housing finance corporation soc limited annual report 2012 national housing finance corporation soc limited annual report 2012 nati

annual report 2012

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

contents

national housing finance corporation soc limited

profile of the NHFC

Mandate

The NHFC was established by the then National Department of Housing as a Development Finance Institution (DFI) in 1996, with the principal mandate of broadening and deepening access to affordable housing finance for the low-to-middle income South African households.

Vision

To be the leader in development finance for the low-to-middle income housing market.

Mission

Provide innovative and affordable housing finance solutions to the low-to-middle income market.

administration

Registration number:
1996/005577/06

Physical address:
Isle of Houghton, Old Trafford 3,
11 Boundary Road, Houghton,
2193

Postal address:
P O Box 31376,
Braamfontein,
2017

Auditors:
Ernst & Young Inc.

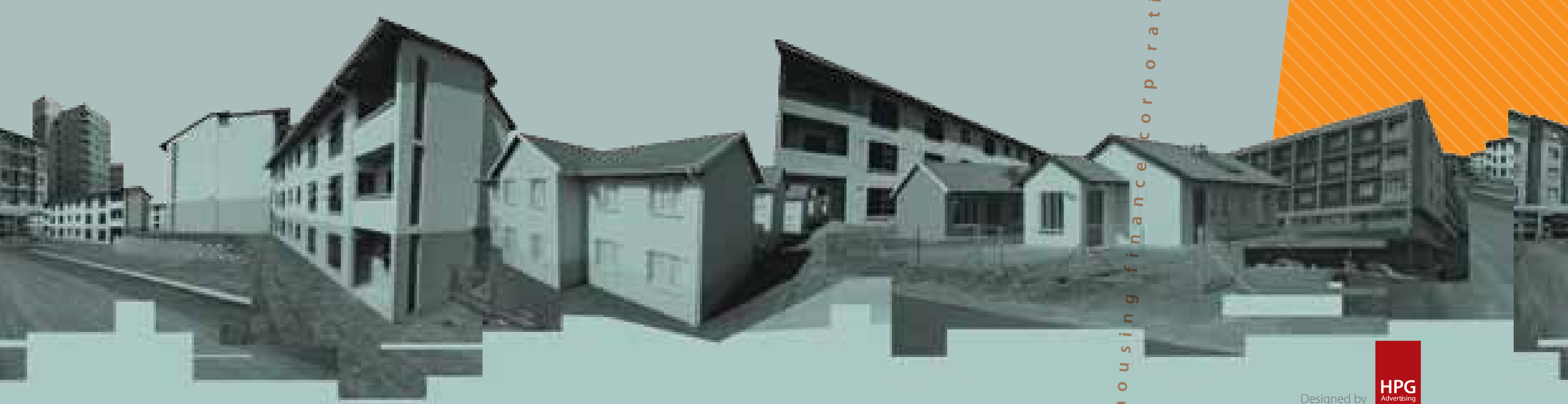
Bankers:
Standard Bank of South Africa Limited

Telephone:
+27 (0)11 644 9800
Fax:
+27 (0)11 484 0204

Email:
info@nhfc.co.za

Website:
www.nhfc.co.za

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.



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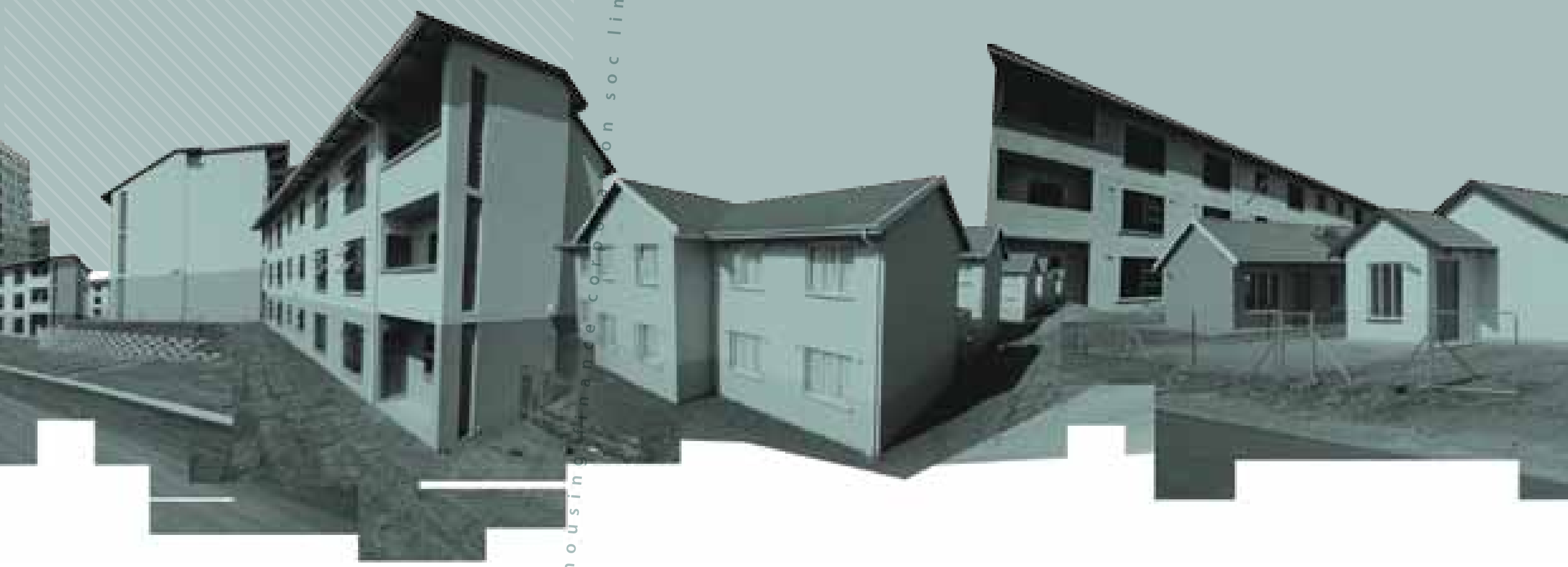
list of acronyms used in this report

AC	Audit Committee
ALCO	Assets and Liabilities Committee
AFD	Agence Française de Développement (French Development Agency)
BCIC	Board Credit and Investment Committee
BRC	Board Risk Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSI	Corporate Social Investment
CTCHC	Cape Town Community Housing Company (Pty) Ltd (a wholly owned subsidiary)
DFIs	Development Finance Institutions
DISC	Board Developmental Impact and Strategy Committee
EIB	European Investment Bank
ERM	Enterprise Risk Management
EXCO	Executive Committee
FLISP	Finance Linked Individual Subsidy Programme
GPF	Gauteng Partnership Fund
GRAP	Generally Recognised Accounting Practice
HFF	Home Front Finance (NHFC Retail Division)
HIP	Housing Investment Partners (Pty) Limited (an associate company)
HRER	Board Human Resources, Ethics and Remuneration Committee
GEHS	Government Employees Housing Scheme
ICC	Internal Credit Committee
IRC	Internal Risk Committee
MCIC	Management Credit and Investment Committee
MDI	Mortgage Default Insurance
MDIC	Mortgage Default Insurance Company SOC Limited (the process to change the name of Carnilux (Pty) Ltd, a shelf company, to MDIC with the Commission for Intellectual Property and Companies, is underway)
NCA	National Credit Act, No. 34 of 2005
NDoHS	National Department of Human Settlements
NHFC	National Housing Finance Corporation SOC Limited
PFMA	Public Finance Management Act 1 of 1999
SHRA	Social Housing Regulatory Authority
TUHF	Trust for Urban Housing Finance Holdings (Pty) Ltd (an associate company)

national housing finance corporation soc limited

2012 annual report



NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

NHFC's mandate

mandate

The NHFC achieves its mandate through the provision of wholesale financing through one of the following three housing finance options for households:

- Rental Housing;
- Home ownership through Mortgage Loan Finance; and
- Incremental Housing.

The choice of the option depends on the customer's affordability at the time.

As a wholesale financier, our client base includes developers, property owners, social housing institutions and non-banking retail intermediaries who provide housing solutions for households earning between R3 500 and R15 000 per month, typically regarded as the affordable housing market, otherwise known as the GAP market.

Rental Housing

This entails the provision of loan finance to institutions that provide various housing tenure options other than ownership. The types of rental products are as follows:

Social Housing Rental

- This type of rental accommodation is more affordable than private / commercial accommodation and is provided by Social Housing Institutions (SHIs) which are Section 10 companies (not for profit); and
- Restructuring Capital Grants (RCGs) to the projects are allocated by NDoHS via the Social Housing Regulatory Authority (SHRA) and top-up subsidies are allocated by the Provincial Government; whilst
- The NHFC provides long term loans (up to 20 years) to the projects for the balance of the funding required to implement the project.

Private Rental

- Restructuring Capital Grants (RCGs) and subsidies are not available for private property investors and developers; typically loan funding, from institutions such as ourselves, is used to develop the project. This also includes inner-city rental developments.

Home Ownership

Home Ownership is achieved through the indirect provision of mortgage bonds for either buying an existing home or building one through partnership with banks and non-banking retail intermediaries.

Partnerships with Banks

- Through co-financing and risk-enhancement mechanisms, banks' lending in this segment of the market is increased and sustained.

Non-Banking Retail Intermediaries

- NHFC provides loans to non-banking retail intermediaries, who on-lend to households in the NHFC target market. Access to home loans is increased and delivered through the branch networks of such intermediaries.

Incremental Housing

Funding is made available via intermediaries, to end-users whose household income ranges between R3 500 to R15 000 and for loans usually between R1 000 and R20 000. The end-user may use these loans to:

- obtain building supplies;
- buy land on which to build;
- service land;
- lay foundations;
- pay for building works;
- top up subsidy amounts; and
- fund any form of use relating to housing that is permanent (excluding furnishing, etc.).

strategic objectives of the NHFC

objectives

- Expand housing finance activities, through the effective provision of housing finance solutions, thus enabling low-to-middle income households to have a choice of renting, owning or incrementally building, to meet their housing needs.
- Facilitate the increased and sustained lending by financial institutions to the lower end of the housing market.
- Mobilise funding into the human settlements space, on a sustainable basis, in partnership with the broadest range of institutions.
- Conduct the business activities of the NHFC in a manner that ensures the continued economic sustainability of the NHFC whilst promoting lasting social, ethical and environmental development.
- Stimulate the low-to-middle income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing consumers.

key milestones

key milestones

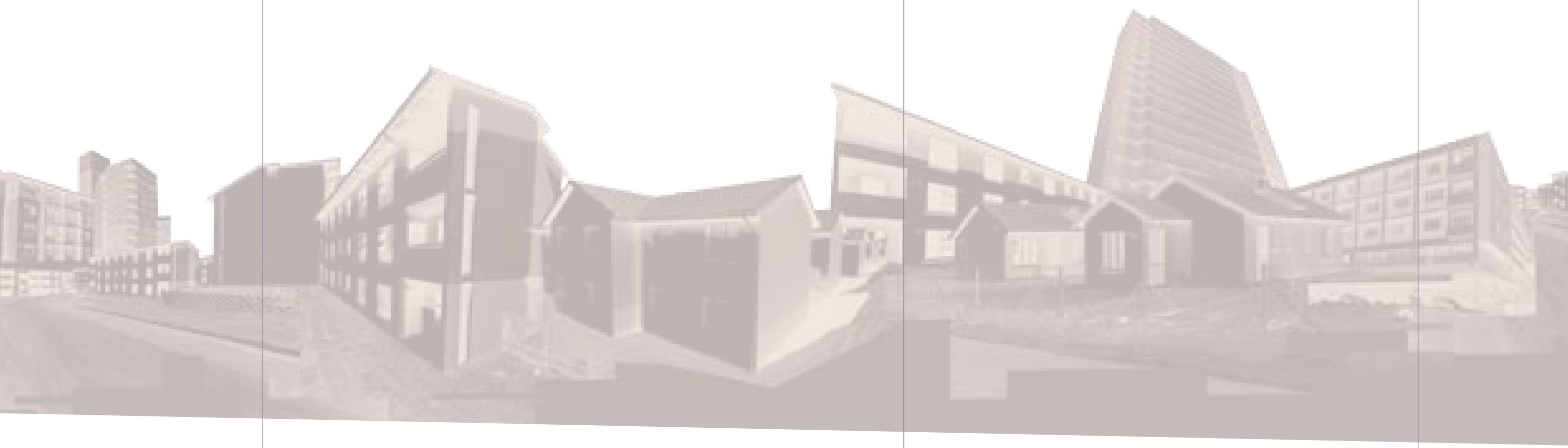
2008

- **Housing Investment Partners** launched in conjunction with **Pan African Capital Holdings (PACH).**
- Co-organised with the AFD an international symposium on **Urban Development, Housing and Social Cohesion** with French and Brazilian counterparts.
- **Co-organised and funded the training of 400 Black Estate Agents.**

2009

- **Old Mutual Capital Holdings** incorporated as partner in HIP.
- **Highest number of units** funded in financial year, since inception.
- Retail Division, **Home Front Finance** set up.

2010



- External funding and **PFMA** approvals thereof secured.
- Signed an agreement with **AFD** for the Rand equivalent of **EUR20 million,** and in the process of concluding an agreement with **EIB** for the rand equivalent of **EUR30 million.**
- NHFC adapts its approach and strategies to align with the Human Settlements' priorities and developmental impact expectations.
- The **Boitekong Project**, a **Public-Private Partnership** with **Implats**, to provide end user finance to their employees, won the **Southern African Housing Foundation Project of the Year Award.**
- Strategic decision to discontinue the Retail business.

The NHFC was established by the then National Department of Housing as a Development Finance Institution (DFI) in 1996, with the principal mandate of broadening and deepening access to affordable housing finance for the low-to-middle income South African households.

2011

- The announcement of **R1billion guarantee fund** to address the GAP market in the form of **Mortgage Default** Insurance to be administered and managed by the **NHFC**.
- Signed an agreement with the **European Investment Bank** for the Rand equivalent of **EUR 30 million.**
- Concluded an agreement with **Old Mutual Insurance Group and its BEE Partners** to participate in an Affordable Housing Fund with initial funding of **R900 million.** The project will eventually generate R6 billion into the economy over a 10-year period. The fund will finance the development and sale of **25 000 affordable units.**
- Number of key NHFC housing projects **launched by State President and Minister of Human Settlements.**

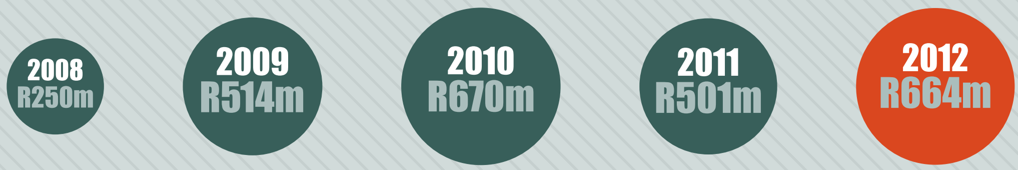
2012

- Success of the **leveraging initiatives and partnerships with the private sector**, making a huge contribution to the funding delivery impact.
- Conclusion of the **TUHF recapitalisation.**
- During the year, the NHFC and the **GPF** entered into a **co-funding agreement** to enhance access to housing finance for the low and middle income earners.
- Extensive work was done in **achieving business readiness of the revised FLISP programme** for a 2 April 2012 launch.

highlights/achievements 2008-2012

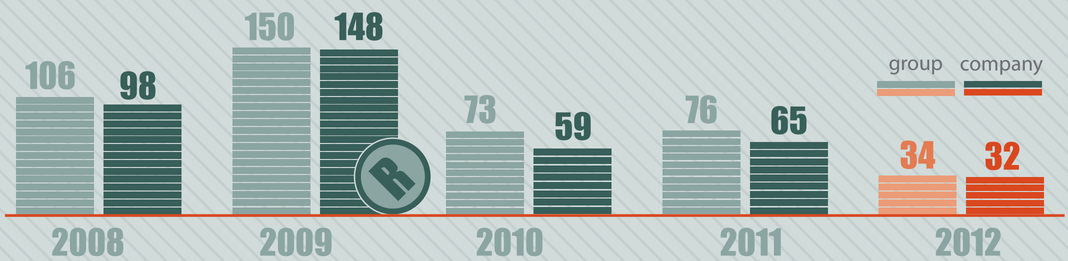
developmental impact

Disbursements for 2008 – 2012 (R million)



Cumulative housing opportunities 2008 – 2012 (thousands)

profit before tax 2008 – 2012 (R million)

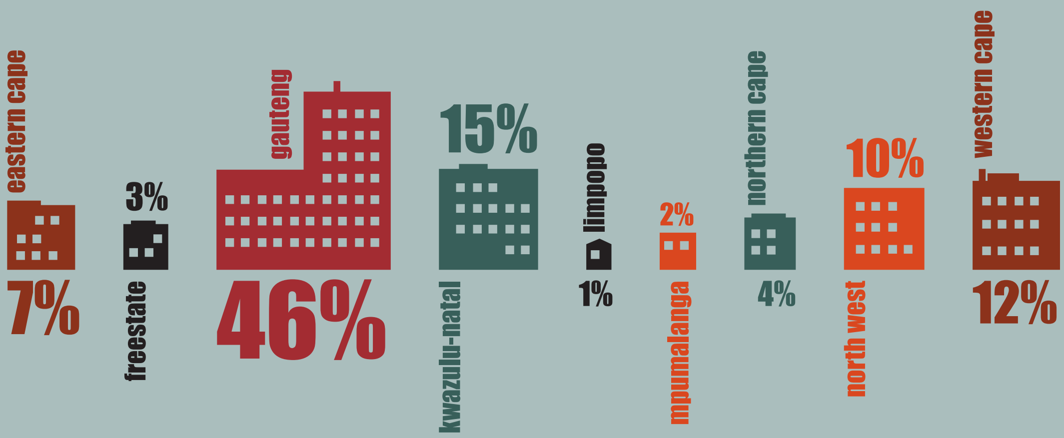


key financial indicators

		2012	2011	2010	2009	2008
Profit before tax (R'000)	Group	34,220	75,547	73,440	150,497	106,097
	Company	31,790	65,348	58,823	148,498	97,520
Return on equity (%)	Group	0.92	2.63	2.61	5.00	2.96
	Company	1.00	2.26	2.06	5.02	2.68
Cost to income ratio (%)	Group	64.62	59.10	41.32	37.04	48.28
	Company	62.36	61.68	40.58	35.63	51.88
Credit loss ratio (%)	Group	1.58	0.26	4.98	1.59	1.39
	Company	1.52	0.25	4.76	1.51	1.39
Provision for impairments: Gross Advances (%)	Group	8.45	8.07	9.08	5.39	5.74
	Company	8.14	7.76	8.67	5.10	5.74

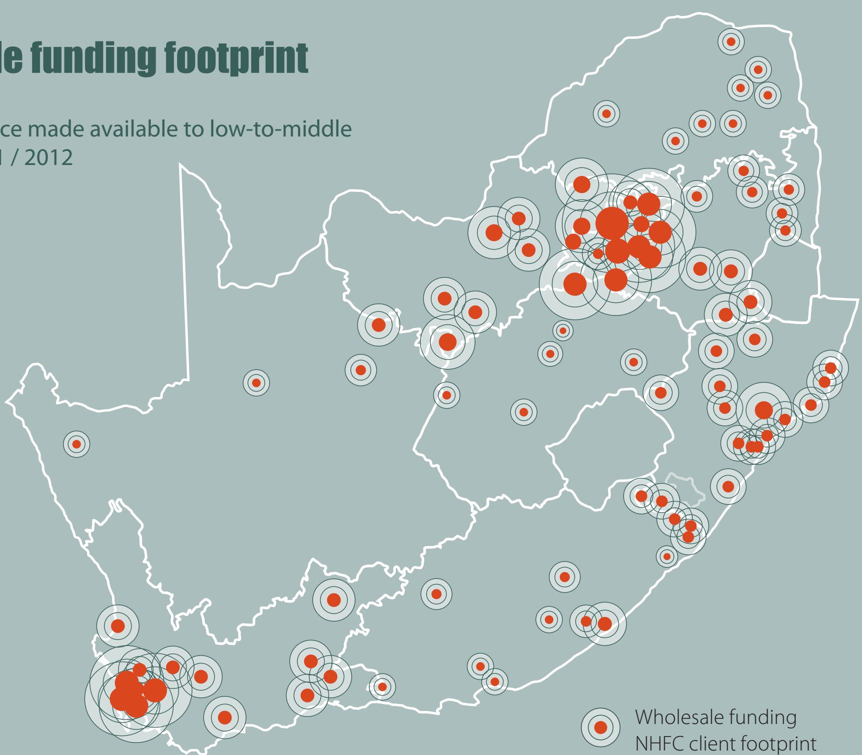
disbursements by province

NHFC disbursements for 2011/2012
by Province (percent of total)



NHFC wholesale funding footprint

Access to housing finance made available to low-to-middle
income earners for 2011 / 2012



the board

The Board of the NHFC

Standing (left to right): Sizwe Tati, Samson Moraba, Michael Katz, Sango Ntsaluba, Johan Coetzee,

Seated (left to right): Elsabe Marx, Phekane Ramarumo, Anthea Houston, Dr. Snowy Khoza (resigned), Sonnet Swanepoel

board

Name and designation	Academic qualifications	NHFC Director as from
Prof Michael Katz Independent Non-executive Chair Chairman, Edward Nathan Sonnenbergs	BCom, LLB (Wits), LLM (Harvard Law School), LLD(h.c) (Wits)	10 May 1996
Mr Samson Moraba Chief Executive Officer, NHFC	BCom (Unisa), PMD (Harvard)	11 January 1999
Mr Sango Ntsaluba Executive Chairman: Amabubesi Group	CA (SA), BCom (Fort Hare), BCompt Honors (Unisa), NHD in Tax Law (UJ)	9 December 2003
Mr Sizwe Tati Director: Yakani Group	BCom (University of the North), Post Graduate Diploma in Management (GSMT), Diploma in Company Directing (IoD), Senior Executive Programme (Harvard)	2 September 1996
Dr Snowy Khoza[1] Chief Executive Officer: Bigen Africa Services (Pty) Limited	MBA (UCT), PhD (Brandeis University, USA), MA (SS) (UNISA), BA (Hons) (Fort Hare), BA (SW) (University of the North)	7 February 2008
Mr Johan Coetzee Retired Banker and director of companies	BA (University of Pretoria), MBA (Graduate School of Management) (University of Pretoria)	6 May 2009
Ms Anthea Houston Development Consultant	Postgraduate Diploma in Management: Organisation and Management (UCT) Banking Licentiate Diploma	6 May 2009
Ms Phekane Ramarumo Truly African Solutions (Planning Consultants)	Chairperson of the Statutory Board of Servcon Housing Solutions PrPln, MRP (Sunya) USA	6 May 2009
Ms Sonnet Swanepoel CEO Ad Outpost Holding (Pty) Ltd.	BSc(QS) Honours (University of Pretoria) Advanced Certificate in Financial Markets	13 December 2010
Ms Elsabe Marx Company Secretary	B Proc, LLB, LLM (UJ)	29 October 2004

[1] Resigned June 2012

executive committee

The executive committee of the NHFC

Standing (left to right): Simphiwe Madikizela, Zola Lupondwana, Samson Moraba, Andrew Chimphondah, Nomsa Ntshingila, Chris Moodley, Siegfried Mogane, Alan Govender, Adelaide Mohale, Lawrence Lehabe and Sydney Mutepe.

