SHELTER AFRIQUE
Financing Affordable Housing for Africa

Integrated Annual Report 2019

Ensuring Decent and Affordable Homes for All Africans

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Performance Highlights 2019

Operational Performance

US$501.30 Million
Built US$50.30 Million loan pipeline

US$3.30 Million
Disbursed US$3.30 Million loans

US$60 Million
Approved US$60 Million (90% being Lines of Credit)

US$16.38 Milion
Recovered US$16.38 Milion Non-Performing Loans

Ratings and Accreditations

Retained BBB+
Bloomfield Long Term Credit Rating

Launched Centre of Excellence on 24th April 2019

Attained ISO 9001:2015
Quality Management System accreditation

Named among top 100 global financiers by World Finance Publication

Chairmanship of the African Union for Housing Finance

Town Planners Council of Kenya (TCPAK) Award for Town and County Excellence

AIHS Award for commitment to the Affordable Housing Agenda in Africa

Development Impact

- Delivered 3,821 housing units
- Impacted 19,015 beneficiaries
- Created 26,747 jobs
- Empowered 242 women with housing units
- Aligned to the United Nations 2030 SDG No. 11 on delivery of affordable, decent housing and liveable urban centres
- Complied with sustainable environmental and social policies

Governance

- Appointed a competent, diverse and ethical board
- Continued compliance with King IV Corporate Governance Code
- Implemented a robust Enterprise Risk Management Framework
- Attained a Clean External Audit Report

Financial Highlights

- Reduced loan impairments by 73% to US$2.61Million from US$9.79 Million
- Increased Cash Reserves by 28% to US$57 Million from US$44 Million
- Increased liquidity Ratio to 29% which is 14% above the prudential limit of 15%
- 8% increase in Equity to US$115 Million from US$107 Million
- Low leverage with Debt to Equity ratio of 62% versus 150% cap

Vision

A decent and affordable home for all in Africa.

Mission

To be the pre-eminent provider of financial, advisory and research solutions towards addressing the severe need for decent and affordable housing in Africa and to achieve sustainable developmental impact through public and private partnerships.

Core Values

Accountability
Customer centricity
Teamwork
Integrity
Innovation

Letter of Transmittal

The Chairman

General Meeting of Shareholders

Shelter-Afrique

Dear Mr Chairman,

In accordance with Regulation 9 of the General Regulation 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, 2019.

The report also covers a review of the Company's activities, Global and African economic environments during the period.

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

Dr. Steve Mainda

CHAIRMAN OF THE BOARD OF DIRECTORS

Board of Directors

Dr. Steve Mainda
Chairman

Mr. Celestin Koalla
Vice Chairman

Mr. Daniel Nghidinua
Outgoing Chairperson

Mr. Ali Boulares
Outgoing Vice Chairman

Dr. Teresa Tuffour
Chairperson of Investment Committee

Ms Soula Proxenos
Chairperson of Human Resource & Governance Committee

Board of Directors (Continued)

Mr. Charles Hinga
Chairperson of Audit, Risk & Finance Committee

Dr Tunde Reis
Board Member, Investment Committee

Mr. Jean Paul Missi
Board Member, Human Resource & Governance Committee

Dr. Omodele Jones
Board Member, Audit, Risk & Finance Committee

Ephraim K. Bichetero
Board Member, Audit, Risk & Finance Committee

Chairman
Dr. Steve Mainda E.B.S

Welcome to SHAF 2019 Annual Report

My report is structured into the following sections: Global and African Economic Environment; Update on Strategic Plan Implementation; Board Changes; Impact of the Coronavirus (COVID-19); and Future Outlook.

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Chairman's Statement

Chairman's Statement

Chairman

Dr. Steve Mainda E.B.S

Dear Valued Shareholders,

On behalf of the Board of Directors, I am pleased to present the Company's Annual Report and Audited Financial Statement for the Financial Year ended 31st December 2019.

As you are aware, in the last 3 years, the Company's key stakeholders comprising Shareholders, Lenders, Clients, Board, Management and Staff have been implementing a turnaround plan to reposition the Company to ably fulfill its mandate of financing Affordable Housing for Africa. When assessed against the 3 Strategic Goals of the 5-Year Strategic Plan (2019 to 2023), the operational activities and financial results for 2019 show clear evidence of the Company beginning to sustainably turn around. This has been possible with the unflinching support of all stakeholders and I wish at the outset to thank you all.

I have structured my report into the following sections: Global and African Economic Environment; Update on Strategic Plan Implementation; Board Changes; Impact of the Coronavirus (COVID-19); and Future Outlook.

Chairman's Statement (Continued)

Fig 1: Drone-shot of SHAF Headquarters in Nairobi

1. Global and African Economic Environment

1.1 Global Economic Developments

The world economy recorded reduced growth in 2019, with real GDP estimated at 3.2 percent compared to 3.6 percent in 2018. This is mainly on account of the trade war between the United States of America and China, prolonged uncertainty on Brexit and geo-political tensions in the Middle East.

In advanced economies, economic growth rate decreased to 1.9% in 2019 from 2.2% in 2018. In emerging markets and developing economies, growth slowed down to 4.1% compared to 4.5% in 2018.

1.2 African Economic Environment

Africa's economic growth, measured on a Gross Domestic Product (GDP) basis closed at 3.4% in 2019 from 3.1% in 2018. This was mainly due to growth in non-resource intensive countries. Commodity prices were generally lower over the first eight months of 2019 due to a fall in global demand. Over the same period, crude oil prices averaged US$63 per barrel compared to US$71 per barrel for the similar period in 2018. It was observed that there was gradual shift from private consumption towards investment and exports.

2. Implementation of the 2019 – 2023 Strategic Plan

Taking stock of our Strategy and financial performance in 2019, it is gratifying to note that we are on course in beginning to record progress on the 3 Strategic Goals and related objectives as summarized below: -

i) Goal 1: Financial Sustainability

» Operating loss of US$0.59 Million, 94% improvement from US$9.23 Million loss in 2018

» Liquidity position stood at US$56.97 Million, 29% liquidity ratio compared to the 15% minimum ratio required

» Cost to Income ratio decreased to 68% from 91% in 2018 and within target of less than 70%

» Net loan impairments reduced by 73% to US$2.61 Million from US$9.79 Million in 2018 on the back of high recoveries of US$16.38 Million Non-Performing Loans

US$60 Million

Amount of approved loans to strong counter-parties

Chairman's Statement (Continued)

ii) Goal 2: Enhance Shareholder Value & Development Impact

- Resumed underwriting of new business with a loan pipeline of US$501.30 Million
- Approved loans to strong counter-parties amounting to US$60 Million
- Delivered 3,821 housing units
- Created 15,284 and 11,463 direct and indirect jobs respectively
- Launched Centre of Excellence to offer capacity building, advocacy research and policy solutions to member countries with 3 Master Classes
- Launched 3 larger scale projects based on Public-Private Partnership model
- African Union for Housing Finance ("AUHF") Chairmanship
- The above interventions demonstrate clear development impact

iii) Goal 3: Organizational Sustainability

- Enhanced and sustained Corporate Governance Standards aligned to King IV Code e.g limit Board tenure and continued Board training
- Improved Enterprise Risk Management Framework (ERM) and continued to enhance our maturity level
- Obtain accreditation for ISO 9001:2025 Quality Management System (QMS) Standard
- Launched a revised Staff Culture Change and Performance Program

Fig 2: The Managing Director and Dr Steve Mainda engaged during a strategy session during the 127th Board Meeting

Chairman's Statement (Continued)

Board Diversity

The diversity of our Board in terms professional expertise, experience background and geographical spread is worth noting

Corona Impact

The Coronavirus (Covid-19) will drastically slow down all economies

3. Board and Committee Changes

During the year under review, there were changes on the Board namely, the retirement of Director Melei Yed Anikpo representing 7 countries who was replaced by Director Celestin Koalla for a special term of 1 year. On behalf of the Board, I would like to thank Ms. Anikpo for her invaluable contribution to Shelter Afrique and I also take this opportunity to welcome Director Koalla to the Board. In a bid to ensure smooth transition and functioning of Board Committees, Mrs. Theresa Turfor and Mr. Charles Hinga were elected Chairpersons of the Investment Committee and Audit, Risk and Finance Committee respectively.

The diversity of our Board in terms of professional expertise, experience, background and geographical spread is worth noting as I believe it ensures robust debate and effective oversight, which are critically important in a development finance institution.

4. Coronavirus (Covid-19) Impact and Future Outlook

As you are aware, post balance sheet date, the world has been grappling with the unprecedented advent of the significant impact of the COVID-19 Pandemic both globally and on the Company's operations. Given that COVID-19 will impact the Company, your Board deems it appropriate and prudent to report this together with the outlook for 2020 and beyond. There is unanimous opinion that COVID-19 will drastically slow down all economies and severely disrupt global supply chains, especially from China. This has a direct impact on the Company's ability to raise capital and on our clients operations.

As a Board, we have considered Management's assessment of the COVID-19 probable impact on both the safety and health of our Staff and business continuity. The assessment has resulted in recalibrating our earlier approved 2020 budget and business plan in three scenarios depending on when the Pandemic is likely to be contained. Therefore, we have adopted 3-month, 6-month and 9-month period scenarios for purposes of planning and managing the impact of COVID-19 on the Company's operations comprising: 1st April to 30th June; 1st April to 30th September; and 1st April to 31st December 2020 respectively.

The adverse severity of the impact on key targets such as capital subscription payments by shareholders, loan approvals, loan recoveries, disbursements, liquidity, overhead management and anticipated return to profitability will increase the longer it takes to contain COVID-19. The Company will continue to rely on the support of shareholders and lenders to mitigate the adverse impacts of the COVID-19 Pandemic.

5. Future Outlook and Appeal for Sustained Capitalisation

As stated above, with the commencement of underwriting new business, improved financial performance in 2019 and conclusion of the Debt Restructuring Agreement (DRA) with current lenders, we had anticipated returning to financial viability from 2020. Barring severe impacts from the COVID-19 Pandemic,

Chairman's Statement (Continued)

US$1 Billion +

Our housing finance ambition funds target

Funding

On the back of a strong capital base, the Company will leverage more borrowings of competitively priced funding from international DFIs and capital markets

we believe this is still achievable. We shall focus on our immediate strategic ambition of achieving US$-1Billion plus in housing finance delivered directly, and through funds mobilized and leveraged from third parties. Over the medium term, our 3 strategic goals remain valid as long as we restore and sustain financial stability and enhance governance oversight.

However, shareholders need to sustain continued capilisation of the Company by honouring the payment of the 2013 and 2017 Capital Calls. On the back of a strong capital base, the Company will leverage more borrowings of competitively priced funding from international DFIs and capital markets. This will increase its intervention in member states and deliver large scale affordable housing programs on the supply side whilst providing long term mortgage finance on the demand side.

6. Appreciation

On behalf of the Board, I would like to express our sincere appreciation to our esteemed Shareholders and respective National Treasuries for their continued support to the Company notwithstanding the many domestic fiscal challenges.

We thank our lenders, namely; African Development Bank (AfDB), Agence Francaise de Developpement (AFD), Banque Ouest-Africaine de Developpement (BOAD), European Investment Bank (EIB), Islamic Fund for Development of the Private Sector (ICD), KFW, Ghana International Bank, and National Commercial Bank of Africa (NCBA) for the strong partnership built over the years. The flexibility and understanding demonstrated in concluding a rather protracted and difficult DRA process is appreciated. Post DRA, we shall continue to count on your patronage for new debt and/or equity capital to effectively deliver our Affordable Housing agenda and mandate to our member countries.

To our current and prospective clients, we are grateful and indebted to you for believing and giving us an opportunity to serve and meet your needs of delivering affordable and decent homes for Africa.

I would like to commend the Managing Director Andrew Chimphondah for his leadership, and his management team and staff for the commitment, dedication to duty and hard work which has been manifested by the successful turnaround and improved performance of the Company despite several legacy and emergent challenges.

Finally, I extend my appreciation to my fellow Directors for their wisdom, diligence, commitment and support in dealing with the unusual challenges of turning around the Company. You are truly a great motivated team who have made my work easier and pleasant.

Dr. Steve Mainda E.B.S

CHAIRMAN, BOARD OF DIRECTORS

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Senior Management

Senior Management

Managing Director

Mr. Andrew Pandeka Chimphondah

"Rigorous **codes of conduct** allows us to **deliver high quality services** and maintain ethical values that are respectful to the environment and our communities."

Mr. Kingsley Muwowo
Chief Finance Officer

Mr. Alfred Nicayenzi
Chief Operations Officer

Francesca Kakooza
Company Secretary

Senior Management (Continued)

Mr. Yankho Chitsime
Head of New Business

Mr. Bernard Oketch
Head of Enterprise Risk Management

Mr. Mohamed Barry
Head of Internal Audit

Mr. Victor Laibuni
Head of Human Resources & Administration

Dr. Muhammad Gambo
Head of Policy, Research and Partnerships

Kahumbya Bashige
Manager, Investor Relations

Managing Director
Mr. Andrew Pandeka Chimphondah

"The supply of affordable housing units in Africa remains a key social and economic challenge with the supply deficit continuing to increase. As at the end of 2019, the estimated supply deficit in Africa stood at 56 million units."

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Managing Director's Report

Managing Director's Report

1.1 Strategic Overview

The supply of affordable housing units in Africa remains a key social and economic challenge with the supply deficit continuing to increase. As at the end of 2019, the estimated supply deficit in Africa stood at 56 million units.

Shelter Afrique has classified it as a crisis and most important as an opportunity to play our expected role as "Wholesale Market Maker" in offering holistic bankable solutions in terms of financing solutions on both the supply (construction) and demand (mortgage finance) sides. The Company has also been deploying its intellectual capital by offering capacity building, policy advocacy and research support to our member countries. I am glad to report that through our Centre of Excellence (CoE) strategic initiative which launched in 2019, we have begun offering intellectual capital solutions to our member countries in the form of Master Classes. We have also strengthened the CoE's capabilities by concluding strategic and collaborative partnerships with like-minded institutions such as the Centre for Affordable Housing Finance in Africa (CAHF) and Habitat for Humanity International (HFHI) for which we have signed Memoranda of Understanding.

Managing Director's Report (Continued)

In light of the foregoing, in the first year of our strategic cycle 2019-2023, we focused on delivering demonstrably on the second strategic goal, Shareholder Value and Development Impact, out of our three key strategic goals (SGs) which are :

SG1: Financial sustainability;

SG2: Enhancing shareholders' value and developmental impact; and

SG3: Organisational sustainability.

To deliver on any of these goals, we believe that we must help our member countries shape policies that create and support industrialisation and the delivery of large-scale affordable housing. Most housing policies in Africa are still a holdover from the post-colonial period. Major initiatives carried out on the continent by newly independent African Nations focused on mass housing and housing for civil servants who for many were often the largest labour force and the largest pool of voters. It reflects the thinking that government alone can stimulate demand and generate enough supply for housing; this is the eternal battle between public sector intervention and private sector capacity. The right approach as with most things is in the middle; what is commonly referred to as Private-Public Partnerships (PPPs), to which industrialisation is vital too.

The Private sector neither has the will nor the incentive to take on affordable housing. It is for this reason that the government must intervene, and the government usually does not have the technical capacity or the systems to deliver on affordable housing, and this is where the private sector plays a role. However, there are no policies to address this in Africa or where they exist, they are unclear. This thinking shaped our activities and direction in 2019; we believe that unlocking our second strategic goal will unlock the other strategic objectives.

To this end, in 2019, we launched several projects and programmes that deliver impact and enhance shareholder value. As stated earlier on, the CoE is one such holistic platform offering Research, Capacity-Building and Advocacy to support affordable housing delivery and urban development in Africa as mandated in the SHAF Foundation Charter.

During the year we launched the Rugarama Park Estate Project in Rwanda. Rugarama is a sustainable in-

Fig 3: Centre of Excellence presents the Nairobi Master Class in April 2019.

tegrated community development in association with the City of Kigali and the Development Bank of Rwanda; the objective of which is to develop a high-density housing estate with over 2700 units. It will cater for lower and medium income earners and will be rolled out in phases over five years. Other projects launched include the Richland Pointe Project (Kenya), Karibu Homes (Kenya), 2nd Phase of Everest Park Project (Kenya), with a combined total of over 600 affordable housing units delivered. These activities and many more, we believe, enhance our shareholder value as shared in more details in subsequent sections

1.2 Turnaround Progress

As stated in the Chairman's Statement, we believe that with the resumption of underwriting new business in 2019 after a 3-year break and on the back of concluding the Debt Restructuring Agreement with current lenders, the Company is poised to begin operating with a clear degree of certainty. In addition, another positive indicator of an emerging turnaround is the marginal operating loss of US$0.59 Million incurred in 2019, representing a significant 94% reduction from the loss of US$9.23 Million in 2018. With the commencement of loan commitments leading to disbursements on the robust loan pipeline of US$501.30 Million from 2020 and beyond, the turnaround will be further cemented.

1.3 Development Impact and Outcomes

In line with our revised strategy and specifically to align with Strategic Goal 2: Enhancing Shareholder Value and Impact, all our new lending programs have and continue to be aimed at demonstrating the overriding need to achieve development impact to our member countries. This is in line with our mandate of financing affordable and decent homes for Africa. As a Pan-African development finance institution devoted to delivering affordable housing solutions for Africa, we shall aim at being a one stop shop by playing three key roles of financier, advisor and partner of choice to our member countries in the housing sector.

We shall continue to refine our robust model and metrics to demonstrate how our lending operations and other ancillary activities deliver development impact to our member countries. The current key development impact outcomes look at such metrics as: Number of affordable homes built; Number of families accommodated; Jobs created; Tax contribution to National Treasuries; Number of people trained; Women empowerment achieved; and Knowledge transfer programs to member countries etc.

For instance, regarding the current loan pipeline of US$501.3 Million, we estimate delivery of the development impact outcomes tabulated below.

Table 1: Estimated Development Impact of Loan Pipeline

Development Metric	Outcome
Affordable Homes to be built	36,945
Families to be housed (@ 5 Per House)	184,723
Jobs to be created (@ 4 Per House)	147,778
Number of housing units built in 2019	3,821
Total jobs Created in 2019	26,747
Number of women empowered with housing units	242

Managing Director's Report (Continued)

1.4 Lending Operations

I am pleased to report that after a 3-year period of non-underwriting of business on the back of the 2016 disruptive event, in 2019 the Company resumed underwriting new business. We have managed to build a loan pipeline of US$501.3 Million from 3 key product offerings comprising lines of credit to financial institutions, project finance focused on Public Private Partnership (PPP) model, and strategic equity investments.

The breakdown of the loan pipeline is tabulated below.

Table 2: Loan Pipeline

Product	Amount in US$	Percentage
Lines of Credit	297,600,000	59%
Project Finance/PPP	193,701,553	39%
Equity Investments	10,000,000	2%
TOTAL	**501,301,553**	**100%**

Lines of Credit

59%

Project Finance/PPP

39%

Equity Investments

2%

1.5 Financial Performance and Position

Overall, the Company significantly improved its financial performance with a net operating loss of US$0.59 Million, which is a 94% improvement on the US$9.23 Million in 2018. Notwithstanding the inclusion of US$0.67 Million equity impairment, there is still an impressive 86% improvement in the total comprehensive loss of US$1.26 Million compared to the US$9.23 Million loss in 2018.

US$501.3 Million

Loan pipeline from 3 key product offerings

US$0.59 Million

Net operating loss - **94%** improvement from 2018 Loss of US$9.23m

Managing Director's Report (Continued)

1.5 Financial Performance and Position (Continued)

The Company also maintained a strong liquidity position with a cash balance of US$56.97 Million closing the year with a liquid ratio of 29%, 14 percentage points above the 15% minimum policy limit. Other key financial highlights are tabulated below: -

Table 3: Key Financial Highlights

METRIC	2019 US$ MILLION	2018 US$ MILLION	% CHANGE	COMMENTARY
I.FINANCIAL PERFORMANCE				
Interest Income	15.34	17.62	-13%	31% loan book decline
Interest Expense	6.70	9.98	-33%	39% decline in borrowings
Fee & Other Income	1.56	1.85	-16%	Decrease in upfront fees
Operating Expenses	8.44	9.06	-7%	Stringent cost controls
Impairment Charge	2.61	9.79	-73%	Reduced loan book and NPL recoveries
Operating Profit/ (Loss)	0.59	9.23	-94%	Significant reduction on impairment charges and operating costs
Equity Fair Value Charge	0.67	0.02	+3851%	Fair valuations on equity investments
Comprehensive Loss	1.26	9.25	-86%	Reduced impairments and operating costs
II.FINANCIAL POSITION				
Cash/Bank	57.97	44.46	+28%	Above budget loan collec-tions
Net Loans	114.63	165.19	-31%	No new loans disbursed
Other Assets	21.52	19.79	+9%	
Total Assets	193.13	229.43	-16%	Reduced loan book
Borrowings	71.66	116.78	-39%	Repayments in debt and no new debt contracted
Other Liabilities	6.05	5.87	+3%	
Equity	115.42	106.07	+8%	US$9.8M capital receipts
Total Equity & Liabilities	193.13	229.43	-16%	

Liquidity Position

Cash balance of **US$56.97 Million**

Liquidity Ratio

29%

14% above the prudential limit of 15%

Managing Director's Report (Continued)

1.6 Our People

Our people are central to realising our vision and strategic goals. In this regard, we are committed to creating a high performance and agile organisational culture that attracts and retains committed and competent staff. In 2019, on the back of having concluded the recruitment of the Executive Team and other professional staff, we continued to prioritise team building to inculcate teamwork and core values of the Company. The Company's focus on the organisational is central to driving the core values, right behaviours and ultimately delivering on the strategy.

1.7 Looking Ahead

Financial Year 2019 represents the first year of our strategic cycle, and we are confident and happy to report that we have made steady strides to begin fulfilling all our strategic goals. Therefore our focus for the ensuing financial years is to achieve financial viability which will lead to financial sustainability as a key anchor to realising our potential whilst concurrently delivering development impact and organisation sustainability. This will be the basis to set a strong platform for the Company to start addressing some of the enormous challenges our continent faces in resolving the crisis of providing affordable and decent housing. The advent of COVID-19 will have an adverse impact on the Company's performance . Notwithstanding the effects of the pandemic , the Company will be positioned as the "Wholesale Market Maker" and the preferred implementation agency that will mobilize , channel and deploy required to deliver large-scale housing projects through public private partnerships. The capitalization of the Company from the shareholders honouring their capital calls and on-boarding of global DFIs as Class C shareholders will provide the impetus needed to leverage additional debt capital required to fund the burgeoning pipeline . The 6 Key Focus areas post COVID-19 pandemic are going to be Capital Raising , Business Continuity ,Cost Realignment ,Strategic Positioning , Refinement of the Business Model and Digital Transformation.

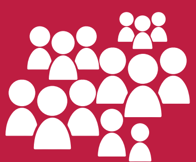
1.8 Acknowledgment

I would like to thank our Shareholders for their continued commitment and support to the noble mandate of the Company. Secondly, on behalf of the Management and staff of the Company, I owe a debt of gratitude to our Board of Directors for their valuable guidance and providing the much needed effective oversight during the year. Thirdly, my appreciation goes to our lenders who have given the Company a new lease of life supported by the sustained support and loyalty of our most valued clients. Finally, I thank my colleagues comprising the executives, the management and staff for their dedication and focus amidst a very challenging and unpredictable operating environment, and for successfully implementing the first phase of the Board approved Five Year Strategic Plan (2019 – 2023) , and for their commitment to the Company's vision.

Andrew Pandeka Chimphondah

MANAGING DIRECTOR

SHAF Team



We are committed to creating a high performance and agile organisational culture that attracts and retains committed and competent staff

Noted Legal Kenyan Luminary Professor P.L.O Lumumba greets the Cabinet Secretary for Transport, Infrastructure and Housing, James Macharia during the SHAF UN-Habitat General Meeting Cocktail

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Investor Relations

2

Investor Relations

2.1 Capital Subscription Receipts

During the period under review, a total of US$ 9,810M was mobilised. Details are shown below.

COUNTRY	CAPITAL PAYMENT in USD' 000
Kenya	3,230
Lesotho	2,150
Cote D'Ivoire	1,690
Mali	1000
Namibia	570
Uganda	430
Morocco	420
Rwanda	320
TOTAL	**9,810**

The amount mobilised represented 33% of the annual target of US$ 30M and 75% growth over the 2018 collections of US$ 5.56M. Despite the low receipts, shareholders reiterated their support for the Institution during the Annual General Meeting held in June 2019 and committed to factor in the share capital arrears in their 2020 budgets. This commitment to planning will alleviate the most significant challenge that hindered most countries from paying up their capital contributions during the year. Post year end receipts amounting to US$4.348M was received as shown below.

COUNTRY	CAPITAL PAYMENT in USD' 000
Mali	1,250
Rwanda	1,210
Morocco	820
Lesotho	630
Zimbabwe	360
Uganda	51
Swaziland	27
TOTAL	**4,348**

In addition to bilateral meetings that were held with respective Housing and Finance Ministers of member states, several Investor Relations events were held during the year to sensitise shareholders on the importance of capital to the Institution. One such event was the shareholder cocktail held on the sidelines of the UN-Habitat Annual General Assembly in May 2019 which attracted more than 20 shareholders.

