SHELTER AFRIQUE
Financing Affordable Housing for Africa

2018
Annual Report & Financial Statements

Published by:
THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER – AFRIQUE)
2019 © ALL RIGHTS RESERVED
www.shelterafrique.org

Editorial Design:
BLACK AND WHITE CONCEPTS
www.bnw.co.ke

Contents

Letter of Transmittal 1
Board of Directors 2
Message from the Chairman of the Board of Directors 7
Executive Committee 13
Executive Report 16
Corporate Governance 20
Corporate and Financial Management 29
Human Resources and Corporate Services 33
Business Operations 41
Shelter Afrique 2018 Financial Statements 46

Letter of Transmittal

CHAIRMAN
GENERAL MEETING OF SHAREHOLDERS
SHELTER-AFRIQUE

20 JUNE 2019

Dear Mr Chairman,

In accordance with Regulation 9 of the General Regulation of Shelter-Afrique, I have the honour, on behalf of the Board of Directors, to submit herewith, the Annual Report and Audited Financial Statements of the company for the period January 1, to December 31, 2018.

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

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

NGHIDINUA, DANIEL
Chairman of the Board of Directors

01 Board of Directors

MR. NGHIDINUA M. DANIEL
Chairman | Group 2

MR. ALI BOULARES

Vice Chairman | Group 4

MR. CHARLES HINGA

Group 1

DR. THERESA TUFUOR

Group 3

MR. JEAN PAUL MISSI

Group 5

DR. P.M. TUNDE REIS

Group 6

MR. BRAMA DIARRA

Group 7

MS. SOULA PROXENOS

African Development Bank

MR. CORNIELLE KAREKEZI

Africa- Re

DR. OMODELE JONES

Independent Director

DR. STEVE MAINDA

Independent Director

02

Message from the Chairman of the Board of Directors

1. INTRODUCTION

DEAR VALUED SHAREHOLDERS,

On behalf of the Board of Directors, I am pleased to present the Company's Annual Report and Audited Financial Statements for the year ended 31st December 2018.

My report focuses on the critical key strategic measures implemented by the Board and Management to prepare the Company to resume underwriting new business .This is vital to ensure the Company moves to financial viability. The implementation of these measures is imperative to enable the Company to fulfil its mandate of ***"Financing Affordable Housing for Africa"*** in a sustainable and focused manner.We have summarized these key strategic measures into the following five themes: **Operating Environment; Financial Highlights; Revised Strategy; Key Milestones and Performance Drivers; and Future Outlook**.

OPERATING ENVIRONMENT

GLOBAL ECONOMIC OVERVIEW

Global economic growth for 2018 was estimated at 3.9% (2017=3.7%). However, advanced economies led by the United States of America (USA) recorded a flat growth rate of 2.4%(2017=2.4%).. The flat growth rate was weighed down by the negative economic growth rate recorded by other developed economies. The USA is the only advanced economy that registered a positive growth rate of 2.9% in 2018 which is up from 2.2% in 2017. Other leading economies such as Japan, German, and the United Kingdom recorded decreased growth rates of 1%, 1.9%, 1.4% compared to 1.7%, 2.5% and 1.7% in 2017 respectively.

The Eurozone posted reduced economic growth rate of 2%(2017=2.4%). Emerging economies are projected to have grown by 4.9%(2017=4.7%). China, categorised as a developing economy, recorded a reduced growth rate of 6.6% (2017=6.9%), on the back of trade tariff tensions with the USA.

0.2 %

was the estimated economic growth globally between 2017 (3.7 %) and 2018 (3.9 %)

Sub-Saharan Africa however posted a more positive growth of 0.5 % having grown from 2.6 % to

3.1 %

AFRICA ECONOMIC REVIEW

Despite an economic slowdown, overall Africa posted positive economic growth in 2018 with Sub-Sahara Africa having grown by 3.1% (2017=2.6%). This was mainly attributed to favourable commodity prices. Crude oil prices averaged US$71 per barrel in 2018 when compared to US$49 per barrel in 2017. Regional reviews show recorded GDP growth rates of 6.3%, 4.6%, 2.9%, 1.8% and 1.5% for East Africa, Franc Zone, West and Central Africa, North Africa, and Southern Africa respectively.

Other than improved commodity prices, Africa's positive economic outlook waspredominantly anchored on the increased investments into infrastructural projects. It has also been noted that diaspora remittances have become a critical economic driver for most African countries .Kenya earned the highest foreign exchange from its diaspora remittances which exceeded traditional export earnings from tea, coffee and tourism.

AFRICA HOUSING SECTOR REVIEW

The Company surveyed participants in several member countries in 2016. The resultsconfirmed that the provision of affordable housing stocks remained a top priority for all African Governments. The delivery of decent and affordable houses to member states remains a crisis based on the massive backlog as illustrated in Table 1. below. That is why your Company has resolved to focus on Public-Private Partnerships (PPP) as a key intervention to address the supply side of the housing value chain in partnership with member states and competent private sector developers. The business model for the Company has been revised to ensure that the Company can fulfil its mandate on both the supply and demand sides of the housing value chain. This revision is the cornerstone of our revised 5-Year Strategic Plan (2019 – 2023).

Table 1: Affordable Housing Deficit in Select Member Countries

	COUNTRY	HOUSING DEFICIT
1.	Algeria	1,200,000
2.	Benin	50,000
3.	Botswana	0
4.	Burkina Faso	100,000
5.	Burundi	30,000
6.	Cape Verde	82,000
7.	Cameroon	1,200,000
8.	Central African Republic	1,000,000
9.	Chad	200,000
10.	Congo	140,000
11.	Côte d'Ivoire	600,000
12.	The Democratic Republic of the Congo	3,000,000
13.	Gabon	200,000
14.	Ghana	1,700,000
15.	Guinea	140,000
16.	Kenya	2,000,000
17.	Liberia	200,000
18.	Madagascar	2,000,000

	COUNTRY	HOUSING DEFICIT
19.	Malawi	100,000
20.	Mali	400,000
21.	Mauritania	50,000
22.	Mauritius	20,000
23.	Morocco	600,000
24.	Mozambique	2,000,000
25.	Namibia	80,000
26.	Niger	100,000
27.	Nigeria	17,000,000
28.	Rwanda	109,000
29.	Senegal	125,000
30.	Sierra Leone	166,000
31.	Swaziland	20,000
32.	Tanzania	3,000,000
33.	Togo	250,000
34.	Tunisia	0
35.	Uganda	1,600,000
37.	Zambia	1,500,000
38.	Zimbabwe	1,250,000

Source: Adapted from Bah et., al 2018

Reference: Bah E.M., Faye I., Geh Z.F. (2018) The Housing Sector in Africa: Setting the Scene. In: Housing Market Dynamics in Africa. Palgrave Macmillan, London

FINANCIAL HIGHLIGHTS

The restriction to underwrite new business for the past two consecutive financial years had a material adverse impact on the Company's financial performance for the year ended 31st December 2018.. This is evidenced by the 33% decline in the loan book from borrowers who were repaying their loans. This led to a 29% year-on-year decline in revenue streams. This decline is against the backdrop of the disruptive event which arose in the latter part of 2016. In response to this material event, The Board and Management intervened by focusing on:

1. The recovery and reconstruction of the Company to lay the foundation for sustained growth and impact.
2. Positioning the company to partner effectively with African governments and the private sector in providing affordable housing through public-private partnerships.
3. The Company has taken significant deliberate corrective measures to restructure its operations which include but are not limited to the following: Strategy Review, Capital Mobilisation, Debt Restructuring, Governance Enhancements, Changes In Executive Management, Staff, Rationalisation and The Implementation of an Organisational Structural Redesign. By the close of the year, all the corrective measures had been fully implemented with the exception of concluding the debt restructure agreements with Company's eight lenders.

The adverse impact of the disruptive event on the reputation of the Company was significant. This was also manifested by the sharp decline in payments for capital subscriptions from the member states within the current reporting period. It has become more pressing for the Company to now resume underwriting new business in 2019.

In light of the above, the key financial highlights for the year ended 31st December 2018 are as summarised below: -

i) ***Interest Income***: Down 29% to US$17.6 Million (2017=US$24.7 Million) due to a 33% decline in loan book

ii) ***Interest Expense***: Down 28% to US$9.9 Million, savings caused by a 33% decrease in borrowings

iii) ***Operating Expenses***: US$9.0 Million, same as in 2017 but inclusive of staff redundancy costs paid in 2018

iv) ***Loan Impairment Charge***: US$9.9 Million, 9% year-on-year decrease due to the impact on declining loan book and implementation of New Accounting IFRS 9: Financial Instruments

v) ***Net Loss***: US$9.2 Million, 19% above 2017 due to the impact of declining revenue streams arising from the declining loan book

vi) ***Total Assets***: US$232.7 Million, 25% decrease, due to effects of declining loan book

vii) ***Liquid Assets***: US$44.7 Million, 8% above 2017 level of US$41.4 Million

viii) ***Borrowings***: US$116.7 Million, 33% decrease with US$61 Million debt including interest repaid

viii) ***Equity Capital***: US$106.7 Million, 19% decline due to implementation of IFRS 9: Financial Instruments, new accounting standard on financial assets impairments transitional adjustment and impact of accumulated losses coupled with significantly low equity receipts in 2018.

REVISED STRATEGY

Following the appointment of Mr Andrew Chimphondah as the new Managing Director in July 2018 and his assumption of duty in September 2018, the Board conducted a review of the Company's strategy with Management in the context of the operating environment and industry dynamics of financing Affordable Housing in our member countries.

Consequently, in December 2018, Management presented the 2019 to 2023 Revised Strategy to the Board, which after consideration was approved. The new strategy is underpinned by three strategic goals:

- **Strategic Goal 1:**
  Financial Sustainability;
- **Strategic Goal 2:**
  Enhance shareholders' Value & Development Impact;
- **Strategic Goal 3:**
  Organizational Sustainability.

The Board believes that the renewed focus on restoring the Company's financial sustainability based on delivering superior stakeholder value will lead to a relevant and impactful Shelter Afrique which will ultimately develop into a sustainable organisation that will benefit all member states. I appeal and invite each one of you to peruse through our Abridged Version of our revised Strategy to appreciate the strategic direction we have taken to reposition the Company.

KEY PERFORMANCE DRIVERS

The successful implementation of the Revised Strategy will enable the Company to become viable by the financial year 2020 and lead to financial sustainability within the Five Year Strategy Reporting Cycle based on the following two Key Performance Drivers (KPD): -

i) Payment of equity capital subscriptions by members to clear the arrears on both the 2013 and 2017 Calls; and

ii) Resumption of new business, which is dependent on satisfactory receipt of capital subscriptions.

All shareholders remain committed to honouring the capital contribution payment obligations.Despite these commitments, it is of grave concern to note that as at 1st January 2019 , the total capital arrears amounted to US$270 Million. The urgent payment of these capital subscriptions that are in arrears is of paramount importance to enable the Company to resume underwriting new business.. Given the significant amount of the outstanding capital arrears on both calls, the Company will resort to engaging the respective shareholder in arrears to agree on realistic payment plans. This will enable the Company's business planning to be conducted in a pragmatic and prudent manner.

FUTURE OUTLOOK

It is important to state that as we continue the task of turning around the financial performance of the Company, the Board is determined to treat all our stakeholders: shareholders, host member countries, lenders, clients, and staff – in a fair and transparent manner. In short, we are committed to holding ourselves to account in repositioning the Company to better fulfil its mandate and expect our shareholders to concurrently hold us accountable to turning around the financial fortunes of the Company .

The key to restoring the Company's financial sustainability is to resume immediate underwriting of new business and focus on solely fulfilling its mandate of "Financing Affordable Housing for Africa" as espoused in the revised 5-Year Strategic Plan (2019 – 2023). The Company will continue to deliver on our vision of providing "A decent and affordable home for all in Africa".

On your part as shareholders, we humbly request you to honour your capital payment contributions which have fallen into arrears so that the Board and management are empowered to resume lending to achieve financial sustainability.

ACKNOWLEDGEMENTS

Changes took place at Managing Director and Board levels in 2018. I formally introduce and welcome Mr Andrew Chimphondah as the new Managing Director of the Company effective September 2018. At Board level, four Directors retired following the end of their terms; Mr Yakub was representing Group 3, Mrs Melei Anikpo representing Group 1, Ms Aida Munano representing Group 2, and Independent Director Mr Hardy Pemhiwa. In their stead, four new Directors joined the board; they are Dr T. Turfour, Mr Damma, Mr Charles Mwaura Hinga, and Dr Stephen Mainda. I wish to thank most sincerely our former Board members for their dedication and valuable contributions during their service .Kindly allow me to also extend a warm welcome to our new members as we look forward to benefitting from theirr combined synergy of knowledge, experience and valued insight.

On behalf of the Board, I take this opportunity to convey our special thanks to our valued shareholders, clients, lenders and all business partners for their continued support and confidence during the last turbulent two years.This support has has enabled the Company to survive and restructure its operations to prepare for the resumption of business. I also wish to commend Staff and Management for their loyalty to the Company and dedication to duty.

Finally, I wish to record my immense appreciation to my colleagues on the Board for their steadfast support, wise counsel, guidance extended to me during my tenure as Chairman. It was my pleasure to work with such a committed and enthusiastic team with a diverse set of complementary professional skills, knowledge and experience which was successfully channelled towards the primary objective of turning around the fortunes of the Company.

MR. NGHIDINUA MATTHEWS DANIEL

Chairman – Board of Directors

03

Executive Committee

MR. ANDREW CHIMPHONDAH
Managing Director

MR. KINGSLEY MUWOWO

Chief Finance Officer

MR. ALFRED NICAYENZI

Chief Operations Officer

MRS. FRANCESCA KAKOOZA

Company Secretary

MR. YANKHO CHITSIME

Head of New Business

DR. MUHAMMAD GAMBO

Manager, Policy and Research

MR. BERNARD OKETCH

Head of Enterprise Risk Management

04

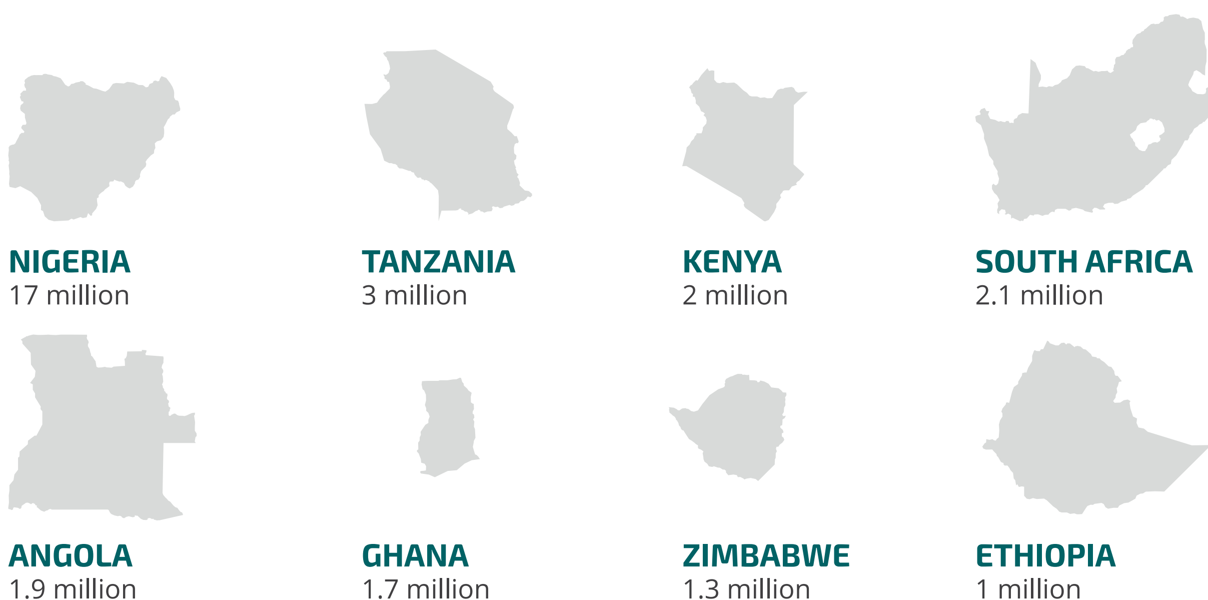
Executive Report

The challenge facing member states in effectively tackling the shortage of affordable is the inability to supply houses that match the demand. A viable solution towards addressing this challenge is for African governments to commit resources to large scale public-private partnerships. Shelter Afrique will build where necessary and can provide technical expertise and catalytic funding where required. These services will speed up the financing of infrastructure and related services critical to the development of large scale integrated human settlements.

Development risk is also mitigated through the partnership of seasoned developers with a successful track record and the capacity to build housing units in excess of 1 000 units. Shelter Afrique will strive to explore innovative solutions that provide sustainable developmental impact on both supply and demand sides of the affordable housing value chain. Among others, the Company will explore and encourage the use of alternative building methods which are environmentally friendly and green compliant. Partnerships in research and innovation will also be sought with like-minded strategic partners and we will also explore viable incremental housing microfinance initiatives.

On the demand side, there is a growing need to complement the traditional mortgage bond with innovative products best suited for the affordable housing market beneficiaries which must enhance affordability.

The large self-reported housing gap in housing units for a few countries in Africa are:



(Source: CAHF (2018) Housing Finance in Africa Yearbook)

Taking into account The Company's current capital position in relation to the capital required to address the backlog of housing needs across the continent effectively, the most effective role and opportunity for impact are for The Company to deploy its limited capital and intellectual property towards catalysing large scale affordable housing supply. After a detailed introspection using the lessons learnt from the previous two strategic cycles (2007 -2011 and 2012 -2016), the Board and Management have developed its new strategy which seeks to reposition the institution as a leading and active catalyst in the affordable housing market.

In light of the preceding, the focus of the Board and Management during the period 2019 – 2023 will be on:

a) Re-organising and re-positioning The Company to restore the viability and financial sustainability; and
b) Catalysing the provision of affordable housing through public-private partnerships with both the public and private sectors.

The implementation of 2019-2023 Strategic plan will focus on 3 Key Strategic Goals (SGs) which are supported by key strategic objectives as outlined below:

SG1: FINANCIAL SUSTAINABILITY

We will:

- Diversify the ownership structure to improve the quality of the capital structure and have the ability to invite other prospective shareholders by 2020.
- Mobilise Equity Capital from existing and new members of at least US$ 20 Million per year.
- Achieve financial viability by 2020 and financial sustainability by 2023.
- Mobilise Debt Capital of a minimum US$ 200 Million by 2023.
- Achieve Rating equivalent to Moody's of Baa3 by 2023.
- Reduce Non-Performing Loans (NPL) by at least US$ 15 Million annually until the NPL ratio is below 15%.

