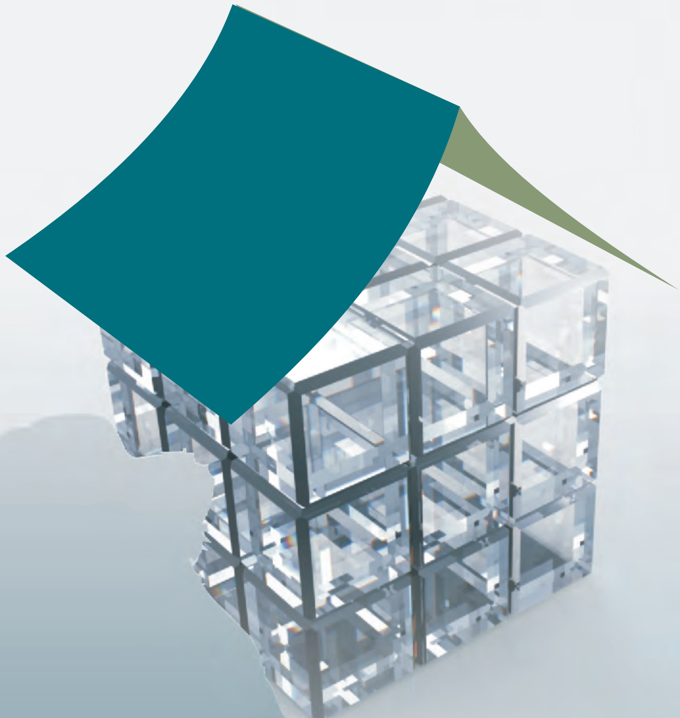
SHELTER - AFRIQUE

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA



Annual Report 2009

Shelter-Afrique ... meeting Africa's housing needs

Our Presence

Shelter - Afrique Centre, Longonot Road, Upperhill, P.O. Box 41479 - 00100 Nairobi, Kenya
Tel: +254 20 2722305-9 • Fax: +254 20 2722024/2721211 • Email: info@shelterafrique.org • www.shelterafrique.org

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Sovereign Shareholders:	42 African member countries as of 31 December, 2009
Institutional Shareholders:	The African Development Bank, African Reinsurance Corporation
Mission:	To assist private and public sector institutions in Africa identify, finance and implement housing and related urban infrastructure projects that will facilitate the achievement of the goal of housing for all.
Authorised Capital as of 31 December, 2009:	US $ 300 million
Issued and Called up capital as of 31 December, 2009:	US $ 100 million
Paid up capital as of 31 December, 2009:	US $ 46.30 million
2009 loan approvals:	24 projects in 11 countries for a total approval of US $ 67 million
Cumulative loan approvals as of 31 December, 2009:	US$ 352 million
Cumulative Disbursements as of 31 December, 2009:	US$ 188 million

Dakar Senegal: Sipres, Cite Al Azhar, Rufisque on-going Housing Project

List of Abbreviations

APPT	Apartment(s)
APPT & Off	Apartments & Offices
KSHS	Kenya Shillings
US $	United States Dollars
WAEMU	West African Economic & Monetary Union
CFAF	Common currency used in UEMOA zone
XOF	Amount expressed CFA F
DL	Direct Loan
BHS	Banque de l'Habitat de Sénégal (Senegal Housing Bank)
GDP	Gross Domestic Product
LOC	Line of Credit
PPP	Public Private Partnership
AfDB	Africa Development Bank
Africa Re	Africa Reinsurance Corporation
Forex	Foreign Currency Exchange difference
MOU	Memorandum of Understanding
DFI's	Development Finance Institutions
FMO	Netherlands Development Corporation
AFD	Agence Francaise Development
NSE	Nairobi Stock Exchange

Our Vision

To be the leading player in strategic partnership among key stakeholders for the efficient delivery of real estate and other related services in Africa.

Our Mission

To assist private and public sector institutions in Africa identify, finance and implement housing and related urban infrastructure projects that will facilitate the achievement of the goal of housing for all.

We achieve this mission through:

- Provision and expansion of affordable and sustainable financial resources available for housing programmes,
- Collaborative partnerships with all actors in the shelter delivery process,
- Adoption of sound management practices that emphasize superior performance, teamwork and
- continuous improvement in our services,
- Sharing information on the best means of providing quality shelter.

We believe that as we build a house, we build a family and a nation.

This is our commitment to the people of Africa.

Our Core Values

Shelter Afrique subscribes to the following values and principles that will enable it deliver high quality services to all stakeholders:

- Effective corporate governance
- Strong client focus
- Transparent and open communication with staff and partners
- Confidence in the ability of its staff to deliver quality services and meet set objectives
- Teamwork as a forceful instrument for solving problems
- High ethical standards that must make our transactions above board
- Corporate social responsibilities
- Total commitment to the ideals of Shelter Afrique and regional integration

The Chairman
General Meeting of Shareholders
Shelter-Afrique

June 16, 2010

Honourable Ministers,

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 Report of the Company's activities for the period January 1, 2009 to December 31, 2009 with the accompanying audited financial statements covering the same period and the corresponding Report of the External Auditors.

The Report also provides an overview of the business environment under which the Company operated during the period.

Please accept, your Excellencies, the assurance of my highest consideration.

Mr. Djama Nacer
Chairman of the Board of Directors

Standing - left to right:

Mr. F. M. Karbah
Mr. L. Y. Abubakar
Mr. Alassane Bâ
Ms. E. M. Tembo
El Hadj B. Diarra
Mr. T. Kosgey

Sitting - left to right:

Mr. B. Ndayitwayeko
Mr. Djama Nacer
Mr. B. Kamara
Mr. J. M. Gharbi

Chairman's Statement

"Despite the demanding operating environment, it gives me a great pleasure to report that, the Company's lending operations during the year continued on the positive trend of the previous year."

I have the honour, on behalf of the Board of Directors, to welcome once again, distinguished shareholders and delegates to the 29th Annual General Meeting (AGM) of our Company and to present to this august assembly, our Company's Annual Report and Audited Accounts for the financial year ended 31st December, 2009. As was the case in the previous year, the report highlights the key drivers behind the Company's operational and financial performance over the reporting period. It further reviews the company's operating environment and the year's operating activities and presents the external auditors' report to the shareholders, including the audited financial statements for the year ended 31st December, 2009.

Operational Performance

It has been another year of challenging market conditions globally. The 2009 fiscal year began with economic uncertainty in many parts of the world. Operational activities during the year were carried out against a subdued business environment imposed by a combination of factors including the tardy pace of global economic recovery, interest rates worries and geo-political considerations, on the back of a deepening banking and credit crisis, which intensified into global recession.

Despite the demanding operating environment, it gives me a great pleasure to report that, the Company's lending operations during the year continued on the positive trend of the previous year. Loan approvals reached an unprecedented level of US$67 million against US$ 54 million registered in 2008, an increase of 23%. Cumulative loan approvals thus increased by 24% to US$ 352 million. Consistent with our strategy, about 84% of our investments have been channeled in support of the development of physical housing for residential and commercial real estates. We committed US$51 million during the year to financing 21 new housing projects in member countries. Cumulative commitments, representing signed loans thus increased by 27% to US$ 237 million.

Disbursements in the year grew by 67% to US$ 30 million in comparison with the US$ 18 million registered in 2008, bringing cumulative disbursements to US$ 188 million.

2009 Financial Results

The financial performance during the year was mainly affected by the significant increase in loan impairment provisioning, from US$0.92 million in 2008 to US$3.76 million in 2009, representing an increase of 307%. While operating income before impairment charges grew by 47%, having increased fromUS$2.22 million in 2008 to US$3.26 million in 2009, underlying profit for the year declined substantially by 83%, from US$2.61million in 2008 to US$429,469 resulting mainly from the surge in provisioning which was mainly on account of the company's exposure to one large borrower in Nigeria who has failed to perform its contractual obligations. The project accounted for 66% of the total impairment provision. The credit exposure in our loan book is particularly vulnerable, as the underlying security is in doubt. Consequently, your Board has not proposed payment of dividends for the year in line with the Company's dividends policy. According to the dividend policy, no dividend will be paid if the net income is below US$ 1 million. The entire profit is thus, retained to consolidate the company's balance sheet.

Gross interest income from loans and investment of surplus funds reported growth of 7% on an expanded loan book and improved liquidity, having increased from US$6.03 million in 2008 to US$6.44 million in 2009. Growth in net interest income was however constrained mainly as a result of higher interest expense. Interest expense was up 46%, having increased to US$1.92 million in 2009 mainly due to increased borrowings and higher spread associated with the uncertainty in the global financial markets during the review year.

Asset Quality

Despite a strict credit policy, provisions held against non-performing loans (NPLs) increased by 307% to US$3.76 million in 2009 resulting from the build-up in arrears. This represents 5% of the gross loans compared to 2% in 2008, an increase of 300 basis points in the impairment to gross loan ratio.

The Company's policy for provisioning for impairment on loans which follows International Financial Reporting Standards (IFRS) requires a fair assessment of whether any of the Company's loan assets based on objective evidence, is impaired. If any such evidence exists, the recoverable amount of the asset is estimated and an impairment loss recognized in the income statement whenever the carrying amount of the asset or its book value exceeds its recoverable amount.

The impairment loss so recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (interest and principal repayments and disposal of securities, if any), discounted at the financial asset's original effective interest rate.

Based on the above, a provision of US$ 2.84 million is made for impairment provision on the loan asset and is charged to the income statement as credit loss expense.

Balance Sheet

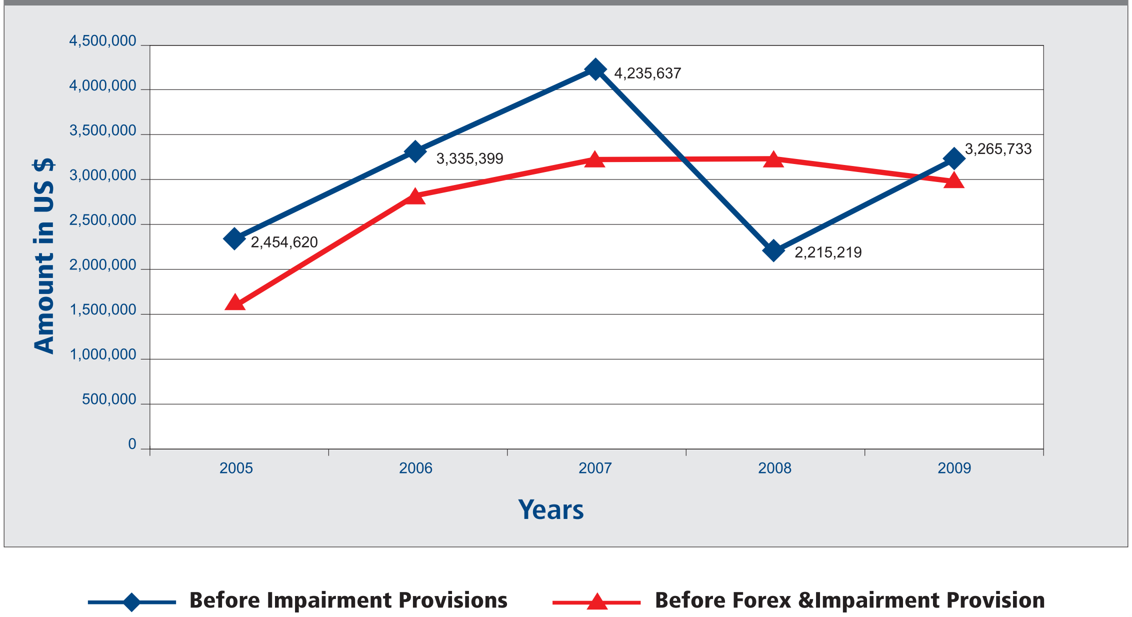
Total Assets grew by 34% during the year to stand at US$ 109 million as at 31st December 2009, due largely to growth in loan asset and improved liquidity. Loans and advances grew 34% supported by strong liquidity growth(+60%), resulting from the proceeds of Kenya Shillings and CFA bonds issued during the year, as well as receipt of capital subscription of some US$8.2 million largely from the Africa Development Bank(AfDB). Thus, shareholders' funds grew 13% to stand at US$69.43 million at the year end. The liquidity reserve is proactively being managed and serves not only to provide readily available resources to meet daily cash needs, but also to fund loans already committed.

Outstanding borrowings at December 31, 2009 increased to US$ 37 million fromUS$18 million at December 31, 2008.

Capitalisation level representing the ratio of equity over total assets of 64% remains high while the lower gearing and higher liquidity will enhance the company's ability to grow risk assets.

Site and services scheme in Lilongwe Malawi

Graph 1: Operating Profit Before Impairment Provision & Forex



Graph 2: Interest Income 2005 - 2009

Corporate Governance

At the management level, Mr. Alassane Bâ joined the Company in July, 2009 from the African Development Bank as the new Managing Director. We look forward to his contributions to grow our institution and increase shareholder value. We wish him a productive tenure of service. Also at the management level, Mr. Louis Roger Ouandji retired from the Company's services as the Company Secretary. We thank him for his services and contributions to the development of the institution.

The Future

Recent events in the global markets suggest that the global financial system has escaped recession. Recovery in the global economy from its historic financial crisis is expected to drive economic rebound in Africa during 2010, from 1.7% last year to 4.8%. The economic reawakening in the developed world is expected to increase demand for Africa commodities and increase the African export, as well as foreign direct investment into the region. While market volatility will likely remain a concern due to credit tightness and inflation fear, demand for housing in most member countries will remain moderate-to-high, allowing the company to remain optimistic in the area of business development. Shelter-Afrique will therefore remain committed to its growth objective as set out in its strategic plan and will act swiftly to take up emerging opportunities following the expected rebound in economic activities.

Underpinned by the on-going institutional reforms, a changing work environment being created by the implementation of the information technology strategy and other organisational strengthening efforts, as well as improvement in business systems and processes in 2010, we would build and consolidate on the initiatives we have started.

