Integrated Annual Report 2017

A new dawn for people's housing

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

About this report

This integrated report is the National Housing Finance Corporation's primary annual communication with stakeholders. It seeks to set out, in a concise, comparable and consistent manner, how our strategy and performance in the year reviewed have had material impacts (both positive and negative) on our stakeholders, on delivering on our shareholder's mandate and on the social, human and natural capitals.

In this, our third integrated report, we assert that the 2016/17 report has, in all material respects, been compiled in keeping with the guiding principles of the International Integrated Reporting <IR> Framework.

As was the case in the previous year, the Global Reporting Initiative (GRI) G4 framework has been referenced and a report on our execution against G4 is available on the NHFC website (www.nhfc.co.za).

As a Schedule 3A state-owned company (SOC), the NHFC is obliged to align its reporting with the Public Finance Management Act (PFMA) (1999) and National Treasury regulations. This report has, further, been compiled in accordance with the Companies Act (2008) and the King III Code of Governance for South Africa (King III).

Scope and boundary

This report covers the financial year ended 31 March 2017. The report sets out our impacts as a company and as a group, including our shareholdings in subsidiary and associate companies.

As communicated in the previous (2015/16) report, a process of consolidation within the state-owned development finance institution (DFI) space is underway and is expected to be finalised in the 2017/18 year. It is anticipated that this consolidation will have profound impacts on the structures, business model and operations of the NHFC. While the narrative of this report reflects some of our leadership's forward-looking views on this process, we report here on the NHFC as constituted in 1996.

Forward-looking statements

This report contains statements on our future business, structural, operational and financial outlook and performance, and future events and developments, which may constitute forward-looking statements. Such statements are based on reasonable current expectations and assumptions which, in turn, are based on external factors and influences, some of which are beyond our control. Whether these expectations or assumptions are reflected in future performance depends on several risks, uncertainties and factors, some of which are discussed in the risk section of this report.

Board statement of responsibility

The board has applied its collective mind to the content, preparation and presentation of this 2016/17 report and is satisfied with its integrity and completeness and that it has been prepared in accordance with the International Integrated Reporting Framework. On 20 July 2017 the board approved this report for release.

A new dawn for people's housing

In 2017/18 the NHFC, its partners and beneficiaries look towards an exciting new chapter in the corporation's history. Of course this chapter has yet to be written but we know that it will entail an enlarged new entity, the Human Settlements Development Bank (HSDB), which will be able to draw on greater human and financial resources – to put even more people into decent housing in which they can raise their families and prosper.

The NHFC's business has never been about bricks, mortar or plumbing; rather it has always been about people, those South African citizens who deserve the opportunity to live in dignified, secure spaces. For this reason, while looking towards an exciting new chapter, a new dawn for our organisation, we take as this year's report theme the ordinary (and sometimes extraordinary) people who, for 21 years, have been at the heart of our value-creation story.

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Steen Villas, Cape Town

OVERVIEW

2017 REVIEW

Riverside Mews, Parklands, Cape Town

The NHFC is mandated to make housing finance affordable and accessible to individuals and households with monthly incomes of between R1 500 and R15 000 per month

ACRONYMS AND ABBREVIATIONS

AFD	*Agence Française de Développement*
APP	*Annual performance plan*
B-BBEE	*Broad-based black economic empowerment*
CEO	*Chief Executive Officer*
CTCHC	*Cape Town Community Housing Company (Pty) Limited*
DFI	*Development finance institution*
DHS	*Department of Human Settlements*
EIB	*European Investment Bank*
EXCO	*Executive Committee*
FLISP	*Finance Linked Individual Subsidy Programme*
GPF	*Gauteng Partnership Fund*
GRI	*Global Reporting Initiative*
HIP	*Housing Investment Partners (Pty) Limited*
IHS	*International Housing Solutions (Pty) Limited*
ILO	*International Labour Organization*
IT	*Information technology*
MTSF	*Medium Term Strategic Framework*
NHFC	*National Housing Finance Corporation SOC Limited*
NURCHA	*National Urban Reconstruction and Housing Agency*
OMCH	*Old Mutual Capital Holdings (Pty) Limited*
PFMA	*Public Finance Management Act (1999)*
RHLF	*Rural Housing Loan Fund*
RFI	*Retail finance intermediary*
SEC	*Social and Ethics Committee*
SOC	*State-owned company*
SHI	*Social housing institution*
TUHF	*Trust for Urban Housing Finance Holdings (Pty) Limited*