2.2 New Capital Mobilisation

Efforts were also made to on-board prospective Class B and C members and discussions are still at early stages with various institutions. The following activities were undertaken to facilitate the on-boarding of Class B and C shareholders:

i. Attending multiple conferences where these Investors were present and making a case for Shelter Afrique. Conferences attended included the African Investment Forum (organised by the African Development Bank and held in Johannesburg), AUHF held in Cape town and Investors Forum held in London in October 2019;

ii. Identified potential consultants/consulting firms who have strong networks with Class B and Class C countries and Institutions to consider using them to leverage ongoing in-house efforts. Developing partnerships is critical in achieving our goal and;

iii. Preparing a world-class pitch document clearly articulating the investors' value proposition.

Institutions which have expressed initial interest following the efforts made above include CDC- United Kingdom, Private Infrastructure Development Group (PIDG), Arab Bank for Economic Development in Africa (BADEA) and European Investment Bank (EIB).

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Corporate Governance

3

Corporate Governance

3.1 Shareholder Engagement

Shelter Afrique is owned by 44 African member countries, African Development Bank and Africa-Reinsurance Corporation. We recognise the importance of our shareholders and value our communication with them. To this end, the Company through its Corporate Secretariat and Investor Relations Unit engaged actively with Shareholders in 2019 in a bid to ensure that the Shareholders received efficient and effective communications related to their investments and the capital arrears due from member states. The Managing Director made visits to various member states to further engage with Shareholders and to rally the call for members to pay their capital subscriptions to the Company. This would enable the actualisation of the 2019- 2023 Corporate Strategy that aims at achieving financial sustainability, stakeholder value enhancement and developmental impact as well as organisations sustainability for the institution.

3.2 Annual General Meeting

The Company ensures accountability and transparency to its shareholders through its General meetings. The 38th Annual General Meeting of Shelter-Afrique was held at Savoy Le Grand Hotel in Marrakech, the Kingdom of Morocco on 20th June 2019. The general nature of the business transacted included:

Election of the Chairman and two Vice-Chairmen of the 38th General Meeting;

Fig 4: Directors Charles Hinga and Dr Tunde Reis engage during the Annual Symposium in Marrakech, Morocco

Corporate Governance (Continued)

Presentation by the Board Chairman on the: Strategic Plan 2019-2023; Progress on the Turnaround Plan for the Company; Shareholding Structure; Eminent Persons Group and presentation of the new Managing Director;

- Presentation and adoption of the Annual Report, Audited Accounts for the year 2018;
- Presentation of the Directors' Annual Remuneration Report and approval of the Remuneration Policy for 2019/2020;
- Presentation of Special Business relating to:
- Appropriation of the Reserve Account;
- Recommendations for operationalisation of Article 20 (d) of the Statutes of Shelter Afrique received from African Development Bank;
- Appointment of Class "A" Director representing Group 7;
- Appointment of Class "B" Directors representing the African Development Bank and African Reinsurance Corporation;
- Appointment of the External Auditors for the year 2020 and approving their remuneration.

3.3 Board Of Directors

The Company is governed by a Board of Directors, each of whom is appointed by the Shareholders of the Company. The Board is responsible for providing the strategic direction of the Company in line with the mandate given by the Shareholders. The Board also formulates Company policies, sets the risk appetite and ensures that business objectives are achieved within a controlled environment. The Board is accountable to the shareholders for the Company's performance and is collectively responsible for the long-term success of the Company.

3.3.1 Board Charter

The Board has adopted a Board Charter that sets out its functions and powers and is complementary to the requirements regarding the Board and Board Members contained in the Statutes and the General By-Laws of Shelter Afrique as well as the resolutions of the General Meeting. The Charter regulates Board and Committee composition, provides for positions such as Chairperson, Vice Chairperson and Company Secretary, makes provision for duties and responsibilities of the Board of Directors and stipulates methodology and terms for performance evaluation for the Board. The Charter also lays out guidance on Director induction, development and training as well

Corporate Governance (Continued)

Fig 5: A Cross-Section of the 38th Annual General Meeting

as decision making within the Board. Matters related to conflicts of interest and related party transactions are also covered in detail with clear guidance on how these should be dealt with. The Board Charter and changes to it are approved by the Shareholders at a General Meeting. In 2019, there were no proposed changes to the Board Charter that were recommended to the General Meeting for approval.

3.3.2 Board Composition

Shelter Afrique's Board comprises 7 (seven) Class 'A' Directors representing 44 African member countries, 2 (two) Class 'B' Directors representing 2 (two) Institutions, and 2 (two) Independent Directors. All Directors are non-executive. The Directors have diverse skills and expertise and are drawn from various sectors critical to the delivery of our mandate to our key stakeholders. The names and biographical details of each Director, including their main associations outside Shelter Afrique, are available on the Company's website www.shelterafrique.org.

The names of the Directors who held office in 2019 are set out below.

Corporate Governance (Continued)

Class "A" Shareholders

Item/Group	Title	Names	Country
Group 1	Director	Mr. Charles Hinga Mwaura	Kenya
	Alternate Director	Mr. Lexton Kuwanda	Zimbabwe
Group 2	Director	Nghidinua Daniel	Namibia
	Alternate Director	Dorcas W. Okalany	Uganda
Group 3	Director	Dr. Theresa Tufuor	Ghana
	Alternate Director	Mr. Ouadja Kossi Gbati	Togo
Group 4	Director	Mr. Ali Boulares	Algeria
	Alternate Director	Mr. El Alj Toufik	Morocco
Group 5	Director	Mr. Jean Paul Missi	Cameroon
	Alternate Director	Mr. Abdou Chaibou	Niger
Group 6	Director	Dr. P.M. Tunde Reis	Nigeria
	Alternate Director	Mr. Muhamed Manjang	Gambia
Group 7	Director	Mr. Celestin Koalla	Côte d'Ivoire
	Alternate Director	Mr. Brama Diarra	Mali

Class "B" Shareholders

Institutions	Titles	Names
AfDB	Director	Ms. Soula Anastasia Irene Proxenos
	Alternate Director	Mr. Etienne Nkoa
Africa-Re	Director	Mr. Ephraim Kiiza Bichetero
	Alternate Director	Mr. Seydou Kone

Independent Directors

Titles	Names
Independent Director	Dr. Steve Mainda
Independent Director	Dr. Omodele Jones

3.3.3 Role & Responsibilities

The Board is responsible for the conduct of the general operations of the Company and for this purpose, exercises all powers provided for it in the Statutes, By-Laws and the powers delegated to it by the General Meeting. The Board's responsibilities include but are not limited to: -

» Oversight and supervision of the general business of the Company;

» Ensuring that the Vision, Mission and Core Values of the Company are in line with shareholders needs and that the culture of the organisation is established and embedded;

» Approves the Company's Strategy, financial and business objectives and ensures that it has oversight and is kept current on progress on achievement of those objectives;

» Sets the Risk Appetite of The Company and assesses performance relative to the Company's Risk appetite;

» Responsible for the effective operation of The Company by appointing, evaluating the performance of Senior Management, including compensation and succession planning.

Corporate Governance (Continued)

3.3.4 Board Committees

The Board has 4 (four) substantive committees, namely the Audit, Risk & Finance Committee, Investment Committee, Human Resource and Governance Committee and the Strategy Committee. The Strategy Committee used to be an ad hoc but was later converted to a substantive committee of the Board. The Board committees were established to enable the Board - fulfill its oversight responsibilities relating to the mid to long-term strategy for the Company, risks and opportunities relating to such strategy, and strategic decisions regarding investments, expansion, acquisitions and divestitures by the Company. For the Board to discharge its mandate effectively, matters are discussed in detail in the committees before resolution by the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls and structures are in place to achieve the Company's objectives and obligations to its stakeholders. All the committees have specific terms of reference and hold meetings on a quarterly basis or as frequent 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.

3.3.5 Authority and Delegation

In line with the Company's Statutes, the Board delegates the day to day operations and management of the Company to the Managing Director supported by the Executive Committee. However, the Board of Directors retains responsibility for the strategic direction of the Company. To this end, the Board approved a Delegation of Authority Framework (DoA) that allocates the levels of responsibility and accountability between the Board and Management in a bid to aid in daily decision making within the company.

3.3.6 Board Operations

The Board Charter regulates board Operations. On an annual basis, the Board sets an annual Work plan with a progressive agenda to guide the achievement of its objectives. A schedule of calendar dates for Board meetings to be held in the following year is also fixed in advance by the Board. In 2019, the Board held its meetings as follows: -

No	Meeting	Number of meetings	Scope of Business Conducted
1.	Full Board	4	Strategy, Policies, Finance, Investor Relations, Risk Appetite, Audit & Control Environment, corporate governance, People and Culture and related recommendations from Board Committees.
2.	Audit, Risk and Finance Committee	5	Financial performance, reporting and integrity, Assets & Liabilities management, Internal & External Audit - (findings & recommendations), enterprise risk identification, assessment, management and compliance, and related Policy reviews.
3.	Human Resource and Governance	4	People & Culture, procurements, administration, nominations, remuneration, compensation of both the Board and Staff, ICT Governance, Succession Planning and related Policy reviews.

Corporate Governance (Continued)

No	Meeting	Number of meetings	Scope of Business Conducted
4.	Investment Committee	4	Credit policy & strategy recommendations, new credit approvals, restructuring, and loan workout strategies as proposed by Management.
5.	Strategy Committee	3	Strategy development, implementation of the strategy, monitoring of the status of Strategy implementation, review of the continued relevance of SHAF vision, mission and values, and monitor annual progress of the organisation turnaround.

3.3.7 Director Independence

The Board always ensures that every director can act independently. On an annual basis, Directors are assessed against set guidelines to ensure that they always remain independent. In 2019, all Directors remained independent as per set guidelines.

3.3.8 Conflicts of Interest and Related

Board members and Management are not allowed to enter into related party transactions which by nature raise conflicts of interest or potential conflicts of interest that have a direct or indirect financial benefit. Any conflicts of interest must be disclosed to the Board of Directors. The Board Charter lays out clear guidelines on dealing with conflicts of interest at Board level. Board members do not take part in any discussion or decision making regarding a matter in which he/she has a conflict of interest.

There have been no significant related party transactions, pecuniary 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 2019.

3.3.9 Directors' Remuneration

The aggregate emoluments paid to Directors for services rendered during the financial year are disclosed in Note 36 to the financial statements for the year ended 31 December 2019. The Directors' Remuneration was reduced as per the resolution of the 37th AGM held on 20th July 2018 as further revised by the resolution of the 38th AGM held on 20th June 2019.

3.3.10 Induction Program, Training and Education

Upon his/her election, each Board Member participates in an induction programme that covers the Board's duties and responsibilities as well as the individual directors' role on the Board. The induction also covers the Company's strategy, financial and legal affairs, policies and operations as well as general and specific aspects of the Company's business. An induction programme was undertaken in September 2019 for new directors. The Board of Directors also annually reviews and identifies areas where Board Members require further training or education. The Board approved the Director Development Plan for 2019 and 2020 and the same is under implementation.

Corporate Governance (Continued)

3.3.11 Performance Evaluation for the Board

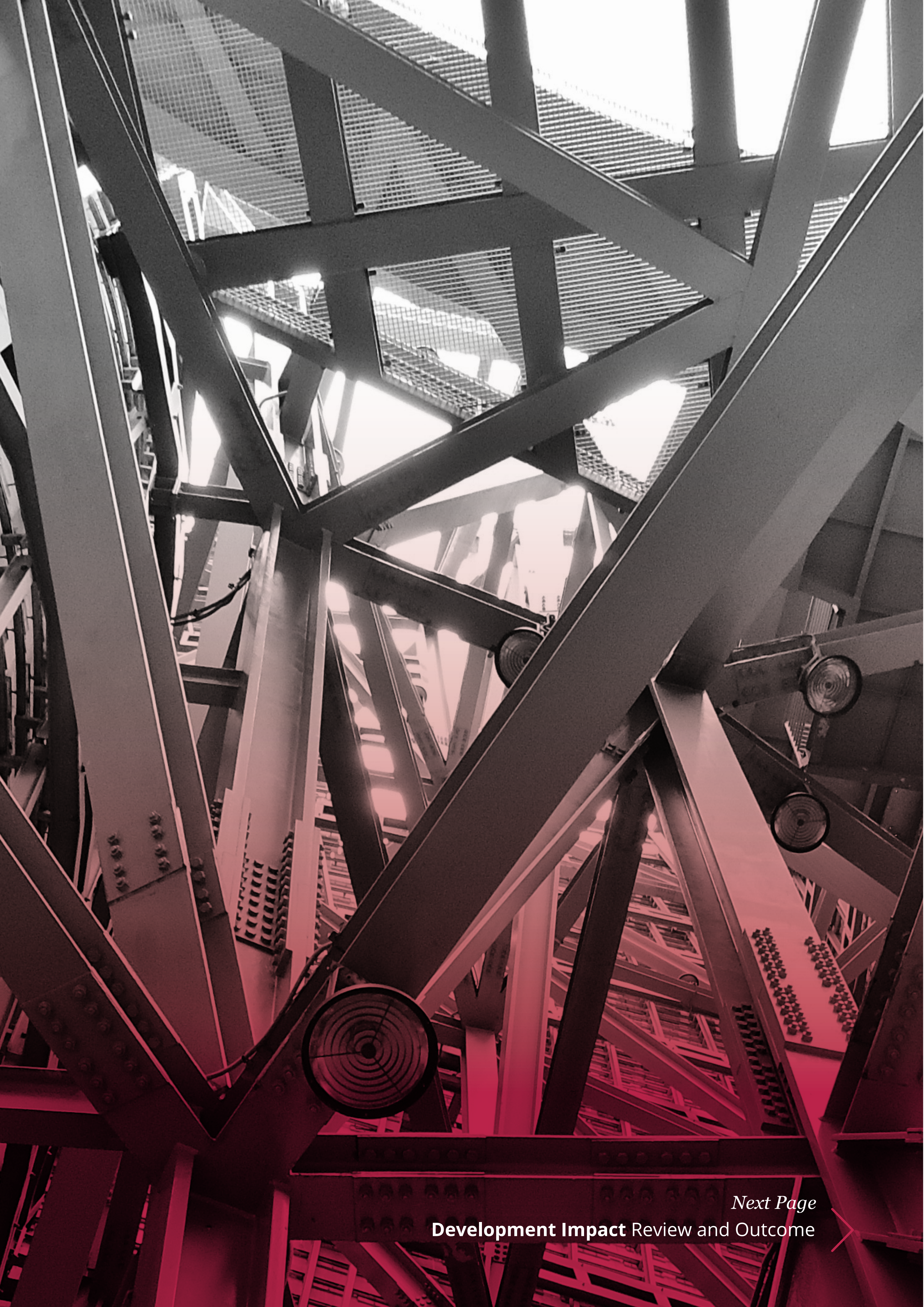
On an annual basis, the Board carries out a performance evaluation to assess its performance against set targets. The Board also carries out assessments for its Committees, individual directors, the Managing Director and Company Secretary. Results of the evaluations are collated and transformed into an action plan to guide Board improvement initiatives.

3.3.12 Company Secretary

The Board of Directors is supported by a Company Secretary who is responsible to the Board for ensuring compliance with Board and Board Committee procedures, providing advice and counsel to the Board on the Company's Statutes, General By-Laws, corporate governance and other secretariat matters. The Company Secretary is also Secretary to the General Meeting.

3.4 Managing Director And Senior Management

Shelter Afrique's Managing Director is appointed, suspended and or removed by the Board of Directors. He is a national of an African Member country with recognised knowledge and experience in housing finance and housing development. In 2018, Shelter Afrique's Board concluded the process of recruitment of a new Managing Director. Mr. Andrew Chimphondah, a Zimbabwean national, emerged successful and took over the reins of the Company in October 2018. The Managing Director is the Chief Executive Officer of The Company and is responsible for the organisation including appointment and dismissal of the Senior Management by regulations adopted by the Board. The Managing Director is assisted by an Executive Committee comprising of high calibre individuals with the right expertise, skills, knowledge and experience aligned to its strategy and mandate.



Next Page
Development Impact Review and Outcome

4

Development Impact
Review and Outcomes

In line with the Company's Strategic Goal 2 of Enhancing Shareholder Value and Development Impact, a Development Impact Assessment exercise was conducted towards the end of the year 2019 to determine the impact of Shelter Afrique's lending operations, projects and programs (OPP).

Shelter Afrique's development impact indices are aligned with achieving the UN SDG 2030 goals for sustainable development. As the built environment has a critical role to play in the achievement of the United Nations 2030 Sustainable Development Goals (SDGs), key responsive entities such as the company is required to provide such information on a much broader basis to key stakeholders, who include investors, employees, and customers.

The SDGs outlines a globally agreed set of targets to address the world's most pressing social, environmental and economic challenges. We have adopted the framework requirement on housing and thus are able to report on our impact and contribution to society. As a company we have achieved the following results of development activities in support of affordable housing delivery and urban development in Africa for projects that were active in 2019. These developments indicates how the Company leveraged on its resources to support Africa's development agenda by delivering on the following development outcomes:

1

Delivery of decent and quality housing projects to support Africa's rapid urbanization trend

A total of 3,821 housing units were delivered.

The average selling price of the housing units delivered was below US$ 40,000.

2

Creation of jobs as a result of construction activities to enhance income opportunities and expand economic activities

15,284 direct jobs &
11,463 indirect jobs were created

3

Ensuring Social Sustainability to enhance sustainable individual livelihoods, as well as improving quality of life and enhancing human dignity

- **The average distance of the housing developments to the closest amenities (schools, shopping centers, health facilities and recreational facilities) was an average 2 Kilometers (KM).**
- **The average distance of the housing developments to the main roads was an average 3 Kilometers (KM).**
- **Promoting gender equality by empowering 242 women with housing units;**
- **No record of the violation of human rights through the involuntary resettlement/expropriation of indigenous people or other vulnerable groups;**
- **No vulnerability to the effects of earth and geological distortion caused by earthquakes, landslides, soil erosion, flooding or other related extreme climatic conditions due to our funded developments.**

Development Impact
Review and Outcomes (Continued)

4

Ensuring Environmental Sustainability by enabling responsible interaction with the environment to avoid depletion or degradation of natural resources and allow for long-term environmental quality.

Basic operational approach in all projects' assessment is as follows:

» Ensure existence of approved environmental and social impact policies and government approved studies.

» Comply with Shelter Afrique's environmental and social policies which are developed and implemented to ensure the housing development projects and operations are socially and environmentally sound and any potential environmental and social risks are clearly identified, evaluated and where necessary mitigated.

The environmental and social impact policies encapsulates the following towards achieving environmental and socially responsible projects:

Ensuring that operations comply with all applicable laws and regulations related to social and environmental protection, including national laws of the host country, and associated standards and safeguards;

» Encouraging protection of the environment through efficient use of energy and natural resources, minimization of wastes and recycling;

» Provision of the necessary resources to enable effective implementation of the environmental and social policies;

» Establishing and regularly reviewing social and environmental objectives and targets to facilitate continuous improvement;

» Developing and implementing a social and environmental training strategy to ensure effective management of social and environmental risks associated with the activities of the organization and implementation of the policy.

» Effective Awareness of Project staff on the Developers Environmental and Social Impact Requirements.

Awareness is considered a key factor in achieving the objectives of environmental and social impact. Environmental and social awareness does inform of the dangers of continuing to consume as much as we currently do and the related threats to our universe.

Organizations play a huge role in this process. As they can set standards for their employees. They can do so by staying compliant with the set rules and regulations that promote green practices and social responsibility. In line with these, Shelter Afrique housing initiatives do ensure the implementation of effective awareness of the project staff to achieve environmental and social impact objectives.

In achieving these objectives, the project staff do share the responsibility with other key stakeholders to ensure that the projects are designed, constructed, operated and demolished with minimum negative environmental impacts.

Development Impact
Review and Outcomes (Continued)

5

Partnering for Development Impact

Considering the multifaceted nature of housing delivery, Shelter Afrique understands that long term collaborative relationships with partners can help achieve better and more sustainable results towards solving the affordable housing and urban development challenges in Africa.

Shelter Afrique works with African governments, development partners and other related stakeholders to deliver impactful projects to enable Africa achieve its set developmental goals.

In addition to financial support, Shelter Afrique partners provide relevant feedback that further informs the organization's future strategies.

The following are the current partners supporting Shelter Afrique's affordable housing delivery mandate:-

- 44 African Governments (Class A shareholders)
- African Development Bank and Africa-Reinsurance (Class B shareholders)
- European Investment Bank
- Islamic Corporation for the Development of the Private Sector (ICD)
- KFW
- West African Development Bank (BOAD)
- Agence Française de Dévelopement
- FMO

Fig 6: Habitat for Humanity International and SHAF consummate their collaboration by signing an MOU (Memorandum of Understanding)

Development Impact
Review and Outcomes (Continued)

- UN Habitat
- Habitat for Humanity International
- International Union for Housing Finance
- African Union for Housing Finance
- Centre for Affordable Housing Finance
- Echostone
- I-Build Global Ltd
- Teyliom International Limited
- TAF Africa Global Limited
- Development Bank of Rwanda
- Housing Agencies in the 44 member countries
- Family Homes Fund Limited
- Tanzania Mortage Refinance Company
- CRRH-UEMOA(Caisse Régionale De Refinancement Hypothécaire
- Remote Estates Limited
- Census Equity Holdings Limited

6

Shelter Afrique's Activities Alignment to the 2030 United Nations Sustainable Development Goals (SDGs) and the New Urban Agenda (NUA)

Shelter Afrique's Activities Alignment to the 2030 United Nations Sustainable Development Goals (SDGs) and the New Urban Agenda (NUA)

The activities of Shelter Afrique in providing innovative solutions to the affordable housing and urban development challenges in Africa align with the 2030 United Nations Agenda for SDGs. More specifically, the activities of Shelter Afrique primarily relate to Goal 11 of the SDGs, which aims to make cities and human settlements inclusive, safe, resilient and sustainable. However, broadly speaking, the activities of the Company serves as a key component of sustainable development across all of the goals. Good housing drives access to basic services, contributes towards inclusive growth, and supports the development of a sustainable future. Therefore, affordable housing delivery does have a profound and direct impact on at least 14 of the SDGs as outlined below.

SDG 11: Ensuring access for all to adequate, safe and affordable housing and basic services and upgrade of slums.

New Urban Agenda: Furthermore in the context of SDG 11, there is the New Urban Agenda (NUA), which is a strategic blueprint for the public, private, civil society organizations, development finance institutions, professionals, the scientific and academic institutions to collaborate to support the realization of the 2030 agenda on sustainable development, specifically Goal 11.

Housing and slums upgrading are considered pivot pillars of the NUA, as the agenda aims to position housing delivery at the centre of national and local ur-

Development Impact
Review and Outcomes (Continued)

ban agendas; As such having a paradigm shift from basically providing housing to a more structured, strategic and holistic framework for housing delivery which incorporates the objectives of achieving a sustainable and inclusive human settlements in terms of effective urban planning practice and consideration for human rights.

SDG's 2,3,4, 6 and 9: Housing drives access to basic services and impacts profoundly on the health and well-being of low-income households.

SDG's 1,5,8,10,12 and 17: Housing contributes towards inclusive and participatory growth. Housing delivery enhances home ownership, which consequently builds asset wealth, enables job creation, supports economic growth and facilitates financial intermediation.

SDG's 7 and 13: Housing delivery processes are required to support the achievement of climate goals, improving the sustainability and affordability of housing and urban living.