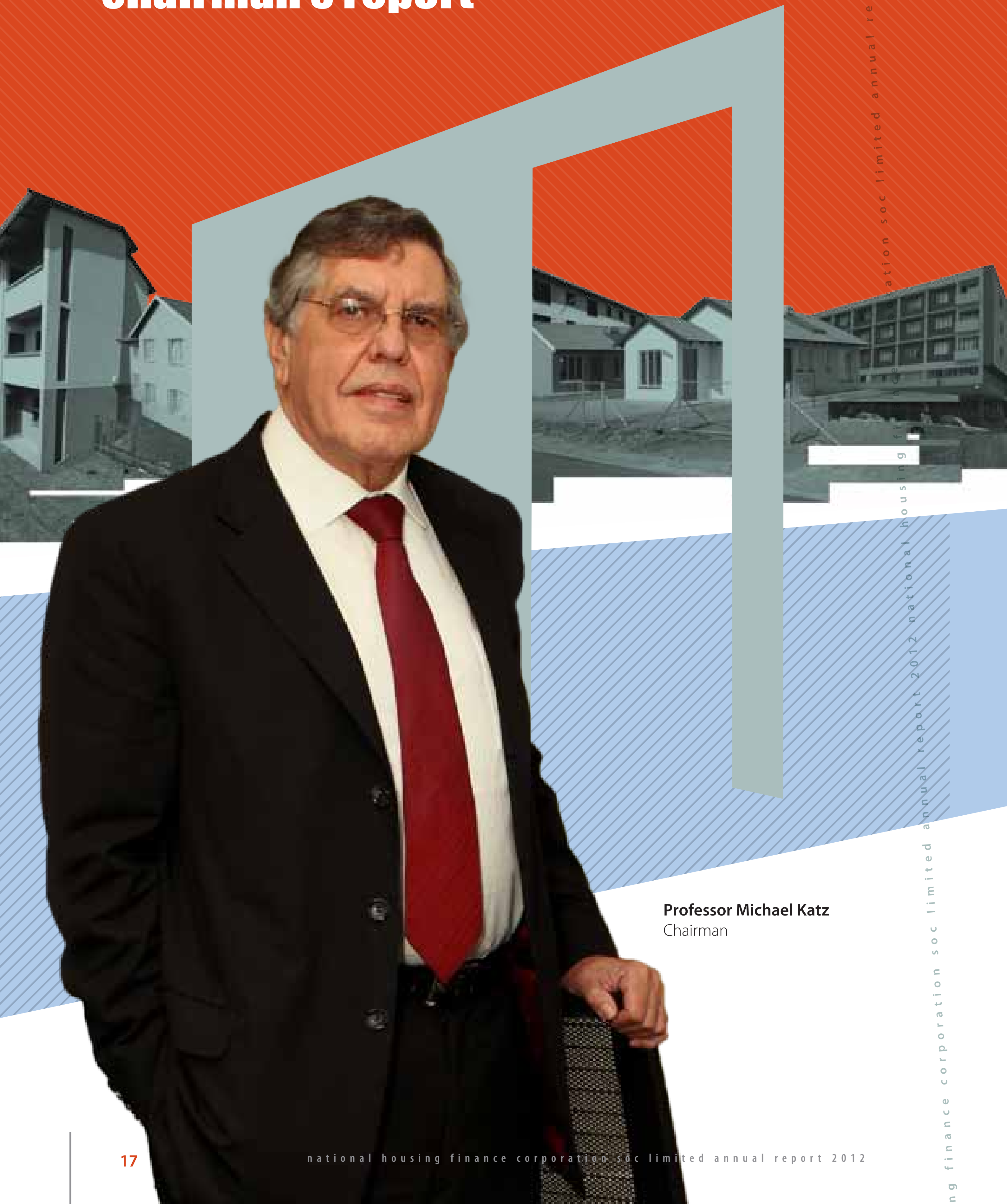
Seated (left to right): Elsabe Marx, Zonia Adams, Masego Maluleke, Thandi Sihlaba and Mandu Mamatela

committee

Name and designation	Academic qualifications	Executive from
Mr Samson Moraba Chief Executive Officer	BCom (Unisa), PMD (Harvard)	January 1999
Ms Zonia Adams Chief Financial Officer	BCompt Honours (Unisa), CA (SA)	January 2007
Mr Andrew Chimphondah Managing Executive: Strategic Investments	CA (Z), MBA (Durham-UK)	September 2008
Mr Alan Govender General Manager: Information Technology	MBA, Milpark Business School, Midrand Graduate Institute	March 2009
Mr Lawrence Lehabe Executive Manager: Projects	BCom, MSc (Marketing)	July 2005
Mr Zola Lupondwana General Manager: Corporate Finance	BCom, ACA*, CFA, CA (SA)	January 2012
Dr Simphiwe Madikizela General Manager: Commercial	B.Agric Economics, B.Inst.Agrar Hons, M.Inst. Agrar, PhD Economics, IEDP (UK)	July 2008
Ms Masego Maluleke General Manager: Corporate Communications and Marketing	BA, Industrial Psychology, (Wits), Masters in Public and Development Management (Wits), Strategic Marketing Management (Wits) IEDP (GIBS)	September 2010
Ms Mandu Mamatela Executive Manager: Credit	BCom (Hons), MBA, IEDP (UK)	December 2010
Ms Elsabe Marx Company Secretary	B Proc, LLB, LLM (UJ)	October 2004
Mr Siegfried Mogane Executive Project Manager: Mortgage Default Insurance Company	BCom, M.Strat	July 2007
Ms Adelaide Mohale General Manager: Government Strategic Relations	BA Law (Wits)	December 2011
Mr Chris Moodley General Manager: Projects	BCom (Unisa), MBA (Wales)	September 2010
Mr Sydney Mutepe Executive Manager	BCom, MBA	August 2008
Ms Nomsa Ntshingila Executive Manager: Human Resources	MSc: Clinical Psychology; BSoSc Hons; HED; BA Com	September 2005
Ms Thandi Sihlaba Executive Manager: Enterprise Wide Risk	BCom, BCompt (Hons), ACCA, CIA, Certificate in Project Management	March 2011

**member of the Institute of Chartered Accountants in England & Wales*

chairman's report



Professor Michael Katz
Chairman

The global economic environment remains challenging with much of the developed economies experiencing subdued economic growth as they seek to work through public and private sector debt excesses accumulated over the last two decades. While significant financial risk clouds the global economic growth outlook in these developed economies, especially in the Eurozone, there are pockets of sustained growth in mainly developing Asia and sub-Saharan Africa.

With Europe being South Africa's largest trading block, we have not been immune to the slower economic growth and uncertain capital markets with South Africa's GDP growth estimated at 3.1% in 2011 after subdued economic growth in the previous years. The projected growth in 2012 is estimated at 2.7% increasing to 3.6% in 2013 and these rates of growth are modest in relation to the developmental challenges we face.

South African Economic Environment

The affordable housing market, and indeed, the broader housing market, has been one of the most challenging trading environments, in a long time, due to subdued economic growth, poor job outlook and continued cost pressures on consumers. Despite the fact that interest rates have remained at thirty year lows, the volumes of trade in mortgage loans have remained depressed in the last two, to three years. We have also noted the tactical decision of the banking community to augment revenue streams by shifting, more towards unsecured lending. In the short term, while unsecured lending remains a small portion of the total consumer credit book, we believe, it is however, a trend that needs to be closely monitored, as it has a potential adverse impact on the growth of a mortgage lending portfolio.

Operating Environment

The year under review, was not only a challenging one, but one that also had its exciting moments. Never before, in the history of the NHFC, have we embarked on a number of initiatives directly linked to the Human Settlements Ministry's delivery expectations. It is no wonder that both key priority projects, namely, the MDIC and FLISP, were a subject matter, in the State of the Nation Address by the State President, the Minister of Finance's Budget Speech and the Human Settlements Minister's Budget Speech. These complementary programmes are aimed at significantly improving access to affordable housing finance for the majority of the underserved, low-to-middle income households. This is achieved mainly, through increased and sustained partnerships with both the Banking and Non-Banking lenders, in the affordable housing market.

On the MDI front, significant progress has been made by the NHFC team, with respect to establishing the MDIC. Negotiations have been ongoing with the banking community on the product structure, pricing and other operational issues and it is expected that the business will be launched in the third quarter of 2012.

On 2 April 2012, the NHFC successfully launched the revised FLISP Programme. The programme is being continuously refined to better meet expectations of various stakeholders, primarily banks, other spheres of Government and borrowers.

The NHFC executive team deserves special credit for the way in which they, not only responded magnificently to the challenges of launching the new programmes of the NHFC, but also had the tenacity of keeping their eyes on the ball, in improving the performance of the current business, compared to the previous year, and in growing the pipeline for the year ahead.

Risk Management Approach

In the ever changing business environment, understanding risk and responding accordingly as business strategy is implemented, has become more important. In that regard, the Board Risk Committee has developed and implemented a range of risk frameworks and policies. The most significant of these, is the risk appetite statement, which is integral in determining how much risk can be taken, in a given strategy implementation, and how NHFC should be compensated for such risk. An important element in this is the embedding of the risk statement, in all business units and on an on-going basis.

Consolidation and Integration of the Human Settlements DFIs

The National Development Plan (NDP) and the New Growth Path, both important economic development plans of the South African Government, have outlined the policy context of a developmental state and acknowledge the critical role of state-owned companies as agents of economic development. The plans focus on creating sustainable jobs, improving infrastructure, the "green economy", rural development, innovation, quality education and training amongst other things.

More specifically, on the subject of State-owned entities, the NDP reiterates the importance of a clear mandate, clarification of a governance structure and the addressing of capacity constraints in Institutions, if they are to operate more efficiently and effectively. It is under these circumstances that our principal, the National Department of Human Settlements, has approved Phase I of the consolidation and integration of the three Human Settlements Development Finance Institutions. The Options Analysis is the first step in the creation of an entity with a more refined mandate, greater scale for delivery, more efficient structure and financial sustainability.

As the Board of the NHFC, we are in full support of the planned DFI consolidation, as it will significantly enhance the broader Human Settlements' ability to deliver on what remains a challenging task. We welcome the Minister's decision, of choosing the NHFC as being core, to such a consolidation and integration.

Governance and Changes to the Board

In accordance with the Companies Act, the NHFC has recently constituted a Social and Ethics Committee to work hand in hand, with various Board sub-committees, especially the Developmental Impact and Strategy Committee, as we enhance the NHFC's approach, strategies and operations to making a holistic, sustainable development impact. All of the Board's sub-committees are operating efficiently and are making a significant contribution to the optimum functioning of the Board.

There have been no changes to the NHFC Board, over the reporting period. On 30 June 2012, Dr. Snowy Khoza resigned so as to avoid any conflicts of interest having regard to her new responsibilities in the private sector. Dr. Khoza made a significant contribution to the Board and we will miss her. We wish her well in her new position.

Acknowledgements

We are grateful to our Minister, Mr. Tokyo Sexwale (MP), for his continued commitment and confidence in the NHFC. During the year, this has been displayed through supporting our strategic priorities and various initiatives which are fundamentally changing the housing finance landscape. Similarly, we thank the Director-General and his team for their tireless support.

I would like to thank my fellow Board members over the past year. In the current environment, the role of a Board member is demanding, but their energetic commitment has been exemplary.

I would also like to thank the CEO, his management team and staff who have risen to the occasion, as the NHFC becomes an increasingly, complex business, requiring new ways of doing business.

With the heightened expectations from the shareholder and broader stakeholder society, I wish to reiterate that, we at the NHFC, are alive with great enthusiasm and determination of seeing the quality of life of many ordinary South African men and women, improved by availing them an opportunity of buying, or renting or incrementally, building their own well located, quality livable homes.

Prof Michael Katz
Chairman

Showcasing projects

project value
R72m

no. of jobs
225

no. of units
187

Parklands Affordable Rental Housing Project – Parklands (Western Cape)						
Project Statistics						
Project Name	Project Value R'm	NHFC Loan R'm	Leveraged Funds R'm	No of units	No of jobs created	No of beneficiaries
Parklands W.Cape	72	41	31 (Equity)	187	225	711

The project is located in Parklands, Eersterivier, Western Cape and consists of two-bedroom units and caters for households with monthly incomes of under R15 000. Average rental in the project is R3 300 per month. The tenants will be able to approach the developers to buy the units outright after 2015. This is an example of a successful partnership between the NHFC and private sector developers, International Housing Solutions (Pty) Ltd, where the private sector contributed 43% of the development funding required for the project whilst the NHFC provided loan funding of 57%.

↑ *Parklands Affordable Rental Housing Project, Parklands, Western Cape*

← *Parklands Affordable Rental Housing Project under construction*

chief executive officer's review

Mr SS Moraba
Chief Executive Officer

Highlights of the year

- NHFC is on track for the launch of the mortgage default insurance business in the third quarter of 2012;
- Solid leveraging capability and partnership with the private sector, at various levels, which will make a significant contribution to the delivery of houses in the coming years. We were able to leverage R2.07 billion of third party funding into the Human Settlements space, which is expected to enhance delivery in housing, in the coming years;
- In addition, TUHF, which is an associate company, was recapitalised with R125 million of equity and was then successful in raising a total of R700 million of debt funding (post financial year end) from institutional investors which will play a major role in contributing to inner-city rejuvenation;
- Signed a co-funding agreement with the GPF with both parties contributing R100 million each to support financing of BEE property investors in the affordable rental market;
- Extensive work was done in negotiating with banking partners, and provinces, developing of systems, refining of processes and staff training in preparation for the launch of the revised FLISP on 2 April 2012;
- The successful mobilisation and disbursement of funds from two multilateral development finance agencies, at attractive pricing for the household; and
- Disbursements and housing units delivered exceeded the previous year's performance by 33% and 28%, respectively.

During the year under review, the NHFC continued to be a catalyst in increasing private sector participation in the affordable housing market. This was achieved through funding of new and existing entities in the affordable housing market in partnership with large financial institutions like Old Mutual, Future Growth Asset Management and the Public Investment Corporation (PIC).

Southernwood Square, East London, Eastern Cape

Impact

During the year under review, the NHFC continued to be a catalyst in increasing private sector participation in the affordable housing market. This was achieved through funding of new and existing entities in the affordable housing market in partnership with large financial institutions like Old Mutual, Future Growth Asset Management and the Public Investment Corporation (PIC).

Business challenges

The trading environment was characterised by the slow pace of converting approved loans into disbursements. These challenges, among others, were the disbursement waterfall, where particularly, in social housing projects, subsidies get disbursed first, before NHFC loans, the time delay in the obtaining of clearance certificates or bond registration and complex multiple funding structures, leading to proportionate progress disbursements. The fact that a majority of households are still over indebted and with the increasing cost pressures, they are also struggling to keep up their mortgage obligations or even secure mortgage finance. To this end, at the end of the financial year, approximately R545 million of approved loans have not yet been disbursed.

Financials

NHFC achieved a consolidated profit before tax of R34.2 million, which was significantly down on the previous year's (at R75.5 million), primarily due to increased impairments and rising costs of borrowing, as a result of a strategic decision to restructure the balance sheet, through increased debt funding.

33%
growth in disbursements compared to 2010 – 2011

28%
growth in housing units delivered

As a lending business, interest on advances is a key value driver of profitability. This increased by 23% on the prior year's figure in the consolidated financial statements, primarily as a result of a growing loan book.

The impairments charge increased from R4.4 million in the previous year to R31.6 million, mainly as a result of a single client that experienced working capital challenges. However, this increase must be viewed in the light of our developmental mandate and risk appetite. In that regard, the overall credit loss ratio of 1.58% for the year, is acceptable and within our risk tolerance level.

The statement of financial position continued to reflect a robust financial position with the increase in net advances of 17% from the prior financial year. This was funded primarily from reserves and increased borrowings. The net cash position as at year end, including held to maturity investments (money market investments), improved from R1.1 billion (31 March 2011) to R1.4 billion. This bodes well for funding the anticipated growth in the loan book.

Overall, Commercial achieved 58% growth in disbursements compared to 2010/11 at R87m versus R55 million but was significantly down on the year's budget of R152 million, primarily as a result of approved loans which are awaiting disbursements pending the fulfilment of certain loan conditions.

In spite of the NHFC satisfactorily meeting its loan obligations since inception, the lower than expected revenue and the higher impairment charges, had an adverse impact on two of the key financial covenant ratios on the loan from AFD. This has triggered a default on the AFD loan and entitled AFD to declare the credit facility, immediately due and payable. In subsequent engagements with AFD on the matter, AFD, in view of the long standing partnership with NHFC, formally waived their right to accelerate the repayment of the loan facility or making it immediately due and payable.

At the forthcoming AFD mission to the NHFC in September this year, AFD will assess NHFC's situation and agree on a possible modification of the financial covenants, taking into account the current economic and financial market conditions, as well as the NHFC's developmental mandate imperative.

However, the above default has led to the reclassification of the entire AFD loan from a non-current to current liability in the statement of financial position in accordance with GRAP 1.

Included in the funding source, for the next financial year, is the sale of the Retail loan book. The preparatory work for the sale of the Retail loan book is well advanced and after the necessary approvals from National Treasury, the performing and non-performing book is expected to be sold through a tender process.

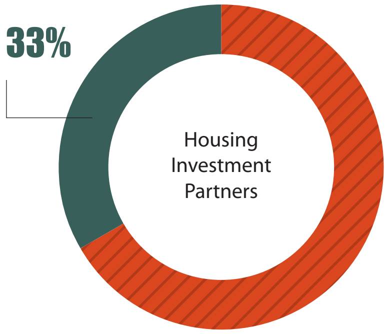
Divisional highlights

Projects

Projects division achieved 89% of the disbursements budget with actual disbursements at R517 million versus a budget of R581 million and delivered 5 604 housing units versus a budget of 6 644. The division was successful in leveraging over R2 billion in third party funding against a budget of R1.3 billion primarily as a result of projects involving the Old Mutual Group. As most of these projects are still in the initiation phase, the impact with respect to delivery of houses will reflect in the coming years.

Constrained lending by banks for project finance to developers and mortgage loans to homeowners continued to be a challenge during the year. We have also noted that in the last three years, there has been a gradual attrition of high calibre property developers which has meant that funders are competing aggressively for these projects. Innovation and competitive pricing are becoming critical differentiators for funders as property developers become more discerning.

NHFCs' equity stake in strategic partnerships and investments



Commercial

The division focuses on wholesale lending to retail intermediaries who provide mortgage and incremental loans for home improvement to end users. For a number of reasons, overall mortgage lending in South Africa has been under pressure, due to banks preferring unsecured lending instead. The incremental loans business performed better as home owners focused on improving their existing properties as opposed to purchase of new properties.

Overall, Commercial achieved 58% growth in disbursements compared to last year at R87 million versus R55 million but was significantly down on the year's budget of R152 million. This is primarily due to approved loans which are awaiting disbursements, pending the fulfilment of certain loan conditions.

Strategic Partnerships and Investments

TUHF

TUHF, in which the NHFC owned an equity stake of 27% at year end (and increased to 32.6% post year end after capital raising), remains an example of the success that can be achieved in the affordable housing market through effective execution of partnership strategy. With a loan book of R1.3 billion, and a profit after tax of R10.7 million, as at 31 March 2012, the company has recently successfully completed (post year end) an equity recapitalisation which will allow it to sustainably augment its debt funding.

TUHF has also increased its national reach with branches in Durban and Port Elizabeth.

HIP

During the reporting period, NHFC increased its equity shareholding from 25% to 33.3%. HIP is a private sector affordable housing initiative in partnership with the Old Mutual Group (which owns 66.7%). HIP has been generating an operational loss since inception given the delay in the launch of the pilot.

It is anticipated that the HIP pilot project of an initial R100 million, for which NHFC will contribute R20 million debt funding and the Old Mutual Group will contribute R80 million, will commence by the third quarter of this financial year. The intention of the pilot project will be to test the product structure, systems, business viability and management.

Should the pilot project indicate a viable business, it is expected that HIP will raise an additional R1 billion to achieve the necessary scale.

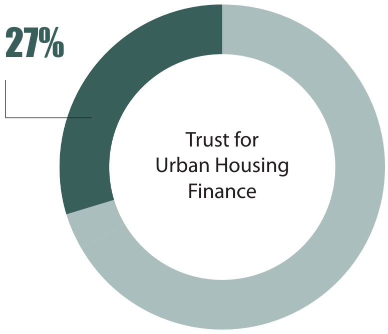
It is envisaged that the R1 billion will be made up of a contribution from the Old Mutual Group, the NHFC and the PIC. In this regard, the PIC has commenced with a due diligence on HIP, as it considers participating both at equity and R1 billion debt funding.

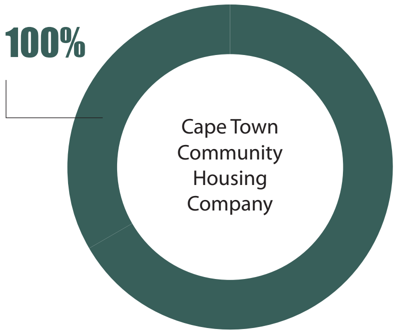
CTCHC

CTCHC is a wholly owned subsidiary of the NHFC.

The company reported a loss of R1.8 million against a budgeted profit before tax of R17 million. This negative variance was due to the delay in the disposal of the legacy housing stock due to technicalities associated with the inability to guarantee purchasers of the properties vacant occupation.

Efforts to turnaround CTCHC are progressing well and in line with the plans to dispose part of NHFC's majority equity stake, by 2014. This has taken cognisance of the underlying property values and the large projects pipeline which are important for any prospective acquirer.





The launch of mortgage default insurance should result in increased access and mortgage finance affordability by end users in the GAP or affordable housing market.

Strategic Initiatives

Mortgage Default Insurance

The Mortgage Default Insurance Product Programme will be launched in the third quarter of this financial year. The launch of mortgage default insurance should result in increased access and mortgage finance affordability by end users in the GAP or affordable housing market. It does so through the MDIC working in partnership with a wide range of banks and non-banking financial institutions, by underwriting the credit default risk of mortgage loans granted by these institutions.

Recent advanced engagements with National Treasury indicated that the adequate capitalisation support of MDIC (of approximately R715 million) is more of a preferred option, than the original R1 billion Government Guarantee, as this will meet the FSB's capital adequacy requirements.

Initially, we expect that by 31 March 2013, 7 000 mortgage finance loans would be granted by various participating lenders in the programme.

The Launch of a Revised FLISP

FLISP was identified as an important instrument in enhancing affordability and accessibility of those seeking home loan finance in the affordable housing market.

Given challenges of mortgage affordability being raised by the banking community with respect to the GAP market, FLISP will assist in stimulating lending to this market through a government funded subsidy to qualifying beneficiaries who are in a financial position to secure a home loan in order to reduce the amount of the loan thereby rendering the loan repayments more affordable. The qualifying property value is R300 000 and below and the subsidy ranges from R10 050 to R87 000 for households earning between R3 500 (with the highest band of subsidy) and R15 000 per month.

Lakehaven, Durban, KZN

The Minister of Human Settlements mandated the NHFC to administer FLISP on behalf of the Provinces, and become a one-stop centre to process and disburse FLISP subsidies.

The revised FLISP was rolled out on 2 April 2012 and is expected to have a material impact in stimulating the development of new properties and the trade of secondary properties in the affordable housing market. Through strategic partnerships with the NDoHS, provincial and local government, developers and the banking community, the effective implementation of this programme will go a long way in contributing towards sustainable human settlement developments and improving the quality of lives of South Africans.

We owe our success to our clients, staff and various range of partners who have continuously remained committed in working with us in developing financing solution options.

Southernwood Square, East London, Eastern Cape

The Consolidation and Integration of Human Settlements Development Finance Institutions (DFIs)

In November 2011, the Minister of Human Settlements, Mr. Tokyo Sexwale (MP), gave approval of phase I and proposed phase II of the three Human Settlements DFI's (NHFC, NURCHA and RHLF) consolidation and integration.

Given the need for a business owner and orchestrator, the NHFC, being core to the consolidation, will report directly to the appropriate governance and authority structures on the matter.

The next phase of the consolidation will require an approval from Cabinet, as well as additional work of undertaking a due diligence, finalising the business case for the consolidation, and lastly, the consolidation and integration of the institutions.

NHFC remains committed to the successful consolidation, Phase II, as it will significantly raise the broader Human Settlements' capacity to deliver on its mandate, through a Human Settlements' DFI, with greater scale, a more efficient structure and financial capability.

Future Prospects

We are looking forward to a challenging but an exciting year ahead, where we will extend the rollout of FLISP, operationalise the MDI business, continue to grow our lending business, and through strategic partnerships, increase the availability of funding in the Human Settlements space, while we also provide households with housing finance options.

That we are core to the amalgamation of the Human Settlements DFIs, which will ultimately lead to a consolidation and integration of institutions, we see this as a critical role in the delivery of the shareholders intended outcome, namely of a robust DFI, able to handle a range of finance products, spanning the whole of the Human Settlements' value chain.

Since the first quarter of 2012 signals an improvement in trading conditions, especially in project finance for rental housing units, and with the heightened role of the private sector in the affordable housing market, the NHFC is looking forward to significantly enhancing its contribution to Outcome 8, a performance agreement signed between The Presidency and the Minister of Human Settlements.

Appreciation

Special mention goes to the Honourable Minister Mr Tokyo Sexwale, for his unwavering support for the NHFC during this period, wherein a number of significant programme initiatives were being pursued. The co-operation between the NHFC and the NDoHS as displayed by the role played by the Director General, Mr Thabane Zulu, and other staff in the Department, is highly appreciated.

I would like to extend a special word of gratitude to the Board Chairperson, Prof Michael Katz, and fellow Board members for their strategic leadership, oversight and untiring support in these critical times, as the NHFC grows and evolves into a more complex organisation.

The role our funders have played in our success is worth acknowledging. The support of multilateral development agencies, AFD and EIB, allowed us to fund affordable inner-city development projects. The R205 million secured from AFD resulted in the development of 1 352 rental units in the Johannesburg inner-city whilst the R216 million secured from EIB contributed to 419 inner-city rental units, 1 166 Social Housing (rental) units and 717 affordable ownership units, in various parts of the country.

We owe our success to our clients, staff and various range of partners who have continuously remained committed in working with us in developing financing solution options.

We look forward to a year of much renewed energy from our staff, customers, strategic partners and funders in developing appropriate solutions and stimulating the development of sustainable human settlements and in so doing, improve the quality of life for the majority of South Africans.

Showcasing projects

project value
R92m

no. of jobs
312

no. of units
312

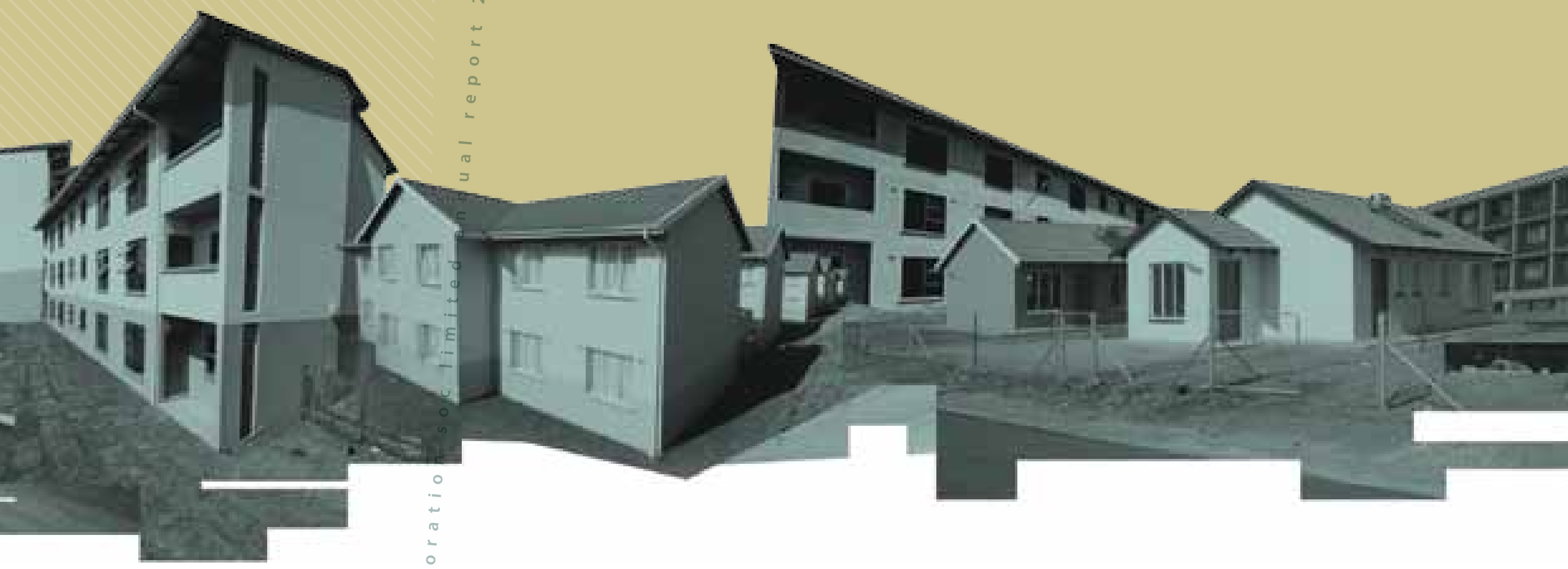
Lakehaven Social Housing Project Sea Cow Lake Durban-Phase 1: First Metro Housing Company Durban – Project statistics								
Project Name	Project Value R'm	NHFC Loan R'm	Provincial subsidies R'm	Restructuring Capital grants R'm	Number of units	Number of jobs created	Local Labour employed	No of beneficiaries
Lakehaven Phase 1	97	41	17	39	312	331	226	1 186

The Project is a Social Housing rental project situated in Sea Cow Lake, Durban. It consists of 312 two-bedroom units. The project was financed with Restructuring Capital Grants allocated by the SHRA, Provincial Housing Subsidies from the KZN Province and a loan from the NHFC. Additionally, through a partnership between the KZN Province Human Settlements Department and the NHFC, where the NHFC provides technical oversight and management of subsidies, the entire project was bridge-funded with the KZN funds under management which saved on interest costs to the project during implementation. The project has been completed and launched by Minister Tokyo Sexwale.