Appreciation

Our performance in 2009 reflects the challenging business environment under which the company operated. We continue to appreciate the support, insight and strategic leadership provided by our Board of Directors and Management. We thank our Shareholders for their continued confidence in us and in pledging their unflinching support and commitment to realising our growth potential in the years ahead through share capital increase.

On behalf of my fellow Directors, I would like to offer my appreciation to our staff who have continued to show strong commitment and dedication to the course of this Company. They join me in expressing gratitude to our Shareholders.

Mr. Djama Nacer
Chairman, Board of Directors

the Shelter Afrique Centre

Despite the global financial crisis and challenging market conditions, the demand for housing in Africa continued to grow tremendously; partly due to the unprecedented growth in population and urbanisation in most member countries.

Developers struggled to meet the high demand for housing amidst challenges facing the industry such as high cost of construction, limited construction finance, limited equity and scarcity of serviced land among others. In order to address the issue of serviced land, developers took it upon themselves to provide the necessary infrastructure needed, but this meant that the house would only be affordable to the middle income target market and above as the related cost would ultimately be passed on to the buyer.

Housing for the lower income continued to receive limited attention. African governments have nevertheless realized that the private sector can best provide housing for the poor and many have taken steps to encourage private sector participation (PPP) in the production of lower cost housing.

Shelter-Afrique has been involved in financing PPP and social housing projects in two of its member countries, namely Kenya and Mali.

"Shelter-Afrique has been involved in financing PPP and social housing projects in two of its member countries, namely Kenya and Mali."

Under its current strategy, Shelter-Afrique will target middle income residential real estate where demand is insatiable. Operations in social housing will be developed when the appropriate financial resources are available to it.

Macroeconomic trends

During the past year, investment flows to developing countries including sub-Saharan Africa countries shrunk as the major economies of the United States, China, Japan and Europe faced the challenges of global economic recession. Sub-Saharan Africa had to cope with the knock-on effects of the surge in world food and fuel prices as well as the international economic and financial crisis. These shocks directly fuelled inflation, slowed growth and negatively impacted the region's external and budget balances during the first half of the year. The 2009 global recession choked off Africa's sources of growth with the effect of the global recession spreading to the entire region through weaker demand from major markets, the concomitant drop in international commodity prices; drop in income repatriated from African diaspora, appreciation of African currencies and reduced foreign direct investment. Economic growth rate fell from 5.28% in 2008 to 1.7% in 2009, as reported by the International Monetary Fund. Nevertheless, this positive growth rate was among the highest regional growth rates in the world in the wake of the developed world slumping technically into recession.

Interest rates environment

Global short-term interest rates remained at their low as a stimulus to spur economic growth while at the local front, both the lending interest rate and the interest rate spread remained high, reflecting the high cost of liquidity, thus making access to credit very difficult for the low and middle income families. Although the global financial crisis appeared past its peak, banks remained relatively tight on credit.

Mortgage loan environment

Sub-Saharan Africa countries are the second lowest (after South Asia) in the ratio of mortgage loans to total investment (credit-to-value ratio) in both formal and informal sector. Apart from Southern African Countries where the commercial banking sector is significantly involved in mortgage lending and provides most housing finance, in most other African countries, the housing finance sector is dominated by public sector created housing finance institutions (parastatals). These institutions continued to receive financial support from the governments, offer subsidized loans but they are generally weakly institutionalized and capitalized with very limited coverage, in addition to being politically susceptible and unstable. Nevertheless, some private sector led institutions in the sector continued to emerge in countries such as The Gambia, Ghana, Kenya, Nigeria and Zambia which promise to provide mortgage to low-to-medium income clients.

2010 Strategic and Operational focus

We continue to be guided by the company's strategic objective of building shareholders' value through improvements in efficiency, new business wins and growth. The Company's major pre-occupation in 2009 was mobilization of resources in support of the lending activities and other key operational areas identified in the 2009 budget and strategic plan 2007-2011. In this respect, our resource mobilization efforts recorded significant success during the year while loan approvals and disbursement levels were at an all time high, principally targeting direct lending and extension of line of credit facilities to financial mortgage institutions.

The 2010 operational programmes emphasise capacity building, improvement and streamlining of the business processes, and quality of the credit review process. The budget to support them therefore maintains institutional capacity building, although this line is largely funded through technical assistance provided by AfDB, AFD and World Bank FIRST programmes.

2009 Operational Highlight

In 2009, the Company approved 24 projects in 11 countries for a total of US$ 67 million raising cumulative approvals to US$ 352 million as at December 31, 2009. During the same period, disbursements stood at US$ 30 million with cumulative disbursements improving to US$ 188 million.

In terms of funding, construction of houses, apartments and villas received most funding (63%), followed by commercial projects (21%), Lines of credit (8%) and hybrid projects (8%).

Key Financial and Operational Highlights from 2009 Results:

- Gross income increased 21% over 2008 level, but profit for the year declined 84% due to exceptional impairment charge.
- Operating expenses were maintained at 2008 levels despite increased lending activities.
- Net Operating income before impairment provision grew 47% mainly as a result of higher growth in interest and similar income, as well as the favourable impact of currency translation rate.
- Total Assets grew 34% on the back of improved liquidity and loan assets to stand at US$109 million.
- Liquidity represented by cash and cash equivalent improved 60% while loan assets grew 34%.
- Shareholders' funds were up 13% to stand at US$69 million.
- Impairment provisions deteriorated 300 basis points, having moved to 5% from 2% of the gross loan portfolio as at December 31, 2009.
- The mismatch in financial assets and liabilities decreased in 2009 with minimal exposure to exchange rate fluctuations. . The gap was 9% of the total assets against 16% in 2008.

Table 1: 2009 Loan Approvals (In US$ million)

	Country	Borrower	Loan Amount (US $ equiv.)	Currency	Instrument	Housing Type
1	KENYA	Bellway Ltd	1,000,000	US$	DL	Apartments
2	KENYA	Marlborough Properties Ltd	4,375,000	KSHS	DL	Apartments
3	KENYA	Valley View Ltd	1,250,000	KSHS	DL	Apartments
4	KENYA	Eden Developers Ltd	3,250,000	KSHS	DL	Beach Apartments
5	KENYA	Taj Ltd	5,000,000	KSHS	DL	Shopping Mall
6	KENYA	Summer Ville Development Company Ltd	625,000	KSHS	DL	Villas
7	KENYA	South Development Company Ltd	5,000,000	KSHS	DL	Apartments
8	KENYA	Santa Barbara Ltd	2,093,333	KSHS	DL	Apartments
9	KENYA	Oak Park Athi River Ltd	4,533,333	KSHS	DL	Apartments
10	KENYA	Sawada Investments Ltd	666,667	KSHS	DL	Apartments
11	NIGERIA	Africa Re Corporation	400,000	US $	LoC	Mortgage Loans
12	NIGERIA	Andah Properties	650,000	US $	DL	Apartments
13	NIGERIA	Pentagon Real Estates Ltd	5,000,000	US $	DL	Apartments & services
14	NIGERIA	ARM Properties Ltd	7,000,000	US$	DL	Apartments
15	NIGERIA	Abbey Building Society	5,000,000	US$	LoC	Mortgage Loans
16	SENEGAL	SIPRES	800,000	FCFA	DL	Apartments
17	CAMEROUN	New Horizon	975,000	EURO	DL	Sites & Services
18	SIERRA LEONE	Seidya Gardens	3,000,000	US$	DL	Housing
19	MAURITANIA	SEM	1,500,000	US $	DL	Apartments
20	DRC	Jambo SPRL	4,500,000	US $	DL	Apartments
21	LESOTHO	LHLDC	1,200,000	US $	DL	Apartments
22	TANZANIA	Dar Village	5,000,000	US $	DL	Shopping Mall
23	Mali	Teylium Properties Ltd	3,777,778	FCFA	DL	Office block
24	Malawi	Home Makers Malawi	500,000	US $	DL	Houses
	TOTAL		**67,096,111**			

Table 2: Key Operation and Financial Data (2000 - 2009) In US$ million

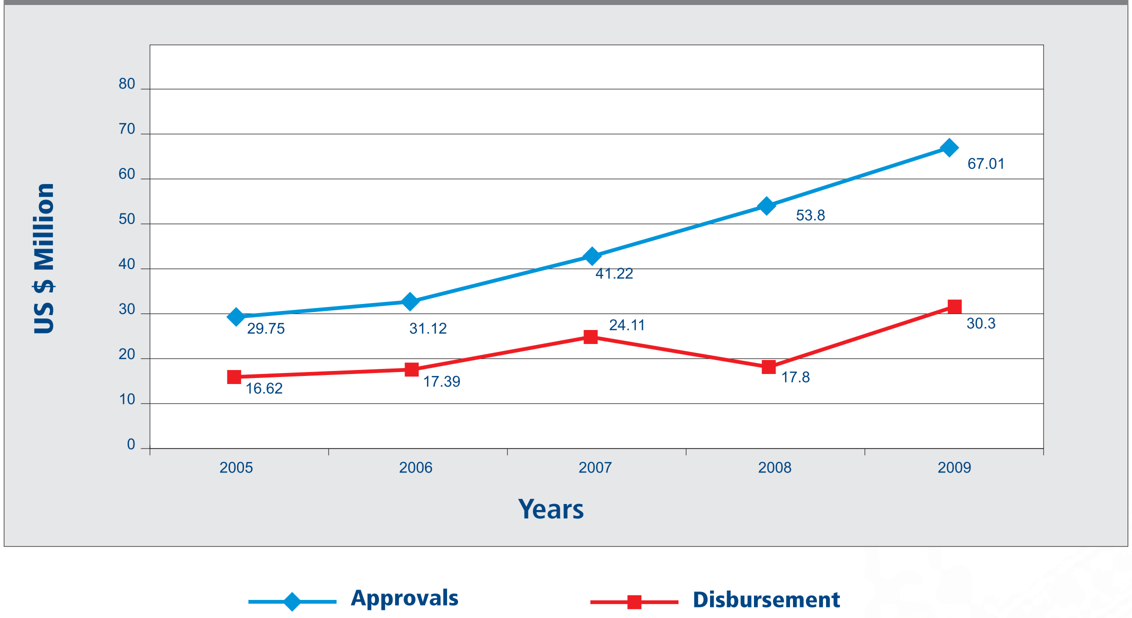
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Approvals	10.96	12.07	15.17	12.26	22.62	29.75	31.09	41.22	54.29	67.1
Cumulative Approvals	66.45	78.52	93.69	106	128.6	158.3	189.41	230.63	284.92	352.02
Disbursement	9.3	8.02	10.14	11.44	11.19	16.62	17.39	24.15	17.81	30.3
Cumulative Disbursement	41.2	49.22	59.36	70.8	81.99	98.61	116.00	140.15	157.96	188.26
Asset	37.02	40.72	46.05	52.42	62.64	61.24	71.62	77.03	81.29	109.11
Net Income	1.26	1.55	1.74	1.8	2.02	2.05	3.34	4.14	2.61	0.429
Paid-Up Capital	29.52	30.83	31.6	32.94	35.51	36.29	36.99	38.65	40.23	46.31
Reserves	2.69	4.16	5.92	7.36	8.98	10.61	13.95	18.69	18.76	18.66
Provisions	0.01	0.11	0.16	0.043	0.18	0.41	0.00	0.096	0	2.84
Shareholders' Funds	32.22	35.10	37.68	40.34	44.67	47.31	50.94	57.42	61.41	69.43

Table 3: Selected Financial Indicators (2005 - 2009) In US$ million

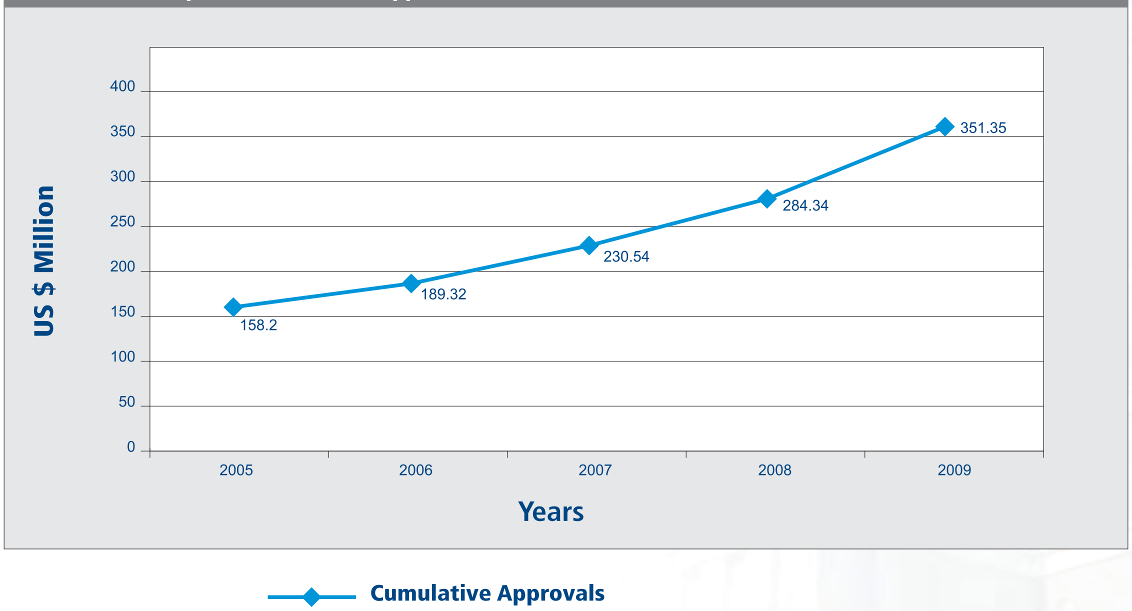
		2005	2006	2007	2008	2009
Operating Results						
Operating Income before impairment provision		3.95	5.27	6.48	5.15	6.20
Operating Expenses		1.49	1.94	2.25	2.93	2.94
Operating Profit		2.00	2.83	3.13	2.22	3.26
Net Profit		2.05	3.34	4.14	2.61	0.43
Administrative Expenses	(a)	1.39	1.84	2.12	2.78	2.76
Financial Position						
Project Loans Outstanding		40.56	44.20	53.19	52.86	70.63
Financial Investments		16.52	22.10	17.12	21.67	24.16
Total Assets		61.24	71.62	76.94	81.29	109.11
Total Equity		47.32	50.94	57.42	61.33	69.43
Total Debt		13.93	20.68	19.52	19.96	39.68
Financial Ratios						
Current Ratio (x)		15.46	26.93	10.00	10.00	16.26
Total Debt to Total Assets (%)		22.75	28.87	25.37	24.55	34.61
Administrative expense ratio (%)	(b)	3.80	4.34	4.35	5.24	3.91
Debt/Equity ratio (%)		21.65	28.22	24.13	22.80	54.38
Earnings per share (US$)		56.40	90.17	109.47	66.20	9.93
Dividend per share (US$)		11.28	18.03	21.42	12.92	0.00

(a) Administrative expenses exclude depreciation, amortisation and other provisions.
(b) Administrative expenses as a percent of average project loans outstanding.

