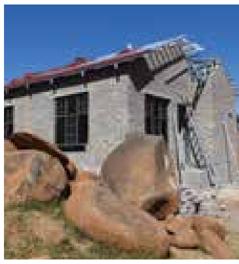
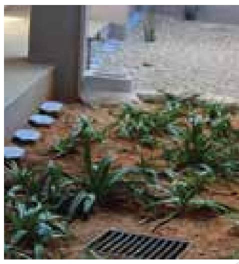
NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

Partnering with the right intermediaries to house the gap market ... one family at a time!



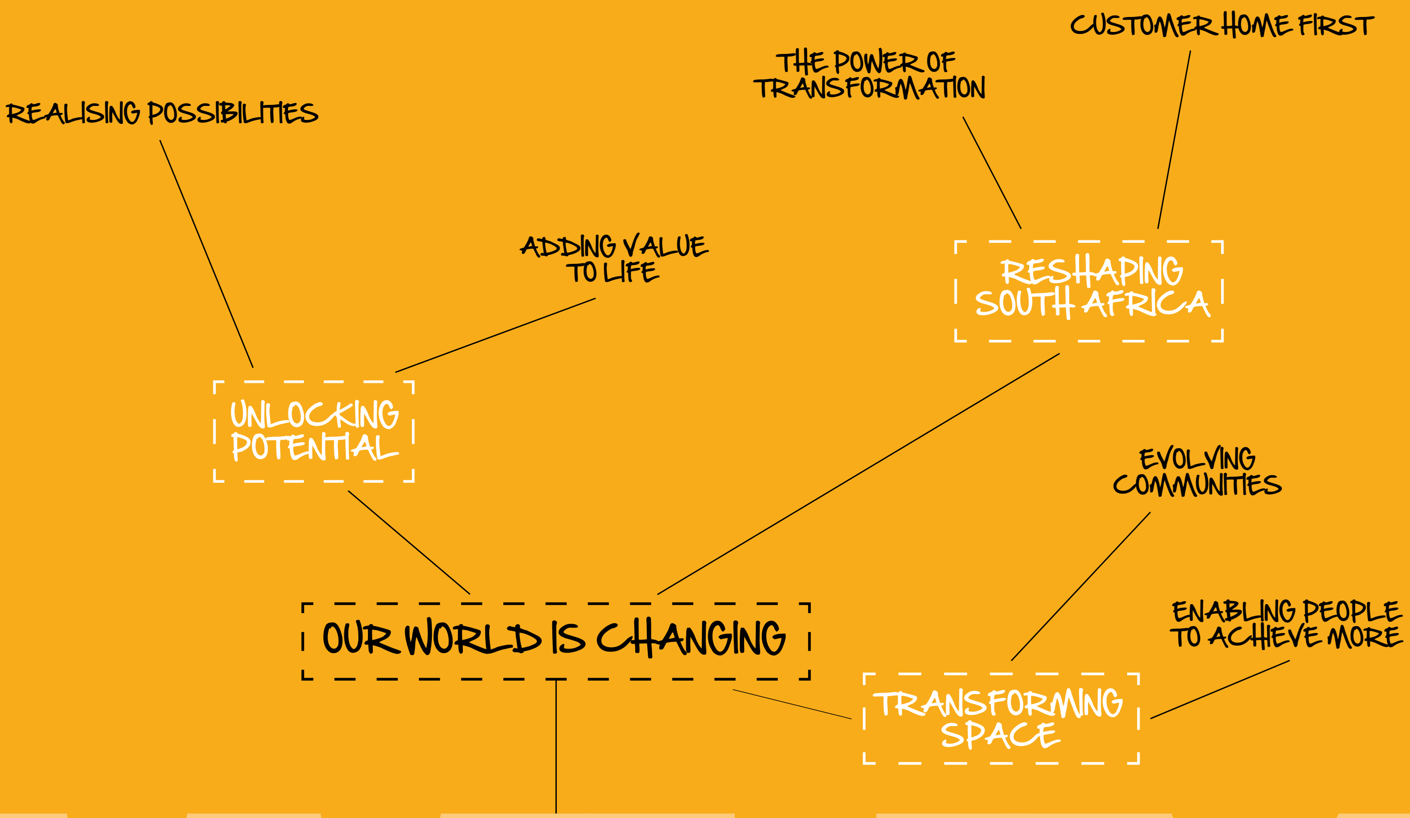







ANNUAL REPORT 2013

for the year ended 31 March



WHY

Mandate

The NHFC was established in 1996 by the NDoHS as a Development Finance Institution (DFI), 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 the development of the low-to-middle income housing market.

Mission

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

Contents

How the NHFC delivers on its mandate

WHAT WE DO

We make housing and housing finance accessible and affordable to the Gap and Affordable housing market.

WE ACHIEVE THE ABOVE BY:

- providing wholesale funding to housing development projects for ownership, social and private rental, including inner cities and for incremental housing purposes;
- partnering with Banks and other non-banking retail financial intermediaries, to increase their sustained lending and innovativeness in the target market we serve; and
- by mobilising funding for the sustainable development of human settlements.

HOW

RENTAL HOUSING

68%

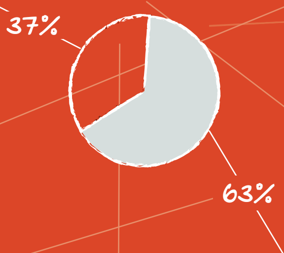
Rental housing entails the provision of loans to institutions that offer various housing tenure options, other than ownership. The types of rental products are as follows:

SOCIAL RENTAL

This type of rental accommodation is more affordable than private/ commercial accommodation and is provided by Social Housing Institutions which are Section 10 companies (not for profit).

These institutions now receive restructuring capital grants from the Social Housing Regulatory Authority (SHRA), subject to accreditation rules set by the SHRA, as well as top-up subsidies from Provincial Government.

In addition to these grants and subsidies, the NHFC provides long-term debt funding (up to 20 years) for the balance of funding required to implement projects.



PRIVATE RENTAL

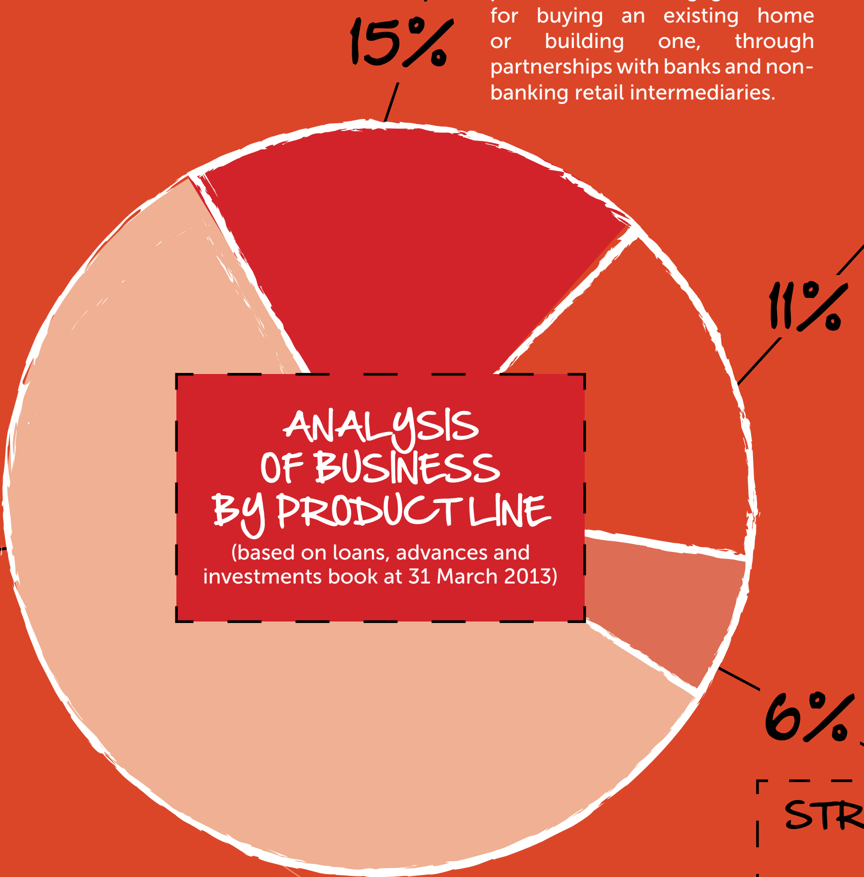
This type of rental accommodation is provided by private landlords, who do not receive any subsidies or grants. It caters for the affordable rental market, including inner city rental developments.

When our little girl was a toddler, we lived in a tiny house on a busy street with nowhere for her to play. Now, with the help of NHFC, we live in a secure GAP housing project with walkways and children's playgrounds.

Thank you NHFC!

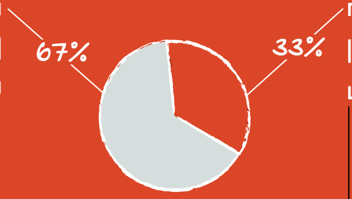
ANALYSIS OF BUSINESS BY PRODUCT LINE

(based on loans, advances and investments book at 31 March 2013)



FINANCIAL INSTITUTIONS

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



NON-BANKING RETAIL INTERMEDIARIES

NHFC provides wholesale funding to non-banking retail intermediaries, that on-lend to households in the NHFC target market. Access to home loans is increased and delivered through a nationwide branch network of intermediaries.

HOME OWNERSHIP

Home ownership through mortgage loan finance is achieved through the indirect provision of mortgage bonds for buying an existing home or building one, through partnerships with banks and non-banking retail intermediaries.

INCREMENTAL HOUSING

Funding is made available via intermediaries to end-users with household incomes in the R3 500 to R15 000 per month range, and for loans 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; and
- top up subsidy amounts.

STRATEGIC PARTNERSHIPS AND INVESTMENTS

NHFC develops strategic alliances and partnerships through the investment in equities, mezzanine and junior debt capital structures of companies that operate within the affordable housing market.

The rationale for such an intervention is to leverage private sector funding into the affordable housing market.

FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAMME (FLISP)

As a facilitator, the NHFC administers and facilitates delivery of and access to the government housing subsidy, FLISP.

FLISP was developed by the NDoHS to facilitate sustainable and affordable first time home-ownership opportunities to South African citizens and legal permanent resident households that earn between R3 500 and R15 000 per month.

FLISP offers qualifying applicants (being those with approved mortgage loans) a measurable opportunity of reducing monthly loan repayments to an affordable amount over the loan repayment term through a government sponsored subsidy.

For a full financial breakdown please see the annual financial statements pages 48 to 105.

Our strategy

Our target market is South African citizens and permanent residents whose household income is up to R15 000 per month.

Core to our strategy is the sustained and growing mobilisation of funds into the affordable housing market, through appropriate intermediaries, on a financially and economically sustainable basis.

To achieve our vision, our strategy is underpinned by the following pillars:

SUSTAINABILITY	LEVERAGING PRIVATE SECTOR	GROWTH OF ASSET BASE	ADAPTABILITY TO THE DYNAMIC ENVIRONMENT

Our strategic pillars take into account the size of the defined target market relative to the NHFC equity base, in order to have any meaningful developmental impact.

OUR STRATEGIC OBJECTIVES ARE

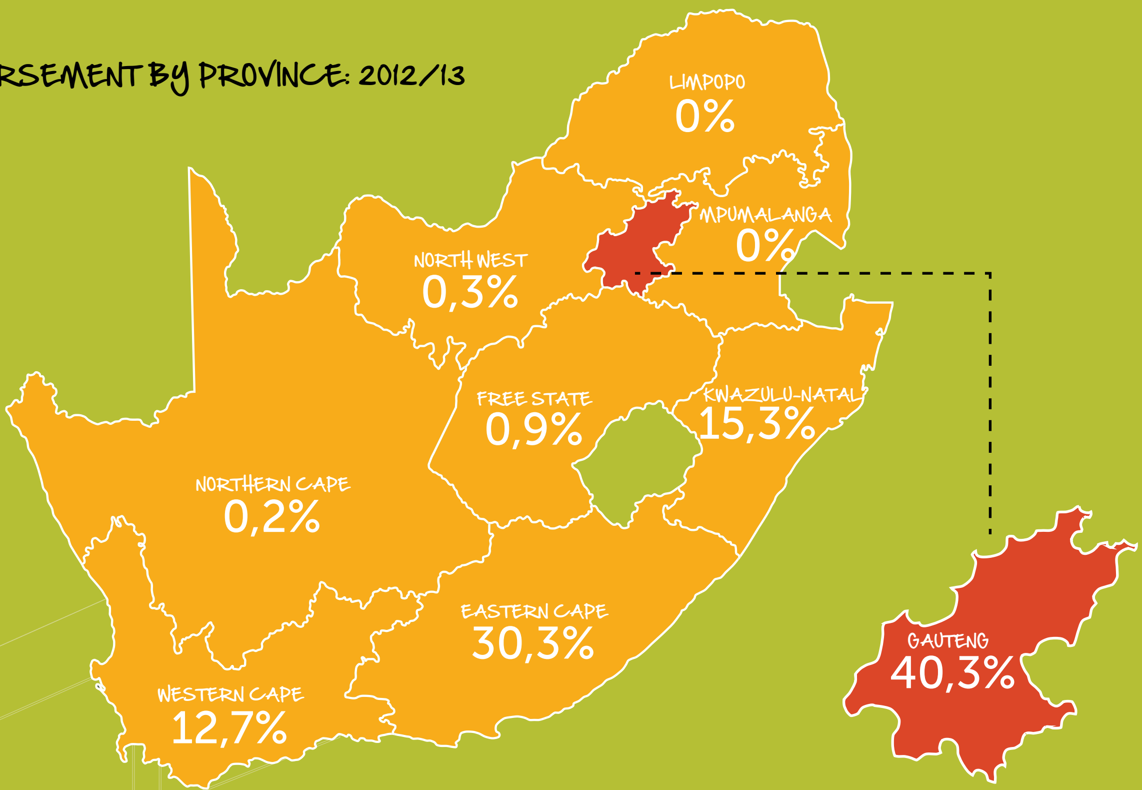
- Expand housing finance activities, through the effective provision of housing finance solutions, enabling low-to-middle income households to have the choice of renting, owning or incrementally building;
- Facilitate increased and sustained lending by financial institutions to the affordable housing market;
- Mobilise funding into the Human Settlements space on a sustainable basis, in partnership with a broad range of institutions;
- Conduct the business activities of the NHFC in an ethical manner that ensures the continued economic sustainability of the NHFC, while promoting lasting social and environmental development; and
- Stimulate the low-to-middle income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing customers.

THE VALUES THAT UNDERPIN OUR STRATEGY

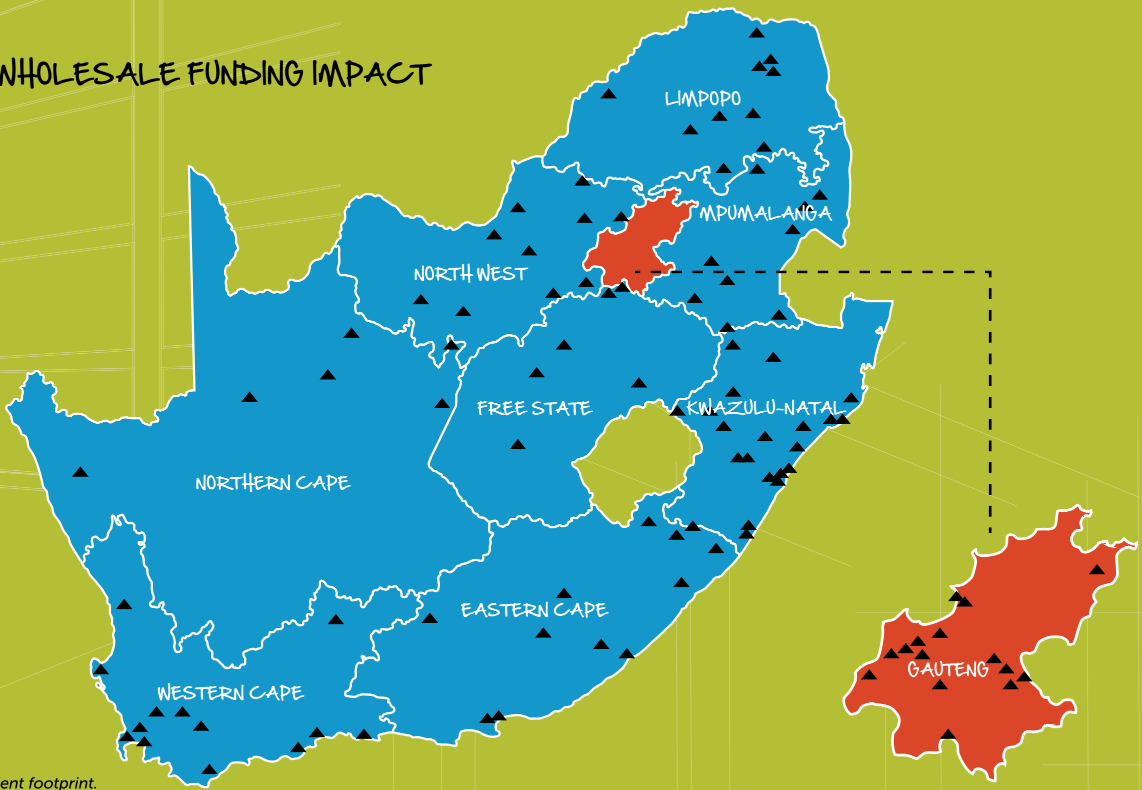
- Ownership
- Passion for purpose
- Teamwork
- Integrity
- Creativity
- Achievement

Our footprint

DISBURSEMENT BY PROVINCE: 2012/13



NHFC WHOLESALE FUNDING IMPACT



▲ *NHFC client footprint.*

Key milestones 2011 – 2013

2011

The announcement of a R1 billion Guarantee Fund to address the affordable housing market (also known as the GAP market), in the form of Mortgage Default Insurance, to be administered and managed by the NHFC.

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.

Signed a debt finance agreement with the European Investment Bank for the Rand equivalent of EUR30 million.

Number of key NHFC housing initiatives such as FLISP announced by the State President and Minister of Human Settlements.

2012

Success of leveraging initiatives and partnerships with the private sector, making a huge contribution to the funding delivery impact.

NHFC and the GPF entered into a co-funding agreement to enhance access to finance by black property investors for the purpose of developing rental stock in the inner city of JHB.

Conclusion of the TUHF recapitalisation.

WHEN

2013

Launched FLISP on 2 April 2012. It is being rolled out by the NHFC as implementing agent with the support of all Provinces, and steady progress is being made with respect to disbursing subsidies to qualifying beneficiaries.

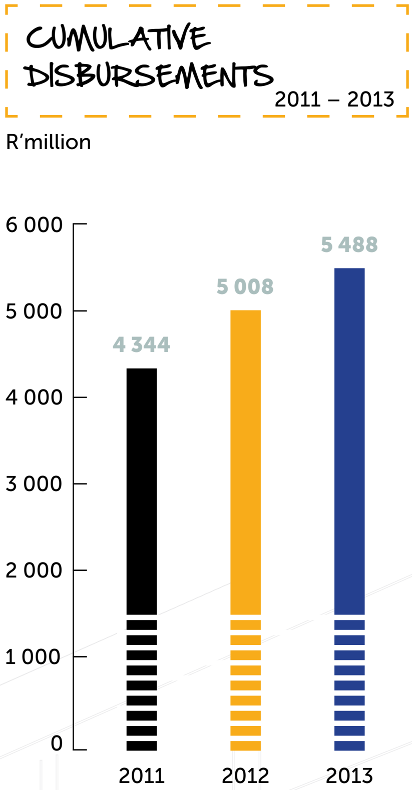
Re-capitalisation of TUHF through a debt conversion of R75 million, leveraging an additional R700 million of equity and debt capital.

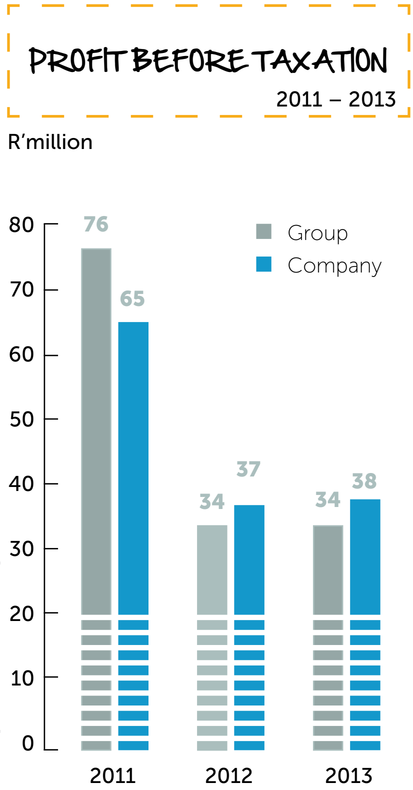
Subject to a successful capital raising, NHFC has concluded an equity transaction with International Housing Solutions Proprietary Limited as the catalytic anchor investor for an investment that has the potential to:

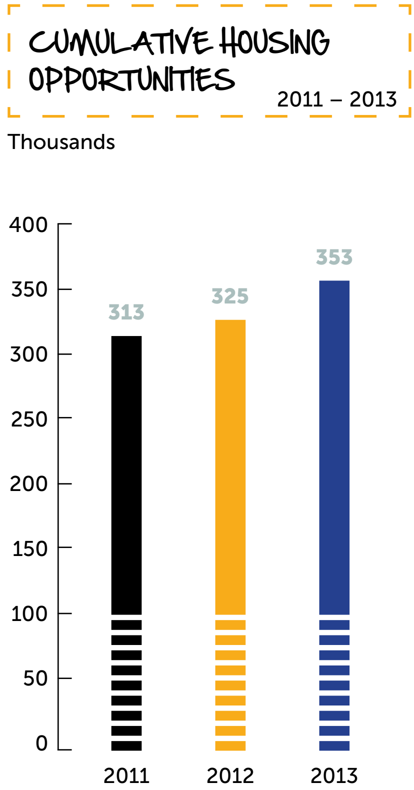
- Attract foreign direct investment into the affordable market, valued at R3 billion;
- Leverage an additional R10 billion worth of private sector funding;
- Deliver 43 000 housing units over the investment period;
- Create 163 400 beneficiaries; and
- Create 158 000 jobs.

Launched an innovative income-linked housing finance solution through its investment in Housing Investment Partners Proprietary Limited. The prototype for R100 million has been fully committed. NHFC has leveraged 80% of the funding from Old Mutual Capital Holdings Proprietary Limited. This innovative product enhances affordability for the end users who benefit from home ownership.