DEFINITIONS

GAP MARKET: People earning a combined monthly income between R3 500 and R15 000. These are the income earners who earn too much to get a free house from the government and earn too little to get a mortgage loan.

NHFC TARGET MARKET: South African households with an income of between R1 500 and R15 000.

Determining materiality

Morgan's Villas, Mitchells Plain, Cape Town

Our strategy – and our external reporting on our strategic performance – derive from our most material issues.

Determination of what is most material to the NHFC is framed by our Shareholder Mandate which prescribes the social outputs and outcomes which the corporation exists to create. Within this framework, we define material matters as those that substantively affect our "ability to create value over the short, medium and long-term" (the International Integrated Reporting Framework) and which "substantively influence the assessments and decisions of stakeholders" (the Global Reporting Initiative).

Since its inception, the NHFC has put stakeholder relationships at the heart of its business model. It is therefore appropriate that the concerns and interests of the most material stakeholders should be at the heart of the NHFC's materiality-determination processes. Our most material stakeholder expectations are aligned with the broad expectations of the Shareholder, as expressed in the mandate. These may be broadly summarised as:

- Development funding and impact on the effective creation of affordable housing opportunities;
- Financial sustainability;
- Socio-economic and environmental impact;
- The provision of products which are responsive to market needs.

In addition to the above, our Shareholder and our key stakeholders appreciate that our operating context: economic, financial, social and regulatory, has a profound impact on our ability to deliver results and, hence, on the NHFC's strategy.

In determining the strategy that is most appropriate to the NHFC complying with the Shareholder Mandate, effectively executing against stakeholder expectations and ensuring its ability to create value, risk and opportunity management is a most material consideration.

In the year reported a new Shareholder imperative was added to expectations of the NHFC: effective and timeous delivery on the establishment of the new larger, more impactful Human Settlements Development Bank. Inevitably, this imperative was a most material issue in our strategy formulation going forward.

Material matters are ranked according to the extent to which they affect the NHFC's social impact and financial stability. This ranking is then tested against the Board's perception of, firstly, stakeholder interests and expectations and, secondly, our prioritisation and relative weighting of risks.

From this analysis we derive our strategic objectives and our detailed strategy, performance on which is the primary objective of this integrated annual report.

Southern Mews, Parklands, Cape Town

The key outcome of the NHFC's work is the provision of decent housing which, without our intervention, would not be possible

About the National Housing Finance Corporation

HOW OUR PEOPLE CREATE VALUE

The NHFC is a state-owned company whose mandate from its shareholder, represented by the Minister of Human Settlements, is to make housing finance affordable and accessible to individuals and households with monthly incomes of between R1 500 and R15 000 per month.

The key outcome of the NHFC's work is the provision of decent housing which, without our intervention, would not be possible.

We work in the social and affordable housing spaces, areas of great need but which are under-serviced by the private sector. To deliver housing to the Gap Market on as large a scale as possible, we use a number of delivery mechanisms. These are as follows:

SOCIAL HOUSING - RENTAL

This is subsidised rental housing made available by social housing institutions which are registered with the Social Housing Regulatory Authority (SHRA). Rentals are at below market rates due to the grants and subsidies provided as initial project funding by various spheres of government via SHRA. Typically, the NHFC provides 30%-35% of project funding as secured debt funding with the balance provided by SHRA and the provinces.

PRIVATELY-OWNED RENTAL HOUSING

We provide long-term funding to develop or refurbish affordable privately-owned rental accommodation. Such housing – including inner-city developments – has typically represented a third of the funding made available by the NHFC.