SG2: ENHANCE SHAREHOLDERS' VALUE AND DEVELOPMENT IMPACT

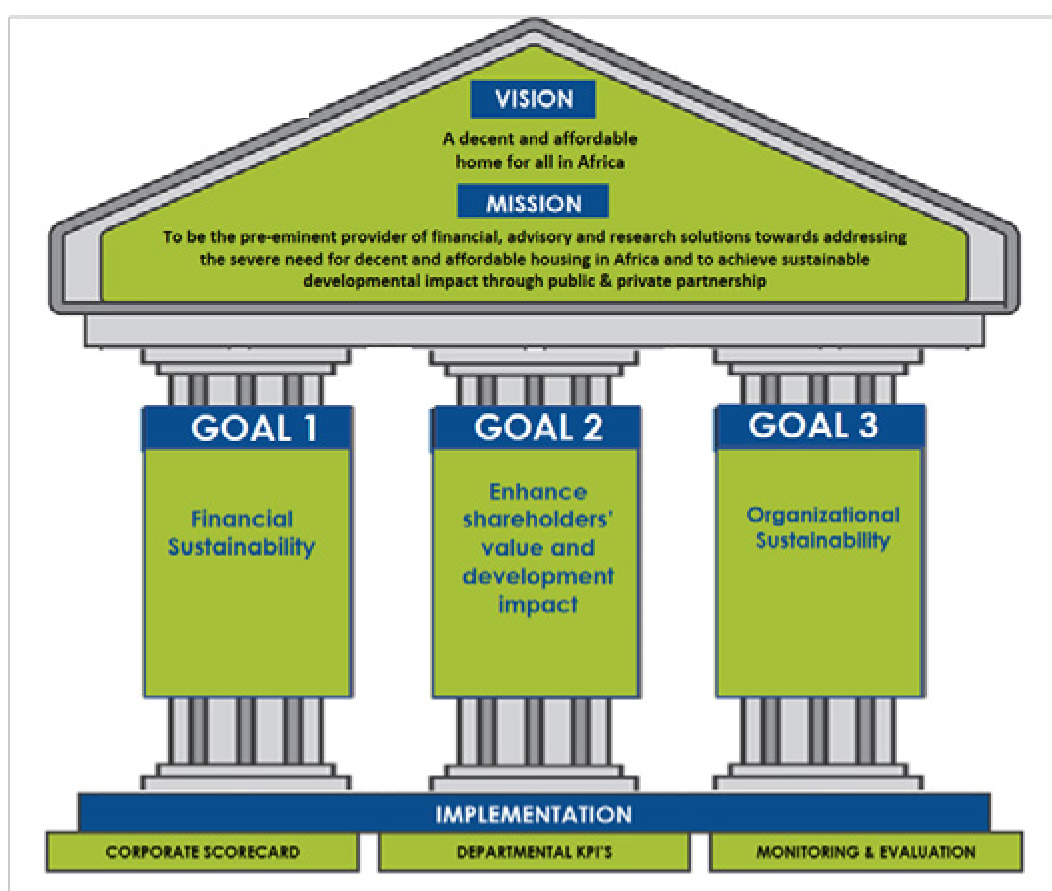
We will:

- Improve Customer Satisfaction score to a minimum of 80%;
- Implement a customer-centric engagement model;
- Be the preferred provider of affordable housing financial services and solutions;
- Create a Shelter Afrique Centre of Excellence;
- Build and strengthen strategic partnerships with financial Institutions, research and industry bodies.

SG3: ORGANISATIONAL SUSTAINABILITY

We will:

- Enhance staff performance and raise engagement to 75% by 2019 through continuous capacity building, team building and performance-linked remuneration
- Attract, retain and develop talent
- Align to King IV Code of Corporate Governance by 2023
- Implement Enterprise Risk and Opportunity Framework by 2019
- Leverage on technology to drive business.



N.B: Shelter Afrique as a DFI recognises that the key mandate of DFIs is to address market failure and create new market frontiers by balancing the need for financial sustainability and key risks mitigation. In tandem to this noble cause, Shelter Afrique seeks to boost access to affordable housing. This will be done through infrastructure development, investment promotion, financing facilitation, advisory and advocacy on housing matters in a manner that is impactful to all our stakeholders.

05

Corporate Governance

Mr. Kingsley Muwowo, the Company's CFO, gives an address at the 37th Annual General Meeting Symposium.

STATEMENT ON CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of The Company for Habitat and Housing in Africa (Shelter-Afrique) continued with its efforts to ensure that good corporate governance was practised by building on the efforts already made in 2017. In this regard, the Board approved the benchmarking and progressive adoption of King IV Code of Corporate Governance.

The Objectives of the Board for 2018 were:

1. Conclude the Strategic Plan 2019-2023
2. Re-organise and Re-design the Organisation
3. Improve the tone at the top in all governance aspects
4. Conclude the Debt Re-structuring Process with all lenders
5. Recruit the Managing Director

The Board was able to achieve the following with regards to its Objectives:

1. Approve the Strategic Plan in March 2018
2. Conclude the Re-structuring process and approved a new Organisation Structure aligned to the Strategic Plan by September 2018
3. Appoint the new Board Chairman and Vice in March 2018 as well as approved a Directors' Code of conduct in September 2018
4. Recruit the Managing Director by June 2018
5. Achieve different milestones in the Debt Re-structuring process for finalisation in 2019

The Board remains entirely committed to strenghthening its corporate governance, by ensuring improved fairness, transparency, independence, probity/honesty, responsibility and integrity when conducting its affairs.

The Board of Directors of Shelter Afrique recognises that consistent practice and application of principles and best practice in corporate governance is crucial to the success of the Company and continued delivery of sustainable stakeholder value.

In 2018, there were few changes to the membership of the Board following the retirement of some members. The Board activities were guided by the provisions of the Statutes of the Company, the Board Charter that was adopted by Shareholders in 2017 and the Annual Board Workplan 2018 that outlined the Board's activities for the reporting period.and Forward Agenda each year.These documents also incorporated governance aspects that were deployed to form the building blocks used the to strengthen the Company's governance framework which enabled sound decisions to be made for the beterment of The Company.

SHAREHOLDER ENGAGEMENT

Shelter Afrique is owned by 44 Member African countries, African Development Bank and Africa-Re. We recognise the importance of our shareholders and value our communication with them. To this end, the Company through its Corporate Secretariat and Investor Relations Unit engaged actively with Shareholders in 2018 in a bid to ensure that the Shareholders received efficient and effective communications related to their investments and the capital arrears due from member states . The New Managing Director conducted an introductory visit to some of the member states and used this opportunity to engage the shareholders on the New Strategic Plan and request their support in paying the capital contributions that are in arrears inorder to raise the necessary capital needed to support the plans to make the company financially sustainable .

ANNUAL GENERAL MEETING

The Company ensures accountability and transparency to its shareholders through its General meetings. The 37th Annual General Meeting of Shelter-Afrique was held at the Windsor Golf and Country Club in Nairobi, Kenya on 20th July 2018. The general nature of the business transacted included:

1. Election of the Chairman and two Vice-Chairmen of the 37th General Meeting
2. Presentation by the Board Chairman on the: Strategic Plan 2018-2022; Progress on the Turnaround Plan for the Company; Shareholding Structure; Eminent Persons Group and presentation of the new Managing Director
3. Presentation and adoption of the Annual Report, Audited Accounts for the year 2017
4. Presentation of Special Business relating to:
    - Appropriation of the Reserve Account;
    - Recommendations for operationalisation of Article 20(d) of the Statutes of Shelter Afrique received from African Development Bank

BOARD OF DIRECTORS

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

BOARD CHARTER

The Board has adopted a Board Charter that sets out its functions and powers and is complementary to the requirements regarding the Board and Board Members contained in the Statutes and General By-Laws of Shelter Afrique as well as the resolutions of the General Meeting. The Charter regulates Board and Committee composition, provides for positions such as Chairperson, Vice Chairperson and Company Secretary, makes provision for duties and responsibilities of the Board of Directors and stipulates methodology and terms for performance evaluation for the Board. The Charter also lays out guidance on Director induction, development and training as well as decision making within the Board. Matters related to conflicts of interest and related party transactions are also covered in detail with clear guidance on how these should be dealt with. The Board Charter and changes to it are approved by the Shareholders at a General Meeting.

BOARD COMPOSITION

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

The names of the Directors who held office in 2018 are set out below.

LIST OF BOARD DIRECTORS

Class "A" Shareholders

Item/Group	Title	Names	Country
Group 1	Director	Arch. Aidah Munano Replaced in July 2018 by Mr Charles Hinga Mwaura	Kenya
	Alternate Director	Eng. G.S. Mlilo Replaced in July 2018 by Mr Lexton Kuwanda	Zimbabwe
Group 2	Director	Nghidinua Daniel	Namibia
	Alternate Director	Dorcas W. Okalany	Uganda
Group 3	Director	Yahaya Hameed Yakubu Replaced in July 2018 by Dr Theresa Tufuor	Ghana
	Alternate Director	Ouadja Kossi Gbati	Togo
Group 4	Director	Ali Boulares	Algeria
	Alternate Director	El Alj Toufik	Morocco
Group 5	Director	Jean Paul Missi	Cameroon
	Alternate Director	Abdou Chaibou	Niger
Group 6	Director	Dr P.M. Tunde Reis	Nigeria
	Alternate Director	Muhamed Manjang	Gambia
Group 7	Director	Anikpo Yed Melei Retired in 2018	Côte d'Ivoire
	Alternate Director	Brama Diarra	Mali

Class "B" Shareholders

Institutions	Titles	Names
AfDB	Director	Soula Anastasia Irene Proxenos
	Alternate Director	Rafael Jabba
Africa-Re	Director	Corneille Karekezi
	Alternate Director	SeydouKone

Independent Directors

Titles	Names
Independent Director	Hardwork Pehmiwa Replaced in July 2018 by Dr Steve Mainda
Independent Director	Dr. Omodele Jones

ROLES & RESPONSIBILITIES

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

- Oversight and supervision of the general business of the Company
- Ensuring that the Vision, Mission and Core values of the Company are in line with shareholders needs and that the culture of the organisation is established and embedded
- Approves The Company's Strategy, financial and business objectives and ensures that it has oversight and is kept current on progress on achievement of those objectives
- Sets the Risk Appetite of The Company and assesses performance relative to the Company's Risk appetite
- Responsible for the effective operation of The Company by appointing, evaluating the performance of Senior Management including compensation and succession planning.

BOARD COMMITTEES

The Board had 4 (four) substantive committees, namely the Audit, Risk & Finance Committee, Investment Committee, Human Resource and Governance Committee and the Strategy Committee, which was converted from being an ad hoc committee to a substantive committee of the Board. The Strategy Committee was established to enable the Board - fulfil its oversight responsibilities relating to the mid to long-term strategy for the Company, risks and opportunities relating to such strategy, and strategic decisions regarding investments, expansion, acquisitions and divestitures by the Company. The Board also had the Special Disciplinary Committee, which was also an ad hoc committee tasked with addressing the findings of the forensic report prepared by Deloitte in 2016.

To discharge its mandate effectively, matters are discussed in detail in the committees before resolution by the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls and structures are in place to achieve the Company's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc committees, as and when it is deemed necessary.

AUTHORITY AND DELEGATION

In line with the Company's Statutes, the Board delegates the day to day operations and management of the Company to the Managing Director supported by the Executive Committee. However, the Board of Directors retains responsibility for the strategic direction of the Company. To this end, the Board has a schedule of matters reserved for the Board to guide Management in day to day decision making.

BOARD OPERATIONS

Board Operations are regulated by the Board Charter. On an annual basis, the Board sets an annual Workplan with a forward agenda to guide the achievement of its objectives. A schedule of calendar dates for Board meetings to be held in the following year is also fixed in advance by the Board. In 2018, the Board held its meetings as follows: -

No.	Meeting	Number of meetings	Some of the Business Conducted
1.	**Full Board**	4	Strategy, Policies, Finance, Investor Relations, Risk Appetite, Audit &Control Environment, corporate governance, People and Culture and related recommendations from Board Committees
2.	**Audit, Risk and Finance Committee**	5	Financial performance, reporting and integrity, Assets & Liabilities management, Internal & External Audit- (findings & recommendations), enterprise risk identification, assessment, management and compliance, and related Policy reviews
3.	**Administrative & Human Resources**	4	People & Culture, procurements, administration, nominations, remuneration, compensation of both the Board and Staff, ICT Governance, Succession Planning and related Policy reviews
4.	**Investment Committee**	4	Credit policy & strategy recommendations, restructuring, and loan workout strategies as proposed by Management
5.	**Strategy Committee**	3	Strategy development, implementation of the strategy, monitoring of the status of Strategy implementation, review of the continued relevance of SHAF vision, mission and values and monitor annual progress of the organisation turnaround.
6.	**Special Disciplinary Committee**	5	Handled the Company's internal disciplinary processes – including considering and making findings on the substance of disciplinary matters and recommend appropriate sanctions.

Director Independence

The Board always ensures that every director can act independently. On an annual basis, Directors are assessed against set guidelines to ensure that they always remain independent. In 2018, all Directors remained independent as per set guidelines.

Conflicts of Interest and Related Party Transactions

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

There have been no significant related party transactions, pecuniary transactions or relationships between the Company and its Directors or management except for those disclosed in Note 36 to the financial statements for the year ended 31 December 2018.

Directors' Remuneration

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

Induction Program, Training and Education

Upon his/her election, each Board Member participates in an induction programme that covers the Board's duties and responsibilities as well as the individual directors' role on the Board. The induction also covers the Company's strategy, financial and legal affairs, policies and operations as well as general and specific aspects of the Company's business. An induction programme was undertaken in July 2018 for new directors. The Board of Directors also annually reviews and identifies areas where Board Members require further training or education; a clear action plan is developed and utilised to guide Director training and education for the subsequent year. Follow-up training have been scheduled in the following year.

Performance Evaluation for the Board

On an annual basis, the Board carries out a performance evaluation to assess its performance against set targets. The Board also carries out assessments for its Committees, individual directors, the Managing Director and Company Secretary. Results of the evaluations are collated and transformed into an action plan to guide Board improvement initiatives. A Performance Evaluation was undertaken in December 2018, conducted by external consultant Price Waterhouse Coopers.

Company Secretary

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

MANAGING DIRECTOR AND SENIOR MANAGEMENT

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

ASSURANCE AND RISK MANAGEMENT

External Auditor

At each Annual General Meeting, the Company appoints an external auditor to hold office from the conclusion of that meeting until the conclusion of the next Annual General Meeting. The term of the Auditor may be renewed yearly up to a maximum of five (5) years. M/S Deloitte and Touche were re-appointed as the Company's Auditors at the Annual General Meeting held on 20th July 2018. The Board of Directors has a Policy regarding the appointment of independent external auditors, terms of reference, remuneration and performance evaluation.

Internal Audit

The Company has an internal audit function whose head reports directly to the Board's Audit, Finance and Risk Committee to ensure independence with a dotted reporting line to the Managing Director. The Internal Auditor has free and unrestricted access to all of the Company's information, people, property and records to discharge his/her role and responsibilities. His/her role is to provide independent and objective assurance and related consulting services to management and the Audit Committee, maximising shareholder value through the improvement of the Shelter Afrique's risk management, control and governance processes.

Risk Management

Shelter Afrique recognises that risk is inherent in business and that effective risk management is essential in delivering on The Company's

business objectives and is a key component of sound corporate governance. The Board ensures that there is a framework in place and that The Company only takes risks in accordance with its Risk Appetite. The Company has implemented an enterprise risk management framework that identifies, assesses and manages risks in all aspects of its business including people, systems, operations, relationships, the micro and macro environment. Every quarter, the Risk function reports to the Audit, Finance and Risk Committee on the key risks arising in a given quarter as well as mitigants and trends for the same.

ETHICAL AND RESPONSIBLE CONDUCT

The Company is committed to its Board, Management, Staff and stakeholders behaving responsibly and ethically in all business operations and dealings. The Company has a conflict of interest framework that includes policies and guidelines to ensure that all actual or potential conflicts of interest are identified, avoided or managed as stipulated in the different guidelines.

Given its history, Shelter Afrique places great importance on fostering a culture that encourages people to speak up about issues and conduct that causes them concern. To this end, Shelter Afrique outsourced and contracted an external service provider to offer a safe and confidential platform for whistleblowing without fear or favour. Whistle-blowers are therefore encouraged and protected. In 2018, no prejudicial report was received on our whistleblowing platform.

Additionally, the Board approved a Code of Conduct to further augment the tone at the top regarding ethical behaviour by Board Members. This commitment to the conduct of conduct is also visible at staff level, a Staff Code of Conduct contains provisions that require staff members to act ethically and to avoid conflict of interest.

DIVERSITY AND INCLUSION

Shelter Afrique believes in fostering a work environment that reflects the diversity and aspirations of its shareholders and target customers thereby enabling it to serve all stakeholders with efficiency and effectiveness. Shelter Afrique is an equal opportunity employer and considers all employees critical to the achievement of its strategic objectives. The Company also employs staff from its different member countries which have ensured a blend of cultures, beliefs, abilities and skills, which altogether have created a stronger and more effective organisation. This kind of diversity is adhered to from Board level, Management and employees. Further guidelines as to diversity have been adopted into our Statutes and Human Resource policies, to guide day to day operations.

SUSTAINABILITY: ENVIRONMENTAL AWARENESS & SOCIAL RESPONSIBILITY

Our Commitment

To secure its future, Shelter Afrique is committed to contributing to economic, social and environmental sustainability, both locally and globally. The Company acknowledges that this involves balancing the interests of shareholders, employees, customers, suppliers and the broader communities in which our business operates.

Environmental Footprint

Shelter Afrique ensures that all projects supported in its different Member countries adhere to best practice in governance, particularly protection of the environment. The Company has an Environmental and Social Policy whose objective is to assist the Company in providing and expanding sources of affordable and sustainable financing of housing programs and maximisation of development benefits of these investments. This is attainable through the promotion of environmentally and socially responsible and sustainable lending for housing development through incorporating Environmental and Social aspects in the Company's lending activities. Also, Environment and Social Risk are managed in a manner compliant with the current Environment and Social standards. We encourage green practices in all our endeavours including our operations through favouring environmentally sustainable green housing, cleaner production processes and energy saving options in future housing development financing and limiting the use of paper by embracing more e-communication. All our contracts with clients are geared at ensuring that all practices and operations protect the environment. Straight from project designs and implementation. The green

footprint must be clear for the Company to finance a project or make an equity investment. We shall continue to advocate for clean, green and sustainable practices and operations as we contribute to habitat and housing in Africa both for this generation and future generations.

In addition to the above, the Company's long-term strategy has been approved. The Company will endeavour to explore innovative solutions that provide sustainable developmental impact on both the supply and demand sides of housing provision. In addition to these efforts, The Company will explore and encourage the use of alternative building methods which are environmentally friendly and green compliant. The Company also adjusted its Enterprise Risk Management framework to incorporate Opportunities Management as well.

Social Responsibility

Shelter Afrique is committed to giving back to its stakeholders and the communities within which it operates. To this end, the Company completed the 5000@5000 competition aimed at soliciting proposals to enable the construction of 5000 units at USD 5000. The winning bid was showcased at the Symposium held on 19th July 2018, and a compendium was published highlighting the top three designs, which can form a blueprint for Member states to adopt the same in a bid to providing affordable homes to their citizens. Several Corporate social responsibility activities are planned for 2019.

06

Corporate and Financial Management

FINANCIAL PERFORMANCE

The non-resumption of underwriting new business impacted the financial performance for 2018, and consequently, the revenue streams continued to decrease year on year basis was driven by the sustained decline of the existing loan book.

Accordingly, The Company incurred a net loss of US$ 9.2 Million, a 19% increase from the previous year's loss of US$ 7.7 Million. This loss was attributed to not underwriting new business, which led to significant decreases in both interest and fee & other incomes by 29% and 24% to US$17.6 Million from US$24.7 Million and US$1.8 Million from US$2.4 Million respectively. The key performance indicator was the 33% decline in the loan book from US$247.4 Million in 2017 to US$165.1 Million in 2018. Reassessed viable previous loan commitments were scaled down from US$20,0 Million to US$10.0 Million, out of which US$6.9 Million was disbursed in 2018.