7

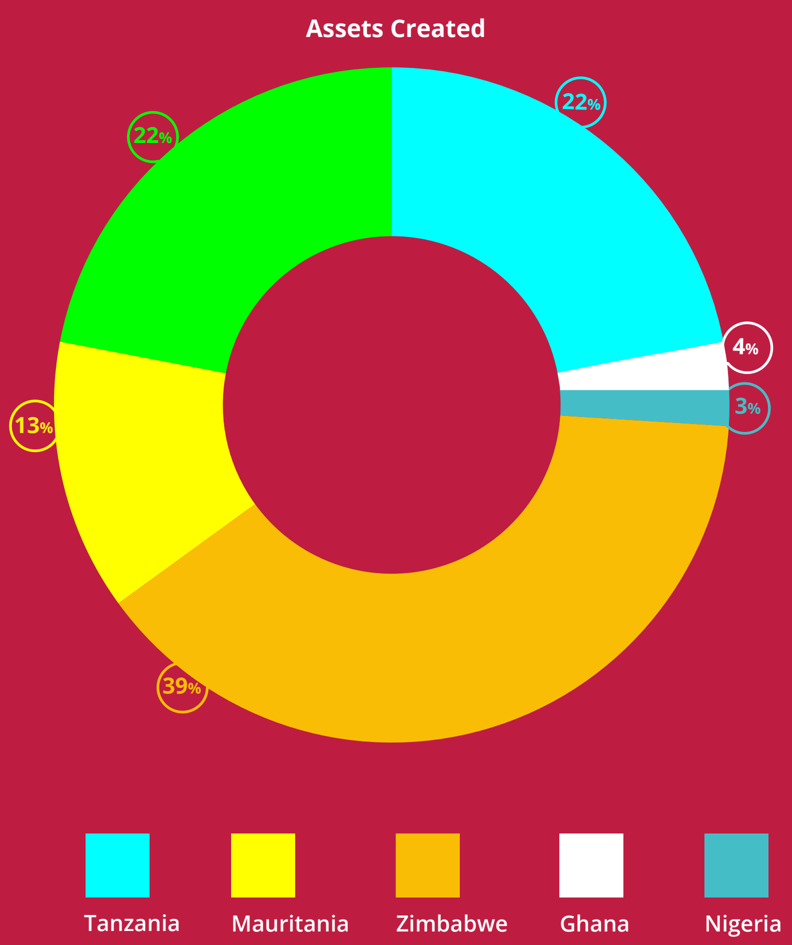
Assets Created

Africa is often regarded as the world's fastest urbanizing regions. The urban areas in the region currently accounts for over 472 million people, and the numbers are expected to double over the next 25 years. The global share of African urban residents is projected to grow from 11.3% in 2010 to 20.2% by 2050. The rapid urbanization rates and lack of urban planning in the region have resulted in very large housing deficits, which these dents Africa's efforts towards achieving its set developmental goals, specifically the SDG's. The company in its role as the Pan African Housing finance Institution, is further consolidating its efforts towards providing innovative solutions to the affordable housing delivery and urban development challenges in Africa. In the 2019 financial year, 3,821 assets were created which include houses built/mortgages provided. These assets were created in six countries covering East, West, North and Southern regions in Africa. Table 1 and Figure 1 below describe the assets created and the corresponding countries.

Development Impact
Review and Outcomes (Continued)

Countries	Assets Created	%
Kenya	852	22
Tanzania	850	22
Ghana	43	1
Nigeria	108	3
Zimbabwe	1,488	39
Mauritania	480	13
Total	**3,821**	**100**

Figure 1: Graphic representation of Assets Created and Corresponding Countries.



As denoted in Table 1 and Figure 1 above, Eastern Africa has the highest number of assets created with a cumulative of 44% followed by Southern Africa with 39% and North Africa with 13% and lastly West Africa with a cumulative of 4%.

Development Impact
Review and Outcomes (Continued)

8

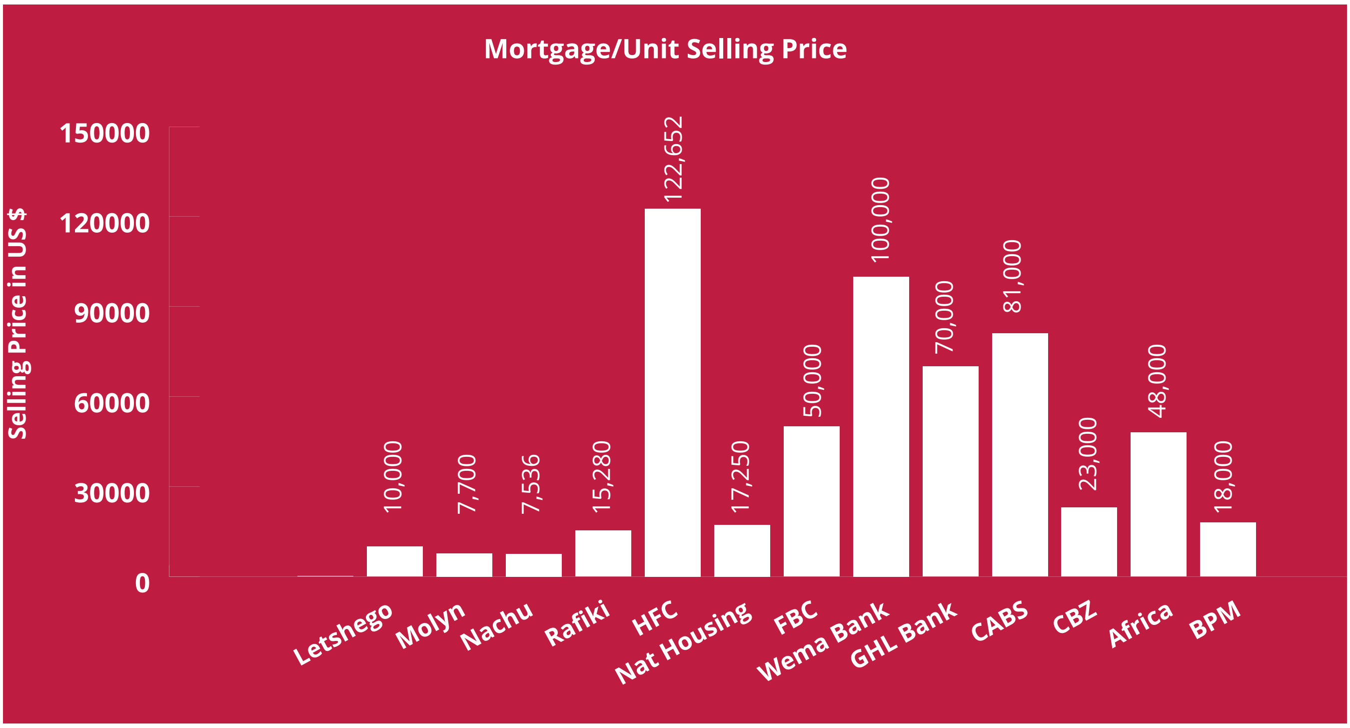
Affordability

Considering the increased level of urbanization in Africa, the demand for affordable housing among low and middle-income households across Africa is high. And this demand is projected to grow tremendously in the coming decades.

In this context, Shelter Afrique aims to continuously contribute towards attending to the increasing need for housing in Africa. In 2019, the average selling price/mortgage of a housing unit delivered through Shelter Afrique's initiatives was below US$ 40,000. Figure 2 provides a further breakdown of the average mortgage/selling price of the housing units.

Housing affordability is a function of three components: household income, the price of the house, and the terms of the finance. Across Africa, low urban household incomes coupled with low mortgage penetration results in very low housing affordability. Furthermore, the affordability challenge is further exacerbated by the high cost of building materials and inefficiencies in the construction process. These results in having informal self-built housing the preferred and feasible option for home acquisition in the region. In 2019, only 13 countries in Africa had houses priced at below US$20 000; and 14 countries between US$20 000 - $30 000. Half of all the countries, however had their cheapest newly built house priced above US$30 000.

Figure 2: Breakdown of average mortgage/selling price of the housing units.



Development Impact Review and Outcomes (Continued)

However, there are ongoing efforts by the governments and other relevant key stakeholders in the built environment space towards increasing access to affordable housing in Africa. One of such efforts is in Kenya and Tanzania, where the Kenya Mortgage Refinancing Company (KMRC) and Tanzania Mortgage Refinance Companies (TMRC) were set up with the purpose of addressing the financing challenges and also unlocking liquidity for affordable housing.

In its efforts in addressing the affordability challenge in Africa, Shelter Afrique invested in these entities as a shareholder. The investments are aimed at enabling the mortgage refinance companies serve their primary roles of offering mortgage liquidity facilities by elongating mortgage tenors.

9 Job Creation

The housing deficit in Africa can be viewed as both a huge challenge and a tremendous opportunity to expand economic activities and create millions of jobs. Studies consistently shows that developing affordable housing creates jobs, both during construction and also through new consumer spending after the homes have been occupied. The job impact on housing delivery is broader than just the actual construction. The direct construction worker impact shows up in the construction labor count; whereas the other new jobs show up across the rest of the wider economy. In 2019, Shelter Afrique's housing initiatives created an estimated 15,284 direct jobs and 11,463 indirect jobs. In Africa, where according to the World Bank, youths account for an estimated 60% of all Africa's jobless, housing delivery can serve as a catalyst for jobs creation and consequently enhance income opportunities and expand economic activities.

10 Social Sustainability Impact

Social sustainability involves the formal and informal processes and systems that supports the capacity of current and future generations to create healthy and sustainable communities. Such communities are characterized by being equitable, diverse, connected and ultimately provides a good quality of life to its inhabitants. Social sustainability provides services that contribute to sustainable individual livelihoods, as well as broader economic growth, while improving quality of life and enhancing human dignity. Affordable Housing delivery promotes social and economic well-being; furthermore, it is known to complement social interventions and facilitate effective participation in socio-political processes.

The Hon. Minister for Housing in Zimbabwe, Daniel Garwe, speaks at the Zimbabwe COE Masterclass series

Next Page
Financial Management

5

Financial Management

5.1 Financial Performance

The slow resumption of underwriting new business impacted the financial performance for 2019. Consequently, the revenue streams continued to decrease year on year basis; this was driven by the sustained decline of the existing loan book.

Accordingly, the Company incurred an operating loss of US$0.59 Million, 94% decrease from US$1.23 Million incurred in 2018. The comprehensive net loss was US$ 1.26 Million, 86% decrease from the previous year's loss of US$ 9.25 Million. The loss was attributed to slow underwriting of new business, which led to significant declines in both interest income and fee income by 13% and 16% respectively. Interest income fell to US$15.34 Million from US$17.62 Million and fees to US$1.30 Million from US$1.52 Million. The key performance indicator was the 31% decline in the net loan book from US$165.19 Million in 2018 to US$114.63 Million in 2019.

However, despite the adverse financial performance, the Company recorded some definite improvements on critical metrics such as a significant reduction in interest expense by 33% from US$9.98 Million in 2018 to US$6.70 Million in 2019. This improvement was made on the back of a 39% decrease on borrowings from US$116.77 Million in 2018 to US$71.66 Million in 2019.

It is also imperative to note that in absolute terms, the Company contained operating expenses with a 7% decrease from US$9.05 Million in 2018 to US$8.44 Million in 2019.

5.2 Financial Position

Total assets reduced by 16% , from US$ 229.43 Million in 2018 to US$ 193.13 Million in 2019, attributed to the 31% decrease in net loan assets from US$165.19 Million to US$114.63 Million as explained above on the back of reduced lending as The Company relied on disbursing on reduced previous loan commitments given the slow resumption of new business.

Liquidity increased by 28% from US$ 44.46 Million in 2018 to US$ 56.97 Million in 2019 on the back of enlarged share capital receipts from shareholders. A total of US$ 9.79 million was received during the year, which increased total paid-up capital by 8%, from US$ 130.65 Million in 2018 to 140.64 Million in 2019. Similarly, Shareholder Funds increased by 8% from US$ 106.79 Million to US$ 115.42 Million in 2019 due to the new capital subscriptions and the loss for the year.

Debt reduced by 39% from US$116.77 Million in 2018 to US$71.66 Million due to the principal and interest payments of US$45.65 Million and US$5.98 Million respectively. There was no additional debt taken up in the year.

5.3 Changes In Equity

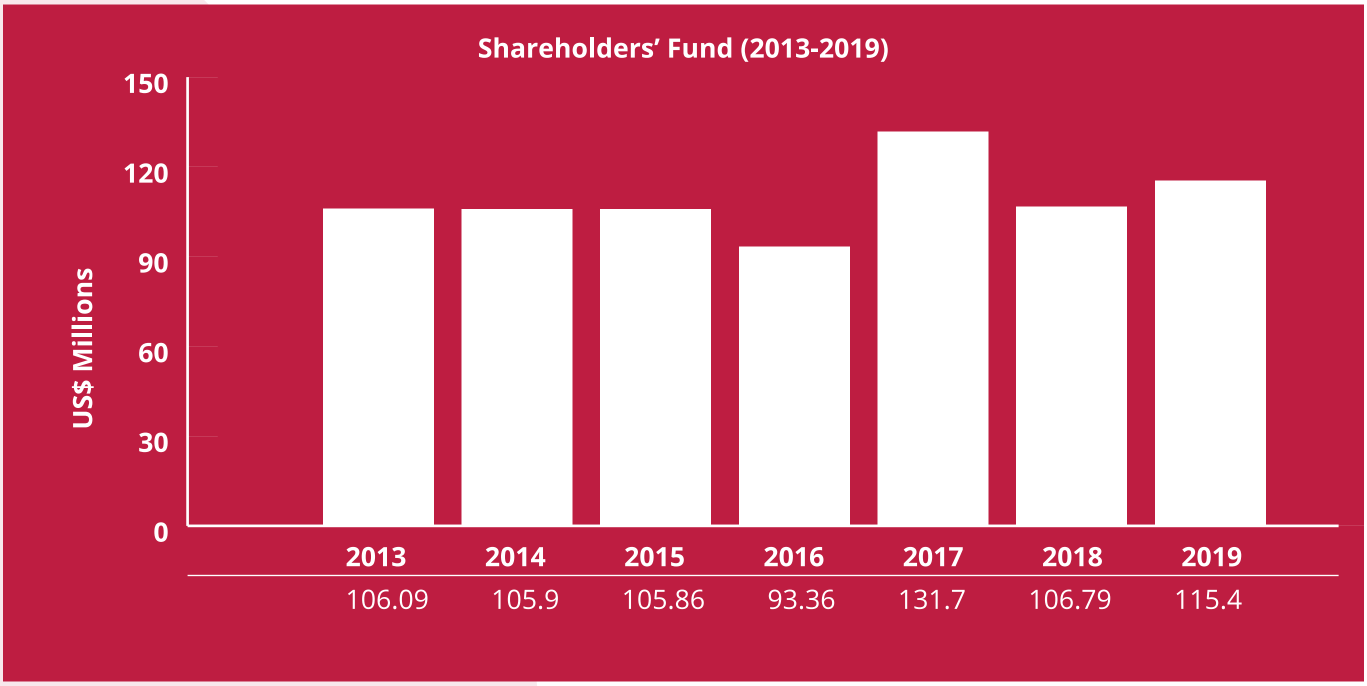
Total equity increased by 8% from 106.79 Million in 2018 to 115.42 Million in 2019. This is attributed to capital subscription receipts of US$ 9.79 Million and the loss for the period.

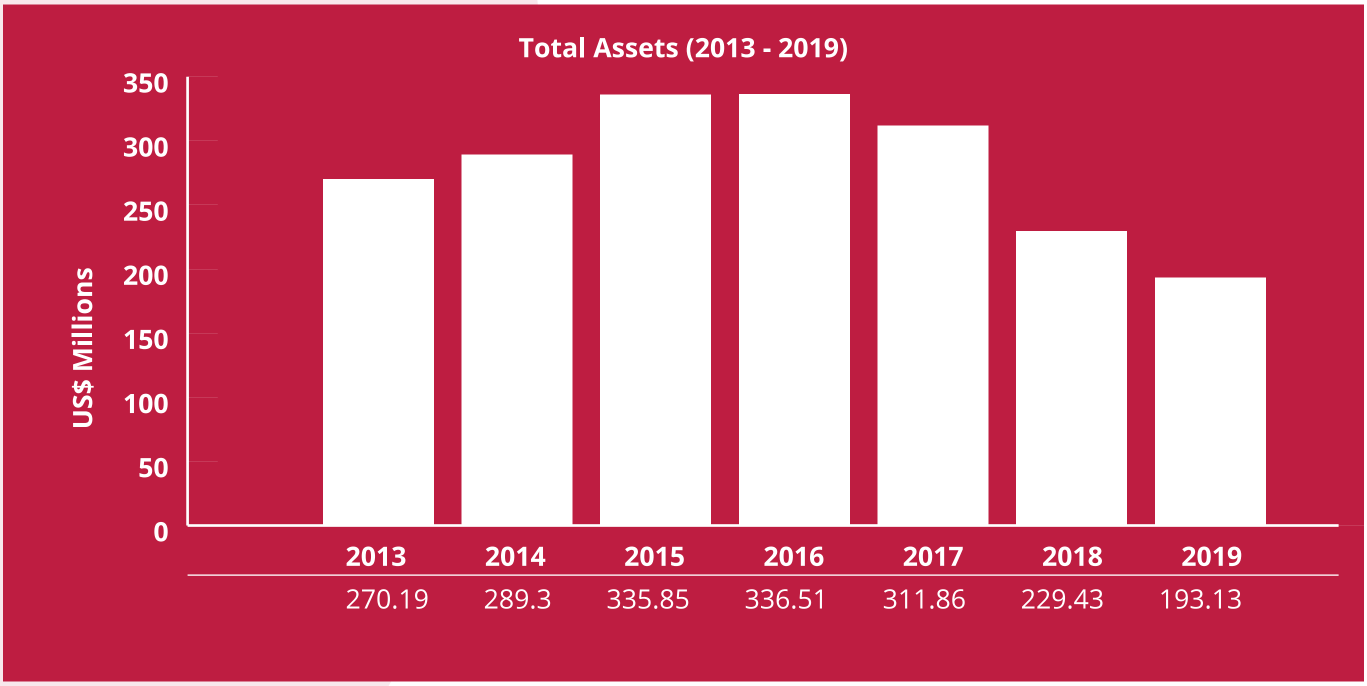
5.4 Cash Flows

Cash and cash equivalents increased by 28% from US$ 44.46 Million in 2018 to US$ 56.97 Million in 2019. The inflows are attributed to collections from the loans and advances to customers and share capital subscriptions, while the outflows are attributed majorly to debt repayments and operating expenses.

Financial Management (Continued)

5.5 Selected Financial Performance Charts





Financial Management (Continued)

TABLE 1: KEY OPERATIONAL AND FINANCIAL DATA – 2013 -2019 (US$ MILLIONS)

Year	2013	2014	2015*	2016	2017	2018	2019
Approvals	104.50	141.13	129.73	89.43	-	-	-
Cumulative Approvals	787.33	928.46	1,058.19	1,147.62	1,147.62	1,147.62	1,147.62
Disbursement	79.73	73.11	103.65	51.4	27.52	6.5	3.4
Cumulative Disbursement	403.83	476.94	580.59	631.99	659.51	666.01	669.41
Total Assets	270.19	289.3	335.85	336.51	311.86	229.43	193.13
Profit (Loss) for the Year	4.75	0.45	-4.94	-12.68	-7.79	-9.25	-1.26
Paid-Up Capital	59.84	60.82	62.23	62.6	88.62	91.76	97.39
Share Premium	14.2	14.9	16.1	16.4	36.5	38.9	43.3
Revenue Reserves	29.43	27.85	22.91	9.49	1.73	-27.52	-28.39
Provisions for the Year	2.28	4.83	10.14	19.2	10.9	9.92	4.39
Shareholders' Funds	106.09	105.90	105.86	93.36	131.7	106.79	115.4

*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$ MILLIONS)

Operating Results		2013	2014	2015*	2016	2017	2018	2019
Gross Income		13.17	14.15	15.12	16.68	14.13	9.49	10.2
Operating Expenses		6.83	8.24	10.09	9.72	8.85	9.06	8.44
Operating Profit before provisions		6.65	5.59	5.2	6.52	4.84	0.69	3.13
Profit (Loss) for the year		4.75	0.76	-4.94	-12.68	-7.79	-9.25	-1.26
Administrative Expenses		6.51	7.87	9.63	9.2	8.42	8.68	8.05
Financial Position								
Net Loans and Advances	(a)	195.41	216.85	274.28	283.11	247.4	165.19	114.64
Financial Investments		59.67	51.87	30.47	7.71	21.98	30.78	50.48
Total Assets		270.19	289.3	335.85	336.51	311.86	229.43	193.13
Total Equity		106.09	105.9	105.86	93.36	131.7	106.79	115.42
Total Debt		160.62	177.79	224.57	236.16	173.65	116.78	71.66
Financial Ratios								
Total Debt to Total Assets (%)		59.45	61.46	66.87	70.18	55.68	50.9	37.10
Debt/Equity ratio (%)		151.4	167.88	212.14	252.96	131.85	109.35	62.09
Earnings (Loss) per share (US$)		81.86	12.62	-80.36	-203.17	-103.04	-102.56	-13.31
Dividend per share (US$)		15.86	-	6.82	-	-	-	-

a) 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.

Next Page
Business Operations

6

Business Operations

6.1 Key Milestones For 2019 On Back of Resumption of New Business

2019 marked the commencement of the implementation of SHELTER-AFRIQUE's Strategic Plan 2019-2023. The Company embarked on several initiatives aimed at laying the foundation for business growth and sustainability, following two years of a hiatus from business operations. One of the initiatives was on staffing. In this regard, the Head of New Business was recruited, and the office bearer joined The Company in March 2019. There was further re-alignment of staff at Regional Offices, with re-assignment of two officers from other business units to increase the capacity of the New Business Team.

Another initiative was the revision of the Lending Policy to enhance SHELTER-AFRIQUE's credit underwriting practices. The Board in June 2019 approved the revised Lending Policy that brought considerable changes in the way new business is underwritten. The objective was to implement a Lending Policy that was responsive to stakeholders' expectations and the introduction of new products and services as envisaged in the Strategic Plan.

6.2 Business Model and Product Offering

With enhanced staff and revised Lending Policy, the New Business Team embarked on the rapid development of a new pipeline in June 2019 through various strategies. Marketing initiatives were carried out through multiple platforms including conferences, workshops, business-to-business meetings as well as business development missions to target markets. The focus was to identify opportunities for the development of Public-Private Partnership (PPP) projects across our member countries. The thinking behind this is to address the supply of affordable housing on the one hand and Lines of Credit to eligible financial institutions to support the development of mortgages to address the demand for affordable housing on the other.

6.3 Strategic Business Partnerships

Realising the value for strategic partnerships, the New Business Team also entered into strategic arrangements with like-minded institutions to develop solutions around affordable housing challenges. In July 2019, SHELTER-AFRIQUE signed a Memorandum of Understanding with Habitat for Humanity International, to mobilise capital for affordable housing that will be extended to institutions focusing on the provision of housing loans to low-income populations in our Member States. During the year, SHELTER AFRIQUE also signed strategic Memoranda of Understanding with stakeholders such as:

» the Government of Ivory Coast (June 2019) to support the development of a 3,000-units social housing program through a Public and Private Partnership (PPP);

» the Government of Liberia (July 2019) through the National Housing Authority (NHA) to provide technical assistance and to support the development of 960 decent social housing units through PPP;

» Nigeria's Family Homes Fund Limited (October 2019) and Echo Stone Nigeria (September 2019) to co-promote affordable housing programs targeting low-income households.

Fig 7: The Managing Director of the National Housing Authority for Liberia Ms Celia Cuffy-Brown shakes hand with The Managing Director of Shelter Afrique

Business Operations (Continued)

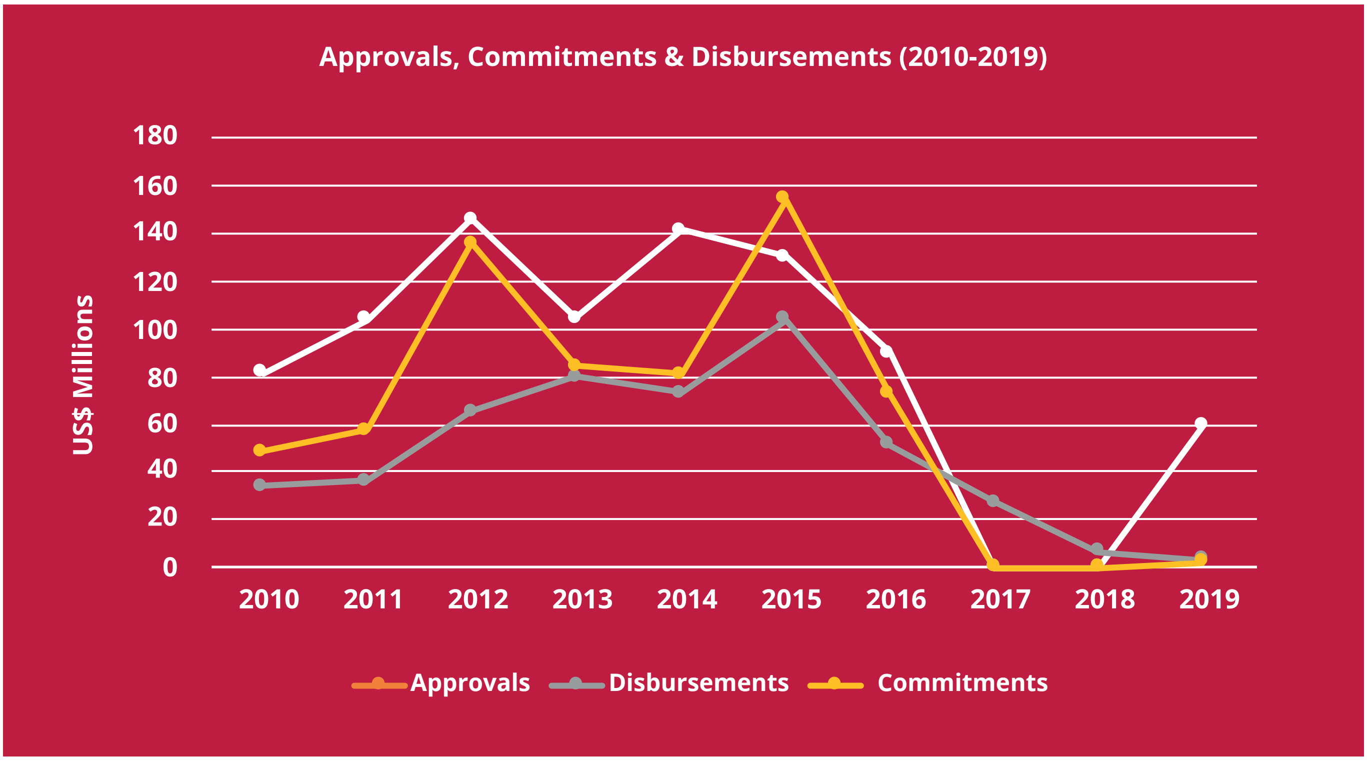
6.4 Approvals, Commitments and Disbursements

The table and chart below summarise The Company's cumulative approvals, commitments and disbursements between 2010 and 2019.