HOME OWNERSHIP

We invest in developments where individuals buy completed units through mortgages (with a value not exceeding R500 000). Loans are provided to homeowners via NHFC clients who are non-banking retail intermediaries.

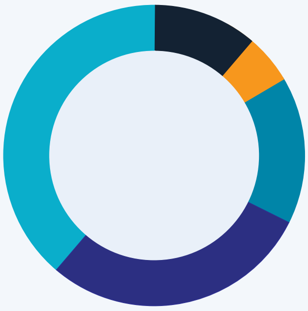
INCREMENTAL HOUSING

We provide funding to non-banking intermediaries who on-lend funding to home owners for incremental improvements including building additional living space. Loans average R15 000.

STRATEGIC PARTNERSHIPS

Working with investors, developers and housing development agencies and funds, we seek to leverage private-sector and development funding to create affordable housing. We achieve this through the provision of risk capital or various debt instruments.

How our funding portfolio is deployed by sector



Social housing 39%
Privately-owned rental housing 29%
Home ownership 16%
Incremental housing 6%
Strategic partnerships 10%

HOW OUR PARTNERSHIPS CREATE VALUE

Stakeholder engagement is not merely important to us at the NHFC, it is the very reason for our existence. It is only by continuously engaging with a wide range of external stakeholders that in two decades our people have been able to unlock almost R20 billion in third-party funding for affordable housing and have facilitated the development of more than half a million housing units.

SOME OF OUR KEY STAKEHOLDERS

We engage openly and frankly with all key stakeholders and are always diligent in our reporting to them so as to meet their internal mandates and own reporting parameters, stakeholder obligations and performance indicators.

NHFC management meets regularly with stakeholders including funders, investees, co-funders, partners and potential partners while paying close attention to the interests and well-being of clients, intermediaries and developers.

In the case of the NHFC's Shareholder, we report quarterly in detail as well as producing an annual performance plan and annual performance report. These reporting exercises bind us to the delivery of specific outcomes.

In March 2017 we engaged with key stakeholders to solicit their expectations of the new Human Settlements Development Bank (HSDB). Clear direction was received from stakeholders on their expectations of the HSDB. These include clearly enunciated strategy, innovation and, from clients, greater clarity on eligibility criteria and adjudication of applications.

Government

The NHFC was created in 1996 with an initial capitalisation of R880 million. Only in 2014/15 did the state recapitalise the corporation – to the amount of R230 million. Government's Medium-Term Expenditure Framework (to 2018), includes recapitalisation of the NHFC by an additional R300 million which has since been received. The NHFC receives its mandate from, and is answerable to, the Department of Human Settlements. In executing its oversight role, Parliament's Human Settlements portfolio committee takes an interest in our work – and impacts.

Agence Francaise de Developpement (AFD)

Has advanced R205 million in loan funding since 2011, funds which have been used to unlock R391 million in investment, resulting in 8 960 housing opportunities.

European Investment Bank (EIB)

Has provided a R216 million facility which has been used to unlock R701 million in investment, resulting in 8 984 housing opportunities.

The Trust for Urban Housing Finance (TUHF)

The NHFC, as the promoter, provided seed capital of R10 million to TUHF in 2004. Since then, the NHFC has invested additional capital in the form of equity, preference shares as well as in senior debt. TUHF, as a wholesaler funder, provides funding to property investors mainly in inner city developments. Through this funding from the NHFC and other sources, TUHF has enabled investment in more than R4 billion in inner city affordable rental accommodation.

The fair value of the NHFC's total exposure to TUHF was R383 million at year end. In addition, the NHFC received a dividend of R6 million from the investment.

Housing Investment Partners (HIP)

We hold a 33.33% equity stake in HIP which is a fund management company. The rest of the equity is held by Old Mutual Capital Holdings (Pty) Ltd.

HIP provides an innovative income-linked mortgage loan product which largely eliminates interest rate volatility for the home owner.