Key financial indicators







		2013	2012	2011
Profit before tax (R'000)	Group	**33 640**	34 220	75 547
	Company	**38 442**	37 242	65 348
Return on equity (%)	Group	**0,84**	0,92	2,63
	Company	**1,37**	1,19	2,26
Return on assets (%)	Group	**1,21**	1,24	3,19
	Company	**1,41**	1,37	2,84
Cost to income ratio (%)	Group	**68,73**	64,62	59,10
	Company	**61,89**	62,36	61,68
Credit loss ratio (%)	Group	**0,73**	1,58	0,26
	Company	**0,70**	1,52	0,25
Provision for impairments/gross advances (%)	Group	**8,74**	8,45	8,07
	Company	**8,39**	8,14	7,76

- Return on equity: profit after tax/closing net assets (or total closing shareholder funds)
- Return on assets: profit before taxation/closing total assets (excluding funds under management)
- Cost to income: total operating costs/total operating income
- Credit loss: current year impairment charge/closing gross loans and advances
- Provision for impairments/gross advances: closing cumulative impairments/gross loans and advances

The Board of Directors

Seated left to right:

MS PHEKANE RAMARUMO
Pr. Pln. Consultant – Truly African Solutions
BA (North University), MRP (University at Albany, USA),
Cert. Theology (Theological Ed. College), HD (PDA) (Wits)
Director as from 6 May 2009

PROF. MICHAEL KATZ
Independent Non-Executive Chairman,
Chairman – Edward Nathan Sonnenbergs
BCom LLB (Wits), LLM (Harvard Law School), LLD h.c. (Wits)
Director as from 10 May 1996

MR SAMSON MORABA
Chief Executive Officer
BCom (UNISA), PMD (Harvard)
Director as from 11 January 1999

Standing left to right:

MR SANGO NTSALUBA
Executive Chairman – Amabubesi Group
CA(SA), BCom (Fort Hare), BCompt Hons. (UNISA),
NHD Tax Law (UJ)
Director as from 9 December 2003

MS SONNET SWANEPOEL
CEO Ad Outpost Proprietary Limited
BSc(QS) Honours (University of Pretoria), Advanced Certificate
in Financial Markets
Director as from 13 December 2010

MR JOHAN COETZEE
Retired Banker and Director of Companies
BA (Univ. Pretoria), MBA (GSM University of Pretoria)
Director as from 6 May 2009

MR SIZWE TATI
Director – Yakani Group
BCom (University of the North), Company Directing Dip. (IoD),
Post Grad. Mngmnt Dip. (GSMT), Snr Exec. Program (Harvard)
Director as from 2 September 1996

MS ANTHEA HOUSTON
Development Consultant
Post Grad. Mngmnt. Dip. (UCT), Banking Licentiate Dip.
Director as from 6 May 2009

Executive Committee

Seated left to right:

MS THANDI SIHLABA
Enterprise-wide Risk Management
BCom, BCompt (Hons), ACCA, CIA

MR SAMSON MORABA
Chief Executive Officer
BCom (UNISA), PMD (Harvard)
Director as from 11 January 1999

MS ZONIA ADAMS
Credit
BCompt Honours (Unisa), CA(SA)

Standing left to right:

MS MANDU MAMATELA
Corporate Strategy
BCom (Hons), MBA, IEDP (UK)

MR LAWRENCE LEHABE
Projects Funding Programme
BCom, MSc Marketing

MR ANDREW CHIMPHONDAH
Commercial and Strategic Partnerships & Investments Divisions
CA (Z), MBA (Durham, UK)

MR ZOLA LUPONDWANA
Chief Financial Officer
BCom, ACA, CFA, CA(SA)

MS NOMSA NTSHINGILA
Human Resources
MSc Clinical Psychology, BSoc.Sc Hons, HED, BA.Com

MR SIEGFRIED MOGANE
Mortgage Default Insurance Co. (MDIC)
BCom, MStrat.

Chairman's report

State President Jacob Zuma, together with then Human Settlements Minister Tokyo Sexwale, hand over the keys to one of the beneficiaries of the Southernwood Square Social Housing Project in East London.

The Lakehaven, Social Housing project.

In the year under review, the NHFC continued to entrench itself as a pivotal affordable housing finance solution provider, by living up to its promise of being the financier, facilitator and innovator in the market it serves.

The South African economy has not escaped the economic challenges of our trading partners. The continued high levels of public and private sector debt have required additional policy interventions by major central banks, especially so in the developed economies. Yet this has not been enough to prevent anaemic growth during 2012 and the early part of 2013. Emerging markets, particularly China and India, continue to lead global growth, although at lower rates than hitherto.

This has impacted South Africa through low employment, poor economic growth and a deteriorating current account balance, which has negatively affected the Rand against a basket of currencies. The deteriorating current account of the balance of payments is partly due to disruption in the mining sector and the structural reduction in mineral exports due to lower demand.

The need for sound, consistent policies to address the challenges in our economy and society have never been so pronounced. It is in this context that we welcome and support the National Development Plan (NDP) as the platform from which to tackle these challenges, and to provide policy certainty that is so important. It is pleasing to know that NHFC's strategic objectives are aligned to the NDP.

The NDP, supported by the New Growth Path and other programmes, has received significant support from many sectors and political leaderships, as evidenced by the President's comments in his State of the Nation Address and in the Budget Speech by the Minister of Finance in February this year. The Plan should significantly shift the growth trajectory of South Africa in the next twenty to thirty years.

In the year under review, the NHFC had to revise it's targets to be reflective of the trading environment characterised by the overall low delivery of housing due to subdued economic growth, poor job outlook, continued cost pressures on consumers and decline in mortgage appetite by banks. Notwithstanding that, the NHFC continued to entrench itself as a pivotal affordable housing finance solution provider, by living up to its promise of being the financier, facilitator and innovator in the market it serves. I am pleased that the NHFC, significantly increased its approval levels to R1,4 billion, by year end, against a budget of R788 million.

As a facilitator, the NHFC has been able to leverage R2,5 billion into the affordable housing market and thus scale up its housing delivery impact.

The HIP R100 million joint partnership with Old Mutual was rolled out, giving households, through an income-linked product, access to home loan finance. This forms part of the NHFC's innovative strategy of broadening options for households in the affordable housing market.

The Finance Linked Individual Subsidy Programme (FLISP) is a subsidy focused on the affordable housing market, which seeks to enhance affordability and accessibility for those seeking home loan finance, and is implemented in partnership with

Chairman's report (continued)

financial institutions and provinces. In the State of the Nation Address, the President lauded the NHFC's implementation of FLISP as a key successful Human Settlements intervention, aimed at addressing affordability challenges facing the low-to-middle income households.

A landmark transaction was concluded, which will deepen the partnership between NHFC and the private sector, with NHFC becoming an anchor investor in a significant property-focused private equity fund. This equity fund aims to raise R3 billion equity, which will leverage an additional R10 billion of debt funding, and is expected to deliver approximately 43 000 houses into the affordable housing market, and has the potential to create 158 000 jobs over the next six to seven years.

The Financial Services Charter targets set for the banking and insurance sector earlier this year should stimulate the supply and the demand side drivers of the affordable housing market.

The challenges associated with a growing NHFC are complex and cannot be easily managed. On the one hand there exists the challenge of continuously blending its sources of funding, to enable the NHFC to step up its Human Settlements developmental role, on a financially sound and sustainable basis. In this regard, support from the Shareholder is paramount, as is the need to draw increasingly funds from alternative sources, while ensuring that operations are financially sustainable. Simultaneously the NHFC will be embarking on a debt raising programme to meet the increased contracted loan commitments of major customers who are key role players in the delivery of affordable housing opportunities. On the other hand is the acceleration of the resolution of outstanding strategic matters that are outside the NHFC's control.

The first such matter is the amalgamation of all Human Settlements DFIs. In this regard the NHFC, being core to this project, would be greatly impacted and thus sees an opportunity to work very closely with DHS. Further are the steps that would lead to the capitalisation and licensing of the MDIC. Although the development of the mortgage default insurance operating model is at an advanced stage, it was considered appropriate to temporarily delay further development expenditure until the NHFC has reached a satisfactory arrangement with the DHS and National Treasury on the appropriate level of capitalisation to meet the underwriting requirements of the mortgage lenders and the statutory requirements of the FSB.

The Board has placed both the above matters on its priority list in its engagement with the Minister, as they have a significant impact on the NHFC's ability to deliver on its Outcome 8 commitments.

I am delighted that the recent strategic review and reorganisation exercise confirmed that the NHFC plays a valuable role in the affordable housing market and that its business model is universally recognised as being relevant to the Human Settlements developmental needs of South Africa. The exercise also made apparent the fact that there is scope for the NHFC to increase its efficiency and effectiveness and thereby increase its developmental reach and establish itself as a partner and catalyst to the private sector. We are excited and committed to working with a broad range of stakeholders in providing holistic and sustainable housing finance solutions for ordinary South African men and women.

We are excited and committed to working with a broad range of stakeholders in providing holistic and sustainable housing finance solutions for ordinary South Africans.

At the NHFC Annual General Meeting held on 29 November 2012, Mr Coetzee and Mss Ramarumo and Houston were re-elected as directors for a further period of three years.

We remain grateful for the confidence that the former Minister, Mr Tokyo Sexwale (MP), expressed to the Board and we are committed to meet the high expectations in line with the strategic priorities of the Human Settlements department. Similarly we thank the Director General and his team for their tireless support.

We congratulate the Honourable Ms Connie September on her appointment as Minister of Human Settlements. We look forward to working with her and her team and supporting her in this very important portfolio.

To my Board colleagues, I express my sincere gratitude for their diligence, wise counsel, enthusiasm and dedication to making a meaningful contribution to the future of the NHFC through their leadership and oversight, ensuring that it delivers on its mandate, vision and mission.

I would also like to thank the staff of the NHFC; who are skilfully guided by the leadership team led by Mr Samson Moraba. This year proved challenging and required significant sacrifices, passion and energy to achieve the desired outcomes.

Professor Michael Katz
Chairman

Showcasing our projects

Protea Glen project.

NHFC FINANCES PROTEA GLEN AFFORDABLE HOUSING PROJECT

TO THE VALUE OF R99 MILLION

As a **Leader** and an **Innovator** in the low income space, the **NHFC** took a strategic decision to intervene in the development of the affordable housing market in this suburban part of the economic hub of the country, by piloting instalment sale agreements as a form of home-ownership that will help stimulate the supply of housing stock. The NHFC has partnered with Cosmopolitan Group through Cosmopolitan Financial Services Proprietary Limited (CFS), an entity that will offer end-user finance through instalment sale agreements.

The NHFC approved a facility for CFS from which 379 completed housing units will be financed through instalment sale agreements in Protea Glen Ext 27 in Soweto, Gauteng. The project is a green-field stand-alone housing development, which will be gated and will offer four typologies with sizes ranging from 45m^2 to 60m^2. The project is targeted mainly at people who are earning up to R15 000 per month.

This unique development not only provides residential estate living, with playgrounds, soft and hard walkways; it also creates a sense of community with the advantage of co-ordinated safety and asset management.

Phase 1 (60 units) is well underway and on schedule for handover by end of July 2013. According to Cosmopolitan, the project has also played a role in job creation in the area, employing well over 300 local men and women, including young people.

FLISP WALMER PROJECT

Walmer Link, the latest GAP housing project launched by the NDoHS, was announced as the best FLISP project in SA in 2013, at the recent National Govan Mbeki Awards.

The R84 million project is aimed at providing homes to qualifying beneficiaries, using the Finance Linked Individual Subsidy Programme (FLISP). It consists of 430 units and targets households that earn too little to qualify for mortgage finance on the one hand – and on the other their monthly income exceeds the maximum income limit applicable to government's free basic housing subsidy.

FLISP was developed by the NDoHS to assist households earning between R3 500 and R15 000 per month to acquire property retailing at R300 000 and below, inclusive of VAT. The programme is run by the NHFC, as implementing agent, in partnership with commercial banks and Provincial Government. The NDoHS, working together with NHFC and provinces, will roll out more of these projects nationwide.

The Walmer Link project is situated on approximately 15ha of land in the suburb of Walmer, Port Elizabeth, in the Nelson Mandela Metro. It is extremely well positioned in terms of national integration policies, and consists of two components, providing a total of 777 housing opportunities, namely Social Housing (Rental) and Affordable Housing, using bond finance and FLISP.

Walmer project.

Chief Executive Officer's review

Samson Moraba

Southernwood Square Social Housing Project in East London.

The housing market, especially the affordable segment of the market, continues to be affected by a low appetite by banks for mortgage lending, primarily due to affordability challenges of households or over indebtedness and concerns about the impact of the new regulatory framework for banks, Basel III.

INTRODUCTION

It is envisaged that Basel III will adversely impact the banks' liquidity and costs of funding of longer dated assets, such as mortgage loans, and as a result increase the costs of home loan finance to households. New housing stock volumes added by developers in the last three years have been on the decline, thus resulting in a growing backlog in the market.

It is in the context of the above that the NHFC's strategic objectives, of expanding housing finance activities, facilitating increased and sustained lending by banks and that of mobilising funding into the Human Settlements space have been focus areas of delivery, in the year under review.

The 2012/13 financial year was a year of mixed experiences for the NHFC. On the one hand, there were some highlights that are worth celebrating – while on the other, some specific milestones that were not fully attained.

Highlights of the year:

- The NHFC's proactive expanding of housing finance activities resulted in the approvals pipeline reaching R1,4 billion, as at year end. Among the approvals was a R300 million transaction that stands to scale funding, housing delivery and job creation, like no other before;
- To achieve its vision to accelerate the developmental impact delivery, one of the pillars of the NHFC strategy is that of leveraging private sector capacity. In the year under review, a resounding success was achieved in this area of priority. More than R2,5 billion was mobilised into the Human Settlements space;
- FLISP implementation rollout took centre stage in the affordable housing finance market;
- Cost containment was a great success during the year under review;
- R54 million was committed to Previously Disadvantaged Individuals (PDIs) in the NHFC – GPF affordable rental housing joint partnership;
- Inner City delivery continued unabated despite the challenges in the economic and financial environment; and
- HIP was operational, in spite of the challenges in its operating environment.

OVERVIEW OF PERFORMANCE

Disbursements

A total of R480 million has been disbursed in the current financial year to drive growth on the advances book. The overall growth of 11% was adversely affected by facilities settlements and debt conversion to equity which resulted in an effective growth of 5%.

Lending income

Group lending income for the year to 31 March 2013 is R144,8 million against a budget of R176,1 million. The following factors negatively impacted revenue growth:

- A total of R105 million in the advances book has been converted to equity, 70% of which was as a result of strategic intent and 30% due to restructuring of debt;
- Facilities to the value of approximately R40 million have been settled in the current year, thus leading to a reduction in revenue; and
- The 50 basis points drop in prime rate in the beginning of the second quarter of the financial year had an adverse impact on revenue for the three quarters of the year.

Chief Executive Officer's review (continued)

Cost containment

The Group achieved a 12% saving in annual operating expenses against the 31 March 2013 budget. These cost savings were as a result of lower business activity and a concerted effort by management to reduce certain costs such as staff costs and marketing expenditure.

Impairments

In the prevailing trading environment, there has been particular focus on the management of credit risk across the entire business. Most of the loans which continue to challenge were granted at the height of the property cycle in 2007/8. Proactive steps in restructuring these loans and where necessary, a litigation process, have started to yield positive results. This has resulted in a lower impairment charge compared to the prior year. Impairments at Group level of R15,6 million against a budget of R46,4 million were a major cost saving for the NHFC. The most significant individual impairment charge is R8,9 million for one company where 70% of the loan balance has been impaired, and a further R15 million may be charged depending on the outcome of the liquidation process of this company.

In trying business conditions, the NHFC was able to achieve a consolidated profit before tax of R33,6 million, which was not materially different from the R34,2 million achieved in 2012. In essence, while lending income growth came under pressure, lower impairments and better operational cost management were realised.

OPERATIONS

The performance of the NHFC operating divisions must be viewed in the context of the broader economy and residential property market, which was characterised by:

- generally weak economic growth and uncertainty;
- labour unrest due to demands by workers for higher wages;
- weakness in the manufacturing and retail sectors;
- high household debt levels and tighter credit to households; and
- change in the regulatory environment (Basel III) that constrained bank lending capacity.

The Projects division disbursed R290 million for the period under review. These disbursements played a catalytic role in leveraging funds from the private sector into affordable housing projects on a sustained basis. Current and past disbursements have resulted in the successful leveraging of R1,38 billion in third party funding that resulted in the delivery of 7 486 housing units.

The Commercial division focuses on wholesale lending to non-banking retail intermediaries which provide mortgage and incremental loans for home improvement. The division was able to out-perform budget due to the dedicated effort of management in providing market relevant solutions. The Commercial business component achieved disbursements of R168 million, against a budget of R109 million.

Strategic investments

Investment activities in the year under review saw the NHFC increasing its shareholding in TUHF from 27% to 33,5%, as a result of a recapitalisation of the business, in the form of a debt to equity swap, with the aim to enable TUHF to raise debt capital in the market for its growth. For the period under review the associate was able to secure a further R125 million in equity investments and debt commitments of R700 million.

HIP, in which the NHFC holds a 33,3% interest, rolled out its R100 million end-user lending pilot project, funded by both NHFC and Old Mutual Capital Holdings. The pilot roll-out had positive results, with initial disbursements of end-user finance indicating good market demand and acceptance of the product.

The turnaround of wholly owned subsidiary CTCHC continued as reflected by a reduced operating loss of R1,3 million as at 31 March 2013, compared to the previous year's loss of R1,8 million.

ADDRESSING THE NEED IN THE GAP MARKET

The inability to access housing that is both affordable and appropriate to family situations for reasons such as size and location, is central to the affordability problem. The challenge is that there is little or no access to housing finance products or the available housing finance products are not affordable. It is in the context of these twin challenges of the gap market that government through the NHFC responded, among others, with the FLISP and the MDI product. FLISP seeks to address the affordability challenge, while MDI, seeks to address the access challenge in the low-to-middle income market.

Finance Linked Individual Subsidy Programme

FLISP remains a key flagship programme for Government following pronouncements by President Zuma and the Minister of Human Settlements. The period under review saw FLISP being operationalised, with eight Provinces concluding implementation protocols with the NHFC. Twelve projects across the country have been accredited for FLISP roll-out and the budget commitment for FLISP by the various Provinces has reached R165 million. Key projects that were launched for the period under review include:

- Gauteng – Cosmo City, Fleurhof and Jabulani;
- North West – Seraleng in Rustenburg; and
- Eastern Cape – Walmer Project in Port Elizabeth.

Implementation of FLISP has been extended to the open market to fast-track programme delivery.

Mortgage default insurance

The year under review has been spent engaging with a broad range of stakeholders including the banking community, the insurance regulator (Financial Services Board), and our representative shareholders (mainly the NDoHS and National Treasury). In addition, extensive work has been done in fine-tuning the business model, stress testing the insurance premium resilience and ensuring that systems and processes are robust.

The conceptualisation and launch of MDIC has demonstrated the challenges of introducing a highly complex, innovative product to the market. There are two major unresolved issues (which are closely related): (i) capital commitment from National Treasury and (ii) issuance of an insurance licence by the FSB. The capitalisation of MDIC is a pre-requisite to the successful licensing of MDIC, in the short to medium term.

BORROWINGS

AFD

I am delighted to report progress on the commitment made last year to reach agreement with AFD on modifying the financial covenants on the loan facility to the NHFC. Through an addendum to the loan agreement, the AFD financial covenants will be modified, to better reflect the developmental mandate and the prevailing business conditions in the NHFC affordable housing market.

Since this agreement was reached after year end, AFD has agreed to waive its rights to accelerate the credit facility following the breach of past financial undertakings. However, the implication of that for the current 2013 year is that the NHFC must classify the entire loan as a current liability.

EIB

EIB has concluded a due diligence of the NHFC and offered the NHFC a second loan facility of 20 million EUR, on the same basis as the first fully disbursed facility.

The issue of funding remains critical at the NHFC and we have had the privilege of being supported by multi-lateral DFIs that have a deep understanding of our developmental mandate. We are currently in the advanced stages of sourcing an additional tranche of funding from one of these funders, which positions NHFC well for future growth. However, the issue of sourcing a blend of equity (from our shareholder) and debt funding remains central so that the NHFC remains relevant in the development finance market.

FUTURE PROSPECTS

NHFC's priorities are:

- An improvement in the rate of conversion of all approvals into disbursements;
- The NHFC is making good progress with the national roll-out and implementation of FLISP with all provinces, and what remains is to build a smoother, aligned or seamless operation that will enable scaling of housing delivery in the current year;
- The need to secure mixed funding, a blend of equity and debt, so that there is greater capacity to deliver access and better affordability levels to the market we serve, and do so in a sustainable way;
- Undertake the next steps that will make the MDI initiative a reality; and
- Ensuring the NHFC remains effective to deliver on its mandate within the growing complexity and challenging environment, it has embarked on a strategic re-organisation in the year under review and implementation will be effected in the new financial year. The transformed organisation will ensure it remains sustainable whilst achieving developmental goals, in an efficient and cost effective manner. Central to this is to continue seeking reasonable alternative sources of funding, a strong human capital and elevated customer centricity.

APPRECIATION

Special thanks goes to the former Minister, Mr Tokyo Sexwale MP, for the immense support he gave to the NHFC. The role played by the Director General, Mr Thabane Zulu, of the NDoHS and other staff at the Department is highly appreciated.

We extend a hearty welcome to the Honourable Connie September MP, the new Human Settlement Minister.

NHFC is privileged to have a high calibre of Board members who are led by Professor Michael Katz, providing much needed strategic leadership and oversight as the NHFC transforms itself within a dynamic housing finance environment.

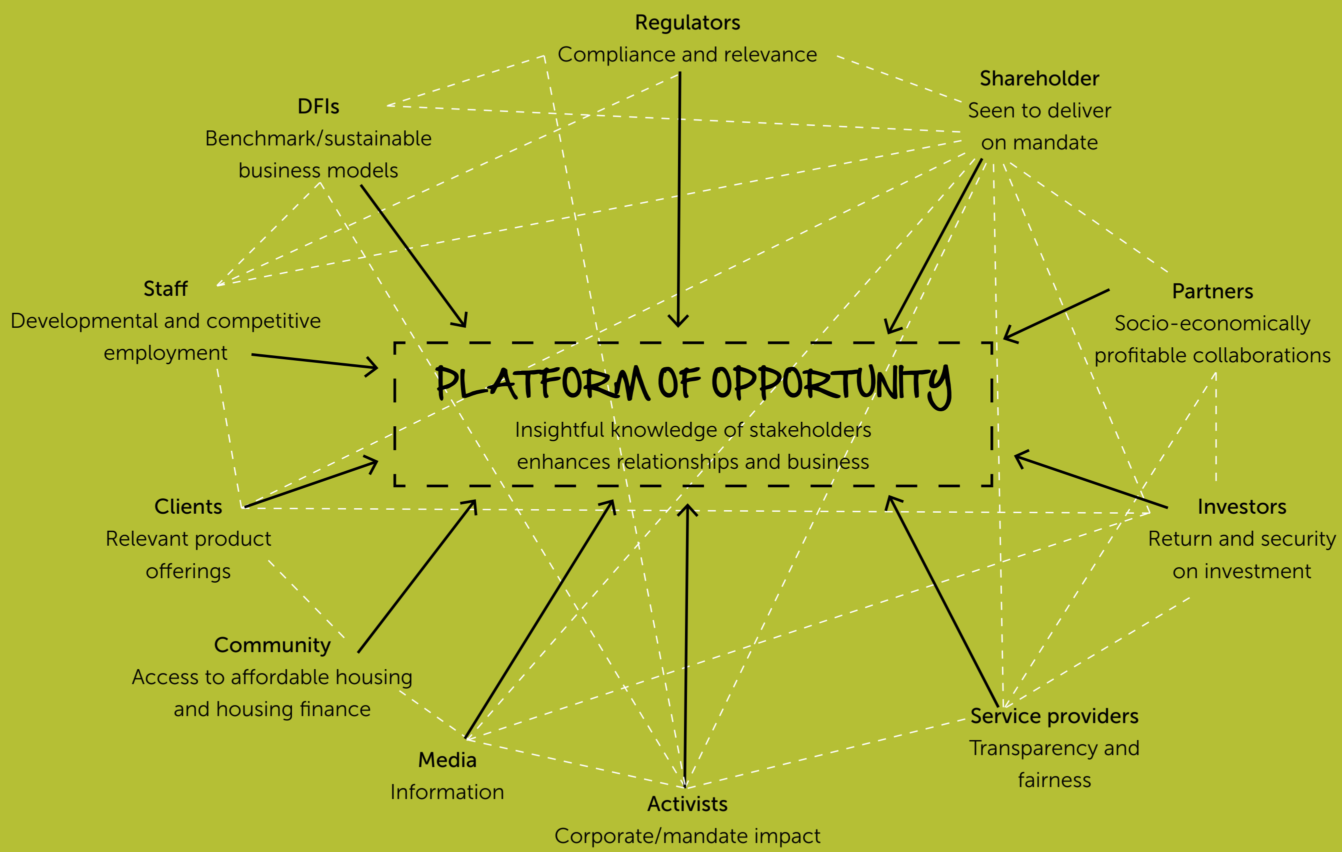
The importance of staff, customers and a various range of business partners cannot be underestimated in ensuring that NHFC remains relevant and financially sustainable. We look forward to an exciting year ahead working with a broad range of strategic partners and customers, in continuously stimulating development and innovation in the affordable housing market.