However, the adverse financial performance notwithstanding, the Company did record some definite improvements on critical metrics such as significant reduction in interest expense by 24% from US$13.1 Million in 2017 to US$9.9 Million in 2018 on the back a 33% decrease on borrowings from US$173.6 Million in 2017 to US$116.7 Million in 2018.

Also, and it is imperative to note that in absolute terms The Company largely contained headline recurring operating expenses to below US$6.3 Million despite the marginal 2% increase from US$8.8 Million in 2017 to US$9.0 Million in 2018. The 2018 operating expenses comprise significant extraordinary items relating to US$1.0 Million and US$0.9 Million incurred on staff redundancies and business restructuring respectively. There was also an exceptional charge of US$0.7 Million arising from a 100% impairment on a Joint Venture equity investment.

A 24 % reduction

in interest expense was experienced, moving from US$13.1 Million in 2017 to US$9.9 Million in 2018

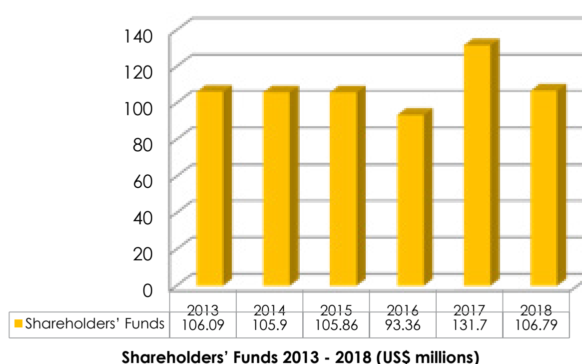
FINANCIAL POSITION

Total assets reduced by 26%, from US$ 311. 8 Million in 2017 to US$ 229.4 Million in 2018, attributed to the 33% decrease in loan assets from US$247.4 Million to US$165.1 Million as explained above on the back reduced lending as the Company relied on disbursing on reduced previous loan commitments given the non-resumption of new business.

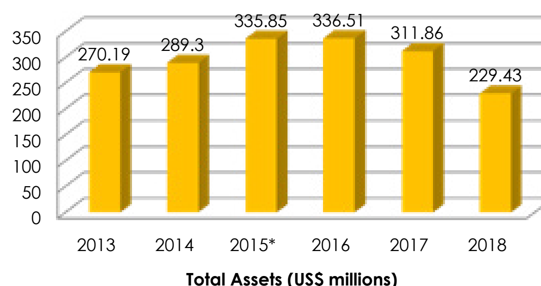
Liquidity increased by 4% from US$ 41.4 Million in 2017 to US$ 44.4 Million in 2018 on the back of increased share capital receipts from shareholders. A total amount of US$ 5.56 million was received during the year, which increased total paid-up capital by 4%, from US$ 125.1 Million in 2017 to 130.6 Million. However, Shareholder Funds decreased by 19% from US$ 131.7 Million to US$ 106.7 Million in 2018 arising from or as a result of the adoption of IFRS 9 Accounting Standard due to transitional adjustments for the impairment of various financial instruments on January 1, 2018, and the loss for the year.

Debt reduced by 33% from US$173.6 Million in 2017 to US$116.7 Million due to the principal and interest payments of US$56.0 Million and US$9.2 Million respectively. There was no additional debt taken up in the year.

SELECTED FINANCIAL PERFORMANCE CHARTS



Shareholders' Funds 2013 - 2018 (US$ millions)



Total Assets (US$ millions)

TABLE 2: KEY OPERATIONAL AND FINANCIAL DATA – 2013 -2017 (US$ MILLIONS)

Year	2013	2014	2015*	2016	2017	2018
Approvals	104.50	141.13	129.73	89.43	-	-
Cumulative Approvals	787.33	928.46	1,058.19	1,147.62	-	-
Disbursement	79.73	73.11	103.65	51.40	27.52	6.50
Cumulative Disbursement	403.83	476.94	580.59	631.99	659.51	666.01
Total Assets	270.19	289.3	335.85	336.51	311.86	229.43
Profit (Loss) for the year	4.75	0.45	(4.94)	(12.68)	(7.79)	(9.25)
Paid-Up Capital	59.84	60.82	62.23	62.60	88.62	91.76
Revenue Reserves	29.43	27.85	22.91	9.49	1.73	(29.69)
Provisions for the year	2.28	4.83	10.14	19.20	10.90	9.92
Shareholders' Funds	106.09	105.90	105.86	93.36	131.70	106.79

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

TABLE 3: SELECTED FINANCIAL INDICATORS (US$ MILLION)

Operating Results		2013	2014	2015*	2016	2017	2018
Gross Income		13.17	14.15	15.12	16.68	14.13	9.49
Operating Expenses		6.83	8.24	10.09	9.72	8.85	9.06
Operating Profit before provisions		6.65	5.59	5.20	6.52	4.84	0.69
Profit (Loss) for the year		4.75	0.76	(4.94)	(12.68)	(7.79)	(9.25)
Administrative Expenses	(a)	6.51	7.87	9.63	9.20	8.42	8.68
Financial Position							
Net Loans and Advances		195.41	216.85	274.28	283.11	247.40	165.19
Financial Investments		59.67	51.87	30.47	7.71	21.98	30.78
Total Assets		270.19	289.30	335.85	336.51	311.86	229.43
Total Equity		106.09	105.90	105.86	93.36	131.70	106.79
Total Debt		160.62	177.79	224.57	236.16	173.65	116.78
Financial Ratios							
Total Debt to Total Assets (%)		59.45	61.46	66.87	70.18	55.68	50.90
Debt/Equity ratio (%)		151.40	167.88	212.14	252.96	131.85	109.35
Earnings (Loss) per share (US$)		81.86	12.62	(80.36)	(203.17)	(103.04)	(102.56)
Dividend per share (US$)		15.86	-	6.82	-	-	-

a) Administrative expenses are operating expenses less depreciation and amortization

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

07

Human Resources and Corporate Services

Staff engage in festivities at the team building retreat held at Simba Lodge, Naivasha on 13th and 14th December 2018.

The strategic priorities for Human Resources and Corporate Services in 2018 included:

- Developing and implementing a new organisation structure and resourcing plan;
- Strengthening performance management;
- Reduction in staff and administrative costs;
- Attracting, retaining, and motivating talent to implement the new strategy;
- Developing and implementing a cultural change program to deepen staff engagement and commitment;
- Developing and implementing a human resources strategy to support corporate strategy 2019-2023;

The following achievements were realised during the year.

ORGANISATIONAL RESTRUCTURING

The restructuring of the organisation was completed. A new organisation structure, job grading, and salary structure were developed and implemented. The objective was to align the organisation to the delivery of the 2019-2023 strategy. Under the new structure, the business was reorganised into three segments namely: Business Operations, Corporate Resources and Services, and Governance and oversight support function like Legal & secretariat, Internal Audit, and Enterprise Risk Management. Specific Departments and Units were established for the management of Non- performing loans (NPLs); management of the normal portfolio; and incubate the new advisory and project management services; Policy, Research and partnerships.

The new organisation structure has been sufficiently resourced through internal promotions and external recruitments. These include the constitution of a new management team including the Managing Director, Chief Operations Officer, Head of Enterprise Risk Management, Head of New Business, Manager, Policy, Research and Partnerships. Dedicated Managers were also appointed for, Special Operations manage recovery and Workout of NPLs, and Investor Relations to sustain engagement with Shareholders.

The organisation restructuring also involved staff redundancies. The number of staff was reduced by 25%. Redundancies were smoothly implemented in accordance with the organisational human resources policies and procedures.

MANAGEMENT OF OPERATING EXPENSES

Prudent management of operating expenses was sustained during the year. Total operating expenses for the year were US$ 8.9 million against a period budget of US$ 9.4 million. These expenses represented US$ 446,257 or 5% cost saving. Specifically, staff costs for the period were US$ 6.1 million against a budget of US$ 6.5 million, representing a saving of US$ 356,333 or 6 per cent.

To maximise value from Shelter Afrique rental properties a 95% occupancy of Shelter Afrique properties was achieved with a rental income of US$ 278,021 against a budget of US$ 220,000 representing 26 % performance above budget.

IMPLEMENTATION OF A CULTURAL CHANGE PROGRAM

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

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

- Periodic Town Hall communication meetings were convened to share, engage, and get staff feedback and input on company performance, board decisions, company plans, and management expectations.
- Staff were actively engaged in revising the draft strategy and developing departmental strategies and scorecards. Staff were also involved in revising the company vision, mission and values. As an output from this process, staff developed a new set of 5 values that will constitute common non-negotiable behaviours in the new cultural dispensation. These include Accountability, Customer Centricity, Teamwork, Integrity and Innovation (ACTIIN).
- A team building retreat attended by all staff was held at Simba Lodge, Naivasha on 13th and 14th December 2018. The forum provided an opportunity for staff to share and internalise the new Strategy, Corporate Scorecard, Mission, Vision and Value of Shelter Afrique.
- To ensure performance alignment and shared accountability, Staff were involved in the development of corporate, departmental, and individually balanced scorecards for 2019.
- Staff satisfaction and engagement survey were designed and will be conducted in 2019.

ATTRACTING, RETAINING AND DEVELOPING TALENT

During the year the Company was in a recruitment drive to reconstitute the leadership and fill key positions arising from the new strategy and organisation redesign. The attractiveness of Shelter Afrique as an employer was demonstrated in its ability to attract qualified candidate from the member countries and the diaspora. Four new senior Managers including the Managing Director, Chief Operations Officer, Head of Enterprise Risk Management, Head of New Business, and Manager, Policy, Research and partnerships were recruited from outside the organisation. Four management positions were filled through internal promotions namely Manager, Special Operations, Two Regional Business Managers, and Manager, ICT.

Other than the 25% reduction in staff through redundancies, the voluntary staff turnover was 8 per cent, meaning that 92 % of the staff had confidence in continuing to serve the company. The compensation and benefits survey done by PKF Consultants indicated that Shelter Afrique still offers a competitive compensation and benefits package though it had slipped from its preferred market percentile of 75 % to 62 per cent due to freeze in salary increments in the last two years.

With regard to developing talent staff had attended training programs in loan recovery, audit, risk management, finance and accounting, ICT, and human resources management, executive coaching, asset and liability management, and English and French languages. Learning needs arising from the new strategy have been identified. During 2019, a more robust training plan will be implemented with a focus on new business skills in structuring large scale PPPs, Lines of Credit. As well as Rental Housing, Housing Microfinance, Advisory Services, Projects Management, Policy, Research and Partnerships, and Management of NPLs; Leadership and Personal Effectiveness; as well as strategic skills gaps in Governance, Enterprise Risk Management, Audit, Finance, Human Resources, and Information and Communications Technology.

INFORMATION TECHNOLOGY

It is encouraging to note that in 2018, several initiatives where implemented focusing on ICT governance and infrastructure enhancement. The most significant being the development of an ICT strategic plan 2019 – 2023 with a clear focus on governance, building systems and infrastructure, excellent service delivery and ensuring Company's information assets are well protected. Implementation of the strategy will commence in 2019 with the Board having approved several capital investments in 2018.

Another major project was the approval to implement a credit Management system to automate the loan management process. This automation is expected to streamline and improve the efficiency of the core lending process.

Mr. Ali Boulares exits the plenary hall during the 37th Annual General Meeting held at Windsor Golf Hotel, Nairobi.

Like any other organisation globally, cybersecurity remains the biggest threat to business. Shelter Afrique has been on continuous infrastructure improvements to keep up with the technology and changing risks. Last year, the windows operating platform was upgraded to the latest versions to address vulnerabilities associated with outdated technology.

During the year, the ICT unit working with the Secretariat achieved a significant milestone by hosting Board committee meetings virtually. Several of these virtual meetings occurred in 2018, reducing the time taken to make a decision and managing costs. The adoption of the virtual meetings attests to the Board's commitment to embracing technology in discharging its mandate.

In 2019 the focus will be on implementing projects envisaged in the ICT strategic plan in readiness to support the resumption of business. Several projects are lined for implementation which includes:

- The upgrade of enterprise resourcing planning tool,
- The automation of budgeting and financial reporting,
- The automation of lending management process
- The upgrade of ICT infrastructure.

CORPORATE & LEGAL SERVICES

Corporate Secretarial Services optimised the use of the e-Board by conducting most of its Committee Meetings on the said platform or virtually, thus reducing the costs associated with physical meetings. Further to this, the department successfully coordinated the various Board meetings and Annual General Meeting and Symposium events that were held in Nairobi, Kenya. The General Meeting witnessed robust Shareholder involvement, which is a demonstration of the coming of age of the nature of deliberations between the Company and Shareholders who are continuously demanding accountability from the Board and Management of the Company. The Legal department also experienced restructuring where new and or additional resources were brought on board to improve the level of service offered to both internal and external customers, therefore, providing more efficient and effective service.

RISK MANAGEMENT

Our Integrated Enterprise Risk Management & Compliance Programme

In our new corporate strategic plan for 2019 – 2023, we have positioned enterprise risk management and compliance as key success factors for the attainment of our strategic goals of achieving organisational and financial sustainability. Our revised enterprise risk management framework will play a significant role in ensuring that the risks that are inherent in our business both internally and externally are proactively identified, assessed and managed. The risk management framework entrenches the three lines of defence and adequately positions these lines to be effective in their specific roles but be collaborative enough to ensure the intended benefits are realised. Our first line of defence is the business teams and with the realigned roles and responsibilities. The second line of defence is the enterprise risk management department. Internal Audit plays the part of the third line of defence, and they offer reasonable assurance on the effectiveness of the entire programme. At a risk governance level, the Board retains the ultimate oversight responsibility for the management of the company's risk profile, while the risk management department supports the Audit, Risk and Finance Committee of the Board to effectively perform its board delegated the responsibility of proper oversight.

OUR RISK UNIVERSE & SPECIFIC MITIGANTS

The company continued to pay attention to the following key risk categories which are deemed to have a significant direct impact in the daily operations of the company. These risks are elaborated below in terms of how they manifested themselves and measures in place that are being employed to manage them.

EARNINGS SUSTAINABILITY RISK

During the financial year compared to FY 2017, interest income and non-funded fees declined substantially due to a shrinking loan book, reduced disbursement to committed projects as well as non-admission of new business. Interest income decreased by 29%; net interest income by 34% YoY. Through our revised corporate strategic plan for 2019-2023, we intend to resume quality lending, and we have specific interventions from a risk and internal controls perspective in ensuring there is effective monitoring of this new lending book as well as the old to ensure none of these facilities falls into NPLs.

CREDIT RISK

The overall portfolio (Debt and Equity) declined by 27% from US$ 305 Million (FY:2017) to US$ 223 Million (FY:2018) driven mainly by repayments (both normal and accelerated) and modest business underwritten-US$ 6.9m. 54% of the overall portfolio is classified as Performing while 46% non-performing. The lack of new underwritten business combined with scheduled and accelerated repayments have contributed to the above situation. Looking forward, we intend to underwrite new business; we have built proper governance and internal controls within the entire credit underwriting process anchored within our new lending and investment policies.

LIQUIDITY RISK

During the year 2018, The Company's focus and objective were to ensure a continued stable liquidity position to meet the various obligations falling due as well as finalise on the debt restructuring negotiations with the lenders. The primary source of funding for SHAF activities in 2018 was from equity by existing shareholders who contributed US$ 5.6 Million as well as loan repayments of US$ 59 Million. Early loan repayments of US$ 16 Million was received in 2018. The liquidity ratio for the company improved throughout the year from 13% in December 2017 to close at 19% as at 31st December 2018. A total of US$ 61 Million was repaid to the lenders in 2018. The successful outcome of the Debt Restructure Agreement is vital in maintaining a favourable liquidity position. We also have an Investor relations office who is dedicated to engaging with our Shareholders on capital subscriptions.

OPERATIONAL RISK

The Company faces several operational risks which are premised on inadequate processes, systems and human capacities. These risks manifest themselves in different forms. As part of strengthening the operational risk culture

within the company, we initiated a process of reviewing all our processes, procedures and internal controls to enhance them and create standards in line with ISO:9001 requirements. We are in the final stages of implementing the standard requirements. These efforts are expected to improve the company's operational controls and provide tools that will enhance the risk culture within the organisation.

CAPITAL RISK

Capital risk management is critical in ensuring that the company can effectively manage external shocks. In 2018, the Capital Adequacy Ratio (CAR) closed at 24.2% (PY:26.6%) due to the operating losses, which have eaten into the reserves. In 2018 shareholder funds amounting to US$ 5.6 Million was received against a budget of US$ 30 Million. The deteriorating asset quality led to significant provisions and the consequent impact on profitability. The Company has set a target of US$ 30 Million in 2019 as capital subscription receipts, and all efforts are geared towards realising the amount as failure to do so will impact on the company's ability to generate new business; company liquidity position and non-compliance with lenders loans covenants. Looking forward, we will continue engaging our shareholders and onboard new class C shareholders to bringing in more capital for the resumption of a new profitable business.

INTEREST RATE RISK

Interest rate risk (IRR) is the potential loss from unexpected changes in interest rates which can significantly alter the company's profitability. The Company's lending is pegged on the cost of funding from borrowing plus a margin. The general assumption is that every movement upward on the cost of fund is passed to the borrowers. The perceived high-risk profile of the Company due to historical events leading up to potential changes in terms and conditions of the borrowings may increase the cost of funding.

Additionally, over a longer dated tenure of USD denominated borrowings pegged at LIBOR + have a significant interest rate risk when LIBOR changes. To manage this risk, we conduct regular interest rate sensitivity analysis focusing on the balance sheet and assess the potential downside and upside for example with scenarios such as 100 to 300 basis points increases in LIBOR. Management will continually evaluate the interest rate risk and take appropriate risk mitigating measures to ensure the risk is covered.

FOREIGN EXCHANGE RISK

The foreign exchange gains as at 31st December 2018 stood at US$ 263,233. The aggregate foreign exchange ratio closed at -30.55% thus exceeded the policy limit of 1%. Both KES and CFAF exceeded the single currency gap ratio of between -0.5% and 0.5% to close at 32.11% and -2.02% respectively. The KES has appreciated by 1.3% between December 2017 and December 2018; this has a significant impact on the unrealised gain due to the net asset position on the assets and liabilities gap.

REPUTATION RISK

The Company is alive to reputation risk and impact on the brand and associated risk to earnings, capital or even liquidity arising from association, action or inaction which could be perceived by our stakeholders as inappropriate or inconsistent with the Company's values. A reputational management policy is in place; however, above that business processes have been aligned, as well as internal controls and governance processes to ensure that the Company operates with accountability and integrity in all our business engagements.

INTERNAL AUDIT UNIT

The primary function of the Internal Audit is to provide an objective and independent assurance to the Board, that adequate management processes are in place to identify and monitor the organisation's key risks. The function further ensures that adequate internal controls and risk management are in place to manage those risks. The Company's Internal Audit Unit independently audits according to the audit work plan approved by the Board through the Audit Risk and Finances Committee and evaluates the effectiveness of the organisation's risk management, internal controls and governance. The unit operates under an Internal Audit Charter approved by the Board in May 2017. The charter defines the roles, objectives authority and responsibilities of the audit function. During 2018, the organisation went through a restructuring

process in line with its new business needs and strategic direction. In the process, the Internal Audit Unit's capacity was enhanced by bringing onboard a co-sourced team (PKF).

During 2018, the Internal Audit Team facilitated a corporate risk assessment workshop for the Senior and middle management team. The exercise was crucial for the new strategic direction undertaken by the organisation. The outcome of the workshop informed the organisation risk profile that was adopted by management.

As part of good corporate governance, the organisation implemented the Whistleblowing mechanism which has been disseminated to all staff for awareness.

