 |
|---|---:|---:|
| | US$ | US$ |
| At 1 January | 188,997,801 | 158,431,129 |
| Additional borrowings in the year | 10,000,000 | 54,816,900 |
| Repayments in the year | (55,194,229) | (24,507,128) |
| Interest expense for the year | 8,164,662 | 8,815,761 |
| Interest paid in the year | (8,613,372) | (7,674,936) |
| Net foreign exchange loss/(gain) | 1,482,552 | (883,924) |
| At 31 December | 144,837,414 | 188,997,801 |

**(d) Analysis of movement in medium term notes**

| | | |
|---|---:|---:|
| At 1 January | 47,160,130 | 66,142,135 |
| Deferred costs | - | (84,288) |
| Repayments in the year | (19,676,708) | (18,130,400) |
| Interest expense for the year | 3,857,595 | 6,400,414 |
| Interest paid in the year | (4,231,370) | (6,615,106) |
| Net foreign exchange loss/(gain) | 1,702,063 | (552,624) |
| At 31 December | 28,811,711 | 47,160,130 |

**(e) Other finance charges**

| | | |
|---|---:|---:|
| Interest expense on lines of credit (note 34(c)) | 8,164,662 | 8,815,761 |
| Interest expense on medium term notes (note 34(d)) | 3,857,595 | 6,400,414 |
| Other financial charges | 1,061,805 | 1,552,145 |
| Total interest and similar charges (note 6) | 13,084,062 | 16,768,320 |

## 35. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Commitments

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Approved and signed project loans | 58,348,445 | 115,209,670 |
| Commitments to Equity investments and Joint ventures | 3,538,535 | 4,345,879 |
| Capital budget | 521,500 | 704,000 |
| | 62,408,480 | 120,259,549 |

### (b) Contingent liabilities:

(i) 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.

(ii) In 2011, Shelter Afrique entered into a joint venture for the construction of Everest Park apartments in Mavoko Municipality in Kenya. The first phase of the project was completed and sold in 2013. However, in the last couple of months there have been complaints in respect to the structural quality on some blocks of the property. The Joint Venture appointed a specialist engineering firm Messrs Terra Consult Kenya Ltd (TCK) of Nairobi to undertake a structural assessment of the buildings and propose appropriate remedial measures. TCK, a specialist consulting engineering firm providing civil, structural and geotechnical services submitted a preliminary report of findings and indicative remedial measures.

Shelter Afrique as a 50% Joint Venture partner in the project, and subject to legal opinion as to its liability, may consider undertaking the necessary repair works on the affected apartments. The initial preliminary estimates put this cost at US$ 143,217. This cost has not been recognized in the financial statements because it is a contingent liability as described above.

## 36. RELATED PARTY TRANSACTIONS

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

### (a) Key management personnel

Except for staff loans and advances amounting to US$ 1,372,623 (2016: US$ 2,352,521) disclosed in Note 19, there were no other related party transactions undertaken during the year between the Company and staff. The staff loans advanced to key management staff as at 31 December 2017 amounted to US$ 564,471 (2016: US$ 731,501). The interest income received from staff loans and advances to key management staff as at 31 December 2017 amounted to US$ 18,720 (2016: US$ 17,958).

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

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Salaries and other short-term benefits | 968,665 | 1,351,277 |
| Post-employment benefits | 140,152 | 202,692 |
| | 1,108,817 | 1,553,969 |
| | | |
| Directors' remuneration | | |
| Short term benefits: fees for services as directors | 317,500 | 294,500 |

**(b) Investment in Joint Ventures**

The company has provided its Joint Ventures with loans at interest rates similar to those given to its other customers. These loans are fully secured.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **Everest Park Project** | | |
| At 1 January | 352,238 | - |
| Loans granted | 796,118 | 351,881 |
| Interest charged on the loan | 153,463 | 357 |
| Repayments | (153,463) | - |
| Total | 1,148,356 | 352,238 |
| | | |
| **Glenwoods Gardens Project** | | |
| At 1 January | 3,268,301 | - |
| Loans granted | - | 3,097,723 |
| Interest charged on the loan | 501,203 | 329,408 |
| Repayments | (230,703) | (158,830) |
| Total | 3,538,801 | 3,268,301 |
| | | |
| **Kew Gardens Project** | | |
| At 1 January | 10,399,659 | - |
| Loans granted | - | 9,129,471 |
| Interest charged on the loan | 717,498 | 1,270,188 |
| Total | 11,117,157 | 10,399,659 |