Graph 3: Approvals and Disbursements 2005-2009



Graph 4: Cumulative Approvals 2005-2009



ANNUAL GENERAL MEETING, BOARD AND COMMITTEE ACTIVITIES

Annual General Meeting 2009

The 28th Annual General Meeting was held in Windhoek, Namibia from June 04 to June 06, 2009. The meeting witnessed a respectable level of participation of shareholders and potential ones including Sudan. Institutions represented included FAGACE (Benin), Federal Housing Authority (Nigeria) and United Bank for Africa (UBA) (Nigeria) among others. The high level of participation underscores shareholders' support and renewed interest in Shelter-Afrique.

The Meeting elected a bureau comprising Namibia as Chairperson, Uganda as First Vice Chairperson and Swaziland as the Second Vice Chairperson. During the Meeting, shareholders considered and approved the Company's 2008 Audited Accounts and Reports as well as the distribution of dividends for the financial year and capital increase from US$50 million to US$100 million.

His Excellency Hifikepunye Pohamba, President of the Republic of Namibia delivers his opening address

Annual General Meeting's Symposium

The 2009 Symposium whose theme was "Developing New Strategies for Africa's Housing Markets in the current Global Economic Crisis" was well attended, by participants from all across Africa. Contributions were made by various speakers including delegates. Papers presented included "the global financial crisis and the future of Africa's housing market", "promotion of private capital investment in low cost housing" and "the role of the diaspora in Africa's housing markets", which were well researched and acknowledged. The main conclusions of the symposium were that measures need to be taken to ensure that the global economic crisis does not affect the housing sector. Some recommendations were thus put forward to the African governments in order to improve housing delivery, including ensuring macro-economic stability, developing a legal framework for property rights, establishing a property market and a housing chain, building the mortgage market infrastructure and promoting financial intermediation in the housing markets among others. It was also noted that remittances from Diaspora were quite significant and therefore should be kept open and available for housing development.

Meetings of the Board of Directors and Board Committees

During the year under review, four meetings of the Board were successfully held during which the Board of Directors considered and approved various projects and policy documents aimed at strengthening the effectiveness of the Company's operations. These included Policy on managing Currency Exchange Rate and Internal Audit Charter. During their meetings in 2009, the Board also considered and approved a total of 25 projects in the total amount of US$ 67 million. The Committee of the Board for Audit and Risk held 2 meetings to review among others, the 2010 budget document, audit and finance reports, policy on currency exposure management, share capital increase while the Committee of the Board for Administrative Affairs and Human Resources also had two meetings during 2009 to consider the recruitment of the new Managing Director and Staff Benefits.

A group photograph of delegates at the 28th Annual General Meeting held in Windhoek, Namibia

ECONOMIC AND SECTOR ENVIRONMENT

International environment

The turmoil in the credit markets continued in 2009. During the year, recession gripped the major economies of the United States, most of Europe and Japan while growth slowed in Asia and Africa, on the back of the global economic and financial crisis. Due to the economic slowdown in the major economies, demand and prices for commodities remained subdued and investment prospects largely remained uncertain. The fragile and unsettled nature of the global economy has been reflected in the low interest rate environment. In order to stimulate growth, interest rates remained muted as bank credit and money supply have been growing only slowly. Nevertheless, the world economic recovery continued to unfold later in the year, supported by coordinated policy responses enacted by governments and central banks in the wake of the financial crisis. Led by China, most developed and developing economies returned to growth in the third quarter, save for U.K. whose GDP fell. Financial conditions improved as evidenced by the strong global equity rally, driven by emerging markets and firmer commodity prices.

In December 2008, the US Federal Reserve lowered its funds target rate to 0 - 0.25% per annum , following series of interest rates cuts, while the European Central Bank also dropped rates to 1.25%pa. These rates remained largely on hold in 2009, in order to spur growth.

Emerging markets including SSA markets were not spared from the global economic contractions but were hit by factors, including falling commodity prices, a slum in stock and bond markets, and tightening credit conditions across the world in the wake of the financial crisis. Borrowing costs remained high despite the low interest rate environment

REGIONAL ENVIRONMENT

Urban & Housing Sector

The demand for housing in Africa continued to grow tremendously; partly due to the unprecedented growth in population, high growth for urbanization and improved economic performance in most countries. The increased macroeconomic stability, through lower interest rates and lower inflation made mortgage loans more affordable across Africa.

However, the global financial crisis dampened the appetite and the growth. The extent and severity of this crisis that began with the bursting of the housing bubble in the USA cannot be clearly determined. The financial sector in Africa may not be severely hit as cross-border banking systems linkages are minimal. There is less exposure to complex financial products and financial systems are not well integrated with the other global financial market.

In developing countries generally, most people spend large chunks of the disposable income on housing. Furthermore, incomes are usually low for the majority to afford decent self contained dwellings. Housing needs in the region therefore broadly include new units to meet excess demand and replacement or repair of existing units. Affordability of housing varies widely between countries and cities or urban centers. This is why there is a need to meticulously study the market to ensure that financing is done in the appropriate segments of the housing market.

Shelter-Afrique has remained committed to good practices in housing finance, and continues to partner with various players in this market. We have issued numerous lines of credit for on-lending to private real estate developers and housing finance institutions to finance housing projects in various countries in Africa.

It is succinct that the growth in the housing market continues to generate employment in the construction and ancillary industries, which in the end will lead to a substantial increase in employment in the entire region.

Financial sector

As in other developing countries, financial markets in African countries are dualistic-with formal and informal sectors, and characterized by a high degree of segmentation and fragmentation. The formal financial sector is bank-dominated. The vulnerability of the financial sector has been notably characterized by a high degree of concentration of bank loan portfolios. This large credit exposure to a relatively small numbers of borrowers is said to reflect the high perception of risks of commercial banks, which prefer to lend to a few corporations,- namely those located at the upper end of the market, than to expand lending to clients that are new, but little known and are perceived too risky.

Mortgage loan environment

The mortgage market across Africa is poised for growth due to the expanding population leading to increased demand for housing units. While the wealthy can afford to pay cash for both residential and commercial units, the growing middle class in Africa (mostly salaried/employed) need mortgage financing to realise such dreams. The World Bank estimates the Sub-Saharan middle class will be 43 million plus by 2020 from 12.8 million in 2000. Although the bulk of the continent's middle class consumers are in South Africa, growing markets in countries such as Zambia, Nigeria, Kenya, Ghana, etc amongst a host of others deserve close attention by any serious financier. As a matter of fact, there is an emerging middle class in Africa with insatiable hunger for housing.

High interest rates, persistent inflation and currency fluctuation have for decades put the brakes on long term lending in Africa, with wary banks mostly ignoring the mortgage market. But with the seemingly improved economic environment in the recent years, these variables have positively improved. However, the effects of the current global financial crisis are being carefully monitored to ensure prudent investment decisions are made on the utilisation of shareholders funds. The mortgage market in Africa is growing and this set to increase the growth of the real estate development by ensuring there is consistent and sustainable demand for this market.

STATUS OF OPERATIONAL ACTIVITIES

In the year 2009, African Governments continued to make efforts to encourage the development of the housing sector through institutional and policy reforms. These were aimed at enabling their people to access housing, basic services and infrastructure; encouraging integrated, participatory approaches to promote development of low cost building material and construction techniques; and through facilitating increased investment by the formal and informal private sector in the production of housing for low and middle-income urban dwellers.

The overall goal of these policies is to facilitate the provision of adequate shelter and a healthy living environment at affordable cost to all social economic groups in order to foster sustainable human settlement.

Company Operations

In accordance with the company's lending policies, interventions continued and were primarily focused on funding private developers in Member countries. During the year 2009, most approvals were for physical housing developments, followed by commercial developments and lines of credit.

Breakdown of Approvals during 2009

In 2009, a total of US$ 67.10 million in new loans were approved for 24 projects in eleven (11) member countries, an increase of 24% over the previous year. Total commitments during the year amounted to US$51.33 million representing 21 projects in 8 countries compared to US$ 23.48 million committed in 2008.

Loan Size

Average loan size was about US$2.80 million per project with tenors ranging between 1 and 7 years compared to US$2.36 million per project achieved in 2008. The increase resulted from the ability of the Company to on-lend more resulting from the focus on bigger transactions.

Real estate development remains the major beneficiary of Company's funding in line with the objective of increasing the supply of affordable housing in member countries. Development of physical housing, both residential and commercial, accounted for 84% of total loan approvals while lines of credit to financial institutions, accounted for the remaining 16%. Statistics for year 2008 was 74% and 26%, respectively.

Approvals by Client Type

In value terms, lending to the private sector accounted for 80% of loan approvals, the public sector accounted for 18% of total approvals while the parastatal sector and other organizations where governments are part of the shareholding accounted for the remaining 2%. Shelter-Afrique supports efforts of governments in member countries to limit their roles in direct provision of housing by instead facilitating and enabling the private sector to invest in the industry. It is noted that there currently exist in most member countries medium and large scale developers capable of filling gaps left by public institutions or parastatals.

Partners and Leveraging

During the year under review, Shelter-Afrique worked with a number of developers and partners including co-financiers. The year also saw Shelter-Afrique enter into new markets in Lesotho. This is in keeping with its strategic objectives of building strategic partnerships and expanding lending activities as well as leveraging its financing. Its financing per project averaged 60% of the total cost for projects approved with the rest being provided by the developers and/or by buyers' deposits.

Performance of Project Portfolio

A comparison between approvals, commitments, disbursements to projects and evolution of the project portfolio for fiscal years 2005 to 2009 is as shown in the Table 4 below. The table reveals that cumulative loan approvals increased from the 2008 figure of US$ 285 million to US$ 352 million representing an increase of 24%. Cumulative commitments (signed loans) stood at US$ 237.3 million as at 2009 year end, an increase of 28% over the previous year. They amounted to 76% of cumulative approvals. Some US$ 30.3 million was disbursed during the year bringing the cumulative disbursements to US$188.3 million, an increase of about 70%. Cumulative disbursements stood at 80% of cumulative commitments by end of 2009.

Approvals by Project Type

In value terms, during year 2009 physical housing for residential purposes (estate development) accounted for 63% of total loan approvals, up from 60% registered in the previous year. Lines of credit to housing finance and related institutions for on-lending to developers and commercial properties accounted for 8% and 21% respectively, while the rest went to Hybrid projects which accounted for 8% -both residential and commercial properties. Shelter Afrique provided two lines of credit denominated in US dollar housing finance institutions to enable them advance construction loans to developers with a view to improving affordability.

Geographical Distribution

In 2009, East Africa dominated Shelter Afrique's approved loans portfolio with 49% being approved in 2009, up from 29% in 2008. West African region approvals accounted for 40% down from 50% in 2008. Central and Southern African regions accounted for 8% and 3%, respectively. However, since Shelter Afrique's inception till 2009, West Africa cumulative approvals dominate at 46% followed by East Africa at 37%, Central Africa at 9% and Southern Africa at 8%. Efforts are underway to increase our activities in Central and Southern African regions. Business development programmes through road shows and related activities yielded good results with the entry of one project from Lesotho and prospects from other South African countries.

Lending terms

Shelter-Afrique, as per its lending policies does not finance more than 60% of the total project cost or commit more than 10% of its equity funds, whichever is less in any single project. Developers are required to provide a minimum of 30% of the total project cost in equity and source the balance from other financiers.

The Company continued to adopt the policy of using its funding and the equity from developers to leverage funds from other sources, including homebuyers and other financiers. It has also continued building working relationships and partnerships with local banks as well as multilateral development institutions.