The fair value of the NHFC's investment in HIP was R207 million in the form of equity, shareholders loans and junior debt.

The NHFC's total committed capital of R270 million risk capital (junior debt) has leveraged R1.1 billion in private sector funding which is expected to fund 2 700 mortgage loans to home owners

International Housing Solutions (IHS)

As a private equity investor, IHS has set up two property funds with the first fund closing with R1.9 billion in 2008 and the second (Fund II) which has, so far, raised R1.65 billion (in equity and quasi-equity).

This funding was raised from a range of institutional investors and is typically matched with debt funding. In the first fund, the NHFC was a senior debt provider and invested a total of approximately R167 million in various projects of which at financial year end, R25 million was outstanding after a settlement by the client during the year.

In the case of Fund II, R.3.5 billion debt funding will be matched with the R1.6 billion equity and quasi-equity funding to provide approximately 10 500 homes. The NHFC has committed R300 million in equity funding and may selectively invest additional capital in debt funding at project level.

At year end, R8.2 million of our equity commitment in Fund II had been disbursed.

Social Housing institutions

For the year under review the NHFC granted R143 million in loans to SHI's and disbursed a R197 million that generated 1 861 housing units.

Under this initiative, the NHFC has disbursed R65.6 million of an approved R84.5 million.

Property developers and private landlords

In 2016/17, NHFC through its direct lending and leveraging activities extended R1 133 million to build, renovate or convert properties for affordable housing, either for rental or for sale. Units delivered under this funding programme were 6 547.

Banks

The NHFC maintains working relationships with South Africa's leading commercial banks, both directly and through its strategic partners. In 2016/17, through the FLISP programme, subsidy disbursements of R45 million leveraged R319 million for affordable housing, benefitting 1 083 beneficiaries.

Retail financial intermediaries

We have a large facility of R120 million with a non-banking institution through whom we were able to leverage R611 million that generated 27 745 incremental loans in the year under review.

Gauteng Partnership Fund (GPF)

In 2012, the NHFC entered into a partnership with the Gauteng Partnership Fund (of the Gauteng Provincial Government) to stimulate investment in housing by emerging property investors through the Emerging Entrepreneur Empowerment Property Fund. The product is unique in that it affords empowerment property investors the opportunity to acquire property with minimal equity capital. This is done through matching GPF's loans with the NHFC debt funding which are both provided at concessional rates.

Under this initiative, the NHFC has disbursed R65.6 million of approved R84.5 million.

To date, the fund has benefitted 14 businesses which are wholly owned by historical disadvantaged individuals resulting in the creation of 444 housing units.

Tenants and homeowners

These are the ultimate beneficiaries of the social value we, and our partners, create.

In delivering to them decent, affordable housing we must ensure, at all times, that every aspect of our work is both ethical and effective.

Our operating context

Between 1994 and 2017 South Africa has witnessed one of the largest and most concerted state-sponsored affordable/low-cost housing drives in history.

Since the advent of democracy, some 2.8 million government-subsidised houses have been built and over 120 000 social rental units provided through state interventions. Despite the scale of this (largely successful) project, this country's affordable-housing challenges remain daunting.

An estimated 40% of the South African population (or some 6.4 million households) fall into the housing Gap Market. These are households with monthly incomes of between R3 500 and R15 000. As such, without external support, they earn less than is necessary to qualify for mortgages. It is precisely in providing for the needs of the Gap Market that the NHFC and its various partners undertake various initiatives and interventions. (In 2015 both the National Credit Regulator and the Banking Association South Africa estimated that fewer than 8% of mortgages were issued to the Gap Market.)

Housing the Gap Market

Addressing the needs of the housing Gap Market is an important priority of the Ministry of Human Settlements' Medium Term Strategic Framework (MTSF) which targets the delivery of 1.5 million new housing opportunities over the five-year period to 2019. However, since 2012, housing delivery has slowed and various macroeconomic headwinds have militated against achievement of this objective.