RECOVERIES OF THE NONPERFORMING LOANS

The Company's new strategy places a lot of emphasis on the improvement of asset quality. The strategy specifically stipulates a very clear roadmap that will seek to liquidate the existing NPL portfolio. The strategy was prepared by the Special Operations Unit (SOU) – the unit charged with the responsibility of dealing with the NPLs within the company. The strategy is a product of an in-depth review of the NPLs portfolio had been done by the team, and very specific strategies and action plans/ points devised to address the challenge. The philosophy adopted by the revised strategic plan is that of a strategic business unit that is not only a cost centre but also a profit centre and is managed by a fully dedicated multidisciplinary team. The essence of the revised strategic plans and actions is to Improve exit and workout strategies that provide maximum returns from the NPL portfolio and record direct impact on the company's income statement in the form of additional interest income and write backs.

Over the last few years, Non-performing assets are one of the most significant challenges to the company. Concerted efforts have been taken to reduce them; these involved different solutions and strategies were suggested to solve the problem. However, The Board has approved a different approach in the management of the distressed loan facilities. It has been observed that a closer arrangement where all the parties involved in the recoveries efforts work under one roof as a task force may yield better results. The new approach has brought in more harmony in the recovery efforts and has broken the silo-management of the portfolio.

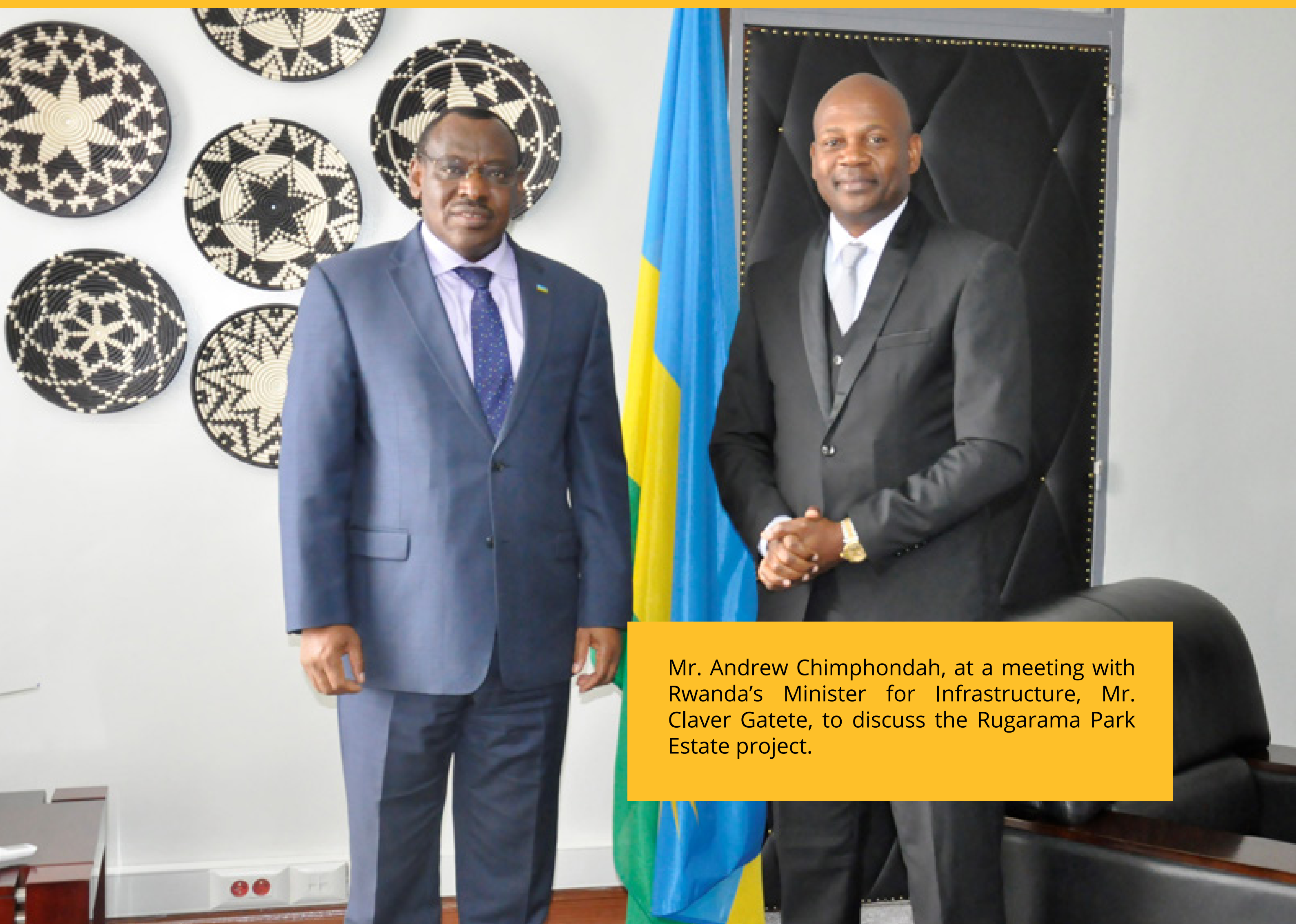
One of the critical facets of the NPLs management strategy is on the development of robust and reliable policies and procedures. Management has also identified key incomplete projects in the NPLs portfolio that needs additional financing to be fully completed, and indeed several transactions are undergoing re-appraisal processes.

As a recap, the NPLs management strategy indicated that the following strategies would be adopted to reduce the NPLs by substantial numbers. Some of these measures included:

- Active recoveries on a cash basis;
- Sale of NPLs to third parties/venture capitalists;
- Work-out accounts that have real chances of resuscitation
- Write-offs for the hardcore cases.

In terms of recorded recoveries, there were remarkable achievements from the enhanced recovery efforts. By the end of 2018, the team managed to recover US$ 15.4 Million which was above the annual target of US$ 10 Million. The management proposes an increase of 2019 annual recovery target to US$ 20 Million.

08 Business Operations



Mr. Andrew Chimphondah, at a meeting with Rwanda's Minister for Infrastructure, Mr. Claver Gatete, to discuss the Rugarama Park Estate project.

OVERVIEW

In 2018, Shelter-Afrique's business faced several changes occasioned by a corporate reorganisation, restructuring, changes in governance and adoption of a new strategy. The business activities performed in 2018 were on the ongoing projects approved and committed in 2016 or before, hence no new business had been underwritten from 2017. Due to the freeze on new business and current liquidity constraints, the general slowdown of commercial operations remained throughout 2018.

From the first quarter of 2018, the Company continued to experience severe liquidity constraints, resulting in the signing of the standstill agreement which was for the deferment of the bulk of principal repayments to lenders which were due during 2018 except with pre-agreed tranches. This resulted in cancellation and prepayment of some loans, delayed disbursement to borrowers and continued negotiations with lenders. Some of the prior signing requirements of the standstill agreement were for The Company to suspend new loan approvals and commitments which delayed in pre-agreed terms and to bring on board cashflow projections to support the business. The continual decrease of the portfolio combined with the deficient level of disbursement affected the profitability and increased the NPL ratio.

Further to the liquidity constraints, most of The Company's portfolio is in Kenya was affected by the banking regulations on capping of the interest rates. Similarly, the portfolio in Nigeria and Ghana was negatively impacted by the fluctuation of the forex exchange. Ghana, for example, had suffered an economic decline in the Real Estate Market after the 2016 general elections with a new president sworn in. This fuelled a reduction in Government spending and a direct increase in lending rates. These two factors created a considerable reduction in homeowner's abilities to purchase houses via mortgages. In the third quarter of the year, a Special Housing Fund scheme was established by the Government. The Government had pledged to inject US$ 200 Million as seed capital to ensure mortgages rates are not more than 10%.

Nigeria also witnessed the ripple effect of the depreciation and subsequent scarcity of the USD against the local Naira which had made it difficult and expensive for some local companies to repay foreign debt.

During 2018, the organisation continuously focused and embarked on a stabilisation plan to overcome the critical liquidity position by:

- Refocusing the business;
- Changes in governance;
- Capital raising from Shareholders;
- Define a New Strategy for the period 2019-2023;
- Restructuring the debts to our lenders; and
- Emphasis on business support and recovery.

Through the support and cooperation of our lenders, prudent management of costs, and the support of its shareholders, The Company managed a medium-term stabilisation of its finances.

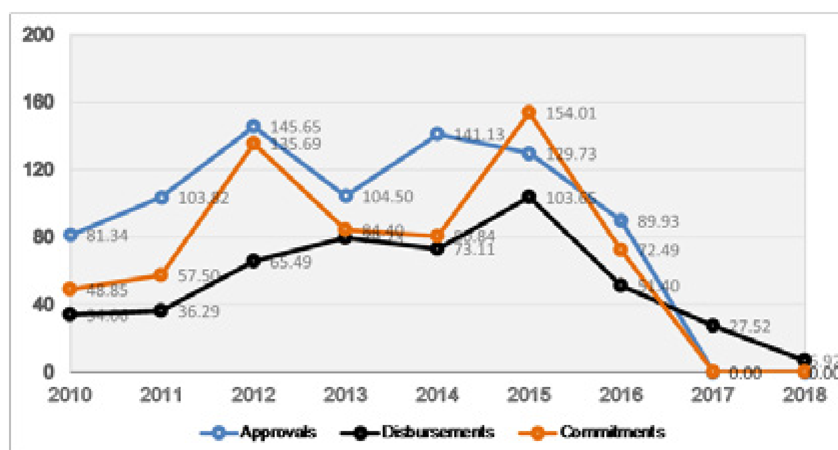
LOAN APPROVALS

The table and chart below summaries the Company's cumulative approvals, commitments and disbursements between 2010 and 2018. The information also indicates that there were no further loan approvals and commitments during the year 2018.

Table 1: Cumulative approvals, disbursements and commitments between 2010 and 2018 (All Figures in US$ Million)

Years	2010	2011	2012	2013	2014	2015	2016	2017	2018
Approvals	81.34	103.82	145.65	104.50	141.13	129.73	89.93	0.00	0.00
Cumulative Approved Loans	433.36	537.18	682.83	787.33	928.46	1,058.19	1,148.12	1,148.12	1,148.12
Disbursements	34.06	36.29	65.49	79.73	73.11	103.65	51.40	27.52	6.92
Cumulative Disbursements	222.32	258.61	324.10	403.83	476.94	580.59	631.99	659.51	666.43
Commitments	48.85	57.50	135.69	84.40	80.84	154.01	72.49	0.00	0.00
Cumulative Commitments	262.35	319.85	455.54	539.94	620.78	774.79	847.28	847.28	847.28

Chart 1: Approvals, disbursements and commitments between 2010 and 2018



There were no loan approvals in 2018. In addition to the financial constraints experienced during the two previous years, The Company concentrated more on collections and improving its processes and procedures and translating its strategy to implementation. During the standstill period, part of the pre-conditions agreed with Shelter-Afrique's lenders, was the suspension for new lending. Therefore, the following statistics will not apply in this report:

1. Loan Approval per Lending Instrument;
2. Regional Distribution of Projects Approved;
3. Approved Projects by Currency; and
4. Maturity Profile of Approved Facilities.

No loan was approved in 2017; the last approved ones were since September 2016.

LOAN COMMITMENTS

Along the same lines as the Loan Approvals, there was no loan committed in 2018 for the same reasons.

LOAN DISBURSEMENTS

The institution disbursed US$ 6.9 Million to eight ongoing projects, one of them being its equity on PAHF. There was no new loan (project-finance or equity or line of credit) disbursed during the year. The disbursed amount was exceptionally lower than the USD 51.4 million and US$ 27.5 Million recorded respectively for 2016 and 2017. This was due to the following factors:-

1. No new loan was approved;.
2. Similarly, none was committed which led to a reduction in the list of new projects. No new projects were initiated in the financial year; the portfolio was composed of the projects whose implementation and disbursement started before 2018;
3. One project in Côte d'Ivoire cancelled its loan balance which was scheduled for disbursement;
4. Few balances were left to be disbursed in two completed projects (Spring Green and Edenvale) completed in 2017; and
5. Few projects became distressed and at high risk. Avoiding increasing The Company's exposure on them, their loan balance was cancelled or put on standby for further due diligence. These are CMB, Richland and Karibu Homes.

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

Table 2: Loan disbursements during 2018

NO.	COUNTRY	CLIENT	USD
1	Kenya	Edenvale Developments LLP	315,827
2	Kenya	Everest Park Ltd.	1,224,565
3	Kenya	Karibu Homes Parktel Ltd.	786,117
4	Kenya	Nakuru Meadow Development Ltd.	1,446,698
5	Kenya	Spring Green Properties LLP	994,407
6	All	Pan African Housing Fund	325,179
7	Rwanda	Izuba Developers Ltd.	1,377,997
8	Swaziland	Headquarters SPV Ltd.	445,470
TOTAL (in USD)			**6,916,260**

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

Table 2: Loan disbursements per country during 2018

NO.	COUNTRY	USD	RATIO
1	All (PAHF)	325,179	5%
2	Kenya	4,767,614	69%
3	Rwanda	1,377,997	20%
4	Swaziland	445,470	6%
TOTAL (in USD)		**6,916,260**	**100%**

Mr. James Macharia, Cabinet secretary for Transport, Infrastructure, Housing and Urban Development, enjoys a light moment at a cocktail held upon conclusion of the 2018 AGM.

09

Shelter Afrique 2018 Financial Statements

CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2018

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL BANKERS

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

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

Commercial Bank of Africa
P O Box 30437- 00100
Nairobi

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

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

SOLICITORS

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

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

INDEPENDENT AUDITORS

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

CORPORATE INFORMATION (CONTINUED)

BOARD OF DIRECTORS

Mr. Daniel Nghidinua - Chairperson
Mr. Ali Boulares - Vice Chairperson

Class "A" Shareholders (Countries)			
Directors	**Alternate Directors**	**Countries /Institutions represented**	**% shareholding**
Mr. Nghidinua Mathews Daniel (Namibia)	Mrs. Dorcas W. Okalany (Uganda)	Botswana, Lesotho, Malawi, Namibia, Rwanda, Tanzania, Uganda, Zambia	10.44%
Ms. Anikpo Yed Melei (Ivory Coast)	Mr. Brama Diarra (Mali)	Burkina Faso, Burundi, Central African Republic, Chad, Djibouti, Equatorial Guinea, Guinea Bissau, Ivory Coast, Mali, Senegal	13.76%
Dr. Theresa Tufour (Ghana)	Mr. Ouadja Kossi Gbati (Togo)	Ghana, Guinea, Cape Verde, Togo	7.53%
Mr. A. Boulares (Algeria)	Mr. El Alj Toufik (Morocco)	Algeria, Mauritania, Morocco, Tunisia	8.60%
M. Jean-Paul Missi (Cameroun)	Mme. Moussavou Ida Rachel (Gabon)	Benin, Congo, République Démocratique du Congo, Cameroun, Gabon, Madagascar, Ile Maurice, Niger, Seychelles, Sao Tome & Principe	8.63%
Dr. P.M. Tunde Reis (Nigeria)	M. Muhamed Manjang (Gambie)	Gambie, Liberia, Nigeria, Sierra Leone	12.44%
M. Charles Hinga Mwaura (Kenya)	Eng. G.S. Mlilo (Zimbabwe)	Kenya, Somalie, Swaziland, Zimbabwe	17.11%
Class "B" Shareholders (Institutions)			
Mr. Corneille Karekezi	Mr. Seydi Kone	African Reinsurance Corporation	4.93%
Ms. Soula A.I. Proxenos	Mr. Rafael Jabba	African Development Bank (AfDB)	16.56%
Total			**100%**

INDEPENDENT DIRECTORS

Dr. Stephen Mainda
Dr. Omodele R. N. Jones

SENIOR MANAGEMENT

Mr. Andrew Chimphondah	Managing Director
Mr. Kingsley Muwowo	Finance Officer
Mrs. Francesca Kakooza	Company Secretary
Mr. Said Diaw	Ag. Director, Portfolio Management
Mr. Stephen Onyait	Head of Human Resources & Corporate Services

INTERNAL AUDITOR

Mr. Mohamed Barry

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2018, which show the state of financial affairs of Shelter Afrique.

LEGAL CAPACITY

The Company is a Pan-African housing finance and development institution, established by African Governments, the African Development Bank, the African Reinsurance Corporation and the CDC Group plc in 1982 to address the need for innovative and sustainable housing delivery systems in Africa. It is an international body with juridical personality and full legal capacity established by the Constituent Charter of Shelter Afrique. In the Republic of Kenya, the Constituent Charter has the force of law in accordance with the Shelter - Afrique Act, 1985. Its principal office is situated in Nairobi, Kenya. The Company is exempted from all forms of taxation as provided for in the Shelter – Afrique Act, 1985.

PRINCIPAL ACTIVITY

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

RESULTS

The results for the year are set out on page 60 of the financial statements. The loss for the year amounts to US$ 9,249,908 (2017: loss of US$ 7,790,610).

DIVIDENDS

The dividend policy provides for distribution of dividend only if the net profit for the financial year concerned is at least US$ 1 million. In line with the dividend policy, the Directors do not recommend the payment of a dividend for the financial year 2018 (2017: Nil).

SHELTER AFRIQUE FOUNDATION

The Directors do not recommend the appropriation of any funds to the Foundation. (2017: Nil).

RESERVES

The reserves of the Company are set out on page 62 of the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS

The Directors who served during the year and to the date of this report are as listed on page 48. In accordance with the Company's Charter, the Directors hold office for a term of three years and are, therefore, not subject to retirement by rotation annually.

AUDITORS

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

By Order of the Board

COMPANY SECRETARY

Nairobi

Date: 30th April 2019

STATEMENT ON CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 DECEMBER 2018

The Company for Habitat and Housing in Africa (Shelter - Afrique) is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the Company's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Company are the observance of shareholders' interest, efficient practices and open corporate communication systems.

BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 48.

The Board is responsible for formulating Company policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Company and implements corporate governance policies of the Company.

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

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Company's Statutes and General By-Laws and is distributed together with the agenda and Board papers to all the Directors beforehand. The Board meets regularly and at least three times annually. During the year, the Board convened and held six ordinary meetings as it designed and implemented a corporate turnaround strategy. In accordance with the Company's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The Company Secretary is always available to the Board of Directors.

a) Directors' Remuneration

The aggregate emoluments paid to Directors for services rendered during the financial year is disclosed in Note 35 to the financial statements for the year ended 31 December 2018.

b) Related Party Transactions

There have been no materially significant related party transactions or relationships between the Company and its Directors or management except for those disclosed in Note 35 to the financial statements for the year ended 31 December 2018.

BOARD COMMITTEES

The Board has in place three main committees, namely the Audit, Risk & Finance Committee, the Investments Committee and the Administrative Affairs & Human Resource Policy Issues Committee. To discharge its mandate effectively, matters are discussed in detail in the three committees before resolution by the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls and organizational structures are in place to achieve the Company's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc committees, as and when it is deemed necessary. As part of its turnaround strategy, the Board operated two ad hoc committees in 2018, one of which completed its duties during the year. The second is expected to attain its objectives during the calendar year 2019. The authority for the day-to-day running of the Company is delegated by Statute to the Managing Director. For the period of implementation of the turnaround strategy, the Board is operating an elevated level of oversight of delegated authorities.

RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the Company's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Company has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the internal auditor. The internal auditor reports administratively to the Managing Director and functionally to the Audit, Risk and Finance Committee.