Table 4: Status of Project Portfolio (US $ million)

	2005	2006	2007	2008	2009
Cum. Approved Loans	158.3	189.4	230.6	284.3	351.4
Annual Approval	29.8	31.1	41.2	54.3	67.01
Cum. Commitments	124.5	142.8	162.1	185.5	236.2
Annual Commitment	18.6	18.3	19.4	23.5	51.3
Cum. Disbursements	98.6	116.0	140.2	158.0	188.3
Annual Disbursements	16.6	17.4	24.2	17.8	30.3
Cum. Disbursements/ Cum. Commitments (%)	79.2	81.3	86.0	85.2	79.5

Chart 1: Cumulative Approval Per Type Of Projects

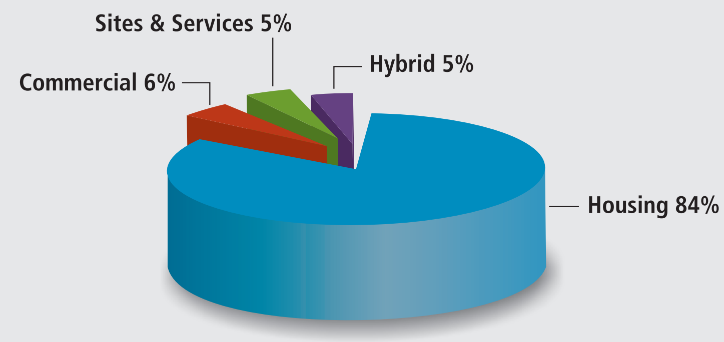


Chart 2: Cumulative Approvals Per Region

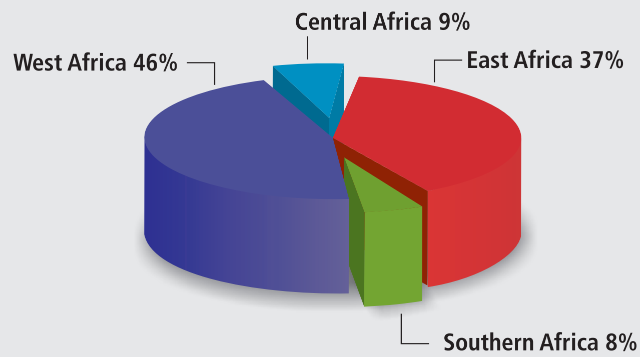
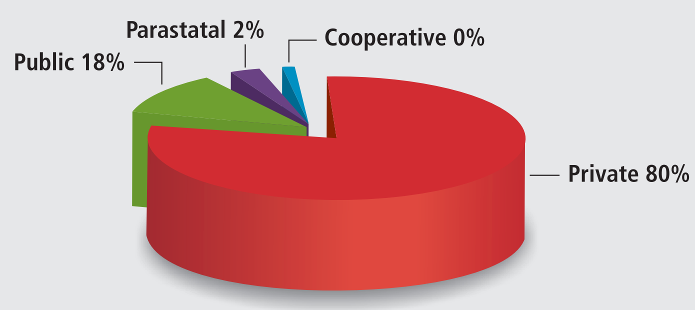


Chart 3: 2009 Loan Approvals by Client Type



2009 PROJECTS PROFILE

Line of Credit to Abbey Building Society, Nigeria

A Line of Credit of US$5 million was approved for Abbey Building Society Plc. (ABBEY), for on-lending to developers of residential houses and building cooperatives in Nigeria. The line is to benefit through co-financing a minimum of three projects belonging to different developers. The line is aimed at increasing housing supply and strengthening the capacity of small and medium-sized developers and housing cooperatives. ABBEY is an accredited Primary Mortgage Institution (PMI) for the National Housing Fund (NHF), which is a mandatory housing savings scheme for low income housing. It is engaged in loans, mortgages and banking services to corporate and individual clients. ABBEY is currently at the fore-front of home ownership delivery through partnerships with estate developers and relevant government agencies so as to provide adequate, functional and affordable housing units. The pipeline of projects anticipated to be implemented by this LoC include 150 houses for the ICPC housing Cooperative, 150 houses for NFCB Housing cooperative and 450 houses for NIMASA Cooperative. ABBEY has enjoyed tremendous growth in the last five years and has been able to build its reputation as one of the notable players in the financial services sector especially in the areas of mortgage finance. ABBEY also offers a range of services to its clientele to empower them to access housing and finance and to provide other services to respond to their needs.

Trilenium II Commercial Building Project, Mali

This project was approved for TPM for a loan of CFAF 1.7 billion (US$3.78m) to go towards paying 100% of the completion cost for infrastructure, construction and equipment of a multi-purpose commercial building with a gross floor area of 12,355 m2 for rental purposes. The project, located in ACI 2000, a prime area of Bamako, sits on two plots with a combined area of approximately 4,700 m2. The loan represents about 24% of the total project cost estimated at CFAF 7.1 billion (USD 15.8m). TPM will contribute CFAF 3.1 billion or 43% and BOA Mali, a local bank, has already provided a facility of CFAF 2.4 billion or 33% of the project cost to complete the financing plan. The project will provide a lettable surface of 7,543 m2

Masowe III Housing Project, Maseru-Lesotho

A loan of Rand 12 m (USD 1.3 m) was approved for Lesotho Housing and Land Development Corporation (LHLDC), a government parastatal. The loan will go towards co-financing the construction of Phase II of Masowe III project at Phomolong, Maseru South, Lesotho, 8 kilometres from the city centre. Phase I, which is 90% complete, entailed the construction of 34 units. Phase II, for which financing is being sought, will entail the development of 81 units (31 (2) bedroom and 50 (1) bedroom) low to middle income houses for outright sale to the public.

The loan represents 59% of the total project cost estimated at USD 2.3 m. The balance of USD 0.94 m (41%) will be funded from developer's equity.

Al Azhar Programme by Sipres, Rufisque-Senegal

Shelter-Afrique' Loan Committee approved in March 2009 a revolving loan request from SIPRES of CFAF 400 m (US$ 0.8 m) to co-finance the construction of 36 housing units, as the first phase of a real estate development programme of 320 units of 5 different types. The total cost of the first tranche of Phase 1 (construction of 18 villas) is CFAF 756 m, or US$ 1,51m. About thirty percent (30%) of the ongoing project is completed. The loan represents about 52.8% of the total budget. Sales proceeds represent 15.4% of the financing plan, and will be used to finance infrastructure and construction items. SIPRES will provide equity accounting for 31.8% of the total project cost. The programme site is on two plots with a total area of 102,313 m2 located in Rufisque, 15 km from Dakar. SIPRES has successfully undertaken several real estate development projects and 4 of them with Shelter-Afrique.

Serene Valley Apartments, Nairobi-Kenya

A loan of Kshs 350 m (USD 4.38 m) was approved for Marlborough Properties Ltd. (MPL), to co-finance the construction of 65 nos. 2 and 3-br apartments and related infrastructure services for outright sale to the public. The project is located on along Kiambere Road, Upper Hill area, Nairobi. The loan represents about 56% of the total project cost estimated at Kshs 623 m (USD 7.8 m). MPL will contribute Kshs 211m (USD 2.64 m) or 34% and buyers' deposits amounting to Kshs 62 m (USD 0.8 m) which is 10% of the project cost will complete the financing plan.

Jambo Complex, Lubumbashi-DRC

The Board of Directors approved USD 4.5 m in favour of JAMBO SPRL, to co-finance the development of 7 storey commercial spaces and 12 apartments for rental in Lubumbashi, Democratic Republic of Congo (DRC). The loan represents 50% of the total project cost. JAMBO will provide US$ 3.6 m in equity, comprising 40.5% cost, while deposit and rental proceeds from tenants represent 9.5% (US$ 0.85 m) of the total project cost. The project is, located at Mama Yemo, in the Central Business District of Lubumbashi, the capital city of Katanga province, DRC.

Dar-Es-Salaam, Tanzania: Intergrated Properties Tanzania Ltd. Bahari Beach residential town houses

Mombasa, Kenya: Eden Beach residential apartments

Lilongwe, Malawi: GM Properties Ltd. Kanengo Northgate town houses

Nairobi, Kenya: Malborough Ltd. Serene Valley Apartments

Madagascar: E.J.J Housing Projects

Douala, Cameroon: SCI MACORE furnished residential apartments for rental

Kampala, Uganda: Simbamanyo furnished & serviced suite for rental

Kampala, Uganda: Lubowa housing appartments

Chart 4: Approval Per Currency: 2009

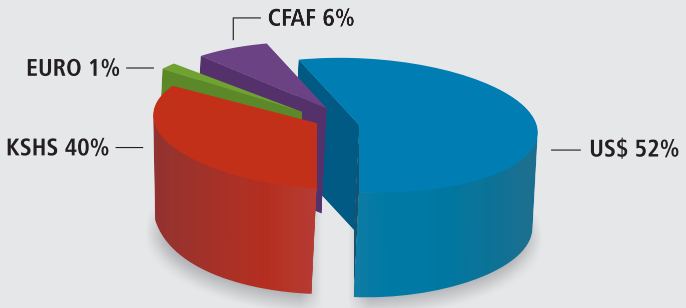


Chart 5: Approval Per Loan: 2009

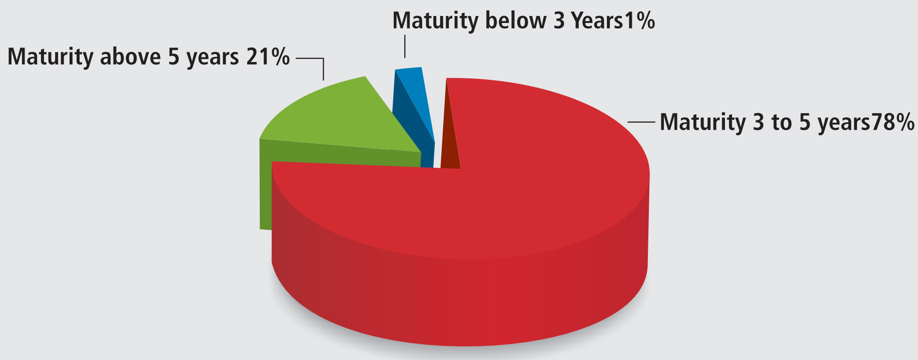
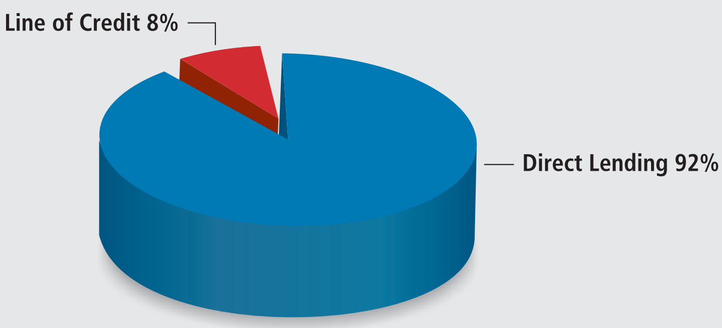


Chart 6: Approval per Lending Instrument: 2009



Box 1: Resource mobilization

The primary objective of the Company,s funding policies is to assure liquidity at all times to meet its growth objective.

To this end, resource mobilisation efforts were positive during the year under review, resulting in approvals of Lines of Credit from DFI's and other financial institutions including; AfDB, AFD, FMO, The Ecobank Group and Bank of Africa (BOA).

During the year the company signed Agreements for long-term lines of credit with AfDB (US$ 30 million), AFD (euro 10 million), and medium-term line of credit with FMO (US$ 10 million) which is a record by value. The draw-downs on the facilities will stagger over 2010 and 2011.

The company also accessed the capital markets of member countries through issuance of a 3-year Kshs. 1 billion (US$ 13million) bond due 2012 making it the 3rd bond to be issued by the company in Kenya. It also successfully issued a 5-year CFAF 6 billion (US$ 13m) Bond due 2014, despite the difficult market conditions.

Negotiations are on-going with The Development Bank of Southern Africa (DBSA) for a line of credit of Rand 100 million (about US$ 12 million) in the first tranche, to meet funding requirement in SADC member countries while the Islamic Development Bank (IDB), Saudi Arabia was approached to assist in developing a window for Islamic Finance in keeping with the Company's product diversification objective.

The benefits from all these efforts include reduced funding costs and enhanced flexibility to meet fluctuating funding preferences amongst different borrowers in member countries.

During the year, Shareholders approved additional capital increase of US$50 million to bring Issued and Called Capital to US$100 million as at the close of the year while Authorised Capital remained at US$300 million.

A total amount of US$ 8 million was received in capital subscription from members including the additional capital contribution of US$ 7.5 million paid-up by the AfDB. Overall capital needs are continually reviewed to ensure that the Company's capital base can support the risks projected for its businesses.

The Managing Director of Shelter Afrique delivers his key note address at the launch of the Kshs 1 billion bond at the Nairobi Stock Exchange (NSE).

Line Of Credit (LOC) signing ceremony with The Africa Development Bank (AfDB).

Box 2: Co-financing and Partnership

Business partnership is one of the key drivers for growing the Company. It helps to get more resources at a competitive price, manage credit risk through co-financing of projects with peer institutions, increase the awareness of the importance of the housing sector to attract more investments and get resources for technical assistance for capacity building and delivery of superior results for all stakeholders. Shelter-Afrique seeks partnership arrangements and opportunities with financial institutions as part of its mandate to mobilise additional resources for housing development in Africa.

During the year, it signed an agreement with Housing Finance, Kenya that will give the two institutions the ability to jointly co-finance projects of over Kshs 1 billion(about US$13 million) in value. The agreement will also allow the two institutions to participate in new initiatives in housing and expertise sharing.

The Company also signed agreements for technical assistance, with AfDB, AFD and The Worl Bank (FIRST) for the purposes of financing various capacity building training programmes, development and updating of policies including anti money laundering, enterprise risk management framework, assessment of environment and social impact, among others while it signed memoranda of understanding(MOU) with certain -Africa regional banks including United Bank for Africa plc., Nigeria, Ecobank Group, and Bank of Africa Group, as well as Banque de l'Habitat du Senegal (BHS), covering areas such as banking facilities, collaboration in the establishment of Primary and Secondary finance institutions, information sharing and training. The MOU will allow the institutions to work closely in the Africa member countries to deliver construction and mortgage financing to developers and homebuyers respectively as well pool resources, co-finance projects and cooperate in deepening the capital markets in Africa.

In addition to the commercial and housing banks mentioned above, the Company has had discussions with International Finance Corporation (IFC) and the Islamic Development Bank in order to increase the visibility of Shelter-Afrique and promote its role as the receptacle of financial resources for housing finance in Africa.

In 2010 we plan to reach out to China and the World Bank as well as other foundations that would provide a funding base for social housing.

The CEOs of Shelter Afrique & Bank of Africa sign a Memorandum of Understanding (MOU) in partnership arragements.

The CEO of Housing Finance Company of Kenya signs a partnership agreement with Shelter Afrique.

The MD of Shelter Afrique, Mr, A. Bâ shares a light moment with Senior Management of the United Bank of Africa, Nigeria.

DBSA mission led by Mr. Davies Pwele in a group photograph with Shelter-Afrique Management

GOVERNANCE AND CORPORATE MANAGEMENT

Commitment to Corporate Governance

The Board's Audit and Risk Committee has been established with the mandate of providing assistance to the Board in fulfilling its responsibility to the company and to the shareholders relating to its oversight of management and its auditors. This is in regard to corporate accounting, financial reporting practices, the quality and integrity of the financial reports of the Company. The committee is also responsible for the Company's system of internal controls and for reviewing its effectiveness and advising on financial and risk management.