## 37. 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.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| **(a) Capital management** | | |
| Share capital and share premium | 125,096,074 | 78,959,068 |
| Retained earnings | 1,726,331 | 9,485,256 |
| Available-for-sale reserve | 351,773 | 351,773 |
| Revaluation surplus | 2,840,964 | 2,872,649 |
| Special Reserves - SH-AF Foundation | 1,683,652 | 1,687,552 |
| | 131,698,794 | 93,356,298 |
| Lines of credit | 144,837,412 | 188,997,801 |
| Medium term notes | 28,811,711 | 47,160,130 |
| | 173,649,123 | 236,157,931 |
| Total capital | 305,347,917 | 329,514,229 |
| Gearing ratio | 1.3 | 2.5 |

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;
- To manage exposures to movement in exchange rates; and
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company has several 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%. This ratio stood at 26.6% in 2017 (2016: 20%). 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 medium term notes and lines of credit disclosed in notes 31 and 32, respectively, and equity attributable to equity holders, comprising issued and paid capital, reserves and retained earnings as disclosed in note 25. 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;
(iii) The project viability; and
(iv) The security package

All new projects undergo a minimum initial credit rating and are subjected to a rigorous project appraisal to ensure asset quality at the entry level. The appraisal process includes among others, enhanced due diligence conducted by international Credit Reference Bureaus, thorough screening against international financial sanction lists, Anti Money Laundering risk clearance, summary credit notes issued by the Risk Management Department, and approval by 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 adequate collateral and corporate guarantees. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

Debt securities, treasury and other eligible bills are generally unsecured. Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. The Company classifies its loans according to five categories namely Normal, Watch, Substandard, Doubtful or Loss. This internal credit risk 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; and
- Deterioration in the value of collateral.

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

| | 2017 | 2017 | 2016 | 2016 |
|---|---|---|---|---|
| Class/Status | US$ | % | US$ | % |
| Normal | 158,874,500 | 55% | 208,375,797 | 66% |
| Watch | 23,546,680 | 8% | 53,706,259 | 17% |
| Substandard | 68,636,146 | 24% | 29,499,157 | 9% |
| Doubtful | 38,091,048 | 13% | 22,693,656 | 7% |
| Loss | - | - | 3,628,184 | 1% |
| Total | 289,148,374 | 100% | 317,903,053 | 100% |
| Less provision | (41,746,386) | | (34,789,003) | |
| Total | 247,401,988 | | 283,114,050 | |

The definitions of the different project loans classifications/status are:

Normal – Loans and advances that are neither past due nor impaired and past due not exceeding 30 days. These includes well-documented facilities to financially sound borrowers.

Watch - These are loans exhibit specific weaknesses and consequently warrant management attention, past due between 31 and 90 days.

Substandard - These are loans, although still operative, involve some degree of risk and there exists possibility of future loss unless close monitoring is given and corrective action is taken to strengthen the position. These are past due between 91 and 180 days.

Doubtful - These are loans have major weaknesses that indicate that the recovery of the full amount outstanding will be extended or is doubtful and that loss, though uncertain, will probably occur. Past due greater than 180 days.

Loss – These are loans with outstanding arrears that are regarded as being uncollectible and where the security is worthless or has been disposed of and the remaining balance is unlikely to be recovered.

### Classification of credit risk bearing assets

(i) Project Loans

The maximum exposure to credit risk before collateral held or other credit enhancements is US$ 289,148,374 (2016: US$ 317,903,052) 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 2017, collateral was held on project loans totalling US$ 289,148,374 (2016: US$ 317,903,052) which provided sufficient cover against credit risk.

(ii) Bank and cash balances

The maximum exposure to credit risk on bank and cash balances is US$ 19,455,234 (2016: US$ 20,432,294). 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 2017, there was no collateral held on bank and cash balances to provide cover against the possible credit risk.

(iii) Short term bank deposits

The maximum exposure to credit risk on short-term bank deposits is US$ 21,982,912 (2016: US$ 7,706,836). 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 2017, there was no collateral held on short-term bank deposits to provide cover against the possible credit risk.