The second phase of the project consisting of 272 units is currently underway with construction to commence in June/July 2012.

Front view of the development in Lakehaven, Sea Cow Lake, Durban, KZN

strategic investments



Subsidiary company: CTCHC

CTCHC is a wholly owned subsidiary of the NHFC.

CTCHC is a development company that provides affordable housing to low income households in the subsidy and non-subsidy markets. The products and services provided include Instalment Purchase Agreements (IPA), outright sale of houses for the GAP market, Sectional Title and Residential Housing units, Social and Private Rental units and Project Management services.

The rationale for this investment was to turn around the company so that it can continue to provide scale in the construction of subsidy and GAP housing. The NHFC has increased its focus on this entity and this deliberate strategic intervention has led to significant savings in the overhead costs.

The company reported a loss of R1.8 million but is poised to improve its financial performance based on its healthy project pipeline.

The City of Cape Town has recently approved the implementation of 990 IPA units in Morgens Village 4 and has provided supporting subsidies valued at R100 million.

Morgens Village 3 was officially opened by the National Minister of Human Settlements in May 2011. CTCHC won the Provincial Award at the Govan Mbeki Awards Ceremony on 7th May 2012 for this project.

The NHFC remains committed to dispose part of its equity stake by 2014 in line with the mandate from the NDoHS.

Associate company: HIP

The NHFC increased its equity shareholding in HiP from 25% to 33.33% during the reporting period.

HIP is a strategic joint venture with Old Mutual Capital Holdings (Pty) Ltd.

The rationale for this investment was to introduce an innovative income linked housing product into the market that would enhance affordability for end users whilst providing acceptable returns to institutional funders.

The borrowers' loan repayments are delinked from interest rate changes and will only escalate with annual salary adjustments. The product is targeted towards credit worthy applicants who can afford housing loans between R250 000 and R500 000.

The target market is predominantly employers within the public and private sector that have housing programmes to assist their employees.

The target properties are ready-built investment grade properties with property sizes ranging from 40 to 100 square metres depending on the geographic location. Freehold and sectional title units built using conventional building materials such as brick and mortar will be financed.

The product will go to market in the 2012/13 financial year.

Associate company: TUHF

The NHFC has a 27% shareholding in TUHF. Following the TUHF recapitalisation post year end, the NHFC shareholding increased to 32.6%. The NHFC and the Board of TUHF is actively sourcing another investor in order to dilute the NHFC's interest.

TUHF is a specialised commercial property financier that drives inner-city investment by helping potential investors become property entrepreneurs. It provides loans to buy or improve inner-city residential property.

TUHF has an in-depth understanding of inner-city property markets and is well networked within the inner-cities, making it possible for the company to deliver a better service to its clients.

The rationale for this investment was to facilitate a public and private partnership that would leverage funding from the private sector to enhance inner-city regeneration.

TUHF has now reached the R1.3 billion mark in advances. TUHF generated an operating profit of R16 million for the year and has delivered a cumulative impact of 18 000 units.

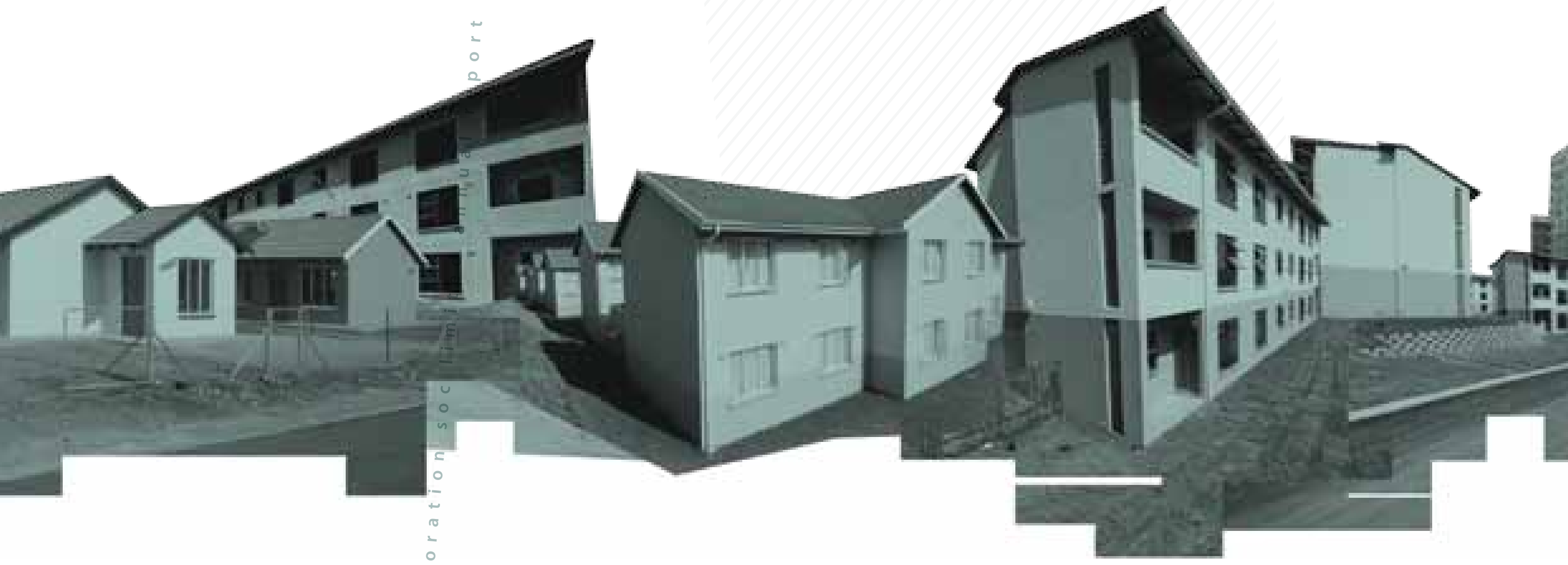
Post year end, the TUHF statement of financial position was recapitalised to the tune of R125 million in equity in order to improve its capital adequacy so that it is better placed to raise additional debt funding.

TUHF has expanded their geographic footprint with the opening of an office in Port Elizabeth and Durban.

TUHF was awarded the prestigious Southern Trust Award for 2011, Investing in the Future and Drivers of Change.

TUHF is now poised to fulfill its developmental mandate by increasing its loan book to R5 billion which will increase impact to 35 000 within the next five years.

sustainability report



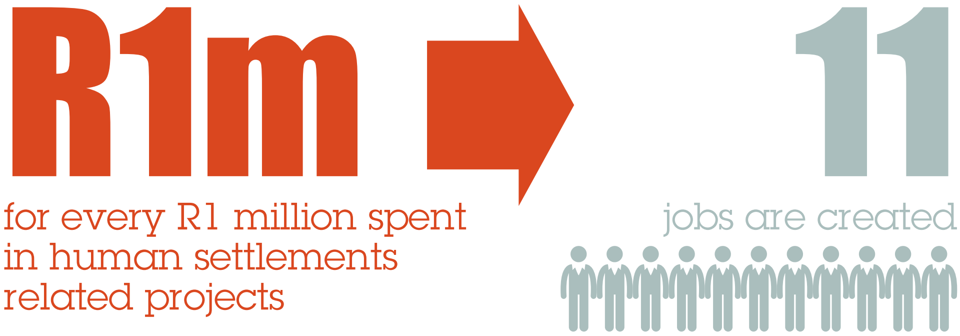
The NHFC recognises that achieving economic sustainability is important, and that this needs to be balanced against the ideals and aspirations of the broader society, which includes environmental and social considerations.

In this regard, the report covers aspects of the three pillars of sustainability: people (social), planet (environmental) and profit (financial). In line with King III, this entails introspection of the NHFC's policies, procedures and business practices and performance in terms of its values, strategy and underpinning philosophy.

During the year under review, the DISC developed the Development Impact Dashboard, which highlights key performance areas as well as stakeholders, with measures and indicators that will be tracked and monitored across the company. The Development Impact Dashboard was recently updated, to incorporate the major strategic initiatives.

In accordance with the Companies Act, the NHFC has recently constituted a Social and Ethics Committee which will work hand in hand with DISC and BRC to ensure a holistic sustainability approach is adopted that will inform the NHFC's approach, strategies and operations.

NHFC's stakeholders



Sustainability

Economic Sustainability

The NHFC was capitalised at inception and receives no capital allocation from the fiscus. The sustainability of the NHFC is dependent on the building up of reserves and augmenting this with external debt funding. In the long-term, its sustainability is an imperative, especially if it is to deliver on its developmental mandate. The NHFC does not pay dividends to the shareholder but is, however, a tax-paying entity.

Whilst the NHFC has developed a strong capital base, the impact of borrowings, on its long term sustainability, is worth closer scrutiny. The Strategic Plan for the period 2013-2017 indicates that capital from the shareholder as well as debt funding will be required over the next five years to support the increased financing activities.

The NDoHS, in its approval of the Strategic Plan for implementation, indicated its support of the proposed funding option which results in an overall debt/equity ratio of 50%, in order to ensure financial sustainability and an optimal pricing of loans to the end user. This implies that the NHFC will embark on a debt raising program for R2 billion over the next five years, subject to the necessary PFMA approvals.

The NHFC maintained its credit rating from the previous year as detailed below:

	Global Credit Rating Co
National Long Term	AA-
National Short Term	A1+

To enhance the quality of its earnings, the NHFC is reviewing its pricing framework, considering both its developmental and sustainability objectives.

Group financial performance

	2012	2011	2010
Profit before tax (Rm)	34	76	73
Return on equity (%)	0.9	2.6	2.6
Cost to income (%)	64.6	59.1	41.3
Growth in advances (%)	17	17	26
Total assets (Rm)	3 458	2 991	2 886
Capital and reserves (Rm)	2 297	2 277	2 217

A primary driver of the increase in the total asset base has been the net growth in the loans and advances over the year. These increased by a net of R268 million which was less than expected due to the slower than expected loan approvals and draw-downs by our customers. The increase in liquidity manifested by held-to-maturity investments, cash and short-term deposits is also a reflection of the above mentioned phenomenon.

Business growth supported by robust credit processes, to generate quality credit assets, is a key driver of the long term sustainability of the NHFC.

Social Sustainability

Corporate Social Responsibility

In the year under review, the NHFC was involved in a number of projects that positively contributed to sustainable social development of communities.

The NHFC participated in the Women's Build that was held in the Free State Province with members of staff contributing their time and labour towards building two houses. We also sponsored furniture totaling R106 699 for the Youth Build, Men's Build and Women's Build in the financial year under review.

Education

As part of its broad intent of investing in people and capacitating the housing finance sector in general, the NHFC has in the year under review, been playing a pivotal role in updating the curriculum and conducting thematic presentations relating to the Housing Finance and Law Course, which is part of the Masters in Built Environment (Housing) Programme at the University of the Witwatersrand. For the year under review, guest lectures were delivered on the South African housing finance system, the role of housing subsidies, micro-finance, and initiatives such as the Financial Sector Charter and the Green Economy.

Job Creation

NHFC closely monitors jobs that are created through the projects it has funded through the submission of monthly reports by clients based on the funds that have been disbursed. During the financial year that ended in March 2012, 11 920 jobs were created through various construction projects mainly awarded to BEE suppliers.

In addition, for every R1 million spent on human settlements related projects, a total of 11.13 jobs are leveraged, either directly or indirectly. Taking this into account and the fact that NHFC had disbursed R5.2 billion by 31 March 2012, applying the formula, the number of jobs created for stated period would be 57,486.

Enterprise Development

The NHFC, through its development fund, provides financial assistance to public sector clients for pre-appraisal of projects. Such funding is used as a soft loan or grant to cover about fifty per cent (50%) of the costs for pre-appraisal of the projects. In addition, NHFC as part of capacity building, partners with other agencies such as the GPF in creating and empowering small scale entrepreneurial inner-city landlords, providing up to seventy percent (70%) loan finance provided that GPF advances the balance of thirty percent (30%) as a subordination loan. NHFC also facilitates lending to women owned rental projects through it strategic partners. On the disbursements to women property investments, the year to date target of R100 million has been exceeded by R48 million mainly as a result of loans granted to small inner-city landlord entrepreneurs by TUHF. Empowerment and Enterprise Development (BEE), through our lending to our main clients amounted to R236 million in 2011/12.

Supply Chain Management

The NHFC Procurement and Supply chain policy is under review to align it to the new Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and to the recently updated Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003). The main purpose is to prohibit and expose 'fronting' by firms seeking to win contracts by artificially inflating and so misrepresenting their BBBEE credentials.

The NHFC plays an important role in ensuring that transformation is accelerated by procuring goods and services from companies who are transformed with a good BBBEE status. This has a trickle-down procurement effect which applies pressure on all suppliers and service providers to meet these standards.

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Environmental Sustainability

During the year under review, the NHFC delivered the following papers at relevant symposia:

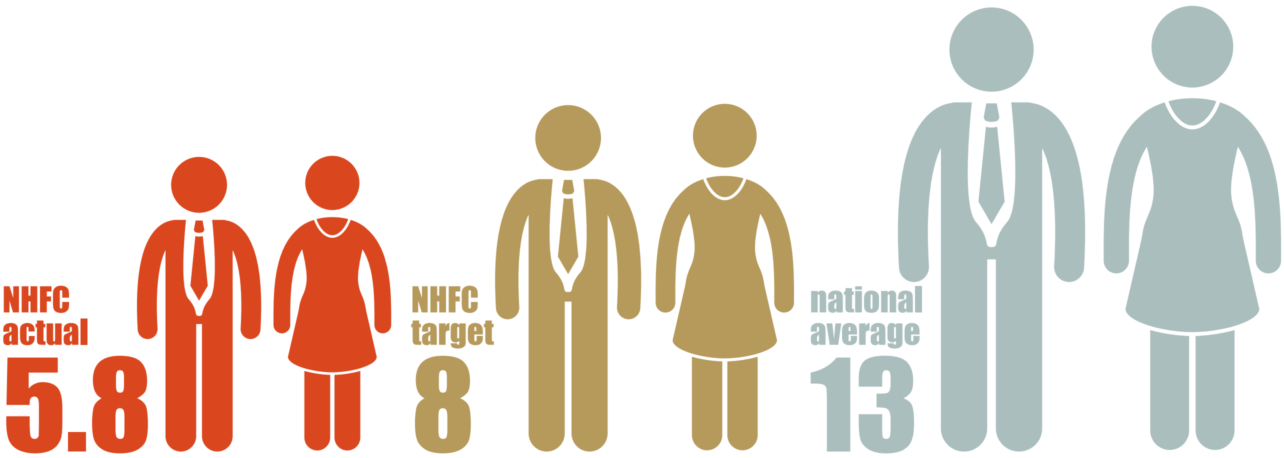
- "Natural Resources: Effective use and future demand" (Green Building World Africa Conference & Exhibition, March 2012);
- Towards COP17: "Reduce, renew, reuse & recycle – the new mantra and green building systems" (NHFC seminar, October 2011); and
- "Sustainable development and urban renewal: analogous in theory, antithetical in praxis" (Twelfth International Housing & Home Warranty Conference (September 2011).

In addition, the NHFC continued to lobby relevant stakeholders to consider alternative, energy-efficient building systems as a feasible option. We provided advice and direction to several developers and innovators in this regard.

Human Resources

With the NHFC's business becoming more complex due to expanded responsibility in the Human Settlements space, our talent management strategies need to be responsive. Some of the new responsibilities require competencies that are new to the NHFC while also being in short supply in the country. As a result, in order to adequately resource these new areas, a mixture of sourcing strategies will need to be considered. These need to yield good calibre candidates who will take the NHFC to the next level of its success.

Staff turnover: NHFC actual vs. target 2012 (as a percentage of total)



Source for national average: Department of Labour bulletin - Job Opportunities and Unemployment in the South African Labour Market (March 2011)

The alignment of the talent management strategies to reflect the changing needs of the NHFC is critical. This is what was priority, in all human resources activities, during financial year 2011/2012.

The result of new capabilities being required will ensure that the NHFC contributes to the alleviation of South Africa's high level of unemployment and that its new programmes succeed and contribute to economic growth and job creation.

Capacity building still remains critical and we continue to pursue this through the implementation of the 80/20 employee development principle. To this end, internal staff, with 80% of the critical competencies required, is considered before recruiting external candidates whenever the NHFC's operational requirements permit this. This way, the organisational capacity building initiative is heightened.

Employee engagement continues to be a strategic priority for our Human Resources Department. The staff engagement focus takes place in the context of retention of all mission critical talent, as well as the need for sustainability.

The implementation of the NHFC's Performance Management System continues to mature; the organisation will enhance the system in the year ahead with a multi-rater system of performance evaluation.

Labour relations activities were more heightened than usual, testing our organisational policies and procedures. Despite this, the overall labour relations environment was healthy during the financial year and the NHFC remains confident in the application of its workplace policies and procedures.

The relationship between the NHFC and the union has been strengthened by the NHFC's willingness to openly consult on issues affecting its membership.

Attraction and Retention

The implementation of various employee engagement initiatives, within the reporting period, has contributed to the reduction of employee turnover. For the financial year 2011/12, the employee turnover dropped to 6% against the internal target of 8% and the national average of 13%.

Going forward, the NHFC will ensure continued implementation of these initiatives.

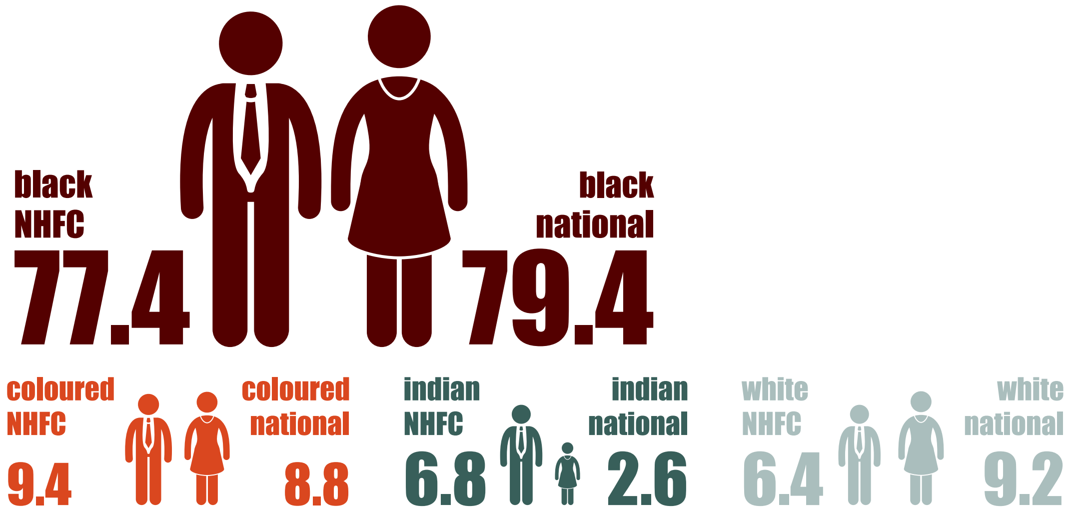
Talent Development

The skills shortage in South Africa has been identified as one of the main impediments to reaching the stated economic growth targets of the Government. The South African Qualifications Authority (SAQA) Act. No. 58 of 1995 (the Act) was passed to ensure the development and implementation of skills strategies by both the public and private sectors.

In line with its strategic objectives, as well as the prescripts of the Act, the NHFC implemented its training in accordance with the requirements of the Workplace Skills Plans as driven by the BANKSETA. To this end the NHFC trained at least 75% our employees on skills enhancement initiatives.

The experiential learning programme initiated in 2010 is progressing very well, a total of six learners were afforded an opportunity to gain experience during the period under

NHFC employment equity 2012 (as a percentage of total)



Source for national average: Stats SA, Statistics- release PO302 (Midyear population estimates 2011:27 July 2011)

review, thus improving their chances of securing employment at the end of the learnership programme. Two of those learners have been retained by the NHFC on a contract basis.

Performance Management

Managing employee performance effectively facilitates delivery on strategic and operational goals. Setting goals, making sure expectations are understood and providing frequent feedback enhances chances for staff to perform optimally.

In the next financial year, to enhance the current performance management system, an element of multi-rating will be introduced in performance reviews.

Occupational Health and Safety

Compliance with employment legislation which among others, includes workplace Health and Safety of employees and clients remains important to the NHFC. To this end, Health and Safety programmes which include staff communication are implemented.

For the period under review, the NHFC implemented activities based on the outcome of the 2010/11 building audit; this included the refurbishment of the building and sanitation areas, rewiring of key electrical portals which were malfunctioning, amongst others.

The NHFC did not have any incidents to report.

Promoting Employee Wellness

As a caring employer, the NHFC offers its employees the Comprehensive Employee Wellbeing Programme, facilitated by Careways. This programme provides employees with assistance and support for a wide range of health, personal issues, including stress management, financial matters, and even an onsite counseling service.

Employment Equity

In the implementation of the Employment Equity Act in the NHFC, above is a graphic representation of our employment equity statistics representation across levels of work in the NHFC.

The Way Forward

The plans for 2012 and beyond are to engage the various stakeholders with a view to understand in more detail their needs and concerns. It is envisaged that this process will involve amongst others, interviews, workshops, surveys etc. The intention of the exercise is to strengthen the business working relationship with our partners and enable the NHFC to respond adequately to their expectations and needs.

An area which will receive special attention will be environmental sustainability. This will focus on internal programmes as well as encouraging positive behavioral change amongst our customer base through promoting environmentally friendly building projects.

corporate governance overview

The Board of Directors (the Board) of the NHFC subscribes to and is committed to ensuring that the Group applies the corporate governance principles of fairness, accountability, responsibility and transparency as set out in King III.

NHFC's alignment with the Code of Corporate Practices and Conduct (King III)

The Board of Directors of the NHFC subscribes to and is committed to ensuring that the Group applies the corporate governance principles of fairness, accountability, responsibility and transparency as set out in King III.

The Board has carefully considered the implications and effect of the King report on Corporate Governance Practices and Conduct (King III) and best practice for Public Entities falling within Schedule 3(A) of the Public Finance Management Act, Act 1 of 1999. It has reaffirmed the NHFC's commitment to sound corporate governance practices and the NHFC is on course to implement the key principles of King III applicable to SOE's.

A governance framework for wholly owned subsidiaries, sets guiding principles to ensure that the business of a subsidiary is conducted in an ethical and responsible manner.

NHFC Board Governance Structures and Framework

Board of Directors and Shareholder' linkages

The NHFC, as a State-Owned Entity, is through its Board accountable to the Minister of Human Settlements ("the Minister"). The Minister represents the Government's interest as sole shareholder and holds the Board, as Accounting Authority, accountable for overseeing the operations of the NHFC.

Strategic objectives and performance management

In line with Section 52 of the Public Finance Management Act ("PFMA"), the NHFC submitted a Corporate Plan for the 2013 to 2017 financial years and entered into a Shareholders Compact with its shareholder. The Board set out the NHFC's strategic objectives in the Corporate Plan and it adopted the Balanced Scorecard methodology to implement the Strategy and measure itself against the Key Performance Measures reflected on pages 98 to 100 of the Annual Report.

The Board reports to the Shareholder through quarterly reports as well as the Annual Report.

The Chief Executive Officer (CEO) is charged with the day to day management of the NHFC's operations and consults and meets regularly with the Department of Human Settlements and the Minister.

Board Composition

The Board is appointed by the Minister in his capacity as Shareholder representative and comprises of nine members, the details of whom are reflected on page 8 of the Annual Report.

The Directors are all independent non executives, with the exception of the CEO and they bring a wide range of banking, financial, regional planning and legal expertise to issues of strategy, performance, protection of stakeholder's interests and the setting of the NHFC's policies.

The office of the Chairman and CEO are separated. Prof Katz is the Independent Non-Executive Chair and the CEO position is held by Mr Moraba.

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Board meetings and proceedings

The Board meets at least four times a year, or more frequently if circumstances so require.

The NHFC's Board Charter is reviewed annually and has been aligned with the Department of Human Settlements' framework and King III. It gives a concise overview of the demarcation of roles, functions, responsibilities and powers of the CEO, the Board and the Shareholder. The Board provides leadership, vision and strategic direction to the NHFC to enhance shareholder value and ensure long term sustainability and growth of the NHFC. The Board retains full and effective control over the NHFC by:

- approving the Strategy, Corporate Plan and Budget and monitoring Management closely in the implementation thereof;
- monitoring operational and financial performance against the Corporate Balanced Scorecard and the effectiveness of Management on a regular basis; and
- reviewing the Delegated Authority document which sets out the powers that it delegates to Management.