Table 11.4: Cumulative approvals, disbursements and commitments between 2010 and 2019 (All Figures in US$ Million)

Years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Approvals	81.34	103.82	145.65	104.50	141.13	129.73	89.93	-	-	59.46
Cumulative Approved Loans	433.36	537.18	682.83	787.33	928.46	1,058.19	1,148.12	1,148.12	1,148.12	1,207.58
Disbursements	34.06	36.29	65.49	79.73	73.11	103.65	51.40	27.52	6.92	3.30
Cumulative Disbursements	222.32	258.61	324.10	403.83	476.94	580.59	631.99	659.51	666.43	669.73
Commitments	48.85	57.50	135.69	84.40	80.84	154.01	72.42	-	-	2.26
Cumulative Commitments	**262.35**	**319.85**	**455.54**	**529.94**	**620.78**	**774.79**	**847.28**	**847.28**	**847.28**	**849.54**

Chart 11.4: Approvals, disbursements and commitments between 2010 and 2019



6.4.1 Loan Approvals

During the year, investments amounting to US$ 59,456,575 were approved. The table below summarizes the list of transactions that were approved in 2019.

Business Operations (Continued)

Table 6.4.1 Summary of Approvals in 2019

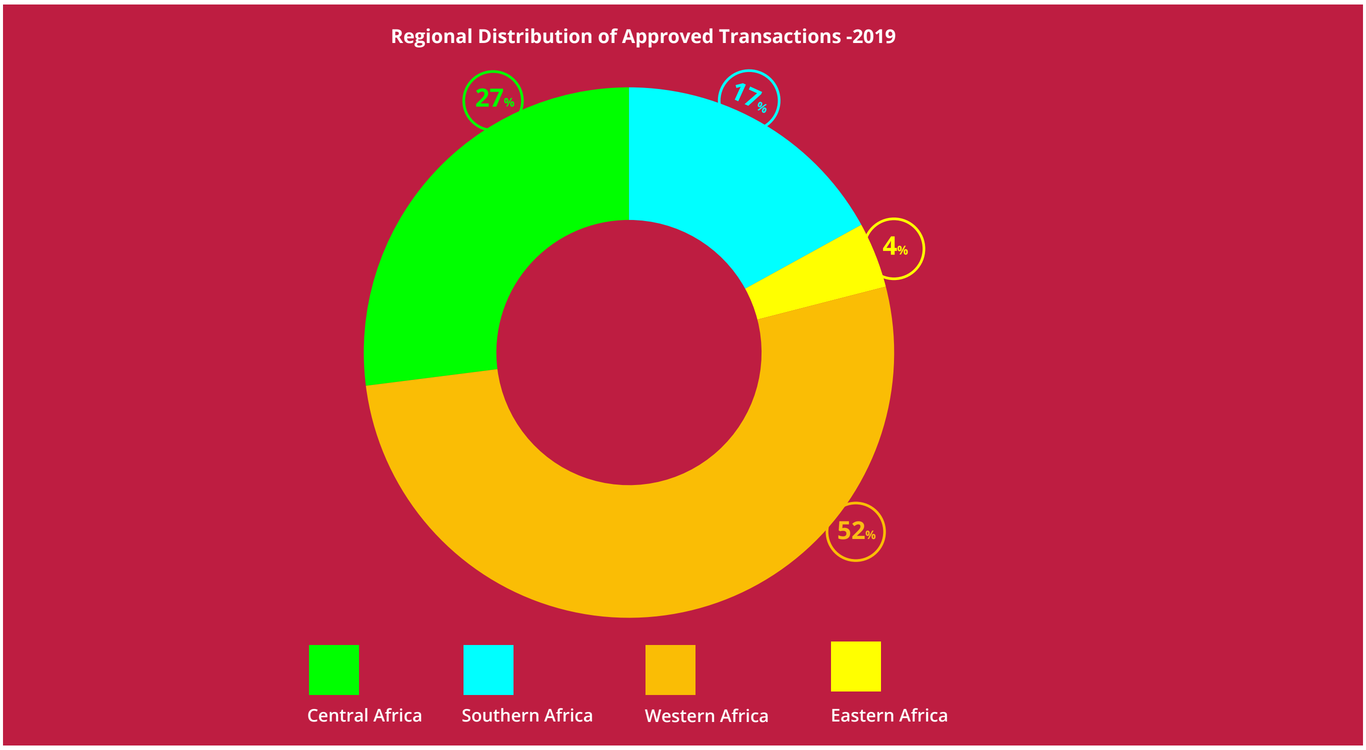
	Name of Counterparty	Transaction Type	Country	Region	Amount
1	Kenya Mortgage Refinance Company	Equity Investment	Kenya	Eastern Africa	$2,000,000
2	SO PRO FIM S.A	Project Finance	Chad	Central Africa	$4,700,000
3	Central Africa Building Society (CABS)	Line of Credit	Zimbabwe	Southern Africa	$10,000,000
4	Wema Bank PLC	Line of Credit	Nigeria	Western Africa	$9,000,000
5	LAPO Microfinance Bank	Line of Credit	Nigeria	Western Africa	$7,000,000
6	Prudential Mortgage bank	Line of Credit	Nigeria	Western Africa	$3,500,000
7	Tanzania Mortgage Refinance Company	Equity Investment	Tanzania	Eastern Africa	$256,000
8	Teyliom International Ltd	Line of Credit	Senegal	Western Africa	$11,600,000
9	Afriland First Bank	Line of Credit	Democrative Republic of Congo	Central Africa	$11,400,000
	Total				**$59,456,575**

Table 6.4.1 Summary of Approvals in 2019

In terms of regional distribution of approved transactions, Western Africa Region accounted for 52% of the approvals, followed by Central Africa at 27% . Southern Africa and Eastern Africa followed at 17 % and 4 % re-spectively.

The chart below gives a graphical interpretation of the regional distribution of approvals in 2019.

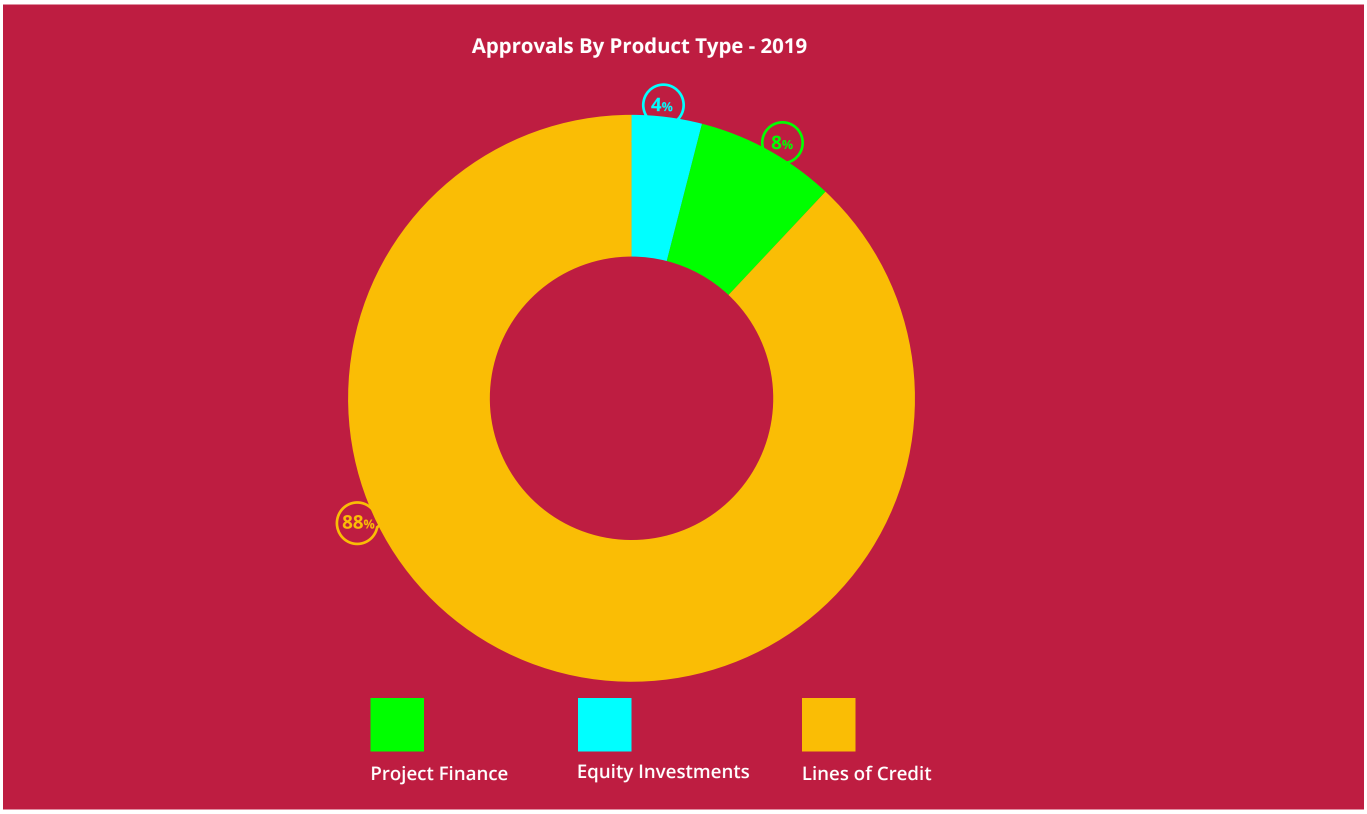
Chart 2: Regional Distribution of Approved Transactions – 2019.



Business Operations (Continued)

Lines of Credit attributed to 88% of the approved transactions in 2019. Project Finance and Equity Investments on the other hand, accounted for 8% and 4% approvals respectively, as summarised in the chart below.

Chart 3: Approvals by Product Type - 2019



6.4.2 Loan Commitments

Commitments during 2019 amounted to US$2,256,575, equivalent to 3.8 % of the investments approved during the year.

6.4.3 Loan Disbursements

Disbursements during the year amounted to US$ 3,295,019. The amounts were mostly attributable to disbursements to ongoing projects carried forward from previous years' approvals (68.7%); disbursements to complete transactions under work out (23.51%) and disbursements under newly approved transactions (7.79%).

6.5 New Business Going Forward – Challenges And Prospects

The New Business Team continues to develop a pipeline that is reflective of the aspirations of SHELTER-AFRIQUE's shareholders, and that is responsive to the affordable housing crisis evident in its Member Countries.

As at 31st December 2019, the team was pursuing an active pipeline of new business amounting to US$408.7 Million as summarised in the table below:

Fig 8: The Minister of Infrastructure, Rwanda, Amb. Claver Gatete and The MD look on as Trevor Green of the Remote Group explains Aerated Autoclaved Concrete Blocks during the launch of the Rugarama Housing Project

Table 6.5 Business Pipeline

New Business Pipeline as at 31st December 2019

Product	%	Total (US$)
Lines of Credit	59%	297,600,000
Project Finance/ Public-Private Partnership Projects	39%	193,701,553
Equity Investments	2%	10,000,000
Total	**100%**	**501,301,553**

While doing so, the business continues to be faced with risks associated with foreign currency, particularly given the volatility of currencies in most Sub-Saharan economies. The Team, with support from the Executive Committee, remains relentless in its pursuit for plausible solutions to surmount this challenge.

Among measures that have been put in place includes innovation at origination to ensure the risk is either transferred or shared. Other initiatives include ongoing discussions with several central banks to design functional structures that mitigate all parties against this risk. The business also continues to engage other development finance institutions for potential collaboration in the area of foreign currency risk management.

Despite this challenge, the Business is now well-positioned to deliver on the commitments made to shareholders under the 2019-2023 Strategic Plan.

Next Page
Recoveries of the Non-Performing Loans

7

Recoveries of the Non-Performing Loans

7.1 Sustained Recovery Record

Collections from the Non-Performing Loan (NPL) Portfolio has been one of the bright spots for the Company for the fiscal year under review.

In 2019, great success was achieved with a total recovery of US$16.38 Million, representing 110% of the year's annual target of US$15 Million. Furthermore, SOU directly contributed approximately US$6.60 Million to the income statement through the realisation of suspended interests, default interests & other fees as well as loan writebacks. These achievements were a significant contribution to the Company's turnaround and represents about 44% of the reported gross total income of the company in 2019.

7.2 Special Operations Unit as a Strategic Business Unit

As stipulated by the NPLs Management strategy (2019-2023), the Special Operations Unit has effectively become a Strategic Business Unit (SBU) which is not only a cost centre but also a profit centre.

The Management and the Board of Directors have made it clear that NPL management is a vital component of the business turnaround strategy for the company. Conversion of non-performing assets into either interest or rent earning assets is critical to the performance of the company. Indeed, effective management of the legacy portfolio inclusive of the NPLs is an essential cog to the sustainability of the Company as it resumes its activities and new business opportunities are converted in earning assets. Considering the lead time required for new business, it's expected that collecting and generating income from the NPL portfolio will remain essential to the financial performance of the Company the for the next 2-3 years. It is expected that during this period, new business and projects will begin generating revenue streams.

7.3 Non-Performing Loans Management Strategy

In line with the NPLs management strategy, the SOU team has been executing a 4-pronged approach in reducing the legacy portfolio that is under NPL:

i. Cash Collection

ii. Workouts subject to accessing control of the asset and ascertaining financial viability

iii. Write-offs of hardcore cases with limited collection prospects

iv. Asset management option to time market for better exit terms

As part of the objective to improve the efficiency and effectiveness of its strategy, management has developed a coordinated approach involving various functional units within the Company (SOU and Shared Technical Services (STS)). The plan also includes local Independent Project Managers (IPMs) (and Clerk of Works "CoWs" where required) for the implementation of workouts (and repositioning where needed). This approach has provided a much more robust risk and project management framework for the delivery of projects on time, on budget and as per specifications.

With continuous improvements and the increased oversight capacity, the SOU has built a robust operation based on sound policies and procedures. The SOU features a multi-disciplinary team, and a new

Recoveries of the Non-Performing Loans (Continued)

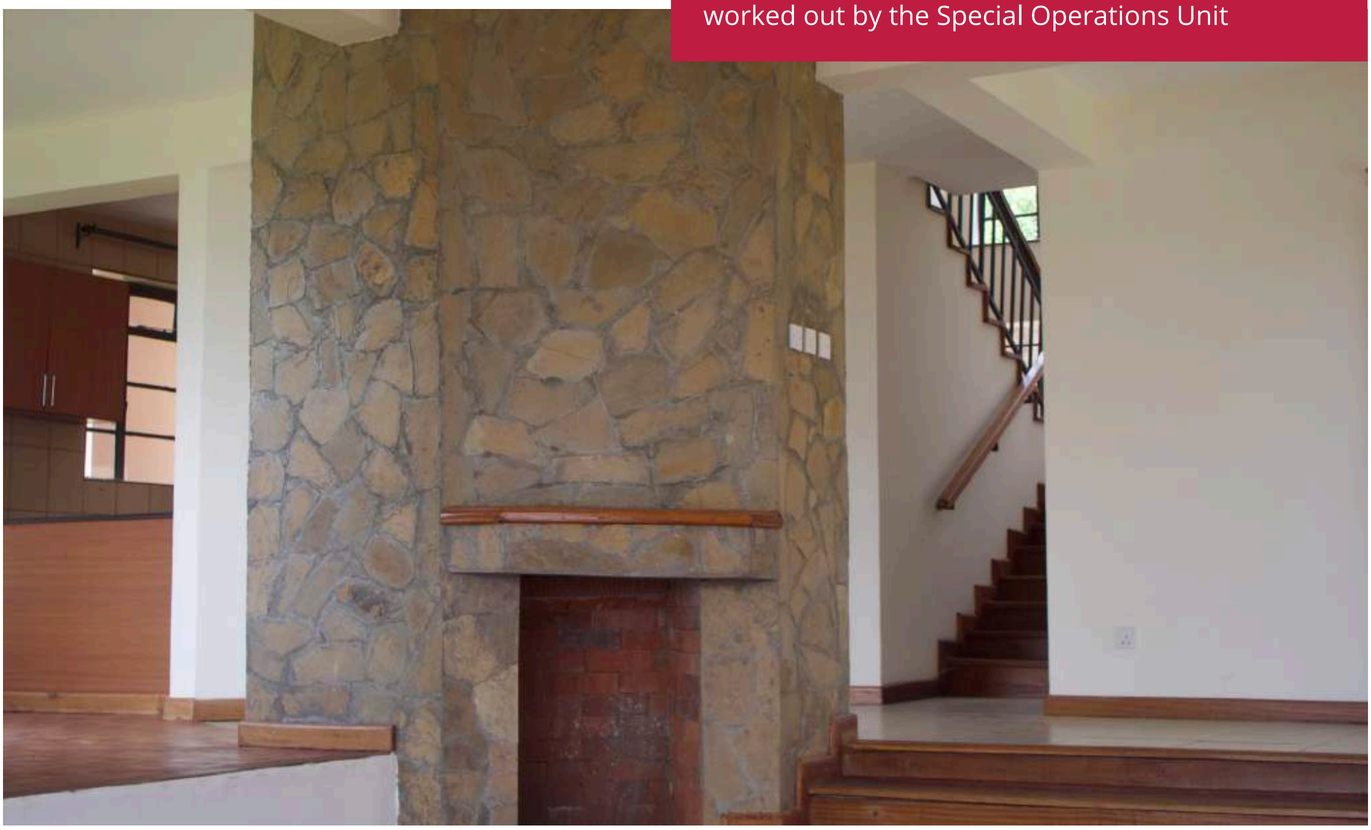
and innovative strategy that includes various options of offtake (sales and rental) for the complete projects and upon completion of incomplete projects. The SOU Team has become a leading manager of distressed assets in the housing sector in Africa and has established Best Practice in the industry.

As a result and despite the challenges posed by the weak legal and regulatory framework managing non-performing facilities on the continent and the incomplete status of most of the projects in the portfolio, management has developed and deployed, a strategy, policies and procedures tailored to the realities that have delivered impressive results. This comprehensive approach has provided total collections of about US$ 32 Million over the last two years (US$ 15.4 Million was recovered in 2018) since the inception of SOU in 2018.

In addition, regarding several once stalled and incomplete projects representing a total exposure of US$12.60 Million, SOU has reached settlement agreements that delivered a way forward. Subsequently, they have been restructured, repositioned where required and are undergoing completion following the injection of US$ 2.70 Million. The Serene Valley project in Kenya was completed in December 2019 after a court supervised settlement was successfully implemented. Now a robust sales drive has attracted buyers and a number of them have already completed purchase. This is going to be a big boost to the company's liquidity and profitability within the year and in future.

These various measures are designed as part of an end-game strategy to reduce the current NPL portfolio of US$95 Million by 75 per cent by the end of 2023. It is projected to reach a residual volume of about US$20 -12 Million within three years.

Fig 9: Fireplace view of Sigona Valley which was worked out by the Special Operations Unit



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Human Resources and Administration

8

Human Resources and Administration

8.1 Strategic Priorities For 2019

- » Reviewing the organization structure to align with the Corporate Strategy;
- » Strengthening performance management;
- » Optimize on staff and administrative costs;
- » Attracting, retaining, and motivating talent to implement the new strategy; and
- » Developing and implementing a cultural change program to deepen staff engagement and commitment.

8.2 Key Achievements

8.2.1 Organisational Restructuring

The restructuring of the organisation was completed. A revised organisation structure to align with the business drivers was undertaken and implemented. The objective was to align the organisation to the delivery of the 2019-2023 strategy. In view of focus on generating new business to fast track the turnaround of the organization, more capacity was invested in the New Business Development department. A function to drive strategy and report on developmental impact was introduced. In Finance department, the Treasury

Fig 10: Staff of Shelter Afrique during the 2019 End of Year Dinner Celebrations

and Finance functions were separated for efficiency with both reporting to the Chief Finance Officer. The Chief Operations Officer role was revamped with supervision responsibility over the Information, Communication and Technology Unit. A few other changes were effected around reporting lines to ensure efficiency in coordination of operations.

8.2.2 Management of Operating Expenses

Prudent management of operating expenses was sustained during the year. Total savings achieved from the budgeted operating expenses for the year were more than 10%

To maximise value from Shelter Afrique rental properties, a 93% occupancy of Shelter Afrique properties was achieved with a rental income of US$ 280,021 against a budget of US$ 200,000 representing 40% performance above budget.

8.2.3 Implementation of a Cultural Change Program

To deepen staff engagement and re-orient the organisation to the cultural dispensation required to implement the new strategy, management continued with the implementation of a cultural change program. The cultural change program comprises of four components namely: team alignment, performance and accountability, leadership development, staff engagement, and communicating & celebrating success.

During the year, the following initiatives were implemented with regard to team alignment, performance and accountability, and staff engagement:

a. Periodic Town Hall communication meetings were convened to share, engage, and get staff feedback and input on company performance, board decisions, company plans, and management expectations.

b. Staff were actively engaged in revising the draft strategy and developing departmental strategies and scorecards.

c. To ensure performance alignment and shared accountability, Staff were involved in the development of corporate, departmental, and individually balanced scorecards for 2019.

d. Staff satisfaction and engagement survey were designed and will be conducted in 2020.

8.3 Attracting, Retaining and Talent Development

During the year the Company was in a recruitment drive to reconstitute the leadership and fill key positions arising from the new strategy and organisation redesign. The attractiveness of Shelter Afrique as an employer was demonstrated in its ability to attract qualified candidate from the member countries and the diaspora. Five new senior Managers including the Chief Operations Officer, Head of Enterprise Risk Management, Head of New Business, Head of Human Resources and Administration, and Manager, Policy, Research and Partnerships were recruited from outside the organisation.

On competitiveness in the market regarding compensation and benefits, a survey done by PKF Consultants indicated that Shelter Afrique still offers a competitive compensation and benefits package though it had slipped from its preferred market percentile of 75% to 62 per cent due to freeze in salary increments in the last three years.

Learning needs arising from the new strategy have been identified. In 2020, a more robust training plan will be implemented with a focus on new business skills in structuring large scale PPPs, Lines of Credit, Rental Housing, Housing Microfinance, Advisory Services, Projects Management, Policy, Research and Partnerships, and Management of NPLs, Leadership and Personal Effectiveness, as well as strategic skills gaps in Governance, Enterprise Risk Management, Audit, Finance, Human Resources, and Information and Communications Technology.

Next Page
Information Communication and Technology

9

Information Communication and Technology

9.1 Information Technology as a Business Partner

Modernizing, optimizing, and streamlining operations to transform how the company does business is central to its turnaround strategy. The company looks to create a new and more robust operating platform informed by its commitment to reaching and maintaining the highest standards for operational efficiency, data security, financial performance, reporting accuracy and regulatory compliance.

The year 2019 was extremely important to the Information Communication and Technology (ICT) unit. The journey commenced with the implementation of an ICT governance framework with the formation and operationalisation of the IT Steering Committee and a review of the ICT policy. The Committee is tasked with ensuring that ICT delivers business value to the organisation. An efficient ICT governance forms a foundation for ensuring ICT projects are effective in supporting the company deliver on its mandate.

9.2 ICT Projects Implemented in 2019

In 2019, two key projects were fully implemented while others are still under implementation and will be completed in 2020. A major achievement was the implementation of a loan management system (LMS) that became fully functional in June 2019. The system is critical to operations of the company having automated the core processes of loan management. This streamlined the entire process making it more efficient and effective in serving our customers spread across Africa.

Another major milestone was automation of budget planning and reporting processes within the Finance department by implementing B360 budgeting application system. With this new system, the Finance department has achieved several benefits that include enhanced reporting, better reliability, increased staff productivity and improved compliance.

In this digital era, communication and collaboration both internally and with outside world has become a critical requirement for all organisations globally. To address this gap, SHAF has commenced implementation of a unified communication solution to upgrade its communication system. Implementation of the project is ongoing and will be completed in 2020. An additional component to this project will be implementation of a video conferencing solution and simultaneous interpretation equipment. These strategic changes will allow the company to improve communications and outreach and present its financial and knowledge services through an enhanced digital presence of the Center of Excellence (“CoE”) and other corporate units.

9.3 Future ICT Projects

In 2020, SHAF will continue with the implementation of digital networks at Headquarters and in regional offices in readiness for digitizing its communications and improving its network routing, availability, and resilience. Capacity will be added to increase active monitoring of all information technology infrastructure.