The Board's Committee on Administrative Affairs and Human Resources appointed in 2008 advises on matters and policies relating to general administrative affairs and human resources of the company and make recommendations to the Board as well as monitor closely the implementation of the decisions of the Board on such matters amongst other duties.

Both the Board and Management remain committed to good Corporate Governance for value creation for the shareholders and enhancing the confidence of all the stakeholders in the company. To this end, the Board, during the review year 2009, continued to assume overall responsibility for the ultimate direction of the Company, the supervision and control of the executive management, while the executive management assumed the overall responsibility for the day-to-day management of the Company. The Directors meet quarterly when they review and decide on investment projects and oversee general management policies. Directors also serve on one or more of two standing committees, which help the Board discharge the oversight responsibilities through depth examinations of policies and procedures.

Credit Rating Review

During the review year the Company was re-evaluated for credit rating for its local and international debts by Global Credit Rating Co. (GCR), South Africa. For the fourth year running, the Company has maintained its favourable ratings of “AA” (double A) long-term credit status, and A1+ (Single A one plus) short-term credit status, on the Company's domestic debt Issues in the Kenya Market and the UEMOA zone. The Rating Agency also re-affirmed a “BBB-“(Triple B MINUS) long-term credit status on its international (US$) denominated debts, reflecting the Company's well capitalized balance sheet, improved liquidity and well diversified shareholdings among other protection factors.

Risk Management

The Company's risk management strategies help to maximise asset quality and reduce volatility in operating performance while its lending activities expose it to many risks that are continually monitored, evaluated and managed. The risk management process relies largely on procedures, guidelines and controls. Risk Management sets and monitors lending, country and obligor limits, which may not be exceeded without prior approval. Policies and procedures have been established with the objective of protecting against losses, which include reviewing and establishing limits for credit exposure, balance sheet currency exposure and limits for funds investment within the parameters set by the Company's Investment Guidelines. The risk management department which was created in 2008 is fully functional and provides general risk oversight for all institutional activities. It reports periodically to the Audit and Risk Committee of the Board.

The Asset and Liability Management Committee (ALCO) is set up to manage risks and regularly meets to review, analyse and evaluate the Company's exposure to the variety of financial and operational risks with a view to achieving an appropriate balance between risk and return on shareholders' funds.

Internal Audit

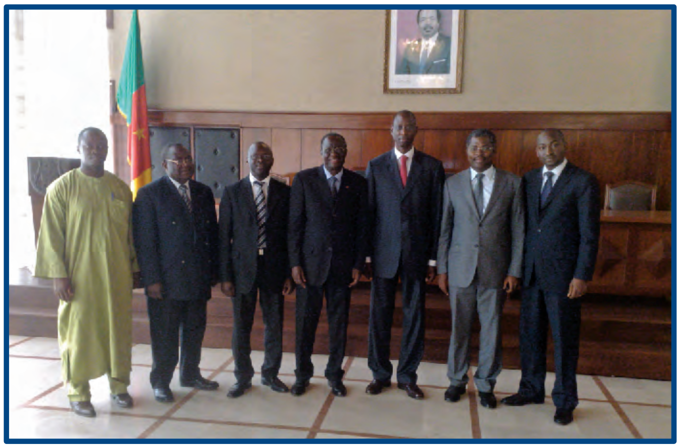
The Company set up an Internal Audit Unit during the year under review. Its main activities include the review of the Company's systems (internal control, management, operational and accounting), carry out operational audits as well as monitor risk management among others. The unit reports findings to the Board's Risk and Audit Committe.. During the year the internal audit conducted a review of major processes including human resources and treasury functions. The unit is progressively implementing internal audit tools such as internal audit charter and audit work program This will continue gradually into 2010 with the development of risk mapping; further review of country project portfolio and significant process as well as implementation of the Company's Internal Control Framework.

Some Events of the Year

His Excellency Mr. Shigeo Iwatani, the Japanese Ambassador to Kenya, delivers his address at the signing of LOC/TA Programme agreements with AfDB.

His Excellency Amadou Toumani Touré, the President of the Republic of Mali, receives in audience Shelter-Afrique delegation led by the Managing Director, Mr. A. Bâ

Participants including the Hon. Bishop . M. Wanjiru, the Kenya Asst. Minister for housing at the launch of Shelter Afrique Kshs.1billion bond at the NSE.



A group photograph including the Mayor of Yaounde, Cameroon and other senior officials, during Shelter-Afrique mission in Cameroon.

A group photograph of Management & Staff of Shelter Afrique during the sending-off Ceremony organized for Mr. L.R. Ouandji the Company Secretary.

A group photograph with the Economic Team of Angola, including the Minister of Finance and the Governor of the Central Bank of Angola

SHELTER - AFRIQUE

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA

Annual Report and Financial Statements

31 December 2009

Deloitte & Touche

PRINCIPAL PLACE OF BUSINESS	Shelter Afrique Centre Longonot Road, Upper Hill P.O. Box 41479 00100 Nairobi GPO KENYA
PRINCIPAL BANKERS	Barclays Bank Plc Barclays International Banking Centre P.O Box 391, 38 Hans Cresent, Knightbridge London SW1X 0LZ ENGLAND
	Kenya Commercial Bank Limited P O Box 30012, 00100 Nairobi GPO KENYA
	Citibank N.A. P O Box 30711 - 00100 Upperhill, Nairobi KENYA
	UBS International Inc. 1285 Avenue of Americas New York, NY 10019 USA
	BNP Paribas 2, Place de l' opera BP 6542 75060 Paribas Cedex 02, Paris FRANCE
	Citigroup Institution Group New York c/o Citibank N.A. P O Box 30711 - 00100 Upperhill, Nairobi KENYA
	Ecobank 8, Avenue L.S. Senghor B.P. 9095 CD Dakar SENEGAL
	Merrill Lynch International Bank Limited 2 World Financial Centre, New York, NY U.S.A
SOLICITORS	M/s Waruhiu K'Owade & Ng'ang'a Advocates P.O. Box 47122 Nairobi KENYA
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) "Kirungii" Ring Road, Westlands P O Box 40092 - 00100 Nairobi KENYA

BOARD OF DIRECTORS

Chairman	Mr D. Nacer
Vice Chairperson	Ms. E. M. Tembo

DIRECTORS	ALTERNATE DIRECTORS	REPRESENTING
Class "A" Shareholders		
Mr. V. Ndayitwayeko	Mr B. Bassoukpalo	Burundi, Central Africa Republic, Chad, Congo, Djibouti, Equatorial Guinea, Gabon, Madagascar, Rwanda, Sao Tome & Principe, Somalia, Tanzania, Uganda.
Ms. E. M. Tembo	Mr. J. Kaoma	Botswana, Lesotho, Malawi, Mauritius, Namibia, Seychelles, Swaziland, Zambia, Zimbabwe.
Mr. E. M. Baba Diarra	Mr. T.O. BAH	Cape Verde, Democratic Republic of Congo, The Gambia, Guinea, Guinea Bissau, Mali, Senegal.
Mr. N Djama	*	Algeria, Mauritania, Morocco, Tunisia.
Mr. F. M. Carbah	Monsieur A. Serkindia	Benin, Burkina Faso, Cameroon, Liberia, Niger, Sierra Leone, Togo.
*	Mr. L. Y. Abubakar	Nigeria
Mr. T. Kosgey	Arch. M. N. Mugwanja	Kenya
Class "B" Shareholders		
Mr. B. Kamara	Mr. G. Otieno	African Reinsurance Corporation
Mr. J.M. Gharbi	Mr. T. de Kock	African Development Bank

SENIOR MANAGEMENT

Mr. A. Bâ	Managing Director
Mr. O. Okonkwo	Deputy Managing Director
Mrs. K. Kandie	Director, Finance
Mr. Y. Olayanju	Senior Advisor, Planning, Monitoring and Evaluation
Mr. A. Shilimi	Senior Legal Officer
Dr. J. Djofack	Team Leader, Risk Management
Mr. A. Dieng'	Team Leader, Internal Audit

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

The directors have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2009 which show the state of the financial affairs of the company.

1. **LEGAL CAPACITY**
   The company is a Pan-African housing finance and development institution, established by African Governments, the African Development Bank, the African Reinsurance Corporation and the CDC Group plc (now ACTIS) in 1982 to address the need for an innovative and sustainable housing delivery system in Africa. It is an international body with juridical personality and full legal capacity established by the Constituent Charter of Shelter Afrique. In the Republic of Kenya, the Constituent Charter has the force of law in accordance with the Shelter - Afrique Act 1985. Its principal office is situated in Nairobi, Kenya.

2. **PRINCIPAL ACTIVITY**
   The principal activity of the company is the provision of financial and technical assistance for housing and urban development activities in Africa.

3. **RESULTS**
   The results for the year are set out on page 35 of the financial statements. The profit for the year transferred to revenue reserve amounts to US$ 429,469 (2008 – US$ 2,610,965).

4. **DIVIDENDS**
   The directors do not recommend the payment of a dividend (2008 – US$ 522,172 which represented US$ 12.98 per paid up ordinary share).

5. **RESERVES**
   The reserves of the company are set out on page 37 of the financial statements.

6. **DIRECTORS**
   The directors who served during the year and to the date of this report are as stated on page 31.

7. **AUDITORS**
   Deloitte & Touche, having expressed their willingness, continue in office in accordance with the Company's Statutes.

BY ORDER OF THE BOARD

Company Secretary

6th April, 2010

The company's Statutes requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the provisions of the company's Statutes. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the company's Statutes. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Director

6th April, 2010

Director

6th April, 2010

Independent Auditors' Report

We have audited the accompanying financial statements of The Company For Habitat And Housing In Africa (Shelter - Afrique), set out on pages 37 to 40 which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the company's Statutes. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Certified Public Accountants (Kenya)

6th April, 2010

Nairobi

	Note	2009 US$	2008 US$
INTEREST AND SIMILAR INCOME	3	6,439,487	6,027,630
INTEREST EXPENSE AND SIMILAR CHARGES	4	(1,923,631)	(1,313,844)
NET INTEREST INCOME		4,515,856	4,713,786
FEE AND COMMISSION INCOME	5	1,267,690	1,335,533
OTHER INCOME	6	149,292	133,382
OPERATING EXPENSES	7	(2,937,983)	(2,933,087)
IMPAIRMENT (CHARGES)/WRITE BACK ON LOANS AND ADVANCES	12(ii)	(2,836,264)	395,746
NET FOREIGN EXCHANGE GAINS/(LOSES)		270,878	(1,034,395)
PROFIT FOR THE YEAR		429,469	2,610,965
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		429,469	2,610,965
EARNINGS PER SHARE	13	9.93	66.20

Statement of Financial Position

At 31 December 2009

	Note	2009 US$	2008 US$
ASSETS			
Bank and cash balances		9,007,569	1,921,677
Short term bank deposits	10	19,826,927	16,082,570
Held to maturity investments	11	4,334,672	5,585,655
Loans and advances to customers	12	70,629,950	52,865,300
Other receivables	14	922,049	597,693
Property and equipment	15 (a)	3,831,360	3,798,267
Prepaid operating lease	15 (b)	143,541	147,421
Intangible assets	16	415,742	291,744
TOTAL ASSETS		109,111,810	81,290,327
EQUITY AND LIABILITIES			
LIABILITIES			
Bank borrowings	17	4,460,895	5,568,723
Medium term notes	18	33,299,078	12,550,426
Other payables	19	709,763	583,655
Dividends payable	20	1,064,091	1,105,222
Deferred income	21	143,541	147,421
TOTAL LIABILITIES		39,677,368	19,955,447
SHAREHOLDERS' FUNDS			
Share capital	22(a)	46,306,000	40,229,000
Share premium	22(b)	2,743,161	627,896
Revaluation surplus		1,722,674	1,754,359
Revenue reserve		18,662,607	18,723,625
TOTAL SHAREHOLDERS' FUNDS		69,434,442	61,334,880
TOTAL EQUITY AND LIABILITIES		109,111,810	81,290,327

The financial statements on pages 35 to 66 were approved by the Board of Directors on 6th April, 2010 and were signed on its behalf by:-

Director
6th April, 2010

Director
6th April, 2010

Statement of Changes in Equity

For the Year Ended 31 December 2009

	Share capital US$	Share premium US$	Revaluation surplus US$	Revenue reserve US$	Total equity US$
At 1 January 2008	38,647,000	80,817	1,786,044	16,908,796	57,422,657
Capital subscriptions received	1,582,000	547,079	-	-	2,129,079
Total comprehensive income	-	-	-	2,610,965	2,610,965
Transfer of excess depreciation on revaluation	-	-	(31,685)	31,685	-
Dividends declared for year 2007	-	-	-	(827,821)	(827,821)
At 31 December 2008	40,229,000	627,896	1,754,359	18,723,625	61,334,880
At 1 January 2009	40,229,000	627,896	1,754,359	18,723,625	61,334,880
Capital subscriptions received	6,077,000	2,115,265	-	-	8,192,265
Total comprehensive income	-	-	-	429,469	429,469
Transfer of excess depreciation on revaluation	-	-	(31,685)	31,685	-
Dividends declared for year 2008	-	-	-	(522,172)	(522,172)
At 31 December 2009	46,306,000	2,743,161	1,722,674	18,662,607	69,434,442

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

Statement of Cash Flow

For The Year Ended 31 December 2009

	Note	2009 US$	2008 US$
OPERATING ACTIVITIES			
Net cash (used in)/ generated from operations	23(a)	(13,607,665)	5,072,453
INVESTING ACTIVITIES			
Purchase of property and equipment	15(a)	(179,086)	(108,498)
Purchase of intangible assets	16	(134,437)	(27,776)
Proceeds from sale of equipment		518	7,664
Net cash used in investing activities		(313,005)	(128,610)
FINANCING ACTIVITIES			
Proceeds from borrowed funds	23(c)	3,285,224	7,185,551
Repayments of borrowed funds	23(c)	(5,086,044)	(3,664,461)
Proceeds from debt securities	23(d)	26,230,972	5,213,147
Repayments of debt securities	23(d)	(5,595,975)	(7,989,067)
Proceeds from capital subscriptions	22(c)	8,192,265	2,129,079
Dividends paid	20	(563,303)	(291,140)
Interest paid on bank borrowings	23(c)	(654,144)	(118,993)
Interest paid on medium term notes	23(d)	(1,058,076)	(1,158,907)
Net cash generated from financing activities		24,750,919	1,305,209
INCREASE IN CASH AND CASH EQUIVALENTS		10,830,249	6,249,052
CASH AND CASH EQUIVALENTS AT 1 JANUARY		18,004,247	11,755,195
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23(b)	28,834,496	18,004,247

1 PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards

(i) Standards and interpretations effective in the current period

The followings standards and interpretations are effective for the current period. These are:

- IAS 1 (Revised), Presentation of Financial Statements : Comprehensive revision including requiring a statement of comprehensive income, Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).
- IAS 23 (Revised), Borrowing Costs: Comprehensive revision to prohibit immediate expensing of borrowing costs relating to qualifying assets for which the commencement date of capitalisation is on or after 1 January 2009. (effective for accounting periods beginning on or after 1 January 2009).
- IFRS 8, “Operating Segments”, replaces IAS 14, “Segment reporting”, and requires a management approach under which segment information is presented on the same basis as that for internal reporting purposes. (effective for accounting periods beginning on or after 1 January 2009).
- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009).
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008);
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008)
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009).
- IFRS 7, Financial Instruments: Recognition and Measurement, Consequential disclosures arising from October 2008 amendments to IAS 39 (effective from 1 November 2008).

