



MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

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

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

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

developing countries. Commodity export dependent developing economies could also be affected by the slowing growth and demand in China.

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

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

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

During the year under review, the Company registered mixed experience in its operations. Total disbursements rose to US\$ 79.7 million, against the US\$ 65 million disbursed in 2012, while loan approvals recorded a 28% drop to US\$ 104.5 million

(2012: US\$ 145.7 million) as a result of stringent screening for new entrants to the portfolio to ensure that only good quality assets were booked. As a result of the emphasis on quality loan commitments, which represent the signed loans, declined by 38% to US\$ 84.40 compared to US\$ 135.7 million loans signed in 2012. Management's continued focus on the quality of the loan portfolio bore fruits, with Non-Performing Loans ratio declining appreciably to 10% in 2013. The effort to maintain the quality of the loan portfolio will be maintained.

The Company stepped up resource mobilization efforts in order to meet its operational objectives and the increasing demand for housing finance, raising US\$ 114.5 million in 2013 from financial institutions and capital markets. Funding was received from development partners such as the African Development Bank, the *Agence Française de Développement* and the European Investment Bank, as well as lines of credit from banks. Lines of credit were negotiated with banks to meet short term liquidity needs, especially in Kenya and the CFA zone. Additional financial resources were raised from capital markets in local currencies. During the year, the Company issued a bond on the Nairobi Securities Exchange in local currency equivalent to US\$ 57.9 million which was very successful and oversubscribed by 43%.

During 2013, Management implemented various Human Resources and Organisational Development initiatives that were approved by the Board. These initiatives are aimed at transforming Shelter Afrique into a high performing organisation and raising its rating. The initiatives included the development of a new Target Operating Model (TOM) and Organisational Structure which were approved by the Board in October 2013, and are being implemented in phases, spanning 6 months to 3 years. In addition, a new performance management policy and system, which define the purpose of performance management and how it will be carried out, were approved by the Board and implemented with effect from 1st January 2014. A new competency framework based on the Company's values of leadership, accountability, integrity, teamwork, excellence, diversity, and innovation was developed. A balanced scorecard approach to performance management was also adopted and now forms the basis for tracking Shelter Afrique's performance on the basis of key performance indicators contained in the Strategic Plan, which include net income growth, portfolio growth, portfolio quality (NPL), resource mobilization (share capital and debt), as well as departmental efficiency targets. To strengthen employee's relationship further, a Staff Council was launched as a consultative body and a forum for staff engagement with Management on matters relating to organizational and policy changes, staff welfare; as well as developing and implementing programs to foster staff integration and corporate social responsibility.

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

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

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

During the Annual General meeting held in N'Djamena (Chad) on 12 June 2013, Shareholders approved the increase of authorised capital to US\$ 1 billion from US\$ 300 million and the increase of issued and called up capital to US\$ 146.11 million from US\$ 100 million, in order to support the Company's growth and increase its operational capacity and profitability. It was also agreed to reinstate Callable Capital at US\$ 500 million. In this regard, Shareholders are to discharge their additional capital subscription obligations over a five-year period up to 2018. I am pleased to note that, we continued to receive shareholder support through the payments of additional share capital during the year. Of particular mention are Nigeria, Rwanda, Chad, Zambia and Mali who paid in additional share capital, while a number of other members ploughed back their 2012 dividends, resulting in additional capital totalling US\$ 6.36 million in 2013. On behalf of the Board of Directors, I sincerely convey my appreciation to those Shareholders who have remained steadfast in discharging their capital payment obligations. I also appeal to all Shareholders to take up the additional allocated

and called up share capital in order to further strengthen the Company's resources to enable it to fulfil our mandate of providing funding for the increasing demand for affordable housing in our member countries, especially in urban areas. Timely increase in capital subscription obligations is the strongest and most unequivocal form of support that Shareholders can demonstrate and it goes a long way in enhancing the rating of the institution and strengthening its capacity to mobilize resources for housing development in the continent. However, there's still a lot of ground to be covered, as a total of US\$ 86.27 million still remains unsubscribed against the total called up capital of US\$ 146.11 million. I would therefore like to call on the esteemed Shareholders to pay the called capital in full in order to strengthen the Company's capital base. An enhanced capital base will strengthen the Company's balance sheet, thus enabling it to mobilize more financial resources to fulfil its development mandate.

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

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

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

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

I would like to sincerely thank all the Board Members, who despite the challenges in the year, managed to steer and guide the Company to its current size and especially ensuring the laid down corporate governance structures were adhered to. This has ensured that our institution remains highly regarded not only regionally, but also on the global arena.

I also take this opportunity to congratulate Management and Staff of the Company for their dedication, team work and resilience which led to the remarkable achievements in 2013 and urge them to work even harder in the days ahead in order to surpass the record set in 2013.

Finally, on behalf of the Board, I would like to record our appreciation to the Annual General Meeting for their continued counsel, guidance and commitment in running the affairs of the Company, and express my sincere gratitude to the host country for hosting and facilitating the auspicious occasion of our Annual General Meeting.

Thank you all very much.

Corneille Karekezi
CHAIRMAN OF THE BOARD OF DIRECTORS