Samson Moraba
Chief Executive

Sustainability report

At the core of the long-term success of any organisation is sustainability, which requires conducting business activities in ways that benefit environmental, social and organisational performance. The NHFC strives to be a sustainable organisation that recognises its responsibility towards the economic (financial); social (people); and environmental considerations when doing business.

NHFC stakeholder offerings



Influence that impacts the processes and opportunities.

ECONOMIC SUSTAINABILITY

The balancing of financial sustainability and developmental imperative will remain a critical challenge for the NHFC as a DFI.

Notwithstanding the fact that the NHFC is a single sector development finance institution, it is imperative that it carries out its operations on a financially sound and sustainable basis. This calls for the adoption of sound and prudential financial principles as well as best practices in their operations.

Given that it has limited access to funds it is recognised that financial support from government will be an important component to enable it to play a greater developmental role.

Group financial performance and position

	2013	2012	2011
Profit before tax (Rm)	**34**	34	76
Return on equity (%)	**0,8**	0,9	2,6
Cost to income ratio (%)	**68,7**	64,6	59,1
Growth in advances (%)	**5**	17	17
Total assets (Rm)	**3 642**	3 458	2 991
Capital and reserves (Rm)	**2 316**	2 297	2 277
Interest bearing debt to equity (%)	**19**	19	3

Growth in the loan book (supported by a robust credit process), funding through an appropriate mix of debt and equity funding, and operational efficiencies, are all key drivers of long-term financial sustainability of the NHFC.

SOCIAL SUSTAINABILITY

Uplifting communities

The NHFC takes pride in contributing towards the improvement of lives of communities, especially those who were previously disadvantaged.

The NHFC employees, in support of the NDoHS' Youth and Women Build programmes, volunteer to build houses and the NHFC also sponsored furniture for beneficiaries.

During the reporting year, the NHFC sponsored the purchase of regalia for the Riverlea Aerobic Club for its 8th Annual Aerobic Marathon in October 2012. This contribution is significant for the NHFC because the sponsorship towards the 8th Annual Aerobic Marathon was intended to go a long way in liberating the community of Riverlea from the problems of alcoholism and gangsterism.

Enterprise development

Recognising the NHFC's developmental role, the performance measurement of NHFC goes beyond the standard financial measurement, to encompass quantitative and qualitative non-financial indicators. Such indicators evaluate the economic and social contribution of the NHFC, consistent with its objective of nurturing and developing new and underserved segments of the market. Its key performance indicators include the number of start-up companies financed and those that have graduated (and established a second footing) being able to attract finance from banks and other institutional investors.

A case in point is the Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF) and AFHCO Holdings Proprietary Limited, good examples of successful business incubation, in which NHFC provided support throughout the full enterprise development value chain.

Empowering entrepreneurs

The partnership with the Gauteng Partnership Fund (GPF), in which the NHFC and GPF contributed R100 million each to support black property investors, has continued to bear fruit, with approvals at over R54 million at year end.

The programme was established to promote entrepreneurship in the HDI sector. The technical and soft financing assistance was provided by GPF while NHFC provided debt funding to the borrowers at below market rates.

Supplier development

The NHFC is committed to compliance with legislation that promotes opportunities for businesses owned by black entrepreneurs.

The NHFC firmly believes that representative economic transformation is critical, hence in all its dealings it ensures that it procures goods and services from companies that are transformed and that have a high B-BBEE status. This has a trickle-down procurement effect which ensures that all supplier and service providers in the value chain meet the required transformation standards.

The NHFC's Procurement and Supply Chain Policy is aligned to the new PPPFA, the amended B-BBEE Act of October 2012, and Code of Good Practice which was presented to the DTI Portfolio Committee on 20 February 2013.

As a means of accelerating the development of sustainable black enterprises in line with the amended B-BBEE Act, the NHFC ensures prompt payment of Qualifying Small to Medium Enterprises (QSME) and Exempted Qualifying Enterprises (EQE).

OUR PEOPLE

NHFC's value creation is realised through its employees. It is this belief which is at the core of NHFC's talent management interventions. NHFC's employees are at the touch points, dealing with all NHFC stakeholders, therefore, high on their development agenda is awareness of this fact. NHFC's approach to talent management is aimed to ensure:

- attraction and retention of talent;
- facilitation of employee development and competence;
- engaged and motivated employees;
- employee wellness programmes; and
- ethically behaved employees.

NHFC's staff complement as at 31 March 2013 was 89 and includes employees from MDIC. The permanent employee turnover rate was 6,8%, an improvement on the previous financial year.

Developing our talent

In pursuit of our mission to build a 'well-rounded' leadership pipeline, develop the technical capacity of existing employees in order to ensure that NHFC achieves its targets, and build the capacity of youth in the financial sector, the NHFC spent R1,2 million in training related initiatives.

Sustainability report (continued)

The FLISP team (from left to right): Adelaide Mohale, Lebogang Jiani, Matthew Sidu, Thabo Mabaso, Sendy Kganane, Dimakatso Molefe.

While we spent less (52,7% versus 63% of the training budget) in the 2013 financial period on training compared to 2012, on technical skills development, more people were trained. Insourced training proved to be more cost efficient.

Building leadership capacity at middle and senior management levels is critical for NHFC. In the period under review, three candidates completed the Leadership Development Programme, while two employees took part in the Junior Management Programme to gain managerial skills, in preparation for assuming future increased responsibilities.

NHFC's partnership with Bankseta on leadership development, which started in 2009, is producing the desired outcomes: building leadership capacity for the sector, while also benefiting NHFC's leadership development aspirations.

To date, seven employees have been developed through this programme. Of those who were on the leadership programme, three have been promoted into senior management positions; other employees who attended the programme were already at senior management levels.

Attracting and retaining talent

Our recruitment principle of prioritising internal candidates with 80% competencies for the, job, while developing the competency gap of 20%, has paid off. The bulk of the upward mobility of our employees in the financial year 2013 was as a result of implementing this strategy. Whenever there was a need to recruit externally in particular with service providers, we implemented an electronically based recruitment system, resulting in significant (90%) recruitment cost savings in 2012/2013.

NHFC has also improved on recruitment turnaround times (three months versus a target of four months). In 2014, we aim to maintain both the savings and the recruitment turnaround time.

Employee mobility

To date, 43% of employees who have been promoted to more senior positions were in the succession pool. There have been 20,2% employees on job rotation between business units, to carry out short- and longer-term assignments. The rotation of employees has proved to be instrumental in our talent management quest of building a well-rounded leadership profile.

Bursaries

In response to the country's need to develop scarce skills, specifically for the youth, NHFC is sponsoring previously disadvantaged undergraduate students in the finance field.

Internship/learnership

NHFC's drive to make a contribution in youth employment has resulted in the placement of five new learners and three interns, resulting in a total of eight experiential learners for the period under review. This is a notable improvement on the previous year, wherein three learners were placed.

The NHFC is in discussions with other SETAs in preparation to accommodate more youth in experiential employment.

Performance management

In order to drive productivity, the NHFC's Performance Management System; enables two formal performance reviews for employees and two additional informal performance reviews to track and implement corrective measures where necessary.

The NHFC uses the Balanced Scorecard as a performance management tool, which allows for transparency and more objective performance reviewing. In order to improve efficiencies and to encourage greater accountability, the NHFC is in the process of reviewing its performance management system.

Performance bonuses/incentives

In order to drive performance on a short-term basis, employees who have exceeded set annual targets receive incentives, which are based on the performance of the NHFC as well as that of the individual.

Employee Reward and Recognition (RECA)

Other than awarding employee performance bonuses, with the intent to drive desired employee behaviours (performance and to promote a culture of living NHFC's ethical values), employees who display desired corporate behaviours are further recognised.

Through the RECA Policy, the NHFC rewards eligible employees, by incentivising them as individuals or as teams, financially or through non-financial rewards. The employee nomination process is driven by an employee nominated committee.

Promoting employee health and wellness

Our employees' health is important. We have a comprehensive wellness programme which provides assistance to employees at different stages of their lives, including financial counselling, chronic illness detection, psychological counselling for employees and their families, all of which are aimed at assisting them in coping with a diverse range of problems.

All employees belong to a medical aid scheme. This ensures that when the need arises, they are able to obtain the medical attention they require.

EMPLOYMENT EQUITY

The NHFC believes in the principles and spirit of the Employment Equity Act and complies with the requirements of this legislation. Planning within the NHFC is guided by compliance with the national demographics of the country, and the quest to achieve the strategic imperatives of the NHFC.

	MALES					
	A	C	I	W	Foreign nationals	Total
Top management	4	–	–	–	1	5
Senior management	8	–	3	1	–	12
Professionals	8	–	–	1	–	9
Skilled technicians	2	–	–	–	–	2
Semi-skilled	9	1	–	–	1	11
Total	**31**	**1**	**3**	**2**	**2**	**39**
Contractors	–	–	–	–	–	–
Grand total	**31**	**1**	**3**	**2**	**2**	**39**
NHFC males (%)	76,9	2,6	10,3	5,1	5,1	100,0
ND males (%)	79,4	8,9	2,6	9,0	–	100,0

	FEMALES					
	A	C	I	W	Foreign nationals	Total
Top management	3	1	–	–	–	4
Senior management	6	–	–	2	–	8
Professionals	7	2	–	1	–	10
Skilled technicians	3	1	1	–	–	5
Semi-skilled	17	5	–	1	–	23
Total	**36**	**9**	**1**	**4**	**–**	**50**
Contractors	–	–	–	–	–	–
Grand total	**36**	**9**	**1**	**4**	**–**	**50**
NHFC females (%)	74,0	16,0	2,0	8,0	–	100,0
ND females (%)	79,5	9,0	2,5	9,0	–	100,0

Sustainability report (continued)

ETHICS MANAGEMENT

At the core of both our Codes of Ethics and Values are **Integrity** and **Accountability**. These are two important qualities upon which NHFC has built both its value system and employee ethical behaviours.

All NHFC employees undertake to comply with the NHFC Value System. Monitoring is done through various means, including 'Tip off Anonymous', which has a 24 hour toll-free number, to protect employees who report concerning issues. Non-compliance is addressed through the NHFC's Disciplinary Code and is reported to the Social and Ethics Committee, which is responsible for oversight on these matters.

ENGAGING OUR STAKEHOLDERS

Stakeholder engagement is integral to the NHFC's business. The NHFC comes into daily contact with external stakeholders. Key stakeholders influence and impact the NHFC's developmental mandate, the nature of the NHFC's business and external perspectives of the NHFC.

The NHFC has over time increasingly identified stakeholder engagement as key to its business success, both within private and government sectors. In this regard, it has established networks and platforms for stakeholder engagement which include organisations, departments, groups and key individuals. The NHFC wishes to further develop relationships with the community, provincial and local government departments and other key stakeholders, to enable and ensure the achievement of its corporate strategic objectives.

The NHFC, through its Corporate Communications and Marketing Division, in conjunction with the NDoHS, was involved in the preparation of the Govan Mbeki Awards, focused mainly at motivating all stakeholders in the human settlements space to harness human capital and other resources in accelerating delivery. The awards are further set to honour role players in the housing value chain that have committed to partner with government in building sustainable human settlements and making the millennium development goals achievable by 2014.

The NHFC continues to participate in the Youth Build and Women's Build Projects, which are held during June and August, respectively, to promote youth and women's interests in housing development.

As the ultimate outcome of the business of the NHFC is to improve the quality of lives of South African households, the NHFC and its partner, Old Mutual, undertook visits to the first beneficiaries of the HIP funded houses, to congratulate them on their ownership, and for the beneficiaries to share their views on the product and experiences of being a first time home buyer.

The raising of stakeholders' awareness of the NHFC's product offering continues to be of paramount importance, and in the year under review, the NHFC undertook numerous activities to inform the public about FLISP, especially those in the affordable housing market; for example, the information sharing sessions held in the three spheres of government; the launch of Botlhabelwa Borwa project in Alexandra, Gauteng; and the creation of media related exposure such as the flighting of an awareness creating advert on SABC Radio.

Exhibitions are staged at strategic stakeholder engagement platforms, such as the Skills Development Summit in July 2012 at the CSIR; the World of Work Career Fair at the Durban University of Technology; as well as the Evaton Youth Empowerment Expo, designed to increase the participation of young people in the reconstruction of the township and the advancement of their ambition in the corporate world and elsewhere.

The NHFC believes a strategic approach (a plan with clear objectives, milestones and evaluation) creates better ongoing relationships and is more likely to realise benefits for the NHFC and its stakeholders.

ENVIRONMENTAL SUSTAINABILITY

The NHFC conducts its business in a responsible, fair and honest manner, aimed at protecting the environment.

The NHFC complies with relevant environmental legislation and regulations, as well as best practices, where appropriate.

Current practices

The NHFC is committed to the principles of sustainable social and environmental development in its funding and investment decisions and partners with organisations that subscribe to sustainability principles.

As a result of its partnerships with international DFIs, the NHFC developed a Social and Environmental Management Plan, which documents the applicable procedures and workflow that the NHFC follows for the consideration of social and environmental risk in the investment cycle. Currently, only projects qualifying for international DFI funding are assessed in terms of these guidelines and monitored for compliance.

NHFC continues to lobby relevant stakeholders to consider alternative energy efficient building systems as a feasible option.

In conducting its general business activities, a number of practices aimed at reducing energy consumption and promoting responsible resource utilisation are in place, albeit in an ad hoc manner.

Initiatives during the period under review

The NHFC undertook the following in promoting an environmentally sensitive environment:

- **Social and Ethics Committee (SEC)** – A committee to ensure compliance with the Companies Act was constituted at the end of the previous financial period. The terms of reference of SEC were approved by the Board during the year under review.

- **Development of a Social and Ethics Framework** – The Framework will assist SEC in discharging its primary function, being to act as the social conscience of the NHFC and to ensure that NHFC behaves as a responsible citizen – as well as its secondary function, being to monitor the Company's activities according to section 43(5) of the Companies Regulations of 2011, having regard to any relevant legislation, legal requirements, prevailing codes of best practice and guidelines, with regard to matters relating to social and economic development. In fulfilling its mandate, SEC will rely on assurances from other Board committees and hence ensure that there is synergy and synchronisation between Board committees and operational structures. Accordingly the Terms of Reference of the various Board committees were reviewed to incorporate these responsibilities.
- **Framework for a Sustainability Policy** – To ensure a secure and healthy workplace; eliminate all forms of wastage personally, professionally and corporately; directly and indirectly enhancing local economic vitality; balancing the effectiveness of excelling at social business with the efficiency of being a non-loss NHFC; and incorporating disaster resilience and mitigation into corporate decisions and actions.
- **Summary of International Frameworks and Protocols** Cradle to Cradle Design; CERES Principles; Triple Bottom Line Principles; United Nations Global Compact for dissemination and education purposes, were some of the principles and protocols implemented by the NHFC.
- Participation in a seminar on **Greening of Social Housing** of which a draft **Guide to Greening Social Housing in South Africa** was the outcome.
- **Summary of Kyoto Protocol** – To establish South Africa's international commitment to environmental issues in order for NHFC to take the necessary steps to comply.
- **Summary of Green Climate Fund** – To help align the NHFC's environmental investment and funding strategy to international best practice.
- **Green Building Framework** – For guiding the Projects business component of the NHFC.
- **Enrolment in Green Building Council** – To ensure that NHFC funded programmes are aligned to the Green Star Rating System.

WAY FORWARD

The formalisation and approval of the Environmental Policy will see the NHFC move from its previous fragmented response to environmental issues, to the required integrated approach, thereby ensuring compliance with all relevant legislation and international protocols.

Cavendish, one of the NHFC funded projects in the Joburg Inner City.

The Environmental Policy will confirm the NHFC's commitment to developing an environmentally friendly and conservation culture – in both its own operating environment and in the environment of all parties with which it has a business association.

Directing environmental sensitivity ensures that the Group will:

- be sensitive to the environment in its business activities;
- address possible risk areas related to its activities from facilities and resource utilisation;
- address the impacts of its funding and investment activities in a responsible manner;
- be cognisant of the impacts of its procurement practices;
- acknowledge its advocacy role in environmental issues; and
- encourage environmental friendly behaviour in the entities that we fund.

The embedding and implementation of the Policy will ultimately, through the development of indicators within guidelines for sustainability reporting, enable NHFC's stakeholders to evaluate NHFC's performance and make an informed assessment of its ability to create and sustain value.

Corporate governance

The NHFC has aligned itself with the King III Report on Corporate Governance Practices and Conduct of 2009 (King III) and best practices for Public Entities falling within Schedule 3(A) of the Public Finance Management Act, Act 1 of 1999.

ALIGNMENT WITH THE KING III REPORT

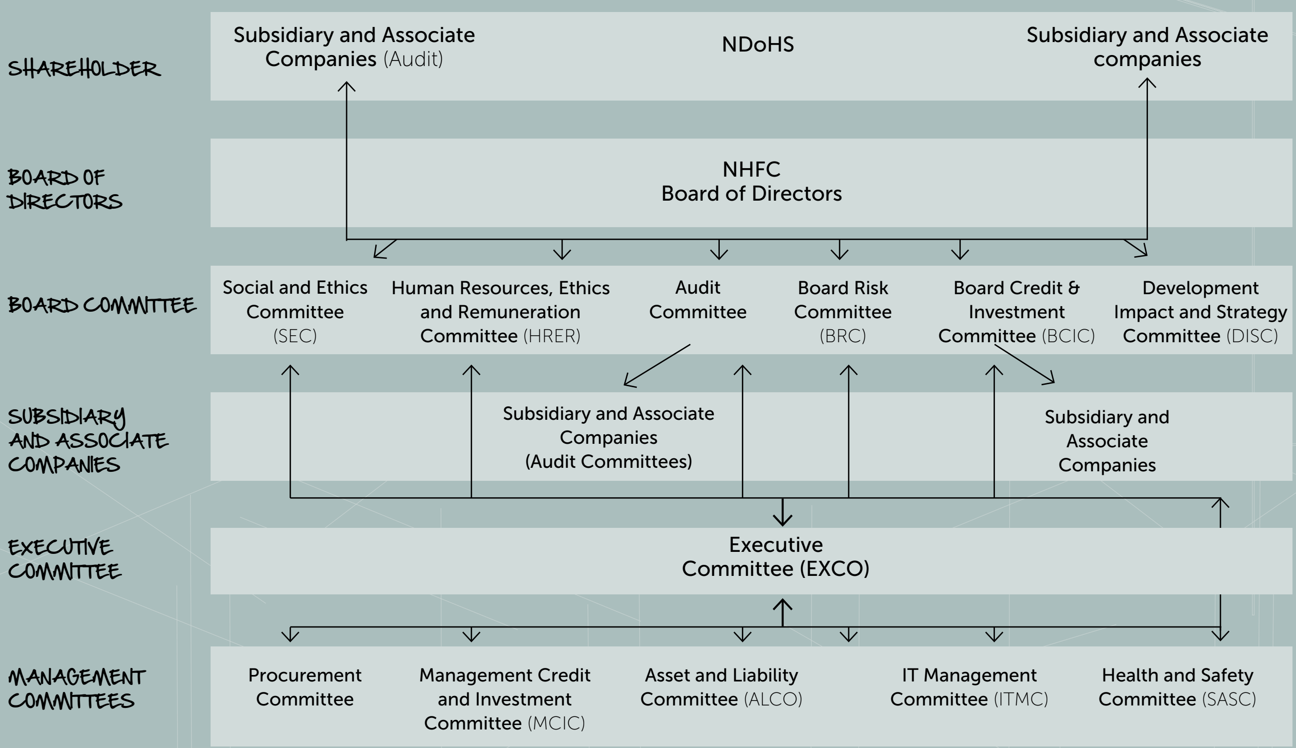
The Board of Directors (the Board) of the NHFC remains committed to applying the principles of integrity, fairness, transparency and accountability as set out in King III in so far as they apply to State Owned Enterprises, and to best practice for Public Entities falling within Schedule 3(A) of the Public Finance Management Act 1 of 1999. The NHFC is on course to implement the key principles set out in both these best practice codes.

GOVERNANCE ENHANCEMENTS

Governance practices are regularly reviewed to align the NHFC and its subsidiary with best practice. During the financial year, the NHFC's Audit Committee reviewed the NHFC's alignment with current best governance practices and agreed to a plan to align the NHFC even further with the recommendations applicable to it.

The NHFC developed a governance framework for its wholly owned subsidiary that sets out guiding corporate governance principles, to ensure that the business of the subsidiary is conducted in an ethical and responsible manner.

NHFC BOARD GOVERNANCE STRUCTURES



Accountability to the Shareholder

NHFC is a State Owned Entity, and through its Board is accountable to its sole Shareholder, the Government of the Republic of South Africa. The Minister of Human Settlements (the Minister) duly represents the Shareholder's interest, determines the NHFC's mandate and holds its Board of Directors accountable for managing its operations within its mandate.

Strategic objectives and performance management

As provided for in section 52 of the Public Finance Management Act 1 of 1999 (PFMA), a Shareholder Compact (the Compact) was entered into with the National Department of Human Settlements (NDoHS) during the period under review.

The Corporate Plan is annexed to the Compact and serves as an agreement between the NHFC and its Shareholder and documents the key performance measures against which organisational performance is assessed. The Board set out the NHFC's strategic objectives in the Plan and it adopted the Balanced Scorecard methodology to implement the Strategy and measure itself against the key performance measures reflected on pages 105 to 111 of the Annual Report.

The Board reports to the Shareholder through quarterly reports as well as the Annual Report. The Chief Executive Officer (CEO), who is charged with the day to day management of the NHFC's operations, meets regularly and consults with the Department of Human Settlements and the Minister.

NHFC BOARD GOVERNANCE STRUCTURES AND FRAMEWORK

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. It is responsible for developing and overseeing the execution of the strategy and monitoring the NHFC's performance against the Corporate Plan. It discharges this responsibility within the structures and framework set out below.

The Board meets at least four times a year or more frequently if circumstances so require and the Chairpersons of the respective committees report back to the Board.

BOARD OF DIRECTORS COMPOSITION

The Board is appointed by the Minister in his capacity as shareholder representative and comprises eight (8) members, the details of which are reflected on page 8 of the Annual Report. Dr Khoza resigned as a director on 30 June 2012.

The Shareholder, at the NHFC Annual General Meeting held on 29 November 2012, re-elected Mr Coetzee and Mess Ramarumo and Houston for a further period of three years.

The directors are, with the exception of the Chief Executive Officer (CEO), all non-executive. Their extensive experience and specialist skills across the industry enable them to provide balanced and independent advice and judgement in the decision-making process.

Then Human Settlements Minister Tokyo Sexwale presents President Jacob Zuma with a portrait of beneficiaries of the Southernwood Square Social Housing Project in East London.

In accordance with King III recommendations, the roles of Chairperson and CEO are separate, with clear division of roles and responsibilities as defined in the Board Charter.

BOARD MATTERS

Memorandum of Incorporation

During the period under review, a Memorandum of Incorporation was established in compliance with the Companies Act 71 of 2008, developed and revised by the Board before being adopted by the Shareholder at the Annual General Meeting held the 29 November 2012.

It was subsequently duly lodged with the Commission for Intellectual Property and Companies.

Board Charter

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 Chairman, CEO and the Board. The Board retains full and effective control over the NHFC by:

- approving the Strategy, Corporate Plan, 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.

The Board Charter also deals with the training of directors to ensure that they are competent to fulfil their responsibilities. An external service provider, during the period under review, conducted training for directors on the Companies Act 71 of 2008 as well as on the Board Development/Leadership programme.