Information Communication and Technology (Continued)

Furthermore, the company recognizes the issue of cybersecurity and the risks they pose. It will be investing in new security capabilities to help protect its operations, data and ICT infrastructure from existing and emerging threats.

The journey of digital transformation will continue in 2020 with a focus on revamping of the Enterprise Resource Planning (ERP) system which supports key processes cutting across finance, human resources, treasury, procurement and loan management processes. In addition to the ERM upgrade, a comprehensive review of SHAF's ICT needs will be conducted and a related proposal will be developed with the intent of implementing an end-to-end ICT platform that will anchor all its operations to ensure a smooth interface between on one hand front, middle and back office and on the other all support functions (Finance, HR, Risk Management, Legal, Procurement, Document Management, etc). The proposed holistic upgrade will be part of a company-wide business process re-engineering seeking to improve its decision-making tools, dashboards, and cross-functional applications. The company will leverage advanced ICT solutions, the power of analytics and artificial intelligence (AI) to deepen its knowledge of the market to better meet its changing needs and expectations. Ultimately, the end game is to drive SHAF towards becoming of a smart, efficient, and digital financial institution and to strengthening its fitness for purpose. SHAF will benchmark this review against development partner practices in their implementation.

Next Page
Risk Management and Compliance

10

Risk Management and Compliance

10.1 Risk Management as Key Enabler of Business

Risk Management is the process by which the Company proactively identifies uncertain risk events, both internal and external that may impact the fulfillment of its mandate and strategic objectives. The process is embedded in our strategies, business drivers, processes, systems, technologies, people and engagements. We apply it to ensure optimal allocation of resources for the various business activities that we conduct. In our corporate strategy, we have positioned Enterprise Risk Management and Compliance as critical success factors for the attainment of our strategic goals.

10.2 Transformation of Risk Management and Compliance

Following our past corporate failures, and following a diagnostic and benchmarking exercise, at the beginning of 2019, we embarked on an exercise to overhaul the risk management and compliance programme within the company. The transformation exercise kicked off with the recruitment of a new Head of Enterprise Risk Management who was assigned the task of transforming the programme within a three-year period (2019-2021).

10.3 Risk Management and Compliance Programme Today

Strong risk management is at the heart of everything we do. We are exposed to several risks through our business model and strategy. Identifying, assessing, managing and reporting on risks is central to the way we run the business and makes sure we create and protect shareholder value. Our risk management programme supports:

» The strategic direction of the company – we have developed a business model and strategy which gives a clear understanding of the risks the business is exposed to;

» Good shareholder and customer outcomes – we are clear, fair and transparent in all aspects of our shareholder value proposition, product development, we lend responsibly and keep our shareholder and lenders' money safe;

» The management of capital and liquidity positions – we maintain enough quality and quantity of capital to meet investment and operational requirements. And we hold enough liquid assets to cover us during times of normal and stressed conditions;

» High quality operations – we build and maintain a resilient operational environment to deliver good shareholder value, great service levels and mitigate against unexpected losses;

» Lending responsibly – we carefully decide who we lend to, to make sure we deliver on our mandate, whilst making small income to make our business sustainable; and

» A strong culture – we are creating a culture where people are encouraged to be open and transparent about risk management.

Risk Management and Compliance (Continued)

10.4 Risk Management and Compliance Structure

At a risk governance level, the Board retains the ultimate oversight responsibility for the management of the company's risk profile, while delegating the execution of the role to the Board Audit, Risk and Finance Committee. The Head of Enterprise Risk Management (HERM) has an independent reporting line to the Board ARF Committee. The HERM is responsible for providing advice, oversight and challenge for the proper management of risks. The officer is involved in the development of the corporate strategy and in all material decisions to influence and provide objective challenge to management.

The Risk & Compliance function is responsible for the development and maintenance of the Company's Risk Management Policy and Framework and associated systems and processes. It is also responsible for undertaking activities to provide assurance that the business lines are acting in accordance with the company policy requirements and set risk appetite levels. The Compliance risk management activities cover regulatory matters, best practice, emerging guidance and industry trends. It monitors the effective implementation of the company's applicable regulatory compliance requirements through regular monitoring. The ERM function work with the executives to ensure general risks and regulatory risks are identified, assessed, prioritised, owned, recorded, reported and mitigated.

10.5 Risk Management Culture

Risk is an inherent part of the company business. The Board recognises the need to understand the risks the company faces. The role of EXCO is to balance these risks and make the best use of our resources, both human and capital, so that we can deliver on our mandate and corporate strategic goals. Our intention is to ensure that through effective ERM, we are able to deliver increased earnings, business performance and shareholder value, at the same time maintaining our reputation for customer service and operating

Fig 11: Outgoing Chairperson Mr Nghidinua Daniel plants a Tree during the Everest Park Launch with Chief Administrative Officer, Hon. Christopher Obure, Housing, Transport & Infrastructure Whilst MD looks on.

Risk Management and Compliance (Continued)

within our core values and culture, as well as laws and regulations. Our attitude towards risk enables us:

» Ensure that we take advantage of new business opportunities;

» Focus control activity on the areas of the greatest risk to achieving the company's strategic goals;

» Act promptly to fix any weakness and failure in the company's processes and systems;

» Be satisfied that the capital we hold is sufficient to deal with risks that the business is exposed to; and

» Above all, we adopt a truly shareholder and client-centric approach to the way we run our business and manage risks.

10.6 Risk Management Framework

Our revised enterprise risk management framework plays a significant role in ensuring that the risks that are inherent in our business are proactively identified, assessed and managed. The framework entrenches the three lines of defence and adequately positions the defence lines to be effective in their specific roles but collaborative to ensure the intended benefits are realised. Our first line of defence is the business team, second line Enterprise Risk Management department, while third is the Internal Audit. Internal Audit provides periodic assurance on the adequacy and effectiveness of the risk management programme. The three levels are explained below:

Level 1 – Business line management and staff are responsible for the identification, ownership and management of risk on a day-to-day basis

Level 2 – The ERM function is responsible for the implementation and oversight of the risk management framework while reporting to the Board and Board Committees and for overseeing and challenging the management of risk and regulatory compliance within the company

Level 3 – Internal Audit provides independent assurance that risks are effectively managed and that there is appropriate oversight.

10.7 Risk Policies

The risk policies define the company's approach to monitoring and controlling risk, to ensure we are only exposed to risks that are within the Board's approved risk appetite. Our policies make sure we operate safely by staying within our risk appetite. The policies tell us which boundaries we can safely operate within in a more transparent way that everyone can understand. All our policies get approved by the Board to give them oversight of how we manage risk. Each policy is owned by a member of the Executive team, who makes sure they are implemented properly and remain effective.

10.8 Risk Identification And Assessment

All our staff are responsible for identifying and assessing the risks in their respective areas. There are several risk management tools and processes available to aid them in this task, including risk event reporting, risk and control self-assessments, deep-dive business reviews, and scenario analysis as well as raising issues directly with the Risk team.

10.9 Risk Monitoring, Mitigation & Reporting

The business and support functions are responsible for monitoring and managing the risks sitting within their areas as well as developing management information to monitor their exposure to those risks. The company deploys a range of risk management tools and techniques to manage and mitigate risks, to control exposures in line with approved risk appetite limits. For example, the company's internal controls include controls around data security, segregation of duties around key processes and approval authorities. We also transfer significant aggregation and concentration of risks as part of our insurance programme.

Risk Management and Compliance (Continued)

As part of Risk Reporting, our risk function provides regular management information on the principal risks being run by the business, including credit risk, market risk, liquidity risk, operational, and compliance risk. The reporting is provided to the appropriate Executive and Management Control Committees (Credit Committee & ALCO), ARF Committee and the Board. Our risk team also use the insights gained in the collection and reporting of the information to advise the business on its management of risks. The HERM provides assurance to ARF, Board Investment Committee and full Board through regular reports which assesses both financial and non-financial risks.

10.10 Risk Appetite Statements

Business and Strategic Risk

SHAF has an appetite for risks that are understood and are rewarded for, which are consistent with the delivery of its strategic objectives. Changes to the wider business environment and business risks are monitored through the Executive Committee with the support of the Enterprise Risk Management team and reported to the Board.

Financial Strength & Sustainability Risk

The company is committed to maintaining the financial strength and business performance of in order to support its business objectives, to meet its capital requirements and to provide shareholders with an acceptable return on their investments. To achieve this, limits are set for minimum profit margin and social development impact.

Liquidity Risk

The company incurs liquidity risk in respect of its business model to cover its payment obligations, including the timing of corresponding cash inflows and outflows. The company expects to be able to meet its payment obligations under extreme but plausible liquidity stress scenarios.

Market Risk

The company has no appetite for significant losses or volatility from market risk and the majority of the company's cash is kept in a few stable foreign currency such as the EURO, CFA, ZAR, KES and NAIRA. Whilst the company does not seek proactively to take market risk, it is exposed to market risk relating to fluctuations in the level of income received from its lending and investment business activities.

Credit Risk

Credit risk is the risk of financial loss due to failure to comply with or deterioration of the credit rating of a customer or a third party, that has been financed or through which a contractual obligation has been assumed. The company ensures that its credit risk profile remains within the defined credit risk appetite levels and other limits through the advanced and comprehensive management of credit risks, in a robust control environment, based on pillars aligned with its strategy.

The credit risk management process involves the identification, assessment, control and decision-making in relation to the credit risk incurred in the company's lending and placement operations. It factors in operational aspects, in addition to customer and portfolio factors and the overall view of the credit risk cycle. The business and risk areas, and senior management are involved in the process.

Risk Management and Compliance (Continued)

Operational Resilience and IT infrastructure Risk

Although the company accepts a degree of exposure to operational resilience and infrastructure risks where such exposures arise as a result of core strategic activity, it has very limited tolerance for large operational or infrastructure issues due to the likely customer impact, reputational damage and opportunity costs. However, the company recognises that complete elimination of operational risk is unlikely and would be economically prohibitive. The company therefore actively manages its residual operational risks in the context of its wider risk appetite.

IT Security and Cyber Security Risk

The company has limited appetite for unauthorised or inappropriate access to its IT systems due to the potential disruption to its business operations, adverse customer impacts and damage to its reputation. Similarly the company wishes to minimise the threat to its business activities from third party actions such as denial of service attacks. Alongside setting a framework to prevent and detect unauthorised access attempts to its business systems, the company seeks to ensure that the systems are resilient to current and emerging threats and maintains a rolling programme of activities which is informed by the day-to-day experience, threat intelligence and any emerging vulnerabilities identified.

People and Conduct Risk

The company recognises that its reputation and financial success are dependent on the performance and conduct of its staff. The company's client-centric culture is founded on its core values and therefore it is committed to delivering good outcomes for clients by communicating effectively and providing products and services that meet their needs throughout the customer journey. The company acts with integrity in the market, and operates in line with the agreed strategy and within the risk appetite.

Legal and Regulatory Risk

The Legal and Regulatory risk is monitored and managed by emphasis on compliance with all aspects of relevant regulation applicable to the company. As the changes in new regulations that may be applicable to the company are bound, the company through its ERM team will continue to ensure all policies, operating procedure and processes are compliant with all new regulatory requirements.

Risk Management and Compliance (Continued)

10.11 TOP RISKS AND OPPORTUNITIES

#	Key Strategic Risk	Risk Rating	Risk Mitigation Strategies
1	Declining loan book & low disbursement levels	**Moderate**	We have created a pipeline of quality deals worth over $500m which progressively will address the declining loon book.
2	Loan portfolio quality & impairment	**Moderate**	We have enhanced our credit underwriting policies, processes and grading models. Our credit committee at the management and Board levels only approve business deals that have been properly appraised, are viable and of high credit quality.
3	Currency risk & inadequate hedging mechanisms	**Moderate**	We have enhanced our Treasury operations to ensure currency risk is appropriately monitored and managed with viable hedging instruments available in the market (where necessary and feasible).
4	Low financial sustainability	**Moderate**	We continue to underwrite new and quality business deals that generate interest income and non-funded income. All these coupled with adequate cost containment measures have ensured that we enhance our financial sustainability.
5	Low capital collection & liquidity levels	**Moderate**	We have developed clear strategies for raising equity and debt capital to ensure the company is well capitalized for the risk it takes. Equally strategies around managing our liquidity has been enhanced and will ensure that we remain solvent and able to effectively meet our financial obligations.

10.12 ISO 9001:2015 Quality Management System Certification

Shelter Afrique achieved ISO 9001:2015 Certification for Quality Management Systems. The company was honored with the ISO 9001:2015 Certification for Quality Management Systems granted by Bureau Veritas Certification Holding SAS (UK Branch) and accredited by United Kingdom Accreditation Service (UKAS) Management System. The certificate was awarded on the 24^{th} February 2020 as shown in the figure 10.12 below.

The certification was achieved on the heels of the company's drive towards improving its processes, systems, management controls, risks and opportunities with a view to ensure that key stakeholder needs are handled more effectively and efficiently. The certification is proof of the company's demonstrated ability to consistently improve its processes, products and services that meet customer needs as well as shareholder expectations. The company's attainment of this feat reassures key stakeholders of our resilience and continuous improvements in line with global best practice.

The company will continue to perfect its organization structure, standardizing its products and services towards offering the best quality of services. The certification has built a solid flatform for the company to approach and apply the international standards to its quality management systems. The ISO 9001:2015 standard is issued by the International Organization for Standardization (ISO) and is used globally by organizations from different industries and sectors. In order to achieve the ISO 9001:2015 certification, an organization must meet all specific requirements for a quality management system and that it can serve its customers at the best.

Risk Management and Compliance (Continued)

Figure 10.12 Shelter Afrique ISO 9001:2015 certificate

Bureau Veritas **Certification**

SHELTER AFRIQUE

LONGONOT ROAD, UPPER HILL P.O BOX 41479, NAIROBI, KENYA

Bureau Veritas Certification Holding SAS – UK Branch certifies that the Management System of the above organisation has been audited and found to be in accordance with the requirements of the management system standards detailed below

ISO 9001:2015

Scope of certification

PROVISION OF FINANCIAL AND ADVISORY SERVICES TO THE AFFORDABLE HOUSING ECOSYSTEM WITHIN AFRICA MEMBER STATES.

Original Cycle Start Date:	18-02-2020
Expiry date of previous cycle:	NA
Certification / Recertification Audit date:	NA
Certification / Recertification cycle start date:	18-02-2020
Subject to the continued satisfactory operation of the organization's Management System, this certificate expires on:	17-02-2023

Certificate No. : KE002446 Version: 1 Issue Date: 18-02-2020

Certification Body Address: 5th Floor, 66 Prescot Street, London, E1 8HG, United Kingdom

Local Office: Bureau Veritas Certification (Kenya) Ltd, Box 34378 - 00100 Nairobi, Kenya

Further clarifications regarding the scope of this certificate and the applicability of the management system requirements may be obtained by consulting the organisation.

To check this certificate validity please call: +254 20 2669800

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Internal Audit

11

Internal Audit

11.1 Internal Audit Mandate

The primary function of the Internal Audit is to provide an objective and independent assessment to the Board that adequate management processes are in place to identify and monitor the organisation's key risks. The function further ensures that appropriate internal controls and risk management are in place to manage those risks. The Company's Internal Audit Unit independently performs its audit engagements according to the audit work plan approved by the Board through the Audit Risk and Finance Committee. It evaluates the effectiveness of the organisation's risk management, internal controls and governance. The unit operates under an Internal Audit Charter that was approved by the Board in May 2017, this Charter has however been updated and will be submitted to the Board for approval in 2020. It is a requirement that it should be reviewed every three years. The charter defines the roles, objectives authority and responsibilities of the audit function.

11.2 Key Activities

During the year 2019, the Internal Audit Team has been very active with the resumption of the organization's business. In that regard, some critical audits were conducted. For instance, there were critical reviews on the organisation's Control environment and Risk assessment process based on COSO framework as well as reviewing the procurement of the new Loan Management System (LMS) and its implementation process. These engagements were crucial for the new strategic direction undertaken by the organisation as the outcome informed the organisation's wide risk profile that was adopted by management.

As part of good corporate governance, the organisation implemented the King IV corporate governance guidelines, which continues to be monitored. The organisation underwent an ISO 9001:2015 certification process which was concluded and disseminated to all staff for awareness and implementation.

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Financial Statements

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CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

PRINCIPAL PLACE OF BUSINESS	Shelter Afrique Centre Longonot Road, Upper Hill P O Box 41479 – 00100 Nairobi, Kenya
PRINCIPAL BANKERS	Citibank N.A. Upper Hill P O Box 3071 – 00100 Nairobi, Kenya Citibank New York Upper Hill C/o Citibank N.A. P O Box 30711 – 00100 Nairobi, Kenya NCBA Bank 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. Daniel Nghidinua - Chairperson Mr. Ali Boulares - Vice Chairperson

CORPORATE INFORMATION (Continued)

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	11.99%
Mr. Celestin Koalla From 20th June 2019. Ms. Melei Yed Anikpo Up to 19th June 2019	Mr. Brama Diarra (Mali)	Burkina Faso, Burundi, Central African Republic, Chad, Djibouti, Equatorial Guinea, Guinea Bissau, Ivory Coast, Mali, Senegal	14.48%
Dr. Theresa Tufour (Ghana)	Mr. Ouadja Kossi Gbati (Togo)	Ghana, Guinea, Cape Verde, Togo	7.10%
Mr. A. Boulares (Algeria)	Mr. El Alj Toufik (Morocco)	Algeria, Mauritania, Morocco, Tunisia	8.34%
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	8.13%
Dr. P.M. Tunde Reis (Nigeria)	Mr. Muhamed Manjang (Gambia)	Gambia, Liberia, Nigeria, Sierra Leone	11.72%
Mr. Charles Hinga Mwaura (Kenya)	Eng. G.S. Mlilo (Zimbabwe)	Kenya, Somalia, Swaziland, Zimbabwe	17.99%
Class "B" Shareholders (Institutions)			
Ephraim Kiiza Bichetero from 20th June 2019 Mr. Corneille Karekezi Up to 19th June 2019	Mr. Seydou Kone	African Reinsurance Corporation	4.64%
Ms. Soula A.I. Proxenos	Mr. Etienne Nkoa	African Development Bank (AfDB)	15.61%
Total			100.00%

CORPORATE INFORMATION (Continued)

INDEPENDENT DIRECTORS	Dr. Stephen Mainda Dr. Omodele R. N. Jones	
SENIOR MANAGEMENT	Andrew Chimphondah	Managing Director
	Mr. Kingsley Muwowo	Chief Finance Officer
	Mrs. Francesca Kakooza	Company Secretary
	Mr. Alfred Nicayenzi	Chief Operations Officer
	Mr. Bernard Oketch	Head of Enterprise Risk Management
	Mr. Yankho Chitsime	Head of New Business
	Mr. Victor Laibuni	Head of Human Resources & Administration
	Mr. Muhammad Gambo	Manager: Policy, Research and Partnerships
INTERNAL AUDITOR	Mr. Mohamed Barry	

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2019, which show the state of financial affairs of Shelter Afrique.

LEGAL CAPACITY

The Company is a Pan-African housing finance and development institution, established by African Governments, the African Development Bank, the African Reinsurance Corporation and the CDC Company plc 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 12 of the financial statements. The total comprehensive loss for the year amounts to US$ 1,258,829 (2018: loss of US$ 9,249,908).

DIVIDENDS

The dividend policy provides for distribution of dividends 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 2019 (2018: Nil).

SHELTER AFRIQUE FOUNDATION

The Directors do not recommend the appropriation of any funds to the Foundation. (2018: Nil).

RESERVES

The reserves of the Company are set out on page 14 of the financial statements.

DIRECTORS

The Directors who served during the year and to the date of this report are as listed on page 2. 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

Company Secretary

Nairobi, 2020

14 May 2020

STATEMENT ON CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2.

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 four 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 35 to the financial statements for the year ended 31 December 2019.

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 35 to the financial statements for the year ended 31 December 2019.

BOARD COMMITTEES

The Board has in place four main committees, namely the Audit, Risk & Finance Committee, the Investments Committee, Strategy Committee and the Human Resource and Governance Committee. To discharge its mandate effectively, matters are discussed in detail in the four committees before resolution by the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls and organizational structures are in place to achieve the Company's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc committees, as and when it is deemed necessary. As part of its turnaround strategy, the Board operated two ad hoc committees in 2019, one of which completed its duties during the year. The second is expected to attain its objectives during the calendar year 2020. 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.

STATEMENT ON CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the Company's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Company has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the internal auditor. The internal auditor reports administratively to the Managing Director and functionally to the Audit, 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 organizational structure which is kept under regular review by the Board and a review of quarterly financial and operating information by management and the Board. 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 is an example of the robust measures 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 2019 which provides for more robust operating rules for the Board of Directors.

RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

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

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 four 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 review of the business strategy that should significantly enhance the value of the

STATEMENT ON CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

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.

....

Director **Director**

2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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

Approved by the board of directors on 14th May 2020 and signed on its behalf by:

Director

Director

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

We, Andrew Chimphondah and Kingsley Muwowo 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 ended 31 December 2019.

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 audited 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 our 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. isclosed 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 our 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.

KINGSLEY MUWOWO
Chief Finance Officer

ANDREW CHIMPHONDAH
Managing Director

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
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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 12 to 77, which comprise the statement of financial position as at 31 December 2019, 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 2019 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 Auditors' 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.

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. The key audit matter in this report 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 it.

Deloitte.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on the Audit of the Financial Statements (Continued)
Key audit matter (Continued)

Key audit matter	How our audit addressed this key audit matter
Impairment provision on loans and advances to customers » We identified the impairment provision on loans and advances to customers as a key audit matter due to the complexity and uncertainties in the calculation of the provision and the directors' judgement and assumptions applied therein. » At 31 December 2019 the Company reported total gross loans of US$ 187 million (2018: US$ 235 million) and expected credit loss provisions of US$ 72 million (2018: US$ 70 million). This is disclosed under note 17. » Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include: » Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; » Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; » Completeness and accuracy of data used to calculate the ECL; » Inputs and assumptions used to estimate the impact of multiple economic scenarios; » Completeness and valuation of post model adjustments; » Measurements of individually assessed provisions including the assessment of multiple scenarios; and » Accuracy and adequacy of the financial statement disclosures.	» We performed an overall assessment of the Expected Credit Loss (ECL) provision levels by stage to determine if they were reasonable considering Shelter Afrique's portfolio, risk profile, credit risk management practices and the macroeconomic environment. » We challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9. » We tested loans and advances and other financial instruments in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. » We tested the assumptions, inputs and formulas used in the ECL model. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default. » To verify data quality, we tested the data used in the ECL calculation by reconciling back to past financial reports. We also performed completeness and accuracy test on the data used in ECL. » We challenged the correlation and impact of the macroeconomic factors to the ECL. » We assessed the adequacy and appropriateness of disclosures for compliance with IFRS 9. » We found that the model used for the valuation, key judgements and estimates of the ECL to be appropriate and reasonable. In addition, the disclosures in the financial statements pertaining to compliance with the accounting standards including disclosure of IFRS 9 were found to be appropriate.

INDEPENDENT AUDITORS' REPORT (Continued)

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 Responsibilities, and 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 auditors' 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 auditors' 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.

Auditors' 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 auditors' 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.

Deloitte.

INDEPENDENT AUDITORS' REPORT (Continued)

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 auditors' 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 auditors' 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 auditors' 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.