Access to Information and professional advice

Directors have unrestricted access to Management should they require any information in discharging their duties and may seek independent professional advice concerning the affairs of the NHFC.

Board Committees

The following Committees were in place during the period under review:

Audit Committee

The Audit Committee comprises of three Independent Non-Executive Directors. The members are Messrs Ntsaluba (Chair), Tati and Dr Khoza.

As set out in the Audit Committee's Terms of Reference, the primary objective of the Committee is to assist the Board in discharging its duties relating to the following:

- oversight over financial reporting conforming with all applicable legal requirements and accounting standards;
- the operation of adequate systems of internal controls and internal audit processes;
- the external audit process;
- corporate governance; and
- shareholder reporting.

The Audit Committee meetings are attended by the External and Internal Auditors as well as the Chief Financial Officer and the Executive Manager: Enterprise Wide Risk.

Board Credit and Investment Committee (BCIC)

BCIC comprises of three Independent Non-Executive Directors and the CEO. The members are Messrs Coetzee (Chair), Moraba and Tati and Ms Swanepoel and it meets at least four times a year or more frequently if circumstances so require.

BCIC meetings are attended by the Executive Manager: Credit, the CFO, Legal Manager, Executive Manager: Enterprise Wide Risk and the Managing Executive: Strategic Investments.

As defined in its Terms of Reference, the primary objective of BCIC is to assist the Board to fulfill its credit and investment responsibilities. BCIC:

- recommends the credit philosophy, strategy and policies to the Board;
- approves all loan applications for facilities that exceed or cumulatively exceed R30 million up to R160 million per client upon recommendation by the Management Credit and Investment Committee ("MCIC"). BCIC performs its assessment of the credit risks inherent to a proposed facility within the framework of an approved Credit Policy;
- recommends loan facilities that exceed or cumulatively exceed R160 million per client to the Board;
- recommends the long-term investments strategy and policy to the Board;
- approves long term investments up to R160 million upon recommendation by MCIC and recommends those in excess thereof to the Board;
- recommends the Treasury Management Policy to the Board for approval and discharges its functions as set out in the Policy; and
- oversees the Board approved fundraising programme.

BCIC members, with an interest in a loan application, must inform BCIC of a conflict or potential conflict of interests in relation to a particular item on the agenda and recuse her/himself from the discussion of that item unless the Committee decides that the declared interest is trivial or immaterial.

Board Risk Committee (BRC)

BRC comprises of five Independent Non-Executive Directors and the CEO. The members are Dr S Khoza (Chair), Ms A Houston and Messrs Ntsaluba, Tati, Coetzee and Moraba. Committee Meetings are attended by the Executive Manager: Enterprise Wide Risk Management, the CFO and the Internal Auditors.

As set out in its Terms of Reference BRC meets at least four times and its primarily objective is to assist the Board in executing its responsibilities with respect to risk management. In fulfilling this objective, BRC:

- recommends the Enterprise Wide Risk Management Strategy and Framework as well as the Fraud Prevention Plan to the Board and monitors Management in the implementation thereof;
- evaluates the effectiveness of risk management systems, processes and controls;
- annually reviews and recommends all the Risk Management Policies to the Board for approval;
- approves financial risk management strategies as recommended by BCIC; and
- reviews and reports on the control of financial risks (including credit and market) to the Board.

Social and Ethics Committee (SEC)

In line with the Companies Act, Act 71 of 2008, the Board had at the end of the year under review constituted a SEC to comprise of Messrs S Swanepoel (Chair) and A Houston, Dr S Khoza and Messrs Ntsaluba, Tati and Coetzee.

SEC will, in the new financial year, meet to monitor the NHFC's activities regarding the following:

- social and economic development;
- good Corporate Citizenship;
- the environment, health and public safety; and
- labour and employment.

Board Human Resources, Ethics and Remuneration Committee (HRER)

HRER comprises of three Independent Non Executive Directors and the CEO. The members are Mss A Houston (Chair) and P Ramarumo and Messrs Moraba and Ntsaluba. Committee meetings are attended by the Executive Manager: Human Resources.

HRER meets quarterly and is charged with the oversight of the Human Resources Policies, Strategies and the remuneration and performance bonuses for Staff and Management. It also receives quarterly updates on the performance of the Provident Fund from the Trustees of the Fund.

In discharging its duties, HRER gives due cognisance to the NHFC's remuneration philosophy to offer remuneration that will attract, incentivise, retain and reward employees with the required skills to deliver on its mandate.

Board Development Impact and Strategy Committee (DISC)

As set out in its Terms of Reference, DISC meets at least four times a year and comprises of four Independent Non-Executive Directors (Messrs Tati (Chair), Coetzee and Mss Houston and Ramarumo) and the CEO (Mr Moraba).

As set out in the DISC's Terms of Reference its main objectives are the following:

- review and recommend the NHFC's Strategy to the Board to ensure that it is both relevant and responsive to the affordable housing market;
- give the Board assurance that the NHFC's strategic objectives are aligned to the Human Settlement Strategies and Policies and deal adequately with developmental impact;
- recommend amendments to the NHFC's strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved;
- monitor the NHFC's performance against the objectives set for developmental impact; and
- monitor the impact of developmental activities on the NHFC's financial strategy.

Board and Board Committee Record of Attendance

		No of Meetings & Membership (✓)										
	Category	Board	Audit		BCIC		HRER		DISC		BRC	
	No. of meetings	5	5		8		4		5		4	
Prof M M Katz	Independent Non-Executive Chair	4										
Mr S S Moraba	CEO	5	✓	5	✓	8	✓	4	✓	5	✓	4
Ms A Houston	Independent Non-Executive Directors	3					✓	4	✓	4	✓	3
Dr S J Khoza		4	✓	5							✓	4
Ms P V Ramarumo		4					✓	3	✓	4		
Ms S Swanepoel		5			✓	7						
Mr J Coetzee		5			✓	8			✓	5	✓	4
Mr S A Tati		5	✓	5	✓	8			✓	4	✓	4
Mr S S Ntsaluba		4	✓	5			✓	3			✓	3

Management Committees

Executive Management Committee (Exco)

Exco comprises of the Executive Managers reflected on page 10 of the Annual Report who assist the CEO in managing the day-to-day business of the NHFC within the powers delegated to them by the Board. Exco is also accountable for formulating the NHFC's strategy and implementing it once approved by the Board.

Credit Decision Making

All credit applications are submitted to the Credit Division, who conduct a thorough assessment of the risks associated with the particular application and make a recommendation to an Internal Credit Committee (ICC).

The Credit Policy provides for the declaration of interests should any staff member of the NHFC have an interest in a particular credit application. Any member with an interest in a loan application must inform the Credit Management Committee/s of a conflict or potential conflict of interest in relation to a particular item on the agenda and recuse her/himself for the discussion of that item.

ICC evaluates loan applications and submits recommendations to the CEO or Management Credit and Investment Committee (MCIC).

The CEO has the authority to approve loan facilities for any amount below R10 million upon recommendation by ICC. Loan facilities approved by the CEO are submitted to the MCIC for noting.

MCIC, a sub-committee of BCIC is chaired by the CEO and meets when required. The Executive Manager: Credit, the CFO, Legal Manager and Managing Executive: Strategic Investments attend MCIC meetings.

MCIC is responsible for approving loan facilities up to or cumulatively up to R30 million per client and recommending those in excess of that amount to BCIC. MCIC also recommends all strategic investment proposals to BCIC.

Assets and Liabilities Committee (ALCO)

ALCO, a sub-committee of BCIC, is chaired by the CEO and comprises of two external specialists, the CFO, Executive Manager: Enterprise Wide Risk, Executive Manager: Credit, the Treasury Manager and Money Market Dealer.

Lakehaven, Durban, KZN

ALCO's overall objectives are to:

- manage financial risk emanating from NHFC's operations and borrowing programmes that include liquidity, counterparty and market risk (including interest and currency risk);
- oversee the management of treasury risk in order to protect the capital of the NHFC by proactively managing all assets and liabilities; and
- support the strategic direction of the NHFC through the appropriate analysis and composition of the assets and liabilities on the balance sheet of the NHFC.

Information Technology Management Committee (ITMC)

The functioning of the ITMC is overseen by the Board Risk Committee. It is chaired by the CEO and comprises of the General Manager: IT, Executive Manager: Enterprise Wide Risk, Executive Manager: Credit and General Manager: Projects.

ITMC's main objectives are to:

- ensure that the IT strategy is aligned to the Business Plan in reviewing and recommending it to Exco;
- develop an IT governance framework and IT Policies and oversee the implementation thereof once it is approved by BRC;
- obtain independent assurance that the IT internal framework is working and submit it to Exco, who in turn must submit it to the Audit Committee;
- monitor all IT risks and controls to determine whether they are addressed effectively and review relevant plans and controls accordingly and submit them to Exco, who must in turn recommend it to the BRC; and
- review all IT proposals before submission thereof to Exco.

Procurement Committee

The Board has approved a Procurement Policy, which guides all the NHFC procurement practices and processes by which goods, works and services are procured, to ensure that the procurement system is fair, equitable, and transparent. It has also approved clearly defined delegated authorities to avoid fruitless and wasteful expenditure.

The Procurement Committee is chaired by an Executive Manager and comprises of a Finance Manager, Legal Advisor, Operational Risk Specialist, Procurement Manager and Business Development Manager.

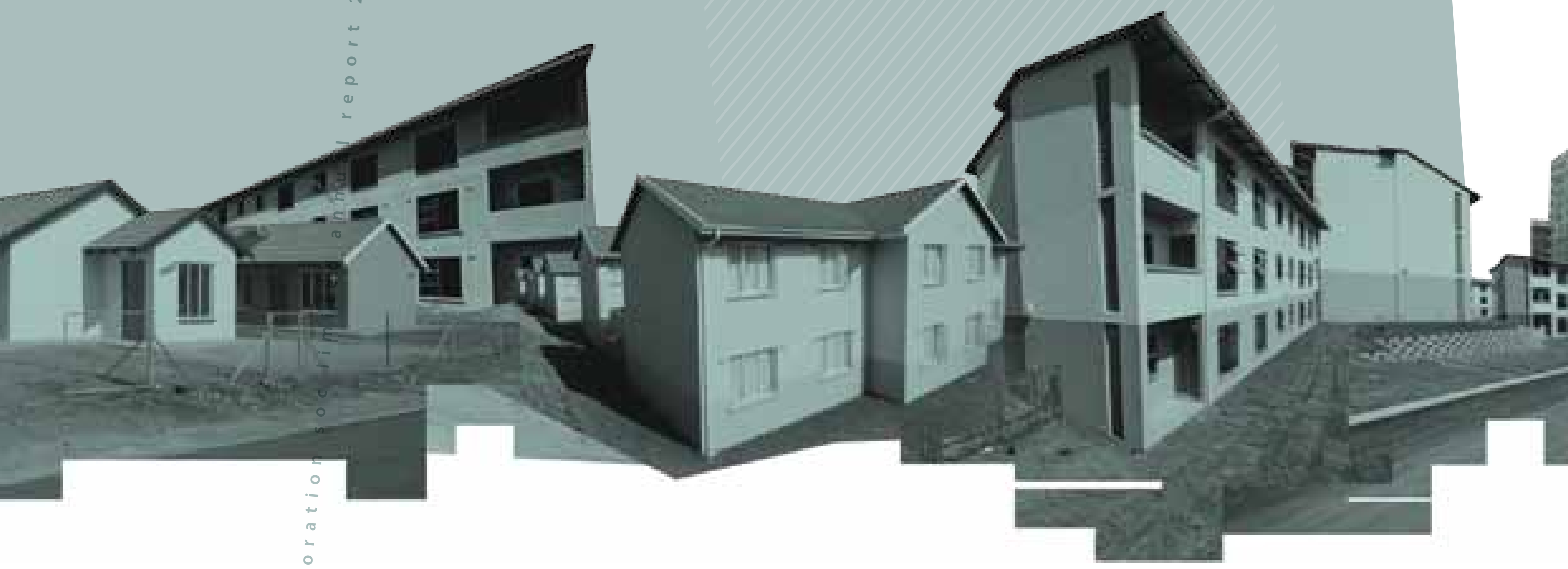
The Safety and Security Committee (SASC)

SASC is a sub-committee of Exco and its main objective is to monitor, evaluate, advise and make decisions in respect of all matters concerning health, safety and security in the NHFC. The HRER oversees the functioning of SASC at a Board level.

SASC is accountable for monitoring and implementing the Safety and Security Policy once it is approved by Exco.

The committee constitutes of the Executive Manager: Human Resources (Chair) as well as a Legal, IT and the Health and Safety representative.

risk management report



During the year under review, the NHFC Enterprise Risk Management function gained maturity, to ensure that the NHFC sustains a comprehensive risk management framework and strategy to meet both statutory and best business practice requirements. The Enterprise Risk Management Framework is based on an integrated process that would ensure an enterprise view of its risks, impacts and opportunities in a highly complex, dynamic and ever-changing environment.

How we manage our risk

The underlying premise of the NHFC Risk Management philosophy is a thorough understanding of the risk exposures of the NHFC in order that management and the Board are appropriately informed to take strategic decisions in the interests of the shareholder and other stakeholders.

The NHFC, like other similar entities, is facing uncertainty and the challenge is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

The adopted holistic Enterprise Risk Management Framework addresses the structures, processes and standards implemented to manage risks on an enterprise-wide basis in a consistent manner. These range from internal audit systems, operational risk management, IT security, compliance processes, credit management, treasury management and a range of other line management interventions. The framework further addresses the specific responsibilities and accountabilities for the ERM process and the reporting of risks and incidences at various levels within the NHFC ensuring thorough and transparent governance processes.

Our risk appetite

The NHFC's risk appetite is defined as the level of risk the NHFC is willing to accept in fulfilling it's business objectives, which are characterised by the developmental mandate. In particular, our risk appetite framework will assist in protecting our financial performance, improve management responsiveness and debate regarding our risk profile, assist executive management in improving the control and co-ordination of risk taken across business units and identify unused risk capacity in pursuit of developmental opportunities at a risk price.

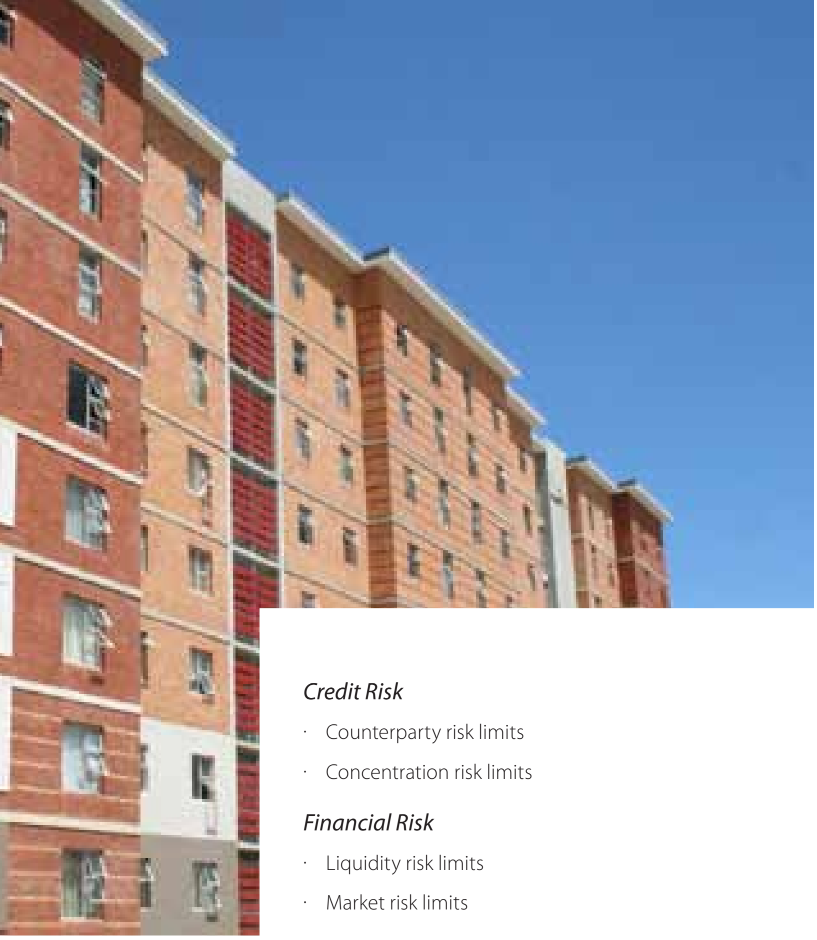
Our risk appetite approach is pillared around the following three principles:

- NHFC Mandate and Strategic Objectives;
- Risk Governance Structures; and
- Prudential Limits.

Our risk appetite prudential limits are categorised into the following areas:

Strategic Risk

- Investment risk limits
- Supply-side (source) risk capital limits
- Demand-side (use) risk capital limits
- Developmental mandate risk limits



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Credit Risk

- Counterparty risk limits
- Concentration risk limits

Financial Risk

- Liquidity risk limits
- Market risk limits

Operational Risk

- People risk limits
- Process risk limits
- Systems / IT risk limits

Compliance Risk

The NHFC expresses a zero tolerance to regulatory /legal breaches, fraud and corruption.

The issue of an appropriate risk and reward payoff remains a challenge for a DFI such as the NHFC due to the need to remain financial sustainable while delivering on our developmental mandate. This requires dynamic pricing models, a robust risk management, cost efficiency and funding model, amongst other things. In order to remain financially sustainable, the NHFC has set a target return on equity of at least inflation (assumed at 5% per annum). While this target has not been achieved on a sustainable basis, increased effort will be placed in the short to medium term in doing so.

Our risk management approach

The Board approved ERM framework sets out the scope of risks facing the NHFC and who is responsible for managing these risks. Risk oversight resides with the BRC, BCIC as well as the Audit Committee. A combined assurance model, owned and managed by ERM, covers each key risk and the respective business area.

BRC

The Board has overall strategic accountability for the total process of the NHFC risk management system and control as well as forming its own opinion on the effectiveness of the process.

The BRC assists the Board in fulfilling its responsibilities in managing risk and complying with relevant requirements of the PFMA and Treasury regulations. The BRC determines and recommends our risk appetite to the Board and then reviews and monitors our risk profile against the risk appetite. The BRC also approves control frameworks for various key risks and assists in determining capital and liquidity target ranges and monitors the NHFC's capital and liquidity levels.

BRC meetings during the year under review were also attended by the Chief Executive Officer, Chief Financial Officer and Executive Manager: ERM. Internal auditors also attended the meetings in accordance with our governance processes.

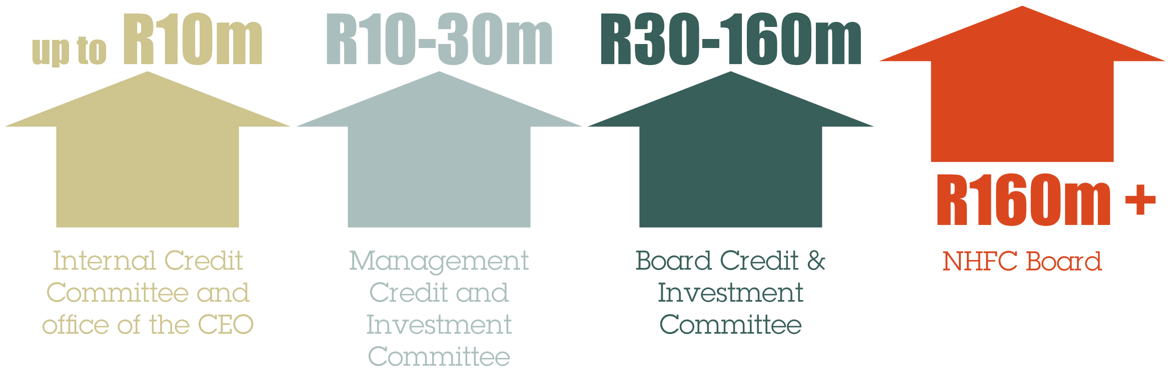
The meetings were convened under the mandate contained in its terms of reference and in accordance with applicable regulations. The BRC was provided with required presentations and information by management at each meeting, which enabled the committee to properly review and monitor the various risks and, in so doing, effectively discharge its responsibilities under its mandate.

Core activities of the BRC

During the year under review, BRC activities and key decisions included:

- Recommending the NHFC's risk appetite to the Board for approval after taking cognisance of the developmental mandate of the NHFC;
- Assessing our risk management approach and practices in light of constrained lending by banks and developments in the low-to-middle income property construction sector;
- Oversight of the risk governance structures and oversight measures for information technology; and
- Reviewing the adequacy and effectiveness of the Risk Framework, completeness of principal risks coverage and the ongoing effectiveness of the framework as implemented by us.

NHFC credit sanctioning tiers



To this end, the following enhancements to the Risk framework were approved:

- Revised Compliance Risk Framework;
- Operational Risk Framework;
- IT Risk Management Framework; and
- Approach to IT Governance Framework.

Furthermore, the following policies were approved by BRC:

- Risk Appetite Statement;
- Revised Fraud Prevention Policy;
- Business Continuity Management (BCM) Policy;
- Risk and Control Self Assessment (RCSA) Policy;
- Key Risk Indicators (KRI) Policy;
- Outsourcing Risk Policy; and
- Information Risk Policy.

The following policies were approved by BCIC and noted by BRC:

- Revised Credit Policy, and
- Equity Investments Policy.

The BRC is satisfied that the risk management processes and systems provide comprehensive and adequate oversight over the risk exposure of the NHFC. The BRC is satisfied that management was able to effectively respond to, and manage, the risks that arose from time to time.

BCIC

BCIC comprises three Independent Non-Executive Directors and the CEO. It meets at least four times a year or more frequently if circumstances so require.

BCIC meetings are attended by the Executive Manager of Projects or Commercial to present a credit application and the Executive Manager: Credit to deal with Credit's appraisal and recommendation to the Committee. BCIC meetings are also attended by the CFO, Executive Manager: ERM, Managing Executive: Strategic Investments and the Legal Manager.

Core activities of BCIC

BCIC considers all loan applications for facilities that exceed or cumulatively exceed R30 million up to R160 million per client upon recommendation by the Management Credit and Investment Committee. BCIC recommends loan facilities that exceed or cumulatively exceed R160 million per client to the Board. BCIC performs its assessment of the credit and investment risks inherent to a proposed facility within the framework of an approved Credit Policy.

Credit decision making

All committees have clearly defined mandates, memberships and delegated authorities that are regularly reviewed. The NHFC's Credit Sanctioning Tiers are as follows:

	Scale	Mandate
The NHFC Board	Above R160 million	Approve
Board Credit and Investment Committee	Up to R160 million	Approve
Management Credit & Investment Committee	Up to R30 million	Approve
Office of the CEO	Up to R10 million upon recommendation by ICC	Approve
Internal Credit Committee		Recommend

Credit risk management process

The Credit risk management process starts at the NHFC's strategic planning phase, where, among other things, the NHFC's risk appetite is reviewed in line with the strategic plan of the period under review, and the NHFC's developmental mandate. Key considerations being, to:

- ensure that the credit model is aligned to the NHFC business strategy;
- provide confidence in the NHFC's ability to continue to deliver impact in line with its mandate;
- retain strategic flexibility;
- enable the NHFC to avoid losses which would materially affect delivery on its broadened mandate; and
- reflect the principal risk factors potentially affecting the NHFC.

Wholesale Credit

Credit Risk acceptance process at origination

The NHFC has a thorough credit risk appraisal process, including robust assessment and monitoring procedures at individual counterparty level, to generate quality credit assets, relative to the risk/reward inherent in the transaction.

The credit appraisal process is underpinned by credit policies and procedures, and any deviation is escalated to the relevant sanctioning authority.

Credit Risk measurement

The NHFC credit takes a consistent approach in the identification, measurement, recording, monitoring and management of risk, by adopting a common framework and language, and continually:

- subject credit risks processes and systems to rigorous testing (including peer review) to ensure that they are fit for the purpose of identifying all expected and unexpected losses on both counterparty and portfolio level;
- identify and accurately record General and Specific provisions using process and methodologies that are aligned to the economic substance of the underlying asset; and
- validating the credit risk control framework to ensure that credit policies and models remain relevant to the changing market dynamics and the NHFC strategy.

Portfolio Management

- The NHFC has established controls that regulate the growth and composition/profile of the NHFC credit assets, encompassing both the new and existing assets in accordance with the NHFC risk appetite. These will include prudential limits and exposures to a specific counterparty and or project, etc.
- The NHFC manages credit risk like any other assets taking cognisance of market liquidity, customer sentiments and implied expectations of our broadened mandate.

Turn around and work out

The NHFC has adopted a "Turn Around and Work Out" framework to manage wholesale exposures which are irregular, and/or are showing signs of financial distress to support optimal recoveries of monies owing to the NHFC. The framework is used to:

- develop business solutions together with other internal business units and propose turnaround solution, i.e. how can the irregularity be resolved?;
- interact with other stakeholders (i.e. management, shareholders, the Board, other banks or creditors in consortiums) in order to facilitate arriving at common ground with regard to the way forward;
- implement the approved turnaround business solution;
- evaluate the appropriateness of the approved turnaround solution during implementation and amend if necessary;
- report relevant and accurate information to influence the effective management of the NHFC's exit strategy from the distressed operations; and
- Implement procedures towards participating in the Business Rescue plan to ensure that efforts on rescuing financially distressed clients are conducted in a legislated environment.

Portfolio Impairments

The NHFC applies an internally developed risk classification process for early warning indication and reporting process called Internal Risk Classification (IRC). The purpose of the IRC is to determine:

- the client's current financial condition and repayment capacity;
- the current value of collateral;

- distribution of assets based on profitability;
- distribution of loans and advances in accordance with selected geographical areas; and
- other factors that affect prospects for collection of principal and interest.

In relation to advances, provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the NHFC will not be able to collect all the amounts due under the original terms of the advance. The carrying amount of advances is reduced through use of an impairment allowance.

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate calculated at initial recognition), and the amount of the loss is recognised in profit or loss statement.

Impaired advances are de-recognised when they are assessed as uncollectible. Interest income on the impaired balances continues to be accrued using the effective interest rate.