Corporate governance (continued)

Ethics

In line with King III, the Board is bound to conduct the business of the NHFC in accordance to the ethical principles set out in its Code of Conduct (the Code) and provisions in relevant legislation. The Code sets out the legal requirements and procedures to be followed in declaring an interest in any business matter before a Board committee or the Board.

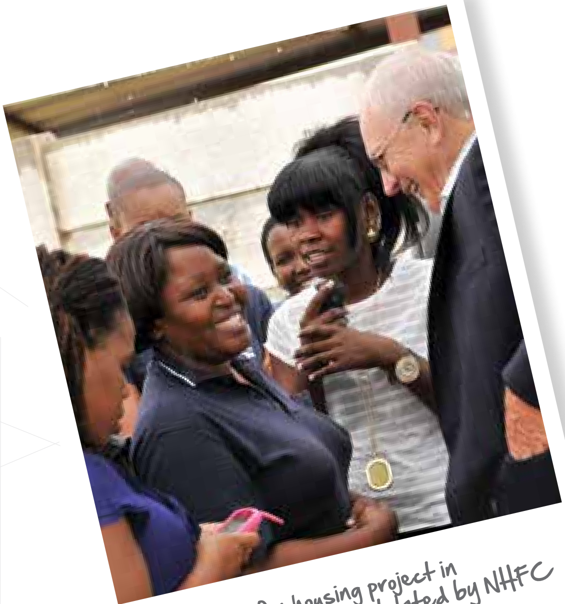
In following the tone set by the Board, a Code of Ethics (the Code), that codifies values and behavioural standards, binds all employees. The Human Resources and Remuneration Committee annually reviews the Code and the Business Conduct Policy, which sets out the legal requirements and procedures to be followed, and monitors adherence thereto on an ongoing basis.

Access to information and professional advice

All directors have unrestricted access to Management should they require any information in discharging their duties.

Directors have unrestricted access to the advice and services of the Company Secretary, who is a central source of information and advice to the Board on matters of ethics and good governance. The Company Secretary also ensures that the Board is aware of its legal duties and the fiduciary responsibilities of individual Board members.

Directors may seek independent professional advice concerning the affairs of the NHFC.



Beneficiary of a housing project in Olivenhoutbosch is congratulated by NHFC board member, Mr Johan Coetzee.

Board evaluation

Individual Board members, by way of self-assessment, evaluated the performance of the Board and Board committees. The outcome of the assessment was presented to the Board at its meeting held on the 28 March 2013.

Compliance

The NHFC is legally bound to comply with all applicable laws, rules and regulations.

The Board Risk Committee (BRC) is responsible for ensuring that compliance risks are identified, assessed, monitored and reported in accordance with the Compliance Risk Management Framework, and that compliance policies are adhered to.

Fraud and corruption

In line with its mandate and the NHFC's zero tolerance stance, BRC reviewed the Fraud Prevention Plan and received quarterly reports from the external service provider of the Fraud Hotline, confirming that there were no incidents of fraud during the period under review.

BOARD COMMITTEES

All Board committees have clearly defined Terms of Reference, which set out the specific responsibilities delegated to them by the Board. Terms of Reference are reviewed annually in order to ensure alignment with governance standards and applicable legislation. All the Board committees are chaired by non-executive directors and Management attends committee meetings on invitation.

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

Audit Committee

The committee comprises three Independent non-executive directors. The members are Messrs Ntsaluba (Chairperson) and Tati and Ms Ramarumo. The committee meets at least four times annually 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 of financial reporting, conforming with all applicable legal requirements and accounting standards;
- The operation of adequate systems of internal control and internal audit processes;
- The external audit process;
- Corporate governance; and
- Shareholder reporting.

The committee held seven (7) meetings during the period under review.

Human Resources, Ethics and Remuneration Committee (HRER)

HRER comprises three independent non-executive directors and the CEO. The committee members are Mss Houston (Chairperson) and Ramarumo and Messrs Ntsaluba and Moraba. Committee meetings are attended by the Executive Manager: Human Resources.

HRER meets at least four times a year and the responsibilities of the committee include to:

- approve the NHFC's Human Resource Policy and Strategies;
- approve remuneration and performance bonuses for all employees;
- ensure that the compensation philosophy and practices of NHFC are aligned to its strategy and performance goals; and
- receive quarterly Provident Fund (the Fund) updates from the Trustees of the Fund.

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

The committee held five (5) meetings during the year under review.

Social and Ethics Committee (SEC)

SEC comprises two independent non-executive directors; three executive managers and two senior managers. The Board committee members are Mss S Swanepoel (Chair) and PV Ramarumo.

In discharging its statutory duties in terms of Regulation 43 of the Companies Act 71 of 2008, SEC has regard to relevant legislation, other legal requirements and prevailing Codes of best practice. This includes the NHFC's standing in terms of the goals and purposes of the ten principles set out in the United Nations Global Compact Principles (the UN Principles), which establishes core values for companies to embrace, support and enact within their sphere of influence in the areas of human rights, labour standards, the environment and anti-corruption.

SEC obtains assurance from BRC that the NHFC is in line with UN Principles against corruption and OECD recommendations to combat bribery and corruption in international business transactions.

It is taking the following measures:

- Implementing awareness-raising initiatives for the purpose of detecting and preventing all bribery;
- Putting reporting processes and policies in place;
- Ensuring that accounting, external audit, internal control, ethics and compliance requirements and practices are in accordance with UN principles and OECD recommendations; and
- Putting Management capacity in place to:
  - oversee and review ethics and compliance programmes;
  - report corruption;
  - take appropriate disciplinary steps; and
  - provide guidance and advice to directors, officers and employees.

SEC also obtains assurance from the Human Resources, Ethics and Remuneration Committee (HRER) that the following principles are followed and actions taken:

(i) The NHFC's labour and employment practices are in line with the following UN Principles:
  - The freedom of association and the effective recognition of the right to collective bargaining;
  - The elimination of all forms of forced and compulsory labour;
  - The implementation of effective measures for the abolition of child labour; and
  - The elimination of discrimination in respect of employment and occupation.

(ii) the NHFC is complying with the Employment Equity Act;

(iii) the required Codes of Conduct and Policies are in place to respect, promote and realise, in good faith, the UN Principles and the principles of the International Labour Organisation Protocol on decent work and working conditions;

(iv) the NHFC is building good employment relationships and is contributing towards the educational development of its employees; and

(v) the NHFC is promoting equality and preventing unfair discrimination;

SEC also obtains assurance from BCIC that in reviewing credit applications, it has:

(i) followed a precautionary approach to environmental challenges;

(ii) ensured that initiatives are undertaken to promote greater environmental responsibility;

(iii) ensured that initiatives are undertaken to encourage the development and diffusion of environmentally friendly technologies;

(iv) monitored compliance with the NHFC's B-BBEE Policy in lending to its clients;

(v) monitored the impact of the NHFC's products and services on the environment, health and public safety; and

(vi) monitored the NHFC's relationship with its clients.

SEC also obtains assurance from the Developmental Impact and Strategy Committee (DISC) that it has played the following developmental role:

Corporate governance (continued)

(i) Monitoring the NHFC's contribution to the development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed;

(ii) Monitoring the impact of the NHFC's activities and products on its target market and considering reports in relation to the developmental impact of any product;

(iii) Monitoring the environmental and social sustainability of the NHFC;

(iv) Receiving reports on sponsorship, donations and charitable giving to monitor the NHFC's citizenship; and

(v) Receiving reports on consumer relationships including the NHFC's advertising, public relations and compliances with consumer protection laws.

During the year under review the committee developed a framework to ensure it provides all assurances to the Board and the Shareholder.

The SEC had three (3) meetings during the year under review.

Board Risk Committee (BRC)

BRC comprises four Independent non-executive directors and the Chief Executive. The members are Messrs Ntsaluba (acting Chairperson) and Tati and Coetzee and Ms Houston.

Committee meetings are attended by the Executive Manager: Enterprise Wide Risk, the CFO and the internal auditors.

BRC meets at least four times annually and its primary object is to assist the Board in executing its responsibilities with respect to risk management. In fulfilling its mandate, the committee:

- 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 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.

The committee held four (4) meetings during the period under review.

Board Credit and Investment Committee (BCIC)

BCIC comprises three independent non-executive directors and the CEO. The members are Messrs Coetzee (Chairperson) and Tati and Moraba (CEO) and Ms Swanepoel.

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

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

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

BCIC mandate

- 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, upon recommendation by the Management Credit and Investment Committee (MCIC). BCIC performs its assessment of the inherent risks in 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 all long-term investments that exceed or cumulatively exceed R30 million up to R160 million, upon recommendation by the Management Credit and Investment Committee (MCIC). BCIC performs its assessment of the risks inherent in an investment within the framework of an approved Investment Policy; and
- Recommends the Treasury Management Policy to the Board for approval, and discharges the functions as set out in the Policy.

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

The committee held nine (9) meetings during the period under review.

Board and Board committee record of attendance for the period April 2012 – March 2013

Name of director	Category	Board	Audit	BCIC	HRER	DISC	BRC	SEC
	Number of meetings	5	7	9	5	3	4	3
Prof MM Katz	Independent non-executive Chairperson	4	n/a	n/a	n/a	n/a	n/a	n/a
Mr SS Moraba	CEO	5	7	9	5	3	4	2
Ms A Houston	Independent non-executive directors	5	n/a	n/a	5	3	4	1
Dr SJ Khoza[1]		1	2	n/a	n/a	n/a	1	1
Ms PV Ramarumo[2]		4	1	n/a	5	2	n/a	2
Ms S Swanepoel		5	n/a	7	n/a	n/a	n/a	3
Mr J Coetzee		5	n/a	9	n/a	3	3	1
Mr SA Tati		5	6	9	n/a	3	4	1
Mr SS Ntsaluba		5	7	n/a	3	n/a	4	1

[1] *Dr SJ Khoza resigned as a director on 30 June 2012.*

[2] *Ms P Ramarumo was appointed to the Board Risk and Audit Committee on 29 November 2012.*

n/a – not applicable.

Board Developmental Impact and Strategy Committee (DISC)

DISC comprises four independent non-executive directors and the CEO. The members are: Messrs Tati (Chairperson) and Coetzee, Mss Houston and Ramarumo and Mr Moraba (CEO). The committee meets at least four times a year. The committee meetings are attended by the Executive Manager: Strategy, Chief Financial Officer, Executive Manager: Projects, General Manager: Corporate Communications and Marketing.

DISC's main objectives are to:

- review and recommend the NHFC's Strategy to the Board and to ensure that it is both relevant and responsive to the affordable market;
- give the Board assurance that NHFC's strategic objectives are aligned to 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.

The Executive Manager: Enterprise Wide Risk attends all Board committee meetings to ensure risk and compliance oversight of all matters affecting the NHFC.

The BRC and Audit committees had the following joint meetings during the year under review:

- 26 June 2012;
- 26 July 2012;
- 13 September 2012; and
- 25 September 2012.

MANAGEMENT COMMITTEES

Executive Management Committee (Exco)

Exco comprises executive managers, reflected on page 9 of the annual report, who assist the CEO in managing the day-to-day business of NHFC within the powers delegated to them by the Board. Exco is also responsible for formulating the NHFC's strategy and implementing it once approved by the Board.

Management Credit and Investment Committees

All credit applications are submitted to the Credit Division, which conducts a thorough assessment of the risks associated with the particular application and makes 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 themselves from discussion of that item.

Corporate governance (continued)

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, General Manager: Legal Executive manager: Projects 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 two external specialists, the CFO, Executive Manager: Enterprise Wide Risk, Executive Manager: Credit, Treasury Manager and Money Market Dealer. ALCO's overall objectives are to:

- manage financial risk emanating from NHFC's operations and borrowing programmes, including liquidity, counterparty and market risk (in turn 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 NHFC assets and liabilities.

Information Technology Management Committee (ITMC)

ITMC is chaired by the CEO and comprises the General Manager: IT, Data & Information Manager, 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 approved by BRC;
- obtain independent assurance that the IT internal framework is effective and submit it to Exco, which in turn must submit it to the Audit Committee;
- monitor all IT risks and controls to determine whether they are addressed effectively, and relevant plans and controls are in place and submit them to Exco, which in turn recommends them to the BRC; and
- review all IT proposals before submission thereof to Exco.

Procurement Committee

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

The committee's main objectives are to:

- procure goods, works and services that meet the quality standards of the NHFC and are best value for money;
- ensure that the procurement system is fair, equitable, and transparent;
- promote business efficiency and cost effectiveness in support of the NHFC's day-to-day operations and delivery on its mandate;
- minimise bureaucracy and allow sufficient flexibility, while ensuring that procurement is done competitively and in a risk mitigating manner;
- ensure compliance with the laws of South Africa;
- define decision making powers for procurement in order to avoid fruitless and wasteful expenditure; and
- advance transformation.

The Safety and Security Committee (SASC)

The committee comprises the Executive Manager: Human Resources (Chairperson) as well as Legal, IT and the Health and Safety representative.

SASC is a sub-committee of Exco and its main objective is to monitor, evaluate, advise and make decisions in respect of matters concerning health, safety and security in the NHFC.

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

Risk management report

OUR APPROACH TO MANAGING RISK

Risk management is a key pillar of the NHFC corporate strategy. Our structured and disciplined approach to risk management, as well as having embedded the risk appetite framework during the year under review, positions us well to take advantage of sustainable business growth opportunities.

The underlying premise of the NHFC risk management philosophy is a thorough understanding of the risk exposures of the NHFC so 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 development finance institutions, is facing uncertainty. The challenge for executive management is to determine how much uncertainty to accept as it strives to grow business value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to deal effectively 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 include internal audit systems, strategic and 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.

RISK APPETITE

The NHFC's risk appetite is defined as the level of risk we are willing to accept in fulfilling our business objectives, which are characterised by the developmental mandate. The NHFC risk appetite is embedded within key decision-making processes and supports the implementation of our strategy.

This approach maximises returns without exposing the NHFC to levels of risk above its appetite. In particular, our risk appetite framework assists in protecting financial performance and position, improves management responsiveness and debate regarding our risk profile, assists executive management in improving the control and co-ordination of risk-taking across business units, and identifies unused risk capacity in pursuit of developmental opportunities at a risk price.

Risk appetite is developed using a formal quantitative and qualitative methodology and is set by the Board.

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

- Strategic risk limits;
- Credit risk limits;
- Financial risk limits;
- Operational risk limits;
- Reputational risk tolerance; and
- Compliance risk tolerance.

BOARD RISK COMMITTEE (BRC)

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

The Board Risk Committee assists the Board in fulfilling its responsibilities in managing risk and complying with relevant requirements of the PFMA, Treasury Regulations and other relevant legislation. The BRC determines and recommends risk appetite to the Board, and then reviews and monitors risk profile against risk appetite. The BRC also approves control frameworks for various key risks, 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 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, enabling the committee to properly review and monitor the various risks and, in so doing, effectively discharge its responsibilities under its mandate.

BOARD CREDIT AND INVESTMENT COMMITTEE (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.

Risk management report (continued)

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 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:

<table>
<tr><th></th><th>Scale</th><th>Mandate</th></tr>
<tr><td>The NHFC Board</td><td>Above R160 million</td><td>Approve</td></tr>
<tr><td>Board Credit and Investment Committee (BCIC)</td><td>Up to R160 million</td><td>Approve</td></tr>
<tr><td>Management Credit and Investment Committee (MCIC)</td><td>Up to R30 million</td><td>Approve</td></tr>
<tr><td>Office of the CEO</td><td rowspan="2">Up to R10 million upon recommendation by ICC</td><td>Approve</td></tr>
<tr><td>Internal Credit Committee (ICC)</td><td>Recommend</td></tr>
</table>

CREDIT RISK MANAGEMENT STRATEGY

Credit risk is a critical component of the NHFC ERM. While focused on sustainability and sound credit decision making principles, as a Development Finance Institution the NHFC faces the unique challenge of balancing sound credit decisions with a developmental bias. The NHFC has a responsibility to ensure that this is achieved through sustainable interventions and sound credit risk assessment. This balance is maintained through the design and implementation of clear Board-approved credit and investment policies and detailed documented procedures.

In line with its objective to contribute to organisational profitability and sustainability, the credit strategy hinges on a three pronged approach linked to value chain, namely:

- Quality of initial approvals to be first line of defence against potential losses as a result of defaults;
- Vigilant and effective portfolio and securities management; and
- Rigorous intervention in areas of default with a view to rehabilitation or recovery.

Critical to the achievement of the above is the continuous drive towards developing the right capability to meet service requirements, the use of models to assist in decision making, and operational efficiencies.

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 are to:

- 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;
- reflect on the principal risk factors potentially affecting the NHFC; and
- ensure that the pricing of loans is reflective of the individual/specific risk inherent in the loan facility.

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 it continually:

- subjects credit risk 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;
- identifies and accurately records gross and specific provisions using process and methodologies that are aligned to the economic substance of the underlying asset; and
- validates 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 new and existing assets in accordance with the NHFC risk appetite. These include prudential limits and exposures to a specific counterparty and/or project, etc.

- The NHFC manages credit risk 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 solutions, i.e. how can the irregularity be resolved?
- interact with other stakeholders (i.e. management, shareholders, the Board, 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; and
- report relevant and accurate information to influence the effective management of the NHFC's exit strategy from the distressed operations.

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 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 the statement of financial performance. 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.

WAY FORWARD

Through responsible lending and turnaround/workout practices, we are managing credit risk successfully.

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

The Bothlabela, FLISP project in Alexandra

Risk management report (continued)

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

STRATEGIC RISK

	2012/13 in review	Way forward
Strategic risk is the potential loss of earnings or capital erosion arising from adverse business decisions, improper implementation of decisions, and lack of responsiveness to changes in the operating environment. Strategic 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.	The NHFC has in the past funded its activities using share capital and retained earnings. The capital base has grown to R2.3 billion in 2013. 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 funding from the Agence Française de Développement (AFD) and the European Investment Bank (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.	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 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. While approval from the NDoHS for increased debt funding by the NHFC has been obtained, the NHFC is still awaiting concurrent approval from the National Treasury. The NHFC is also engaged with the NDoHS and National Treasury to secure equity funding as a blend of equity and debt funding is critical for the financial sustainability of the NHFC.

Capital management and financial sustainability

The objective of the NHFC 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 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 failure.

Investment counterparties

Counterparties with external credit ratings	2013 R'000	2012 R'000
Held-to-maturity money market investments	1 026 383	1 134 755
Cash and short-term deposits	350 919	282 000

Credit rating (November 2012)

	Global credit rating company
National long term	AA-
National short term	A1+

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

The debt to equity ratio was maintained within the set limit.

	2013 %	2012 %
Interest bearing debt to equity ratio	19	19

CREDIT RISK

	2012/13 in review	Way forward
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 continues to be tested by the economic environment in which it operates and is continually reviewed to meet the challenges thereby improving the NHFC's ability to meet the needs of the market. Concentration risk is managed within prudential counterparty limits in line with the risk appetite statement to ensure no compromise of the NHFC balance sheet should adverse circumstances prevail at any counterparty.	The South African economy remains under pressure despite the low interest rate environment. The year was characterised by the marked increase in business development leading to a significant number of approvals totalling R1,4 billion that provides a robust pipeline for future disbursements. Of significance is the development of the strategic investment portfolio and the related investment of R300 million in the IHS Fund and R228 million into the HIP Lending Trust I and II. Through these investments the NHFC will leverage significant additional funding into the affordable housing space which will increase the much needed scale of housing opportunities in this market. The impact of the economic environment on our clients and end-users was evident in the type of the products approved. End-user affordability levels and general slow uptake of home ownership units due to the declining rate of traditional mortgage bonds saw a move from Home Ownership to Incremental Housing, Instalment Sales Agreements and Private Rentals. During the year the NHFC approved funding proposals totalling R32 million for the Emerging Entrepreneur Property Fund (EEPF) as part of the co-founding agreement with Gauteng Partnership Fund (GPF). The total loan book increased by only 5% in spite of the high level of approvals during the year. The growth of the advances book has been impacted by the following: • Conversion rate of approvals to disbursements; • Restructuring of debt totalling R105 million to equity; and • Facilities to the value of approximately R40 million have been settled in the current year. The NHFC has continued to focus on monitoring and proactively managing potential events of default and breaches of the covenants in the portfolio, thereby minimising the level of impairments as reflected in the credit loss ratio of 0,73%.	The mandate directs sustained and growing mobilisation of funds into the housing process in the target market on a financially and economically sustainable basis. Key focus areas to support corporate objectives are the following: • The enhancement of the credit quality and pricing of the advances book is congruent with the organisational objective of sustainability; • The continuation of the re-design of the pricing methodology based on industry best practice as well as the development of standardised pricing tool with the flexibility to be applied at a product level. The new methodology will allow for a top down ROE hurdle rate which should allow for developmental transactions where applicable; • Maximisation of economic value through effective portfolio management with emphasis on reducing non-performing loans (NPL); • Alignment of the credit philosophy of the NHFC with the changing lending 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 DFIs, benchmarking exercises and knowledge sharing initiatives; and • Continuously aligning lending activities with the risk appetite.

Risk management report (continued)

CREDIT RISK

	2012/13 in review	Way forward
Strategy • Monitor credit diligently. • Improve customer experience with strong focus on credit value management. • Manage for value, properly pricing for risk. • Continually improve collection and recovery. The approach of recovery remains a workable turnaround with the client's cooperation, and the legal proceedings as measure of last resort.	The level of the wholesale non-performing loans as a percentage of the wholesale gross loan book increased from 20% at the end of March 2012 to 24% in March 2013. The higher levels of non-performing loans are attributed mainly to a Social Housing Institution. In collaboration with a number of key stakeholders, significant progress has been made towards turnaround plans to regularise the account. Ongoing efforts in collaboration with Legal towards optimising recovery or rehabilitation of the non-performing book are in place. The NHFC's loan portfolio remains healthy and further significant growth is expected over the medium term. Enhancement to the NHFC's credit and investment risk management continues to ensure that the quality of the portfolio is preserved.	

Portfolio analysis

Credit quality of loans and receivables

	2013 %	2012 %
Growth in loans and advances	5	17,0
NPL as % advances (wholesale)	24	20,0
Credit loss ratio	0,73	1,58
Total impairments as % total gross loans	8,74	8,45

Concentration risk of loans and receivables by operations

	2013	2012
Commercial	17%	16%
Projects	66%	69%
Retail	17%	15%

There has been no significant change in the portfolio mix in the current year.

A strategic decision was made in 2010 to curtail the Retail portfolio and the book was to be sold to a company that was committed to providing housing finance to the target market. Prolonged labour unrests affected the sale initiatives negatively. It remains the intention of the NHFC to sell the book in the medium term.

The disclosure requirements in terms of the Generally Recognised Accounting Practice are disclosed within the main body of the annual financial statements.

CREDIT RISK

	2012/13 in review	Way forward
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.	**Credit risk arising from Treasury activities** The NHFC's exposure to counterparty risk in respect of all Treasury activities is 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 failure.	

Counterparties with external credit ratings	2013 R'm	2012 R'm
Held-to-maturity money market investments	1 026	1 134
Cash and short-term deposits	351	282

Fleurhof, Roodepoort development.

Builders – Jabulani Mews, Jabulani, Soweto.

Risk management report (continued)

FINANCIAL RISK

Financial risk is 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 honour 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.

The NHFC is mainly exposed to interest rate movements on its borrowings, investments in interest bearing instruments and loans and receivables portfolio.

Liquidity risk

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

2012/13 in review

The NHFC has maintained sufficient levels of liquidity to meet its disbursement requirements and fulfil its financial obligations.

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 sensitivity of the portfolios to a 1% change in interest rate is reflected below:

	Increase/ decrease	Effect on profit before tax (R'000)	
	%	**2013**	2012
Loans and receivable	1	**18 097**	16 966
Loans and receivables	(1)	**(18 097)**	(16 845)
Held-to-maturity investments and cash and short-term deposits	1	**5 132**	7 193
Held-to-maturity investments and cash and short-term deposits	(1)	**(5 132)**	(7 193)

Way forward

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.