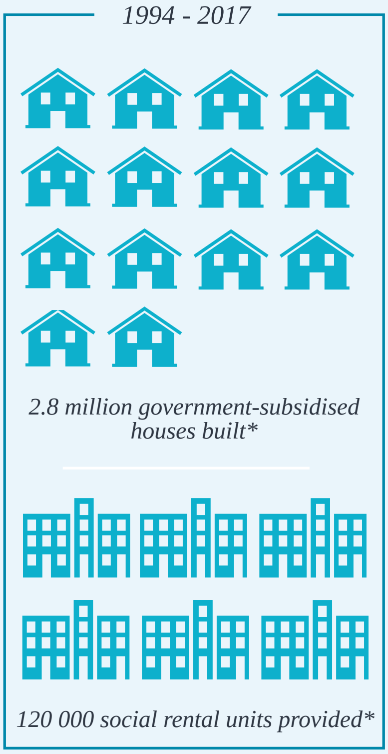
Minimal economic growth and job losses, combined with recent record levels of consumer indebtedness, have dampened the ability of those beneficiaries in the housing markets targeted by the corporation to contribute towards the cost of their own housing. Exacerbating this situation was the fact that, in 2016, consumer confidence was lowest among low to middle-income groups.

Recently interest rates have inched higher, at the end of the 2016/17 year the prime lending rate standing at 10.50%, 2% higher than a multi-decade low of 8.5% recorded three years previously.

Risks, challenges and opportunities

Subsequent to the year-end, ratings agencies' sovereign credit downgrades fuelled the spectre of recession and rising interest rates while higher borrowing costs signalled the likelihood that the state would have fewer resources to spend on basic services including housing. When the ultimate beneficiaries struggle to service their housing debt, the viability of new low-cost housing development is inevitably threatened, not infrequently translating into a higher proportion of non-performing loans and bad debts.

In this all-round challenging operating context, in the year reviewed there were, however, growing signs of greater private-sector willingness to invest in the Gap Market. Recently, for the first time, companies focused exclusively on the rental market have registered on the JSE Stock Exchange and Real Estate Investment Trust (REITs) have grown their investments into the affordable-housing space as have pension and provident funds. Increasingly, some of those at the upper end of the R1 500-R15 000 monthly income band have been able to secure funding from commercial lenders – a key desired NHFC outcome.



6.4 million

The number of households falling into the housing Gap Market.

R1 500 – **R15 000**

Monthly household income band for the market the NHFC is mandated to serve.

Target 2019

1.5 million

The number of new housing opportunities targeted by government.

*Source: DHS

In 2016/17 the NHFC facilitated 2 725 housing opportunities through disbursements, impacting 10 355 beneficiaries

Walmer Link, Port Elizabeth

Our value creation model

Here we depict how the NHFC Group, as it is currently constituted, creates value.
Our business model and all of our activities are informed by our values, mission and vision.

INPUTS

Human and Intellectual capital

	2015/16	2016/17
Employees (Group)	75	71
Training spend (R'000)	842	944

Social capital

Government mandate (social licence to operate)

Public and private sector partnerships

Financial capital *(R million)*

	2015/16	2016/17
Shareholder equity allocations	100	100
Debt funding	317	283
Capital and reserves	2 656	2 825

Natural capital

Land under development/building space being converted to housing - (m^2)

2015/16	2016/17
45 512 m^2	111 010 m^2

OUR BUSINESS MODEL

We utilise our (limited) inputs of financial and human capital to make housing finance targeting those earning R1 500 and R15 000 per month accessible and affordable. We secure funding from reserves, other multi-lateral institutions and government grants; evaluate, structure and fund projects; we earn interest and other forms of income (dividends etc); manage costs and invest in our staff; plough profits back into reserves

We seek to create wide-ranging value by:

- Providing wholesale funding to housing developments for ownership, social housing and private rental including 'incremental' housing
- Partnering with banks and other retail financial intermediaries to grow their lending into the low- and middle-income housing market
- Leveraging private-sector, donor and developmental funding for the low-to middle-income housing market
- Managing the Finance Linked Individual Subsidy Programme on behalf of the Gauteng provincial government
- Investing in emerging, 100%-black-owned