Certified Public Accountants (Kenya)

Nairobi 2020

Deloitte & Touche

CPA Anne Muraya, Practicing Certificate No. 1697

Signing partner responsible for the independent audit

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Note	US$	US$
INTEREST INCOME	4	15,337,668	17,616,667
INTEREST EXPENSE AND SIMILAR CHARGES	5	(6,703,964)	(9,984,283)
NET INTEREST INCOME		8,633,704	7,632,384
FEES AND COMMISSIONS INCOME	6	1,303,730	1,512,971
GRANT INCOME	7	3,879	3,879
OTHER INCOME	8	256,413	335,896
OPERATING INCOME		10,197,726	9,485,130
OPERATING EXPENSES	9	(8,441,643)	(9,059,639)
NET FOREIGN EXCHANGE GAINS	10	234,959	263,233
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	17 (b)	(4,399,090)	(9,917,984)
RECOVERIES ON IMPAIRED LOANS AND ADVANCES	17 (b)	2,043,128	12,768
RECOVERIES ON IMPAIRED BANK DEPOSITS	36(b)	-	902,436
OTHER IMPAIRMENT CHARGES	14(b), 19(b)	(250,142)	-
OTHER IMPAIRMENT CHARGES - JOINT VENTURES	19	-	(785,283)
SHARE OF (LOSS) IN JOINT VENTURES	19	21,426	(133,732)
LOSS FOR THE YEAR		(593,636)	(9,233,071)
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
UNREALIZED LOSS ON FAIR VALUE OF EQUITY INVESTMENTS	20	(665,193)	(16,837)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,258,829)	(9,249,908)
		==========	==========
LOSS PER SHARE	12	(13.31)	(102.37)
		==========	==========

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019	2018
ASSETS		US$	US$
Bank and cash balances	13	6,491,129	13,681,945
Short term bank deposits	14	50,482,387	30,777,049
Derivative financial assets	15	346,386	1,914
Properties held for sale	16	4,643,805	4,727,903
Loans and advances to customers	17(a)	114,634,813	165,186,856
Other receivables	18	3,836,796	2,200,067
Investments in joint ventures	19	3,696,255	3,667,233
Equity investments	20	3,960,000	3,998,034
Property and equipment	21	4,758,284	4,957,618
Intangible assets	22	177,674	124,786
Government grant	23	104,746	108,626
TOTAL ASSETS		193,132,275	229,432,031
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24(a)	97,388,000	91,760,000
Share premium	24(b)	43,250,192	38,899,748
Revaluation reserve	24(d)	2,777,594	2,809,279
Accumulated deficit		(28,083,460)	(27,521,509)
Credit Loss Reserve		1,000,000	1,000,000
Investment revaluation reserve	24(e)	(2,496,610)	(1,831,417)
Special reserve – Shelter Afrique Foundation	28	1,585,277	1,670,352
TOTAL EQUITY		115,420,993	106,786,453
LIABILITIES			
Other payables	25	1,746,653	1,885,281
Provisions	26(iii)	2,166,391	1,558,940
Dividends payable	27	1,369,118	1,548,143
Deferred income	29	772,094	878,257
Medium term notes	30	4,763,406	8,285,023
Lines of credit	31	66,893,621	108,489,934
TOTAL LIABILITIES		77,711,283	122,645,578
TOTAL EQUITY AND LIABILITIES		193,132,275	229,432,031

The financial statements on pages 12 to 77 were approved by the Board of Directors on 2020 and were signed on its behalf by:

Director **Director**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Revaluation reserve*	Retaine earnings/ (deficit)	Credit loss reserve	Investment revaluation reserve	Special reserve - Shelter Afrique Foundation	Total equity
	US$	US$	US$	US$	US$	US$	US$	US$
At 1 January 2018	88,622,000	36,474,074	2,840,964	(17,320,123)	-	(1,814,580)	1,683,652	110,485,987
Issue of share capital	3,138,000	2,425,674	-	-	-	-	-	5,563,674
Loss for the year	-	-	-	(9,233,071)	-	(16,837)	-	(9,249,908)
Payments on behalf of Shelter Afrique Foundation	-	-	-	-	-	-	(13,300)	(13,300)
Transfer of excess depreciation			(31,685)	31,685	-	-	-	-
Transfer to Credit Loss Reserve***	-	-	-	(1,000,000)	1,000,000	-	-	-
At 31 December 2018	91,760,000	38,899,748	2,809,279	(27,521,509)	1,000,000	(1,831,417)	1,670,352	106,786,453
At 1 January 2019	91,760,000	38,899,748	2,809,279	(27,521,509)	1,000,000	(1,831,417)	1,670,352	106,786,453
Issue of share capital	5,628,000	4,350,444	-	-	-	-	-	9,978,444
Loss for the year	-	-	-	(593,636)	-	(665,193)	-	(1,258,829)
Payments on behalf of Shelter Afrique Foundation	-	-	-	-	-	-	(85,075)	(85,075)
Transfer of excess depreciation			(31,685)	31,685	-	-	-	-
At 31 December 2019	97,388,000	43,250,192	2,777,594	(28,083,460)	1,000,000	(2,496,610)	1,585,277	115,420,993

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

***In 2018, the Board passed a resolution creating a new reserve account Credit Loss Reserve to act as an overlay of future credit losses.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		US$	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	33(a)	55,226,821	64,620,998
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	21	(45,052)	(35,790)
Purchase of intangible assets	22	(199,413)	(21,752)
Investment in equity instruments	20	(652,188)	(424,871)
Proceeds from sale of property held for sale	16	84,098	82,205
Net cash used in investing activities		(812,554)	(400,208)
CASH FLOWS FROM FINANCING ACTIVITIES			
Special Reserves - SH-AF Foundation payment	28	(85,075)	(13,300)
Proceeds from capital subscriptions	24(c)	9,785,235	5,563,674
Repayment of borrowed funds - lines of credit	33(c)	(42,221,877)	(35,990,714)
Interest paid on borrowed funds - lines of credit	33(c)	(5,629,472)	(7,083,591)
Repayment of medium-term notes	33(d)	(3,426,791)	(20,090,873)
Interest paid on medium term notes	33(d)	(356,634)	(2,129,423)
Other finance charges paid	33(e)	34,869	(1,455,715)
Net cash used in financing activities		(41,899,745)	(61,199,942)
INCREASE IN CASH AND CASH EQUIVALENTS		12,514,522	3,020,848
CASH AND CASH EQUIVALENTS AT 1 JANUARY		44,458,994	41,438,146
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	33(b)	56,973,516	44,458,994
		==========	==========

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1 NEW AND REVISED REPORTING STANDARDS

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

i. New standards and amendments to published standards effective for the year ended 31 December 2019

Impact of initial application of IFRS 16 Leases

IFRS 16 Leases (as issued by the IASB in January 2016) is effective for annual financial periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lease accounting by removing the distinction between operating and finance lease requirements and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019. The Company has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5 (b). Consequently, the comparative information has not been restated and continues to be reported under IAS 17: Leases

Impact of the new definition of a lease as per IFRS 16

Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4(Determining Whether an Arrangement Contains a Lease) will continue to be applied to those leases entered or modified before 1 January 2019

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

Impact on Lessee Accounting

1. *Former operating leases*

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

1 NEW AND REVISED REPORTING STANDARDS (Continued)

Impact on Lessee Accounting (Continued)

1. Former operating leases (Continued)

Applying IFRS 16, for all leases (except as noted below), the Company:

i. Recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;

ii. Recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and

iii. Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use-assets are tested for impairment in accordance with IAS 36 *impairment of Assets.* This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the statement of profit or loss.

2. Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lease to a lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.
The new standard did not have a material effect on the Company's financial statements.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from this residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).
The amendments on lessor accounting did not have an impact on financial statements of the Company.

1 NEW AND REVISED REPORTING STANDARDS (Continued)

2. Former finance leases (Continued)

Impact on Lessor Accounting (Continued)

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual financial period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The Company has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Company applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Company does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

IAS 12 Income Taxes

The amendments clarify that the Company should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Bank originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

1 NEW AND REVISED REPORTING STANDARDS (Continued)

2. Former finance leases (Continued)

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI (Previously Held Interest) in the joint operation.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The Company has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

IFRIC 23 Uncertainty over Income Tax Treatments

The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

1 NEW AND REVISED REPORTING STANDARDS (Continued)

2. Former finance leases (Continued)

IFRIC 23 Uncertainty over Income Tax Treatments (Continued)

- If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

ii. New and amended IFRS Standards that are not yet effective for the current year ended 31 December 2019

At the date of authorization of these financial statements, the Company has not applied the following new and amended IFRS Standards that have been issued but are not yet effective:

New and Amendments to standards	Effective for annual financial periods beginning on or after
IFRS 17-*Insurance*	1 January 2021, with earlier application permitted
Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	Yet to be set, however earlier application permitted
Amendments to IFRS 3 *Definition of a business*	1 January 2020, with earlier application permitted
Amendments to IAS 1 and IAS 8- *Definition of material*	1 January 2020, with earlier application permitted
Conceptual Framework: *Amendments to References to the Conceptual Framework in IFRS standards*	1 January 2020, with earlier application permitted

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

1 NEW AND REVISED REPORTING STANDARDS (Continued)

2. *Former finance leases (Continued)*

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Continued)

The Directors of the Company are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Company of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The Directors of the Company are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. The Directors of the Company are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

1 NEW AND REVISED REPORTING STANDARDS (Continued)

2. *Former finance leases (Continued)*

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework.*

The amendments, where they actually are updates, are effective for annual financial periods beginning on or after 1 January 2020, with early application permitted.

iii. Early adoption of standards

The Company did not early-adopt any new or amended standards in 2019.

2. 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 financial statements are also prepared in accordance with International Financial Reporting Standards ("IFRS") . The Company's functional and reporting currency is the United States Dollars (US$).

(b) Fees, commission and other income

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 or 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 Other Comprehensive income of the joint venture is presented as part of the Company's Other Comprehensive Income .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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments in joint ventures (Continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (Continued)

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 in this case 5 years, 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 or 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property and equipment (Continued)

Revaluation surplus (Continued)

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 or loss and other comprehensive income.

The annual depreciation rates in use are:

Buildings	2.38 & 2.56%
Office equipment, furniture and fittings	12.5%
Computers	25.0%
Residential furniture and fittings	12.5%
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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2018.

(l) Financial instruments

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets — assets that are credit-impaired at initial recognition — Shelter Afrique calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When Shelter Afrique revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Interest income and expense

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.

Financial assets that are not impaired at initial recognition but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognized on trade date, the date on which Shelter Afrique commits to purchase or sell the asset.

At initial recognition, Shelter Afrique measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in expected credit loss measurement note, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, Shelter Afrique has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL) or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

These are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, cash and bank balances, bank deposits.

Classification and measurement of debt instruments depend on:

- Shelter Afrique's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, Shelter Afrique classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

- **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A business model in which an entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets, would result in an FVTPL business model.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

- A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the finance income.

Business model: The business model reflects how Shelter Afrique manages the assets in order to generate cash flows. That is, whether Shelter Afrique's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by Shelter Afrique in determining the business model for assets include past experience on how the cash flows of these assets were collected, how the performance of the assets is evaluated and reported to key management personnel, the risks that affect the performance of the business model (and the financial assets within) and in particular, the way that those risks are managed; and how assets managers are compensated.

Cash flow characteristic of the asset: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, Shelter Afrique assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, Shelter Afrique considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Shelter Afrique reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Equity instruments

These are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

Shelter Afrique subsequently measures all equity investments at fair value. Where Shelter Afrique's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income when the Company's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains/(losses) in the statement

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

(i) Classification and subsequent measurement (Continued)

Equity instruments (Continued)

of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Shelter Afrique has designated at FVOCI investments in equity securities that are unquoted and not for trading.

The entity chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term. The fair value of these investments is USD 3,960,000 as at 31 December 2019 (2018: USD 3,998,034). There were no dividends recognized during the period nor transfers of the cumulative gains/(losses) within equity.

When Shelter Afrique derecognizes investments in equity instruments measured at FVOCI, it shall disclose:

- The reason for disposing the investments,
- The fair value of investments at the date of derecognition; and
- The cumulative gain or loss on disposal.

(ii) Impairment of financial assets

Shelter Afrique assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from project finance loan and corporate loans. Shelter Afrique recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) The time value of money; and
c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Refer to Note 36 for detail of credit risk management and expected credit loss measurement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

(iii) Modification of loans

Shelter Afrique sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, Shelter Afrique assesses whether or not the new terms are substantially different to the original terms. Shelter Afrique does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan

If the terms are substantially different, Shelter Afrique derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, Shelter Afrique also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and Shelter Afrique recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Financial liabilities

(i) Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for;

- Financial liabilities at fair value through profit or loss; this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Financial liabilities (Continued)

financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies.
- Financial guarantee contracts and loan commitments

(ii) Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between Shelter Afrique and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(m) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Financial liabilities (Continued)

(n) Provisions

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

In accordance with IAS 37, for each class of provision, the Company discloses:

a. The carrying amount at the beginning and end of the period;
b. Additional provisions made in the period, including increases to existing provisions;
c. Amounts used (i.e. incurred and charged against the provision) during the period;
d. Unused amounts reversed during the period; and

This is reflected in the specific notes in the explaining the financial statements.

(o) 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.

(p) 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.

(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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Financial liabilities (Continued)

(r) Fair value measurement (Continued)

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 20, 21, 22 and 36
- Quantitative disclosures of fair value measurement hierarchy Note 32
- Investment in unquoted equity shares Note 20
- Property, plant and equipment under revaluation model Note 21
- Financial instruments (including those carried at amortized cost) Note 15

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:

IFRS13.9

- 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.

IFRS 13.16

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.

IFRS 13.22

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.

IFRS 13.27

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Financial liabilities (Continued)

(s) 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. The leasehold land the company holds is a grant from the government of Kenya, this will not result to a Right of Use (ROU) asset. Disclosure on the grant has been done under: Government Grant Note 23

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.

(t) 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments (Continued)

Financial liabilities (Continued)

(t) Property held for sale (Continued)

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.

(u) 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.

3. 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.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring expected credit losses (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing Companies of similar financial assets for the purposes of measuring ECL.

Business models and SPPI (Solely for Payment of Principal and Interest)

Determining the appropriate business models and assessing the SPPI requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements.

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 21.

4. INTEREST INCOME

	2019	2018
	US$	US$
Project finance loans	6,214,063	8,215,541
Lines of credit advances	7,410,595	8,759,725
	13,624,658	16,975,266
Placements with financial institutions	1,713,010	641,401
	15,337,668	17,616,667
Geographical segmentation – interest income		
Eastern Africa	7,514,975	8,886,947
Southern Africa	3,926,718	4,641,412
Francophone West/Central Africa	1,082,154	1,720,966
Anglophone West Africa	1,100,811	1,725,941
	13,624,658	16,975,266

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 receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

5. INTEREST EXPENSE AND SIMILAR CHARGES

	2019	2018
	US$	US$
Funds from financial institutions and capital markets	6,671,360	9,944,939
Bank charges	32,604	39,344
	6,703,964	9,984,283
	=========	=========

6. FEES AND COMMISSIONS INCOME

	2019	2018
	US$	US$
Commitment fees – Project finance	12,697	194,689
Appraisal fees – Project finance	150,928	-
Appraisal fees – Lines of credit	70,000	-
Front end fees – Project finance	46,747	286,990
Front end fees – Lines of credit	82,154	129,728
Penalty fees – Project finance	478,697	536,355
Penalty fees – Lines of credit	14,334	12,297
Management fees – Project finance	185,683	279,160
Management fees – Lines of credit	67,207	31,804
Other fees – lines of credit	137,789	20,000
Other project finance fees	57,494	21,948
	1,303,730	1,512,971
	=========	=========

Geographical segmentation – fees and commissions income		
Eastern Africa	454,263	519,588
Southern Africa	101,190	194,475
Francophone West/Central Africa	507,800	467,387
Anglophone West Africa	240,477	331,521
	1,303,730	1,512,971
	=========	=========

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

6. FEES AND COMMISSIONS INCOME (Continued)

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.

Other project fees/other fees –lines of credit: These include restructuring fees and termination fees payable by the borrower upon cancellation of the loan agreement and insurance costs for projects.

7. GRANT INCOME

	2019	2018
	US$	US$
Government of Kenya land grant (Note 23)	3,879	3,879
Agence Française de Développement interest advantage grant (Note 29)	-	-
	3,879	3,879
	=========	=========

8. OTHER INCOME

	2019	2018
Rental income*	194,211	278,021
Gain on sale of assets held for sale	(977)	1,385
Dividend Income-Equity participation	13,316	14,239
Interest on staff loans	49,863	42,251
	256,413	335,896
	=========	=========

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

Operating lease income – commitments

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

8. OTHER INCOME (Continued)

	2019	2018
	US$	US$
Within one year	185,903	229,836
Within the second to fifth year inclusive	497,892	839,268
Later than five years	6,049	-
	689,844	1,069,104
Leases are negotiated for an average term of six (6) years.	=========	=========

9. OPERATING EXPENSES

(a) Operating expenses

	2019	2018
	US$	US$
Staff costs (Note 9(b))	4,913,760	5,267,652
Depreciation on property and equipment (Note 21)	244,277	270,069
Amortisation of intangible assets (Note 22)	146,525	102,639
Amortisation of grant income (Note 23)	3,879	3,879
Audit fees	46,000	46,000
Board of Directors' meetings	327,985	377,327
Official missions	369,470	220,850
Consultancy fees	751,036	721,350
Business promotion	88,245	206,722
Other administration costs*	1,550,466	1,843,151
	8,441,643	9,059,639
	=========	=========

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

(b) Staff costs

Salaries and wages	3,788,104	4,403,241
Post-employment benefits (Defined contribution plans)	403,077	434,620
Leave and Service pay	718,915	395,430
Other costs	3,664	34,361
Total staff costs (Note 9 (a))	4,913,760	5,267,652
	=========	=========

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

	2019	2018
	US$	US$
10. NET FOREIGN EXCHANGE GAINS/(LOSSES)		
Net gains on foreign currency transactions and revaluation	234,957	263,233
	=========	=========
11. GRANT EXPENDITURE		
AFD interest advantage grant (note 29)	-	-
	=========	=========
12. LOSS PER SHARE		
	=========	=========
Loss for the year (US$)	(1,258,829)	(9,233,071)
Weighted average number of ordinary shares in issue	94,574	90,191
Basic loss per share (expressed in US$ per share)	(13.31)	(102.37)
	=========	=========

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 2019 and 31 December 2018.

	2019	2018
	US$	US$
13. CASH AND BANK BALANCES		
Amounts in United States Dollars (US$)	2,888,564	8,487,768
Amounts maintained in other currencies:		
Kenya Shillings	1,502,268	2,829,095
FCFA	103,182	1,913,545
Euro	1,252,136	429,671
South African Rand	740,934	202
Naira	4,046	21,664
	3,602,566	5,194,177
	6,491,129	13,681,945
	=========	=========

14. SHORT TERM BANK DEPOSITS

	2019 US$	2018 US$
(a) Call and term deposits with banks (Held-to-maturity):		
Amounts in United States Dollars (US$)	42,756,664	27,160,389
Less Provision for impaired asset (Note 14 (b))	(1,539,401)	(1,288,029)
Amounts in United States Dollars (US$)	41,217,263	25,872,513
Amounts maintained in other currencies:		
Kenya Shillings	8,046,773	196,682
FCFA	-	2,795,916
Rand	1,218,351	1,911,936
	9,265,124	4,904,536
	50,482,386	30,777,049

(b) Impaired asset – cash and bank deposits

The provision for impaired asset of US$ 1,539,401 (2018: US$ 1,288,029) relates to a deposit held in Chase Bank Limited, a bank in Kenya that was placed under statutory administration on 7 April 2018 by the Central Bank of Kenya. The amount is made up of provision for the bank deposit and IFRS 9 impairment adjustment of US$ 251,372 as at 31 December 2019 (2018: US$ 65,798).

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

	2019 US$	2018 US$
United States Dollars (US$)	3.21%	2.45%
Kenya Shillings	8.05%	7.00%
FCFA	-	4.39%
Rand	6.25%	2.75%

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

15. 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

	2019 US$	2018 US$
At 1 January	1,914	(585,958)
Net payments under swap arrangements	-	(587,872)
Net accruals	344,472	-
At 31 December – asset/(liability)	346,386	1,914
	=========	=========

16. PROPERTIES HELD FOR SALE

(a) Buildings

	2019	2018
At 1 January	3,506,664	3,588,869
Sale of properties held for sale	(84,098)	(82,205)
At 31 December	3,422,566	3,506,664
(b) Land		
At 31 December	1,221,239	1,221,239
Land and Buildings		
At 31 December	4,643,805	4,727,903
	=========	=========

The Company's properties held for sale comprise 11 apartments (2018: 11) in Eden Beach Resort & Spa in Mombasa Kenya, and 17 houses (2018: 18) and vacant land in Athi River, Kenya.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

17. LOANS AND ADVANCES TO CUSTOMERS

	2019	2018
	US$	US$
(a) (i) Analysis of loans and advances		
At 1 January	216,418,897	269,371,304
Disbursements during the year	3,439,565	6,502,161
Repayment during the year	(50,269,847)	(59,499,750)
Adjustments – Capitalised Interest & Fees	1,651,740	-
Currency translation adjustment	176,578	45,182
At 31 December		
Principal loans and advances	171,416,933	216,418,897
Interest and fees receivable	15,833,010	18,913,244
Gross loans	187,249,943	235,332,141
Impairment provision	(72,615,130)	(70,145,285)
Net loans and advances	114,634,813	165,186,856

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

	2019	2018
(ii) Analysis of loans and advances – profiling	US$	US$
Current portion	50,299,993	74,662,132
Non-current portion	64,334,820	90,524,724
Net loans and advances	114,634,813	165,186,856
(iii) Product analysis		
Loans and advances - Project finance	50,845,207	73,802,447
Loans and advances – Lines of credit	63,789,606	91,384,409
Net loans and advances	114,634,813	165,186,856

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment on loans and advances

	2019 US$	2018 US$
At 1 January	70,145,285	41,746,386
Amounts written off (principal and interest)		(391,822)
Charge for the year	4,399,090	9,917,984
Impairment Recovery	(2,043,128)	-
Transition to IFRS 9 on 1 January 2019 (Note 1(i))	-	18,855,988
Currency translation adjustment	113,883	16,749
At 31 December	72,615,130	70,145,285

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 average effective interest rate was 12.04 % (2018; 11.45%) per annum.

(c) Analysis of gross loans by maturity

	2019 US$	2018 US$
Maturing		
Within one year	122,915,125	144,807,418
One year to five years	59,471,512	79,347,631
Over five years	4,863,306	11,177,092
	187,249,943	235,332,141

18. OTHER RECEIVABLES

		2019	2018
		US$	US$
(a)	(a) Analysis of other receivables		
	Staff loans	2,438,561	982,148
	Other debtors and prepayments	2,395,984	2,214,251
		4,834,545	3,196,399
	Less: Provision – Other receivables	(997,749)	(996,333)
	At 31 December	3,836,796	2,200,066
	Current portion	1,072,786	1,274,980
	Non-current portion	2,764,010	925,086
	At 31 December	3,836,796	2,200,066

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 % (2018: 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 2019, 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.

		2019	2018
(b)	Provisions for other receivables	US$	US$
	As at 1 January	996,333	992,550
	Additional provision	-	-
	Currency Exchange translation	1,416	3,783
	At 31 December	997,749	996,333

19. INVESTMENTS IN JOINT VENTURES

Total carrying amounts of Joint ventures:

	2019	2018
	US$	US$
Everest Park Project	1,103,458	1,062,700
Rugarama Park Estates Project	2,328,200	2,339,700
Kew Gardens Project	264,597	264,833
	3,696,255	3,667,233

Total share of losses in Joint Ventures

	2019	2018
Everest Park Project	35,723	(16,294)
Glenwood Gardens Project	(1,230)	(8,787)
Rugarama Park Estates Project	(11,500)	(105,370)
Kew Gardens Project	(1,503)	(3,281)
	21,490	(133,732)

(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.

19. INVESTMENTS IN JOINT VENTURES (Continued)

(a) Everest Park Project (Continued)

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.

	2019 US$	2018 US$
Joint venture's statement of financial position:		
Property held for sale	5,304,979	6,342,866
Trade and other receivables	52,955	50,036
Cash and cash equivalents	101,104	729,877
Total current assets	5,459,038	7,122,779
Trade and other payables	2,850,368	132,327
Total current liabilities	2,850,368	132,327
Equity	2,608,670	6,990,452
Total equity and liabilities	5,459,038	7,122,779
Joint venture's statement of comprehensive income:		
Revenue	495,320	-
Other income	51,281	22,530
Direct Costs	(394,281)	-
Gross profit	152,320	22,530
Administration expenses	(80,874)	(66,759)
Profit/(Loss) before tax	71,446	(44,229)
Income tax expense	-	-
Profit/(Loss) after tax	71,446	(44,229)
Share of joint venture's profit/(loss)	35,723	(16,294)
Reconciliation of investment in joint venture		
1 January	1,062,700	1,064,552
Share of profit/(loss)	35,723	(16,294)
Currency translation adjustments	5,034	14,442
At 31 December	1,103,458	1,062,700

19. INVESTMENTS IN JOINT VENTURES (Continued)

(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.In 2018 the JV was 100% impaired ,which meant that the company had a zero carrying value . As the company waits for foreclosure ,a small loss that was recorded in 2019 .We recognised our share of loss and impaired the same to still have a zero carrying value on the JV .

	2019	2018
	US$	**US$**
Joint venture's statement of financial position:		
Property held for sale	7,257,168	6,280,109
Cash and bank balances	3,818	18,992
Trade and other receivables	988,979	981,855
Total assets	8,249,965	7,280,956
Trade and other payables	6,036,642	5,081,135
Total liabilities	6,036,642	5,081,135
EQUITY	2,213,322	2,199,821
	=========	=========
Total equity and liabilities	8,249,964	7,280,956
	=========	=========
Joint venture's statement of comprehensive income:		
Gross profit	-	-
Administration expenses	(2,460)	(14,173)
Loss before tax	(2,460)	(14,173)
Income tax expense	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

19. INVESTMENTS IN JOINT VENTURES (Continued)

(b) Glenwood Gardens Project

Loss after tax	(2,460)	(14,173)
	=========	=========
Share of joint venture's loss	(1,230)	(8,787)
	=========	=========
Reconciliation of investment in joint venture		
1 January	-	783,401
Share of loss	(1,230)	(8,787)
Currency translation adjustmentS	-	10,669
Impairment loss	1,230	(785,283)
At 31 December	-	-
	=========	=========

(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 2020.