With the increased level of borrowings the objective is to match in so 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.

OPERATIONAL RISK

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.

KPI

	2013	2012
Total number of incidents	⇧	⇧
Total loss value	⇧	⇧

Strategy

- Further embedding an operational risk-aware culture throughout the NHFC;
- Implement an operational risk dashboard;
- Enhance business continuity heat map for critical functions;
- Build automation into the operational risk management process through tools and solutions; and
- Monitor operational risk appetite and tolerance levels.

2012/13 in review

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.

Way forward

A key focus area will be to mitigate operational risks arising from new programmes implemented in response to the expanded mandate of the NHFC.

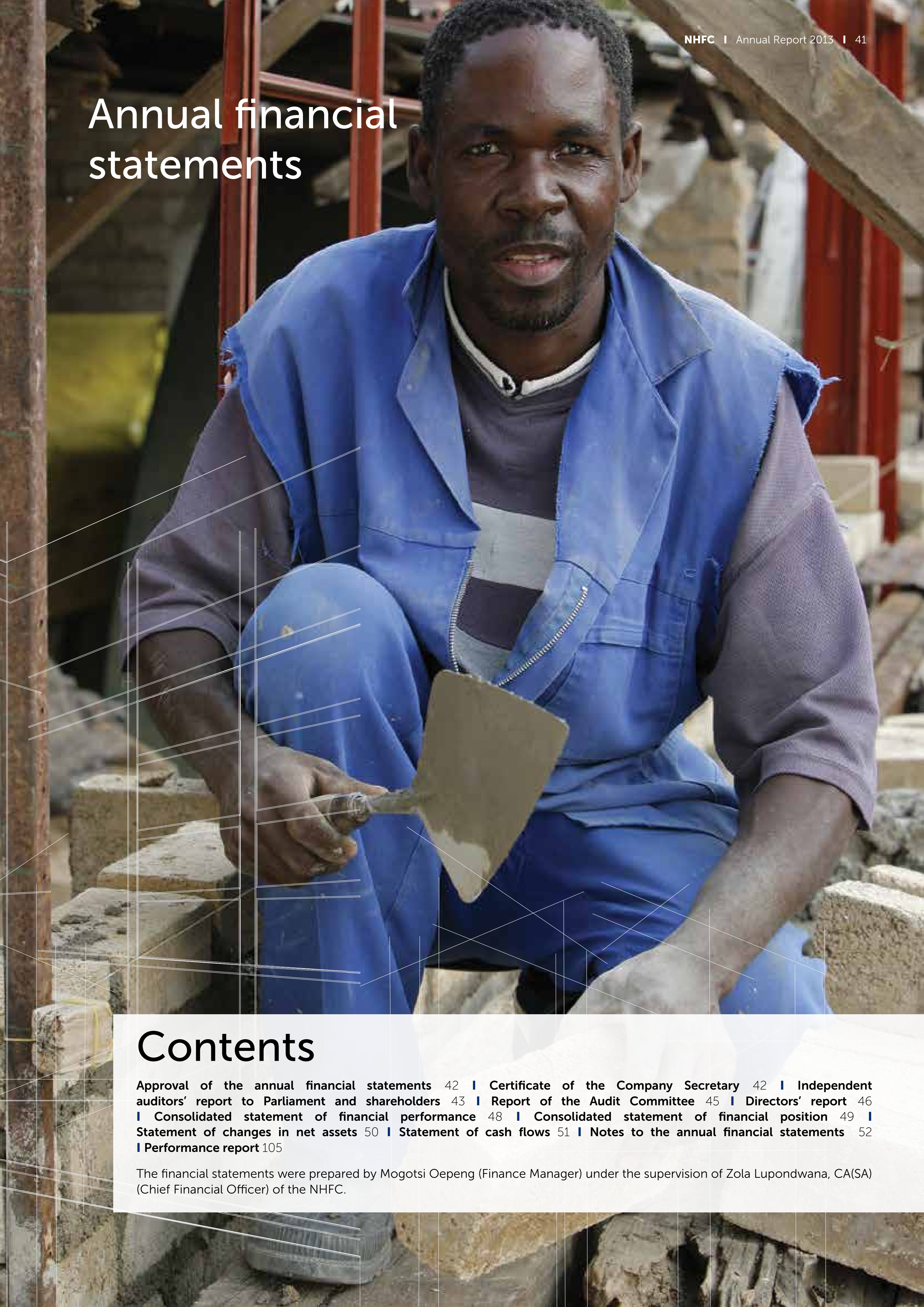
We will continue to enhance our fraud awareness programme to further curtail areas of vulnerability.

HOW WE MANAGE COMPLIANCE

The regulatory environment has become increasing complex and this has prompted NHFC to evaluate its regulatory exposure and ensure that adequate responses are initiated timeously to mitigate any negative impact on the NHFC. Embedding our regulatory compliance framework has been to ensure a consistent approach to compliance across the NHFC with every law, rule, code, standard and policy (where non-compliance could be materially injurious to the NHFC's performance and/or continued existence), whether from a financial, legal or reputational perspective,

Acronyms

3A	Schedule 3A which is the PFMA national public entity classification of the NHFC
AC	Audit Committee
AFD	Agence Française de Développement (French Development Agency)
ALCO	Assets and Liabilities Committee
B-BBEE	Broad Based Black Economic Empowerment Act, No 53 of 2003
BCIC	Board Credit and Investment Committee
BRC	Board Risk Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CTCHC	Cape Town Community Housing Company (Pty) Ltd (a wholly owned subsidiary of the NHFC)
DFIs	Development Finance Institutions
DHS	Department of Human Settlements
DISC	Board Development Impact and Strategy Committee
DTI	Department of Trade and Industry
EIB	European Investment Bank
EQE	Exempted Qualifying Enterprises
ERM	Enterprise Risk Management
EXCO	Executive Committee
FSB	Financial Services Board
FLISP	Finance Linked Individual Subsidy Programme
GPF	Gauteng Partnership Fund
HDI	Historically Disadvantaged Individuals
HIP	Housing Investment Partners (Pty) Ltd
HR	Human Resources
HRER	Human Resources, Ethics and Remuneration Committee
ICC	Internal Credit Committee
MCIC	Management Credit and Investment Committee
MDI	Mortgage Default Insurance
MDIC	Mortgage Default Insurance Company SOC Limited
MoU	Memorandum of Undertaking
NCA	National Credit Act, No 34 of 2005
NDoHS	National Department of Human Settlements
NDP	National Development Plan, as developed by the National Planning Commission of the South African Government
NHFC	National Housing Finance Corporation SOC Limited
OECD	Organisation for Economic Co-operation and Development
OMCH	Old Mutual Capital Holdings (Pty) Ltd
PFMA	Public Finance Management Act 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act, No 5 of 2000
QSME	Qualifying Small to Medium Enterprises
RECA	Employee Reward and Recognition Award
SETA	Sector Education and Training Authority
SHRA	Social Housing Regulatory Authority
Shareholder	The Department of Human Settlements (the South African Government)
TUHF	Trust for Urban Housing Finance Holdings (Pty) Ltd



Annual financial statements

Contents

The financial statements were prepared by Mogotsi Oepeng (Finance Manager) under the supervision of Zola Lupondwana, CA(SA) (Chief Financial Officer) of the NHFC.

Approval of the 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 judgements 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 45.

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 2013, set out on pages 46 to 111, were approved by the Board of Directors on 18 July 2013 and signed on their behalf by:

MM Katz
Independent non-executive Chairman

SS Moraba
Chief Executive Officer

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 the 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

Independent auditor's report to Parliament and shareholders on the National Housing Finance Corporation SOC Limited

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Introduction

We have audited the consolidated and separate financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries set out on pages 45 to 105, which comprise the consolidated and separate statement of financial position as at 31 March 2013, the consolidated and separate statement of Financial performance , statement of changes in net assets and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the 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, the Companies Act of South Africa and the requirements of the Public Finance Management Act of South Africa, and for such internal control as the directors 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,2004 (Act No, 25 of 2004) (PAA), 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 and separate 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 and separate 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 and separate 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 2013, 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 and the Companies Act of South Africa.

Other matter

We draw attention to the matter below. Our opinion is not modified in respect of this matter

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2013, we have read the Directors' Report for the purpose of identifying whether there are any material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Independent auditor's report to Parliament and shareholders on the National Housing Finance Corporation SOC Limited
(continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act of South Africa (PAA) 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 predetermined objectives report as set out on pages 106 to 111 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 pre-determined 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 pre-determined report and compliance with laws and regulations; National Housing Finance Corporation SOC Limited and its subsidiaries comply with laws and regulations.

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

SizweNtsalubaGobodo Inc.
Registered Auditor
Per DH Manana
Chartered Accountant (SA)
Registered Auditor
Director
Date

SizweNtsalubaGobodo Building
20 Morris Street East
Woodmead
Johannesburg, 2191

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 among other things, reviewed the following during the 2012/13 financial year:

- The effectiveness of the internal control systems and internal audit;
- The activities of the internal audit function, including its annual work programme, 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 Executive Management provide 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 were, during the year under review, appropriate in safeguarding the NHFC's assets and 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 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 2013, 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 10 July 2013, recommended these annual financial statements, which were prepared on a going concern basis, to the Board for approval.

S Ntsaluba
Chairman of the Audit Committee

Directors' report

The directors present their report for the year ended 31 March 2013.

MANDATE AND PRINCIPAL ACTIVITIES

The NHFC's mandate and principal activities are described on the inside front cover and page 2 in the profile and mandate delivery sections.

FINANCIAL HIGHLIGHTS

The financial highlights are set out on page 7.

FINANCIAL RESULTS

The financial results of the NHFC for the year under review are set out on pages 48 to 105 of these financial statements.

SHARE CAPITAL AND SHAREHOLDER

The Government of the 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 its 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 has adopted the going concern basis in preparing the financial statements.

DIRECTORS AND COMPANY SECRETARY

The composition of the NHFC's Board of Directors was changed with the resignation of Dr Khoza on 30 June 2012. Their details are set out on page 8.

REMUNERATION OF DIRECTORS AND MEMBERS OF BOARD COMMITTEES

Directors' emoluments are set out on page 102 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 28 November 2013.

NHFC's policy is, where possible, to not use the External Auditors for non-audit services. In cases where the External Auditors are to be used for non-audit services, 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 30.

EVENTS AFTER THE REPORTING DATE

There were no significant events after the reporting date.

SUBSIDIARIES AND ASSOCIATES

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

Information required by the Public Finance Management Act

Performance

The performance of the NHFC against the Shareholder's Compact with the Minister of Human Settlements is set out on pages 105 to 111.

Losses due 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 R1,04 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 2013 was approved by the Board of Directors on 18 July 2013 and signed on their behalf by:

MM Katz
Independent non-executive Chairman

SS Moraba
Chief Executive Officer

Consolidated statement of financial performance

for the year ended 31 March 2013

		Group		Company	
	Note	2013 R'000	Restated 2012 R'000	2013 R'000	Restated 2012 R'000
Interest on advances	2,1	**144 817**	146 229	**141 927**	144 121
Interest on investments	2,2	**37 731**	35 076	**37 670**	34 897
Rental income	2,3	**6 983**	5 961	**3 632**	3 554
Dividends received	2,3	**158**	158	**1 872**	158
Sale of houses	2,4	**19 465**	20 914	**–**	–
Revenue		**209 154**	208 338	**185 101**	182 730
Cost of sales	2.5	**(16 489)**	(17 282)	**–**	–
Net impairments	7	**(15 457)**	(31 575)	**(15 457)**	(31 575)
Gross profit		**177 208**	159 481	**169 644**	151 155
Other operating income	3	**19 575**	5 758	**23 876**	6 770
Administrative expenses	4.1	**(107 959)**	(98 009)	**(95 516)**	(84 767)
Other operating expenses	4.2	**(37 545)**	(19 981)	**(35 366)**	(20 222)
Operating Income		**51 279**	47 249	**62 638**	52 936
Finance costs	5	**(24 594)**	(14 234)	**(24 196)**	(15 694)
Share of profit of associates	11/12	**6 955**	1 205	**–**	–
Surplus before tax		**33 640**	34 220	**38 442**	37 242
Income tax expense	6	**(14 236)**	(13 052)	**(7 002)**	(10 192)
Surplus for the year		**19 404**	21 168	**31 440**	27 050

Consolidated statement of financial position

as at 31 March 2013

	Note	Group 2013 R'000	Group Restated 2012 R'000	Company 2013 R'000	Company Restated 2012 R'000
ASSETS					
Non-current assets					
Loans and receivables - advances	7	**1 514 122**	1 630 196	**1 601 906**	1 704 218
Investment listed equity investments	8	**13 483**	–	**13 483**	–
Investment in subsidiaries	9	**–**	–	**7 991**	5 836
Investment in debentures	10	**–**	–	**6 197**	6 197
Investment in preference shares	11	**37 658**	2 500	**39 372**	2 500
Investment in associates	12	**45 822**	8 021	**51 179**	11 285
Property, plant and equipment	13	**1 336**	1 587	**890**	1 026
Intangible assets	14	**390**	447	**325**	327
Instalment sale receivables	15	**29 105**	32 825	**–**	–
Investment property	16	**78 584**	72 754	**51 000**	50 775
Goodwill	17	**2 714**	2 714	**–**	–
Deferred taxation	6	**11 760**	4 883	**17 977**	3 866
		1 734 974	1 755 927	**1 790 320**	1 786 030
Current assets					
Loans and receivables - advances	7	**409 840**	200 896	**409 840**	200 896
Properties developed for sale	18	**80 979**	63 752	**–**	–
Instalment sale receivables	15	**6 500**	5 454	**–**	–
Other receivables and prepayments	19	**32 023**	10 614	**22 463**	4 984
Held to maturity investments	20	**1 026 383**	1 134 755	**1 026 383**	1 134 755
Cash and short-term deposits	21	**350 919**	282 000	**343 205**	277 264
Income tax receivable	6	**–**	4 364	**–**	4 364
		1 906 644	1 701 835	**1 801 891**	1 622 263
Total assets		**3 641 618**	3 457 762	**3 592 211**	3 408 293
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		**1 236 484**	1 217 079	**1 215 210**	1 183 771
Total net assets		**2 316 484**	2 297 079	**2 295 210**	2 263 771
Non-current liabilities					
Funds under management	24	**856 926**	697 462	**856 926**	697 462
Other financial liabilities	26	**214 510**	225 417	**199 394**	216 010
		1 071 436	922 879	**1 056 320**	913 472
Current liabilities					
Income tax payable	6	**5 349**	–	**5 349**	–
Other financial liabilities	26	**215 107**	212 900	**213 225**	211 915
Provisions	27	**17 746**	17 124	**16 977**	16 499
Trade and other payables	28	**15 496**	7 780	**5 130**	2 636
		253 698	237 804	**240 681**	231 050
Total liabilities		**1 325 134**	1 160 683	**1 297 001**	1 144 522
Total net assets and liabilities		**3 641 618**	3 457 762	**3 592 211**	3 408 293

Statement of changes in net assets

for the year ended 31 March 2013

	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 2011	842	879 158	200 000	1 195 911	2 275 911
Surplus for the period	–	–	–	21 168	21 168
Balance at 31 March 2012	842	879 158	200 000	1 217 079	2 297 079
Surplus for the period	–	–	–	19 404	19 404
As at 31 March 2013	**842**	**879 158**	**200 000**	**1 236 484**	**2 316 484**
Company					
Balance at 1 April 2011	842	879 158	200 000	1 156 722	2 236 722
Surplus for the period	–	–	–	22 614	22 614
Balance at 31 March 2012	842	879 158	200 000	1 179 336	2 259 336
Prior year adjustment*	–	–	–	4 435	4 435
	842	879 158	200 000	1 183 771	2 263 711
Surplus for the year	–	–	–	31 439	31 439
As at 31 March 2013	**842**	**879 158**	**200 000**	**1 215 210**	**2 295 210**

** This relates to a change in accounting policy in accordance with GRAP 104 (as reflected in note 35) for equity investments.*

Statement of cash flows

for the year ended 31 March 2013

		Group		Company	
	Note	2013 R'000	Restated 2012 R'000	2013 R'000	Restated 2012 R'000
Operating activities					
Receipts					
Sale of goods and services		**15 500**	20 914	**–**	–
Interest, rental and dividend income		**189 689**	187 424	**185 100**	182 730
Other operating revenue		**2 056**	3 444	**758**	1 318
		207 245	211 782	**185 858**	184 048
Payments					
Employee costs		**(80 845)**	(78 037)	**(70 717)**	(66 806)
Net cash payment to customers		**(108 327)**	(291 836)	**(122 089)**	(274 767)
Net cash payment to suppliers		**(75 691)**		**(45 761)**	
Finance costs		**(24 594)**	(14 234)	**(24 196)**	(15 694)
Taxation paid		**(11 400)**	6 277	**(11 400)**	6 277
Net cash flows used in operating activities	29	**(93 612)**	(166 048)	**(88 305)**	(166 942)
Investing activities					
Additions to property plant and equipment and intangible assets	13/14	**(640)**	(989)	**(568)**	(533)
Proceeds from sale of property, plant and equipment and intangible assets	13/14	**37**	20	**–**	9
Investment in listed equity instruments	8	**(30 000)**	–	**(30 000)**	–
Investment in associates	12	**(30 845)**	–	**(30 845)**	(1 667)
Investment in preference shares	11	**(35 158)**	–	**(36 872)**	–
(Increase)/decrease in held to maturity investments	20	**108 372**	(202 585)	**108 372**	(202 585)
Net cash from investing activities		**11 766**	(203 554)	**10 087**	(204 776)
Financing activities					
Increase in funds under management	24	**159 464**	71 508	**159 464**	71 508
Proceeds from borrowings	26	**–**	371 116	**–**	371 116
Repayment of borrowings	26	**(8 699)**	(6 861)	**(15 306)**	(6 780)
Net cash flows from financing activities		**150 765**	435 763	**144 158**	435 844
Net decrease in cash and cash equivalents		**68 919**	66 161	**65 940**	64 126
Cash and cash equivalents at 1 April	21	**282 000**	215 839	**277 265**	213 139
Cash and cash equivalents at 31 March	29.4	**350 919**	282 000	**343 205**	277 265

Notes to the annual financial statements

for the year ended 31 March 2013

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 2013 were approved by the Board on 18 July 2013. 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

1.1 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 as otherwise indicated. Consolidated financial statements are prepared on a going concern basis. The consolidated financial statements for the year ended 31 March 2013 comprise the NHFC, its subsidiaries and the Group's interest in associates (referred to as the Group). The financial year-end for Cape Town Community Housing Company Proprietary Limited, Mortgage Default Insurance Company SOC Limited, and Gateway Home Loans Proprietary Limited, and Gateway Home Loans 001 Proprietary Limited is 31 March. Similar accounting policies are applied across the Group.

1.2 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, as well as the requirements of the Companies Act and the Public Finance Management Act (Act No 1 of 1999), as amended.

1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2013.

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.

Investments in subsidiaries in the Company's separate financial statements are carried at fair value.

1.4 Changes in accounting policy and disclosure

With the exception of the change in the accounting policy relating to Financial Instruments, the accounting policies adopted are consistent with those of the previous year.

1.5 Summary of significant judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, 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 may 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 and when the employee renders service.

They are based on performance and 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 is 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 capitalisation of net income method of valuation based on a capitalisation rate of 13,5%. Such rate is best determined by referring to market transactions of comparable properties and is determined by dividing annualised income by purchase price. This yield is based on information derived from market analysis. Comparable sales in the immediate vicinity reflect a capitalisation 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

When 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 judgement is required in establishing fair values. The judgements 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 31 for a comprehensive assessment of financial risk management.

1.6 Summary of significant accounting policies

a) Business combinations and goodwill

i) 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 recognised 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 recognised 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

1. GROUP ACCOUNTING POLICIES (continued)

1.6 Summary of significant accounting policies (continued)

a) Business combinations and goodwill (continued)

ii) 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 recognised 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 would otherwise have been required under the contract.
- Contingent consideration was recognised only if the Group had a present obligation, the economic outflow of which was more likely than not, and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

b) Investment in subsidiaries

Investment in a subsidiary is carried at fair value. The preferred basis of determining the fair value has been determined using the discounted cash flow method unless it has been deemed inappropriate. In such a case the price to earnings multiple is used to determine fair value.

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.

c) Interest in associates

The Group's investment in an associate 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 an associate is carried in the statement of financial position at fair value 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 operations 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 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 impairment loss on the Group's investment in its associates. The Group determines at each reporting 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 recognises 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.

d) Property, plant and equipment

Measurement

All items of property, plant and equipment recognised as assets are measured initially at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour and any other cost attributable to bringing the asset to working condition for its intended use and the cost of dismantling and removing the items and all property, plant and equipment is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent cost

The Group recognises the cost of replacing part of such an item of property, plant and equipment in carrying amount when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation

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:

Asset category	Depreciation rates
Computer hardware	33,33%
Computer software	33,33%
Furniture and fittings	16,67%
Motor vehicles	25,00%
Office equipment	16,67%
Leasehold improvements	period of lease

The residual values, useful lives and depreciation method are re-assessed at each financial year end and adjusted accordingly.

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.

When 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.

De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits or service potential are 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.

e) Properties developed for sale

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

The cost of the properties for on-selling comprises of the cost of purchase, cost of conversion and other costs 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

1. GROUP ACCOUNTING POLICIES (continued)

1.6 Summary of significant accounting policies (continued)

e) Properties developed for sale (continued)

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

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

When properties developed for on-selling are sold, the carrying amount of those properties 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 on 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 in 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.

f) Intangible assets

Recognition and measurement

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 three years and tested for impairment annually.

De-recognition

Gains or losses arising from the de-recognition 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 de-recognised.

g) Financial instruments

i) ***Financial assets***

Financial assets within the scope of GRAP 104 are classified financial instruments into three different categories:

a) Financial instruments at fair value, comprising both derivative and non-derivative financial assets and financial liabilities;

(b) Financial instruments at amortised cost comprising only non-derivative financial assets and financial liabilities; or

(c) Financial instruments at cost, comprising investments in residual interests where the fair value cannot be reliably determined.

This standard has an impact on loans and receivables, held-to-maturity investments and equity investments.

Management determines the classification of its financial assets at initial recognition.

Financial instruments at fair value (with revenue or expense recognised as a surplus or deficit in the Statement of Financial Performance)

This includes financial assets and liabilities that are:

- derivatives;
- combined instruments designated at fair value, i.e. instruments that include a derivative and a non-derivative host contract;
- held-for-trading;
- non-derivative instruments with fixed or determinable payments that are designated at initial recognition to be measured at fair value;
- investments in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Financial instruments held at amortised cost

These are non-derivative financial assets or financial liabilities that have fixed or determinable payments.

Recognition and measurement

Where the Group subsequently measures financial assets and financial liabilities at fair value, it excludes transaction costs from the amount initially recognised.

Where the Group subsequently measures financial assets and financial liabilities at amortised cost or cost, it includes transaction costs in the amount initially recognised

Equity investments

Equity investments are held at fair value. Where the investment is listed on a stock exchange, the closing price at the reporting period is used.

Where the investment is not listed the discounted cash flow method is used with the appropriate weighted average cost of capital applied on cash flows, unless it has been deemed inappropriate. In such case, the price to earnings multiple is used to determine fair value.

Fair value gains and losses are recognised in the statement of financial performance.

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 comprise cash at banks, cash on hand and short-term deposits with an original maturity of less than three 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 equivalents consist of cash equivalents as defined above, net of outstanding bank overdrafts.

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

1. GROUP ACCOUNTING POLICIES (continued)

1.6 Summary of significant accounting policies (continued)

g) Financial instruments (continued)

ii) Impairment of financial assets

Assets carried at amortised cost

The financial asset is only impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition date of the asset (a loss event) and that loss (or event) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 in each reporting period.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the client or the borrower;
- A breach of contract, such as delinquency in interest or principal payments;
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- The disappearance of an active market for that financial asset resulting in financial difficulties; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decreases cannot yet be identified with the individual financial assets in the Group.