As part of the independence required by Shelter-Afrique corporate governance, the Internal Audit annual work program and budget are separately approved by the Audit, Risk and Finance Committee, which also reviews and approves audit reports and internal audit annual report. The Company has in place controls, which include, but are not limited to, an annual budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board and a review of quarterly financial and operating information by management and the Board. In implementing its turnaround strategy, the Board has taken steps to significantly enhance the operating independence and effectiveness of the internal audit unit. Steps are being taken to enhance the enterprise risk management system to improve the detection and mitigation of foreseeable risks and to eliminate silo management of risks. The Board requirement for the certification of the financial statements by the Chief Financial Officer and the Chief Executive Officer that is effective from this year's financial statements is an example of the robust measures being put in place to improve enterprise risk management.

BUSINESS ETHICS

The Company conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency. Where recent events have revealed exceptions to this rule, the Board has adopted improved policies and procedures including, but not limited to the adoption of new Board Charter in 2018 provides for more robust operating rules for the Board of Directors.

RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

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

STRATEGIC PLANNING & IMPLEMENTATION

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

COMPLIANCE

The Company operates within the requirements of the Constituent Charter, the Shelter Afrique Act, 1985, its Statutes and General By-Laws and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. During the year, as part of its turnaround plan, the Board proposed to meetings of shareholders, certain amendments to the corporate statutes. They were accepted and are expected to contribute to an improved enterprise risk management system and to provide for a more robust capital structure and position. The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

....

Director Director

Date: 30 April 2019

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

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

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

Whilst the Company is currently undergoing a financial and management restructuring program, the Directors believe that the Company will continue to be a going concern for at least the next twelve months from the date of this statement. The auditors have included an emphasis of matter with regards to going concern in their auditors' report on page 60.

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

Approved by the board of directors on 30 April 2019 and signed on its behalf by:

Director

Director

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)

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

We, Andrew Chimphondah and Kingsley Muwowo certify that:

1. We have reviewed the Annual Report and Accounts for the Company for Habitat and Housing in Africa (Shelter Afrique) for the year ending 31 December 2018.
2. Based on our knowledge, this Annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual report;
3. Based on our knowledge, the financial statements, and other financial information included in this Annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Shelter Afrique as of, and for, the periods presented in this Annual report;
4. We are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the latest International Financial Reporting Standards) for Shelter Afrique and have: -
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is known during the period in which this Annual report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
5. We have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's Auditors and the Audit, Risk and Finance Committee of the Board of Directors:
    a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting, which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves Management or other employees who have a significant role in the Company's internal controls over financial reporting.

KINGSLEY MUWOWO

Chief Finance Officer

ANDREW CHIMPHONDAH

Managing Director

Date: 30th April 2019

Deloitte.

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

Tel: (+254 20) 423 0000
Cell: (+254 20) 0719 039 000
Dropping Zone No. 92
Email: admin@deloitte.co.ke
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Company for Habitat and Housing in Africa "the Company", set out on pages 60 - 132, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 38 in the financial statements, which indicates that the board commenced a turnaround plan to address the liquidity risks which the Company has been facing. These events or conditions, along with other matters as set forth in Note 38, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matter

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements (Continued)

Key audit matter (Continued)

Key audit matter	How our audit addressed this key audit matter
Impairment provision on loans and advances to customers On 1 January 2018, a new accounting standard for financial instruments (IFRS 9) became effective, which introduced the requirement for an entity to determine an impairment provision on financial instruments based on expected credit losses, rather than the incurred loss model previously applied under IAS 39. We identified the impairment provision on loans and advances to customers as a key audit matter due to the complexity and uncertainties in the calculation of the provision and the directors' judgement and assumptions applied therein. At 31 December 2018 the Company reported total gross loans of US$ 235 million and US$ 70 million of expected credit loss provisions. This is disclosed under note 17. Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include: Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; Completeness and accuracy of data used to calculate the ECL; Inputs and assumptions used to estimate the impact of multiple economic scenarios; Completeness and valuation of post model adjustments;	As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the SHAF's portfolio, risk profile, credit risk management practices and the macroeconomic environment. We challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9. We tested loans and advances and other financial instruments in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. We tested the assumptions, inputs and formulas used in the ECL model. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default. To verify data quality, we tested the data used in the ECL calculation by reconciling back to past financial reports. We also performed completeness and accuracy test on the data used in ECL. We challenged the correlation and impact of the macroeconomic factors to the ECL. We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39 to IFRS 9.

Report on the Audit of the Financial Statements (Continued)

Key audit matter (Continued)

Measurements of individually assessed provisions including the assessment of multiple scenarios; and Accuracy and adequacy of the financial statement disclosures.	We found that the model used for the valuation, key judgements and estimates of the ECL to be appropriate and reasonable. In addition, the disclosures in the financial statements pertaining to compliance with the accounting standards including disclosure of transition from IAS 39 to IFRS 9 were found to be appropriate.

Other information

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

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

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain

audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Certified Public Accountants (Kenya)
Nairobi,
Date: 23rd May 2019

CPA F. OKWIRI, PRACTICING CERTIFICATE NO. 1699
Signing partner responsible for the independent audit

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Note	Us$	Us$
Interest Income	4	17,616,667	24,728,593
Interest Expense and Similar Charges	5	(9,984,283)	(13,084,062)
Net Interest Income		7,632,384	11,644,531
Fees and Commissions Income	6	1,512,971	2,198,176
Grant Income	7	3,879	49,901
Other Income	8	335,896	241,290
Operating Income		9,485,130	14,133,898
Operating Expenses	9	(9,059,639)	(8,845,591)
Net Foreign Exchange Gains/ (Losses)	10	263,233	(397,948)
Grant Expenditure	11	-	(46,022)
Impairment Charge on Loans and Advances	17 (B)	(9,917,984)	(10,895,060)
Recoveries on Impaired Loans and Advances		12,768	39,908
Other Impairment Charges - Joint Ventures	19	(785,283)	-
Recoveries on Impaired Bank Deposits	14 (B)	902,436	-
Other Impairment Charges – Other Receivables and Equity Investments	18 (B), 20	-	(1,374,011)
Share of Losses in Joint Ventures	19	(133,732)	(405,784)
Loss for the Year		(9,233,071)	(7,790,610)
Other Comprehensive Income for the Year	20	(16,837)	-
Total Comprehensive Loss for the Year		(9,249,908)	(7,790,610)
LOSS PER SHARE	12	(102.37)	(100.83)

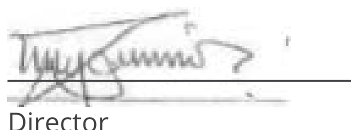
THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	2018	2017
ASSETS		**US$**	**US$**
Bank and cash balances	13	13,681,945	19,455,234
Short term bank deposits	14	30,777,049	21,982,912
Derivative financial assets	15	1,914	-
Properties held for sale	16	4,727,903	4,810,108
Loans and advances to customers	17(a)	165,186,856	247,401,988
Other receivables	18	2,200,067	2,385,049
Investments in joint ventures	19	3,667,233	4,557,538
Equity investments – at fair value through other comprehensive income	20	3,998,034	5,756,353
Property and equipment	21	4,957,618	5,191,898
Intangible assets	22	124,786	205,674
Government grant	23	108,626	112,505
TOTAL ASSETS		**229,432,031**	**311,859,259**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24(a)	91,760,000	88,622,000
Share premium	24(b)	38,899,748	36,474,074
Revaluation reserve	24(d)	2,809,279	2,840,964
Retained (deficit)/earnings		(27,521,509)	1,726,331
Credit Loss Reserve		1,000,000	-
Investment revaluation reserve	24(e)	(1,831,417)	351,773
Special reserve – Shelter Afrique Foundation	28	1,670,352	1,683,652
TOTAL EQUITY		**106,786,453**	**131,698,794**
LIABILITIES			
Other payables	25	1,885,281	1,040,733
Provisions	26(iii)	1,558,940	2,095,322
Derivative financial liabilities	15	-	585,958
Dividends payable	27	1,548,143	1,548,143
Deferred income	29	878,257	1,241,186
Medium term notes	30	8,285,023	28,811,711
Lines of credit	31	108,489,934	144,837,412
TOTAL LIABILITIES		**122,645,578**	**180,160,465**
TOTAL EQUITY AND LIABILITIES		229,432,031	311,859,259

The financial statements on pages 60 -132 were approved by the Board of Directors on 30 April 2019 and were signed on its behalf by:



Director

Director

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium	Revaluation reserve*	Retained earnings/ (deficit)	Credit loss reserve	Investment revaluation reserve	Special reserve - Shelter Afrique Foundation	Total equity
	US$	US$	US$	US$	US$	US$	US$	US$
At 1 January 2017	62,600,000	16,359,068	2,872,649	9,485,256	-	351,773	1,687,552	93,356,298
Issue of share capital	26,022,000	20,115,006	-	-	-	-	-	46,137,006
Loss for the year	-	-	-	(7,790,610)	-	-	-	(7,790,610)
Special reserve – Shelter Afrique Foundation	-	-	-	-	-	-	(3,900)	(3,900)
Transfer of excess depreciation	-	-	(31,685)	31,685	-	-	-	-
At 31 December 2017	88,622,000	36,474,074	2,840,964	1,726,331	-	351,773	1,683,652	131,698,794
At 1 January 2018 as reported	88,622,000	36,474,074	2,840,964	1,726,331	-	351,773	1,683,652	131,698,794
IFRS 9 transition adjustment (Note 1(i))**	-	-	-	(19,046,454)	-	(2,166,353)	-	(21,212,807)
At 1 January 2018 as adjusted	88,622,000	36,474,074	2,840,964	(17,320,123)	-	(1,814,580)	1,683,652	110,485,987
Issue of share capital	3,138,000	2,425,674	-	-	-	-	-	5,563,674
Loss for the year	-	-	-	(9,233,071)	-	(16,837)	-	(9,249,908)
Payments on behalf of Shelter Afrique Foundation	-	-	-	-	-	-	(13,300)	(13,300)
Transfer of excess depreciation			(31,685)	31,685	-	-	-	-
Transfer to Credit Loss Reserve***	-	-	-	(1,000,000)	1,000,000	-	-	-
At 31 December 2018	91,760,000	38,899,748	2,809,279	(27,521,509)	1,000,000	(1,831,417)	1,670,352	106,786,453

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

**** The transition adjustment is due to change in accounting policy as result of initial application of IFRS 9 (See note 1).**

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

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER - AFRIQUE)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		US$	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	33(a)	64,620,998	46,730,421
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	21	(35,790)	(54,733)
Purchase of intangible assets	22	(21,752)	(17,123)
Investment in equity instruments	20	(424,871)	(795,495)
Proceeds from sale of property held for sale	16	82,205	80,324
Net cash used in investing activities		(400,208)	(787,027)
CASH FLOWS FROM FINANCING ACTIVITIES			
Special Reserves - SH-AF Foundation payment	28	(13,300)	(3,900)
Proceeds from capital subscriptions		5,563,674	46,137,006
Proceeds from borrowed funds - lines of credit	33c)	-	10,000,000
Repayment of borrowed funds - lines of credit	33(c)	(35,990,714)	(55,194,229)
Interest paid on borrowed funds - lines of credit	33(c)	(7,083,591)	(8,613,372)
Repayment of medium-term notes	33(d)	(20,090,873)	(19,676,708)
Interest paid on medium term notes	33(d)	(2,129,423)	(4,231,370)
Other finance charges paid	33(e)	(1,455,715)	(1,061,805)
Net cash used in financing activities		(61,199,942)	(32,644,378)
INCREASE IN CASH AND CASH EQUIVALENTS		**3,020,848**	**13,299,016**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**41,438,146**	**28,139,130**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**33(b)**	**44,458,994**	**41,438,146**

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS

Statement of compliance

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

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

i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2018*

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

Impact of initial application of IFRS 9 Financial Instruments

Shelter Afrique has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. Shelter Afrique did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, Shelter Afrique elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves in the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on Shelter Afrique. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in Note 1.2 below.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2018 (Continued)

Group	IAS 39			IFRS 9	
	Classification	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets			USD		USD
Cash and bank balances	Loans and Receivables	Amortised Cost	19,455,234	Amortised cost	19,405,745
Short term deposits	Held to maturity	Amortised Cost	21,982,912	Amortised Cost	21,841,935
Loans and advances to customers	Loans and Receivables	Amortised Cost	247,401,988	Amortised Cost	228,546,000
Other assets	Loans and Receivables	Amortised Cost	2,385,049	Amortised Cost	2,385,049
Equity investments	Available for sale	Fair value through Other comprehensive income (FVOCI)	5,756,353	Fair value through Other comprehensive income (FVOCI)	3,590,000

There were no changes to the classification and measurement of financial liabilities.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9.

Shelter Afrique performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

Group	IAS 39 carrying amount	Reclassifications	Remeasurements	IFRS 9 carrying amount
	31-Dec-17			01-Jan-18
	Opening balance under IAS 39			Closing balance under IFRS 9
	USD	USD	USD	USD
Cash and bank balances	19,455,234	-	49,489	19,405,745
Short term deposits	21,982,912	-	140,977	21,841,935
Loans and advances to customers	247,401,988	-	18,855,988	228,546,000
Other assets	2,385,049	-	-	2,385,049
Equity investments	5,756,353	-	2,166,353	3,590,000
Total	296,981,536	-	21,212,807	275,768,729

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2018 (Continued)

The total remeasurement loss of USD 21,212,807 was recognized in opening reserves at 1 January 2018.

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by Shelter Afrique:

Designation of equity instruments at FVOCI

Shelter Afrique has elected to irrevocably designate equity investments of USD 5,756,353 at FVOCI as permitted under IFRS 9. These equities are un-quoted and are held for strategic reasons.

These securities were previously classified and measured at cost. The changes in fair value of such securities cannot be reclassified to profit or loss when they are disposed of.

Reclassification from retired categories with no change in measurement

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were `retired`, with no changes to their measurement basis:

i) Those previously classified as held to maturity and now classified as measured at amortised cost.

ii) Those previously classified as loans and receivables and now classified as measured at amortised cost.

a) Cash and cash equivalents

b) Short term deposits

c) Loans and advances

The following table reconciles the prior period`s closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018;

	IAS 39		IFRS 9	
Measurement category	Loss allowance under IAS 39	Reclassification	Remeasurement	Loss allowance under IFRS 9
	USD	USD	USD	USD
Cash and bank balances	-	-	49,489	49,489
Short term deposits	2,000,000	-	140,977	2,140,977
Loans and advances to customers	41,746,386	-	18,855,988	60,602,374
Equity investments	488,462	-	2,166,353	2,654,815
Total	**44,234,848**	**-**	**21,212,807**	**65,447,655**

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2018 (Continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	The amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions clarify the following aspects: • In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments. • Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. • A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: i) the original liability is derecognised; ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately. The amendments to the standard has had no impact on the Company's financial statements.
Amendments to IFRS 15 Revenue from Contracts with Customers	Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The amendments to the standard has had no impact on the Company's financial statements.

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2018 (Continued)

IFRS 15 Revenue from Contracts with Customers	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation The application of these amendments has had no impact on the Company's financial statements.
Amendments to IAS 40 Transfers of Investment Property	The amendments to IAS 40 Transfers of Investments Property clarify the following aspects: • Transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments to IAS 40 Transfers of Investments Property clarify the following aspects: • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The amendments to the standard has had no impact on the Company's financial statements.
Annual Improvements to IFRS Standards 2014-2016 Cycle	The annual improvements to IFRSs 2014-2016 cycle include a number of amendments to various IFRSs, which are summarised below: The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments to the standard has had no impact on the Company's financial statements.

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS (Continued)

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

ii) New and amended standards in issue but not yet effective in the year ended 31 December 2018

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2022
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IAS 19	1 January 2019
Amendments to IFRS 9	1 January 2019

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The entity's operating leases expenses are only rental for office space and parking slots. These will be assessed against requirements of IFRS 16 on 1 January 2019 as the Directors do not anticipate the rental expense to have a significant impact on amounts reported.

The Directors of the Company are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions. The Interpretations Committee came to the following conclusion:

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements as the Company is exempt from taxation.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

a) insurance contracts, including reinsurance contracts, it issues;
b) reinsurance contracts it holds; and
c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

   IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

c) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
d) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS (Continued)

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

ii) New and amended standards in issue but not yet effective in the year ended 31 December 2018 (Continued)

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The Company is not expecting potential impact on the financial statements arising from these changes as it is not into insurance business.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements.

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

Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements.

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2018 cycle makes amendments to the following standards:

- IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23 Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

1 NEW AND REVISED INTERNATIONAL FINANCIAL STANDARDS (Continued)

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

ii) New and amended standards in issue but not yet effective in the year ended 31 December 2018 (Continued)

- IFRS 11 Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

iii) Early adoption of standards

The Company did not early adopt any new or amended standards in 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

b) Fees, commission and other income

In the normal course of business, the Company earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

c) Borrowing costs

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

d) Investments in joint ventures

The Company has interest in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangements require unanimous agreement for financial and operating decisions among the venturers. The Company recognises its interest in the joint ventures using the equity method of accounting. Under the equity method, the interest in a joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the venturer's share of profit or loss in the joint venture after the date of acquisition. The venturer's share of profit or loss is recognised in the venturer's profit or loss. Any change in OCI of the joint venture is presented as part of the Company's OCI.

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

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

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

e) Foreign currencies

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

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

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

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

f) Intangible assets

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

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

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

g) Government and other grants

Government and other grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Grants are initially recognised as deferred income at fair value and are subsequently amortised to profit or loss as follows:

Government of Kenya land grant	Amortised over the period of the lease of the land on a straight-line basis.
Agence Française de Développement (AFD) grant	Amortised to profit or loss as the amounts are utilised in accordance with the grant agreement.

h) Property and equipment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Property and equipment (Continued)

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

Revaluation surplus

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

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

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

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

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

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off the cost or valuation of the assets over their estimated useful lives. Land is not depreciated. Depreciation is recognised in the statement of profit and loss and other comprehensive income.

The annual depreciation rates in use are:

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

Buildings on leasehold land are depreciated over the estimated useful life of the building, or the lease period, whichever is shorter. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

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

i) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset. When the carrying

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Impairment of non-financial assets (Continued)

amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or has decreased. If such indication exists, the Company estimates the asset's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

j) Retirement benefit costs

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

k) Employee entitlements

Employee entitlements to service pay and annual leave are recognized when they accrue to employees. A provision is made for the estimated liability of service pay as a result of services rendered by employees up to the year end. Employees are entitled to a full month pay for every year of service completed. A provision is made for the estimated liability of annual leave and service pay as a result of services rendered by employees up to the year end. An actuarial valuation to determine the service pay liability was last carried out in December 2018.

l) Financial instruments

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

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

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

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

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

Initial recognition and measurement

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

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

a) When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:
b) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

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

Financial assets

(i) Classification and subsequent measurement

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial instruments (Continued)

Debt instruments

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

Classification and measurement of debt instruments depend on:

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

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

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through profit or loss: Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A business model in which an entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets, would result in an FVTPL business model.
- A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the finance income.

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

Cash flow characteristic of the asset: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, Shelter Afrique assesses whether the financial instruments' cash flows represent solely payments of principal and

interest (the SPPI test). In making this assessment, Shelter Afrique considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

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

Equity instruments

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

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

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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

The entity chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

The fair value of these investments is USD 3,998,034 as at 31 December 2018. There were no dividend recognized during the period nor transfers of the cumulative gain within equity.