“Improvements to IFRSs” was issued in May 2008 and April 2009 and their requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 July 2009 and 1 January 2010 respectively. These improvements comprise a number of amendments to IFRSs, which resulted from the IASB's annual improvements project. The improvements do not result in significant changes in the company's accounting policies.

Adoption of these standards and interpretations has led to only one change in the company's accounting policies as pertains to accounting for borrowing costs on qualifying assets under IAS 23 Borrowing Costs (See part (ii)).

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(ii) Impact of the standards and interpretations effective in the current period

IAS 1 (Revised), 'Presentation of financial statements'

IAS 1 (Revised), 'Presentation of financial statements' was issued in September 2008 and is effective for annual periods beginning on or after 1 January 2009. The revised standard introduces the concept of a statement of comprehensive income, which enables users of the financial statements to analyse changes in a company's equity resulting from transactions with owners separately from non-owner changes.

The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but provides the option of presenting items of income and expense and components of other comprehensive income either as a single statement of comprehensive income or in two separate statements, the statement of comprehensive income and statement of comprehensive income. Where the company restates or reclassifies comparative information, it is now required to present a restated statement of financial position as at the beginning comparative in addition to the current requirement to present statements of financial position at the end of the current and comparative periods.

The previous version of IAS 1 used the titles 'balance sheet' and 'cash flow statement' to describe two of the statements within a complete set of financial statements. The revised IAS 1 uses 'statement of financial position' and 'statement of cash flows' for those statements.

IAS 23 (Revised) "Borrowing Costs"

IAS 23 (Revised), "Borrowing Costs" was issued in March 2007 and was effective for accounting periods beginning on or after 1 January 2009. The revised standard removed the previously allowed option of expensing of borrowing costs relating to qualifying assets for which the commencement date of capitalisation is on or after 1 January 2009.

The company's current policy is to expense borrowing costs incurred on qualifying assets and as such has revised this policy in compliance with the revised standard. The company does not however have any qualifying assets at present nor is it in the process of acquiring any and its financial statements have therefore not been affected by this change in policy.

IFRS 8 Operating Segments

IFRS 8, "Operating Segments", which replaces IAS 14, "Segment reporting", was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2009. The new standard is based on the management approach and the company's internal reporting of segment information to the entity's chief operating decision maker. The new standard will enable investors to assess the company's business performance from the same perspective used by the management in making decisions about operating matters.

The company has only one operating segment which is the entire entity and as such has not revised its operating and reportable segments as a result of this standard.

IFRS 7 Financial Instruments: Disclosures— Amendments enhancing disclosures about fair value and liquidity risk

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the company.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(iii) New and revised standards and interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRS 9, Financial Instruments:Classification and Measurement (effective for accounting periods beginning on or after 1 January 2013).
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (November 2009 amendment with respect to voluntary prepaid contributions is effective for accounting periods on or after 1 January 2011).
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 July 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for accounting periods on or after 1 July 2009).
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods on or after 1 July 2010).
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009);
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009);
- IAS 39, Financial instruments; Recognition and Measurement; Amendments for embedded derivatives when reclassifying financial instruments.
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease (effective for accounting periods beginning on or after 1 January 2010).
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendments relating to limited exemption from comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010).
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009).

(iv) Impact of the new and revised standards and interpretations in issue but not yet adopted

IFRS 9, 'Financial instruments part 1: Classification and measurement'

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(iv) Impact of the new and revised standards and interpretations in issue but not yet adopted (Continued)

IFRS 9, 'Financial instruments part 1: Classification and measurement' (Continued)

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Impact of Other Standards and Interpretations

The directors anticipate that the adoption of the other standards and interpretations and amendments resulting from the International Accounting Standards Board (IASB)'s annual improvements project published in May 2009, when effective, will have no material impact on the financial statements of the company.

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting except for the revaluation of certain property.

Income recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Penalty fees are accounted for upon receipt of payment.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest basis.

Foreign currencies

The results and financial position of the Company are expressed in United States Dollar, which is the currency of the primary economic environment in which the Company operates (its functional currency).

In preparing the financial statements of the Company, transactions in currencies other than its functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each date of the statement of financial position, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at the date of the statement of financial position.

Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets comprise the cost of acquired computer software programmes. Expenditure on acquired computer software programmes is capitalised and amortised using the straight-line method over their estimated useful lives, generally not exceeding five years.

Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received after which they are then recognised at their fair value.

Property plant and equipment

Property and equipment are stated at cost or valuation, less accumulated depreciation and impairment losses.

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

The annual depreciation rates in use are:

Leasehold buildings	2 & 2.27%
Office equipment, furniture and fittings	12.5%
Motor vehicles	25.0%
Computers	25.0%
Residential furniture and fittings	12.5%

Leasehold buildings are written off over the estimated useful life of the building, or the lease, whichever is less. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. Excess depreciation on the revaluation surplus is transferred from the revaluation reserve to revenue reserve.

Impairment

At each date of the statement of financial position, the Company reviews the carrying amounts of its financial, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in the statement of comprehensive income whenever the carrying amount of the asset exceeds its recoverable amount.

Retirement benefit costs

The company operates a provident fund for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the company and employees. For the Kenyan employees, the company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to approximately US$ 2.60 per month per employee.

The company's contributions to the above schemes are charged to the statement of comprehensive income account in the year to which they relate.

Employee entitlements

The monetary liability for employees' accrued annual leave entitlement at the date of the statement of financial position is recognized as an expense accrual.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and liabilities are initially recognised on the Company's statement of financial position at cost using settlement date accounting, when the Company has become a party to the contractual provisions of the instrument.

Loans and receivables originated by the Company and not held for trading

Loans and receivables including advances originated by the Company and held to maturity are measured at amortised cost.

Held to maturity investments

Financial assets with fixed or determinable payments and fixed maturity where the Company has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Company, are measured at amortised cost.

Financial assets held for trading

Financial assets acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin are measured at their fair value.

Available-for-sale financial assets

Financial assets that are not (a) loans and receivables originated by the Company, (b) held-to-maturity investments, or (c) financial assets held for trading are measured at their fair value or at cost where fair value is not determinable.

Impairment and uncollectability of financial assets

At each date of the statement of financial position, all financial assets are subject to review for impairment.

If it is probable that the Company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of a provision account. The amount of the loss incurred is included in the statement of comprehensive income for the period.

Impairment and uncollectability of financial assets (continued)

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in equity is removed from equity and recognised in the statement of comprehensive income for the period even though the financial asset has not been derecognised.

Financial Liabilities

After initial recognition, the Company measures all financial liabilities including borrowings other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment on an ongoing basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Company, or national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The Company follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be required to be measured at fair value not amortised cost.

	2009 US$	2008 US$
3 INTEREST AND SIMILAR INCOME		
Interest on loans and advances	5,767,670	5,373,083
Interest on placements with financial institutions	671,817	654,547
	6,439,487	6,027,630
4 INTEREST EXPENSE AND SIMILAR CHARGES		
Interest on funds from financial institutions and capital markets	1,899,317	1,290,373
Bank charges	24,314	23,471
	1,923,631	1,313,844
5 FEE AND COMMISSION INCOME		
Penalties	173,939	729,489
Appraisal fees	402,823	300,146
Commitment fees	132,536	242,367
Front end fees	521,232	10,000
Other project fees	37,160	53531
	1,267,690	1,335,533

	2009 US$	2008 US$
6 OTHER INCOME		
Rent income	124,611	99,889
Deferred income - amortisation of deferred income (note 21)	3,880	3,879
Gain on disposal of equipment	-	1,312
Miscellaneous income	20,801	28,302
	149,292	133,382
7 OPERATING EXPENSES		
Staff costs (note 8)	1,682,283	1,887,573
Depreciation of property and equipment	144,590	121,808
Amortisation of prepaid operating lease	3,880	3,879
Amortisation of intangible assets	10,439	6,396
Auditors' remuneration	20,000	20,000
Directors' costs	314,910	258,481
Loss on disposal of equipment	885	-
Other administration costs	760,996	634,950
	2,937,983	2,933,087
8 STAFF COSTS		
Salaries and wages	1,449,890	1,325,042
Terminal benefits	140,496	373,551
Leave pay	38,792	22,977
Staff welfare	4,584	2,245
Other costs	48,521	163,758
	1,682,283	1,887,573

9 SEGMENT INFORMATION

The principal activity of the company is the provision of financial and technical assistance for housing and urban development activities in Africa. It operates as one single operating entity with no separately identifiable reportable segments. In identifying the entire company as the single reportable segment, management considered the fact that reports regularly reviewed by the chief operating decision maker in order to allocate resources and to assess performance are based on the operations of the company as a whole. No single customer accounts for over 10% of the company's total revenues.

The accounting policies of the entity have been set out in note 1 of these financial statements.

The following table details the revenues attributable to project loans disbursed as well as information about the company's non-current assets by geographical location. These have been aggregated on the basis of the country in which the individual project is based. The company has invoked the transitional exemption to disclose prior period comparatives for the data below as the information is not readily available and the cost of developing it would be excessive.

9 SEGMENT INFORMATION (Continued)

Country		2009 US$ Revenue attributable to project loans	2009 US$ Non-current assets
Kenya	(Country of domicile)	1,254,517	4,390,643
Nigeria		1,120,136	-
Senegal		1,235,629	-
Others*		3,425,078	-
		7,035,360	4,390,643

* Represents 19 other countries whose amounts are individually less than 10% of the total gross amount.

	2009 US$
The above revenue reconciles to the income statement as follows:	
Interest on loans (note 3)	5,767,670
Fee and commission income (note 5)	1,267,690
	7,035,360
The above non current assets reconcile to the statement of financial position as follows:	
Property and equipment	3,831,360
Prepaid operating lease	143,541
Intangible assets	415,742
	4,390,643

10 SHORT TERM BANK DEPOSITS

	2009 US$	2008 US$
Held to maturity:		
Call and fixed deposits	19,826,927	16,082,570

The effective interest rate for the bank deposits during the year was 6.00% (2008 – 5.02%) per annum.

The bank deposits include amounts equivalent to US$ 11,368,957 (2008 – US $ 5,705,461) in local currencies of member countries. The Euro loans from Merrill Lynch International Bank Limited disclosed under note 17 are secured against the company's investments administered by Merill Lynch amounting to US$ 12,047,022 (2008 - 7,912,047). This includes short term investments amounting to US$ 8,497,801 (2008 - 3,106,103) included above. It also includes corporate bonds amounting to US$ 3,549,221 (2008 - 4,572,636) (see note 11).

All the bank deposits mature within three months of date of placement.

11 HELD TO MATURITY INVESTMENTS

	2009		2008	
	Amortised cost US$	Market value US$	Amortised cost US$	Market value US$
Corporate bonds	4,334,672	3,739,100	5,585,655	4,297,878

The average effective interest rate for the corporate bonds as at 31 December 2009 was 5.0% (2008 – 5.6 %) per annum. The Euro loans from Merrill Lynch International Bank Limited disclosed under note 17 are secured against the company's investments administered by Merill Lynch amounting to US$ 12,047,022 (2008 - 7,912,047). This includes corporate bonds amounting to US$ 3,549,221 (2008 - 4,572,636) included above. It also includes short term investments amounting to US$ 8,497,801 (2008 - 3,106,103) (see note 10).

The company has reviewed the valuation of the corporate bonds and the directors are of the view that the decline in market values of the corporate bonds is not permanent. Consequently, no impairment provision has been made in that respect.

	2009 US$	2008 US$
Analysis of corporate bonds by maturity		
Maturing:		
Within one year	749,618	1,013,069
One year to five years	100,000	100,000
Over five years	3,522,586	4,472,586
	4,372,204	5,585,655

12 LOANS AND ADVANCES TO CUSTOMERS

(i) Analysis of loans and advances

	2009 US$	2008 US$
Balance as at 1 January	50,263,955	50,649,953
Disbursed during the year	30,886,501	17,822,343
Repayments during the year	(12,131,371)	(17,075,566)
Interest capitalised	-	154,784
Adjustments on revaluation	531,144	(1,287,559)
Principal loans	69,550,229	50,263,955
Interest receivable	4,839,232	3,524,592
Gross loans	74,389,461	53,788,547
Impairment provision for credit risk	(3,759,511)	(923,247)
Net loans	70,629,950	52,865,300

Adjustments on revaluation are for loans denominated in currencies other than the US$, which are revalued at the year end rate for statement of financial position reporting purposes.