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.

The amount of specific impairments raised is the amount needed to reduce the carrying amount of the asset to the present value of the expected ultimate fair value less costs to sell, taking into consideration the financial status of the underlying client and any security in place for the recoverability of the financial asset.

The recoverable amount of the assets is calculated as the present value of the estimated future cash flows, discounted at the effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset).

For the purposes of a collective (general) evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that considers asset type, industry, location, collateral type, past due status and other factors). Those characteristics are relevant to the estimation of the future cash flows for groups of such assets by being indicative of the debtors' ability to pay all the amounts due according to the contractual terms of the assets being evaluated.

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 sale 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 are 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 is determined and recognised in accordance with the policy applicable to loans and receivables.

iii) Financial liabilities

Recognition and measurement

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities other than those at fair value through the surplus or deficit, are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest rate method.

Financial liabilities comprise 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 de-recognised, as well as through the amortisation process.

iv) 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, 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

1. GROUP ACCOUNTING POLICIES (continued)

1.6 Summary of significant accounting policies (continued)

h) 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
- a reliable estimates can be made of the amount of the obligation.

The amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

When 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.

Provisions are not recognised for future operating losses.

If an entity has a contract which is onerous, the present obligation under the contract shall be recognised and measured as provision.

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note 30.

i) 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 borrowings; and
- 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.

j) 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.

k) Contingent liabilities and commitments

Contingent liabilities

A contingency liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the notes.

Commitments

Items are classified as commitments where the Group has committed itself to future transactions.

Commitments are not recognised in the statement of financial position of the Group but disclosed in the notes.

l) Revenue recognition

i) 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 constructed subsidised houses 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 constructed non-subsidised houses 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 as income on the date of occupation of houses financed by these subsidies.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

1. GROUP ACCOUNTING POLICIES (continued)

1.6 Summary of significant accounting policies (continued)

l) Revenue recognition (continued)

ii) Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where NHFC receives 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.

m) 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.

n) Retirement benefits

The Group has a defined contribution plan which requires contributions to be made to a separately 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.

o) 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 either when 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.

p) 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 and government related entities will only be disclosed if they are collectively or individually significant.

q) 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 subsidiaries. The budget is prepared on an accrual basis and the comparison of actual performance against budget is based on an accrual basis.

r) Determination of fair values

A number of the Group's accounting policies and disclosures require determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

Investment property

Valuation methods and assumptions used in determining the fair value of investment property:

Capitalisation method (investment property)

The value of the property reflects the present value of the sum of the future benefits which the owner may expect to derive from the property. These benefits are expressed in monetary terms and based upon the estimated rentals such a property would fetch .i.e. the market related rental between a willing landlord and tenant. The usual property outgoings are deducted to achieve a net rental, which is then capitalised at the rate or return an investor would require or seek for such a property.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

1. GROUP ACCOUNTING POLICIES (continued)

1.6 Summary of significant accounting policies (continued)

r) Determination of fair values (continued)

Comparative method (investment property)

The method involves the identification of comparable properties sold in the area or in a comparable location within a reasonable time. The selected comparable properties are analysed and compared with the subject property. Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

Equity investments

The fair values of quoted equity investments in active markets are based on the closing trading price at the reporting date.

If the market for the equity investment is not active (and for unlisted equity investments), the Group establishes fair value by using valuation techniques. The Group uses its judgement to make assumptions that are mainly based on market conditions existing at each reporting date. Unlisted equities are valued on various valuation methods including the discounted cash flow method and net asset value bases. The discounted cash flow method is the preferred method and involves discounting the projected free cash flow earnings of the underlying entity using an appropriate risk weighted average cost of capital over the projected investment horizon.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

s) Employee benefits

All employees of the Group are members of a defined contribution plan and contributions to the plans are recognised in the statement of financial performance in the year to which they relate to.

1.7 New standards and interpretations

The following accounting standards, amendments to standards and new interpretations, which are not yet mandatory, have been assessed as 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 23 Revenue from Non-Exchange Transactions

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

The standard requires revenue to be recognised only when there is an increase in net assets as a result of a non-exchange transaction. The increase in net assets would ordinarily arise as a result of increase in assets or decrease in liabilities.

Revenue from a non-exchange transactions shall be measured at the amount of the increase in the net asset recognised. This standard of GRAP is effective for the financial years commencing on or after 1 April 2012.

GRAP 24 Presentation of Budget Information in the Financial Statements

Entities that make their budgets publicly available are required to:

- present a comparison between the budget and actual amounts;
- present a comparison between the last budget approved by Parliament, the legislatures or municipal councils, and the final budget (which includes those changes made by management within the prescribed limits); and
- include an explanation of the material differences between the budget and actual amounts in the notes to the financial statements (unless these explanations are included in another document published at the same time as the financial statements).

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the statement of comparison of budget and actual amounts. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

Entities must disclose on what basis the budget is prepared, including information about the accounting and classification basis, the period of the approved budget, and the entities it covers. Entities should prepare and disclose reconciliation between the actual amounts presented on a comparable basis and the actual amounts presented in the financial statements.

The impact of this standard is expected to be material.

This standard of GRAP is effective for the 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

1. GROUP ACCOUNTING POLICIES (continued)

1.7 New standards and interpretations (continued)

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 financial 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 standard.

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 financial years commencing 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 result 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.

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

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 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
2. INCOME				
2.1 Interest on advances				
Interest on performing advances	131 291	129 173	134 339	133 406
Interest on impaired advances	7 588	10 715	7 588	10 715
Interest on instalment sales	5 938	6 341		
	144 817	146 229	141 927	144 121
2.2 Interest on investments				
Interest on short-term deposits and held-to-maturity investments	37 731	35 076	37 670	34 897
2.3 Rental income				
Rental income from investment property and subsidiary properties	6 983	5 961	3 632	3 554
Dividend received				
Dividend income – TUHF	–	–	1 714	–
Dividend income – Greenstart	158	158	158	158
	158	158	1 872	158
2.4 Sale of houses				
Subsidiary sale of houses	19 465	20 914	–	–
2.5 Cost of sales				
Subsidiary cost of sale of houses referred to in 2.4.	(16 489)	(17 282)	–	–
3. OTHER OPERATING INCOME				
Other operating income is made up as follows				
Fair value gain on investments	–	–	11 204	5 452
Levies from instalment sales	985	1 514	–	–
Other interest received	134	925	134	925
Fair value gain on investment property	5 830	2 314	225	–
Reimbursement from development fund	11 689	–	11 689	–
Sundry income	937	1 005	624	393
	19 575	5 758	23 876	6 770

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

	Group		Company	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
4. PROFIT BEFORE TAX				
Profit before tax is stated after taking the following into account:				
4.1 Administrative expenses	**107 959**	98 009	**95 516**	84 767
Staff costs	**48 311**	52 843	**42 608**	43 080
– Salaries	**39 159**	44 434	**34 530**	35 745
– Medical aid contributions	**2 822**	2 375	**2 822**	2 375
– Provident fund contributions	**6 330**	6 034	**5 256**	4 960
Management costs (refer note 34)	**32 534**	25 195	**28 109**	23 725
Administration	**4 817**	4 076	**4 174**	3 518
Marketing	**1 981**	2 896	**1 683**	2 714
Consultancy and advisory services	**10 627**	6 457	**10 585**	6 429
Directors' fees	**3 131**	958	**2 966**	840
Legal fees	**3 062**	1 808	**2 771**	1 457
Auditors' remuneration	**2 351**	2 341	**1 737**	1 973
– Audit fees	**2 351**	2 341	**1 737**	1 973
Travel and entertainment	**1 145**	1 435	**883**	1 031
4.2 Other operating expenses	**37 545**	19 981	**35 366**	20 222
Communication	**2 196**	2 158	**1 690**	1 764
Training and development	**1 008**	945	**1 008**	945
Office expenses	**2 796**	2 680	**2 260**	2 118
Depreciation and amortisation	**951**	918	**704**	676
Bad debts	**5 148**	5 717	**5 148**	5 717
Sundry expenses	**73**	124	**71**	80
Impairment of equity investment*	**–**	–	**–**	2 391
Fair value adjustment – equity investments	**16 517**	–	**16 517**	–
Fair value loss on investment property	**–**	970	**–**	970
Operating lease payments: property and certain equipment	**8 856**	6 469	**7 968**	5 561
5. FINANCE COSTS				
Interest on other financial liabilities	**24 594**	14 234	**24 196**	15 694

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

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000

6. INCOME TAX

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Statement of financial performance				
Current income tax				
Current income tax charge	**21 113**	10 859	**21 113**	10 859
Deferred tax	**(6 877)**	(1 684)	**(14 111)**	(667)
Reported deferred tax: prior year	**–**	–	**–**	(1 684)
GRAP – 104 prior year adjustment	**–**	–	**–**	1 017
Underprovision of prior year taxes	**–**	3 877	**–**	–
Income tax expense	**14 236**	13 052	**7 002**	10 192
Deferred tax asset: Statement of financial position				
Balance at the beginning of the year	**4 883**	3 199	**3 866**	3 199
Recognised through the income statement	**6 877**	1 684	**14 111**	667
Balance at the end of the year	**11 760**	4 883	**17 977**	3 866
Deferred tax asset/Liability consists of				
Provision for leave pay	**5 531**	5 053	**5 531**	5 053
Provision for incentive bonus	**11 446**	11 446	**11 446**	11 446
Operating lease	**1 088**	456	**1 088**	456
Fair value gain on investments	**–**	–	**(11 093)**	(3 631)
Fair value gain on investment property	**(19 545)**	485	**(19 545)**	485
Impairment on Gateway	**–**	–	**33 300**	–
General provision for Impairment – Retail	**32 479**	–	**32 479**	–
FV on equity investment – BFS	**11 000**	–	**11 000**	–
Total	**41 999**	17 440	**64 206**	13 809
Tax rate of 28%	**11 760**	4 883	**17 977**	3 866

A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2013 and 2012 is as follows:

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Accounting profit before tax from operations	**33 640**	34 220	**38 442**	31 790
At SA statutory income tax rate of 28%	**10 231**	12 778	**10 764**	10 428
Non-taxable income	**(21)**	(63)	**(1 546)**	(63)
GRAP – 104 prior year adjustment	**–**	–	**–**	(510)
Non deductible expenses	**(1 540)**	670	**1 540**	670
Change in tax rate impact on capital assets	**1 354**	–	**1 354**	–
Prior year adjustment	**4 212**	(333)	**(5 110)**	(333)
Income tax expense reported in the statement of financial performance	**14 236**	13 052	**7 002**	10 192
Income tax receivable: Statement of financial position				
Balance at the beginning of the year	**4 364**	25 377	**4 364**	21 500
Tax Paid	**11 400**	15 223	**11 400**	15 223
Normal tax charge	**(21 113)**	(10 859)	**(21 113)**	(10 859)
Tax refund	**–**	(21 500)	**–**	(21 500)
Underprovision of prior year taxes	**–**	(3 877)	**–**	–
Balance at the end of the year: (payable)/receivable	**(5 349)**	4 364	**(5 349)**	4 364

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
7. LOANS AND RECEIVABLES – ADVANCES				
Gross advances				
Opening balances	**1 999 992**	1 699 919	**2 074 014**	1 766 899
Disbursements	**479 592**	665 301	**479 592**	665 301
Repayments	**(366 117)**	(359 511)	**(352 355)**	(352 469)
Amounts previously impaired, written off	**(5 148)**	(5 717)	**(5 148)**	(5 717)
Balance at the end of the year	**2 108 319**	1 999 992	**2 196 103**	2 074 014
Impairments on advances				
Balances at the beginning of the year	**(168 900)**	(137 124)	**(168 900)**	(137 124)
Impairments raised	**(15 457)**	(31 575)	**(15 457)**	(31 575)
Amounts impaired in previous years and written off during the year	**5 148**	5 717	**5 148**	5 717
Increase in impairments on advances	**(21 320)**	(67 871)	**(21 320)**	(67 871)
Impairments reversed during the year*	**715**	30 579	**715**	30 579
Adjustment**	**–**	(201)	**–**	(201)
Balance at the end of the year	**(184 357)**	(168 900)	**(184 357)**	(168 900)
Comprising:				
Specific impairments	**(141 052)**	(128 555)	**(141 052)**	(128 555)
General impairments	**(43 305)**	(40 345)	**(43 305)**	(40 345)
Net advances	**1 923 962**	1 831 092	**2 011 746**	1 905 114
Maturity analysis				
Receivable within one year	**409 840**	200 896	**409 840**	200 896
Receivable within one to two years	**330 410**	197 374	**342 099**	197 374
Receivable within two to three years	**284 466**	191 763	**284 467**	191 763
Receivable beyond three years	**899 246**	1 241 059	**975 340**	1 315 081
Net advances	**1 923 962**	1 831 092	**2 011 746**	1 905 114
Non-current assets	**1 514 122**	1 630 196	**1 601 906**	1 704 218
Current assets	**409 840**	200 896	**409 840**	200 896
	1 923 962	1 831 092	**2 011 746**	1 905 114

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

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

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
8. INVESTMENT – LISTED EQUITY INVESTMENT				
Shares at cost – ordinary shares				
Investment in shares at cost	**30 000**	–	**30 000**	–
Fair value adjustment	**(16 517)**	–	**(16 517)**	–
Carrying amount of shares at 31 March 2013	**13 483**	–	**13 483**	–

As part of a debt restructuring agreement, the NHFC acquired 67 415 730 ordinary shares by converting a R30 million interest bearing loan owed by Blue Financial Services Limited to equity. This is equivalent to 0,88% of the issued capital. The conversion took place in July 2012 at an agreed share price of 44,5 cents per share. The investment has been fair valued at 31 March 2013 using the JSE stock exchange quoted price of 19 cents.

	Company 2013 R'000	Company 2012 R'000
9. INVESTMENT IN SUBSIDIARIES		
Company		
9.1 Cape Town Community Housing Company Proprietary Limited		
The Cape Town Community Housing Company (Pty) Ltd is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.		
Shares at fair value – ordinary shares		
Opening balance	5 836	2 000
Fair value adjustment	2 155	3 836
Carrying amount of shares at 31 March 2013	7 991	5 836

The NHFC has subordinated its claims against the CTCHC in respect of the debenture finance in favour of other creditors of CTCHC.

CTCHC Proprietary Limited is solvent; the company is however in a turnaround phase. Management have applied a discounted cash flow (DCF) method in arriving at the valuation of CTCHC. Company projections have been reviewed to understand the reasonableness in projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. A PE valuation multiple method has been used for the purpose of calculating the terminal value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in CTCHC Proprietary Limited.

	2013	2012
9.2 Mortgage Default Insurance Company Proprietary Limited		
Shares at cost – ordinary shares		
Opening balance	–	–
Movement	–	–
Carrying amount of shares at 31 March 2013	–	–

The Mortgage Default Insurance Company Proprietary Limited (MDIC) is a newly incorporated subsidiary, with issued share capital of R100.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

10. INVESTMENT IN DEBENTURES

Cape Town Community Housing Company Proprietary Limited

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Opening balance	–	–	6 197	6 197
Movement	–	–	–	–
Carrying amount of debentures at 31 March 2013	–	–	6 197	6 197

11. INVESTMENT – PREFERENCE SHARES

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Investment in preference shares	37 500	2 500	37 500	2 500
Greenstart Proprietary Limited	2 500	2 500	2 500	2 500
Trust for Urban Housing Finance Holdings Proprietary Limited	35 000	–	35 000	–
Dividends accrued from investment in preference shares	158	–	1 872	–
Greenstart Proprietary Limited	158	–	158	–
Trust for Urban Housing Finance Holdings Proprietary Limited	–	–	1 714	–
Investment in preference shares at fair value	37 658	2 500	39 372	2 500

Investment in Greenstart – 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 Proprietary Limited 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.

Investment in TUHF Finance Holdings Proprietary Limited. These are redeemable cumulative preference shares . The investment consists of 35 000 shares at par value of R1 000 per share. The total preference shares in TUHF is R35 million. Dividends in terms of shareholders' agreement, are set at prime lending rate less corporate tax, i.e. 8,5% less 28% as at 31 March 2013.

12. INVESTMENT IN ASSOCIATES

Trust for Urban Housing Finance Holdings Proprietary Limited

The company 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 precincts and surrounding suburbs. The NHFC has increased its effective shareholding from 27% to 33,5% during the financial year. The additional interest of 6,5% was acquired as part of the restructuring in which the NHFC converted R40 million of its term loans to B ordinary shares which carry the same weight and voting rights as existing equity shares. B ordinary shares have an unconditional right to receive dividends at 75% of prime lending rate for five years (2013 to 2017). The conversion amount of R40 million has been allocated as R29 million consideration for the increase in shareholding, while the remainder of R11 million has been recognised as loans and receivables representing the fair value of future dividends expected over the five years. The B ordinary shares will automatically be converted to equity shares in the 2017.

	Group	
	2013 R'000	2012 R'000
The following table illustrates the summarised financial information of National Housing Finance Corporation's investment in TUHF Finance Holdings Proprietary Limited:		
Share of the associate's balance sheet:		
Total assets	**542 956**	**365 937**
Total liabilities	**(496 944)**	(359 771)
Retained earnings effect of change in shareholding	**(3 618)**	166
Net asset	**42 394**	6 332
Carrying amount of the investment in company	**40 679**	3 145
GRAP 104 – Fair value reversal	**(7 397)**	(708)
Investment at cost	**33 282**	2 437
Carrying amount of the investment in company		
Accumulated share of the associate's profit	**5 029**	1 982
Accumulated share of the associate's reserves	**554**	354
Prior year share of changes in reserves	**242**	200
Current year share of profit of associate	**6 715**	3 048
Current year share of profit	**6 997**	2 881
Gain on change in shareholding	**(282)**	166
Carrying amount of the investment	**45 822**	8 021
Less: Goodwill	**(3 428)**	(1 689)
Carrying amount of the investment	**42 394**	6 332
Share of the associate's revenue	**55 090**	**39 620**

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

12. INVESTMENT IN ASSOCIATES (continued)

Housing Investment Partners Proprietary Limited

The NHFC has a 33% equity shareholding in Housing Investment Partners Proprietary Limited which is involved in the development and marketing of the income Linked Home Financing Instrument, which is an innovative product in the local market.

	Group	
	2013 R'000	2012 R'000
The following table illustrates the summarised financial information of National Housing Finance Corporation's investment in Housing Investment Partners Proprietary Limited:		
Share of the associate's balance sheet:		
Current assets	–	–
Non-current assets	–	–
Current liabilities	–	–
Net asset	–	–
Carrying amount of the investment in company	7 233	7 233
Accumulated share of the associate's loss	(7 233)	(4 515)
Current year share of loss of associate*	–	(1 843)
Current year share of loss	(1 805)	(1 843)
Loss on change in shareholding	(38)	–
Share in changes in retained earnings	–	(875)
Carrying amount of the investment	–	–
Share of the associate's revenue	23	18
The Groups share of unrecognised losses amounts to R4,790 million.		
Total carrying amount of the investment in associates – Group	45 822	8 022

** The Group's share of cumulative losses in the associate (HIP) have been recognised up to the carrying amount of the investment, being R7,23 million. For this reason no share of losses of HIP have been recognised in group accounts in the current financial year.*

Trust for Urban Housing Finance Holdings Proprietary Limited

	Company	
	2013 R'000	2012 R'000
The following table illustrates the summarised financial information in the company's books:		
Investment in equity shares opening balance		
Original investment in TUHF	3 145	2 437
Increase in investment in associate	30 845	–
Acquisition of B ordinary shares in TUHF	29 815	–
Conversion of working capital loan to equity	1 030	–
Fair value adjustment in investment in TUHF	6 689	708
Carrying amount of the investment in TUHF Holdings Proprietary Limited	40 679	3 145

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12. INVESTMENT IN ASSOCIATES (continued)

Housing Investment Partners Proprietary Limited

The investment in Trust for Urban Housing Finance Holdings Proprietary Limited, "TUHF" has been valued at fair value. TUHF has undergone significant growth in the recent years and is expected to maintain similar growth in the foreseeable future. NHFC management have applied a discounted cash flow (DCF) method in arriving at the valuation of TUHF. Company projections have been reviewed to understand the reasonableness of projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. The PE multiple valuation method has been used for the purpose of calculating the terminal value for the DCF model. A market based PE ratio has been adopted to determine the terminal value within the DCF model and where appropriate, subjectively adjusted to reflect the inherent risks in TUHF Finance Holdings Proprietary Limited.

Housing Investment Partners Proprietary Limited

	Company	
	2013 R'000	2012 R'000
The following table illustrates the summarised financial information in the company's books:		
Investment in shares opening balance	8 140	5 566
movement in investment in associate	2 360	2 574
Increase in investment in associate	–	1 667
Fair value adjustment	2 360	907
Carrying amount of the investment Housing Investment partners Proprietary Limited	**10 500**	8 140

Housing Investment Partners Proprietary Limited, "HIP', is an entity established to operate as a fund manager and will design, develop, originate, manage and administer an innovative income linked retail home loans product. Management have applied a discounted cash flow (DCF) method in arriving at the valuation of HIP. Company projections have been reviewed to understand the reasonableness of projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. A PE valuation multiple method has been used for the purpose of calculating the terminal value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in HIP Proprietary Limited.

Total carrying amount of the investment in associates – Company	**51 179**	11 285

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

13. PROPERTY, PLANT AND EQUIPMENT

	2013			2012		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Group						
Computer equipment	8 324	(7 671)	653	7 928	(7 234)	694
Furniture and fittings	3 104	(2 962)	142	3 058	(2 922)	136
Motor vehicle	396	(313)	83	396	(265)	131
Office equipment	697	(616)	81	684	(565)	119
Leasehold improvements	1 074	(697)	377	1 049	(542)	507
Total	13 595	(12 259)	1 336	13 115	(11 528)	1 587

Reconciliation of property, plant and equipment

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Total R'000
Group – 2013						
Computer equipment	694	422	(1)	–	(462)	653
Furniture and fittings	136	46	–	–	(40)	142
Motor vehicle	131	–	–	–	(48)	83
Office equipment	119	7	–	6	(51)	81
Leasehold improvements	507	25	–	–	(155)	377
	1 587	500	(1)	6	(756)	1 336

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Group – 2012					
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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	2013			2012		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Company						
Computer equipment	7 920	(7 324)	596	7 545	(6 907)	638
Furniture and fittings	2 881	(2 786)	95	2 839	(2 761)	78
Motor vehicle	195	(182)	13	195	(159)	36
Office equipment	561	(532)	29	561	(504)	57
Leasehold improvements	724	(567)	157	699	(482)	217
Total	12 281	(11 391)	890	11 839	(10 813)	1 026

Reconciliation of property, plant and equipment

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Company – 2013					
Computer equipment	638	375	–	(417)	596
Furniture and fittings	78	41	–	(24)	95
Motor vehicle	36	–	–	(23)	13
Office equipment	57	–	–	(28)	29
Leasehold improvements	217	26	–	(86)	157
	1 026	442	–	(578)	890
Company – 2012					
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	283	–	(555)	1 026

Fully depreciated assets that are still in use amount to R15,05 million (2012: R14,4 million).

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

14. INTANGIBLE ASSETS

	2013			2012		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Group						
Computer software	5 689	(5 299)	390	5 561	(5 114)	447
Total	5 689	(5 299)	390	5 561	(5 114)	447

Reconciliation of intangible assets

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Group – 2013					
Computer software	447	140	–	(197)	390
	447	140	–	(197)	390
Group – 2012					
Computer software	256	406	(20)	(195)	447
	256	406	(20)	(195)	447

	2013			2012		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Company						
Computer software	5 363	(5 038)	325	5 238	(4 911)	327
Total	5 363	(5 038)	325	5 238	(4 911)	327

Reconciliation of intangible assets

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Company – 2013					
Computer software	327	126	–	(128)	325
	327	126	–	(127)	325
Company – 2012					
Computer software	209	250	(9)	(123)	327
	209	250	(9)	(123)	327

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
15. INSTALMENT SALE RECEIVABLES				
Gross instalment sale receivables	**50 275**	59 597	**–**	–
Less: Unearned finance charges	**(14 148)**	(20 681)	**–**	–
Present value of minimum lease payments receivable	**36 127**	38 916	**–**	–
Less: Provision for impairment of receivables	**(522)**	(637)	**–**	–
	35 605	38 279	**–**	–
Non-current assets	**29 105**	32 825	**–**	–
Current assets	**6 500**	5 454	**–**	–
	35 605	38 279	**–**	–

The average term of the instalment sale receivables is 13,3 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% (2012: 10,9% per annum). Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.