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

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

ii) Impairment of financial assets

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

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

b) The time value of money; and

c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

iii) Modification of loans

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

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

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

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

Financial liabilities

i) Classification and subsequent measurement

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

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

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

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

ii) Derecognition

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

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

m) Offsetting

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

n) Provisions

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

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

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

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

o) Dividends

Distributions of profits to holders of equity investments in proportion to their holdings of the capital is done at the year-end provided the Company has made profits in excess of United States dollar (US$) of one million. The maximum amount that can be distributed is 20% of the profits after approval by the annual general meeting.

p) Shelter Afrique Foundation

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

q) Deferred expenditure

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

r) Deferred income

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

s) Fair value measurement

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

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

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

IFRS13.9

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

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

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

s) Fair value measurement (Continued)

IFRS 13.16

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

IFRS 13.22

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

IFRS 13.27

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

t) Leases

Determination

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

Company as a lessee

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

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

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

Company as a lessor

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

Property held for sale

Property swapped for debt as part of debt recovery process and is held as inventory, rather than for rental income or capital appreciation, is measured at the lower of cost and net realisable value. The cost includes the agreed price by the parties at the point of the debt

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Leases (Continued)

swap. Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money, if material, less costs to completion and the estimated costs of sale. The cost of inventory recognised in profit or loss on disposal will be determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold. No revenue has been recognized during the current year.

Hedge Accounting

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

u) Segment reporting

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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

Measurement of the expected credit loss allowance

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

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

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

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

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

Property and equipment

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

	2018	2017
	US$	US$
4. INTEREST INCOME		
Project finance loans	8,215,541	13,859,212
Lines of credit advances	8,759,725	10,511,595
	16,975,266	24,370,807
Placements with financial institutions	641,401	357,786
	17,616,667	24,728,593
Geographical segmentation – interest income		
Eastern Africa	8,886,947	12,469,618
Southern Africa	4,641,412	5,983,455
Francophone West/Central Africa	1,720,966	3,010,857
Anglophone West Africa	1,725,941	2,906,877
	16,975,266	24,370,807

The main types of loan products are:

- Lines of credit - Short term and structured medium term financing to housing finance institutions and other institutions for on-lending to individuals and developers for new mortgages or refinancing of existing mortgages.
- Project finance – Medium term construction / development loans to developers for development of new housing estates, infrastructure provision through site and services schemes, commercial projects (office buildings, rental housing, shopping centres, etc.)

These loans are classified as loans and receivables.

	2018	2017
	US$	US$
5. INTEREST EXPENSE AND SIMILAR CHARGES		
Funds from financial institutions and capital markets	9,944,939	13,033,629
Bank charges	39,344	50,433
	9,984,283	13,084,062

	2018 US$	2017 US$
6. FEES AND COMMISSIONS INCOME		
Commitment fees – Project finance	194,689	637,207
Appraisal fees – Project finance	-	(160,385)
Appraisal fees – Lines of credit	-	(60,000)
Front end fees – Project finance	286,990	560,833
Front end fees – Lines of credit	129,728	87,072
Penalty fees – Project finance	548,652	305,777
Management fees – Project finance	279,160	682,666
Management fees – Lines of credit	31,804	43,939
Other fees – lines of credit	20,000	20,000
Other project finance fees	21,948	81,067
	1,512,971	2,198,176
Geographical segmentation – fees and commissions income		
Eastern Africa	519,588	812,106
Southern Africa	194,475	280,151
Francophone West/Central Africa	467,387	591,701
Anglophone West Africa	331,521	514,218
	1,512,971	2,198,176

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

Appraisal fees: These are fees paid by the borrower to cater for any project appraisal expenses incurred when appraising the project. These are paid prior to the loan agreement being signed and are stated at 0.5 per cent on the loan amount. Fees in credit relate to fees refunded to clients on cancelled projects.

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

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

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

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

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

	2018	2017
	US$	US$

7. GRANT INCOME

	2018 US$	2017 US$
Government of Kenya land grant (Note 23)	3,879	3,879
Agence Française de Développement interest advantage grant (Note 29)	-	46,022
	3,879	49,901

8. OTHER INCOME

	2018 US$	2017 US$
Rental income*	278,021	165,498
Gain on sale of assets held for sale	1,385	3,875
Dividend Income-Equity participation	14,239	10,385
Interest on staff loans	42,251	61,532
	335,896	241,290

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

Operating lease income – commitments

	2018	2017
	US$	US$
Within one year	229,836	257,429
Within the second to fifth year inclusive	839,268	827,715
Later than five years	-	35,390
Leases are negotiated for an average term of six (6) years.	1,069,104	1,120,534

9. OPERATING EXPENSES

a) Operating expenses	2018 US$	2017 US$
Staff costs (Note 9(b))	5,267,652	5,011,577
Depreciation on property and equipment (Note 21)	270,069	313,834
Amortisation of intangible assets (Note 22)	102,639	104,608
Amortisation of grant income (Note 23)	3,879	3,879
Audit fees	46,000	39,500
Board of Directors' meetings	377,327	693,436
Official missions	220,850	244,257
Consultancy fees	721,350	1,015,049
Business promotion	206,722	61,956
Other administration costs*	1,843,151	1,357,495
	9,059,639	8,845,591

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

9. OPERATING EXPENSES (Continued)

	2018	2017
	US$	US$
(b) Staff costs		
Salaries and wages	4,403,241	4,443,008
Post-employment benefits (Defined contribution plans)	434,620	538,746
Leave and Service pay	395,430	(45,736)
Other costs	34,361	75,559
Total staff costs (Note 9 (a))	5,267,652	5,011,577

10. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2018	2017
Net gains/(losses) on foreign currency transactions and revaluation	263,233	(397,948)

11. GRANT EXPENDITURE

	2018	2017
AFD interest advantage grant (note 29)	-	(46,022)

12. LOSS PER SHARE

	2018	2017
Loss for the year (US$)	(9,233,071)	(7,790,610)
Weighted average number of ordinary shares in issue	90,191	77,266
Basic loss per share (expressed in US$ per share)	(102.37)	(100.83)

Basic loss per share are calculated by dividing the profit (loss) for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares has been computed as a reasonable approximation of the number of ordinary shares outstanding during the period, which is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time-weighting factor. There were no discontinued operations and no potentially dilutive shares outstanding at 31 December 2018 and 31 December 2017.

13. BANK AND CASH BALANCES

	2018	2017
	US$	US$
Amounts in United States Dollars (US$)	8,487,768	13,281,404
Amounts maintained in other currencies:		
Kenya Shillings	2,829,095	1,200,156
FCFA	1,913,545	3,793,071
Euro	429,671	921,778
South African Rand	202	250,512
Naira	21,664	8,313
	5,194,177	6,173,830
	13,681,945	19,455,234

14. SHORT TERM BANK DEPOSITS

	2018 US$	2017 US$
(a) Call and term deposits with banks (Held-to-maturity):		
Amounts in United States Dollars (US$)	27,160,389	21,015,784
Less: Provision for impaired asset (Note 14 (b))	(1,288,029)	(2,000,000)
Amounts in United States Dollars (US$)	25,872,513	19,015,784
Amounts maintained in other currencies:		
Kenya Shillings	196,682	181,609
FCFA	2,795,916	747,978
Euro	-	2,037,541
Rand	1,911,936	-
	4,904,536	2,967,128
	30,777,049	21,982,912

(b) Impaired asset – cash and bank deposits

The provision for impaired asset of US$ 1,288,029 (2017: US$ 2,000,000) relates to a deposit held in Chase Bank Limited, a bank in Kenya that was placed under statutory administration on 7 April 2017 by the Central Bank of Kenya. The amount is made up of movement in provision in 2018 from day 1 adjustment of US$190,465, net impairment recovery of US$ 902,436. The net impairment recovery was made up of impairment charges of US$ 968,234 and IFRS 9 impairment adjustment of US$ 65,798 as at 31 December 2018 (2017: nil).

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

	2018	2017
United States Dollars (US$)	2.45%	1.82%
Kenya Shillings	7.00%	7.35%
FCFA	4.39%	3.91%
Euro	-	0.75%
Rand	2.75%	-

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivative financial instruments

	2018	2017
	US$	US$
At 1 January	(585,958)	62,346
Net payments under swap arrangements	(587,872)	(589,929)
Net accruals	-	20,068
Foreign exchange adjustment	-	(78,443)
At 31 December – asset/(liability)	1,914	(585,958)

As at 31 December 2018, the Company had Foreign Exchange Forward Cover – FFX of US$ 1,500,000.

16. PROPERTIES HELD FOR SALE

(a) Buildings		
At 1 January	3,588,869	3,455,113
Reclassification from land held for sale	-	214,081
Sale of properties	(82,205)	(80,325)
At 31 December	3,506,664	3,588,869

(b) Land		
At 1 January	1,221,239	1,435,320
Reclassification to buildings held for sale	-	(214,081)
At 31 December	1,221,239	1,221,239
At 31 December	4,727,903	4,810,108

The Company's properties held for sale comprise 11 apartments (2017: 11) in Eden Beach Resort & Spa in Mombasa Kenya, and 18 houses (2017: 21) and vacant land in Athi River, Kenya. The Company acquired the properties in 2015 as part of loan settlement. The Company made a decision to dispose the assets as it's not part of its core business. The properties are available for immediate sale in the present condition.

	2018	2017
	US$	US$

17. LOANS AND ADVANCES TO CUSTOMERS

(a) (i) Analysis of loans and advances		
At 1 January	269,371,304	297,154,392
Disbursements during the year	6,502,161	28,132,448
Repayment during the year	(59,499,750)	(56,029,194)
Amounts written off during the year	-	(2,188,586)
Currency translation adjustment	45,182	2,302,244
At 31 December		
Principal loans and advances	216,418,897	269,371,304
Interest and fees receivable	18,913,244	19,777,070
Gross loans	235,332,141	289,148,374
Impairment provision for credit risk	(70,145,285)	(41,746,386)
Net loans and advances	165,186,856	247,401,988

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

	2018	2017
	US$	US$
(ii) Analysis of loans and advances – profiling		
Current portion	74,662,132	103,662,610
Non-current portion	90,524,724	143,739,378
Net loans and advances	165,186,856	247,401,988
(iii) Product analysis		
Loans and advances - Project finance	73,802,447	138,561,977
Loans and advances – Lines of credit	91,384,409	108,840,011
Net loans and advances	165,186,856	247,401,988

(b) Impairment on loans and advances		
At 1 January	41,746,386	34,789,002
Transition to IFRS 9 on 1 January 2018 (Note 1(i))	18,855,988	-
Amounts written off (principal and interest)	(391,822)	(4,144,295)
Charge for the year	9,917,984	10,895,060
Currency translation adjustment	16,749	206,619
At 31 December	70,145,285	41,746,386

In the opinion of the Directors, the current levels of provisions reflect a prudent assessment of the quality of the Company's loan portfolio. The average effective interest rate was 12.04 % (2017; 11.45%) per annum.

	2018	2017
	US$	US$
(c) Analysis of gross loans by maturity		
Maturing		
Within one year	144,807,418	145,408,997
One year to five years	79,347,631	129,451,282
Over five years	11,177,092	14,288,095
	235,332,141	289,148,374

18. OTHER RECEIVABLES

(a) Analysis of other receivables		
Staff loans	982,148	1,372,623
Other debtors	2,214,252	2,004,976
	3,196,400	3,377,599
Less: Provision – Other receivables	(996,333)	(992,550)
At 31 December	2,200,067	2,385,049
Current portion	1,274,981	1,370,131
Non-current portion	925,086	1,014,918
At 31 December	2,200,067	2,385,049

Staff loans and advances are granted in accordance with the Staff Rules and Regulations approved by the Board of Directors. The effective rate on staff loans and advances was 5.8 % (2017: 5.8%) per annum. The terms on the US$ denominated staff loans are at market rates.

The staff car loans and staff mortgage loans at the year-end are secured and settlement occurs in cash. The other category of staff loans are unsecured and settlement occurs in cash. For the year ended 31 December 2018, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

	2018	2017
	US$	US$
(b) Provisions for other receivables		
As at 1 January	992,550	107,588
Additional provision	-	885,549
Currency Exchange translation	3,783	(587)
At 31 December	996,333	992,550

19. INVESTMENTS IN JOINT VENTURES

Total carrying amounts of Joint ventures:

	2018	2017
	US$	US$
Everest Park Project	1,062,700	1,064,552
Glenwood Gardens Project	785,283	783,401
Rugarama Park Estates Project	2,339,700	2,445,070
Kew Gardens Project	264,833	264,515
Impairment of Glenwood Gardens Project	(785,283)	-
	3,667,233	4,557,538

Total share of losses in Joint Ventures

	2018	2017
Everest Park Project	(16,294)	(22,563)
Glenwood Gardens Project	(8,787)	(7,009)
Rugarama Park Estates Project	(105,370)	(369,000)
Kew Gardens Project	(3,281)	(7,212)
	(133,732)	(405,784)

19. INVESTMENTS IN JOINT VENTURES (Continued)

(a) Everest Park Project

Everest Park Project Joint Venture is a joint venture arrangement between Shelter Afrique and Everest Limited with effect from 1 February 2011. The purpose of the joint venture is to own, develop, construct and sell the subject property and improvements as an investment for production of income. The property is located within Mavoko Municipality in Kenya. The joint venture was incorporated in Kenya and the principal place of business is Shelter Afrique Centre, Longonot road, Nairobi, Kenya. The joint venture is not a listed entity.

The venturers have the following undivided interest in the Joint Venture: Shelter Afrique – 50% and Everest Limited - 50%. The term of the joint venture is up to January 2021.

	2018	2017
	US$	US$
Joint venture's statement of financial position:		
Property held for sale	6,342,866	4,817,279
Trade and other receivables	50,036	49,487
Cash and cash equivalents	729,877	105,724
Total current assets	7,122,779	4,972,490
Trade and other payables	132,327	2,833,075
Total current liabilities	132,327	2,833,075
Equity	6,990,452	2,139,415
Total equity and liabilities	7,122,779	4,972,490
Joint venture's statement of comprehensive income:		
Revenue	-	2,906
Other income	22,530	3,464
Gross profit	22,530	6,370
Administration expenses	(66,759)	(51,496)
Loss before tax	(44,229)	(45,126)
Income tax expense	-	-
Loss after tax	(44,229)	(45,126)
Share of joint venture's loss	(16,294)	(22,563)
Reconciliation of investment in joint venture		
1 January	1,064,552	1,095,036
Share of loss	(16,294)	(22,563)
Currency translation adjustments	14,442	(7,921)
At 31 December	1,062,700	1,064,552

(b) Glenwood Gardens Project

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

	2018	2017
	US$	US$
Joint venture's statement of financial position:		
Property held for sale	6,280,109	5,514,999
Cash and bank balances	18,992	971,065
Trade and other receivables	981,855	45,533
Total assets	7,280,956	6,531,596
Total liabilities	5,081,135	4,341,934
EQUITY	2,199,821	2,189,663
Total equity and liabilities	7,280,956	6,531,596
Joint venture's statement of comprehensive income:		
Other income	-	-
Gross profit	-	-
Administration expenses	(14,173)	(14,017)
Loss before tax	(14,173)	(14,017)
Income tax expense	-	-
Loss after tax	(14,173)	(14,017)
Share of joint venture's loss	(8,787)	(7,009)
Reconciliation of investment in joint venture		
1 January	783,401	796,159
Share of loss	(8,787)	(7,009)
Currency translation adjustments	10,669	(5,749)
Impairment	(785,283)	-
At 31 December	-	783,401

(c) Kew Gardens Project

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

The venturers have the following undivided interest in the Joint Venture: Shelter Afrique – 19.8% and Itoga Investments Holdings Limited – 80.2%. The term of the joint venture is up to 31 December 2019.

	2018	2017
	US$	US$
Joint venture's statement of financial position:		
Property held for sale	14,579,375	11,335,095
Land	2,938,376	2,906,084
Total assets	17,517,751	14,241,179
Total liabilities	14,386,556	10,275,101
Equity	3,131,195	3,966,078
Equity and liabilities	17,517,751	14,241,179
Joint venture's statement of profit and loss:		
Administration expenses	(32,730)	(36,427)
Loss before tax	(32,730)	(36,427)
Income tax expense	-	-
Loss after tax	(32,730)	(36,427)
Share of joint venture's loss	(3,281)	(7,212)
Reconciliation of investment in joint venture		
1 January	264,515	273,706
Share of loss	(3,281)	(7,212)
Currency translation adjustments	3,599	(1,978)
At 31 December	264,833	264,515

(d) Rugarama Park Estates Limited

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

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

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

	2018	2017
	US$	US$
Joint venture's statement of financial position:		
Cash and bank balances	33,000	23,000
Trade and other receivables	6,766,000	7,020,000
Property and equipment	35,000	50,000
Total assets	6,834,000	7,093,000
Total liabilities	2,246,000	2,477,000
Equity	4,588,000	4,616,000
Equity and liabilities	6,834,000	7,093,000
Joint venture's statement of profit and loss:		
Administration expenses	(56,000)	(114,000)
Exchange Differences arising from translation	(733,000)	(624,000)
Loss before tax	(789,000)	(738,000)
Income tax expense	-	-
Loss after tax	(789,000)	(738,000)
Share of joint venture's loss	(105,370)	(369,000)
Reconciliation of investment in joint venture		
1 January	2,445,070	2,814,070
Share of loss	(105,370)	(369,000)
At 31 December	2,339,700	2,445,070

20. EQUITY INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Currency	At 1 January	Additions	Fair Value revaluations	Investment Carrying amount
		US$	US$	US$	US$
31 December 2018					
Measured at Fair value Through Other Comprehensive Income					
Pan African Housing Fund LLC (Mauritius)	USD	1,770,000	424,871	(174,871)	2,020,000
Banque de L'Habitat du Burkina Faso (BHBF)	FCFA	290,000	-	58,671	348,671
Caisse Régionale de Refinancement Hypothécaire (CRRH), Togo	FCFA	810,000	-	109,363	919,363
Tanzania Mortgage Refinance Company Limited	USD	720,000	-	(10,000)	710,000
Total		3,590,000	424,871	(16,837)	3,998,034
1 January 2018					
Measured at Fair value Through Other Comprehensive Income					
Pan African Housing Fund LLC	USD	2,474,867	-	(704,867)	1,770,000
Banque de L'Habitat du Burkina Faso (BHBF)	FCFA	1,356,237	-	(1,066,237)	290,000
Caisse Régionale de Refinancement Hypothécaire (CRRH), Togo	FCFA	925,249	-	(115,249)	810,000
Tanzania Mortgage Refinance Company Limited	USD	1,000,000	-	(280,000)	720,000
Total		5,756,353	-	(2,166,353)	3,590,000
31 December 2017					
Measured at Cost					
Pan African Housing Fund LLC	USD	2,167,834	795,495	(488,462)	2,474,867
Banque de L'Habitat du Burkina Faso (BHBF)	FCFA	1,356,237	-	-	1,356,237
Caisse Régionale de Refinancement Hypothécaire (CRRH), Togo	FCFA	925,249	-	-	925,249
Tanzania Mortgage Refinance Company Limited	USD	1,000,000	-	-	1,000,000
Total		5,449,320	795,495	(488,462)	5,756,353

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

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

All investments were carried at fair value as per IFRS 9 requirements. The Company does not intend to dispose the shares in the short term, and none of the shares have been derecognized.