Write-offs

Once an asset is considered irrecoverable, the outstanding debt is written off. Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined.

The NHFC is positioning itself for aggressive growth targets for the next five years (2013 – 2017), notwithstanding uncertain market conditions. We are working to maintain a level and mix of equity and debt capital and to generate sufficient self sustaining profitability to support growth opportunities.

Looking forward

The NHFC is positioning itself for aggressive growth targets for the next five years (2013 – 2017), notwithstanding uncertain market conditions. We are working to maintain a level and mix of equity and debt capital and to generate sufficient self sustaining profitability to support growth opportunities. By focusing on value and balance sheet optimisation, we will ensure optimal capital and funding utilisation. Through responsible lending, debt participation and investment transactions and turnaround / workout practices, we are managing treasury risk and credit risk successfully.

We have agreed to subject the risk appetite outcomes to stress testing (i.e. validating these by estimating NHFC's sensitivity to adverse changes in the business environment). This framework will then form the basis for setting business unit targets and risk-taking limits.

We will continue to monitor the economic and regulatory environment and ensure we adapt our risk management to deal with the changing demands on all our business ventures.

In the tables that follow, we provide a high level summary of the principal risks facing the NHFC.

Lakehaven, Durban, KZN

A1+ NHFC short-term credit rating

AA- NHFC long-term credit rating

Strategic risk	2011/12 in review	Looking forward

Strategic risk

Strategic risk is the potential loss of earnings or capital arising from adverse business decisions, improper implementation of decisions, and lack of responsiveness to changes in the industry, economy, technology, competition, regulations and environmental changes. Strategy risk also includes the inability to achieve the NHFC's stated objectives, whilst remaining self sustainable. We have included the risk of our equity investments portfolio into this risk category to incorporate the event of unpredictable timing of cash flows over the life of this asset class; changes in the valuation of an investment held in portfolio due to market fluctuations as well as the risk of loss of the invested capital over the long term.

Capital Management and Financial Sustainability

The objective of the NHFC's capital management is to ensure that it maintains a strong credit rating and generates sufficient capital to support its business objectives and maximize shareholder value.

The NHFC monitors capital using the debt to equity ratio, which is the interest bearing debt divided by the equity. In line with the Board approved Risk Appetite Statement the ratio should be maintained within a limit of 50%.

Counterparty limits are reviewed by the Board of Directors on an annual basis. Second tier limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

2011/12 in review

The NHFC has in the past largely funded its activities using share capital and retained earnings. The equity base has grown to R2.3 billion in 2012. This strong capital base has positioned the NHFC to leverage private sector investments into the underserved segments of the housing market.

The NHFC has as part of its funding programme, during the past two years secured debt funding from the AFD and the EIB.

The Strategic Plan for the period 2013-2017 indicates that fresh capital will be required over the next five years to support the increased financing activities towards the achievement of the delivery targets of the Shareholder.

Credit rating November 2011

	Global Credit Rating Company
National Long-term	AA-
National Short-term	A1+

The NHFC has maintained its credit rating for a number of years.

Debt to equity ratio	2012	2011
Interest bearing debt to equity ratio	19%	3%
The debt to equity ratio was maintained within the set limit.		

Looking forward

Following the approval of the Strategic Plan for the planning period 2013-2017, a Funding Plan was prepared to provide a framework for the mobilisation of debt funding to support the Strategic Plan.

The Funding plan, approved by the Board, provides for the approval of borrowings as well as a request for recapitalisation of the NHFC.

The Strategic Plan for the period 2013-2017 was approved for implementation by the Minister of Human Settlements who indicated support of the funding option which will result in an overall debt to equity ratio of 50%.

The process to obtain the necessary PFMA approval from the Shareholder and National Treasury is underway.

The NHFC is in the process of obtaining a national scale credit rating by one of the international rating agencies. This will assist the NHFC in its funding programme.

19%

interest bearing debt
to equity ratio 2012
(within the risk appetite threshold)

Credit risk is the potential that a counterparty to a financial transaction will fail to meet its obligations in accordance with the agreed terms and conditions, or there is a decrease in the fair value of the ceded securities related to the transaction. Concentration risk relates to any single exposure or group of exposures large enough to cause credit losses which threaten NHFC's capital adequacy or ability to maintain its core operations.

Credit risk from lending activities represents the largest, and the most material risk in the economic activities of the NHFC. The management of credit risk remains critical to the sustainability of the institution.

The NHFC continually invests in risk management capabilities to underpin the housing finance growth and development targets which the NHFC committed to the Board of Directors and the shareholder.

The robustness of the NHFC's risk management processes continue to be tested by the economic environment in which it operates and are continually reviewed to meet the challenges thereby improving the NHFC's ability to meet the needs of the market.

Strategy

- Monitor credit diligently;
- Improving customer experience with strong focus on credit value management;
- Manage for value, properly pricing for risk; and
- Continually improve collections and recovery.

- The 2011/2012 financial year has been characterised by a stable and low interest environment.
- In an effort to manage concentration risk, the prudential counterparty limits have been reduced in line with the findings of the risk appetite statement to ensure no compromise of the NHFC balance sheet should adverse circumstances prevail at any counterparty.
- The NHFC credit policy has been aligned to provisions of the new Companies Act. The new Companies Act emphasises the assessment of the counterparty solvency and liquidity position, and has introduced Business Rescue provisions.
- The NHFC has experienced an improvement in credit risk exposure due to new applications characterised by an enhanced risk profile, average loan- to-value at 64%.

Turnaround and Workout

- The NHFC has continued to focus on monitoring and proactively managing potential events of default and breaches of the covenants in the portfolio. The efforts to maximise recoveries particularly in the Turnaround and Workout portfolio has continued to bear fruit in that the total non–performing portfolio has been on a decline.
- The approach of recovery remains a workable turnaround with the client's cooperation, and the legal proceedings are effected as measure of last resort.
- Turnaround and Strategic Intervention included conversion of debt finance into equity to strengthen client capital structures.

Maximisation of economic value through effective portfolio management.

Benchmarking of the pricing methodology framework with other DFI models.

Alignment of the credit philosophy of the NHFC with the changing regulatory environment.

Improvement of the NHFC's efficiency, effectiveness and agility through human resources and performance management.

Continuation of capacity building programmes and partnerships with some of DFI's (IDC), benchmarking exercises and knowledge sharing initiatives.

Continuously aligning lending activities with the Risk Appetite.

Continued improvement in the wholesale impairment levels.

1.58%

credit loss ratio 2012
(within the risk appetite threshold)

Credit risk	2011/12 in review	Looking forward
	Portfolio Analysis Credit quality of loans and receivables	

	2012 %	2011 %
Growth in loans and advances	17	17
NPL as % advances	20	20
Credit loss ratio	1.58	0.26
Provision for impairments as % of total gross loans	8.45	8.07

Impairment charges

The rise in the credit loss ratio was mainly due to an increase in the level of impairments, however this is still in line with the approved risk appetite limit. A significant portion of the increase is due to one major client, who has initiated implementation of the turnaround strategy.

Concentration risk of loans and receivables by operations:

	2012 %	2011 %
Commercial	16%	15%
Projects	69%	67%
Retail	15%	18%

There has been no significant change in the portfolio mix in the current year. This is however expected to change in the future considering the planned sale of the Retail advances book.

Credit risk arising from Treasury activities

The NHFC Treasury counterparty risk policy is aligned to the requirements of the Treasury Regulations as referred to in the PFMA which are as follows:

- Selection of counterparties through credit risk analysis;
- Establishment of investment limits per institution;
- Monitoring of investments and counterparty exposures against approved limits; and
- Reassessment of counterparty credit risk based on credit ratings.

The NHFC's exposure to counterparty risk in respect of all Treasury activities are confined to at least F1 rated institutions in terms of short term credit ratings by a reputable rating agency.

Counterparty limits are reviewed by the Board of Directors on an annual basis. Second tier limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

	2012 R'm	2011 R'm
Held to maturity money market investments	1 135	932
Cash and short-term deposits	282	216

Financial risk	2011/12 in review	Looking forward
The risk of the NHFC failing to pay its debts and obligations when due because of its inability to convert assets into cash, or because of being only able to convert assets at a substantial discount relative to its fair market value to honor the obligations. Market risk talks to variability in the market values or interest related payments of interest-bearing assets and liabilities, due to movements of interest rates. The management of liquidity risk takes preference over the optimisation of interest rate risk for the NHFC. *Interest Rate Risk* Interest rate risk is the exposure of the NHFC to increased financing cost and reduced revenue due to adverse changes in interest rates.	Interest rates have been at historical low levels throughout the financial year. The investment portfolio is diversified using a mixture of fixed and floating rate instruments within the policy framework. Clients who enjoy variable interest rate facilities are subject to interest rates that reset on a change in the prime interest rate or on a quarterly basis in accordance with various market indices. The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan. The liabilities have increased following the drawdown of approved facilities. The costs of the borrowings are at both fixed and variable rates and where possible are matched with the related assets.	The Treasury will position itself to support the planned increased level of funding activities in line with the approved Strategic Plan by ensuring appropriate liquidity levels through the blended sources of funding. With the increased level of borrowings, the objective is to match in as far as possible, the funding portfolio to the characteristics of the underlying loan book. The management of the impact of the cost of borrowings on the operations of the NHFC from both a sustainability and development role remains a focus. The implementation of the funding programme, in line with the approved strategy, is key to the long term funding of the NHFC.

Financial risk	2011/12 in review	Looking forward
The NHFC is mainly exposed to interest rate movements on its borrowings, investments in interest bearing instruments and loans and receivables portfolio.	The sensitivity of the portfolios to a 1% change in interest rate is reflected below:	

	Increase/decrease	Effect on profit before tax (R'000)	
		2012	2011
Loans and receivables	1%	16 966	15 994
Loans and receivables	-1%	(16 845)	(15 876)
Held to maturity investments and cash and short-term deposits	1%	7 193	5 221
Held to maturity investments and cash and short-term deposits	-1%	(7 193)	(5 221)
Other financial liabilities	1%	(4 383)	-
Other financial liabilities	-1%	4 383	-

Financial risk	2011/12 in review	Looking forward
Liquidity risk Liquidity risk is the risk that the NHFC may not be able to generate sufficient cash resources to honor its financial commitments on a cost effective and timeous basis. Liquidity risk arises mainly as a result of the NHFC's disbursements in line with the approved Strategic Plan, servicing loan obligations and operational cash requirements.		

Southernwood Square, East London, Eastern Cape

To ensure that the NHFC is able to meet its financial obligations the liquidity management policy includes: – ensuring adequate availability of funds to meet its budgeted financial obligations; – short and long term cash flow forecasting; – managing the contractual maturity gap between assets and liabilities; – diversifying funding sources and have funding programmes available to reduce reliance on particular sources to support effective liquidity risk management; – reassessment of investing policies on a regular basis; and – ensuring appropriate liquidity levels by: · establishing investment limits per investment instrument; · setting of maturity parameters for investments; and · reassessment of investment instruments based on liquidity requirements.	The NHFC has maintained sufficient levels of liquidity to meet its disbursement requirements and fulfill its financial obligations. The drawdown of facilities from the multilateral agencies contributed to the diversification of funding. The maturity gap analysis has been maintained at healthy levels. Liquidity levels were maintained in line with the policy requirements.	
Operational risk	**2011/12 in review**	**Looking forward**
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This risk includes IT, environmental, physical and fraud related risks faced by the NHFC.	Operational risk losses were kept to acceptable levels and remain within appetite. Implementation of an operational risk framework as well as a revised fraud implementation plan resulted in minimised incidents of operational risk. We improved our risk governance structures and oversight measures for information technology. The continued focus on control and enhancements for financial crime resulted in minimised rate of losses.	A key focus areas will be to mitigate operational risks arising from new projects / programmes implemented in response to the expanded mandate of the NHFC. We will continue to enhance our fraud awareness. Information technology risk management will be further enhanced. Further embedding an operational risk-aware culture throughout the NHFC.
Strategy – Enhance Business Continuity heat map for critical functions; and – Monitor operational risk appetite and tolerance levels.		Implement an operational risk dashboard. Build automation into the operational risk management process through tools and solutions.

KPIs

	2012	2011
Total no. of Incidents	↑	↓
Total Loss value	↑	↓

national housing finance corporation soc limited (NHFC)
annual financial statements
for the year ended 31 March 2012

approval of annual financial statements

The Directors are legally bound to ensure that the NHFC keeps full and proper records of its financial affairs and for the preparation and integrity of the annual financial statements. The external auditors are engaged to conduct an audit and express an independent opinion on the financial statements.

The NHFC's annual financial statements have been prepared in terms of Generally Recognised Accounting Practice and are in line with the NHFC's accounting policies and supported by reasonable and prudent judgments and estimates.

The Directors acknowledge that they are ultimately responsible for the systems of internal financial control and that they place reliance on the Audit Committee to oversee Management's implementation of sound internal control systems, procedures and systems. Policies, procedures and approval frameworks are in place to maintain a strong control environment. Nothing suggests to the Directors that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Audit Committee has reviewed the effectiveness of the NHFC and the Group's internal controls and considers the systems appropriate for the effective operation of NHFC and the Group. The Committee has evaluated the Group's Annual Financial Statements and recommended their approval to the Board. The approval is set out on page 56.

The Directors are of the opinion, based on the information and explanations given by Management, and the internal auditors that the system of internal control provides reasonable assurance and that the financial records may be relied upon for preparing the annual financial statements.

The Directors have every reason to believe that the annual financial statements, which were prepared on a going concern basis, fairly present the group's financial results and position at the end of the financial year and that the group will be a going concern for the year ahead.

The annual financial statements of NHFC for the year ended 31 March 2012, set out on pages 57 to 100, were approved by the Board of Directors on 31 July 2012 and signed on their behalf by:

M M Katz
Independent non-executive chairman

S S Moraba
CEO

certificate of the company secretary

In my capacity as Company Secretary, I hereby confirm in terms of Section 88(2)(e) of the Companies Act, Act 71 of 2008, that the NHFC lodged with Commissioner of Intellectual Property and Companies, all such returns and notices as are required of a State Owned Enterprise in terms of the Act, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

E Marx
Company Secretary

report of the independent auditor to the minister of human settlements

Independent auditor's report to minister of human settlements on national housing finance corporation soc limited

Report on the consolidated financial statements

Introduction

We have audited the consolidated financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries as set out on pages 56 to 97, which comprise the consolidated and separate statement of financial position as at 31 March 2012, the consolidated and separate statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information and the director's report.

The board of director's responsibility for the consolidated financial statements

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the National Housing Finance Corporation SOC Limited and its subsidiaries as at 31 March 2012, and their financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Report on other legal and regulatory requirements

As required by the Companies Act of South Africa, we performed audit procedures on National Housing Finance Corporation SOC Limited and its subsidiaries. We have no matters to report in this regard.

Public audit act requirements

In accordance with the Public Audit Act and the General Notice issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 98 to 100 of the annual report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the Public Audit Act.

Internal control

We considered internal control relevant to our audit of the financial statements, National Housing Finance Corporation SOC Limited and its subsidiaries and compliance with laws and regulations.

We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

Ernst & Young Inc.

Ernst & Young Inc

Director: Rosanne de Lange

Registered Auditor

Chartered Accountant (SA)

Date: 31 July 2012

report of the audit committee

The Board of Directors of NHFC delegated certain responsibilities to the Audit Committee and these are set out in the Terms of Reference of the Committee.

The Committee's responsibilities are in line with the Public Finance Management Act, Act 1 of 1999 and the Treasury Regulations and it has discharged all of its responsibilities set out in its Terms of Reference. The Committee has amongst other things reviewed the following during the 2011/12 financial year:

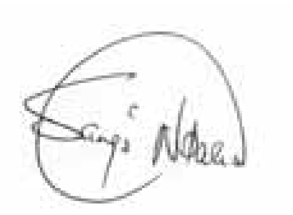
- the effectiveness of the internal control systems and internal audit;
- the activities of the internal audit function, including its annual work program, co-ordination with the external auditors, the reports of significant findings and the responses of management to specific recommendations;
- the adequacy, reliability and accuracy of financial information provided by management; and
- any accounting or auditing concern identified as a result of an internal or external audit.

The internal controls implemented by NHFC focus on identified key risk areas. Management monitors all internal controls closely and ensures that action is taken to correct deficiencies as they are identified. The CEO and the Executive Management provides the required assurance that risks are effectively managed as well as the effectiveness of internal controls.

In the opinion of the Committee, these controls and procedures of the NHFC were, during the year under review, appropriate in safeguarding the NHFC's assets, ensuring the maintenance of proper accounting records and that working capital and resources were efficiently utilised. Nothing has come to the attention of the Committee to indicate that a material breakdown in the functioning of the internal controls, procedures and systems has occurred during the year under review.

Following our review of the annual financial statements of the NHFC for the year ended 31 March 2012, we are of the opinion that they comply in all material respects with the relevant provisions of the Companies Act, the Public Finance Management Act and Generally Recognised Accounting Practice.

The Audit Committee, at its meeting held on 25 June 2012, recommended these annual financial statements, which were prepared on a going concern basis, to the Board for approval.



S Ntsaluba
Chairman

director's report

The Directors are pleased to present their report for the year ended 31 March 2012.

Mandate and Principal activities

The NHFC's mandate and principal activities are described on pages 2 to 3 in the profile and mandate delivery sections.

Financial Highlights

The financial highlights are set out on pages 6 and 7.

Financial Results

The financial results of the NHFC for the year under review are set out on pages 59 to 97 of these financial statements.

Share capital and Shareholder

The Government of Republic of South Africa is the sole Shareholder of the NHFC.

There were no changes to the authorised and issued share capital of the NHFC during the year.

Dividends

In terms of an agreed policy with its Shareholder, all profits are retained by the NHFC to build the capital base and thereby increase its activities and impact.

Going Concern

The Board has given particular attention to the assessment of the going concern of the Group and has a reasonable expectation that the NHFC has adequate resources to operate in the foreseeable future and have adopted the going concern basis in preparing the Financial Statements.

Directors and Company Secretary

There were no changes in the composition of the NHFC's Board of Directors or Company Secretary, their details are set out on page 8 and 9.

Remuneration of Directors and Members of Board Committees

The directors' emoluments are set out on page 96 of these financial statements.

Audit Committee members and External Auditors

The Audit Committee members and External Auditors will, in line with the Companies Act, Act 71 of 2008, be appointed at the Annual General Meeting scheduled for 29 November 2012.

NHFC's Policy is, where possible, not to use the External Auditors for non-audit services. In cases where the External Auditors are to be used for non-audit services, the prior approval of the Audit Committee must be obtained.

Internal Control

An effective internal control framework is the responsibility of the Board. The control framework provides cost-effective assurance that the assets of the NHFC are safeguarded, the liabilities and working capital are efficiently managed and that the NHFC complies with relevant legislation and regulations.

Information Technology

The Board is responsible for the governance of Information Technology (IT), including the implementation of an appropriate IT Strategy. The IT Control Framework provides for cost-effective assurance that the IT process is effective and that the IT assets of the NHFC are safeguarded.

The implementation of an IT Governance Framework is delegated to an IT Management Committee, the details of which are reflected on page 37.

Events after the Reporting Date

There were no significant events after the reporting date.

director's report (continued)

Subsidiaries and Associates

The NHFC's investments are disclosed in notes 9, 11 and 12 of the Annual Financial Statements.

Information required by the Public Finance Management Act

(a) Performance

The performance of the NHFC against the Shareholders Compact with the Minister of Human Settlements is set out on pages 98 to 100.

(b) Losses to Criminal conduct and wasteful expenditure

In terms of the Materiality Framework agreed with the Shareholder, any losses due to criminal conduct or irregular or fruitless and wasteful expenditure, that individually (or collectively where items are closely related) exceed R1,1 million must be reported. The NHFC did not incur any losses falling within or below its Materiality Framework.

The Directors Report for the year ended 31 March 2012 were approved by the Board of Directors on 31 July 2012 and signed on their behalf by:

M M Katz
Independent non-executive chairman

S S Moraba
CEO

consolidated statement of financial performance

for the year ended 31 March 2012

	Note	Group		Company	
		2012	2011	2012	2011
		R'000	R'000	R'000	R'000
Interest on advances	2.1	146 229	118 923	144 121	124 758
Interest on investments	2.2	35 076	41 036	34 897	40 005
Rental income	2.3	5 961	5 440	3 554	5 440
Dividends received*		158	158	158	7 897
Sale of houses	2.4	20 914	54 465	-	-
Revenue		**208 338**	**220 022**	**182 730**	**178 100**
Cost of sales	2.5	(17 282)	(47 795)	-	-
Net impairments	7	(31 575)	(4 427)	(31 575)	(4 427)
Gross profit		**159 481**	**167 800**	**151 155**	**173 673**
Other operating income	3	5 758	24 052	1 318	4 592
Administrative expenses	4.1	(98 009)	(97 632)	(84 767)	(84 893)
Other operating expenses	4.2	(19 981)	(17 682)	(20 222)	(27 413)
Operating Income		**47 249**	**76 538**	**47 484**	**65 959**
Finance costs	5	(14 234)	(1 150)	(15 694)	(611)
Share of profit of an associate	11/12	1 205	159	-	-
Surplus before tax		**34 220**	**75 547**	**31 790**	**65 348**
Income tax expense	6	(13 052)	(15 689)	(9 175)	(14 736)
Surplus for the year		**21 168**	**59 858**	**22 615**	**50 612**

* *Dividends received for the company in 2011 include a dividend of R7,739 million paid by a subsidiary, Centriq Insurance Company Limited which was subsequently liquidated.*

consolidated statement of financial position
as at 31 March 2012

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Assets					
Non-current assets					
Loans and receivables - advances	7	1 630 196	1 330 393	1 704 218	1 397 374
Investment in subsidiary - Gateway Home Loans (Pty) Ltd.	8	-	-	-	2 392
Investment in subsidiary - Cape Town Community Housing Company (Pty) Ltd.	9	-	-	8 197	8 197
Investment - preference shares	10	2 500	2 500	2 500	2 500
Investment in associate - Housing Investment Partners (Pty) Ltd.	11	-	1 051	7 233	5 566
Investment in associate - Trust for Urban Housing Finance Holdings (Pty) Ltd.	12	8 021	4 773	2 437	2 437
Property, plant and equipment	13	1 587	1 728	1 026	1 299
Intangible assets	14	447	256	327	209
Instalment sale receivables	15	32 825	36 451	-	-
Investment property	16	72 596	71 252	50 775	51 745
Goodwill	17	2 714	2 714	-	-
Deferred taxation	6	4 883	3 199	4 883	3 199
		1 755 769	1 454 317	1 781 596	1 474 918
Current assets					
Loans and receivables - advances	7	200 896	232 401	200 896	232 401
Properties developed for sale	18	63 910	64 015	-	-
Instalment sale receivables	15	5 454	5 554	-	-
Other receivables and prepayments	19	10 614	60 848	4 984	55 648
Held to maturity investments	20	1 134 755	932 170	1 134 755	932 170
Cash and short - term deposits	21	282 000	215 839	277 264	213 139
Income tax receivable	6	4 364	25 377	4 364	21 500
		1 701 993	1 536 204	1 622 263	1 454 858
Total assets		3 457 762	2 990 521	3 403 859	2 929 776
Net assets and liabilities					
Net assets					
Issued capital	22	842	842	842	842
Share premium	22	879 158	879 158	879 158	879 158
Grant capital	23	200 000	200 000	200 000	200 000
Retained earnings		1 217 079	1 196 586	1 179 337	1 156 722
Total net assets		2 297 079	2 276 586	2 259 337	2 236 722
Non-current liabilities					
Funds under management	24	697 462	625 954	697 462	625 954
Other financial liabilities	26	225 417	9 369	216 010	-
		922 879	635 323	913 472	625 954
Current liabilities					
Debentures	25	-	5 000	-	-
Other financial liabilities	26	212 900	50 971	211 915	50 029
Provisions	27	17 124	12 919	16 499	12 468
Trade and other payables	28	7 780	9 722	2 636	4 603
		237 804	78 613	231 050	67 100
Total liabilities		1 160 683	713 935	1 144 522	693 054
Total net assets and liabilities		3 457 762	2 990 521	3 403 859	2 929 776

statement of changes in net assets

for the year ended 31 March 2012

	Ref	Issued Capital (Note 22) R'000	Share Premium (Note 22) R'000	Grant Capital (Note 23) R'000	Retained earnings R'000	Total R'000
Group						
Balance at 1 April 2010		842	879 158	200 000	1 136 635	2 216 635
Share in changes in retained earnings of associate						
- Housing Investment Partners (Pty) Ltd.	Note 11	-	-	-	(261)	(261)
Share in changes in reserves of associate						
- Trust for Urban Housing Finance Holdings (Pty) Ltd.	Note 12	-	-	-	354	354
Surplus for the period		-	-	-	59 858	59 858
Balance at 31 March 2011		842	879 158	200 000	1 196 586	2 276 586
Share in changes in retained earnings of associate						
- Housing Investment Partners (Pty) Ltd.	Note 11	-	-	-	(875)	(875)
Share in changes in reserves of associate						
- Trust for Urban Housing Finance Holdings (Pty) Ltd.	Note 12	-	-	-	200	200
Balance at 31 March 2011 (restated*)		842	879 158	200 000	1 195 911	2 275 911
Surplus for the period		-	-	-	21 168	21 168
As at 31 March 2012		842	879 158	200 000	1 217 079	2 297 079
Company						
Balance at 1 April 2010		842	879 158	200 000	1 106 110	2 186 110
Surplus for the period		-	-	-	50 612	50 612
Balance at 31 March 2011		842	879 158	200 000	1 156 722	2 236 722
Surplus for the period		-	-	-	22 615	22 615
As at 31 March 2012		842	879 158	200 000	1 179 337	2 259 337

* The restated amount reflects adjustments made as detailed in note 11 and 12 and relates to prior year changes in associate companies

Statement of cash flows
for the year ended 31 March 2012

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Operating activities					
Receipts					
Sale of goods and services		20 914	6 670	-	-
Interest, rental and dividend income		187 424	165 557	182 730	178 100
Other operating revenue		3 444	13 001	1 318	1 247
		211 782	185 228	184 048	179 347
Payments					
Employee costs		(78 037)	(69 979)	(66 806)	(59 941)
Suppliers		(291 836)	(346 968)	(274 767)	(344 134)
Finance costs		(14 234)	(1 150)	(15 694)	(611)
Taxation paid		6 277	(17 036)	6 277	(15 986)
Net cash flows used in operating activities	29	(166 048)	(249 905)	(166 942)	(241 325)
Investing activities					
Additions to property plant and equipment and intangible assets	13/14	(989)	(1 064)	(533)	(872)
Proceeds from sale of property, plant and equipment and intangible assets	13/14	20	29	9	16
Investment in associate	11/12	-	-	(1 667)	-
(Increase)/decrease in held to maturity investments	20	(202 585)	144 513	(202 585)	129 364
Proceeds from liquidation of investment		-	-	-	14 739
Net cash from investing activities		(203 554)	143 478	(204 776)	143 247
Financing activities					
Increase in funds under management	24	71 508	10 176	71 508	10 176
Proceeds from borrowings	26	371 116	50 073	371 116	50 029
Repayment of borrowings	26	(6 861)	(967)	(6 780)	-
Net cash flows from financing activities		435 763	59 282	435 844	60 205
Net decrease in cash and cash equivalents		66 161	(47 145)	64 126	(37 873)
Cash and cash equivalents at 1 April	21	215 839	262 984	213 139	251 012
Cash and cash equivalents at 31 March	29.4	282 000	215 839	277 265	213 139

1. Group Accounting Policies

Corporate Information

The consolidated financial statements of the National Housing Finance Corporation SOC Limited ("NHFC") for the year ended 31 March 2012 were approved by the Board on 31 July 2012. NHFC is a public company incorporated and domiciled in South Africa, the shares of which are held by the Government of the Republic of South Africa.