Demand side

Promoting private sector provisions of end-user finance to the target market

Wholesale funding to RFIs

Innovative solutions

Facilitating government subsidies

Income-linked mortgages

Instalment sales

FLISP

eg: Equity & debt investment in HIP

eg: Wholesale funding to RFIs

Supply side

Financing residential developments

Financing rental stock

Providing incremental loans for building

PROJECTS Social

Wholesale funding to RFIs

Wholesale funding to RFIs

PROJECTS Integrated

PROJECTS Multiple projects

PROJECTS Private rental

VALUES

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

MISSION

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

VISION

To be the leader in the development of the low- to middle-income housing market

OUTPUTS AND OUTCOMES

Financial Capital *(R million)*

Disbursements and leveraged financing for affordable housing

2015/16	2016/17
1 750	1 940

Manufactured capital

Social housing units

2015/16	2016/17
500	1 861

Private rental housing units

2015/16	2016/17
4 055	5 040

Incremental housing units

2015/16	2016/17
23 223	27 745

Affordable housing units

2015/16	2016/17
2 609	1 507

Jobs created

2015/16	2016/17
9 157	8 802

Historically-disadvantaged property entrepreneurs supported

18 (698 housing units built)

TRADE OFFS

Early loan settlements spoke to the success of our performance against the mandate and boosted liquidity in the short term but undermined longer-term revenue streams.

The risk of breaching covenants with key funders necessitated a sharper focus on the quality of the loan book, ultimately translating into more prudent credit management. This also meant that we needed to ensure that private applicants make adequate equity contributions to the deals being assessed to ensure robustness; the effect has been negative on deal flow, particularly the private rental business.

Our social-impact imperative requires us to assume risks which might be beyond the appetite of private investors; this year the bad debts and net impairments charge was a total of R95 million (4% of gross loans and advances), which was in line with the budgeted credit loss ratio.

Recently, the Shareholder has directed the NHFC to prioritise social housing and this was supported by additional capitalisation. Company loan approvals to social housing institutions were negatively impacted by the delayed adjustment to income bands which continued to render social housing projects unviable. Disbursements planned for social housing institutions were met, however.

Planning ahead

In 2017/18, it is envisaged that the NHFC will take over the assets and liabilities of the National Urban Reconstruction and Housing Agency and the Rural Housing Loan Fund. As a consolidated, larger affordable-housing DFI, our business model will undergo considerable re-engineering.

Enterprise risk management report

The NHFC has adopted the view that risk management is not a cost to the business but a generator of opportunities to meet strategic objectives, to grow our business and contribute towards the bottom line. However, this can only happen in organisations that have maturing risk management governance and frameworks in place. The national Department of Human Settlements rated our risk maturity as being at level 3., which is a defined risk management maturity level. The risk maturity level indicates that there is a link between risk management processes and organisational strategic objectives. The NHFC aims to achieve level 5 risk maturity level whereby risk management is linked to organisational strategy, planning and operational processes. (The department rates risk maturity by scores 1 to 5.)

NHFC management identifies strategic and operational risks and develops and implements risk management plans that are approved by the board and reported by management to the board risk committee on a quarterly basis.

Key strategic risks

The NHFC board continuously reviews the corporation's overall risk appetite and its top strategic risks to ensure that opportunities for growing the business and its positive outputs and outcomes are not lost either due to a fear of financial losses emanating from not understanding the risk universe, or as a result of excessive risk aversion.

The table below indicates top strategic risks and the measures taken to mitigate them. Each top risk identified is linked to an NHFC strategic objective.