12 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(ii) Impairment on loans and advances

	2009 US$	2008 US$
The movement in impairment provision is as follows:		
At 1 January	923,247	1,318,993
Provision written back	-	(395,746)
Charge for the year	2,836,264	-
At 31 December	3,759,511	923,247

In the opinion of the directors, the current levels of provisions reflect a prudent assessment of the quality of the company's loan portfolio. The effective interest rate was 10.0% (2008 – 10.6%) per annum.

(iii) Analysis of gross loans by maturity

	2009 US$	2008 US$
Maturing:		
Within one year	41,920,544	31,879,890
One year to five years	31,324,786	21,023,651
Over five years	1,144,131	885,006
	74,389,461	53,788,547

13 EARNINGS PER SHARE

	2009	2008
Profit for the year (US$)	429,469	2,610,965
Weighted average number of ordinary shares in issue	41,874	39,438
Basic earnings per share (expressed in US$ per share)	10.26	66.20

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the company by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares has been computed as a reasonable approximation of the number of ordinary shares outstanding during the period which is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time-weighting factor. There were no discontinued operations and no potentially dilutive shares outstanding at 31 December 2009 and 31 December 2008.

14 OTHER RECEIVABLES

	2009 US$	2008 US$
Staff housing loans	139,311	150,671
Other debtors and prepayments	930,895	595,179
	1,070,206	745,850
Less: Provision for doubtful amounts	(148,157)	(148,157)
	922,049	597,693

15 (a) PROPERTY AND EQUIPMENT

	Freehold land and buildings US$	Office equipment, furniture and fittings US$	Computers US$	Motor vehicles US$	Residential furniture US$	Total US$
COST OR VALUATION						
At 1 January 2008	3,670,539	350,799	138,257	45,226	64,685	4,269,506
Additions	-	47,753	60,745	-	-	108,498
Disposals	-	(7,978)	-	-	(10,044)	(18,022)
At 31 December 2008	3,670,539	390,574	199,002	45,226	54,641	4,359,982
At 1 January 2009	3,670,539	390,574	199,002	45,226	54,641	4,359,982
Additions	-	64,549	15,434	66,034	33,069	179,086
Disposals	-	(17,977)	(33,231)	-	(5,055)	(56,263)
At 31 December 2009	3,670,539	437,146	181,205	111,260	82,655	4,482,805
Comprising						
At cost	2,427,380	437,146	181,205	111,260	82,655	3,239,646
At valuation	1,243,159	-	-	-	-	1,243,159
	3,670,539	437,146	181,205	111,260	82,655	4,482,805
DEPRECIATION						
At 1 January 2008	-	283,380	105,772	45,226	17,199	451,577
Charge for the year	93,305	11,248	10,516	-	6,739	121,808
Disposals	-	(7,978)	-	-	(3,692)	(11,670)
At 31 December 2008	93,305	286,650	116,288	45,226	20,246	561,715
At 1 January 2009	93,305	286,650	116,288	45,226	20,246	561,715
Charge for the year	93,305	16,049	27,427	1,376	6,433	144,590
Disposals	-	(18,888)	(33,296)	-	(2,676)	(54,860)
At 31 December 2009	186,610	283,811	110,419	46,602	24,003	651,445
NET BOOK VALUE						
At 31 December 2009	3,483,929	153,335	70,786	64,658	58,652	3,831,360
At 31 December 2008	3,577,234	103,924	82,714	-	34,395	3,798,267
NET BOOK VALUE (Cost basis)						
At 31 December 2009	1,761,255	153,335	70,786	64,658	58,652	2,108,686
At 31 December 2008	1,822,875	103,924	82,714	-	34,395	2,043,908

15 (a) PROPERTY AND EQUIPMENT (Continued)

(i) The company's buildings were last revalued on 31 December 2007 by Saad Yahya and Associates, independent professional valuers, on the basis of open market value. The revaluation surplus was credited to revaluation reserve. The company's policy is to revalue its property every three years.

(ii) Included in property and equipment are assets with a cost of US$ 372,655 (2008 - US$ 418,880) which were fully depreciated. The normal annual depreciation charge on these assets would have been US$ 62,316 (2008–US$ 69,801).

(iii) Included in land and buildings is US$ 5,200 which relates to survey fees incurred on land donated to the company by the Government of Nigeria. The land itself has not been recognized in these financial statements because all conditions attached to the receipt of the grant are yet to be met.

15 (b) PREPAID OPERATING LEASE

	2009 US$	2008 US$
COST:		
At 1 January and at 31 December	200,000	200,000
AMORTISATION:		
At 1 January	52,579	48,700
Charge for the year	3,880	3,879
At 31 December	56,459	52,579
NET BOOK VALUE		
At 31 December	143,541	147,421

The prepaid operating lease relates to leasehold land donated by the Government of Kenya for the construction of the Company's headquarter 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 21 of these financial statements.

16 INTANGIBLE ASSETS

	2009 US$	2008 US$
COST:		
At 1 January	319,024	291,248
Additions	134,437	27,776
At 31 December	453,461	319,024
AMORTISATION:		
At 1 January	27,280	20,884
Amortised during the year	10,439	6,396
At 31 December	37,719	27,280
NET BOOK VALUE		
At 31 December	415,742	291,744

The intangible assets relate to computer software.

Included in intangible assets are assets with a cost of US$ 24,130 (2008 - US$ 11,084) which have been fully amortised. The normal annual amortisation charge on these assets would have been US$ 6,033 (2008 – US$ 1,386).

17 BANK BORROWINGS

	2009 US$	2008 US$
Euro Loans from Merrill Lynch International Bank Limited	4,200,993	4,530,550
CFA Bank overdraft with Ecobank Senegal	-	935,134
KSh Bank overdraft with Ecobank Kenya	224,469	-
Interest payable on loans	35,433	103,039
	4,460,895	5,568,723
Analysis of bank borrowings by maturity:		
Maturing:		
Within one year	4,460,895	5,568,723

The Euro loans from Merrill Lynch International Bank Limited are under a renewable revolving facility, at an average interest rate of 2.1% p.a. The facility is secured against the company's investments administered by Merill Lynch amounting to US$ 12,047,022 (2008 - 7,912,047).

The overdraft facility with Ecobank is unsecured and was offered on the strength of the company's statement of financial position. The effective interest rate for the overdraft facility from Ecobank was 6% p.a. The company has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2008: nil).

18 MEDIUM TERM NOTES

	2009 US$	2008 US$
CFA Loan – 1st tranche	764,181	2,255,407
CFA Loan – 2nd tranche	-	1,790,006
CFA Loan – 3rd tranche	6,097,663	5,998,889
CFA Loan – 4th tranche	13,100,249	-
Kenya Shilling bond – 1st tranche	-	2,573,671
Kenya Shilling bond – 2nd tranche	13,189,132	-
Interest payable on loans	728,357	143,507
Deferred charges on medium term notes	(580,504)	(211,054)
	33,299,078	12,550,426

Maturity analysis for the medium term notes:

	2009 US$	2008 US$
Maturing:		
Within one year	2,549,548	5,968,783
One year to three years	22,352,472	2,553,503
Three to five years	8,397,058	4,028,140
	33,299,078	12,550,426

Analysis of medium term notes:

The first tranche of the Communauté Financière Africaine-Franc (FCFA) Loans (FCFA 3.5 billion) CFA loans was raised through a floatation by la Campaigne de Gestion Financiere et de Bourse SA (CGF Bourse). They are for the duration 2003 to 2010 at an interest rate of 6.25% p.a. The second tranche of CFA Loans (FCFA 2.5 billion) was raised in 2005 through CGF Bourse for the duration 2005 to 2009 at an interest rate of 6% p.a. The third tranche of CFA Loans (FCFA 2.79 billion) was raised in 2008 through CGF Bourse for the duration 2008 to 2014 at an interest rate of 6% p.a. The fourth tranche of CFA Loans (FCFA 6 billion) was raised in 2009 through CGF Bourse for the duration 2009 to 2014 at an interest rate of 6.75% p.a.

The first tranche of Kenya Shilling Bond (KSh 500 million) was launched in 2006 through the Nairobi Stock Exchange for the duration 2006 to 2009 at an interest rate of 1% (Ksh 200 million) and 1.25% (Ksh 300 million) above the 91 day treasury bill rate. The second tranche of Kenya Shilling Bond (KSh 1 billion) was launched in 2009 through the Nairobi Stock Exchange for the duration 2009 to 2012 at an interest rate of 11% (Ksh 904.8 million) and 1.5% (Ksh 95.2 million) above the 182 day treasury bill rate.

The medium term notes are all unsecured and are held to maturity.

19 OTHER PAYABLES

	2009 US$	2008 US$
Accruals	496,747	420,085
Leave pay	108,286	100,926
Terminal benefits	56,752	17,325
Rent deposits	33,724	31,454
Overpayment of share capital subscriptions	14,254	13,865
	709,763	583,655

20 DIVIDENDS PAYABLE

	2009 US$	2008 US$
At 1 January	1,105,222	568,541
Dividend declared	522,172	827,821
Dividend paid	(563,303)	(291,140)
At 31 December	1,064,091	1,105,222
Proposed dividends per share	-	12.98

The proposed dividend of US$ 522,172 for the year ended 31 December 2008 was approved by the shareholders on 4 June 2009.

In respect of the current year, the directors do not recommend the payment of a dividend.

21 DEFERRED INCOME

	2009 US$	2008 US$
As at 1 January	147,421	151,300
Amortisation – note 6	(3,880)	(3,879)
At 31 December	143,541	147,421

Deferred income relates to the carrying value of the land that was donated by the Government of Kenya in 1996 for the purpose of constructing the company's Headquarters. The deferred income is amortised over the same period of the lease of the land and at equivalent amounts. The recognition and disclosure of the related leasehold land has been set out in Note 15 (b) of these financial statements.

22 SHARE CAPITAL STRUCTURE

(a) SHARE CAPITAL

	2009 US$	2008 US$
Authorised:		
300,000 ordinary shares of US$1,000 each	300,000,000	300,000,000
Issued share capital:		
100,000 ordinary shares of US$1,000 each (2008 -50,000)	100,000,000	50,000,000
Paid up ordinary shares:		
Class A: Issued and fully paid:		
33,210 ordinary shares of US$ 1000 each (2008 -32,709)	33,210,000	32,709,000
Class B: Issued and fully paid:		
13,096 ordinary shares of US$ 1,000 each (2008 -7,520)	13,096,000	7,520,000
Total paid up ordinary shares	46,306,000	40,229,000

22 SHARE CAPITAL STRUCTURE (Continued)

(b) SHARE PREMIUM

	2009 US$	2008 US$
At end of year	2,743,161	627,896

Membership in the company is open to both African Governments and African and non-African institutions, which are grouped into Class A and Class B shareholders respectively. The classification of type of shareholding is for distinction purposes only and does not imply any difference in rights attached to the shares. At an Annual General Meeting held on 4 June 2009, the shareholders resolved to increase the issued and called share capital from US$ 50 million representing 50,000 shares of US$ 1,000 each to US$ 100 million representing 100,000 shares of US$ 1,000 each.

(c) MOVEMENT IN PAID UP CAPITAL:

	Number of shares	Ordinary Share US$	shares premium US$	Total US$
At 1 January 2008	38,647	38,647,000	80,817	38,727,817
Paid up in the year	1,582	1,582,000	547,079	2,129,079
At 31 December 2008	40,229	40,229,000	627,896	40,856,896
At 1 January 2009	40,229	40,229,000	627,896	40,856,896
Paid up in the year	6,077	6,077,000	2,115,265	8,192,265
At 31 December 2009	46,306	46,306,000	2,743,161	49,049,161

23 NOTES TO THE CASHFLOW STATEMENT

		2009 US$	2008 US$
(a)	**Reconciliation of profit for the year to cash (used in)/generated from operations**		
	Profit for the year	429,469	2,610,965
	Adjustments for:-		
	Interest expense on funds from financial institutions and capital markets	1,899,317	1,290,373
	Amortisation of deferred income	(3,880)	(3,879)
	Loss/(gain) on disposal of equipment	885	(1,312)
	Depreciation of property and equipment	144,590	121,808
	Amortisation of prepaid operating lease	3,880	3,879
	Amortisation of intangible assets	10,439	6,396
	Net foreign exchange loss/(gain) - bank borrowings notes	760,598	(540,650)
	Net foreign exchange gain – medium term notes	(141,048)	(364,080)
	Cash flows from operating profits before changes in operating assets and liabilities	3,104,250	3,123,500
	Movements in:		
	Loans and advances to customers	(17,764,650)	325,668
	Investment securities held to maturity	1,250,983	1,558,584
	Other receivables	(324,356)	17,164
	Other payables	126,108	47,537
	Net cash (used in)/generated from operations	(13,607,665)	3,522,453
(b)	**Cash and cash equivalents:**		
	Bank and cash balances	9,007,569	1,921,677
	Short term bank deposits	19,826,927	16,082,570
	Cash and cash equivalents	28,834,496	18,004,247
(c)	**Analysis of change in bank borrowings:**		
	At 1 January	5,568,723	2,487,648
	Additional borrowings in the year	3,285,224	7,185,551
	Repayments in the year	(5,086,044)	(3,664,461)
	Interest expense for the year	586,538	219,628
	Interest paid in the year	(654,144)	(118,993)
	Net loss/(gain) on foreign exchange – note 23(a)	760,598	(540,650)
		4,460,895	5,568,723

23 NOTES TO THE CASHFLOW STATEMENT (Continued)

	2009 US$	2008 US$
(d) Analysis of change in medium term notes		
At 1 January	12,550,426	15,778,588
Additional borrowings in the year	26,230,972	5,213,147
Repayments in the year	(5,595,975)	(7,989,067)
Interest expense for the year	1,312,779	1,070,745
Interest paid in the year	(1,058,076)	(1,158,907)
Net gain on foreign exchange – note 23(a)	(141,048)	(364,080)
	33,299,078	12,550,426

24. COMMITMENTS

	2009 US$	2008 US$
Approved project loans	38,508,525	36,485,400
Office furniture,equipment and computerisation	244,763	240,775
Headquarters building structural repairs	357,836	252,652
Motor vehicles	51,965	49,500
	39,163,089	37,028,327

The Company's management is confident that future net revenues and funding will be sufficient to cover these commitments.