	2019	2018
	US$	US$
Joint venture's statement of financial position:		
Property held for sale	16,475,112	14,579,375
Land	2,959,695	2,938,376
Total assets	19,434,807	17,517,751
Trade and other payables	16,097,635	14,386,556
Total liabilities	16,097,635	14,386,556
Equity	3,337,172	3,131,195
Equity and liabilities	19,434,807	17,517,751
	=========	=========
Joint venture's statement of profit or loss:		
Administration expenses	(7,912)	(32,730)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

19. INVESTMENTS IN JOINT VENTURES (Continued)

(c) Kew Gardens Project (Continued)

	2019	2018
	US$	US$
Loss before tax	(7,912)	(32,730)
Income tax expense	-	-
Loss after tax	(7,912)	(32,730)
Share of joint venture's loss	(1,567)	(3,281)
Reconciliation of investment in joint venture		
1 January	264,833	264,515
Share of loss	(1,567)	(3,281)
Currency translation adjustments	1,331	3,599
At 31 December	264,597	264,833

(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.

19. INVESTMENTS IN JOINT VENTURES (Continued)

(d) Rugarama Park Estates Limited (Continued)

	2019 US$	2018 US$
Joint venture's statement of financial position:		
Cash and bank balances	128,000	33,000
Trade and other receivables	6,766,000	6,766,000
Property and equipment	33,000	35,000
Total assets	6,927,000	6,834,000
Trade and other payables	2,378,000	2,246,000
Total liabilities	2,378,000	2,246,000
Equity	4,549,000	4,588,000
Equity and liabilities	6,927,000	6,834,000
Joint venture's statement of profit or loss:		
Administration expenses	(23,000)	(56,000)
Exchange Differences arising from translation		(733,000)
Loss before tax	(23,000)	(789,000)
Income tax expense	-	-
Loss after tax	(23,000)	(789,000)
Share of joint venture's loss	(11,500)	(105,370)
Reconciliation of investment in joint venture		
1 January	2,339,700	2,445,070
Share of loss	(11,500)	(105,370)
At 31 December	2,328,200	2,339,700

20. EQUITY INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

31 December 2019	**Currency**	**At 1 January at Cost**	**Additions at Cost**	**Currency Translation**	**Fair valuation**	**Investment Carrying amount**
		US$	**US$**	**US$**	**US$**	**US$**
Measured at Cost						
Pan African Housing Fund LLC (Mauritius)	USD	2,020,000	395,613	-	(845,613)	1,570,000
Banque de L'Habitat du Burkina Faso (BHBF)	FCFA	348,671	-	(4,932)	56,260	400,000
Caisse Régionale de Refinancement Hypothécaire (CRRH), Togo	FCFA	919,363	-	(20,098)	120,735	1,020,000
Tanzania Mortgage Refinance Company Limited	USD	710,000	256,575	-	3,425	970,000
Total		3,998,034	652,188	(25,030)	(665,193)	3,960,000
		========	========	========	========	========
31 December 2018						
Measured at Cost						
Caisse Régionale de Refinancement Hypothécaire (CRRH), Togo	FCFA	925,249	-	-	(5,886)	919,363
Banque de L'Habitat du Burkina Faso (BHBF)	FCFA	1,356,237	-	-	(1,007,566)	348,671
Pan African Housing Fund LLC	USD	2,474,867	424,871	-	(879,738)	2,020,000
Tanzania Mortgage Refinance Company Limited	USD	1,000,000	-	-	(290,000)	710,000
Total		5,756,353	424,871	-	(2,183,189)	3,998,034
		========	========	========	========	========

20. EQUITY INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

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 United States dollar.

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 Company 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

20. EQUITY INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

Pan African Housing Fund LLC (Continued)

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 (2018: 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

21. 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 2018	4,994,091	866,146	495,615	196,293	241,451	6,793,596
Additions	-	2,628	33,162	-	-	35,790
At 31 December 2018	4,994,091	868,774	528,777	196,293	241,451	6,829,386
Comprising:						
At cost	3,296,675	868,774	528,777	196,293	241,451	5,131,970
At valuation - 2015	1,697,416	-	-	-	-	1,697,416
	4,994,091	868,774	528,777	196,293	241,451	6,829,386
At 1 January 2019	4,994,091	868,774	528,777	196,293	241,450	6,829,386
Additions	7,053	12,804	24,951	-	244	45,052
Retirements	-	(208,730)	(188,817)	-	(39,851)	(437,397)
At 31 December 2019	5,001,144	672,849	364,911	196,293	201,843	6,437,040
Comprising:						
At cost	3,303,728	672,849	364,911	196,293	201,843	4,739,624
At valuation - 2015	1,697,416	-	-	-	-	1,697,416
At 31 December 2019	5,001,144	672,849	364,911	196,293	201,843	6,437,040
ACCUMULATED DEPRECIATION						
At 1 January 2018	300,324	623,638	412,461	159,981	105,295	1,601,699
Charge for the year	124,061	51,255	45,250	24,660	24,843	270,069

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

21. PROPERTY AND EQUIPMENT (Continued)

	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$
As at 31 December 2018	424,385	674,893	457,711	184,641	130,138	1,871,768
At 1 January 2019	424,385	674,893	457,711	184,641	130,138	1,871,768
Charge for the year	125,824	46,076	37,312	10,275	24,790	244,277
Retirement		(208,730)	(188,708)		(39,851)	(437,289)
As at 31 December 2019	550,209	512,239	306,315	194,916	115,076	1,678,756
NET CARRYING AMOUNT						
As at 31 December 2019	4,450,935	160,610	58,596	1,376	86,767	4,758,284
As at 31 December 2018	4,569,706	193,881	71,066	11,652	111,313	4,957,618

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.

Included in property and equipment are assets with a cost of US$ 1,103,934 (2018: US$ 1,034,704) which have been fully depreciated. The normal annual depreciation charge on these assets would have been US$ 193,671 (2018: US$ 188,684).

If the leasehold land and buildings were carried at cost, their carrying amount would be is US$ 3,296,675 (2018: US$ 3,296,675).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

22. INTANGIBLE ASSETS COST

	2019	2018
	US$	US$
At 1 January	1,085,113	1,063,361
Additions	199,413	21,752
As at 31 December	1,284,526	1,085,113
ACCUMULATED AMORTIZATION		
At 1 January	960,327	857,688
Charge for the year	146,525	102,639
NET CARRYING AMOUNT	1,106,852	960,327
At 31 December	177,674	124,786
	==========	==========

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$ 613,135 (2018: US$ 613,135) which have been fully amortised. The normal annual amortisation charge on these assets would have been US$ 131,717 (2018: US$ 126,749).

23. GOVERNMENT GRANT

	2019	2018
	US$	US$
Value of grant received	200,000	200,000
	==========	==========
At 1 January	108,626	112,505
Released to profit or loss (Note 7)	(3,879)	(3,879)
At 31 December	104,746	108,626
	==========	==========
Current	3,879	3,879
Non-current	100,867	104,747
	104,746	108,626
Amounts released to date:	==========	==========
At 1 January	75,855	71,976
Charge for the year	3,879	3,879
At 31 December	79,734	75,855
	==========	==========

23. GOVERNMENT GRANT

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.

24. EQUITY

		2019	2018
		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 (2018: 183,903) ordinary shares of US$ 1,000 each	183,903,058	183,903,058
		==========	==========
	Paid up:		
	Class A: Issued and fully paid:		
	77,668 (2018: 72,040) ordinary shares of US$ 1000 each	77,668,000	72,040,000
	Class B: Issued and fully paid:		
	19,720 (2018: 19,720) ordinary shares of US$ 1,000 each	19,720,000	19,720,000
		97,388,000	91,760,000
		==========	==========
	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.

24. EQUITY (Continued)

(b) SHARE PREMIUM

	2019	2018
	US$	US$
At end of year	43,250,192	38,899,748
	==========	==========

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 (2018: US$ 1,773) for current shareholders and US$ 2,334 (2018: US$ 2,334) for new Shareholders.

(c) MOVEMENT IN PAID UP CAPITAL

	Number of shares	Ordinary shares	Share premium	Total
		US$	US$	US$
At 1 January 2018	88,622	88,622,000	36,474,074	125,096,074
Paid up in the year	3,134	3,134,000	2,422,582	5,556,582
Write Backs from Fractional Shares	4	4,000	3,092	7,092
At 31 December 2018	91,760	91,760,000	38,899,748	130,659,748
	==========	==========	==========	==========
At 1 January 2019	91,760	91,760,000	38,899,748	130,659,748
Paid up in the year	5,520	5,520,000	4,266,960	9,785,235
Write Backs from Dividends	100	100000	77,300	179,025
Write Backs from Fractional Shares	8	8,000	6,184	14,184
At 31 December 2019	97,388	97,388,000	43,250,192	140,638,192
	==========	==========	==========	==========

(d) REVALUATION RESERVE

	2019	2018
	US$	US$
At 1 January	2,809,279	2,840,964
Transfer of excess depreciation to retained earnings	(31,685)	(31,685)
At 31 December	2,777,594	2,809,279
	==========	==========

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

(e) INVESTMENT REVALUATION RESERVE

	2019	2018
	US$	US$
At 1 January	(1,831,417)	(1,831,417)
Fair value gains/loss	(665,193)	-
At 31 December	(2,496,610)	(1,831,417)

The Investment revaluation reserve arises from the revaluation of equity investments and is not distributable.

25. OTHER PAYABLES

	2019	2018
	US$	US$
Accruals	1,703,918	1,893,582
Post-employment benefits	(80,534)	(128,271)
Rent deposits	96,881	91,988
Share capital subscriptions (fractional shares)	26,388	27,982
	1,746,653	1,885,281

Movement of Share capital subscriptions (fractional shares)

	2019	2018
At 1 January	27,982	29,644
Decrease in Capital subscriptions during the year	(1,595)	(1,662)
At 31 December	26,388	27,982

(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.

26. PROVISIONS

	2019	2018
	US$	**US$**
(i) Leave pay		
At 1 January	339,567	292,225
Increase in provision	164,956	128,109
Payment of leave pay	(55,557)	(80,767)
At 31 December	448,966	339,567
	==========	==========

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 as 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 utilized in determining this provision are a discount rate of 3.34% and a salary inflation rate of 0% for the next one year, followed by 3.0% per annum.

	2019	2018
	US$	**US$**
Net liability at start of period 1 January	1,219,373	1,803,097
Net expense recognised in the statement of profit or loss	648,926	267,321
Benefits and Expenses paid	(150,874)	(851,045)
Net liability at end of period 31 December	1,717,425	1,219,373
	==========	==========

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 2019, the Company contributed US$ 585 (2018: US$ 713) which has been charged to the profit or loss account.

26. PROVISIONS (Continued)

(iii) Total Provisions

	2019	2018
	US$	US$
Leave pay	448,966	339,567
Service pay	1,717,425	1,219,373
Total	2,166,391	1,558,940

27. DIVIDENDS PAYABLE

	2019	2018
At 1 January	1,548,143	1,548,143
Write back to Share Capital	(179,025)	-
At 31 December	1,369,118	1,548,143

The Directors do not recommend the payment of a dividend in the current period (2018: Nil).

28. SPECIAL RESERVE – SHELTER AFRIQUE FOUNDATION

	2019	2018
	US$	US$
At 1 January	1,670,352	1,683,652
Payments on behalf of - SH-AF Foundation	(85,075)	(13,300)
At end of year	1,585,277	1,670,352

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 2018. 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 Companies 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 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

29. DEFERRED INCOME

	2019	2018
	US$	US$
At 1 January	878,257	1,241,186
Amortization of Government of Kenya grant (note 7 and 23)	(3,879)	(3,879)
AFD interest advantage grant for the year	5,712	39,425
Deferred front end fees	(107,996)	(398,475)
At 31 December	772,094	878,257

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.

30. MEDIUM TERM NOTES

	2019	2018
	US$	US$
CFA bond – (2014 – 2020)	5,116,466	8,715,179
Interest payable on loans	115,646	194,671
Deferred charges on medium term notes	(468,707)	(624,827)
	4,763,406	8,285,023
Maturity analysis for the medium-term notes:		
Maturing:		
Within one year	3,526,623	3,055,916
One year to five years	1,236,783	5,229,107
	4,763,406	8,285,023

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 medium-term notes are all unsecured.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

31. LINES OF CREDIT

	Start Date	Maturity Date	Currency	2019 US$	2018 US$
African Development Bank (AfDB)	2010	2021	US$	9,315,789	9,315,789
Agence Française de Développement (AFD)	2010	2020	EURO	-	-
AFD USD Loan	2014	2023	US$	6,557,930	11,250,000
Commercial Bank of Africa USD	2015	2020	US$	-	1,880,460
Commercial Bank of Africa-KES	2015	2020	KES	6,124,916	8,345,926
European Investment Bank	2014	2020	US$	4,207,863	7,050,116
AFD KES social Housing	2013	2023	KES	2,378,647	3,685,549
CBA syndicated loan	2014	2020	US$	-	-
AfDB Trade Finance	2014	2020	US$	4,150,982	11,920,000
KFW BANKEGRUPPE	2015	2024	US$	11,733,966	19,650,000
Ghana International Bank	2018	2020	US$	1,303,988	2,183,333
CFA-Banque ouest africaine de dévelop-pement (BOAD)	2018	2020	CFA	3,126,898	5,351,664
Islamic Corporation for Development	2015	2020	US$	15,645,289	26,200,000
Interest payable			US$	2,347,354	1,657,098
				66,893,621	108,489,934
				==========	==========

		2019	2018
Maturing:			
(ι)	Within one year	26,351,488	40,266,817
	One year to five years	40,072,306	68,223,117
	Over five years	469,827	-
		66,893,621	108,489,934
		==========	==========
(ii)	LINES OF CREDIT – PROFILING		
	Current portion	26,351,488	40,266,817
	Non-Current portion	40,542,134	68,223,117
		66,893,621	108,489,934
		==========	==========

31. LINES OF CREDIT (Continued)

The effective interest rates were 4.722% per annum (2018: 4.47% for US denominated loans, 7.69% per annum (2018: 7.65%) for F CFA denominated loans and 14 % per annum (2018: 13.39 % 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.

32. 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 2019 has been assessed within the financial

32. FAIR VALUE MEASUREMENT (Continued)

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 2019, 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 2019.

	Level 1	Level 2	Level 3	Total
	US$	US$	US$	US$
Land and buildings		4,450,935		4,450,935
Financial liabilities :				
Quoted debt instruments:				
CFA Bond 5 - 6.60% 2014-2020	-			-
Lines of credit		66,893,621		66,893,621
	==========	==========	==========	==========

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 2019 are as shown below:

Description	Valuation method	Significant unobservable inputs	Sensitivity	Effect on fair value Increase/ (Decrease)
Land and Buildings	Market Comparable Approach	Estimated rental value per sqm per month	0.5%	22,254.68
Lines of credit	DCF	Own non-performance risk	0.1%	66,893.62
			==========	==========

32. FAIR VALUE MEASUREMENT (Continued)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities for 2018. Quantitative disclosures of fair value measurement hierarchy for assets and liabilities as at 31 December 2018:

	Level 1	Level 2	Level 3	Total
	US$	US$	US$	US$
Land and buildings	-	4,569,706	-	4,569,706
Financial liabilities :				
Quoted debt instruments:				
CFA Bond 5 - 6.60% 2014-2020	8,715,179	-	-	8,715,179
Lines of credit	-	108,489,934	-	108,489,934
	==========	==========	==========	==========

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 2018 are as shown below:

Description	Valuation method	Significant unobservable inputs	Sensitivity	Effect on fair value Increase/ (Decrease)
Land and Buildings	Market Comparable Approach	Estimated rental value per sqm per month	0.5%	22,849
Lines of credit	DCF	Own non-performance risk	0.1%	108,490
			==========	==========

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

33. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2019	2018
	US$	US$
Loss for the year	(1,258,829)	(9,233,071)
Adjustments for:		
Interest expense on funds from financial institutions and capital markets (Note 5)	6,703,964	9,984,283
Gain on disposal of Investment property held for sale	(1,122)	-
Depreciation of property and equipment (Note 21)	244,277	270,069
Amortization of grant income (Note 23)	3,879	3,879
Amortization of intangible assets (Note 22)	146,525	102,639
Impairment loss on equity investment (Note 20)	665,193	-
Share of (Profit)/loss from joint ventures (Note 19)	(21,426)	133,732
Impairment joint venture (Note 19)	-	785,283
Net foreign exchange loss - joint venture	(6,366)	(28,705)
Net foreign exchange loss/(gain) - equity invest	25,029	-
Net foreign exchange loss/(gain) - lines of credit	(51,241)	(113,097)
Net foreign exchange loss/(gain) – medium term notes	(170,748)	4,962
Cash flows from operating profits before changes in operating assets and liabilities	6,279,135	1,909,973
Movements in:		
Loans and advances to customers	50,552,043	82,215,132
Equity Investments (Note 20)	-	2,166,353
Other receivables	(1,636,729)	184,982
Derivative financial assets	(344,472)	-
Other payables and provisions	483,007	308,166
Derivative financial liabilities	-	(587,872)
Deferred income	(106,163)	(362,929)
IFRS 9 Impairment through retained earnings	-	(19,046,454)
IFRS 9 Impairment through investment revaluation reserve	-	(2,166,353)
Net cash generated from operations	55,226,821	64,620,998
	==========	==========

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

33. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Cash and cash equivalents:

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

	2019	2018
	US$	US$
Bank and cash balances (Note 13)	6,491,129	13,681,945
Short term bank deposits (Note 14)	50,482,386	30,777,049
Cash and cash equivalents	56,973,516	44,458,994
	==========	==========

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 lines of credit:

	2019	2018
	US$	US$
At 1 January	108,489,934	144,837,414
Additional borrowings in the year	-	-
Repayments in the year	(42,221,877)	(35,990,714)
Interest expense for the year	6,306,277	6,839,922
Interest paid in the year	(5,629,472)	(7,083,591)
Net foreign exchange gain	(51,241)	(113,096)
At 31 December	66,893,621	108,489,934
	==========	==========

(d) Analysis of movement in medium term notes

At 1 January	8,285,023	28,811,711
Additional borrowings in the year	-	-
Repayments in the year	(3,426,791)	(20,090,873)
Interest expense for the year	432,556	1,688,646
Interest paid in the year	(356,634)	(2,129,423)
Net foreign exchange (gain)/loss	(170,748)	4,963
At 31 December	4,763,406	8,285,023
	==========	==========

(e) Other finance charges

	2019	2018
	US$	US$
Interest expense on lines of credit (note 33(c))	6,306,277	6,839,922
Interest expense on medium term notes (note 33(d))	432,556	1,688,646
Other financial (gain)/loss	(34,869)	1,455,715
Total interest and similar charges (note 5)	6,703,964	9,984,283

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

	2019	2018
	US$	US$
Approved and signed project loans	7,282,052	1,128,216
Commitments to Equity investments in Joint ventures	1,216,200	1,535,886
Capital budget	445,200	784,000
	8,943,452	3,448,102

(b) Contingent liabilities:

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

35. RELATED PARTY TRANSACTIONS

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

Key management personnel

Except for staff loans and advances amounting to US$ 2,438,561 (2018: US$ 982,148) disclosed in Note 18, 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 2019 amounted to US$ 1,479,753.23 (2018: US$ 285,154). The interest income received from staff loans and advances to key management staff as at 31 December 2019 amounted to US$ 49,864 (2018: US$ 42,250).

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

	2019	2018
	US$	US$
Salaries and other short-term benefits	1,368,088	1,085,326
Post-employment benefits	121,849	105,860
	1,489,937	1,191,186
Directors' remuneration		
Short term benefits: fees for services as directors	327,985	179,790

(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.

	2019	2018
	US$	US$
Everest Park Project		
At 1 January	2,455,945	1,148,356
Loans granted	843,979	1,233,181
Interest charged on the loan	429,288	327,370
Repayments	(1,687,087)	(252,962)
Total	2,042,125	2,455,945

35. RELATED PARTY TRANSACTIONS (Continued)

Glenwoods Gardens Project

	2019	2018
	US$	US$
At 1 January	3,700,472	3,538,801
Loans granted	-	-
Interest charged on the loan	-	161,671
Repayments	-	(230,703)
Total	3,700,472	3,700,472

Kew Gardens Project

	2019	2018
At 1 January	11,117,157	11,117,157
Loans granted	-	-
Interest charged on the loan	-	-
Total	11,117,157	11,117,157

36. 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 carrying value is not significantly different from the fair value amount.

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

36. FINANCIAL RISK MANAGEMENT (Continued)

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.

	2019	2018
	US$	US$
(a) Capital management		
Share capital and share premium	140,638,192	130,659,748
Retained earnings	(28,083,460)	(27,521,509)
Credit Loss Reserve	1,000,000	1,000,000
Investment Revaluation Reserve	(2,496,610)	(1,831,417)
Revaluation surplus	2,777,594	2,809,279
Special Reserves - SH-AF Foundation	1,585,277	1,670,352
Equity Capital	115,420,993	106,786,453
Lines of credit	66,893,621	108,489,934
Medium term notes	4,763,406	8,285,023
Total Debt Capital	71,657,027	116,774,957
Total capital	187,078,020	223,561,410
Gearing ratio	0.62	1.1

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

36. FINANCIAL RISK MANAGEMENT (Continued)

- 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 27.54% in 2019 (2018 26.6%) 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 24. 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

Credit risk

Credit risk is the risk of suffering financial loss, should any of Shelter Afrique's customers, clients or market counterparties fail to fulfil their contractual obligations to Shelter Afrique. Credit risk arises mainly from customer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit.

Shelter Afrique is also exposed to other credit risks arising from cash and bank balances as well as short term deposits. For risk management reporting purposes, Shelter Afrique considers and consolidates all elements of credit risk exposure.

Management of credit risk

Credit risk is the single largest risk for Shelter Afrique's business; management therefore carefully manages its exposure to credit risk. The Board of Directors has delegated responsibility for the management of credit risk to its Audit, Risk & Finance Committee. The Audit, Risk & Finance Committee is responsible for oversight of Shelter Afrique's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorization structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk. credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

Management of credit risk (Continued)

- Limiting concentrations of exposure to counterparties and industries for loans and advances;
- Developing and maintaining Shelter Afrique's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Company Risk;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Company Credit on the credit quality of local portfolios and appropriate corrective action is taken; and
- Providing advice, guidance and specialist skills to business units to promote best practice throughout Shelter Afrique in the management of credit risk. Each business unit is required to implement Company credit policies and procedures, with credit approval authorities delegated from Shelter Afrique Credit Committee.

a) Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. Shelter Afrique measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

Shelter Afrique uses credit risk gradings that reflect its assessment of the probability of default and specific characteristics of individual counterparties. Various qualitative and quantitative factors such as the facility arrears status, facility restructures as well as specific industry risk assessment are considered. In addition, the credit grading enables expert judgement from the credit risk team to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by Shelter Afrique.

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

a) Loans and advances (Continued)

Expected credit loss measurement (Continued)

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is provided in this note.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk (SICR

Shelter Afrique considers a financial instrument to have experienced a significant increase in credit risk (SICR) based on its assessment of both quantitative factors and qualitative factors or when the backstop criteria have been met.

Shelter Afrique has considered the following in determining the staging of facilities:

Qualitative factors: This considers the perceived risk of the customer (i.e. High, Medium or Low)

Quantitative factors: This considers the following:

- The facilities arrears status
- Number of restructures, if any
- Reasons for restructure

The assessment of SICR incorporates forward-looking information. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team. A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

a) Loans and advances (Continued)

Expected credit loss measurement (Continued)

Definition of default and credit-impaired assets

Shelter Afrique defines a financial instrument as in default when the borrower is more than 90 days past due on its contractual payments. The definition has been used consistently across all ECL inputs i.e. PD, EAD and LGD. The criteria above have been applied to all financial instruments held by Shelter Afrique and are consistent with the definition of default used for internal credit risk management purposes.

The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout Shelter Afrique's expected loss calculations.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered credit-impaired. Expected credit losses are the discounted product of the Probability of

Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts Shelter Afrique expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents Shelter Afrique's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the approximation of the original effective interest rate.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

a) Loans and advances (Continued)

Expected credit loss measurement (Continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques (Continued)

The 12-month and lifetime EADs are determined based on the expected payment profile. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. Shelter Afrique management uses expert judgement, based on the entity's historical experience, to determine the time to realization, the forced sale haircut of the collateral and the cost of recovery.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change etc. are monitored and on an ongoing basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period. Shelter Afrique reviews all inputs, assumptions and estimation techniques applied in measuring the ECL to assess any changes and appropriateness on an annual basis. Consideration is made to changes in the business, changes in the economy, changes in the factors affecting the PD, LGD, EAD and other inputs. Such changes are expected to be very infrequent. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period. Unless significant changes are identified, Shelter Afrique expects to update the PDs, LGD and any other significant assumptions after every 3 years.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information using macro-economic overlays. Overlays were estimated and applied for three different scenarios, base case scenario, downside scenario and optimistic scenario.