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000) except when otherwise indicated. Consolidated financial statements are prepared on a going concern basis. The financial year-end for Cape Town Community Housing Company (Pty) Limited and Gateway Home Loans (Pty) Ltd is 31 March. Similar accounting policies are applied across the Group.

Statement of compliance

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2012.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Typically, this will be where the Group has more than 50% of the voting power. In assessing control, potential voting rights presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous year.

Summary of significant judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Bonus provision

Staff and management bonuses are provided for as when the employee renders his services.

It is based on performance and is evaluated using a rating method on an annual basis.

Investment properties

Management reassesses annually the most appropriate allocation of housing stock between inventory and investment properties. The percentage allocation of these assets have been estimated as the most likely manner in which economic benefits will be realised from these assets, be it either in the form of proceeds on the sale of the asset or rental income received on the lease of an operating lease asset.

The fair value of the company's investment property is determined using the capitilisation of net income method of valuation based on a capitilisation rate of 13.5%. The capitilisation rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised income by the purchase price. This yield is based on information derived from market analysis. Comparable sales in the immediate vicinity reflect a capitilisation rate in the region of 13.5%. For the Group, the valuation was based on open market value for existing use.

Transfers are made to investment property from properties developed for sale when there is a change in use.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Refer to note 32 for a comprehensive assessment of financial risk management.

Summary of significant accounting policies

Business Combinations and Goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled in equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for the non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Investment in subsidiary

Investment in a subsidiary is carried at cost less impairment.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Interest in associates

The Group's investment in its associates is accounted for using the equity accounting method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of financial performance reflects the share of the results of operation of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of financial performance. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit or loss of the associates is shown on the face of the statement of financial performance. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associates are prepared for the same reporting period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting sheet date whether there is any objective evidence that the investment in the associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit or loss of an associate' in the statement of financial performance.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

Property, plant and equipment

Plant and equipment is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment. Depreciation is calculated on a straight-line basis over the asset's expected useful life, using the following depreciation rates to reduce the carrying value to recoverable amount:

	Depreciation rates (per annum)
Computer hardware	33.33%
Computer software	33.33%
Furniture and fittings	16.67%
Motor vehicles	25%
Office equipment	16.67%
Leasehold improvements	period of lease

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstance indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying value exceeds the estimated recoverable amount, the assets are written down to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Impairment losses are recognised in the statement of financial performance.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Leasehold improvements relate to operating leases.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits or service potential expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of financial performance in the year the asset is de-recognised.

The residual value of assets, their useful lives and methods of depreciation are reviewed at each reporting date and adjusted prospectively if appropriate.

Properties developed for sale

Properties developed for on-selling are measured at the lower of cost and net realisable value.

Properties developed for sale are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge

The cost of the properties for on-selling comprises of the cost of purchase, cost of conversion and other cost incurred in bringing the properties developed for on-selling to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

Development expenditure is included as directly attributable cost incurred in bringing properties developed for on-selling to the present location and condition.

When properties developed for on-selling are sold, the carrying amount of those properties developed for on-selling is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of properties developed for on-selling to net realisable value and all losses of properties developed for on-selling is recognised as an expense in the periods the write-down or loss occurs. The amount of any reversal of any write-down of properties developed for on-selling, arising from an increase of net realisable value, is recognised as a reduction in the amount of properties developed for on-selling recognised as an expense in the period in which the reversals occur.

Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised over 3 years and tested for impairment annually.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of financial performance when the asset is derecognised.

Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as either loans and receivables or held-to-maturity investments, as appropriate.

Financial assets are initially recognised at fair value, plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs.

All regular purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss when the investments are de-recognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowances for impairment. Gains and losses are recognised in the statement of financial performance when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

Amortised Cost

Held to maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Trade and other receivables

Other receivables are classified as loans and receivables. These are initially measured at the fair value. Other receivables are subsequent to initial recognition measured at amortised cost.

Cash and Short-term deposits

Cash and short-term deposits on the statement of financial performance comprise cash at banks, cash on hand and short-term deposits with an original maturity of less than three (3) months. Cash and short term deposits are considered to be loans and receivables.

For the purpose of the consolidated cash flow statement, cash and cash equivalent consist of cash equivalents as defined above, net of outstanding bank overdrafts.

Cash and short-term deposits are subsequently measured at amortised cost.

Impairment of financial assets

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and advances; and held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of financial performance.

In relation to advances, provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of advances is reduced through use of an impairment account. Impaired debts are de-recognised when they are assessed as uncollectible. Interest income on impaired balances continues to be accrued using the rate used to discount the future cash flows for the purpose of measuring the impairment loss.

Instalment sale receivables

Instalment sales agreements are the sales transactions of properties developed for sale. Selling profit or loss is recognised in the period in which it occurs in accordance with the policy followed for outright sales. When below market interest rates are charged, selling profit is restricted to that which would apply if market rates were charged. Costs incurred in connection with negotiating and arranging agreements is recognised as an expense when the selling profit is recognised.

Instalment sale receivables are initially recognised at the net investment in the instalment sale agreement. The recognition of finance income is based on a constant periodic rate of return on the net investment in the instalment sale receivable.

Subsequent impairment of instalment sale receivables are determined and recognised in accordance with the policy applicable to loans and receivables.

Financial liabilities

Financial liabilities comprise of the following:

Other payables

Other payables are recognised at fair value.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of financial performance when the liabilities are derecognised as well as through the amortisation process.

De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of financial performance.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. Where the Group 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 any provision is presented in the statement of financial performance net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowing.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. The classification of the lease is determined in terms of GRAP 13 Leases.

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised 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 recognised in the statement of financial performance.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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 (where ownership of the asset is not expected to transfer to the entity at the end of the lease term).

Operating lease payments are recognised as an expense in the statement of financial performance on a straight line basis over the lease term.

Finance leases – Group as lessor

The Group recognises finance lease receivables on the balance sheet.

Finance income is recognised based on a pattern reflecting constant periodic rate of return on the group's net investment in the finance lease.

Contingencies

A contingency is regarded as an existing condition, situation, or a set of circumstances involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occur or fail to occur.

Contingent assets and liabilities are not recognised in the accounting records however are disclosed by way of note disclosure to the financial statements.

Revenue recognition

Revenue from exchange transactions

Revenue comprises interest received on advances, interest on investments, revenue from sale of houses, and dividends received. Revenue is recognised to the extent that it is probable that economic benefits or service potential will flow to the Group and the revenue can be reliably measured. An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Revenue is recognised as interest accrues (using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

Rental income

Rental income arising from operating leases on property is accounted for on a straight-line basis over the lease term.

Sale of Houses

Revenue from the sale of subsidised houses constructed is recognised when significant risks and rewards of ownership are transferred to the buyer. Revenue is stated excluding value added tax.

Revenue from the sale of non-subsidised houses constructed is recognised against registration of transfer of ownership in the name of the buyer. Revenue is stated excluding value added tax.

City of Cape Town, Institutional and other subsidies

City of Cape Town subvention (top-up), institutional and other subsidies received are deferred and recognised in income on the date of occupation of houses financed by these subsidies.

Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where NHFC received revenue from another entity without directly giving approximately equal value in exchange.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Taxation

Current taxation

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred taxation

Deferred tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax base of assets and liabilities and the carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting surplus nor taxable surplus or deficit; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting surplus nor taxable surplus or deficit; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in other comprehensive income is recognised in equity and not in profit and loss.

Retirement benefits

The Group has a defined contribution plan which requires contributions to be made to a separate administered fund. The contributions made are recognised as an expense in the statement of financial performance.

The Group is not liable for post-retirement benefits of any nature.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of the day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains and losses arising from changes in the fair values of investment properties are included in the statement of financial performance in the year in which they arise.

Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of financial performance in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Related party disclosures

Related parties are identified as being those parties that control or have significant influence over NHFC and those parties that are controlled or significantly influenced by NHFC. Disclosure is made of all relationships involving control, even when there are no transactions between such parties during the year; all other related party transactions and management compensation.

Disclosure of transactions between certain government or government related entities will only be disclosed if they are collectively or individually significant.

Presentation of budget information in financial statements

An entity should present a comparison of the budget amounts for which it is publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP.

The budget information includes the budget for the company and its subsidiary and is relevant to the same time period. The budget is prepared on an accrual basis and the comparison of actual performance against budget is based on an accrual basis.

New Standards and Interpretations

The following accounting standards, amendments to standards and new interpretations, which are not yet mandatory, have been assessed as per below:

GRAP 18 Segment Reporting

Financial statements comprise summarised and aggregated information about a wide variety of activities undertaken by an entity. The purpose of segment reporting is to present more specific and detailed information about the major activities undertaken by an entity during a particular period, along with the resources allocated to those activities.

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to report financial information separately, for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

This standard will not be applicable to the Group therefore the impact will be immaterial.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

GRAP 21 Impairment of Non-Cash-Generating Assets

Non-cash-generating assets are assets other than cash-generating assets. When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

At each reporting date an assessment is made whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the recoverable service amount of the asset is estimated.

The impact of this standard is not material.

This standard of GRAP is effective for financial years commencing on or after 1 April 2012.

GRAP 25 Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

This standard is similar to IAS 19 which was previously adopted therefore the impact on the financial statements will not be material.

This standard of GRAP is effective for financial years commencing on or after 1 April 2013.

GRAP 26 Impairment of Cash-Generating Assets

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, an entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an entity applies the appropriate discount rate to those future cash flows

This standard is similar to IAS 38 which was previously adopted therefore the impact on the financial statements will not be material.

The effective date of the standard is for years beginning on or after 1 April, 2012.

GRAP 103 Heritage Assets

Heritage assets can be regarded as a certain class of assets that often display certain characteristics as guided by the statement.

The standard prescribes the accounting treatment for heritage assets and the related disclosure requirements.

This standard will not be applicable to the Group therefore the impact will be immaterial

The effective date of the standard is for years beginning on or after 1 April, 2012.

GRAP 104 Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or a residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

The implication of this GRAP will have an impact on the financial statements as the number of categories in GRAP 104 is reduced when compared to IAS 39. The resulting disclosure as required by GRAP 104 is significantly less than IFRS 7.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

GRAP 105 Transfers of Functions between Entities under Common Control

For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity.

The standard establishes the accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

This standard will not be applicable to the Group therefore the impact will be immaterial.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

GRAP 106 Transfers of Functions between Entities not under Common Control

A transfer of functions undertaken between entities not under common control could involve an acquisition or transfer of another entity or the acquisition or transfer of part of the entity.

The standard establishes the accounting principles for the acquirer in a transfer of functions between entities not under common control.

This standard will not be applicable to the Group therefore the impact will be immaterial.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

GRAP 107 Mergers

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an entity having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

The standard establishes the accounting principles for the combined entity and combined entities in a merger.

This standard will not be applicable to the Group therefore the impact will be immaterial.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
2.1 Interest on advances				
Interest on performing advances	129 173	111 921	133 406	117 756
Interest on impaired advances	10 715	7 002	10 715	7 002
Interest on instalment sales	6 341	-	-	-
	146 229	118 923	144 121	124 758
2.2 Interest on investments				
Interest on short term deposits and held to maturity investments.	35 076	41 036	34 897	40 005
2.3 Rental income				
Rental income from investment property and subsidiary properties.	5 961	5 440	3 554	5 440
2.4 Sale of houses				
Subsidiary sale of houses	20 914	54 465	-	-
2.5 Cost of sales				
Subsidiary cost of sale of houses referred to in 2.4.	17 282	47 795	-	-

3. Other operating income

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Other operating income is made up as follows				
Management fees	-	182	-	182
Bad debts recovered	-	129	-	129
Interest received from instalment sales*	-	5 991	-	-
Gain from reversal of impairment of instalment sale receivables	-	1 224	-	-
Levies from instalment sales	1 514	1 473	-	-
Recoveries in respect of services	-	1 000	-	-
Other rental income**	-	3 257	-	-
Other interest received	925	-	925	-
Fair value gain on investment property	2 314	9 818	-	3 345
Sundry income	1 005	978	393	936
	5 758	24 052	1 318	4 592

* *An amount of R6,341 million has been included under interest on advances on the face of the statement of financial performance for the 2012 financial year and therefore not included on this note.*

** *An amount of R2,408 million has been included under rental income on the face of the statement of financial performance for the 2012 financial year and therefore not included on this note.*

	Group		Company	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000

4. Profit before tax

Profit before tax is stated after taking the following into account:

	2012 Group R'000	2011 Group R'000	2012 Company R'000	2011 Company R'000
4.1 Administrative expenses	98 009	97 632	84 767	84 893
Staff costs	52 843	46 160	43 080	37 478
- Salaries	44 434	38 158	35 745	30 835
- Medical aid contributions	2 375	2 438	2 375	2 072
- Provident fund contributions	6 034	5 564	4 960	4 571
Management costs (refer note 34)	25 195	23 819	23 725	22 463
Administration	4 076	3 977	3 518	3 149
Marketing	2 896	2 491	2 714	2 226
Consultancy and advisory services	6 457	14 252	6 429	14 166
Directors' fees	958	896	840	655
Legal fees	1 808	1 986	1 457	1 509
Auditors' Remuneration	2 341	1 808	1 973	1 584
- Audit fees	2 341	1 808	1 973	1 584
Travel and entertainment	1 435	2 243	1 031	1 663
4.2 Other operating expenses	19 981	17 682	20 222	27 413
Communication	2 158	2 227	1 764	1 830
Training and development	945	935	945	935
Office expenses	2 680	3 063	2 118	1 907
Depreciation	918	907	676	776
Bad debts	5 717	4 063	5 717	16 507
Sundry expenses	124	1 366	80	1 044
Impairment of equity investment*	-	-	2 391	-
Fair value loss on investment property	970	-	970	-
Operating lease payments: property and certain equipment	6 469	5 121	5 561	4 414

**Relates to the impairment of subsidiary Gateway which is now fully impaired.*

5. Finance costs

	2012 Group R'000	2011 Group R'000	2012 Company R'000	2011 Company R'000
Interest on other financial liabilities	14 234	1 150	15 694	611

6. Income tax

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Statement of financial performance				
Current income tax				
Current income tax charge	10 859	15 971	10 859	15 018
Deferred tax	(1 684)	(282)	(1 684)	(282)
Underprovision of prior year taxes	3 877	-	-	-
Income tax expense	13 052	15 689	9 175	14 736
Deferred tax asset: Statement of financial position				
Balance at the beginning of the year	3 199	2 917	3 199	2 917
Recognised through the income statement	1 684	282	1 684	282
Balance at the end of the year	4 883	3 199	4 883	3 199
Deferred tax asset consists of:				
Provision for leave pay	5 053	4 470	5 053	4 470
Provision for incentive bonus	11 446	7 998	11 446	7 998
Operating lease	456	632	456	632
Fair value loss/(gain) on investment property	485	(1 673)	485	(1 673)
Total	17 440	11 427	17 440	11 427
Tax rate of 28%	4 883	3 199	4 883	3 199

A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2012 and 2011 is as follows:

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Accounting profit before tax from operations	34 220	75 547	31 790	65 348
At SA statutory income tax rate of 28%	12 778	19 250	8 901	18 297
Non-taxable income	(63)	(2 211)	(63)	(2 211)
Non deductible expenses	670	-	670	-
Capital profit	(333)	(1 350)	(333)	(1 350)
Income tax expense reported in the statement of financial performance	13 052	15 689	9 175	14 736
Income tax receivable: Statement of financial position				
Balance at the beginning of the year	25 377	24 312	21 500	20 532
Tax paid	15 223	28 220	15 223	27 170
Normal tax charge	(10 859)	(15 971)	(10 859)	(15 018)
Tax refund	(21 500)	(11 184)	(21 500)	(11 184)
Underprovision of prior year taxes	(3 877)	-	-	-
Balance at the end of the year	4 364	25 377	4 364	21 500

7. Loans and receivables – advances

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Gross advances				
Opening balances	1 699 919	1 463 819	1 766 899	1 532 235
Disbursements	665 301	427 450	665 301	427 450
Repayments	(359 511)	(190 300)	(352 469)	(179 292)
Amounts previously impaired, written off	(5 717)	(1 050)	(5 717)	(13 494)
Balance at the end of the year	1 999 992	1 699 919	2 074 014	1 766 899
Impairments on advances				
Balances at the beginning of the year	(137 124)	(132 897)	(137 124)	(132 897)
Impairments raised	(31 575)	(4 227)	(31 575)	(4 227)
Amounts impaired in previous years and written off during the year	5 717	1 050	5 717	1 050
Increase in impairments on advances	(67 871)	(46 213)	(67 871)	(46 213)
Impairments reversed during the year*	30 579	40 936	30 579	40 936
Adjustment**	(201)		(201)	
Balance at the end of the year	(168 900)	(137 124)	(168 900)	(137 124)
Comprising:				
Specific impairments	(128 555)	(104 217)	(128 555)	(104 217)
General impairments	(40 345)	(32 907)	(40 345)	(32 907)
Net advances	1 831 092	1 562 794	1 905 114	1 629 775
Maturity analysis				
Receivable within 1 year	200 896	232 401	200 896	232 401
Receivable within 1 to 2 years	197 374	181 052	197 374	168 608
Receivable within 2 to 3 years	191 763	150 897	191 763	150 897
Receivable beyond 3 years	1 241 059	998 444	1 315 081	1 077 869
Net advances	1 831 092	1 562 794	1 905 114	1 629 775
Non-current assets	1 630 196	1 330 393	1 704 218	1 397 374
Current assets	200 896	232 401	200 896	232 401
	1 831 092	1 562 794	1 905 114	1 629 775

* *Impairments were reversed as a result of certain loans and advances being renegotiated and settled.*

** *Adjustment relates to restatement of prior year impairment balance.*

8. Investment in a subsidiary - Gateway

Gateway Home Loans (Proprietary) Limited is a wholly owned but non-trading subsidiary of National Housing Finance Corporation SOC Limited. The recoverable amount of the investment in Gateway is its cost less accumulated impairment.

	Company 2012 R'000	Company 2011 R'000
Shares at cost - ordinary shares	50 000	50 000
Less accumulated impairments	(50 000)	(47 608)
	-	2 392

9. Investment in subsidiary – Cape Town Community Housing Company

	Company	
	2012	2011
Company	R'000	R'000

The Cape Town Community Housing Company (Pty) Ltd. is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited. The investment is in ordinary shares at cost and non-convertible debentures at fair value less impairment.

	2012 R'000	2011 R'000
Shares at cost - ordinary shares		
Opening Balance	2 000	2 000
Movement	-	-
Carrying amount of shares at 31 March 2012	2 000	2 000
Debentures		
Opening Balance	6 197	6 197
Movement	-	-
Carrying amount of debentures at 31 March 2012	6 197	6 197
Total investment in subsidiary	8 197	8 197

The National Housing Finance Corporation SOC Limited have subordinated their claims against the company in respect of the debenture finance in favour of other creditors of the company.

10. Investment – preference shares

	Group		Company	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000
Greenstart (Proprietary) Limited	2 500	2 500	2 500	2 500
Net investment in unlisted preference shares	2 500	2 500	2 500	2 500

These are redeemable cumulative preference shares redeemable at an option of the issuer. The investment consists of 100 shares at par value of R1 and a share premium of R24 999 per share. The total preference shares in Greenstart (Pty) Ltd is R2,5 million.

Dividends in terms of shareholders' agreement, are set at 6.3% per annum on the aggregate subscription price of R2,5 million.

Dividends are included in revenue.

11. Investent in associate

Group

During the year the National Housing Finance Corporation SOC Ltd increased its shareholding from 25% to 33% in Housing Investment Partners (Pty) Ltd, which is involved in the development and marketing of the Income Linked Home Financing Instrument.

The following table illustrates the summarised financial information of National Housing Finance Corporation SOC Ltd's investment in Housing Investment Partners (Pty) Ltd:

	Group	
	2012 R'000	2011 R'000
Share of the associate's balance sheet:		
Current assets	-	257
Non-current assets	-	890
Current liabilities	-	(96)
Net asset	-	1 051
Carrying amount of the investment in company	7 233	5 566
Accumulated share of the associate's loss	(4 515)	(2 710)
Current year share of loss of associate	(1 843)	(1 544)
Share in changes in retained earnings	(875)	(261)
Carrying amount of the investment	-	1 051
Share of the associate's revenue	18	52

The Group's share of unrecognised losses amounts to R0,995million.

Company

The following table illustrates the summarised financial information in the company's books:

	2012 R'000	2011 R'000
Investment in shares at cost	5 566	5 566
Increase in investment in associate	1 667	-
Carrying amount of the investment	7 233	5 566

12. Investment in associate

Group

The National Housing Finance Corporation SOC Limited has a 27% interest in Trust for Urban Housing Finance Holdings (Pty) Ltd (TUHF), which is involved in the provision of commercial property finance in the form of bridging finance and long term loans for the regeneration of South African inner-city precints and surrounding suburbs.

The following table illustrates the summarised financial information of National Housing Finance Corporation's investment in TUHF:

Group	Group 2012 R'000	Group 2011 R'000
Share of the associate's balance sheet:		
Non-current assets	365 937	329 094
Non-current liabilities	(359 771)	(326 010)
Retained earnings effect of prior year change in shareholding	166	-
Net asset	**6 332**	**3 084**
Carrying amount of the investment in company	2 437	2 437
Accumulated share of the associate's profit	1 982	279
Accumulated share of the associate's reserves	354	-
Current year share of changes in reserves	200	354
Current year share of profit of associate	3 048	1 703
Carrying amount of the investment	**8 021**	**4 773**
Less: Goodwill	(1 689)	(1 689)
	6 332	3 084
Share of the associate's revenue	**39 620**	**37 679**

Company

The following table illustrates the summarised financial information in the company's books:

	Company	
Investment in shares at cost	2 437	2 437
Carrying amount of the investment	**2 437**	**2 437**

13. Property, plant and equipment

Group	2012 Cost R'000	2012 Accumulated depreciation R'000	2012 Carrying value R'000	2011 Cost R'000	2011 Accumulated depreciation R'000	2011 Carrying value R'000
Computer Equipment	7 928	(7 234)	694	8 316	(7 398)	918
Furniture and Fittings	3 058	(2 922)	136	3 108	(2 992)	116
Motor Vehicle	396	(265)	131	396	(217)	179
Office Equipment	684	(565)	119	829	(676)	153
Leasehold Improvements	1 049	(542)	507	839	(477)	362
Total	**13 115**	**(11 528)**	**1 587**	**13 488**	**(11 760)**	**1 728**

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment for group - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Equipment	918	299	-	(523)	694
Furniture and Fittings	116	58	-	(38)	136
Motor Vehicle	179	-	-	(48)	131
Office Equipment	153	16	-	(50)	119
Leasehold Improvements	362	210	-	(65)	507
	1 728	583	-	(724)	1 587

Reconciliation of property, plant and equipment for group - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Equipment	925	545	(16)	(536)	918
Furniture and Fittings	158	10	(8)	(44)	116
Motor Vehicle	227	-	-	(48)	179
Office Equipment	173	38	(5)	(53)	153
Leasehold Improvements	69	347	-	(54)	362
	1 552	940	(29)	(735)	1 728

	2012			2011		
Company	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Computer Equipment	7 545	(6 907)	638	7 284	(6 438)	846
Furniture and Fittings	2 839	(2 761)	78	2 819	(2 733)	86
Motor Vehicle	195	(159)	36	195	(137)	58
Office Equipment	561	(504)	57	561	(474)	87
Leasehold Improvements	699	(482)	217	699	(477)	222
Total	11 839	(10 813)	1 026	11 558	(10 259)	1 299

Reconciliation of property, plant and equipment for company - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Equipment	846	262	-	(470)	638
Furniture and Fittings	86	20	-	(28)	78
Motor Vehicle	58	-	-	(22)	36
Office Equipment	87	-	-	(30)	57
Leasehold Improvements	222	-	-	(5)	217
	1 299	282	-	(555)	1 026

Reconciliation of property, plant and equipment for company - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Equipment	819	530	(16)	(487)	846
Furniture and Fittings	124	-	-	(38)	86
Motor Vehicle	81	-	-	(23)	58
Office Equipment	106	14	-	(33)	87
Leasehold Improvements	69	207	-	(54)	222
	1 199	751	(16)	(635)	1 299

Fully depreciated assets that are still in use amounts to R14.4 million (2011: R11.6 million).