The table below represents a classification of the Company's project loans and other receivables as at 31 December 2017.

| | Gross amounts | Impairment allowances | Net amounts | |
|---|---|---|---|---|
| | US$ | US$ | US$ | % |
| Neither past due nor impaired | 161,726,548 | - | 161,726,548 | 65% |
| Past due but not impaired | 23,546,680 | - | 23,546,680 | 9% |
| Impaired | 106,727,194 | (42,738,936) | 63,988,258 | 26% |
| | 292,000,422 | (42,738,936) | 249,261,486 | 100% |

The table below represents a classification of the Company's project loans and other receivables as at 31 December 2016.

| | Gross amounts | Impairment allowances | Net amounts | |
|---|---|---|---|---|
| | US$ | US$ | US$ | % |
| Neither past due nor impaired | 212,487,643 | - | 223,487,643 | 74% |
| Past due but not impaired | 53,706,259 | - | 53,706,259 | 19% |
| Impaired | 55,820,995 | (34,896,590) | 20,924,405 | 7% |
| | 322,014,897 | (34,896,590) | 287,118,307 | 100% |

Loans and other receivables are considered impaired when their recoverability is doubtful due to falling in arrears, or due to adverse conditions affecting the project or asset.

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

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Loans and advances | 41,746,386 | 34,789,003 |
| Other receivables | 466,999 | 107,587 |
| | 42,213,385 | 34,896,590 |

Ageing of arrears for past due but not impaired project loans

| | | |
|---|---|---|
| 0-3 months | 23,546,680 | 52,600,574 |
| 3-6 months | - | 1,105,685 |
| 6–12 months | - | - |
| | 23,546,680 | 53,706,259 |

Ageing of arrears for impaired project loans

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| 0-3 months | 3,000,000 | 9,464,127 |
| 3-6 months | 29,752,678 | 5,260,587 |
| 6–12 months | 10,803,236 | 14,741,216 |
| 1-2 years | 42,625,179 | 22,431 |
| over 2 years | 20,546,101 | 26,332,634 |
| | 106,727,194 | 55,820,995 |

**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.
- 55% of the loans are categorized in the normal category under 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.

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk management (Continued)

All Current Projects (Continued)

Credit risk from balances with banks and financial institutions as well as 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 and at limited exposure limits to each bank. The Company's maximum exposure to credit risk for other financial assets is shown below.

| | 2017 | 2016 |
|---|---|---|
| | US$ | US$ |
| Bank and cash balances | 19,455,234 | 20,432,294 |
| Short term bank deposits | 21,982,912 | 7,706,836 |
| Other receivables | 2,385,049 | 4,004,258 |
| | 43,823,195 | 32,143,388 |

An impairment provision of US$ 2,000,000 for short term bank deposits has been made as disclosed in Note 16 (b).

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.

### (c) Market Risk Management

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. The table in the following page 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. The derivatives balances have been shown as transacted by currency.

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk management (Continued)

Currency risk (Continued)

(c) Market Risk Management - Currency Risk

| | US$ | EUR | CFA | KSHS | ZAR | NAIRA | Total |
|---|---|---|---|---|---|---|---|
| **AT 31 DECEMBER 2017** | | | | | | | |
| **ASSETS** | | | | | | | |
| Bank and cash balances | 13,281,404 | 921,774 | 3,793,071 | 1,200,156 | 250,515 | 8,314 | 19,455,234 |
| Short term deposits | 19,015,784 | 2,037,541 | 747,978 | 181,609 | - | - | 21,982,912 |
| Loans and advances to customers | 177,531,922 | - | 14,702,388 | 52,345,016 | 2,822,662 | - | 247,401,988 |
| Other receivables | 2,385,049 | - | - | - | - | - | 2.385,049 |
| Total financial assets | 212,284,159 | 2,959,315 | 19,243,437 | 53,726,781 | 3,073,177 | 8,314 | 288,840,134 |
| **LIABILITIES** | | | | | | | |
| Medium term notes | | - | 12,678,316 | 16,133,395 | - | - | 28,811,711 |
| Lines of credit | 122,334,896 | 2,363,979 | 7,582,537 | 12,428,175 | 127,825 | - | 144,837,412 |
| Currency swaps payable | 585,958 | - | - | - | - | - | 585,958 |
| Other payables | 1,040,733 | - | - | - | - | - | 1,040,733 |
| Provisions | 2,095,322 | - | - | - | - | - | 2,095,322 |
| Dividends payable | 1,548,143 | | | | | | 1,548,143 |
| Total financial liabilities | 127,605,052 | 2,363,979 | 20,260,853 | 28,561,570 | 127,825 | - | 178,919,279 |
| Net position | 84,609,107 | 595,336 | (1,017,416) | 25,165,211 | 2,945,352 | 8,314 | 109,920,855 |
| **AT 31 DECEMBER 2016** | | | | | | | |
| Total financial assets | 234,817,111 | 1,913,496 | 22,895,279 | 51,969,954 | 3,515,753 | 3,570 | 315,115,163 |
| Total financial liabilities | 141,990,796 | 5,067,030 | 17,032,739 | 60,482,699 | - | - | 224,573,264 |
| Net position | 92,826,315 | (3,153,534) | 5,862,540 | (8,512,745) | 3,515,753 | 3,570 | 90,541,899 |