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

Caisse Régionale de Refinancement Hypothécaire (CRRH) is a regional mortgage-refinancing fund, created on

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

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

Investment in Banque de l'Habitat du Burkina Faso

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

Pan African Housing Fund LLC

The Pan African Housing Fund (PAHF) is a sector-specific private equity fund whose key objective is to promote directly and indirectly the provision of housing solutions in Africa. The current investors of Pan African Housing Fund LLC are Shelter Afrique, CDC Group plc (CDC), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), African Development Bank (AfDB), African Reinsurance Corporation (Africa Re), Eastern and Southern African Trade and Development Bank (PTA Bank) and Phatisa. The Pan African Housing Fund seeks to provide risk capital to real estate projects on a joint-venture basis to selected local developers and works closely with these developers to increase their capabilities across both technical and scale dimensions. The investment is carried at cost in the financial statements as the projects financed are still under construction.

Tanzania Mortgage Refinance Company Limited

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

21. PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Office equipment, furniture and fitting	Computers	Motor vehicles	Residential equipment, furniture and fittings	Total costs
	US$	US$	US$	US$	US$	US$
COST OR VALUATION						
At 1 January 2017	4,972,117	859,055	469,947	196,293	250,190	6,747,602
Additions	21,974	7,091	25,668	-	-	54,733
Write-offs	-	-	-	-	(8,739)	(8,739)
At 31 December 2017	4,994,091	866,146	495,615	196,293	241,451	6,793,596
Comprising:						
At cost	3,296,675	866,146	495,615	196,293	241,451	5,096,180
At valuation - 2015	1,697,416	-	-	-	-	1,697,416
	4,994,091	866,146	495,615	196,293	241,451	6,793,596
At 1 January 2018	4,994,091	866,146	495,615	196,293	241,451	6,793,596
Additions	-	2,628	33,162	-	-	35,790
At 31 December 2018	4,994,091	868,774	528,777	196,293	241,451	6,829,386
Comprising:						
At cost	3,296,675	868,774	528,777	196,293	241,451	5,131,970
At valuation - 2015	1,697,416	-	-	-	-	1,697,416
At 31 December 2018	4,994,091	868,774	528,777	196,293	241,451	6,829,386
DEPRECIATION						
At 1 January 2017	151,404	559,042	362,616	135,321	79,482	1,287,865
Charge for the year	148,920	64,596	49,845	24,660	25,813	313,834
As at 31 December 2017	300,324	623,638	412,461	159,981	105,295	1,601,699
At 1 January 2018	300,324	623,638	412,461	159,981	105,295	1,601,699
Charge for the year	124,061	51,255	45,250	24,660	24,843	270,069
As at 31 December 2018	424,385	674,893	457,711	184,641	130,138	1,871,768

21. PROPERTY AND EQUIPMENT (CONTINUED)

	Leasehold land and buildings	Office equipment, furniture and fitting	Computers	Motor vehicles	Residential equipment, furniture and fittings	Total costs
NET CARRYING AMOUNT						
As at 31 December 2018	4,569,706	193,881	71,066	11,652	111,313	4,957,618
As at 31 December 2017	4,693,767	242,509	83,155	36,312	136,156	5,191,898

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

(ii) Included in property and equipment are assets with a cost of US$ 1,034,704 (2017: US$ 593,798) which have been fully depreciated. The normal annual depreciation charge on these assets would have been US$ 188,684 (2017: US$ 114,705).

(iii) If the leasehold land and buildings were carried at cost, their carrying amount would be is US$ 3,296,675 (2017: US$ 3,296,675).

22. INTANGIBLE ASSETS

	2018	2017
	US$	US$
COST		
At 1 January	1,063,361	1,046,238
Additions	21,752	17,123
As at 31 December	1,085,113	1,063,361
AMORTIZATION		
At 1 January	857,688	753,080
Charge for the year	102,639	104,608
	960,327	857,688
NET CARRYING AMOUNT		
At 31 December	124,786	205,674

The intangible assets relate to computer software, the major component being Oracle ERP, which has been used since October 2010. Included in intangible assets are assets with a cost of US$ 613,135 (2017: US$ 595,726) which have been fully amortised. The normal annual amortisation charge on these assets would have been US$ 131,717 (2017: US$ 126,749).

23. GOVERNMENT GRANT

	2018 US$	2017 US$
Value of grant received	200,000	200,000
At 1 January	112,505	116,384
Released to profit or loss (Note 7)	(3,879)	(3,879)
At 31 December	108,626	112,505
Current	3,879	3,879
Non-current	104,747	108,626
Amounts released to date:	108,626	112,505
At 1 January	71,976	68,097
Charge for the year	3,879	3,879
At 31 December	75,855	71,976

The grant relates to leasehold land donated by the Government of Kenya for the construction of the Company's Headquarters Building. The land was donated in 1996 and its deemed value capitalised on acquisition is amortised over the duration of the remaining lease period. The related deferred income has been set out in Note 30 to these financial statements.

24. EQUITY

a) SHARE CAPITAL

	2018 US$	2017 US$
Authorised:		
1,000,000 ordinary shares of US$ 1,000 each	1,000,000,000	1,000,000,000
Issued and called:		
183,903 (2017: 183,903) ordinary shares of US$ 1,000 each	183,903,058	183,903,058
Paid up:		
Class A: Issued and fully paid:		
72,040 (2017: 68,902) ordinary shares of US$ 1000 each	72,040,000	68,902,000
Class B: Issued and fully paid:		
19,720 (2017: 19,720) ordinary shares of US$ 1,000 each	19,720,000	19,720,000
	91 760 000	88 622 000
Callable capital	500,000,000	500,000,000

As a supranational development financial institution with a membership comprising 44 African States and two institutional members, subscription to the capital of the Company is made by all its members. Membership in the Company is open to both African Governments and

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. EQUITY (CONTINUED)

a) Share Capital (Continued)

African institutions, which are classified into Class A and Class B shareholders, respectively. This classification is for distinction purposes only and does not imply any difference in rights attached to the shares.

The callable capital is callable from existing shareholders.

	2018	2017
	US$	US$
b) SHARE PREMIUM		
At end of year	38,899,748	36,474,074

Share premium arises from new and current shareholders who take up additional shares in the Company. The share premium is the difference between the par value (US$ 1,000 per share) and the current share price. The current share price is US$ 1,773 (2017: US$ 1,773) for current shareholders and US$ 2,334 (2017: US$ 2,334) for new Shareholders.

	Number of shares	Ordinary shares	Share premium	Total
		US$	US$	US$
c) MOVEMENT IN PAID UP CAPITAL				
At 1 January 2017	62,600	62,600,000	16,359,068	78,959,068
Paid up in the year	26,016	26,016,000	20,110,368	46,126,368
Write Backs from Fractional Shares	6	6,000	4,638	10,638
At 31 December 2017	88,622	88,622,000	36,474,074	125,096,074
At 1 January 2018	88,622	88,622,000	36,474,074	125,096,074
Paid up in the year	3,134	3,134,000	2,422,582	5,556,582
Write Backs from Fractional Shares	4	4,000	3,092	7,092
At 31 December 2018	91,760	91,760,000	38,899,748	130,659,748

	2018	2017
	US$	US$
d) REVALUATION RESERVE		
At 1 January	2,840,964	2,872,649
Transfer of excess depreciation to retained earnings	(31,685)	(31,685)
At 31 December	2,809,279	2,840,964

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

	2018	2017
	US$	US$
e) EQUITY INVESTMENT RESERVE		
At 1 January	351,773	351,773
Transition to IFRS 9 on 1 January 2018	(2,166,353)	
Fair value valuation	(16,837)	-
At 31 December	(1,831,417)	351,773

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

	2018	2017
	US$	US$
25. OTHER PAYABLES		
Accruals	1,893,582	803,679
Post-employment benefits	(128,271)	129,351
Rent deposits	91,988	78,059
Share capital subscriptions (fractional shares)	27,982	29,644
	1,885,281	1,040,733
(i) Movement of Share capital subscriptions (fractional shares)		
At 1 January	29,644	27,453
(Decrease)/increase in Capital subscriptions during the year	(1,662)	2,191
At 31 December	27,982	29,644

(ii) Share capital subscriptions (fractional shares)

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

	2018	2017
	US$	US$
26. PROVISIONS		
(i) Leave pay		
At 1 January	292,225	362,927
Increase/(decrease) in provision	128,109	(3,769)
Payment of leave pay	(80,767)	(66,933)
At 31 December	339,567	292,225

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

(ii) Service pay

Description of the Service pay

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

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

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

26. PROVISIONS (CONTINUED)

II) Service Pay (Continued)

	2018	2017
	US$	US$
Net liability at start of period 1 January	1,803,097	2,112,285
Net expense/(income) recognised in the statement of profit or loss	267,321	(41,967)
Benefits and expenses paid	(851,045)	(267,121)
Net liability at end of period 31 December	1,219,373	1,803,097

The Company also makes statutory contributions to the National Social Security Fund. Contributions are determined by local statute and are shared between the employer and employee. For the year ended 31 December 2018, the Company contributed US$ 713 (2017: US$ $ 1,364) which has been charged to the profit and loss account.

(iii) Total Provisions

	2018	2017
	US$	US$
Leave pay	339,567	292,225
Service pay	1,219,373	1,803,097
Total	1,558,940	2,095,322

27. DIVIDENDS PAYABLE

At 31 December	1,548,143	1,548,143

The Directors do not recommend the payment of a dividend in the current period (2017: Nil).

28. SPECIAL RESERVE – SHELTER AFRIQUE FOUNDATION

At 1 January	1,683,652	1,687,552
Payments on behalf of - SH-AF Foundation	(13,300)	(3,900)
At end of year	1,670,352	1,683,652

This amount is reserved for the Shelter Afrique Foundation whose formation was approved by the Annual General Meeting in June 2013. The Foundation is registered in Mauritius. An initial meeting of its Governing Council, drawn from the Directors of Shelter Afrique, was held in Mauritius in 2017. The Foundation was to receive seed capital from Shelter Afrique through appropriations of profit. The purpose of the fund was to mobilize funds for alleviating urban poverty with specific focus on providing grants and concessionary financing for housing projects targeted at very low-income groups, support for innovation research aimed at development of new construction methods and processes, capacity building and general charitable projects.

The Directors do not recommend any appropriation to the Foundation in 2018.

29. DEFERRED INCOME

	2018 US$	2017 US$
At 1 January	1,241,186	1,831,920
Amortization of Government of Kenya grant (note 7 and 23)	(3,879)	(3,879)
AFD interest advantage grant for the year	39,425	79,305
AFD grant expenditure for the year (note 7 and 11)	-	(46,022)
Deferred front end fees	(398,475)	(620,138)
At 31 December	878,257	1,241,186

The AFD interest advantage grant arises from a credit facility obtained in 2010/2011 of Euro 10 million from Agence Française de Développement (AFD) at preferential interest rates below market rates. The AFD technical assistance is at 3.02% (adjusted discount rate) of the drawn down amount of Euro 10 Million on a reducing balance.

The adjusted discount rate is the difference between what Shelter Afrique is paying on the credit facility and what it would have paid at the prevailing market rate. This is as per the credit facility agreement between AFD and Shelter Afrique. The interest advantage is what is classified as a grant since the funds are received at concessionary rates (different from the existing market rates).

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

30. MEDIUM TERM NOTES

	2018 US$	2017 US$
CFA bond – (2014 – 2020)	8,715,179	12,743,865
Kenya Shilling bond – (2013 – 2018)	-	16,080,332
Interest payable on loans	194,671	827,536
Deferred charges on medium term notes	(624,827)	(840,022)
	8,285,023	28,811,711
Maturity analysis for the medium-term notes:		
Maturing:		
Within one year	3,055,916	19,708,950
One year to five years	5,229,107	9,102,761
	8,285,023	28,811,711

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

The Kenya Shilling Bond (2013 – 2018) for Kshs 5 billion (US$57.9 million) was launched in 2013 through the Nairobi Securities Exchange for the duration 2013 to 2019. Interest rate is fixed at 12.75% for some Kshs 4.2 billion (US$ 49 million) and a floating rate of 1.5% above the 182-day Treasury bill rate for KES 0.8 billion (US$ 8,808,975). The Kenya Shilling Bond (2013 – 2018) was fully paid in September 2018.

The medium-term notes are all unsecured.

	Start Date	Maturity Date	Currency	2018	2017
				US$	US$
31. LINES OF CREDIT					
African Development Bank (AfDB)	2010	2021	US$	9,315,789	10,868,421
Agence Française de Développement (AFD)	2010	2019	EURO	-	2,360,085
AFD USD Loan	2014	2023	US$	11,250,000	13,750,000
Commercial Bank of Africa USD	2015	2019	US$	1,880,460	3,000,000
Commercial Bank of Africa-KES	2015	2019	KES	8,345,926	8,233,905
European Investment Bank	2014	2020	EURO	7,050,116	9,440,729
AFD KES social Housing	2013	2023	KES	3,685,549	3,811,370
CBA syndicated loan	2014	2019	US$	-	2,330,006
AfDB Trade Finance	2014	2019	US$	11,920,000	17,500,000
KFW BANKEGRUPPE	2015	2024	US$	19,650,000	26,250,000
Ghana International Bank	2017	2019	US$	2,183,333	2,916,666
CFA-Banque ouest africaine de développement (BOAD)	2017	2020	CFA	5,351,664	7,467,109
Islamic Corporation for Development	2015	2019	US$	26,200,000	35,000,000
Interest payable			US$	1,657,098	1,909,121
				108,489,934	144,837,412

	2018	**2017**
	US$	**US$**
Analysis of borrowings by maturity:		
Maturing:		
(i) Within one year	78,734,407	80,608,731
One year to five years	29,755,527	63,960,598
Over five years	-	268,083
	108,489,934	144,837,412
(ii) LINES OF CREDIT – PROFILING		
Current portion	78,734,407	80,608,731
Non-Current portion	29,755,527	64,228,681
	108,489,934	144,837,412

The effective interest rates were 4.47% per annum (2017: 3.81 %) for US denominated loans, 4.29% per annum (2017: 4.32%) for Euro denominated, 7.65% per annum (2017: 7.22%) for F CFA denominated loans and 13.39 % per annum (2017: 13.84 %) for Kenya Shillings denominated loans. All loans are unsecured.

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

32. FAIR VALUE MEASUREMENT

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

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

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

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

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

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

The fair values of the Company's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The Company's own non-performance risk as at 31 December 2018 has been assessed within the financial restructuring and is adequately covered. Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property.

As at 31 December 2018, the properties' fair values are based on valuations performed in 2015 by Ebony Estates Limited, accredited independent valuers.

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

32. FAIR VALUE MEASUREMENT (CONTINUED)

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

The significant unobservable inputs used in the fair value measurement categorised within Level 2 and 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2018 are as shown below:

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

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

	Level 1	Level 2	Level 3	Total
	US$	US$	US$	US$
Land and buildings	-	4,693,767	-	4,693,767
Financial liabilities :				
Quoted debt instruments:				
Kenya Shilling Bond -2013-2019	16,080,332	-	-	16,080,332
CFA Bond 5 - 6.60% 2014-2020	12,743,865	-	-	12,743,865
Lines of credit	-	144,837,412	-	144,837,412

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

Description	Valuation method	Significant unobservable inputs	Sensitivity	Effect on fair value
Land and Buildings	Market Comparable Approach	Estimated rental value per sqm per month	0.5%	24,970
Lines of credit	DCF	Own non-performance risk	0.1%	206,188
		Constant repayment rate	0.1%	144,837

33. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2018	2017
	US$	US$
Loss for the year	(9,233,071)	(7,790,610)
Adjustments for:		
Interest expense on funds from financial institutions and capital markets (Note 5)	9,984,283	13,084,062
Depreciation of property and equipment (Note 21)	270,069	313,834
Amortization of grant income (Note 23)	3,879	3,879
Amortization of intangible assets (Note 22)	102,639	104,608
Impairment loss on equity investment (Note 20)	-	488,462
Share of loss from joint ventures (Note 19)	133,732	405,784
Impairment joint venture (Note 19)	785,283	-
Net foreign exchange loss - joint venture	(28,705)	15,652
Net foreign exchange loss/(gain) - lines of credit	(113,097)	1,482,551
Net foreign exchange loss/(gain) – medium term notes	4,962	1,702,063
Property and equipment write-off (note 21)	-	8,739
Cash flows from operating profits before changes in operating assets and liabilities	1,909,973	9,819,024
Movements in:		
Loans and advances to customers	82,215,132	35,712,062
Equity Investments (Note 20)	2,166,353	-
Other receivables	184,982	1,619,209
Derivative financial assets	-	62,346
Other payables and provisions	308,166	(477,442)
Derivative financial liabilities	(587,872)	585,958
Deferred income	(362,929)	(590,736)
IFRS 9 Impairment through retained earnings	(19,046,454)	-
IFRS 9 Impairment through investment revaluation reserve	(2,166,353)	-
Net cash generated from operations	64,620,998	46,730,421

(b) Cash and cash equivalents:

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

	2018	2017
	US$	US$
Bank and cash balances (Note 13)	13,681,945	19,455,234
Short term bank deposits (Note 14)	30,777,049	21,982,912
Cash and cash equivalents	44,458,994	41,438,146

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

(c) Analysis of movement in line of credit:

	2018	2017
	US$	US$
At 1 January	144,837,414	188,997,801
Additional borrowings in the year	-	10,000,000
Repayments in the year	(35,990,714)	(55,194,229)
Interest expense for the year	6,839,922	8,164,662
Interest paid in the year	(7,083,591)	(8,613,372)
Net foreign exchange loss/(gain)	(113,097)	1,482,552
At 31 December	108,489,934	144,837,414

(d) Analysis of movement in medium term notes

At 1 January	28,811,711	47,160,130
Repayments in the year	(20,090,873)	(19,676,708)
Interest expense for the year	1,688,646	3,857,595
Interest paid in the year	(2,129,423)	(4,231,370)
Net foreign exchange loss/(gain)	4,962	1,702,063
At 31 December	8,285,023	28,811,711

(e) Other finance charges

Interest expense on lines of credit (note 33(c))	6,839,922	8,164,662
Interest expense on medium term notes (note 33(d))	1,688,646	3,857,595
Other financial charges	1,455,715	1,061,805
Total interest and similar charges (note 5)	9,984,283	13,084,062

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

	2018	2017
	US$	US$
Approved and signed project loans	1,128,216	58,348,445
Commitments to Equity investments and Joint ventures	1,535,886	3,538,535
Capital budget	784,000	521,500
	3,448,102	62,408,480

(b) Contingent liabilities:

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

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

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

35. RELATED PARTY TRANSACTIONS

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

(a) Key management personnel

Except for staff loans and advances amounting to US$ 982,148 (2017: US$ 1,372,623) disclosed in Note 19, there were no other related party transactions undertaken during the year between the Company and staff. The staff loans advanced to key management staff as at 31 December 2018 amounted to US$ 285,154 (2017: US$ 564,471). The interest income received from staff loans and advances to key management staff as at 31 December 2018 amounted to US$ 42,250 (2017: US$ 18,720).

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

	2018	2017
	US$	US$
Salaries and other short-term benefits	1,085,326	968,665
Post-employment benefits	105,860	140,152
	1,191,186	1,108,817
Directors' remuneration		
Short term benefits: fees for services as directors	179,790	317,500

(b) Investment in Joint Ventures

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

	2018	2017
	US$	US$
Everest Park Project		
At 1 January	1,148,356	352,238
Loans granted	1,233,181	796,118
Interest charged on the loan	327,370	153,463
Repayments	(252,962)	(153,463)
Total	2,455,945	1,148,356
Glenwoods Gardens Project		
At 1 January	3,538,801	3,268,301
Loans granted		-
Interest charged on the loan	161,671	501,203
Repayments		(230,703)
Total	3,700,472	3,538,801
Kew Gardens Project		
At 1 January	11,117,157	10,399,659
Loans granted		-
Interest charged on the loan		717,498
Total	11,117,157	11,117,157

36. FINANCIAL RISK MANAGEMENT

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

The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. Risk management is carried out by various committees under the supervision of the Board of Directors. The risk management programme is premised on active Board and Senior Management oversight, adequate policies and procedures, adequate internal controls and risk monitoring as well as management information systems.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. In addition, risk management and internal audit departments have responsibility for the independent review of risk management and the control environment. The most important types of risk to which the Company is exposed are credit risk, liquidity risk, market risk and other operational risk.