No property, plant and equipment has been pledged as security.

14. Intangible assets

Group	2012 Cost R'000	2012 Accumulated depreciation R'000	2012 Carrying value R'000	2011 Cost R'000	2011 Accumulated depreciation R'000	2011 Carrying value R'000
Computer Software	5 561	(5 114)	447	5 188	(4 932)	256
Total	5 561	(5 114)	447	5 188	(4 932)	256

Reconciliation of Intangible assets for group - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Software	256	406	(20)	(195)	447
	256	406	(20)	(195)	447

Reconciliation of Intangible assets for group - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Software	304	124	-	(172)	256
	304	124	-	(172)	256

Company	2012 Cost R'000	2012 Accumulated depreciation R'000	2012 Carrying value R'000	2011 Cost R'000	2011 Accumulated depreciation R'000	2011 Carrying value R'000
Computer Software	5 238	(4 911)	327	4 997	(4 788)	209
Total	5 238	(4 911)	327	4 997	(4 788)	209

Reconciliation of Intangible assets for company - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Software	209	250	(9)	(123)	327
	209	250	(9)	(123)	327

Reconciliation of Intangible assets for company - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Computer Software	229	121	-	(141)	209
	229	121	-	(141)	209

15. Instalment sale receivables

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Gross instalment sale receivables	59 597	79 120	-	-
Less: Unearned finance charges	(20 681)	(36 297)	-	-
Present value of minimum lease payments receivable	38 916	42 823	-	-
Less: Provision for impairment of receivables	(637)	(818)	-	-
	38 279	**42 005**	-	-
Non-current assets	32 825	36 451	-	-
Current assets	5 454	5 554	-	-
	38 279	**42 005**	-	-
The provision for impairment of receivables is reconciled as follows:				
Opening balance	818	8 722	-	-
Reversal of provision	(181)	(7 904)	-	-
Closing balance	**637**	**818**	-	-
Management's assessment of the ageing of the instalment sale debtors is as follows:				
Up to 1 year	6 091	6 372	-	-
1 to 2 years	2 623	1 338	-	-
3 to 5 years	9 816	5 018	-	-
Over 5 years	20 386	30 095	-	-
	38 916	**42 823**	-	-

The average term of the instalment sale receivables is 14 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest rate for the year was 10.9% (2011: 11% per annum). Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.

The amount of R38,916,165 (2011: R42,823,518) is the maximum exposure to credit risk.

The impairment of R637,017 (2011: R818,132) takes into account the recoverable amount of collateral, calculated as the present value, less costs to sell; of the houses under instalment sale contracts, using the prime interest rate and a period of 20 years, based on the length of a home loan obtained in the market.

16. Investment property

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Opening balance	71 252	59 174	51 745	48 400
Transfers from inventory	236	2 260	-	-
Fair value gain /(loss)	1 108	9 818	(970)	3 345
Closing balance	**72 596**	**71 252**	**50 775**	**51 745**
The following amounts have been recognised in the income statement:				
Fair value gain (loss)	1 108	9 818	(970)	3 345
Rental income	5 961	5 440	3 554	5 440

Investment property for the company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, G Wampach (Registered Professional Valuer at Meldane Property and Valuation Services cc) on 9 March 2012. Mr Wampach is not connected to the company and has experience in property valuation. The capitalisation of net income method of valuation was used, based on a capitalisation rate of 13.5%. The capitilisation rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised income by the purchase price. This yield is based on information derived from market analysis. Comparable sales in the immediate vicinity reflect a capitilization rate in the region of 13.5%.

Details of Property

a) Description: Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place

b) Situated at: The corner of President, Human, Clark and FH Odendaal Streets

In addition, for the Group, a percentage of the housing stock held by Cape Town Community Housing Company (Pty) Ltd was reclassified as investment property due to the directors assessment of the allocation of houses held for investment purposes.

The houses were valued by an independent valuator, Siyakulu Property Valuers. The effective date of the revaluation was 13 April 2012. Revaluations were done by Mr G.B. Adams, of Siyakulu Property Valuers. Mr Adams is not connected to the company and has recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

17. Goodwill

	Group 2012 R'000	Group 2011 R'000
At 31 March at cost	2 714	2 714

18. Properties developed for sale

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Properties developed for sale	22 987	23 875	-	-
Repossessed properties	40 923	40 140	-	-
	63 910	64 015	-	-
Reconciliation:				
Properties developed for sale				
Opening balance	23 875	34 318	-	-
Construction costs	16 394	37 352	-	-
Transfer to Cost of sales	(17 282)	(47 795)	-	-
	22 987	23 875	-	-
Repossessed properties				
Opening balance	40 140	20 016	-	-
Additions	783	22 384	-	-
Transfer to investment property	-	(2 260)	-	-
	40 923	40 140	-	-

19. Other receivables and prepayments

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Deposits and prepayments	147	437	2	2
Staff debtors	892	1 225	892	1 225
Other receivables	9 575	9 186	4 090	4 421
AFD loan receivable	-	50 000	-	50 000
	10 614	60 848	4 984	55 648

Deposits and prepayments mainly relate to office rental deposits.

Study loans included in staff debtors are non-interest bearing and are written off or recovered when studies are completed.

Other staff debtors are charged interest at prime.

Other receivables consist mainly of inter company loans for company, and rental income for Group. They are considered current and are not impaired.

20. Held-to-maturity Investments

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Held to maturity money market investments- NHFC	**563 769**	**410 680**	**563 769**	**410 680**
ABSA Bank Limited	60 000	60 000	60 000	60 000
Investec Bank Limited	80 000	60 000	80 000	60 000
South African Reserve Bank	-	27 430	-	27 430
Standard Bank of South Africa Limited	100 496	60 000	100 496	60 000
Rand Merchant Bank a division of FirstRand Bank Limited	100 000	80 000	100 000	80 000
Nedbank Limited	100 000	60 306	100 000	60 306
Land and Agricultural Bank of South Africa Limited	38 829	19 390	38 829	19 390
Eskom Limited	39 065	19 447	39 065	19 447
Development Bank of South Africa Limited	-	20 005	-	20 005
Trans-Caledon Tunnel Authority (TCTA)	19 442	-	19 442	-
City of Johannesburg	20 000	-	20 000	-
Interest receivable	5 938	4 102	5 938	4 102
Held to maturity money market investments - Job summit related projects*	**435 792**	**402 177**	**435 792**	**402 177**
ABSA Bank Limited	61 819	80 124	61 819	80 124
Rand Merchant Bank a division of FirstRand Bank Limited	60 000	60 000	60 000	60 000
Standard Bank of South Africa Limited	60 000	80 000	60 000	80 000
Nedbank Limited	40 000	60 306	40 000	60 306
Investec Bank Limited	60 000	60 000	60 000	60 000
Land and Agricultural Bank of South Africa Limited	38 755	38 829	38 755	38 829
Eskom Limited	39 172	-	39 172	-
Transnet Limited	11 664	-	11 664	-
Trans-Caledon Tunnel Authority (TCTA)	39 166	19 732	39 166	19 732
South African Reserve Bank	20 000	-	20 000	-
Interest receivable	5 215	3 186	5 215	3 186
Held to maturity money market investments - Development Fund *	**135 195**	**119 313**	**135 195**	**119 313**
Eskom Limited	14 729	19 447	14 729	19 447
Land and Agricultural Bank of South Africa Limited	19 619	19 414	19 619	19 414
Investec Bank Limited	20 000	20 000	20 000	20 000
Nedbank Limited	20 000	20 000	20 000	20 000
Standard Bank of South Africa Limited	20 000	-	20 000	-
ABSA Bank Limited	20 000	20 000	20 000	20 000
South African Reserve Bank	19 727	19 725	19 727	19 725
Interest receivable	1 121	727	1 121	727
Total held to maturity money market investments	**1 134 755**	**932 170**	**1 134 755**	**932 170**

* Funds under management- refer note 24

Held to maturity money market investments are made for varying periods up to twelve months in line with the cash flow requirements of the NHFC and earn interest at the respective money market rates.

21. Cash and short-term deposits

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Short term deposits - NHFC	**135 414**	**101 086**	**135 414**	**101 086**
ABSA Bank Limited	36 477	20 253	36 477	20 253
Investec Bank Limited	16 679	6 719	16 679	6 719
Nedbank Limited	6 424	12 975	6 424	12 975
Rand Merchant Bank a division of FirstRand Bank Limited	17 487	12 015	17 487	12 015
Standard Bank of South Africa Limited	17 622	13 305	17 622	13 305
Standard Bank of South Africa Limited (Stanlib)	20 637	15 731	20 637	15 731
Trans-Caledon Tunnel Authority (TCTA)	20 088	20 088	20 088	20 088
Short term deposits - Job summit related projects *	**105 049**	**69 686**	**105 049**	**69 686**
ABSA Bank Limited	16 165	9 941	16 165	9 941
Investec Bank Limited	23 561	16 186	23 561	16 186
Nedbank Limited	20 014	13 098	20 014	13 098
Rand Merchant Bank a division of FirstRand Bank Limited	19 043	10 643	19 043	10 643
Standard Bank of South Africa Limited	9 174	3 556	9 174	3 556
Standard Bank of South Africa Limited (Stanlib)	17 093	16 262	17 093	16 262
Short term deposits - Development Fund *	**20 065**	**33 082**	**20 065**	**33 082**
ABSA Bank Limited	4 381	7 296	4 381	7 296
Nedbank Limited	5 470	6 447	5 470	6 447
Standard Bank of South Africa Limited	5 305	11 748	5 305	11 748
Investec Bank Limited	4 909	7 591	4 909	7 591
Short term deposits - Siyanda *	**345**	**729**	**345**	**729**
Standard Bank of South Africa Limited	345	729	345	729
Short term deposits - Abahlali*	**1 015**	**965**	**1 015**	**965**
Absa Bank Limited	1 015	965	1 015	965
Cash at bank and in hand	**20 112**	**10 291**	**15 376**	**7 591**
Standard Bank of South Africa Limited	20 104	10 280	15 371	7 587
Cash on Hand	8	11	6	4
Total cash and short - term deposits	282 000	215 839	277 264	213 139

Cash and short - term deposits earn interest at floating rates based on bank deposit rates.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises the following at 31 March :

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
NHFC	**155 526**	**111 377**	**150 790**	**108 677**
Short term deposits	135 414	101 086	135 414	101 086
Cash at bank	20 112	10 291	15 376	7 591
Job summit *	**105 049**	**69 686**	**105 049**	**69 686**
Short term deposits	105 049	69 686	105 049	69 686
Development fund *	**20 065**	**33 082**	**20 065**	**33 082**
Short term deposits	20 065	33 082	20 065	33 082
Siyanda *	**345**	**729**	**345**	**729**
Short term deposits	345	729	345	729
Abahlali*	**1 015**	**965**	**1 015**	**965**
Short term deposits	1 015	965	1 015	965
Total	282 000	215 839	277 264	213 139

** Funds under management - refer note 24*

22. Issued capital and share premium

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Capital				
Ordinary shares				
Authorised				
100 000 000 ordinary shares of R0.01 each	1 000	1 000	1 000	1 000
Issued and fully paid				
84 187 332 ordinary shares of R 0.01 each	842	842	842	842
Share premium	879 158	879 158	879 158	879 158

23. Grant capital

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Grant capital	200 000	200 000	200 000	200 000

The grants arose as the result of the merger of the Housing Equity Fund and the Housing Institutions Development Fund in the 2002 financial year. They are considered to be permanent and are therefore included in Shareholder's Equity. There are no conditions attached to these grants.

24. Funds under management

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Job summit (a)				
Poverty Relief Funds	447 385	420 986	447 385	420 986
Subsidies - Kwazulu - Natal	93 457	50 878	93 457	50 878
Development Fund (b)	155 260	152 396	155 260	152 396
Siyanda Project (c)	345	729	345	729
Abahlali (d)	1 015	965	1 015	965
Total funds under management	697 462	625 954	697 462	625 954

a) NHFC was appointed by the National Department of Human Settlements to project manage the delivery of rental stock under the Presidential Job Summit housing project and tasked to manage funds allocated by National Treasury in terms of the Poverty Relief Fund and subsidy funds from Kwazulu-Natal province.

b) The development fund is to increase capacity and technical assistance into the low-income housing market.

c) Siyanda project is a housing development partnership between NHFC, Eastern Cape Provincial Department of Housing and Mnquma Municipality. These funds are to be used for pre-project costs.

d) The NHFC is managing funds on behalf of the Abahlali Housing Association relating to social housing rental units.

The net income on these funds is capitalised.

Funds under management are invested in held to maturity investments (note 20) and short term deposits (note 21).

25. Debentures

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Authorised				
2,500,000 non-convertible debentures of R1 each carrying interest of 10% p.a				
Issued				
2,500,000 non-convertible debentures of R1 each carrying interest of 10% p.a (City of Cape Town)	-	5 000	-	-
Non-current liabilities	-	-	-	-
Current liabilities		5 000	-	-
	-	5 000	-	-

The debentures are fully paid up after a settlement agreement was reached with the City of Cape Town in April 2011. Debenture interest however included under current liabilities of R 500,000 remains payable only once the company trades at a profit.

26. Other financial liabilities

	Group		Company	
	2012	2011	2012	2011
	R'000	R'000	R'000	R'000
Held at amortised cost				
Dutch International Guarantees for Housing (DIGH) loan 1	1 725	2 015	-	-
This loan bears interest at a fixed rate of 8.60% per annum and is repayable in annual instalments of R433,111 (2011: R432,942). The final instalment is payable on 09 July 2014.				
Dutch International Guarantees for Housing (DIGH) loan 2	5 260	5 389	-	-
This loan bears interest at a fixed rate of 7.33% per annum and is repayable in annual instalments of R1,057,736 (2011: R1,051,596), inclusive of interest. The final instalment is payable on 17 January 2016.				
Development Fund	2 907	2 907	-	-
This facility bears interest at a rate of 0% per annum and is repayable once project income is received.				
EIB	219 799	-	219 799	-
This loan bears interest at a variable rate of 3M Jibar with a maximum margin of 0.40% annum and is repayable in semi-annual capital instalments of R 8 308 077 commencing on the 15 June 2013 (2011:nil) exclusive of interest. Interest is paid bi-annually on 15 June and 15 December of each year. The final instalment is payable on 15 December 2025.				
Agence Francaise de Developpement (AFD)	208 126	50 029	208 126	50 029
This loan bears interest at a fixed rate of 6.078% per annum and is repayable in semi-annual capital instalments of R 7 888 692 commencing on the 31 May 2012 (2011: nil) exclusive of interest. Interest is paid bi-annually on 31 May and 30 November of each year.The final instalment is payable on 24 November 2024.				
During the current financial year, NHFC breached certain financial loan covenants relating to the AFD loan. The breached financial loan covenants are the Return on Assets ratio (actual 0.66% vs. 2.50% required ratio) and the Impaired Loans to Equity ratio (actual 3.20% vs. 0.90% required ratio)				
According to the loan agreement, the breach of these financial loan covenants constitutes an event of default. This event of default gives the lender the right to declare that part or all of the credit facility together with any accrued outstanding interest to become immediately due and payable. Although the lender has given no indication to enforce immediate payment the full amount outstanding has been classified under current liabilities.				
The amount owing in the comparative period which was previously disclosed under non current liabilities in the 2011 Annual Report is now disclosed under current liabilities.				
The business context resulting in the breach is explained in the CEO's report.				
City of Cape Town	500	-	-	-
This consists of interest which relates to the debentures in note 25. The interest is payable as and when the company becomes profitable.				
	438 317	60 340	427 925	50 029
Non-current liabilities at amortised cost	225 417	9 369	216 010	-
Current liabilities at amortised cost	212 900	50 971	211 915	50 029
	438 317	60 340	427 925	50 029

27. Provisions

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
	17 124	12 919	16 499	12 468
Total provisions	17 124	12 919	16 499	12 468
Provision for leave pay				
Opening balance as at 01 April	4 698	3 954	4 470	3 659
Provision utilised for the year	(287)	(320)	(59)	(253)
Additional provision raised	962	1 064	642	1 064
Closing balance as at 31 March	5 373	4 698	5 053	4 470
Provision for incentive bonus				
Opening balance as at 01 April	7 998	8 987	7 998	8 987
Provision utilised for the year	(11 105)	(9 215)	(11 105)	(9 215)
Additional provision raised	14 553	8 226	14 553	8 226
Closing balance as at 31 March	11 446	7 998	11 446	7 998
Provision for municipal rates				
Opening balance as at 01 April	223	1 106	-	-
Provision utilised for the year	-	(883)	-	-
Additional provision raised	82	-	-	-
Closing balance as at 31 March	305	223	-	-

Leave pay provision is realised when employees take leave or terminate employment.

Provision for incentive bonus is expected to be realised when bonuses are paid in the 2012 financial year.

Provision for municipal rates covers the rates that are outstanding and is payable when certain erven are transferred into the name of Cape Town Community Housing Company (Pty) Ltd.

28. Trade and other payables

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Trade payables	5 526	5 993	2 180	3 971
Value added tax	1 270	1 227	-	-
Accrued expenses	263	912	-	-
Accrual for lease payments	456	632	456	632
Deferred revenue	8	372	-	-
Subsidies received in advance	257	586	-	-
	7 780	9 722	2 636	4 603

Trade payables are non- interest bearing and are settled on 30 day terms.

Accrual for lease payments is as a result of straight-lining over the term of the lease.

Deferred revenue relates to subsidies available for the retentions on NHBRC rectification work and utilised when the building expense is booked.

Subsidies received in advance are draw-downs by the subsidiary of subsidies in respect of the Westgate Mall project. These amounts will be included in revenue on the completion and hand over of the houses.

	Note	Group		Company	
		2012	2011	2012	2011
		R'000	R'000	R'000	R'000

29. Cash flows from operating activities

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Net profit before tax		34 220	75 547	31 790	65 348
Non-cash and separately presented items	29.1	37 557	(3 584)	42 979	(4 832)
Working capital changes	29.2	56 327	(67 474)	52 728	(49 942)
Tax paid	29.3	6 277	(17 036)	6 277	(15 986)
Increase in advances		(300 429)	(237 358)	(300 716)	(235 913)
Net cash flows used in operating activities		(166 048)	(249 905)	(166 942)	(241 325)
29.1 Non-cash and separately presented items					
Depreciation		918	907	677	776
Impairments		31 575	4 427	31 575	4 427
Impairment of Investment		-	-	2 391	-
Share of profit of an associate		(1 205)	(159)	-	-
Fair value adjustment on investment property		(1 108)	(9 818)	970	(3 345)
Gain on liquidation of investment		-	-	-	(7 740)
Premium paid		1 640	-	1 640	-
Amounts previously impaired, written off		5 717	1 050	5 717	1 050
Profit on sale of assets		20	9	9	-
		37 557	(3 584)	42 979	(4 832)
29.2 Working capital changes					
Decrease/(increase) in properties developed for sale		105	(11 941)	-	-
Decrease in instalment sale receivable		3 726	4 163	-	-
Decrease/(increase) in accounts receivable		50 233	(45 056)	50 664	(49 910)
Increase/(decrease) in accounts payable		(1 942)	(13 512)	(1 967)	146
(Decrease)/increase in provisions		4 205	(1 128)	4 031	(178)
Net increase in working capital		56 327	(67 474)	52 728	(49 942)
29.3 Tax paid					
Balance at the beginning of the year		25 377	24 312	21 500	20 532
Tax charge for the year		(14 736)	(15 971)	(10 859)	(15 018)
Balance at the end of the year		(4 364)	(25 377)	(4 364)	(21 500)
Tax paid		6 277	(17 036)	6 277	(15 986)

29.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and investment in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Cash on hand and balances with banks	20 112	10 291	15 376	7 591
Short term deposits	261 888	205 548	261 888	205 548
	282 000	215 839	277 264	213 139

29.5 Property, plant and equipment and intangible assets

During the period, the Group acquired property, plant and equipment and intangible assets with an aggregated cost of R990 000 (2011:R 1.064 million). None of the additions were acquired by means of government grants.

During the period, the Company acquired property, plant and equipment and intangible assets with an aggregated cost of R532 000 (2011:R 872 000). None of the dditions were acquired by means of government grants.

30. Contingent liabilities and commitments

Contingencies
At 31 March 2012 the Group had a contingent liability in respect of bank guarantees amounting to R181,034,582 (2011: R434,770), arising in the ordinary course of business from which it is anticipated that no material liability will arise.

The Group cancelled a net total of 45 (2011: 584) Instalment Sales contracts during the current financial period. The outcome and costs pertaining to the eviction process has not been provided for in the financial statements due to the uncertainty surrounding it.

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Operating lease commitments - Group as lessee				
The Group entered into a commercial lease on the property from which it operates. The lease is effective from 1 April 2012 to 31 March 2017. The lease has an escalation clause of 8% per annum. A deposit guarantee to the lessor of R533,500 (2011: R533,500) is currently under review. The 2011 comparison relates to the old lease which terminated on 31 March 2012.				
Future minimum rentals payable under current operating lease as at 31 March 2012:				
Within one year	4 535	4 592	4 535	4 592
After one year but not more that five years	21 756	-	21 756	-
	26 291	4 592	26 291	4 592
Operating lease commitments - Group as lessee				
The Group entered into operating leases for photocopiers. The leases are currently on a month to month basis.				
Future minimum rentals payable under the lease as at 31 March 2012:				
Within one year	23	85	23	85
After one year but not more than five years	-	-	-	-
	23	85	23	85
Operating lease commitments - Group as lessee				
Lease commitments relate to the rental of the two offices of the subsidiary. Both commenced in 2009 and expired in 2011. The annual escalation rate was 10%.	-	22	-	-
Operating lease commitments - Group as lessee				
Lease commitments relate to the rental of the office of the subsidiary. The lease commenced on 1 March 2011 and runs until 2016. The annual escalation rate is 8%.				
The future aggregate minimum lease payments under non-cancellable operating lease are as follows:				
Within one year	786	422	-	-
After one year but not more that five years	2 667	3 940	-	-
	3 453	4 362	-	-

31. Retirement Benefits

The National Housing Finance Corporation Provident Fund is a defined contribution fund administered by Robson Savage, and subject to the Pensions Fund Act of 1956. All 89 employees of the company particpate in the fund and the Company makes all contributions.

All full-time employees of Cape Town Community Housing Company (Pty) Ltd belong to the Orion provident fund which is governed by the Pension Fund Act. The company makes all contributions on behalf of its employees.

NHFC and CTCHC are both not liable for post retirement benefits.

	Group 2012	Group 2011	Company 2012	Company 2011
Provident fund contributions	6 034	6 849	4 960	5 856

32. Financial Risk Management

The Group has various financial assets such as loans and receivables, instalment sale receivables, other receivables, investment in preference shares, cash and short term deposits and held to maturity investments which arise directly from its operations.

The Group's principal financial liabilities comprise funds under management, debentures, other financial liabilities and trade and other payables.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk.

The Board is ultimately responsible for the overall risk management process and reviews and approves policies for the managing of each of these risks. The Board has delegated certain matters to the Audit Committee, the Board Risk Committee and the Board Credit and Investment Committee.

The Group's senior management oversees the management of these risks and is supported by a Management Assets and Liabilities Committee, Management Credit Committee and Enterprise Risk Management Framework.

These committees provide assurance that risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. It is the Group's policy that no trading for speculative purposes shall be undertaken.

Credit Risk

Credit risk is the risk of an economic loss arising from the failure of a counterparty to fulfill its contractual obligations. The Group is exposed to credit risk from its operating activities, primarily advances and investments.

Loans and receivables - advances

The credit risk arising from advances and the credit value chain is managed by the Credit Division and is subject to the Group's established policy, procedures and controls as well as the risk appetite of the Group. The risk appetite statement and credit policy are reviewed and approved by the Board annually.

The credit policy provides for comprehensive sanctioning structures and credit risk acceptance processes including robust assessment and monitoring procedures at individual counterparty level, to generate quality credit assets, relative to the risk/reward inherent in the transaction.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentrations of risk, the risk appetite statement include specific guideleines to focus on maintaining a diversified portfolio. Provision is also made for prudential limits. Identified concentrations of credit risks are controlled and managed accordingly.

Advances are presented net of the allowance for impairment. The requirement for an impairment is analysed at regular intervals guided by an impairment policy.

Financial instruments and cash deposits

The credit risk arising from financial instruments is managed within Treasury department. The Treasury Policy and Risk Appetite Statement of the Group provides a framework that regulates the treasury management activities and operations conducted and the management and control of risks.

Short-term deposits and held to maturity money market investments are placed with financial institutions rated at least F1 or better in terms of short term credit ratings by a reputable rating agency. Counterparty limits are reviewed by the Board of Directors on an annual basis. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure. Advances are presented net of the allowance for impairment. The advances at year-end reflect that the Group has exposure within approved counterparty limits.

	Group		Company	
Maximum exposure to credit risk	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Loans and receivables - advances	1 831 092	1 562 794	1 905 114	1 629 775
Instalment sale receivables	38 279	42 005	-	-
Held to maturity investments	1 134 755	932 170	1 134 755	932 170
Cash and short-term deposits	282 000	215 839	277 264	213 139
Other receivables	10 614	60 848	4 984	55 648
Investment in preference shares	2 500	2 500	2 500	2 500

Collateral and other credit enhancements: loans and receivables – advances

The Group endeavours to obtain collateral or other security against all advances made, dependent on the assessed risk inherent in the particular advance and in line with the NHFC's approved Credit policy.

The following types of collateral are currently held against loans and receivables -advances subject to credit risk:

- Bonds over properties
- Debtors book
- Cession of income
- Personal guarantees
- Governmental guarantees

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairments losses.

32. Financial Risk Management (continued)

The credit quality of loans and receivables – advances

The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.

	Group	
	2012 R'000	2011 R'000
Neither past due nor impaired	1 603 218	1 357 600
Past due but not impaired	112 234	108 365
Impaired *	284 540	233 953
	1 999 992	1 699 918
Less: Specific impairments	(128 555)	(104 417)
General impairments	(40 345)	(32 907)
Net advances	1 831 092	1 562 594

* Impaired balance is not equal to specific impairments as some advances are not fully impaired considering the value of security.