These macroeconomic overlays and the probability of each economic scenario occurring were set using management judgement based on the assessment of Shelter Afrique's portfolio performance. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2019 and 31 December 2019, for all portfolios Shelter Afrique concluded that three scenarios appropriately captured non-linearities.

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. Following this assessment, Shelter Afrique measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Shelter Afrique considers these forecasts to represent its best estimate of the possible outcomes and has established that the chosen scenarios are appropriately representative of the range of possible scenarios.

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

b) Other financial assets

These are made up of the following:

- Cash and bank balances
- Short term deposits

Shelter Afrique has applied the low credit risk exemption to these financial assets on transition to IFRS 9 and in the year ended 31 December 2019. This is because:

- They have a low risk of default;
- The counterparties are considered, in the short term, to have a strong capacity to meet their obligations; and
- The lender expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily; reduce the ability of the counterparties to fulfil their obligations.

Significant increase in credit risk (SICR)

Shelter Afrique has measured impairment for the above assets using 12-month ECL, and so did not have to assess whether a significant increase in credit risk has occurred.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

For these financial assets, the following steps were taken in determining the 12-month probability of default (PD):

- The counterparty's global rating was used if available and a mapping table used to look up the S&P Global equivalent.
- If no credible external rating existed as at reporting date, then the rating for a bank of a similar tier was used.
- If the above steps failed to result in a reasonable and supportable estimate for the PD, management has used expert judgement and past experience in estimating the PD for the counterparty.

The exposure at default (EAD) is set as the amortized cost value of the respective financial asset while Loss Given Default (LGD) is assumed to be 100%.

Maximum exposure to credit risk — Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents Shelter Afrique's maximum exposure to credit risk on these assets.

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

b) Other financial assets (Continued)

Maximum exposure to credit risk — Financial instruments subject to impairment (Continued)

Company	31-Dec-19				31-Dec-18
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
	USD	USD	USD	USD	USD
Cash and bank balances	6,491,129	-	-	6,491,129	13,681,945
Short term deposits	50,477,597	-	4,789	50,482,386	32,065,078
Loans and advances to customers	64,533,047	26,080, 123	95,476,164	186,089,334	235,332,141
Gross carrying amount	**121,501,773**	**26,080,123**	**95,480,953**	**243,062,849**	**281,079,164**
Loss allowance (Loans and advance)	(4,854,107)	(8,540,535)	(60,508,518)	(73,903,160)	(71,433,314)
Loss allowance (Short term deposits)	(276,390)	-	-	(276,390)	
Loss allowance (Cash and Bank balances)	25,018	-	-	25,018	
Carrying amount	**116,396,294**	**17,539,588**	**34,972,435**	**168,908,316**	**209,645,850**

These are gross amounts excluding currency translations and write offs.

Collateral and other credit enhancements

Shelter Afrique employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. Shelter Afrique has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. Shelter Afrique prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

Shelter Afrique holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Debt securities, treasury and other eligible bills are generally unsecured. Collateral is usually not held against investment securities, and no such collateral was held at 31 December 2019 or 31 December 2018.

Shelter Afrique's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by Shelter Afrique since the prior period. Shelter Afrique closely monitors collateral held for financial assets, as it becomes more likely that Shelter Afrique will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

b) Other financial assets (Continued)

Collateral and other credit enhancements (Continued)

Loans and advances to customers	**2019**			
	Gross Exposure	Impairment Allowance	Carrying amount	FV of collateral held
	USD	**USD**	**USD**	**USD**
Carrying amount	187,249,943	(72,615,131)	**114,634,813**	**114,634,813**
Loans and advances to customers	**2018**			
	Gross Exposure	Impairment Allowance	Carrying amount	FV of collateral held
	USD	**USD**	**USD**	**USD**
Carrying amount	235,332,141	(70,145,285)	**165,186,856**	**287,071,827**

Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

b) Other financial assets (Continued)

Loss allowance (Continued)

Company	IFRS 9		IFRS 9		IFRS 9
Measurement category	Balance brought forward	Remeasurement	Loan loss allowance under IFRS 9	Charge for the year	Balance carried forward
	31-Dec-18		01-Jan-19		31-Dec-19
	USD	USD	USD	USD	USD
Cash and bank balances	-	-	-	-	-
Short term deposits	(1,288,029)	-	(1,288,029)	(251,372)	(1,539,401)
Loans and advances to customers	(70,145,285)	-	(70,145,285)	(2,469,846)	(72,615,131)
Total	(71,433,314)	-	(71,433,314)	(2,721,218)	(74,154,532)

Write-off policy

Shelter Afrique writes off a loan balance (and any related allowances for impairment losses) when Company Credit determines that the loans are uncollectible. This is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was USD 0 (2018 USD 391,822). Shelter Afrique still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modification of financial assets

Shelter Afrique sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where Shelter Afrique has made concessions that it would not otherwise consider.

Such restructuring activities include extended payment term arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. Shelter Afrique monitors the subsequent performance of modified assets. Shelter Afrique may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk Management (Continued)

b) Other financial assets (Continued)

Modification of financial assets (Continued)

performed in accordance with the new terms for six consecutive months or more. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets held as at 31 December 2019 was USD 5,242,159 (2018 USD 17,296,076).

Concentration by Sector

Shelter Afrique monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	2019 USD	2018 USD
Real estate	50,845,207	97,460,242
Financial Institutions	63,789,606	67,726,609
Total	114,634,813	165,186,851

(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.

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risk Management (Continued)

	US$	EUR	CFA	KSHS	ZAR	NAIRA	Total
AT 31 DECEMBER 2019							
ASSETS							
Bank and cash balances	2,888,564	1,252,136	103,181	1,502,268	740,933	4,046	6,491,130
Short term deposits	41,217,263	-	-	8,046,773	1,218,351	-	50,482,386
Currency swaps	346,386	-	-	-	-	-	346,386
Loans and advances to customers	90,914,460	-	7,015,724	16,704,629	-	-	114,634,813
Other receivables	3,836,796	-	-	-	-	-	3,836,796
	________	________	________	________	________	________	________
Total financial assets	139,203,469	1,252,136	7,118,905	26,253,670	1,959,284	4,046	175,791,511
	________	________	________	________	________	________	________
LIABILITIES							
Medium term notes	-	-	4,763,406	-	-	-	4,763,406
Lines of credit	55,067,937	11,170	3,126,898	8,687,617	-	-	66,893,621
Other payables	1,746,653	-	-	-	-	-	1,746,653
	________	________	________	________	________	________	________
Total financial liabilities	56,814,590	11,170	7,890,304	8,687,617	-	-	73,403,680
	=========	========	========	=========	========	========	=========
Net asset/(liability) position	82,388,879	1,240,966	(771,399)	17,566,053	1,959,284	4,046	102,387,831
	________	________	________	________	________	________	________
AT 31 DECEMBER 2018							
Total financial assets	156,319,397	429,671	12,103,685	41,061,273	1,912,139	21,664	211,847,829
Total financial liabilities	92,681,827	310,249	13,636,687	12,031,475	-	-	118,660,238
	________	________	________	________	________	________	________
Net asset/(liability) position	63,637,570	119,422	(1,533,002)	29,029,798	1,912,139	21,664	93,187,591
	=========	=========	=========	=========	========	========	=========

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.

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risk Management (Continued)

Impact – 2019

EURO	CFA	KSHS	ZAR
5%	4%	4%	1%
62,048	(30,856)	702,642	19,593
=========	=========	=========	=========

Impact – 2018

EURO	CFA	KSHS	ZAR
5%	4%	4%	1%
5,971	(61,320)	1,161,192	19,121
=========	=========	=========	=========

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 Investment revaluation reserve. A 10 per cent increase in the value of the company's investment in equity measured at fair value through other comprehensive incomes at 31 December 2019 would have increased equity by US$ 462,519 (2018: US$ 624,482). 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

36. FINANCIAL RISK MANAGEMENT (Continued)

(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 2019									
Assets									
Bank and cash balances	6,491,129	-	-	-	-	6,491,129	-	-	6,491,129
Short term deposits	-	50,482,386	-	-	-	50,482,386	-	-	50,482,386
Loans and advances to customers	-	77,430,268	-	-	-	77,430,268	15,833,010	21,371,535	114,634,813
	________	________	________	________	________	________	________	________	________
Total financial assets	6,491,129	127,912,654	-	-	-	134,403,783	15,833,010	21,371,535	171,608,328
	========	=========	=======	=======	=======	=========	=========	=========	=========
Liabilities									
Lines of credit		40,924,237	-	-	-	40,924,237	-	25,969,385	66,893,621
Medium term notes	-	-	-	-	-	-	-	4,763,406	4,763,406
	________	________	________	________	________	________	________	________	________
Total financial liabilities	-	40,924,237	-	-	-	40,924,237	-	30,732,791	71,657,027
	________	________	________	________	________	________	________	________	________
Net interest rate sensitivity gap	6,491,129	86,988,417	-	-	-	93,479,546	15,833,010	(9,361,256)	99,951,301
	========	=========	=======	=======	========	=========	=========	=========	=========

36. FINANCIAL RISK MANAGEMENT (Continued)

(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 2018									
Assets									
Bank and cash balances	13,681,945	-	-	-	-	13,681,945	-	-	13,681,945
Short term deposits	-	30,777,049	-	-	-	30,777,049	-	-	30,777,049
Loans and advances to customers	-	137,466,903	-	-	-	137,466,903	18,913,242	8,806,711	165,186,856
Total financial assets	13,681,945	168,243,952	-	-	-	181,925,897	18,913,242	8,806,711	209,645,850
Liabilities									
Lines of credit	-	59,639,873	5,200,000	-	-	64,839,873	-	43,650,063	108,489,934
Medium term notes	-	-	-	-	-	-	-	8,285,023	8,285,023
Total financial liabilities	-	59,639,873	5,200,000	-	-	64,839,873	-	51,935,086	116,774,957
Net interest rate sensitivity gap	13,681,945	108,604,079	(5,200,000)	-	-	117,086,024	18,913,242	(43,128,375)	92,870,893

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$ 467,398 (2018 US$ 685,634). A 50-basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

36. FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management

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

36. FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management (Continued)

	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 2019							
Financial assets							
Bank and cash balances	6,491,129	-	-	-	-	-	6,491,129
Short term deposits	-	50,482,386	-	-	-	-	50,482,386
Loans and advances to customers	29,832,745	8,491,951	11,975,297	59,471,512	4,863,308		114,634,813
Total financial assets	36,323,874	58,974,337	11,975,297	59,471,512	4,863,308	-	171,608,328
Financial liabilities							
Lines of credit	12,810,943	19,670,270	6,645,072	27,297,509	469,827	-	66,893,621
Medium term notes		1,587,802	1,587,802	1,587,802	-	-	4,763,406
Total financial liabilities	12,810,943	21,258,072	8,232,874	28,885,311	469,827	-	71,657,027
Net Liquidity gap	23,512,931	37,716,265	3,742,423	30,586,201	4,393,481	-	99,951,301
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

36. FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management (Continued)

	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 2018						
Financial assets						
Bank and cash balances	13,681,945	-	-	-	-	13,681,945
Short term deposits	-	30,777,049	-	-	-	30,777,049
Loans and advances to customers	36,370,978	21,803,584	16,487,570	79,347,631	11,177,093	165,186,856
Total financial assets	50,052,923	52,580,633	16,487,570	79,347,631	11,177,093	209,645,850
Financial liabilities						
Lines of credit	60,271,560	9,210,645	9,252,202	29,755,527	-	108,489,934
Medium term notes	-	1,527,958	1,527,958	5,229,107	-	8,285,023
Total financial liabilities	60,271,560	10,738,603	10,780,160	34,984,634	-	116,774,957
Net Liquidity gap	(10,218,637)	41,842,030	5,707,410	44,362,997	11,177,093	92,870,893
	=========	=========	=========	=========	=========	=========

36. FINANCIAL RISK MANAGEMENT (Continued)

(e) Financial instruments categories

As at 31 December 2019:	Amortized Cost	At fair value through profit or loss	At fair value through other comprehensive income	Total carrying amount
	USD	USD	USD	USD
Financial assets				
Cash and balances held with banks	6,491,129.	-	-	6,491,129
Short term deposits	50,482,387	-	-	50,482,387
Derivative financial assets	-	-	346,386	346,386
Loans and advances to customers	114,634,813	-	-	114,634,813
Equity investments	-	-	3,960,000	3,960,000
Investment in joint ventures	-	3,696,255	-	3,696,255
Other receivables	-	-	3,836,796	3,836,796
Total financial assets	171,608,329	3,696,255	8,143,182	183,447,766
Financial liabilities				
Other payables	1,746,653	-	-	1,746,653
Medium term notes	4,763,406	-	-	4,763,406
Lines of credit	66,893,621	-	-	66,893,621
Total financial Liabilities	73,403,680	-	-	73,403,680

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

36. FINANCIAL RISK MANAGEMENT (Continued)

(e) Financial instruments categories (Continued)

As at 31 December 2018:	Amortized Cost	At fair value through profit or loss	At fair value through other comprehensive income	Total carrying amount
	USD	USD	USD	USD
Financial assets				
Cash and balances held with banks	13,681,945	-	-	13,681,945
Short term deposits	30,777,049	-	-	30,777,049
Derivative financial assets	-	-	1,914	1,914
Loans and advances to customers	165,186,856	-	-	165,186,856
Equity investments	-	-	3,998,034	3,998,034
Investment in joint ventures	-	3,667,233	-	3,667,233
Other receivables	-	-	2,200,067	2,200,067
Total financial assets	209,645,850	3,667,233	6,200,015	219,513,098
Financial liabilities				
Other payables	1,885,281	-	-	1,885,281
Medium term notes	8,285,023	-	-	8,285,023
Lines of credit	108,489,934	-	-	108,489,934
Total financial Liabilities	118,660,238	-	-	118,660,238

37. TAXATION

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

38. 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 continued into 2018 and 2019. The following are some of the major measures being undertaken to address the liquidity constraints:

The Company embarked on capital mobilisation in 2017. During the year 2019, shareholders continued injection of share capital of US$ 9.8 million (2018: US$ 5.6 million and 2017: US$ 46.1 million). To shore up capital and improve on liquidity, the Board has put into place strategy for mobilisation of equity capital from existing and new members of at least US$20 million per year for the next 5 years. The Company's shareholders have been very supportive of the Company to achieve its strategic objective. This is demonstrated by the overall increase in capital by injection of US$ 46 million in 2017, US$ 5.6 million in 2018 and US$ 9.8 million 2019.

The Company is currently negotiating a full restructuring of its loans (line of credit) with major lenders (Lenders). The Debt Restructuring Agreement (DRA) with the major lenders aims to achieve strategic objective of the Company, preserve and create value for all stakeholders, enable the Company to approach the debt market to refinance the facilities and raise additional debt to support the business. The major terms for the DRA include: 60 months tenor ending June 2024, up front mandatory payment of 20% of the outstanding loan prorated amongst lenders; interest payment at 31 December and 30 June and sculpted capital repayment. The capital repayments will be as follows: The 6th month starting December 2019: 3.7%; 12th, 18th and 24th months: 4.8% each; 30th month:5.1%; 36th month 4.7%; 42nd month 2.8%; 48th month 1.3%, 54th month 1.3%; 60th month 24.4% and 23.3% bullet payment after the 60th month. The Board and Management have reasonable expectation that the DRA will materialise. So far the following has been achieved in regards to DRA: presentation of Restructuring Proposal to Lenders, signing of letter of intent to enter into DRA by the lenders and settlement of 20% mandatory payment and cash sweep amounts of (USD 17 Million) by SHAF to lenders on outstanding loan prorated amongst the lenders, interest payment at 31 December sculpted capital repayment.

The Company has put in place aggressive strategy for recovery of non-performing loans (NPL). The Company aims to achieve NPL reduction by at least US$ 15 million annually until NPL ratio is at or below 15%. To achieve this, the Company has put aggressive strategy of collecting distressed assets managed by a dedicated Special Operations Unit (SOU), which became operational on February 1, 2018.

The Board of Directors (the "Board") and the Management believe the plans above will continue improving the Company's cash flows and liquidity position. The key shareholders and member countries have been and continue to be appraised of and involved in the process of the required long-term support and turnaround plan and have continued to lend their supports as evidenced by continued capital injection received and committed.

The Board have reviewed the current trading and cash flow projections as part of their assessment, and after making enquiries and carefully considering the initiatives above, have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board have prepared the financial statements on a going concern basis and will be able to meet their liabilities as and when they fall due.

39. EVENTS SUBSEQUENT TO YEAR END

The unprecedented outbreak of the novel corona-virus of 2019 ("COVID-19"), has left the entire global economy adversely affected. The World Health Organization (WHO) has declared the outbreak a global pandemic. The COVID-19 pandemic may precipitate a global economic recession that will have an adverse impact on almost all countries and economies, leading to reduced fiscal revenues, increases in health expenditure and interruption to global supply chains. Therefore, unemployment as well as adjustments in fiscal and monetary policies to respond to the crisis will impact the regional economies, Africa included.

Despite creditworthiness of most African countries showing resilience in the short term, this resilience may weaken as economic growth rates decline and tax revenue targets remain unmet in the medium and long term. The probable impact on the Company is that this may affect capital mobilization efforts in 2020 from member countries as resources are channelled to health budgets to mitigate the pandemic.

The Effects of the COVID-19 to the housing sector in Africa are not yet clear. However, early analysis indicates unprecedented disruptions to the global supply chains. Delivery of building material supplies from China and other countries ordered by property developers may be interrupted. In addition, construction works may be significantly curtailed as workers stay home under lockdowns, quarantines, curfew restrictions and other ancillary business shutdowns. This will in turn result in huge workforce layoffs leading to further contraction in consumer spending and thus constraining effective demand for buying houses as result of the downward spiral of economic activity in most countries where the Company has its lending operations. The Company's gross portfolio exposure in the forty-four (44) member countries was USD 186.09 million as at 31st December 2019.

From a credit risk perspective, the Company continues to conduct periodic stress tests on its existing loan portfolio and lending pipeline to assess requisite levels of preparedness, magnitude and potential negative impact of COVID-19. There is an expectation of receiving loan restructuring requests from clients, risk of prepayments or repayment delays due to cash-flows challenges by customers. The development of new housing projects across member states may slow down, thus negatively affecting lending operations.

The company's profitability for the year ending 31 December 2020 is likely to be impacted due to reduced interest income from scaled down level of operations, increased foreign exchange risk from depreciating currencies against the United States Dollar, high cost to income ratio and a spike in impairments from an increase in non-performing loans.

The final impact of COVID-19 on the Company's operations and financial outcome will depend largely from the resulting recession of the global and African economies, the duration and spread of the outbreak. This is highly uncertain and cannot be predicted in the middle of the pandemic due to lack of a vaccine and limited mass testing of the level of infections around the world and particularly in Africa.

40. CURRENCY

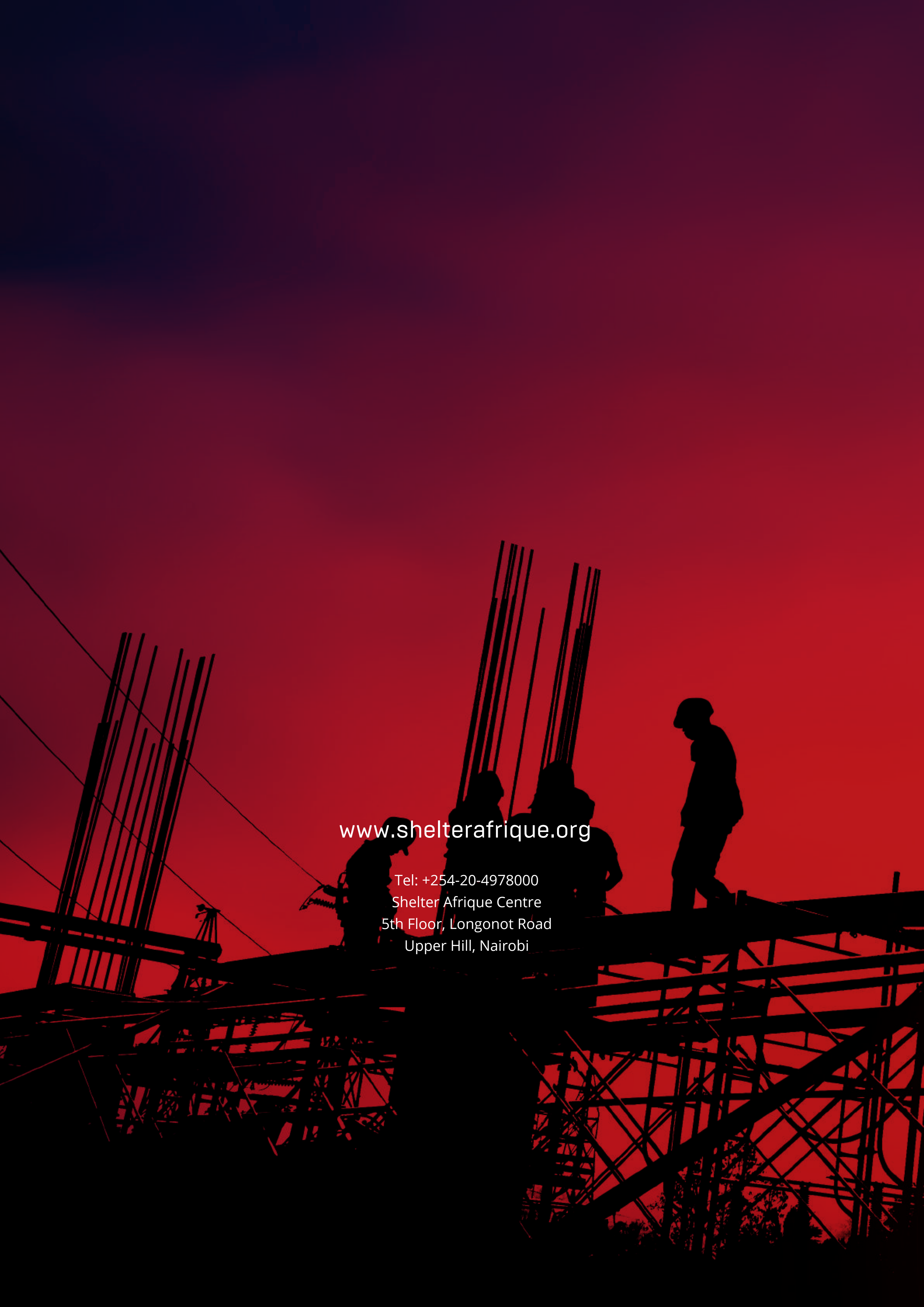
These financial statements are presented in United States Dollars (US$).

APPENDIX

Appendix 1 - Shareholding information schedule

		No of shares 31 December 2018	No of shares 31 December 2019	
	Class A: Countries	**No of shares**	**No of shares**	**% of shareholding**
1	Algeria	4,220	4,220	4.33%
2	Benin	306	306	0.31%
3	Botswana	839	839	0.86%
4	Burkina Faso	951	951	0.98%
5	Burundi	300	300	0.31%
6	Cameroon	4,135	4,135	4.25%
7	Cape Verde	16	16	0.02%
8	Central Afr. Rep	271	271	0.28%
9	Chad	1,090	1,090	1.12%
10	Congo	516	516	0.53%
11	Democratic Republic of Congo	600	600	0.62%
12	Djibouti	300	300	0.31%
13	Gabon	1,283	1,283	1.32%
14	Gambia	321	321	0.33%
15	Ghana	6,315	6,315	6.48%
16	Guinea	419	419	0.43%
17	Guinea Bissau	25	25	0.03%
18	Guinea Equatorial	301	301	0.31%
19	Ivory Coast	3,743	4,696	4.82%
20	Kenya	14,006	15,829	16.25%
21	Lesotho	500	1,789	1.84%
22	Liberia	591	591	0.61%
23	Madagascar	327	327	0.34%
24	Malawi	522	522	0.54%
25	Mali	4,237	4,754	4.88%
26	Mauritania	639	639	0.66%
27	Mauritius	115	115	0.12%
28	Morocco	2,728	2,966	3.05%
29	Namibia	1,526	1,843	1.89%
30	Niger	318	318	0.33%
31	Nigeria	10,430	10,430	10.71%
32	Rwanda	1,786	1,986	2.04%
33	Sao Tome & Principe	16	16	0.02%
34	Senegal	1,407	1,407	1.44%
35	Seychelles	300	300	0.31%
36	Sierra Leone	74	74	0.08%
37	Somalia	10	10	0.01%
38	Swaziland	228	228	0.23%

		No of shares 31 December 2018	No of shares 31 December 2019	
	Class A: Countries	**No of shares**	**No of shares**	**% of shareholding**
39	Tanzania	325	325	0.33%
40	Togo	162	162	0.17%
41	Tunisia	300	300	0.31%
42	Uganda	1,532	1,777	1.82%
43	Zambia	2,553	2,599	2.67%
44	Zimbabwe	1,457	1,457	1.50%
	Class B: Institutions			
1	African Development Bank	15,200	15,200	15.61%
2	African Reinsurance Corporation	4,520	4,520	4.64%
	TOTAL	91,760	97,388	100.00%
		=============	=============	=============



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