25 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Except for staff loans and advances disclosed in Note 14, there were no other related party transactions undertaken during the year.

Interest income received on staff loans and advances during the year amounted to US$ 18,722 (2008 – US$ 16,742).

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

	2009 US$	2008 US$
Salaries and other short-term benefits	587,332	527,888
Post employment benefits	82,914	69,873
	670,246	597,761
Directors' remuneration		
Fees for services as directors	92,000	71,100

26 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance. The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. Risk management is carried out by various committees under the supervision of the Board of Directors. Management in conjunction with these committees then identifies, evaluates and addresses financial risks in close cooperation with the Company's operating units.

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 now been established and are are responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk.

a) Capital Risk Management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of statements of financial position, are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support new business growth;
- To satisfy the requirements of its policyholders and rating agencies;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- To allocate capital efficiently to support growth; and
- To manage exposures to movement in exchange rates.
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. Capital adequacy is monitored regularly by the Company's management and quarterly by the Board of Directors. The Company has undertaken to comply with Basel II capital adequacy framework which consists of setting an amount of minimum risk capital to cushion against unexpected losses. The capital structure of the Company consists of debt, which includes the bank borrowings and medium term notes disclosed in note 17 and 18 respectively and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in note 22. 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.

26 FINANCIAL RISK MANAGEMENT (Continued)

a) Capital Risk Management (Continued)

	2009 US$	2008 US$
Share capital and share premium	49,049,161	40,856,896
Revenue reserves	18,662,607	18,723,625
Revaluation surplus	1,722,674	1,754,359
Equity	69,434,442	61,334,880
Bank borrowings	4,460,895	5,568,723
Debt securities in issue	33,299,078	12,550,426
Total debt	37,759,973	18,119,149
Total capital	107,194,415	79,454,029
Gearing ratio	35%	23%

b) Credit Risk Management

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The credit risk management and control function is exercised primarily by the Loans Committee for the project loans and the Asset and Liabilities Committee for the investment activities.

In measuring credit risk on loans and advances to customers, the Company uses a Risk analysis and pricing framework to derive the risk rating and risk premium of the facility. The risk ratings are derived through consideration of the following components:

(i) The country business environment
(ii) The borrower`s financial strength
(iii) The project viability
(iv) The security package

All new projects undergo a minimum initial credit rating and subjected to a rigorous project appraisal to ensure asset quality at the entry level. The appraisal process includes among others, enhanced due diligence conducted by international Credit Reference Bureaus, thorough screening against international financial sanction lists, Anti Money Laundering risk clearance, summary credit notes issued by the Risk Management Department, and approval by Loans Committee and the Board of Directors. The Assets and Liabilities Committees supervise the projects portfolio risk rating on a quarterly basis and may recommend adequate actions on loan recovery, in case of changes in country and project risk conditions. For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Company for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

26 RISK MANAGEMENT POLICIES (Continued)

b) Credit Risk Management (Continued)

The Company manages, limits and controls concentrations of credit risk wherever they are identified. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. The Assets and Liabilities Committee reviews the country risks and project risk on a quarterly basis to ensure compliance with country exposure limits and single obligor as stipulated by the risk management policy. The concentration of risk is spread across the various geographical spheres of operation as disclosed in note 9. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment. The Company classifies its loans according to five categories namely Normal, Watch, Substandard, Doubtful or Loss. This internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Company:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral

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

Class/Status	2009 Amount (US$)	2009 %	2008 Amount (US$)	2008 %
Normal	47,156,299	63.4	39,746,170	73.9
Watch	13,449,012	18.1	7,148,540	13.3
Substandard	7,503,412	10.1	4,629,818	8.6
Doubtful	3,224,350	4.3	1,954,178	3.6
Loss	3,056,388	4.2	309,841	0.6
Total	74,389,461	100.0	53,788,547	100.0

Classification of credit risk bearing assets

The maximum exposure to credit risk before collateral held or other credit enhancements attached is US$ 74,389,461 (2008 - US$ 53,788,547) for project loans. This represents a worst case scenario of credit risk exposure to the Company at the comparative dates of the statement of financial position, without taking account of any collateral held or other credit enhancements attached. For assets on statement of financial position, this exposure is based on net carrying amounts as reported in the statement of financial position.

26 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk Management (Continued)

The table below represents a classification of the company's project loans and other receivables as at 31 December 2009.

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	19,686,100	-	19,686,100	28
Past due but not impaired	51,817,255	-	51,817,255	72
Impaired	3,907,668	(3,907,668)	-	-
	75,411,023	(3,907,668)	71,503,355	100

The table below represents a classification of the company's project loans and other receivables as at 31 December 2008.

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	27,451,520	-	27,451,520	51
Past due but not impaired	26,007,600	-	26,007,600	49
Impaired	1,071,404	(1,071,404)	-	-
	54,530,524	(1,071,404)	53,459,120	100

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

	2009 Shs'000	2008 Shs'000
Loans and advances	3,759,511	923,247
Other receivables	148,157	148,157
	3,907,668	1,071,404

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from both its loan and advances portfolio and debt securities based on the following

- All mortgage loans are either backed by collateral or other attached credit enhancements. These are in the form of bank guarantees with reputable banks and/or legal charges over the projects.
- 63% of the loans are categorised in the normal category of the internal rating system
- All of its investments in debt securities are in entities with good credit rating

26 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management

The Company takes on exposure to market risks, which is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by the Assets and Liabilities Committee which in turn reports to the Board of Directors.

Market risk exposures are measured by the use of sensitivity analyses. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk. The market risk exposure for the company relates primarily to currency and interest rate risk.

Currency Risk

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

26 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (Continued)

AT 31 DECEMBER 2009	US$	EURO	CFA	KSHS	TOTAL
ASSETS					
Bank and cash balances	3,898,535	744,490	4,035,738	328,806	9,007,569
Short term investments	8,615,786	4	4,393,548	6,817,589	19,826,927
Investment securities (held-to-maturity)	4,334,672	-	-	-	4,334,672
Loans and advances to customers	39,246,565	6,736,430	16,877,895	7,769,060	70,629,950
Other assets	590,186	-	-	285,958	876,144
Total Financial Assets	56,685,744	7,480,924	25,307,181	15,201,413	104,675,262
LIABILITIES					
Bank borrowings	-	4,236,426	-	224,469	4,460,895
Debt securities in issue	-	-	19,784,071	13,515,007	33,299,078
Other liabilities	436,584	-	-	151,810	588,394
Total Financial Liabilities	436,584	4,236,426	19,784,071	13,891,286	38,348,367
Net On-Statement of Financial Position	56,249,160	3,244,498	5,523,110	1,310,127	66,326,895
AT 31 DECEMBER 2008					
Total Financial Assets	47,884,027	7,606,151	15,476,494	6,086,223	77,052,895
Total Financial Liabilities	552,201	4,633,589	10,871,474	2,645,540	18,702,804
Net On- Statement of Financial Position	47,331,826	2,972,562	4,605,020	3,440,683	58,350,091

The following table details the sensitivity of the Company's profits to a 10% increase and decrease in the functional currency against the relevant foreign currencies. This sensitivity rate is based on the weighted average of the deviation from the mean rate in the year for each currency and represents management's assessment of the reasonably possible change in foreign exchange rates.

Currency	EURO	CFA	KSHS	TOTAL
Impact (2009)	324,450	552,311	131,013	1,007,774
Impact (2008)	297,256	460,502	344,068	1,101,826

26 FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk Management (Continued)

Interest Rate Risk

The company is exposed to both cash flow and fair value interest rate risks.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rates on loans to customers are pegged to the company's specific cost of funds which is usually Libor based. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The company also invests in fixed interest rate instruments.

Interest rate risk is managed principally through monitoring interest gaps and by Board of Directors involvement in repricing brands. The Audit and Risk Committee is the monitoring body for compliance with these limits and is assisted by the Assets and Liabilities Committee as well as the Loans Committee.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

AT 31 DECEMBER 2009	Up to 1 month US $	1 - 6 Months US $	6 - 12 Months US $	1 - 5 years US $	Over 5 years US $	Total US $
ASSETS						
Bank and cash balances	9,007,569	-	-	-	-	9,007,569
Short term investments	19,826,927	-	-	-	-	19,826,927
Investment securities (held-to-maturity)	-	-	749,618	100,000	3,522,586	4,372,204
Loans and advances to customers	-	29,318,604	8,842,429	31,324,786	1,144,131	70,629,950
Other assets	537,532	101,277	59,309	165,384	12,642	876,144
Total financial assets	29,372,028	29,419,881	9,651,356	31,590,170	4,679,359	104,712,794
LIABILITIES						
Borrowings	3,424,915	1,035,980	-	-	-	4,460,895
Debt securities in issue	148,002	764,175	1,637,519	30,749,382	-	33,299,078
Total financial liabilities	3,572,917	1,800,155	1,637,519	30,749,382	-	37,759,973
Net interest rate sensitivity gap	25,799,111	27,619,726	8,013,837	840,788	4,679,359	66,952,821
At 31 DECEMBER 2008						
Total financial assets	33,127,738	8,033,006	9,018,087	21,516,472	5,357,592	77,052,895
Total financial liabilities	3,549,220	5,989,095	2,043,518	5,039,150	1,498,166	18,119,149
Net interest rate sensitivity gap	29,578,518	2,043,911	6,974,569	16,477,322	3,859,426	58,933,746

Based on a sensitivity rate of 50 basis points, all other variables held constant, the company's profit for the year would increase/decrease by US$ 334,764 (2008 – 294,669). A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

26 FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. It is assisted in this function by the Assets and Liabilities Committee. The Company's liquidity management process includes:

- Day-to-day funding which is managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Company maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Matching the maturity profiles of financial assets and liabilities
- Managing the concentration and profile of debt maturities.
- Maintaining adequate reserves, banking facilities and reserve borrowing facilities
- Entering into lending contracts subject to availability of funds.
- An aggressive resource mobilisation strategy aimed at increasing lines of credit and other resources for lending.
- Investments in property and equipment that are properly budgeted for and performed when the company has sufficient cash flows.

Monitoring and reporting take the form of cash flow measurement and projections for specified key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The Company also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and bank balances, call deposits and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Company would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

The table overleaf presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash flows:

26 FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk Management (Continued)

AT 31 DECEMBER 2009	Up to 1 month US $	1 - 6 Months US $	6 - 12 Months US $	1 - 5 years US $	Over 5 years US $	Total US $
ASSETS						
Bank and cash balances	9,007,569	-	-	-	-	9,007,569
Short term investments	19,826,927	-	-	-	-	19,826,927
Investment securities (held-to-maturity)	-	-	749,618	100,000	3,522,586	4,372,204
Loans and advances to customers	-	29,318,604	8,842,429	31,324,786	1,144,131	70,629,950
Other assets	537,532	101,277	59,309	165,384	12,642	876,144
Total financial assets (expected maturity dates)	29,372,028	29,419,881	9,651,356	31,590,170	4,679,359	104,712,794
LIABILITIES						
Borrowings	3,425,866	1,039,351	-	-	-	4,465,217
Debt securities in issue	-	953,777	2,262,577	34,722,968	-	37,939,322
Other liabilities	-	588,394	-	-	-	588,394
Total financial liabilities (contractual maturity dates)	3,425,866	2,581,522	2,262,577	34,722,968	-	42,992,933
Net liquidity gap	25,946,162	26,838,359	7,388,779	(3,132,798)	4,679,359	61,719,861
At 31 DECEMBER 2008						
Total financial assets (expected maturity dates)	33,127,738	8,033,006	9,018,087	21,516,472	5,357,592	77,052,895
Total financial liabilities (contractual maturity dates)	4,141,701	6,360,652	2,290,624	6,625,803	760,890	20,179,670
Net Liquidity gap	28,986,037	1,672,354	6,727,463	14,890,669	4,596,702	56,873,225

26 TAXATION

The company is exempted from all forms of taxation as provided for in the Shelter – Afrique Act 1985 (No. 18) laws of Kenya.

27 CURRENCY

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

SCHEDULE OF SHAREHOLDERS AS AT 31 DECEMBER 2009

Class A: Countries		No of shares 31 December 2009	% of shareholding
1.	Algeria	4,220	9.11%
2.	Benin	306	0.66%
3.	Botswana	839	1.81%
4.	Burkina Faso	875	1.89%
5.	Burundi	300	0.65%
6.	Cameroon	1,648	3.56%
7.	Cape Verde	16	0.03%
8.	Chad	271	0.16%
9.	Central African Republic	73	0.59%
10.	Congo	516	1.11%
11.	Congo DRC	600	1.30%
12.	Djibouti	300	0.65%
13.	Gabon	1,283	2.77%
14.	Gambia	300	0.65%
15.	Guinea	409	0.88%
16.	Guinea Bissau	25	0.05%
17.	Guinea (Equatorial)	301	0.65%
18.	Kenya	6,137	13.25%
19.	Lesotho	500	1.08%
20.	Liberia	309	0.67%
21.	Madagascar	322	0.70%
22.	Malawi	517	1.12%
23.	Mali	951	2.05%
24.	Mauritius	53	0.25%
25.	Mauritania	115	0.11%
26.	Morocco	437	0.94%
27	Namibia	327	0.71%
28.	Niger	310	0.67%
29.	Nigeria	5,331	11.51%
30.	Rwanda	304	0.66%
31.	Sao Tome & Principe	16	0.03%
32.	Senegal	1,372	2.96%
33.	Sierra Leone	300	0.15%
34.	Somalia	71	0.02%
35.	Seychelles	10	0.65%
36.	Swaziland	228	0.49%
37.	Tanzania	317	0.68%
38.	Togo	162	0.35%
39.	Tunisia	300	0.65%
40.	Uganda	500	1.08%
41.	Zambia	1,987	4.29%
42.	Zimbabwe	52	0.11%

Class B:
Institutions

1.	African Development Bank	10,576	22.84%
2.	Africa Reinsurance Corporation	2,520	5.46%
Total		46,306	100%