The amount of R36 126 582 (2012: R38 916 166) is the maximum exposure to credit risk.

The impairment of R521 628 (2012: R637 017) takes into account the recoverable amount of collateral, calculated as the present value, less costs to sell 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
16. INVESTMENT PROPERTY				
Cost/valuation	**78 584**	72 754	**51 000**	50 775
Accumulated impairments	**–**	–	**–**	–
Carrying value	**78 584**	72 754	**51 000**	50 775
Reconciliation of investment property:				
Opening balance	**72 754**	71 252	**50 775**	51 745
Transfers from inventory	**–**	394	**–**	–
Fair value gain/(loss)	**5 830**	1 108	**225**	(970)
Closing balance	**78 584**	72 754	**51 000**	50 775
The following amounts have been recognised in the income statement:				
Fair value gain/(loss)	**5 830**	1 108	**225**	(970)
Rental income	**6 984**	5 961	**3 632**	3 554

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 2013. 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 capitalisation 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 capitalisation 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 Proprietary Limited 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 2013. Revaluations were done by Mr GB 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.

	Group	
	2013	2012
	R'000	R'000
17. GOODWILL		
Goodwill		
At 31 March at cost	**2 714**	2 714

The goodwill relates to the investment in Cape Town Community Housing Company Proprietary Limited. NHFC holds a 100% shareholding in the company. The subsidiary is solvent and a separate discounted cashflow has been performed to test for impairment.

		Group		Company	
		2013	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
18.	**PROPERTIES DEVELOPED FOR SALE**				
	Properties developed for sale	**40 830**	22 987	**–**	–
	Repossessed properties	**40 149**	40 765	**–**	–
		80 979	63 752	**–**	–

Housing stock consists of 987 units of the legacy development previously held under instalment sales and 6 units transferred from work in progress after the sale was cancelled at the final stage of negotiation. The units were transferred into the name of Cape Town Community Housing Company Proprietary Limited, upon the cancellation of the instalment sale agreement, on the basis of the outstanding balance of the instalment sale agreement.

No houses have been transferred to inventory from instalment sales in the current year.

		Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
19.	**OTHER RECEIVABLES AND PREPAYMENTS**				
	Deposits and prepayments	**148**	147	**2**	2
	Staff debtors	**1 478**	892	**1 478**	892
	Other receivables	**30 397**	9 575	**20 983**	4 090
		32 023	10 614	**22 463**	4 984

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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

	Group		Company	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
20. HELD-TO-MATURITY INVESTMENTS				
Held-to-maturity money market investments – NHFC	**443 111**	563 769	**443 111**	563 769
ABSA Bank Limited	**40 000**	60 000	**40 000**	60 000
Investec Bank Limited	**40 000**	80 000	**40 000**	80 000
Standard Bank of South Africa Limited	**60 000**	100 496	**60 000**	100 496
Rand Merchant Bank (a division of FirstRand Bank Limited)	**80 000**	100 000	**80 000**	100 000
Nedbank Limited	**80 271**	100 000	**80 271**	100 000
Land and Agricultural Bank of South Africa Limited	**58 140**	38 829	**58 140**	38 829
Eskom Limited	**58 470**	39 065	**58 470**	39 065
Trans-Caledon Tunnel Authority (TCTA)	**19 746**	19 442	**19 746**	19 442
City of Johannesburg	**–**	20 000	**–**	20 000
Interest receivable	**6 484**	5 938	**6 484**	5 938
Held-to-maturity money market investments – Job summit related projects*	**463 205**	435 792	**463 205**	435 792
ABSA Bank Limited	**80 000**	61 819	**80 000**	61 819
Rand Merchant Bank (a division of FirstRand Bank Limited)	**60 000**	60 000	**60 000**	60 000
Standard Bank of South Africa Limited	**80 000**	60 000	**80 000**	60 000
Nedbank Limited	**40 000**	40 000	**40 000**	40 000
Investec Bank Limited	**80 000**	60 000	**80 000**	60 000
Land and Agricultural Bank of South Africa Limited	**58 154**	38 755	**58 154**	38 755
Eskom Limited	**38 989**	39 172	**38 989**	39 172
Transnet Limited	**–**	11 664	**–**	11 664
Trans-Caledon Tunnel Authority (TCTA)	**19 476**	39 166	**19 476**	39 166
South African Reserve Bank	**–**	20 000	**–**	20 000
Interest receivable	**6 586**	5 215	**6 586**	5 215
Held-to-maturity money market investments – Development Fund*	**120 067**	135 195	**120 067**	135 195
Eskom Limited	**19 405**	14 729	**19 405**	14 729
Land and Agricultural Bank of South Africa Limited	**19 469**	19 619	**19 469**	19 619
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	**20 000**	20 000
ABSA Bank Limited	**20 000**	20 000	**20 000**	20 000
South African Reserve Bank	**–**	19 727	**–**	19 727
Interest receivable	**1 193**	1 121	**1 193**	1 121
Total held-to-maturity money market investments	**1 026 383**	1 134 755	**1 026 383**	1 134 755

** 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.

	Group		Company	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
21. CASH AND SHORT-TERM DEPOSITS				
Short-term deposits – NHFC	55 697	135 414	55 697	135 414
ABSA Bank Limited	10 747	36 477	10 747	36 477
Investec Bank Limited	10 553	16 679	10 553	16 679
Nedbank Limited	5 151	6 424	5 151	6 424
Rand Merchant Bank (a division of FirstRand Bank Limited)	6 801	17 487	6 801	17 487
Standard Bank of South Africa Limited	5 639	17 622	5 639	17 622
Stanlib Limited	6 766	20 637	6 766	20 637
Trans-Caledon Tunnel Authority (TCTA)	10 040	20 088	10 040	20 088
Short-term deposits – Job summit related projects*	73 391	105 049	73 391	105 049
ABSA Bank Limited	8 176	16 165	8 176	16 165
Investec Bank Limited	12 140	23 561	12 140	23 561
Nedbank Limited	19 687	20 014	19 687	20 014
Rand Merchant Bank (a division of FirstRand Bank Limited)	12 588	19 043	12 588	19 043
Standard Bank of South Africa Limited	13 226	9 174	13 226	9 174
Stanlib Limited	7 574	17 093	7 574	17 093
Short-term deposits – Development Fund*	37 878	20 065	37 878	20 065
ABSA Bank Limited	9 835	4 381	9 835	4 381
Nedbank Limited	10 547	5 470	10 547	5 470
Standard Bank of South Africa Limited	6 971	5 305	6 971	5 305
Investec Bank Limited	10 525	4 909	10 525	4 909
Short-term deposits – Siyanda*	–	345	–	345
Standard Bank of South Africa Limited	–	345	–	345
Short-term deposits – Abahlali*	1 063	1 015	1 063	1 015
Absa Bank Limited	1 063	1 015	1 063	1 015
Short-term deposits – FLISP*	167 937	–	167 937	–
Standard Bank of South Africa Limited	38 198	–	38 198	–
Reserve Bank Limited	129 739	–	129 739	–
Cash at bank and in hand	14 953	20 112	7 239	15 376
Standard Bank of South Africa Limited	14 747	20 104	7 036	15 371
FLISP – Standard Bank of South Africa Limited	200	–	200	–
Cash on hand	7	8	3	6
Total cash and short-term deposits	350 919	282 000	343 205	277 264

** Funds under management – refer note 24.*

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

21. CASH AND SHORT-TERM DEPOSITS (continued)

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

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
NHFC	70 082	155 526	62 368	150 790
Short-term deposits	55 697	135 414	55 697	135 414
Cash at bank	14 385	20 112	6 671	15 376
Job summit*	73 391	105 049	73 391	105 049
Short-term deposits	73 391	105 049	73 391	105 049
Development Fund*	37 878	20 065	37 878	20 065
Short-term deposits	37 878	20 065	37 878	20 065
Siyanda*	–	345	–	345
Short-term deposits	–	345	–	345
Abahlali*	1 063	1 015	1 063	1 015
Short-term deposits	1 063	1 015	1 063	1 015
FLISP*	168 505	–	168 505	–
Short-term deposits	168 505	–	168 505	–
Total	350 919	282 000	343 205	277 264

** Funds under management – refer note 24.*

22. ISSUED CAPITAL AND SHARE PREMIUM

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 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 R0,01 each	842	842	842	842
Share premium	879 158	879 158	879 158	879 158

23. GRANT CAPITAL

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
	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.

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
24. FUNDS UNDER MANAGEMENT				
Job summit (a)				
Poverty Relief Funds	**472 155**	447 385	**472 155**	447 385
Subsidies – KwaZulu-Natal	**57 257**	93 457	**57 257**	93 457
Development Fund (b)	**157 945**	155 260	**157 945**	155 260
Siyanda Project (c)	**–**	345	**–**	345
Abahlali (d)	**1 063**	1 015	**1 063**	1 015
FLISP (e)	**168 506**	–	**168 506**	–
Total funds under management	**856 926**	697 462	**856 926**	697 462

(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 utilised to increase capacity and technical assistance in 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.

(e) The NHFC is managing funds on behalf of the various Provincial Government Human Settlements departments relating to Finance Linked Individual Subsidy Programme. A portion relating to receipt that was recognised as a reduction in loans and advances has subsequently been reclassified as funds under management in the current year.

The net interest income on these funds is capitalised.

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

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
25. DEBENTURES				
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)	**–**	–	**–**	–
Non-current liabilities	**–**	–	**–**	–
Current liabilities		–	**–**	–
	–	–	**–**	–

The debentures are fully paid up after a settlement agreement was reached with the City of Cape Town in April 2011. However, debenture interest of R500 000 which is due and payable by CTCHC to the City of Cape Town once CTCHC is profitable, has been included in current liabilities in note 26 (other financial liabilities).

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
26. OTHER FINANCIAL LIABILITIES				
Held at amortised cost				
Dutch International Guarantees for Housing (DIGH) loan 1	**1 395**	1 725	**–**	–
This loan bears interest at a fixed rate of 8,60% per annum and is repayable in annual instalments of R433 942 (2012: R433 111). The final instalment is payable on 9 July 2014.				
Dutch International Guarantees for Housing (DIGH) loan 2	**4 005**	5 260	**–**	–
This loan bears interest at a fixed rate of 7,33% per annum and is repayable in annual instalments of R1 034 606 (2012: R1 057 736), inclusive of interest. The final instalment is payable on 17 January 2016.				
Development Fund	**11 098**	2 907	**–**	–
This facility bears interest at a rate of 0% per annum and is repayable once project income is received.				
EIB	**219 476**	219 799	**219 476**	219 799
This loan bears interest at a variable rate of 3m Jibar with a maximum margin of 0,40% per annum and is repayable in semi-annual capital instalments of R8 308 077 commencing on 15 June 2013 (2012: 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 Développement (AFD)	**193 143**	208 126	**193 143**	208 126
This loan bears interest at a fixed rate of 6,078% per annum and is repayable in semi-annual capital instalments of R7 888 692 which commenced in the current financial year on 31 May 2012 exclusive of interest. Interest and capital 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 year, the NHFC breached certain financial covenants relating to the AFD loan facility. The breached financial covenants are the return on assets ratio (actual 1,4% versus. 2,50% required ratio) and the impaired loans to equity ratio (actual of 4,8% versus a minimum required ratio of 0,9%). The breach constitutes an event of default. This event of default gives the lender the right to declare part or all of the credit facility together with any accrued outstanding interest to become immediately due and payable. As a result the entire loan facility has been disclosed as a current liability in 2013 and the prior year (due to the same reason).				
NHFC was able to renegotiate the existing covenants with AFD. However, these were only concluded after 31 March 2013. The NHFC has signed an addendum with adjusted financial covenants which will be effective post 31 March 2013. In addition, AFD has agreed to waive its rights to accelerate the repayment of credit facility for 12 months from 31 March 2013.				
City of Cape Town	**500**	500	**–**	–
This consists of interest which relates to the debentures in note 25. The interest is payable as and when the Company becomes profitable.				
	429 617	438 317	**412 619**	427 925
Non-current liabilities at amortised cost	**214 510**	225 417	**199 394**	216 010
Current liabilities at amortised cost	**215 107**	212 900	**213 225**	211 915
	429 617	438 317	**412 619**	427 925

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
27. PROVISIONS				
	17 746	17 124	16 977	16 499
Total provisions	17 746	17 124	16 977	16 499
Provision for leave pay				
Opening balance as at 1 April	5 373	4 698	5 053	4 470
Provision utilised for the year	(158)	(287)	(158)	(59)
Additional provision raised	780	962	636	642
Closing balance as at 31 March	5 995	5 373	5 531	5 053
Provision for incentive bonus				
Opening balance as at 1 April	11 446	7 998	11 446	7 998
Provision utilised for the year	(7 592)	(11 105)	(7 592)	(11 105)
Additional provision raised	7 592	14 553	7 592	14 553
Closing balance as at 31 March	11 446	11 446	11 446	11 446
Provision for municipal rates				
Opening balance as at 1 April	305	223	–	–
Provision utilised for the year	–	–	–	–
Additional provision raised	–	82	–	–
Closing balance as at 31 March	305	305	–	–

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 2014 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 Proprietary Limited.

28. TRADE AND OTHER PAYABLES

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Trade payables	11 283	5 526	1 622	2 180
Value added tax	–	1 270	–	–
Accrued expenses	3 062	263	2 420	–
Accrual for lease payments	1 088	456	1 088	456
Deferred revenue	8	8	–	–
Subsidies received in advance	55	257	–	–
	15 496	7 780	5 130	2 636

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 (CTCHC) of subsidies in respect of the Westgate Mall project. These amounts will be included in revenue on the completion and handover of the houses.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

	Notes	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
29. CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit before tax		**33 640**	34 220	**38 442**	37 242
Non-cash and separately presented items	29.1	**20 098**	37 557	**21 249**	37 527
Working capital changes	29.2	**(27 623)**	56 327	**(14 507)**	52 728
Tax paid	29.3	**(11 400)**	6 277	**(11 400)**	6 277
Increase in advances		**(108 327)**	(300 429)	**(122 089)**	(300 716)
Net cash flows used in operating activities		**(93 612)**	(166 048)	**(88 305)**	(166 942)
29.1 Non-cash and separately presented items					
Depreciation and amortisation		**950**	918	**704**	677
Impairments		**15 457**	31 575	**15 457**	31 575
Impairment of Investment		**–**	–	**–**	2 391
Fair value loss on listed equity investment		**16 517**	–	**16 517**	–
Fair value adjustment on equity investment		**–**	–	**(11 204)**	(5 452)
Share of profit of an associate		**(6 955)**	(1 205)	**–**	–
Fair value adjustment on property investment		**(5 829)**	(1 108)	**(225)**	970
Premium paid		**–**	1 640	**–**	1 640
Amounts previously impaired, written off		**–**	5 717	**–**	5 717
Other		**(42)**	–	**–**	–
Profit on sale of assets		**–**	20	**–**	9
		20 098	37 557	**21 249**	37 527
29.2 Working capital changes					
Decrease/(increase) in properties developed for sale		**(17 227)**	105	**–**	–
Decrease in instalment sale receivable		**2 674**	3 726	**–**	–
Decrease/(increase) in accounts receivable		**(21 409)**	50 233	**(17 479)**	50 664
Increase/(decrease) in accounts payable		**7 717**	(1 942)	**2 494**	(1 967)
(Decrease)/increase in provisions		**622**	4 205	**478**	4 031
Net increase in working capital		**(27 623)**	56 327	**(14 507)**	52 728
29.3 Tax paid					
Previous year closing balance		**4 364**	25 377	**4 364**	21 500
Tax charge for the year		**(21 113)**	(14 736)	**(21 113)**	(10 859)
Balance at the end of the year – current tax		**5 349**	(4 364)	**5 349**	(4 364)
Tax paid		**(11 400)**	6 277	**(11 400)**	6 277

	Group		Company	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000

29. CASH FLOWS FROM OPERATING ACTIVITIES (continued)

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 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Cash on hand and balances with banks	**14 953**	20 112	**7 239**	15 376
Short-term deposits	**335 966**	261 888	**335 966**	261 888
	350 919	282 000	**343 205**	277 264

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 R640 000 (2012: R990 000). 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 R568 000 (2012: R532 000). None of the additions were acquired by means of government grants.

30. CONTINGENT LIABILITIES AND COMMITMENTS

Contingencies

At 31 March 2013 the Group had a contingent liability in respect of bank guarantees amounting to R533 000 (2012: R181 034 582), arising in the

The Group cancelled a net total of Nil (2012: R45 000) Instalment Sales contracts during the current financial period. The outcome and costs pertaining

	Group		Company	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Operating lease commitments – Office buildings				
Within one year	**6 792**	6 107	**6 006**	4 535
National Housing Finance corporation SOC Limited	**6 006**	5 321	**5 220**	4 535
Cape Town Community Housing Company SOC (Pty) Limited	**786**	786	**786**	–
After one year but not more that five years	**16 982**	27 090	**14 315**	21 756
National Housing Finance corporation SOC Limited	**14 315**	24 423	**11 648**	21 756
Cape Town Community Housing Company SOC (Pty) Limited	**2 667**	2 667	**2 667**	–
Total office operating lease commitments – office buildings	**23 774**	33 197	**20 321**	26 291

The NHFC 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 (2012: R533,500).

CTCHC (subsidiary of the NHFC) entered into a lease on the property from which it operates. The lease is effective from 1 March 2011 to 28 February 2016. The lease has an escalation clause of 8% per annum.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)				
Operating lease commitments - Office photocopiers				
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 2013::				
Within one year	**23**	23	**23**	23
After one year but not more than five years	**–**	–	**–**	–
Operating lease commitments – Office photocopiers	**23**	23	**23**	23
Total group commitments	**23 797**	33 220	**20 344**	26 314

31. 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 and Investment 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.

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of an economic loss arising from the failure of a counterparty to fulfil 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 includes specific guidelines 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 the Treasury department. The Treasury Policy and Risk Appetite Statement of the Group provides a framework that regulates the treasury management activities, operations conducted, 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 failure. The Group exposure at year-end is within approved counterparty limits.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

31. FINANCIAL RISK MANAGEMENT (continued)

Maximum exposure to credit risk

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Loans and receivable – advances	**1 923 962**	1 831 092	**2 011 746**	1 905 114
Instalment sale receivables	**35 605**	38 279	**–**	–
Held-to-maturity investments	**1 026 383**	1 134 755	**1 026 383**	1 134 755
Cash and short-term deposits	**350 919**	282 000	**343 205**	277 264
Other receivables	**32 023**	10 614	**22 463**	4 984
Investment in preference shares	**37 658**	2 500	**39 372**	2 500

Collateral and other credit enhancement – loans and receivables advances

To mitigate credit risk, 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 main types of collateral taken against loans and receivables – advances subject to credit risk are:

- Mortgage bonds over properties;
- Cession of debtors book;
- Cession of income and bank account;
- Guarantees;
- Personal suretyship of principals;
- Pledge of call account or fixed deposits; and
- Cession of shares.

Credit risk mitigation policies and procedures ensure that the credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement.

Credit quality of loans and receivables – advances

	Group	
	2013	2012
	R'000	R'000
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.		
Neither past due nor impaired	**1 609 720**	1 603 218
Past due but not impaired*	**203 388**	112 234
Impaired**	**295 211**	284 540
	2 108 319	1 999 992
Less: Specific impairments	**(141 052)**	(128 555)
General impairments	**(43 305)**	(40 345)
Net advances	**1 923 962**	1 831 092

* *Past due but not impaired balance is the full outstanding capital as at the date on which the client defaulted.*

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

31. FINANCIAL RISK MANAGEMENT (continued)

Credit quality of loans and receivables – advances (continued)

		Total balance R'000	Future capital instalments R'000	Ageing of amounts due: 30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000
Ageing analysis of advances that are past due, but not impaired:	**2013**	**203 388**	**197 972**	**862**	**884**	**1 119**	**2 551**
	2012	112 234	85 778	217	16 819	9 200	220

	Company 2013 R'000	Company 2012 R'000
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.		
Neither past due nor impaired	**1 698 063**	1 677 240
Past due but not impaired*	**203 388**	112 234
Impaired**	**306 341**	284 540
	2 207 792	2 074 014
Less: Specific impairments	**(152 741)**	(128 555)
General impairments	**(43 305)**	(40 345)
Net advances	**2 011 746**	1 905 114

** Past due but not impaired balance is the full outstanding capital as at the date on which the client defaulted.*

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

		Total R'000	Future capital instalments R'000	Ageing of amounts due: 30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000
Ageing analysis of advances that are past due, but not impaired:	**2013**	**203 388**	**197 972**	**862**	**884**	**1 119**	**2 551**
	2012	112 234	85 778	217	16 819	9 200	220

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 arrears.

The fair value of collateral that the Group holds relating to past due or impaired loans and receivables at 31 March 2013 amounts to R800 million (2012: R199 million).

During the current and previous year the Group did not take possession of any guarantees and debtors books.

The carrying amount of advances that would otherwise be past due whose terms have been renegotiated amounts to R122 million (2012: R134 million).

These advances were rescheduled after the clients experienced delays relating to project implementation.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

31. FINANCIAL RISK MANAGEMENT (continued)

Credit quality of instalment sale receivables

	Group	
	2013	2012
	R'000	R'000
Neither past due nor impaired	**–**	–
Past due but not impaired	**–**	–
Impaired*	**36 127**	38 916
	36 127	38 916
Less: Specific impairments	**(522)**	(637)
Net advances	**35 605**	38 279

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

Credit quality and concentration of other financial assets

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Counterparties with external credit ratings of at least F1				
– Held-to-maturity investments – Money Market	**1 026 383**	1 134 755	**1 026 383**	1 134 755
– Cash and short-term deposits	**350 919**	282 000	**343 205**	277 264
Counterparties assessed by reference to historical information about counterparty default rates				
– Instalment sale receivables	**35 605**	38 279	**–**	–

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	17%
Projects	66%
Retail	17%

31. FINANCIAL RISK MANAGEMENT (continued)

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 adverse 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 volatility on 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:

		Group			
	Strategy	2013 Fixed rate R'000	2013 Linked rate R'000	2012 Fixed rate R'000	2012 Linked rate R'000
Assets					
Loan and receivables – advances rates vary between 5% and 14% p.a.	1	**114 306**	**1 809 656**	144 809	1 686 283
Instalment sale receivables – average interest rate of 11% p.a.	1	**35 605**	**–**	38 279	–
Held-to-maturity investments – rates vary between 5,5% and 6,05% p.a.	2	**–**	**1 026 383**	–	1 134 755
Cash and short-term deposits – rates vary between 4,05% and 5,57% p.a.	2	**–**	**350 919**	–	282 000
Liabilities					
Funds under management – rates are linked to short-term investment rates		**–**	**856 926**	–	697 462
AFD loan – the rate is fixed at 6,078%		**193 143**	**–**	208 126	–
EIB loan – the rate varies between 5,525% and 6%		**–**	**219 476**	–	219 799
Other financial liabilities – the rate varies between 7,33% and 8,6%		**5 400**	**–**	6 985	–

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

31. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

	Strategy	Company 2013 Fixed rate R'000	Company 2013 Linked rate R'000	Company 2012 Fixed rate R'000	Company 2012 Linked rate R'000
The Company is exposed to interest rate risk on the following assets and liabilities:					
Assets					
Loan and receivables – advances rates vary between 5% and 14% p.a.	1	**114 306**	**1 897 440**	144 809	1 760 305
Held-to-maturity investments – rates vary between 5,5% and 6,05% p.a.	2	**–**	**1 026 383**	–	1 134 755
Cash and short-term deposits – rates vary between 4,05% and 5,57% p.a.	2	**–**	**343 205**	–	277 264
Liabilities					
Funds under management – rates are linked to short-term investment rates		**–**	**856 926**	–	697 462
AFD loan – the rate is fixed at 6,078%		**193 143**	**–**	208 126	–
EIB loan– the rate varies between 5,525% and 6%		**–**	**219 476**	–	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.