37. 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 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.

**Impact – 2017**

| EURO | CFA | KSHS | ZAR | TOTAL |
|---|---|---|---|---|
| 5% | 4% | 4% | 1% | |
| 29,767 | (45,666) | 1,245,269 | 29,454 | 1,258,824 |

**Impact – 2016**

| EURO | CFA | KSHS | ZAR | TOTAL |
|---|---|---|---|---|
| 5% | 4% | 4% | 1% | |
| (87,877) | 105,727 | (201,103) | 79 | (183,173) |

### 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 2017 would have increased equity by US$ 624,482 (2016: US$ 544,932). 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, Risk and Finance 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 on the following page 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.

## (c) Market Risk Management – Interest Rates

| | Up to 1 month | 1-6 months | 6-12 months | 1-5 years | over 5 years | Total sensitive balance | Non-interest bearing | Fixed Interest rate | Total |
|---|---|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| **AT 31 DECEMBER 2017** | | | | | | | | | |
| **ASSETS** | | | | | | | | | |
| Bank and cash balances | 19,455,234 | - | - | - | - | 19,455,234 | - | - | 19,455,234 |
| Short term deposits | 181,609 | 21,801,303 | - | - | - | 21,982,912 | - | - | 21,982,912 |
| Loans and advances to customers | - | 197,381,025 | - | - | - | 197,381,025 | 19,777,071 | 30,243,892 | 247,401,988 |
| Total financial assets | 19,636,843 | 219,182,328 | - | - | - | 238,819,171 | 19,777,071 | 30,243,892 | 288,840,134 |
| **LIABILITIES** | | | | | | | | | |
| Lines of credit | 833,333 | 25,132,149 | 4,299,149 | 23,312,309 | 1,757,832 | 55,334,772 | - | 89,502,640 | 144,837,412 |
| Medium term notes | - | 8,088,601 | 8,088,601 | - | - | 16,177,201 | - | 12,634,510 | 28,811,711 |
| Total financial liabilities | 833,333 | 33,220,750 | 12,387,750 | 23,312,309 | 1,757,832 | 71,511,973 | - | 102,137,150 | 173,649,123 |
| Net interest rate sensitivity gap | 18,803,510 | 185,961,578 | (12,387,749) | (23,312,309) | (1,757,832) | 167,307,198 | 19,777,071 | (71,893,258) | 115,191,011 |