	2018	2017
	US$	US$
(a) Capital Risk Management		
Share capital and share premium	130,659,748	125,096,074
Retained (deficit)/earnings	(27,521,509)	1,726,331
Credit Loss Reserve	1,000,000	-
Investment in equity reserve	(1,831,417)	351,773
Revaluation surplus	2,809,279	2,840,964
Special Reserves - SH-AF Foundation	1,670,352	1,683,652
	106,786,453	131,698,794
Lines of credit	108,489,934	144,837,412
Medium term notes	8,285,023	28,811,711
	116,774,957	173,649,123
Total capital	223,561,410	305,347,917
Gearing ratio	1.1	1.3

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Capital Risk Management (Continued)

The Company has several sources of capital available to it and seeks to optimize its debt to equity structure in order to ensure that it can consistently maximize returns to shareholders. Capital adequacy is monitored regularly by the Company's management and quarterly by the Board of Directors. The Company has undertaken to comply with Basel II capital adequacy framework which consists of setting an amount of minimum risk capital to cushion against unexpected losses. The Company has set a minimum capital adequacy ratio of 25%. This ratio stood at 26.6% in 2018 (2017: 20%). The capital adequacy ratio has been arrived by taking the Company's core capital expressed as a percentage of its risk weighted assets.

The capital structure of the Company consists of debt, which includes the medium term notes and lines of credit disclosed in notes 31 and 32, respectively, and equity attributable to equity holders, comprising issued and paid capital, reserves and retained earnings as disclosed in note 25. Cash and bank balances are not offset against the borrowings in determining the total debt as the Company considers this not relevant to its risk management process in determining gearing ratios.

(b) Credit Risk Management

Credit risk

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

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

Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorization structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk. credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties and industries for loans and advances;
- Developing and maintaining Shelter Afrique's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group Risk;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken; and
- Providing advice, guidance and specialist skills to business units to promote best practice throughout Shelter Afrique in the management of credit risk. Each business unit is required to

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit Risk Management (Continued)

implement Group credit policies and procedures, with credit approval authorities delegated from Shelter Afrique Credit Committee.

(a) Loans and advances

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

Credit risk grading

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

Expected credit loss measurement

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

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

Significant increase in credit risk (SICR)

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

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit Risk Management (Continued)

Quantitative factors: This considers the following:

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

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

Definition of default and credit-impaired assets

Shelter Afrique defines a financial instrument as in default when the borrower is more than 90 days past due on its contractual payments. The definition has been used consistently across all ECL inputs i.e. PD, EAD and LGD. The criteria above have been applied to all financial instruments held by Shelter Afrique and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout Shelter Afrique's expected loss calculations.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

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

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

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts Shelter Afrique expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

Loss Given Default (LGD) represents Shelter Afrique's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit Risk Management (Continued)

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change etc. are monitored and on an ongoing basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Shelter Afrique reviews all inputs, assumptions and estimation techniques applied in measuring the ECL to assess any changes and appropriateness on an annual basis. Consideration is made to changes in the business, changes in the economy, changes in the factors affecting the PD, LGD, EAD and other inputs. Such changes are expected to be very infrequent. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period. Unless significant changes are identified, Shelter Afrique expects to update the PDs, LGD and any other significant assumptions after every 3 years.

Forward-looking information incorporated in the ECL models

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

These macroeconomic overlays and the probability of each economic scenario occurring were set using management judgement based on the assessment of Shelter Afrique's portfolio performance. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018 and 31 December 2018, for all portfolios Shelter Afrique concluded that three scenarios appropriately captured non-linearities.

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

(b) Other financial assets

These are made up of the following:

- Cash and bank balances
- Short term deposits

Shelter Afrique has applied the low credit risk exemption to these financial assets on transition to IFRS 9 and in the year ended 31 December 2018. This is because:

- They have a low risk of default;
- The counterparties are considered, in the short term, to have a strong capacity to meet their obligations; and
- The lender expects, in the longer term, that adverse changes in economic and business

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit Risk Management (Continued)

conditions might, but will not necessarily; reduce the ability of the counterparties to fulfil their obligations.

Significant increase in credit risk (SICR)

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

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

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

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

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

Maximum exposure to credit risk — Financial instruments subject to impairment

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

Group	31-Dec-18				31-Dec-17
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
	USD	USD	USD	USD	USD
Cash and bank balances	13,681,945	-	-	13,681,945	19,455,234
Short term deposits	30,777,049	-	1,288,029	32,065,078	23,982,912
Loans and advances to customers	90,332,558	36,571,805	108,427,778	235,332,141	289,148,374
Gross carrying amount	**134,791,552**	**36,571,805**	**109,715,807**	**281,079,164**	**332,586,520**
Loss allowance	(6,945,180)	(11,026,870)	(53,461,264)	(71,433,314)	(43,746,386)
Carrying amount	**127,846,372**	**25,544,935**	**56,254,543**	**209,645,850**	**288,840,134**

These are gross amounts excluding currency translations and write offs. The 2018 loss allowance was based on expected credit loss model under IFRS 9 (2017: Incurred loss model under IAS 39).

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit Risk Management (Continued)

Collateral and other credit enhancements

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

Shelter Afrique holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Debt securities, treasury and other eligible bills are generally unsecured. Collateral is usually not held against investment securities, and no such collateral was held at 31 December 2018 or 31 December 2017.

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

Loans and advances to customers	**2018**			
	Gross Exposure	Impairment Allowance	Carrying amount	FV of collateral held
	USD	USD	USD	USD
Carrying amount	235,332,141	(70,145,285)	165,186,856	287,071,827
Loans and advances to customers	**2017**			
	Gross Exposure	Impairment Allowance	Carrying amount	FV of collateral held
	USD	USD	USD	USD
Carrying amount	289,148,374	(41,746,386)	247,401,988	326,243,423

Loss allowance

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit Risk Management (Continued)

Group	IAS 39	IFRS 9		IFRS 9	
Measurement category	Balance brought forward	Remeasurement	Loan loss allowance under IFRS 9	Charge for the year	Balance carried forward
	31-Dec-17		01-Jan-18		
	USD	USD	USD	USD	USD
Cash and bank balances		49,489	49,489	10,498	59,987
Short term deposits	2,000,000	140,977	2,140,977	(912,934)	1,228,043
Loans and advances to customers	41,746,386	18,855,988	60,602,374	9,917,984	70,520,358
Equity Investments	-	2,166,353	2,166,353	(16,837)	2,149,516
Total	43,746,386	21,212,807	64,959,193	8,998,711	73,957,904

These are gross amounts excluding currency translations and write offs.

Write-off policy

Shelter Afrique writes off a loan balance (and any related allowances for impairment losses) when Group Credit determines that the loans are uncollectible. This is reached after considering information such as the occurrence of significant changes in the borrower/ issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was USD 391,822 (2017 USD 4,144,295). Shelter Afrique still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modification of financial assets

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

Such restructuring activities include extended payment term arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. Shelter Afrique monitors the subsequent performance of modified assets. Shelter Afrique may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets held as at 31 December 2018 was USD 17,296,076 (2017 USD 16,545,115).

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit Risk Management (Continued)

Concentration by Sector

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

Concentration by Sector	2018	2017
	US$	US$
Real estate	97,460,242	141,019,133
Financial Institutions	67,726,609	106,382,855
Total	165,186,851	247,401,988

(c) Market Risk Management

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

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company undertakes certain transactions denominated in foreign currencies mainly the Kenya Shilling, CFA and Euro. This results in exposures to exchange rate fluctuations.

Exchange rate exposures are managed within approved policy parameters utilising matching of assets and liabilities. This is achieved primarily by borrowing and lending in the same foreign currencies. The table in the following page summarizes the Company's exposure to foreign currency exchange risk as at

31 December. Included in the table are the Company's financial instruments at carrying amounts, categorized by currency. The derivatives balances have been shown as transacted by currency.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market Risk Management (Continued)

	US$	EUR	CFA	KSHS	ZAR	NAIRA	Total
AT 31 DECEMBER 2018							
FINANCIAL ASSETS							
Bank and cash balances	8,487,768	429,671	1,913,545	2,829,095	202	21,664	13,681,945
Short term deposits	25,872,513	-	2,795,916	196,682	1,911,937	-	30,777,048
Currency swaps	1,914	-	-	-	-	-	1,914
Loans and advances to customers	119,757,136	-	7,394,224	38,035,496	-	-	165,186,856
Other receivables	2,200,066	-	-	-	-	-	2,200,066
Total financial assets	156,319,397	429,671	12,103,685	41,061,273	1,912,139	21,664	211,847,829
FINANCIAL LIABILITIES							
Medium term notes	-	-	8,285,023	-	-	-	8,285,023
Lines of credit	90,796,546	310,249	5,351,664	12,031,475	-	-	108,489,934
Other payables	1,885,281	-	-	-	-	-	1,885,281
Total financial liabilities	92,681,827	310,249	13,636,687	12,031,475	-	-	118,660,238
Net asset/(liability) position	63,637,570	119,422	(1,533,002)	29,029,798	1,912,139	21,664	93,187,591
AT 31 DECEMBER 2017							
Total financial assets	212,284,159	2,959,315	19,243,437	53,726,781	3,073,177	8,314	291,295,183
Total financial liabilities	127,605,052	2,363,979	20,260,853	28,561,570	127,825	-	178,919,279
Net asset/(liability) position	84,679,107	595,336	(1,017,416)	25,165,211	2,945,352	8,314	112,375,904

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market Risk Management (Continued)

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

Impact – 2018

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

Impact – 2017

EURO	CFA	KSHS	ZAR
5%	4%	4%	1%
29,767	(45,666)	1,245,269	29,454

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non–trading equity price risk exposure arises from equity securities classified as available-for-sale. A 10 per cent increase in the value of the Company's investment in equity measured at fair value through other comprehensive incomes at 31 December 2018 would have increased equity by US$ 624,482 (2017: US$ 544,932). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment, which would reduce profitability by the same amount.

Interest rate risk

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

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both the fair values and future cash flows of its financial instruments. Interest rates on loans to customers are pegged to the Company's specific cost of funds which is usually Libor based. Interest margins may increase as a result of such changes in the Libor rates but may reduce losses in the event that unexpected movements arise for the Libor rates. The Company also invests in fixed interest rate instruments. Interest rate risk is managed principally through monitoring interest gaps and by Board of Directors. The Audit, Risk and Finance Committee is the monitoring body for compliance with these limits and is assisted by the Assets and Liabilities Committee as well as the Loans Committee.

The table on the following page summarizes the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market Risk Management (Continued)

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market Risk Management (Continued)

	Up to 1 month	1-6 months	6-12 months	1-5 years	over 5 years	Total sensitive balance	Non-interest bearing	Fixed Interest rate	Total
	US$	US$	US$	US$	US$	US$	US$	US$	US$
AT 31 December 2018									
Assets									
Bank and cash balances	13,681,945	-	-	-	-	13,681,945	-	-	13,681,945
Short term deposits	-	30,777,049	-	-	-	30,777,049	-	-	30,777,049
Loans and advances to customers	-	137,466,903	-	-	-	137,466,903	18,913,242	8,806,711	165,186,856
Total financial assets	13,681,945	168,243,952	-	-	-	181,925,897	18,913,242	8,806,711	209,645,850
Liabilities									
Lines of credit	-	59,639,873	5,200,000	-	-	64,839,873	-	43,650,063	108,489,934
Medium term notes	-	-	-	-	-	-	-	8,285,023	8,285,023
Total financial liabilities	-	59,639,873	5,200,000	-	-	64,839,873	-	51,935,086	116,774,957
Net interest rate sensitivity gap	13,681,945	108,604,079	(5,200,000)	-	-	117,086,024	18,913,242	(43,128,375)	92,870,893

Based on a sensitivity rate of 50 basis points, all other variables held constant, the Company's profit for the year and equity would increase/decrease by US$ 585,430 (2017 US$ 685,634). A 50-basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

(d) Liquidity Risk Management

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

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

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

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

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity Risk Management (Continued)

	Up to 1 month	2-6 months	6-12 months	1-5 years	over 5 years	Total
	US$	US$	US$	US$	US$	US$
AT 31 DECEMBER 2018						
Financial assets						
Bank and cash balances	13,681,945	-	-	-	-	13,681,945
Short term deposits	-	30,777,049	-	-	-	30,777,049
Loans and advances to customers	36,370,978	21,803,584	16,487,570	79,347,631	11,177,093	165,186,856
Total financial assets	50,052,923	52,580,633	16,487,570	79,347,631	11,177,093	209,645,850
Financial liabilities						
Lines of credit	60,271,560	9,210,645	9,252,202	29,755,527	-	108,489,934
Medium term notes	-	1,527,958	1,527,958	5,229,107	-	8,285,023
Total financial liabilities	60,271,560	10,738,603	10,780,160	34,984,634	-	116,774,957
Net Liquidity gap	(10,218,637)	41,842,030	5,707,410	44,362,997	11,177,093	92,870,893

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity Risk Management (Continued)

	Up to 1 month	2-6 months	6-12 months	1-5 years	over 5 years	Total
	US$	US$	US$	US$	US$	US$
AT 31 DECEMBER 2017						
Financial assets						
Bank and cash balances	20,432,294	-	-	-	-	20,432,294
Short term deposits	847,337	6,859,499	-	-	-	7,706,836
Loans and advances to customers	19,524,030	34,607,125	40,236,653	159,104,683	29,641,559	283,114,050
Total financial assets	40,803,661	41,466,624	40,236,653	159,104,683	29,641,559	311,246,180
Financial liabilities						
Lines of credit	5,685,766	39,526,986	57,103,152	72,887,956	13,793,941	188,997,801
Medium term notes	-	9,740,012	10,074,966	27,345,152	-	47,160,130
Total financial liabilities	5,685,766	49,266,998	67,178,118	100,233,108	13,793,941	236,157,931
Net Liquidity gap	35,117,895	(7,800,374)	(26,941,465)	58,871,575	15,847,618	75,095,249

37. TAXATION

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

38. GOING CONCERN

In the last quarter of 2016, the Company experienced some adverse events which affected the operations of the Company, leading to reduced business activity and liquidity constraints. Due to these matters, there is material uncertainty with regards to the going concern of the company. The Board of Directors commenced a turnaround program of the Company in 2017 which continued into 2018. The following are some of the major measures being undertaken to address the liquidity constraints:

- The Company embarked on capital mobilisation in 2017. During the year, shareholders continued injection of share capital of US$ 5.6 million (2017: US$ 46.1 million). To shore up capital and improve on liquidity, the Board has put into place strategy for mobilisation of equity capital from existing and new members of at least US$20 million per year for the next 5 years. The Company's shareholders have been very supportive of the Company to achieve its strategic objective. This is demonstrated by the overall increase in capital by injection of US$ 46 million in 2017 and US$ 5.6 million in 2018.
- The Company is currently negotiating a full restructuring of its loans (line of credit) with major lenders (Lenders). The Debt Restructuring Agreement (DRA) with the major lenders aims to achieve strategic objective of the Company, preserve and create value for all stakeholders, enable the Company approach the debt market to refinance the facilities and raise additional debt to support the business. The major terms for the DRA include: 60 months tenor ending June 2024, up front mandatory payment of 20% of the outstanding loan prorated amongst lenders; interest payment at 31 December and June 30 and sculpted capital repayment. The capital repayments will be as follows: The 6th month starting December 2019: 3.7%; 12th, 18th and 24th months: 4.8% each; 30th month:5.1%; 36th month 4.7%; 42nd month 2.8%; 48th month 1.3%, 54th month 1.3%; 60th month 24.4% and 23.3% bullet payment after the 60th month. The Board and Management have reasonable expectation that the DRA will materialise. So far the following has been achieved in regards to DRA: presentation of Restructuring Proposal to Lenders, signing of letter of intent to enter into DRA by the lenders and settlement of 20% mandatory payment by SHAF to lenders on outstanding loan prorated amongst the lenders.
- The Company has put in place aggressive strategy for recovery of non-performing loans (NPL). The Company aims to achieve NPL reduction by at least US$ 15 million annually until NPL ratio is at or below 15%. To achieve this, the Company has put aggressive strategy of collecting distressed assets managed by a dedicated Special Operations Unit (SOU), which became operational on February 1, 2018.

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

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

39. EVENTS SUBSEQUENT TO YEAR END

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

40. CURRENCY

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

APPENDIX 1 - SHAREHOLDING INFORMATION SCHEDULE

		No of shares	No of shares	% of shareholding
	Class A: Countries	**31 December 2017**	**31 December 2018**	
1	Algeria	4,220	4,220	4.60%
2	Benin	306	306	0.33%
3	Botswana	839	839	0.91%
4	Burkina Faso	951	951	1.04%
5	Burundi	300	300	0.33%
6	Cameroon	4,135	4,135	4.51%
7	Cape Verde	16	16	0.02%
8	Central Afr. Rep	271	271	0.30%
9	Chad	1,090	1,090	1.19%
10	Congo	516	516	0.56%
11	Democratic Republic of Congo	600	600	0.65%
12	Djibouti	300	300	0.33%
13	Gabon	1,283	1,283	1.40%
14	Gambia	321	321	0.35%
15	Ghana	6,315	6,315	6.88%
16	Guinea	419	419	0.46%
17	Guinea Bissau	25	25	0.03%
18	Guinea Equatorial	301	301	0.33%
19	Ivory Coast	3,743	3,743	4.08%
20	Kenya	12,023	14,006	15.26%
21	Lesotho	500	500	0.54%
22	Liberia	309	591	0.64%
23	Madagascar	327	327	0.36%
24	Malawi	522	522	0.57%
25	Mali	4,237	4,237	4.62%
26	Mauritania	639	639	0.70%
27	Mauritius	115	115	0.13%
28	Morocco	2,542	2,728	2.97%
29	Namibia	1,325	1,526	1.66%
30	Niger	318	318	0.35%
31	Nigeria	10,430	10,430	11.37%
32	Rwanda	1,422	1,786	1.95%
33	Sao Tome & Principe	16	16	0.02%
34	Senegal	1,407	1,407	1.53%
35	Seychelles	300	300	0.33%
36	Sierra Leone	74	74	0.08%
37	Somalia	10	10	0.01%
38	Swaziland	228	228	0.25%
39	Tanzania	325	325	0.35%
40	Togo	162	162	0.18%
41	Tunisia	300	300	0.33%
42	Uganda	1,410	1,532	1.67%
43	Zambia	2,553	2,553	2.78%
44	Zimbabwe	1,457	1,457	1.59%
	Class B: Institutions			
1	African Development Bank	15,200	15,200	16.56%
2	African Reinsurance Corporation	4,520	4,520	4.93%
	TOTAL	88,622	91,760	100.0%

A man leads his camel across the great sandy dunes of the Moroccan landscape.

Morocco’s Tisdrin Pass, the second most winding road in the world, links the southeast of Marrakesh to the city of Ouarzazat.

www.shelterafrique.org

Tel: +254-20-4978000
Shelter Afrique Centre
5th Floor, Longonot Road
Upper Hill, Nairobi