Ageing analysis of advances that are past due, but not impaired:

	Total R'000	30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2012	112 234	70 463	16 819	9 200	220	15 532
2011	108 365	15 673	8 445	6 969	2 662	74 616

The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.

	Company	
	2012 R'000	2011 R'000
Neither past due nor impaired	1 677 240	1 424 581
Past due but not impaired	112 234	108 365
Impaired *	284 540	233 953
	2 074 014	1 766 899
Less: Specific impairments	(128 555)	(104 217)
General impairments	(40 345)	(32 907)
Net advances	1 905 114	1 629 775

* Impaired balance is not equal to specific impairments as some advances are not fully impaired considering the value of security.

Ageing analysis of advances that are past due, but not impaired:

	Total R'000	30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2012	112 234	70 463	16 819	9 200	220	15 532
2011	108 365	15 673	8 445	6 969	2 662	74 616

The Group's credit process considers the following to be key indicators of default:
- Evidence of financial distress when it is considered that the borrower is unlikely to pay its credit obligation in full.
- the debt is more than 90 days in arreas.

The fair value of collateral that the Group holds relating to past due or impaired loans and receivables at 31 March 2012 amounts to R199 million (2011: R236 million).
During the current and previous year the Group did not take possession of any guarantees and debtors books.

Credit quality of instalment sale receivables

	Group	
	2012 R'000	2011 R'000
Neither past due nor impaired	-	-
Past due but not impaired	-	-
Impaired*	38 916	42 823
	38 916	42 823
Less: Specific impairments	(637)	(818)
Net advances	38 279	42 005

*Impaired balance is not equal to specific impairments as some instalment sale receivables are not fully impaired considering the value of security.

32. Financial risk management (continued)

Credit quality and concentration of other financial assets	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Counterparties with external credit ratings of at least F1				
- Held to maturity investments - Money Market	1 134 755	932 170	1 134 755	932 170
- Cash and short-term deposits	282 000	215 839	277 264	213 139
Counterparties assessed by reference to historical information about counterparty default rates				
- Instalment sale receivables	38 279	42 005	-	-

Other receivables and prepayments are considered current and are not considered impaired.
The investment in preference shares is not considered impaired.

Concentration risk of loans and receivables by operations

Commercial	16%
Projects	69%
Retail	15%

Interest rate risk
Interest rate risk is the exposure of the Group to increased financing cost and reduced revenue due to adverse changes in interest rates.

The objectives of managing interest rate risk are to:
- identify and quantify interest rate risk and to structure assets and liabilities to reduce the impact of changes in interest rates;
- minimise the negative impact of adverse interest rate movement on the Group's returns within an acceptable risk profile;
- reduce the cost of capital and minimise the effect of interest rate volatilityon funding cost;
- manage exposures by ensuring an appropriate ratio of floating rate exposures to fixed rate exposures; and
- take advantage of interest rate cycles.

The group is exposed to interest rate risk on the following assets and liabilities:	Strategy	Group 2012 Fixed Rate R'000	Group 2012 Linked Rate R'000	Group 2011 Fixed Rate R'000	Group 2011 Linked Rate R'000
Assets					
Loan and receivables - advances rates vary between 5% and 14% p.a.	1	144 809	1 686 283	127 159	1 435 635
Instalment sale receivables average interest rate of 11% p.a.	1	38 279	-	42 005	-
Held to maturity investments rates vary between 5.5% and 6.28% p.a.	2	-	1 134 755	-	932 170
Cash and short term deposits rates vary between 5% and 5.92% p.a.	2	-	282 000	-	215 839
Liabilities					
Funds under management - rates are linked to short term investment rates		-	697 462	-	625 954
AFD loan the rate is fixed at 6.078%		208 126	-	50 029	-
EIB loan the rate varies between 5.538% and 6.%		-	219 799	-	-
Other financial liabilities - the rate varies between 7.33% and 8.6%		6 985	-	7 404	-

Interest rate risk

The company is exposed to interest rate risk on the following assets and liabilities:	Strategy	Group 2012 Fixed Rate R'000	Group 2012 Linked Rate R'000	Group 2011 Fixed Rate R'000	Group 2011 Linked Rate R'000
Assets					
Loan and receivables - advances rates vary between 5% and 14% p.a.	1	144 809	1 760 305	127 159	1 502 616
Held to maturity investments rates vary between 5.5% and 6.28% p.a.	2	-	1 134 755	-	932 170
Cash and short term deposits rates vary between 5% and 5.92% p.a.	2	-	277 264	-	213 139
Liabilities					
Funds under management - rates are linked to short term investment rates		-	697 462	-	625 954
AFD loan the rate is fixed at 6.078%		208 126	-	50 029	-
EIB loan the rate varies between 5.538% and 6.%		-	219 799	-	-

Interest rate risk management strategy is as follows:

1. Clients who enjoy variable interest rate facilities are subject to interest rates that reset on a change in prime interest rate or on a quarterly basis in accordance with various market indices.

   The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.

2. Investments are aligned to the cash flow requirements and strategy of the core business. The portfolio is diversified utilising a mix of fixed and floating rate instruments within the policy framework and is continually monitored to adapt to changing dynamics.

32. Financial risk management (continued)

Interest rate sensitivity

The impact of 1% move in interest rates, which is deemed reasonable based on the interest rate forecasts, with all other variables held constant is reflected below.

	Increase/ decrease	Group 2012 Effect on profit before tax	Group 2011 Effect on profit before tax	Company 2012 Effect on profit before tax	Company 2011 Effect on profit before tax
	%	R'000	R'000	R'000	R'000
Loans and receivables - advances	1%	16 966	15 994	17 762	16 756
	-1%	(16 845)	(15 876)	(17 634)	(16 631)
Held to maturity investments	1%	5 638	4 107	5 638	4 107
	-1%	(5 638)	(4 107)	(5 638)	(4 107)
Cash and short-term deposits	1%	1 555	1 114	1 508	1 087
	-1%	(1 555)	(1 114)	(1 508)	(1 087)
Other financial liabilities	1%	(4 383)	-	(4 383)	-
	-1%	4 383	-	4 383	-

The Group earns interest as follows:	Group 2012	Group 2011	Company 2012	Company 2011
	R'000	R'000	R'000	R'000
Interest on advances	146 229	118 923	144 121	124 758
Interest on cash and cash equivalents	35 076	41 036	34 897	40 005
	181 305	159 959	179 018	164 763

The Group's interest obligations are as follows:	Group 2012	Group 2011	Company 2012	Company 2011
	R'000	R'000	R'000	R'000
Interest on other financial liabilities	14 234	1 150	15 694	611
	14 234	1 150	15 694	611

Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to honour its financial commitments on a cost effective and timeous basis.

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:

- short and long term cash flow management;

- diversification of investment activities with appropriate levels of short term instruments and maturities in line with the Treasury policy;

- at least 60 % of Money Market portfolio to mature within six months;

-limiting Capital Market investments to 30% of the portfolio; and

- the Group is in the process of mobilisation funding, Discussions are underway with local as well as international DFI's. A funding plan was approved by the Board and the process to obtain the necessary approvals is underway.

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2012 based on contractual undiscounted payments.

As at 31 March 2012	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
Trade and other payables	5 789	-	-	5 789
Funds under management	-	-	697 462	697 462
Debentures	-	-	-	-
Other financial liabilities	-	212 900	225 417	438 317
	5 789	212 900	922 878	1 141 569

32. Financial risk management (continued)

As at 31 March 2012	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
Trade and other payables	6 905	-	-	6 905
Funds under management	-	-	625 954	625 954
Debentures	5 000	-	-	5 000
Other financial liabilities*	-	50 971	9 369	60 340
	11 905	50 971	635 323	698 199

*The 2011 Annual Report for 3 to 12 months read '4 450' and >1 year '83 395' which has now been corrected.

Fair value of financial instruments

The carrying value of financial assets and financial liabilities for both years approximated their fair values.

Capital management

The objective of the Group's capital management is to ensure that it maintains a strong credit rating and generates sufficient capital to support its business objectives and maximise shareholder value.

The Group monitors capital using the debt to equity ratio, which is the interest bearing debt divided by the equity. The Group's policy is to keep the ratio up to 50%.

	2012 R'000	2011 R'000
Total interest bearing debt	438 317	60 340
Total equity	2 297 079	2 276 586
Debt to equity ratio	19%	3%

Credit rating

The credit ratings below are provided by the Global Credit Rating Co.
The credit ratings remained unchanged from the previous year.

National

Long term: AA-

Short term: A1+

Financial assets by category

The accounting policies for financial instruments have been applied to the line items below

Group - 2012	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Loans and receivables - advances	1 831 092	-	1 831 092
Instalment sale receivables	38 279	-	38 279
Held to maturity investments	-	1 134 755	1 134 755
Cash and short-term deposits	282 000	-	282 000
Other receivables	10 467	-	10 467
Investment in preference shares	-	2 500	2 500
	2 161 838	1 137 255	3 299 093
Company - 2012			
Loans and receivables - advances	1 905 114	-	1 905 114
Held to maturity investments	-	1 134 755	1 134 755
Cash and short-term deposits	277 264	-	277 264
Other receivables	4 982	-	4 982
Investment in preference shares	-	2 500	2 500
	2 187 360	1 137 255	3 324 616

32. Financial risk management (continued)

Group - 2011	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Loans and receivables - advances	1 562 794	-	1 562 794
Instalment sale receivables	42 005	-	42 005
Held to maturity investments	-	932 170	932 170
Cash and short-term deposits	215 839	-	215 839
Other receivables	60 411	-	60 411
Investment in preference shares	-	2 500	2 500
	1 881 049	934 670	2 815 719

Company - 2011	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Loans and receivables - advances	1 629 775	-	1 629 775
Held to maturity investments	-	932 170	932 170
Cash and short-term deposits	213 139	-	213 139
Other receivables	55 648	-	55 648
Investment in preference shares	-	2 500	2 500
	1 898 560	934 670	2 833 231

Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

	Group	
	2012	2011
	Financial liabilities at amortised cost R'000	Financial liabilities at amortised cost R'000
Other financial liabilities	438 317	60 340
Trade and other payables	5 789	6 905
Funds under management	697 462	625 954
	1 141 568	693 199

	Company	
	2012	2011
	Financial liabilities at amortised cost R'000	Financial liabilities at amortised cost R'000
Other financial liabilities	427 925	50 029
Trade and other payables	2 180	3 971
Funds under management	697 462	5 000
	1 127 567	684 954

33. Related parties disclosure

The consolidated financial statements include the financial statements of National Housing Finance Corporation SOC Limited, its subsidiaries and associates as listed below.	Country of incorporation	2012 % equity interest	2011 % equity interest
Gateway Homeloans (Pty) Limited	RSA	100	100
Gateway Homeloans 001 (Pty) Limited	RSA	100	100
Cape Town Community Housing Company (Pty) Limited	RSA	100	100
Trust for Urban Housing Finance Holdings (Pty) Limited*	RSA	27	27
Housing Investment Partners (Pty) Limited*	RSA	33	25

33. Related parties disclosure (continued)

The following table provides the total amounts of transactions and outstanding balances which have been entered into with related parties for the relevant financial years:

Related party	Group 2012 Amounts owed by / to related parties R'000	Group 2012 Transactions with related parties R'000	Group 2011 Amounts owed by / to related parties R'000	Group 2011 Transactions with related parties R'000
Transactions with other public entities				
Social Housing Foundation				
- accounts receivable**	-	-	216	-
- management fees received	-	-	-	182
Thubelisha/NDoHS				
Advances****	14 306	-	14 306	-

	Company 2012 Amounts owed by / to related parties R'000	Company 2012 Transactions with related parties R'000	Company 2011 Amounts owed by / to related parties R'000	Company 2011 Transactions with related parties R'000
Cape Town Community Housing Company (Pty) Limited				
- shares at cost**	2 000	-	2 000	-
- debentures	21 877	-	19 657	-
- advances	68 091	-	66 981	-
- disbursements	-	21 035	-	44 548
- interest received	-	4 142	-	5 835
- working capital loan	7 814	7 814	-	-
- accounts receivable	-	981	-	-
Transactions with other public entities				
Social Housing Foundation				
- accounts receivable***	-	-	216	-
- management fees received	-	-	-	182
Thubelisha/NDoHS				
Advances****	14 306	-	14 306	-
Housing Investment Partners (Pty) Limited*				
- shares at cost	7 233	-	5 566	-
- accumulated share of the associate's loss	(4 515)	-	(2 971)	-
- share of loss of an associate-current year	(1 843)	-	(1 544)	-
- working capital loan	1 039	1 039	-	-
Trust for Urban Housing Finance Holdings (Pty) Limited*				
- shares at cost	2 437	-	2 437	-
- accumulated share of the associate's profit	1 982	-	279	-
- share of profit of an associate-current year	2 882	-	1 703	-
- accumulated share of the associate's reserves	554	-	354	-
- advances	445 222	-	407 143	-
- disbursements	-	50 000	-	120 000
- interest received	-	29 602	-	23 817

Terms and conditions with related parties

Transactions with related parties are done on terms equivalent to those that prevail in arm's length transactions which would occur in the ordinary course of business.

Except for advances, accounts receivable are interest free and settlement occurs in cash within 30 days. There have been no guarantees provided or received for any related receivables.

For the year ended 31 March 2012, with the exception of the amount owed by Thubelisha which is fully impaired, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: Nil).

Although we do have a relationship with our sole shareholder, the National Department of Human Settlements (NDoHS), and act as agent in certain instantces,
due to IPSAS 20 we need not disclose balances or the value of transactions between the parties.

Transactions with key management personnel is disclosed under Note 34.

* The disclosure of associates were omitted from the 2011 Annual Report.

** The 2011 Annual Report for the 2011 comparative read '2 000' which has now been corrected.

*** The accounts receivable disclosure was omitted from the 2011 Annual Report.

**** The 2011 Annual Report for the 2011 comparative read '14 316' which has now been corrected.

34. Directors and senior management emoluments

The amounts disclosed in the table below are the amounts recognised as an expense during the reporting period related to key management personnel.

		Short-term employee benefits		Post-employment pension and medical benefits			
	Fees R'000	Salaries R'000	Bonuses R'000	R'000	Other* R'000	Total 2012 R'000	Total 2011 R'000
Chairman							
Prof M Katz	-	-	-	-	-	-	-
Directors - Independent Non Executives	822	-	-	-	19	840	655
S Tati	168	-	-	-	-	168	156
N Makiwane	-	-	-	-	-	-	22
S Ntsaluba	114	-	-	-	-	114	85
S Khoza	98	-	-	-	-	98	63
S Swanepoel	83	-	-	-	-	83	31
AW Houston	83	-	-	-	19	102	97
J Coetzee	203	-	-	-	-	203	165
P Ramarumo	72	-	-	-	-	72	36
Chief Executive Officer and Executive Director							
S Moraba		2 896	2 918	373	17	6 204	4 767
Executive Members		11 125	4 373	2 014	9	17 521	17 696
Z Lupondwana**		249	-	30	-	279	-
N Ntshingila		1 004	607	145	-	1 756	1 502
S Mutepe***		1 279	1 374	147	15	2 815	2 093
A Chimpondah		1 233	1 089	170	-	2 492	2 123
L Lehabe		1 198	747	199	3	2 147	1 770
S Mogane**		602	202	140	-	944	1 334
S Madikizela		871	161	143	-	1 175	1 170
Z Adams		1 136	768	257	-	2 161	1 813
A Govender		809	186	172	-	1 167	1 098
R Haman		-	-	-	-	-	1 535
M Mamatela		1 119	281	121	1	1 522	1 076
R Moodley		869	161	207	1	1 238	1 114
M Maluleke		766	171	175	-	1 112	967
A Mohale**		267	-	47	4	318	-
T Sihlaba		1 002	-	208	-	1 210	101
Management costs		14 021	7 291	2 387	26	23 725	22 463

Note: Prof Katz agreed not to charge fees.

The CEO is the only director with a service contract with the NHFC. The notice period does not exceed one year.

* Other includes travel costs for directors and risk benefits.

** These Exco members did not serve on the Exco board for the full financial year. S Mogane was seconded to the Mortgage Default Insurance business. Z Lupondwana and A Mohale became Exco members during the course of the year.

*** The following Exco member was seconded to the Government Employee Housing Scheme therefore excluded from 2012 totals: S Mutepe

Mr S Moraba, A Chimphondah, S Mogane and Mrs N Ntshingila currently serve on the subsidiary's board however receive no remuneration for their services.

35. Events after the statement of financial position date

Retail operations

In line with the Group's strategic plan, the Retail business will be sold in the future. New Retail business has been discontinued and only existing obligations are being fulfilled. Preparatory work for the sale of the Retail Mortgage loan book is at an advanced stage. The Group is in the process of obtaining the necessary PFMA approval from the shareholder. The Retail advances did not meet the requirements of GRAP 100 to be classified as held for sale.

Investment in associate

The NHFC currently has an interest of 27% in Trust for Urban Housing Finance Holdings (Pty) Ltd (TUHF).

As part of the TUHF recapitalisation, the NHFC has agreed to a conversion of existing debt to equity. The post-capitalisation shareholding will see the NHFC's shareholding increase to 32.56%. The transaction is expected to be concluded in the 2013 financial year.

Mortgage Default Insurance Company ("MDIC")

In line with its mission to provide innovative and affordable housing finance solutions to the low-to-middle income market the NHFC is in the process of establishing a Mortgage Default Insurance Company. The MDIC will be a wholly owned subsidiary of the NHFC.

The Corporate Plan for MDIC has been approved by the Board. The key focus is now towards completion of the processes to obtain the necessary approvals, such as, the insurance license from the Financial Services Board and the concurrent approval from National Treasury of the R1 billion guarantee and capitalisation of the MDIC. Engagement with lenders individually as well as at industry level through the Banking Association of South Africa (BASA) continues.

A MDIC pilot, to be followed later by the launch of the product, is planned for the 2013 financial year.

Debt Restructuring of Blue Financial Services ("BFS")

As part of the turnaround strategy and restructuring of its balance sheet, BFS has requested some its funders to participate in the conversion of debt to equity. The NHFC will be participating in the second conversion phase whereby R30 million of the existing debt as advances of BFS will be converted to equity.

36. Budgeted and actual results for the year ended 31 March 2012

Income	Actual R'000	Budget R'000
Lending income	146 229	174 673
Investment income	35 076	26 374
Sale of houses	20 914	76 807
Other income	11 877	19 759
Total income	214 096	297 613
Impairments	(31 575)	(14 581)
Cost of sales	(17 282)	(46 776)
Operating expenses	(117 990)	(151 461)
Operating profit	47 249	84 795
Share of loss of an associate	1 205	(895)
Interest paid	(14 234)	(23 333)
Surplus before tax	34 220	60 567
Tax	(13 052)	(12 064)
Surplus after tax	21 168	48 503

The results of the Cape Town Community Housing Company (Pty) Ltd (CTCHC) are consolidated into the financial statements.
The approved budget includes the operations of the CTCHC.

The financial performance of the NHFC was impacted by the following:

Lending income impacted by below budgeted disbursements, some offset by a positive variance in investment income.

Sale of houses were mainly impacted by:

- The planned sale of the the legacy stock did not materialise.
- Fewer sales and bank approvals relating to Westcape projects.
- Project management fees were not realised because projects have been deferred to the new financial year.

Although the Corporation was able to reverse impairments previously raised following successful recoveries,
the effect of this was however negated by the increase in the level of impairments mainly as a consequence of a key client.

Savings in operational expenses were achieved.

Later than anticipated drawdown of borrowings resulting in reduced borrowing costs.

Key performance indicators

The year has been characterised by the success of the leveraging initiatives and partnerships with the private sector. The NHFC was able to leverage R2 billion, which together with disbursements of R664 million, contributed to the annual budget of the overall funding impact being exceeded by 32%.

The robust pipeline of the Wholesale Operations ensured a steady flow of approvals, of note are the different structures, such as applicants whose assets are mostly held in trusts, of late.

With the NHFC participating in syndicated funding deals, the NHFC's contribution is smaller in proportion to other funders, in line with its role of facilitation. This is demonstrated by the increased performance of the leveraged funds.

The recognition of the proportion of the housing opportunities created in relation to leveraged funding is reflective of the stage of the various projects, hence the variance in this regard. The benefit of the total number of units related to the projects will be realised in future periods.

With regard to the Commercial operations, given the affordability challenges in the market, there was a notable shift in appetite from homeownership to incremental housing. This impacted adversely on the value of disbursements, leveraged funds and impact leveraged through others.

In line with the decision to discontinue the Retail operation, no further home loan applications were accepted after June 2011 hence the variance in the number and value of approvals.

On the disbursements to women managed / owned companies, the target was exceeded mainly as a result of loans granted to small inner-city landlord entrepreneurs through one of our associates.

The NHFC's lending activities facilitated the creation of 11 920 jobs.

	Actual R'000	Budget R'000
Funding Impact		
Number of approvals		
Projects	24	18
Commercial	4	6
Retail	118	183
Total number of approvals	146	207
Value of approvals (R'm)		
Projects	640	929
Commercial	200	115
Retail	20	31
Total value of approvals (R'm)	860	1 075
Disbursements (R'm)		
Projects	517	581
Commercial	87	152
Retail	60	43
Total value of disbursements (R'm)	664	776
Leveraged funds (R'm)	2 077	1 297
Total Funding Impact	2 741	2 073
Developmental Impact		
Housing opportunities		
Housing units	5 604	6 644
Incremental loans	4 409	7 125
Mortgage loans	361	490
Total Impact	10 374	14 259
Impact leveraged through others	1 308	2 625
Total Impact	11 682	16 884
Beneficiaries benefitting	44 392	64 159
Number of jobs created	11 920	1 860
Value of disbursements targeted towards women-managed/owned companies (R'm)	148	100

Performance on other indicators

Indicator	Target	Performance
Development of MDI product, Business Plan and implementation	The timelines to be determined jointly with a project team, which is recommended to involve external resources, who are key role players in the financial service industry.	· A project team was established and a project plan approved. · The Business Plan has been approved by the Project Steering Committee. · Consultation with lenders has taken place both at individual lender and at industry level. · Tasks teams were established to agree on the product and IT processes.
Value of funds mobilised	R306 million	· Through funding mobilised from strategic partners, R312 million funding was applied towards development of inner-city and social rental housing projects.
Completion of sale of the Retail Book	September 2011	· The pricing valuation of the Retail book has been completed. · Board approval obtained for the sale of the book. · The process of obtaining shareholder approval in accordance with the PFMA is underway following which the procurement process will commence.
Approval and implementation of Funding Plan	June 2011	· The Funding Plan was approved by the Board at their meeting in November 2011 following the approval of the Strategic Plan in September 2011. · The process to obtain approval from the Executive Authority is underway.
Participation in overall Human Settlements funding plans and initiatives	Ongoing	· The DFI consolidation is a key initiative of the National Department of Human Settlements towards the establishment of Delivery Finance Mechanism for Human Settlement sector. · The NHFC forms part of the core reference group under the guidance of the NDoHS. · Phase 1 of the consolidation process was completed and approved by the Minister of Human Settlements in November 2011. · The next phase of the consolidation will continue and require various approvals from Cabinet as well as additional work of undertaking a due diligence, finalising the business case for the consolidation, and lastly, the consolidation and integration of the businesses.
Provision for impairments : Gross Advances	7.5%	The targeted ratio was not achieved due to the increase in the level of impairments mainly as a consequence of a key client. The ratio at year end was 8.45%.
Total operating expenditure to total income	66.58%	64.62% Savings achieved in operational expenses.
Total operating expenditure to total operating income	73.99%	78.85% Although below budgeted savings were achieved on operating expenses the sales of houses were impacted the unsuccessful sale on tender of the legacy stock and fewer sales and bank approvals relating to the Westcape project.
Return on equity (ROE)	2.11%	0.92% · In spite of savings in operational expenses the return was adversely impacted by: · Below budgeted lending income in line with disbursements; some offset by a positive variance in investment income; · Unsuccessful sale on tender of the legacy stock; and · Fewer sales and bank approvals relating to Westcape projects.

Indicator	Target	Performance
Number of training sessions conducted	In line with Business impact targets	As part of the Retail business, financial literacy and borrower education has been extended to end users empowering them with knowledge in mortgage financing.
Number of financial intermediaries trained	In line with Business impact targets	The intermediaries are required to comply with NCA with regard to credit granting. The role of the NHFC is to monitor regulatory compliance of the intermediaries we extend finance to. This is monitored through the submission of the list of debtors with all the details prior disbursement of funds. As the Commercial business provides incremental housing finance new entrants into the affordable market are encouraged, coached and assisted to understand the market and the business model. These clients end up doing business with the NHFC. For example three new clients have been granted facilities by the NHFC during the financial year under review.
Relevance and volume of research produced	One mega study and twelve commissioned desk to studies.	Although no mega study was done during the year a number of valuable inputs were provided to various forums. These included amongst others: Advocacy and Policy matters: · Contributed towards the policy position framework of the National Department of Human Settlements on National Housing Policy strategy review. Other shareholder support and initiatives: · Active participation and presentation to two forums of the National Department of Human Settlements meeting quarterly on Capacity Building and Consumer Education and National Research Task Team. This translates into eight (8) per annum. · Shared experiences on Alternative Building Technologies with the National Department of Human Settlements to contribute to a study commissioned by the shareholder. Environmental/ Climate change: · A paper on Climate Change for the 17th Congress of the Parties (COP) of the United Nations Convention on Climate Change. Contribution to sector: · Delivering lectures at Wits University on Housing Finance and law as guest lecturers by invitation. Initiatives NHFC: · Provide input to various white papers on housing related matters. · Presented papers at various conferences (eight). · A paper by invitation for the Financial and Fiscal Commission (FFC) on "The Role of NHFC Funding Mechanisms in meeting South Africa's Housing Challenge". Presentation of Invited papers to Conferences: · Presented at the "Green Buildings World 2012 Conference in March 2012. · A paper delivered on the International Housing and Home Warranty Conference (IHHWC) in Cape Town- Conference Theme "Challenges and opportunities in the provision of homes and consumer protection.