| | Up to 1 month | 1-6 months | 6-12 months | 1-5 years | Over 5 years | Total sensitive balance | Non-interest bearing | Fixed Interest rate | Total |
|---|---|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| **AT 31 DECEMBER 2016** | | | | | | | | | |
| **ASSETS** | | | | | | | | | |
| Bank and cash balances | 20,432,294 | - | - | - | - | 20,432,294 | - | - | 20,432,294 |
| Short term deposits | 34,465 | 7,672,371 | - | - | - | 7,706,836 | - | - | 7,706,836 |
| Corporate bonds | - | - | - | - | - | - | - | - | - |
| Loans and advances to customers | - | 222,434,588 | - | - | - | 222,434,588 | 20,748,797 | 39,930,665 | 283,114,050 |
| Total financial assets | 20,466,759 | 230,106,959 | - | - | - | 250,573,718 | 20,748,797 | 39,930,665 | 311,253,180 |
| **LIABILITIES** | | | | | | | | | |
| Lines of credit | 5,188,097 | 19,982,407 | 15,765,061 | 36,320,865 | 3,363,145 | 80,619,574 | - | 108,378,227 | 188,997,801 |
| Medium term notes | - | 8,147,470 | 8,482,425 | 16,197,366 | - | 32,827,261 | - | 14,332,868 | 47,160,130 |
| Total financial liabilities | 5,188,097 | 28,129,877 | 24,247,486 | 52,518,231 | 3,363,145 | 113,446,835 | - | 122,711,095 | 236,157,931 |
| Net interest rate sensitivity gap | 15,278,662 | 201,977,082 | (24,247,486) | (52,518,231) | 3,363,145 | 137,126,885 | 20,748,797 | (82,780,430) | 75,095,249 |

Based on a sensitivity rate of 50 basis points, all other variables held constant, the Company's profit for the year and equity would increase/decrease by US$ 830,751 (2016 US$ 685,634). A 50-basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

### (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 lenders 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 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, bank 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 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:

## (d) Liquidity Risk Management

| | Up to 1 month | 2-6 months | 6-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ |
| AT 31 DECEMBER 2017 | | | | | | |
| FINANCIAL ASSETS | | | | | | |
| Bank and cash balances | 19,455,234 | - | - | - | - | 19,455,234 |
| Short term deposits | 181,609 | 21,801,303 | - | - | - | 21,982,912 |
| Loans and advances to customers | 39,711,842 | 30,981,055 | 32,969,713 | 129,451,282 | 14,288,095 | 247,401,988 |
| Total financial assets | 59,348,685 | 52,782,358 | 32,969,713 | 129,451,282 | 14,288,095 | 288,840,134 |
| FINANCIAL LIABILITIES | | | | | | |
| Lines of credit | 1,402,256 | 37,288,620 | 43,790,638 | 51,099,216 | 11,256,683 | 144,837,412 |
| Medium term notes | - | 9,909,153 | 9,799,797 | 9,102,761 | - | 28,811,711 |
| Total financial liabilities | 1,402,256 | 47,197,773 | 53,590,435 | 60,201,977 | 11,256,683 | 173,649,123 |
| Net Liquidity gap | 57,946,429 | 5,584,585 | (20,620,722) | 69,249,305 | 3,031,412 | 115,191,011 |

| | Up to 1 month | 2-6 months | 6-12 months | 1-5 years | over 5 years | Open ended | Total |
|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| AT 31 DECEMBER 2016 | | | | | | | |
| FINANCIAL ASSETS | | | | | | | |
| Bank and cash balances | 20,432,294 | - | - | - | - | - | 20,432,294 |
| Short term deposits | 847,337 | 6,859,499 | - | - | - | - | 7,706,836 |
| Loans and advances to customers | 19,524,030 | 34,607,125 | 40,236,653 | 159,104,683 | 29,641,559 | - | 283,114,050 |
| Equity Investments | - | - | - | - | - | 5,449,320 | 5,449,320 |
| Total financial assets | 40,803,661 | 41,466,624 | 40,236,653 | 159,104,683 | 29,641,559 | 5,449,320 | 316,702,500 |
| FINANCIAL LIABILITIES | | | | | | | |
| Lines of credit | 5,685,766 | 39,526,986 | 57,103,152 | 72,887,956 | 13,793,941 | - | 188,997,801 |
| Medium term notes | - | 9,740,012 | 10,074,966 | 27,345,152 | - | - | 47,160,130 |
| Provisions | - | - | - | 362,927 | 2,112,285 | - | 2,475,212 |
| Total financial liabilities | 5,685,766 | 49,266,998 | 67,178,118 | 100,596,035 | 15,906,226 | - | 238,633,143 |
| Net Liquidity gap | 35,117,895 | (7,800,374) | (26,941,465) | 58,508,648 | 13,735,333 | 5,449,320 | 78,069,357 |

## 38. TAXATION

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

## 39. GOING CONCERN

In the last quarter of 2016, the Company experienced some adverse events which affected the operations of the Company, leading to reduced business activity and liquidity constraints. Due to these matters, there is material uncertainty with regards to the going concern of the company. The Board of Directors commenced a turnaround program of the Company in 2017 which resulted in changes in top management, recapitalisation of the Company, debt restructuring, formulation of a new strategy amongst other measures. The recapitalisation program, which is still on-going, resulted in a significant increase in share capital in the current year and is expected to continue for the next three years. In addition, management has been in negotiations with lenders of the lines of credit for a standstill arrangement which limits the servicing of principal debt pending debt restructuring. The Board of Directors and Management are actively engaged in revamping the Company and have full confidence that the company will continue as a going concern for the foreseeable future.