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 2013 Effect on profit before tax R'000	Group 2012 Effect on profit before tax R'000	Company 2013 Effect on profit before tax R'000	Company 2012 Effect on profit before tax R'000
Loans and receivables – advances	1	**18 097**	16 966	**18 974**	17 762
	(1)	**(18 097)**	(16 845)	**(18 974)**	(17 634)
Held-to-maturity investments	1	**4 431**	5 638	**4 431**	5 638
	(1)	**(4 431)**	(5 638)	**(4 431)**	(5 638)
Cash and short-term deposits	1	**701**	1 555	**624**	1 508
	(1)	**(701)**	(1 555)	**(624)**	(1 508)
Other financial liabilities	1	**(4 296)**	(4 383)	**(4 126)**	(4 383)
	(1)	**4 296**	4 383	**4 126**	4 383

31. FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity (continued)

	Group		Company	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
The Group earns interest as follows:				
Interest on advances	144 817	146 229	141 927	144 121
Interest on cash and cash equivalents	37 731	35 076	37 670	34 897
	182 548	181 305	179 597	179 018
The Group's interest obligations are as follows:				
Interest on other financial liabilities	24 594	14 234	24 196	15 694
	24 594	14 234	24 196	15 694

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 DFIs. 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 2013 based on contractual undiscounted payments.

	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
As at 31 March 2013				
Trade and other payables	14 345	–	–	14 345
Funds under management	–	–	856 926	856 926
Other financial liabilities	–	215 107	214 510	429 617
	14 345	215 107	1 071 436	1 300 888
As at 31 March 2012				
Trade and other payables	5 789	–	–	5 789
Funds under management	–	–	697 462	697 462
Other financial liabilities	–	212 900	225 417	438 317
	5 789	212 900	922 878	1 141 568

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

31. FINANCIAL RISK MANAGEMENT (continued)

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 at 50%.

	2013 R'000	2012 R'000
Total interest bearing debt	**429 617**	438 317
Total equity	**2 316 484**	2 297 079
Debt to equity ratio	**19%**	19%

Credit rating

The credit ratings below are provided by the Global Credit Rating Co.

National

Long-term	AA-
Short-term	A1+

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

* **Level 1:** Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.

* **Level 2:** Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the financial position date. The valuation techniques or models are periodically reviewed and the outputs validated.

* **Level 3:** Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

	Group			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2013				
Listed equities	13 483	–	–	13 483
Unlisted investments	–	–	–	–
Total	13 483	–	–	13 483
2012				
Unlisted investments	–	–	–	–
Total	–	–	–	–

31. FINANCIAL RISK MANAGEMENT (continued)

Fair value hierarchy (continued)

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2013				
Listed equities	13 483	–	–	13 483
Unlisted investments	–	59 170	–	59 170
Total	13 483	59 170	–	72 653
2012				
Unlisted investments	–	17 121	–	17 121
Total	–	17 121	–	17 121

Financial assets by category

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

	Fair value through profit and loss R'000	Loans and receivables R'000	Held-to-maturity investments R'000	Total R'000
Group – 2013				
Investment listed equity investments	13 483			13 483
Investment unlisted equity investments	–			–
Loans and receivables – advances	–	1 923 962	–	1 923 962
Instalment sale receivables	–	35 605	–	35 605
Held to maturity investments	–	–	1 026 383	1 026 383
Cash and short-term deposits	–	350 919	–	350 919
Other receivables	–	31 874	–	31 874
Investment in preference shares	–	–	37 658	37 658
	13 483	2 342 360	1 064 041	3 419 884
Company – 2013				
Investment listed equity investments	13 483			13 483
Investment unlisted equity investments	59 170			59 170
Loans and receivables – advances	–	2 011 746	–	2 011 746
Instalment sale receivables	–	–	–	–
Held to maturity investments	–	–	1 026 383	1 026 383
Cash and short-term deposits	–	343 205	–	343 205
Other receivables	–	22 461	–	22 461
Investment in preference shares	–	–	39 372	39 372
	72 653	2 377 412	1 065 755	3 515 820

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

31. FINANCIAL RISK MANAGEMENT (continued)

Financial assets by category (continued)

	Fair value through profit and loss R'000	Loans and receivables R'000	Held-to-maturity investments R'000	Total R'000
Group – 2012				
Investment listed equity investments	–	–	–	–
Investment unlisted equity investments	–	–	–	–
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	–	10 614	–	10 614
Investment in preference shares	–	–	2 500	2 500
	–	2 161 985	1 137 255	3 299 240
Company – 2012				
Investment listed equity investments	–	–	–	–
Investment unlisted equity investments	17 121			17 121
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	–	4 984	–	4 984
Investment in preference shares	–	–	2 500	2 500
	17 121	2 187 362	1 137 255	3 341 738

Financial liabilities by category

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

	Group		Company	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
Financial liabilities at amortised cost				
Other financial liabilities	**429 617**	438 317	**412 619**	427 925
Trade and other payables	**14 345**	5 789	**4 042**	2 180
Funds under management	**856 926**	697 462	**856 926**	697 462
	1 300 888	1 141 568	**1 273 587**	1 127 567

32. 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	**2013 % equity interest**	2012 % equity interest
Gateway Homeloans Proprietary Limited	RSA	100	100
Gateway Homeloans 001 Proprietary Limited	RSA	100	100
Cape Town Community Housing Company Proprietary Limited	RSA	100	100
Trust for Urban Housing Finance Holdings Proprietary Limited	RSA	33,5	27
Housing Investment Partners Proprietary Limited	RSA	33	33
Mortgage Default Insurance Company Proprietary Limited	RSA	100	–

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:

	Group			
	2013 Amounts owed by/ to related parties R'000	**2013 Transactions with related parties R'000**	2012 Amounts owed by/ to related parties R'000	2012 Transactions with related parties R'000
Related party				
Transactions with other public entities				
Thubelisha/NDoHS				
Advances	**14 306**	**–**	14 306	–

	Company			
	2013 Amounts owed by/ to related parties R'000	**2013 Transactions with related parties R'000**	2012 Amounts owed by/ to related parties R'000	2012 Transactions with related parties R'000
Cape Town Community Housing Company Proprietary Limited				
– Debentures	**24 361**	**–**	21 877	–
– Advances	**82 392**	**–**	68 091	–
– Disbursements	**–**	**26 940**	–	21 035
– Interest received	**–**	**3 976**	–	4 142
– Working capital loan	**6 806**	**6 806**	7 814	7 814
– Accounts receivable	**–**	**594**	–	981
Thubelisha/NDoHS				
Advances	**14 306**	**–**	14 306	–

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

32. RELATED PARTIES DISCLOSURE (continued)

	Company			
	2013 Amounts owed by/ to related parties R'000	2013 Transactions with related parties R'000	2012 Amounts owed by/ to related parties R'000	2012 Transactions with related parties R'000
Housing Investment Partners Proprietary Limited				
– Working capital (loan)	7 227	7 227	1 039	1 039
– Advance	–	1 641	–	–
– Interest received	–	65	–	–
Trust for Urban Housing Finance Holdings Proprietary Limited				
– Advances	305 745	–	445 222	–
– Disbursements	–		–	50 000
– Interest received	–	24 856	–	29 602

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 2013, the amount owed by Thubelisha was fully impaired in the previous financial years.

Although the NHFC has a relationship with our sole shareholder, the Department of Human Settlements (DoHS), and acts as agent in certain instances, due to IPSAS 20, the NHFC need not disclose balances or the value of transactions between the parties.

Transactions with key management personnel are disclosed under note 33.

33. DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

33.1 National Housing Finance Corporation Soc Limited

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

	Fees	Short-term employee benefits Salaries	Short-term employee benefits Bonuses	Post employment pension and medical benefits	Other*	**Total 2013**	Total 2012
	R'000	R'000	R'000	R'000	R'000	**R'000**	R'000
Chairman							
Prof M Katz	–	–	–	–	–	**–**	–
Directors – Independent non-executives	2 893	–	–	–	74	**2 967**	840
Tax adjustment**	843	–	–	–	–	**843**	–
S Tati	344	–	–	–	–	**344**	168
S Ntsaluba	326	–	–	–	–	**326**	114
S Khoza	62	–	–	–	–	**62**	98
S Swanepoel	207	–	–	–	–	**207**	83
AW Houston	289	–	–	–	74	**363**	102
J Coetzee	632	–	–	–	–	**632**	203
P Ramarumo	190	–	–	–	–	**190**	72
Chief Executive Officer and Executive Director							
S Moraba		3 115	2 992	358	–	**6 465**	6 204
Senior managers		13 622	5 779	2 243	–	**21 644**	17 521
Z Lupondwana		966	55	134	–	**1 155**	279
N Ntshingila		1 075	720	137	–	**1 932**	1 756
S Mutepe***		788	1 117	70	–	**1 975**	2 815
A Chimpondah		1 355	976	149	–	**2 480**	2 492
L Lehabe		1 289	922	195	–	**2 406**	2 147
S Mogane		1 079	263	211	–	**1 553**	944
S Madikizela		957	191	138	–	**1 286**	1 175
Z Adams		1 200	931	271	–	**2 402**	2 161
A Govender		877	195	170	–	**1 242**	1 167
M Mamatela		1 213	627	108	–	**1 948**	1 522
R Moodley		938	184	220	–	**1 342**	1 238
M Maluleke		826	168	175	–	**1 169**	1 112
A Mohale		772	113	135	–	**1 020**	318
T Sihlaba		1 075	434	200	–	**1 709**	1 210
Management costs		16 737	8 771	2 601	–	**28 109**	23 725

Note: Professor 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.*

** *The tax adjustment of R843 000 relates to tax for director's fees not accounted for and therefore not disclosed in the previous years.*

*** *Sydney Mutepe resigned from the NHFC effective from 12 October 2012. S Mutepe was seconded to the Government Employee Housing Scheme during the period from 1 April to 12 October 2012.*

Messrs S Moraba, A Chimpondah, S Mogane and Ms N Ntshingila currently serve on the subsidiary's board (CTCHC) however receive no remuneration for their services.

Notes to the annual financial statements (continued)

for the year ended 31 March 2013

33. DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS (continued)

33.2 Cape Town Community Housing Company Proprietary Limited

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

	Fees	Short-term employee benefits		Post employment pension and medical benefits	Other*	**Total 2013**	Total 2012
		Salaries	Bonuses				
	R'000	R'000	R'000	R'000	R'000	**R'000**	R'000
Chairman							
S Moraba	–	–	–	–	–	**–**	–
Directors – Non-executives	166	–	–	–	–	**166**	118
N Ntshingila	–	–	–	–	–	**–**	–
A Chimpondah	–	–	–	–	–	**–**	–
S Mogane	–	–	–	–	–	**–**	–
AD Egbers	42	–	–	–	–	**42**	23
R Fisher	24	–	–	–	–	**24**	34
P Naylor	47	–	–	–	–	**47**	35
DTV Msibi	37	–	–	–	–	**37**	27
A Viljoen	16	–	–	–	–	**16**	–
Chief Executive Officer and Executive Director							
F Mudimu		1 273	–	148	–	**1 421**	1 443
Key members of management		2 531	–	273	199	**3 004**	2 646
P Jones		940	–	119	72	**1 132**	1 164
W Jurgens		805	–	102	60	**968**	997
S Stofile		410	–	52	67	**529**	375
F Moos		375	–	–	–	**375**	–
D van Wyk		–	–	–	–	**–**	110
Management costs		3 804	–	421	199	**4 425**	4 089

* *Other includes travel costs for management.*

Messrs S Moraba, A Chimpondah, S Mogane and Ms N Ntshingila are executives of the holding company (NHFC) and currently serve on the subsidiary's board. However they receive no remuneration as board members.

Performance report

for the year ended 31 March 2013 in terms of Section 55(2) of the PFMA

34. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Blue Financial Services Limited (BFS)

Blue Financial Services Limited (Blue), a JSE Stock Exchange listed entity in which the NHFC has 67 415 730 shares, was at the request of its Board of Directors, temporarily suspended from the JSE Stock Exchange on 26 June 2013 until a further announcement is made. The suspension is due to the company not being in a position to publish its consolidated results of the Group for the financial year ended 28 February 2013 within the period prescribed by the JSE listing requirements which is 28 June 2013.

The investment of the NHFC is equivalent to 0,88% of the total issued share capital of Blue Financial Services Limited. The management of the NHFC is continuously monitoring the developments at Blue.

35. CHANGE IN ACCOUNTING POLICY

Comparative figures have been adjusted to conform to changes in measurement in the current year. Comparatives were adjusted as a result of the change in accounting policy in accordance with GRAP 104 Financial Instruments which became effective in the current year with retrospective adjustments. The equity investments were measured at cost in the prior years, they are now measured at fair value in accordance with GRAP 104 (Financial Instruments).

The impact of the change is disclosed in the note below.

	Company		
	2012 Previously reported R'000	2012 Adjustment R'000	2012 Restated R'000
Restatement of comparatives			
Company statement of financial position			
Non-current assets			
Investment in subsidiary			
– Cape Town Community Housing Proprietary Limited	2 000	3 836	5 836
Investment in associate			
– Housing Investment Partners Proprietary Limited	7 233	907	8 140
– Trust for Urban Housing Finance Proprietary Limited	2 437	708	3 145
Deferred tax asset (liabilities)	4 883	(1 017)	3 866
Equity			
Retained earnings	1 179 337	4 435	1 183 772
Company statement of financial performance			
Gross profit	151 155	–	151 155
Other operating income	1 318	5 452	6 770
Administrative expenses	(84 767)	–	(84 767)
Other operating expenses	(20 222)	–	(20 222)
Operating income	47 484	5 452	52 936
Finance costs	(15 694)	–	(15 694)
Surplus before tax	31 790	5 452	37 242
Income tax expense	(9 175)	(1 017)	(10 192)
Surplus for the year	22 615	4 435	27 050

Performance report (continued)

for the year ended 31 March 2013 in terms of Section 55(2) of the PFMA

BUDGETED AND ACTUAL GROUP RESULTS FOR THE YEAR ENDED 31 MARCH 2013

Consolidated statement of financial performance

	Actual R'000	Budget R'000
Income		
Lending income	144 817	176 109
Investment income	37 731	29 536
Sale of houses	19 465	19 935
Other income	26 716	15 829
Total income	228 729	241 409
Impairments	(15 457)	(46 437)
Cost of sales	(16 489)	(15 308)
Operating expenses	(128 987)	(145 860)
Operating profit	67 796	33 804
Share of profit of associates	6 955	3 281
Fair value loss adjustment on equity investment	(16 517)	–
Interest paid	(24 594)	(25 237)
Surplus before tax	33 640	11 848
Tax	(14 236)	(2 780)
Surplus after tax	19 404	9 068

The results of the Cape Town Community Housing Company Proprietary Limited (CTCHC) and the Mortgage Default Insurance Soc Limited 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:

1) Lending income was impacted by below budget disbursements where 83% of the budget was achieved. The key driver of lending income is the level of disbursements achieved, the timing thereof and the prevailing interest rates. At the NHFC, disbursements this year were heavily skewed towards the latter half of the year which meant capital resided in the investment portfolio as opposed to loans and advances. In addition interest rates dropped by 0,50% which negatively affected lending income.

2) Delayed sale of housing units at CTCHC:
   - The planned sale of 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.

3) The impairments charge was significantly less than expected due to lower than budgeted business activity as well as a concerted effort to manage credit risk.

4) Operational expenses savings were achieved by the company with less business activity and less utilisation of third party consultants.

5) Fair value adjustment of R16,5 million is for an equity investment listed on the JSE Stock Exchange. Refer to note 8 for details.

Consolidated statement of financial position
as at 31 March 2013

	Actual R'000	Budget R'000
ASSETS		
Non-current assets		
Loans and receivables – advances*	1 923 962	1 831 914
Investment – Blue Financial Services Limited	13 483	–
Investment – Greenstart Proprietary Limited	2 500	2 500
Investment in associates	80 980	80 718
Property, plant and equipment	1 336	4 069
Intangible assets	390	–
Instalment sale receivables	29 105	41 345
Investment property	78 584	72 755
Goodwill	2 714	2 714
Deferred taxation	11 760	4 884
	2 144 814	2 040 899
Current assets		
Properties developed for sale	80 979	137 645
Instalment sale receivables	6 500	6 454
Other receivables and prepayments	32 023	25 613
Held-to-maturity investments	1 026 383	850 703
Cash and short-term deposits	350 919	200 048
Income tax receivable	–	4 364
	1 496 804	1 224 827
Total assets	3 641 618	3 265 726
NET ASSETS AND LIABILITIES		
Net assets		
Issued capital	842	842
Share premium	879 158	879 158
Grant capital	200 000	–
Retained earnings	1 217 079	1 217 079
Distributable reserve – current year	19 405	9 068
Total net assets	2 316 484	2 106 147
Non-current liabilities		
Funds under management	856 926	607 143
Other financial liabilities#	429 617	521 403
	1 286 543	1 128 546
Current liabilities		
Income tax payable	5 349	–
Provisions	17 746	8 158
Trade and other payables	15 496	22 875
	38 591	31 033
Total liabilities	1 325 134	1 159 579
Total net assets and liabilities	3 641 618	3 265 726

** This is both non-current and current assets as disclosed in the main financial statements (page 49).*

 # This is both non-curent and current other financial liabilities as disclosed in the main financial statements (page 49).

Performance report (continued)

for the year ended 31 March 2013 in terms of Section 55(2) of the PFMA

KEY PERFORMANCE INDICATORS

The year under review was characterised by a challenging trading environment. Of significance is the achievement of aggressive growth in project approvals of R1,39 billion against a budget of R788 million. The high level of approvals was achieved mainly due to a concerted effort by management to provide innovative solutions to an ever demanding client base. Great success was achieved in the Commercial and Strategic Partnerships and Investments mainly due to significant approvals from key clients. Included in Strategic Partnerships and Investments, is a single partnership transaction of R300 million which will leverage over R12 billion in private sector funding over the coming six to seven years.

R480 million, which constitutes 83% of the budget, was disbursed. Of the disbursed amount, R136,5 million investment went into social housing projects which are all included in the Projects division. While approvals were above budget during the year, as noted in the Chief Executive Officer's report, conversion from approvals to disbursements proved challenging and this is reflected in the disparity between the approvals and disbursements. Behind this challenge are a number of attributable factors such as banks' reduced appetite for mortgage lending (due to among other things, regulatory uncertainty, high household indebtedness, high unemployment); capacity constraints at municipalities (affecting delivery of bulk services, delays in obtaining clearance certificates and bond registrations) and more complex multiple funding structures, which require protracted negotiations. In addition it must be noted that the NHFC had a strong approval rate of loans in the latter half of the year which means most of these clients will begin to draw on funds in 2013/14 onwards.

The NHFC was able to leverage a significant amount of capital from third parties which will also be deployed in the coming years. Due to the delayed disbursements (largely in the second half of the financial year), NHFC's housing impact largely came through the impact of leveraged funds at over 20 000 housing units this year.

The success of leveraging private sector funding is demonstrated by the total housing impact of 27 593 versus 13 926 in the budget.

Overall, affordability remains a challenge because of households' high indebtedness, low growth in employment, and lowered appetite for banks to fund mortgage lending. This is further dampened by the slow economic growth outlook. However, the outlook for the NHFC and other participants in the affordable housing market remains positive due to the significant backlog in this market. Recent pricing trends in this sector also attest to the underlying strength of demand for affordable housing.

for the year ended 31 March 2013	Actual	Budget
FUNDING IMPACT		
Number of approvals		
Projects	20	16
Commercial	3	2
Strategic Investments	3	1
Total number of approvals	26	19
Value of approvals (R'm)		
Projects	493	563
Commercial	308	130
Strategic investments	584	95
Total value of approvals (R'm)	1 385	788
Disbursements (R'm)		
Projects	290	380
Commercial	168	109
Retail	2	–
Strategic investments	20	91
Total value of disbursements (R'm)	480	580
Leveraged funds (R'm)	2 500	1 323
Total funding impact	2 980	1 903
DEVELOPMENTAL IMPACT		
Housing opportunities		
Housing units	7 486	4 722
Incremental and mortgage loans	5 334	6 636
Strategic investments	66	255
Total impact	12 886	11 613
Impact leveraged through others	14 707	2 313
Total impact	27 593	13 926
Beneficiaries benefiting	104 853	52 919
Number of jobs created	9 249	7 547
Value of disbursements targeted towards women-managed/owned companies (R'm)	40	80

Performance report (continued)

for the year ended 31 March 2013 in terms of Section 55(2) of the PFMA

Indicator	Target	Performance
Finalisation of the business model and launch of MDIC	March 2013	• The insurance premium model has been refined • The business model, processes and systems are nearing finalisation • The critical outstanding issues are a decision from National Treasury to fund the business to the extent of between R715 million and R1 billion • Closely aligned with the funding approval, is the issue of securing an insurance licence from the Financial Services Board • A revised launch date will only be finalised after the regulatory affairs and funding is confirmed by National Treasury
Completion of sale of the Retail Book	March 2013	• The tender process for the sale of the retail loan book commenced in October 2012 and was completed in February 2013 • Although the process attracted interest of five bidders none of them formally submitted a bid • NHFC management are evaluating a number of strategic options for the book including the possible outsourcing of the collections
Approval and implementation of Funding Plan and implementation of a financially sustainable business model	June 2012	• The Funding Plan was approved by the Board at its meeting in November 2011 following the approval of the Strategic Plan in September 2011 • The Department of Human Settlements approved the NHFC's borrowing of R800 million over a three year planning cycle (2013/14 to 2015/16) • The process to obtain concurrent approval of the above programme from National Treasury is underway • In addition equity funding is being proactively sourced in order to ensure a blended capital structure
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 the Human Settlements 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 has commenced and requires various approvals from Cabinet as well as additional work such as undertaking a due diligence, finalising the business case for the consolidation, and lastly, the consolidation and integration of the businesses

Indicator	Target	Performance
Provision for impairments: Gross advances	7,5%	8,7% at year end The targeted ratio was not achieved due to the increase in the level of impairments mainly as a consequence of a key client.
Total operating expenditure to total income	72,62% (in 2013/14), with longer-term target at below 50%	68,73% (group) The operating expenses were affected by subdued revenue growth and increase in operating costs in line with inflation. In addition the operating losses of MDIC and poor performance of CTCHC had a bearing on this ratio
Return on equity (ROE)	0,43% (in 2013/14), with longer-term target of CPI (assumed at 5,0% per annum)	0,84% (group). 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; and • the slow disposal of the legacy stock at CTCHC.
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	• Intermediaries are required to comply with NCA regulations with regard to credit granting. The role of the NHFC is to monitor regulatory compliance of the intermediaries to whom it extends finance. This is monitored through the submission of the list of debtors with all details prior to disbursement of funds • As the Commercial business provides incremental housing finance, new financial intermediaries into the affordable market are encouraged, coached and assisted to understand this market and business model. As a result, these clients do business with the NHFC. For example three new Commercial business clients have been granted facilities by the NHFC during the financial year under review

Notes

Administration

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1996/005577/30

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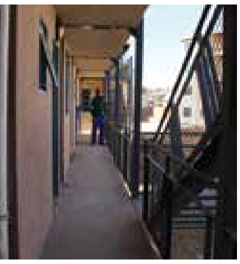

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