## 40. EVENTS SUBSEQUENT TO YEAR END

There are no significant events after reporting period which have been reported in these financial statements.

## 41. CURRENCY

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

## Appendix 1 - Shareholding information schedule

| | Class A: Countries | No of shares 31 December 2016 | No of shares 31 December 2017 | % of shareholding |
|---|---|---|---|---|
| 1 | Algeria | 4,220 | 4,220 | 4.76% |
| 2 | Benin | 306 | 306 | 0.35% |
| 3 | Botswana | 839 | 839 | 0.95% |
| 4 | Burkina Faso | 951 | 951 | 1.07% |
| 5 | Burundi | 300 | 300 | 0.34% |
| 6 | Cameroon | 2,935 | 4,135 | 4.67% |
| 7 | Cape Verde | 16 | 16 | 0.02% |
| 8 | Central Afr. Rep | 271 | 271 | 0.31% |
| 9 | Chad | 1,090 | 1,090 | 1.23% |
| 10 | Congo | 516 | 516 | 0.58% |
| 11 | Democratic Republic of Congo | 600 | 600 | 0.68% |
| 12 | Djibouti | 300 | 300 | 0.34% |
| 13 | Gabon | 1,283 | 1,283 | 1.45% |
| 14 | Gambia | 321 | 321 | 0.36% |
| 15 | Ghana | 6,315 | 6,315 | 7.13% |
| 16 | Guinea | 419 | 419 | 0.47% |
| 17 | Guinea Bissau | 25 | 25 | 0.03% |
| 18 | Guinea Equatorial | 301 | 301 | 0.34% |
| 19 | Ivory Coast | 1,726 | 3,743 | 4.22% |
| 20 | Kenya | 6,641 | 12,023 | 13.57% |
| 21 | Lesotho | 500 | 500 | 0.56% |
| 22 | Liberia | 309 | 309 | 0.35% |
| 23 | Madagascar | 327 | 327 | 0.37% |
| 24 | Malawi | 522 | 522 | 0.59% |
| 25 | Mali | 1,342 | 4,237 | 4.78% |
| 26 | Mauritania | 639 | 639 | 0.72% |
| 27 | Mauritius | 115 | 115 | 0.13% |
| 28 | Morocco | 437 | 2,542 | 2.87% |
| 29 | Namibia | 327 | 1,325 | 1.50% |
| 30 | Niger | 318 | 318 | 0.36% |
| 31 | Nigeria | 7,069 | 10,430 | 11.77% |
| 32 | Rwanda | 1,239 | 1,422 | 1.60% |
| 33 | Sao Tome & Principe | 16 | 16 | 0.02% |
| 34 | Senegal | 1,407 | 1,407 | 1.59% |
| 35 | Seychelles | 300 | 300 | 0.34% |
| 36 | Sierra Leone | 74 | 74 | 0.08% |
| 37 | Somalia | 10 | 10 | 0.01% |
| 38 | Swaziland | 228 | 228 | 0.26% |
| 39 | Tanzania | 325 | 325 | 0.37% |
| 40 | Togo | 162 | 162 | 0.18% |
| 41 | Tunisia | 300 | 300 | 0.34% |
| 42 | Uganda | 1,410 | 1,410 | 1.59% |
| 43 | Zambia | 2,553 | 2,553 | 2.88% |
| 44 | Zimbabwe | 200 | 1,457 | 1.64% |
| | Class B: Institutions | | | |
| 1 | African Development Bank | 10,576 | 15,200 | 17.15% |
| 2 | African Reinsurance Corporation | 2,520 | 4,520 | 5.10% |
| | TOTAL | 62,600 | 88,622 | 100.0% |