Strategic objective	Risk
Expand housing finance activities through the effective provision of housing finance solutions	**Mandate breach risk** Operating outside of the mandate Inherent risk : Medium Residual risk: Low
	Market relevance risk Inherent risk : Medium Residual risk: Low
	Financial sustainability risk Inherent risk : High Residual risk: Medium
	Credit risk Inherent risk : High Residual risk: High
Facilitate increased and sustained lending by financial institutions to the lower end of the housing market.	**Investment risk** Inherent risk : High Residual risk: High
Mobilise sustainable funding in partnership with a broad range of institutions	**Funding risk** Inherent risk : Extreme Residual risk: Medium

Risk Legend

Extreme *High* *Medium* *Low*

Risk/ threat to achieving objective	Measures taken in 2016/17 to mitigate shortcomings
► Funding the market in ways that are not aligned with the mandate ► Failure to deliver on the shareholder's mandate or to exploit good opportunities.	► Submitted Annual Performance Plan (APP) to the shareholder for approval and reported on performance quarterly ► Complied with Credit Policy to ensure that funding approval is aligned with the mandate ► Rigorously complied with all aspects of NHFC corporate governance.
Limited ability to provide thought leadership in the low-middle income market	We provide support to a CAHF Citymark programme which, in turn, has partnered with a reputable affordable-housing research company to produce information and data, at a suburb/area level, on market size, market dynamics and performance of the various market segments.
Challenge in balancing developmental mandate with financial sustainability leading to APP targets not being met and opportunities missed (For more on our material credit risk, see the narrative following this table)	► Continuously evaluated corporate strategy to ensure alignment with market conditions ► Reviewed risk appetite statements twice in the year reported to ensure alignment with changing financial markets ► Board and management tracked financial sustainability ratios to ensure movement towards realising targets » Return on equity » Return on assets » Cost to income » Credit loss.
Challenge in granting quality loans, resulting in unsuccessful collections or credit risk in excess of risk tolerance.	► Compliance with the credit policy from the origination/initiation period of facilities ► Strengthened the post-investment monitoring process ► Improved collection process ► Introduced risk based pricing.
► Inability to attract suitable funding partners (Attrition of partners/emerging partners) ► Not realising expected returns from strategic investments.	Due to the pending DFI consolidation, NHFC did not seek new investment partners as experience showed that these potential partners preferred to first assess the financial strength of the new entity.
► Challenge to mobilise sustainable funding, raise debt at risk-appropriate prices and equity levels.	► Received grant capital of R100 million from the shareholder ► Continuous review of Risk Appetite statement and tolerance levels to ensure alignment with changing market conditions.

Enterprise risk management report (continued)

Strategic objective	Risk
Conduct activities in an ethical and effective manner that ensures the continued economic sustainability of the NHFC, while promoting social and environmental development	**Business Performance risk** Inherent risk: High Residual risk: High
	Technology and information risk Inherent risk: Medium Residual risk: Low
	HR risk Inherent risk: High Residual risk: Low
	Reputational risk Inherent risk: Medium Residual risk: Low
	Compliance risk Inherent risk: High Residual risk: Low

Risk/ threat to achieving objective	Measures taken in 2016/17 to mitigate shortcomings
Not achieving annual performance targets as a result of underperformance due to: ► Business interruptions caused by focusing on DFI Consolidation ► Impact on staff morale due to uncertainty brought about by the consolidation of the three DF entities ► Prevailing tough economic conditions which affects our ability to source bankable projects.	► Appointed a service provider to assist with advising and managing DFI Consolidation and creating a programme management to manage the consolidation process ► Established a Technical Evaluation Committee with the Social Housing Regulatory Authority to ensure submission of bankable social housing funding applications ► Partnered with Gauteng Partnership Fund for the financing of previously disadvantaged private landlords.
► Misalignment of IT strategy and business strategy ► In-appropriate IT platform ► Inadequate or failed internal processes.	► Reviewed IT governance structure and policies to ensure that they are still appropriate ► Reviewed IT strategy to ensure alignment with business strategy ► Internal Audit reviewed IT general controls and found that good controls were in place.
► Challenge in attracting and retaining talent ► Skilled and talented staff may be unsettled by the pending DFI consolidation.	► Implemented retention, succession plan and incentive strategies that has resulted in a staff turnover rate of 3.6% against a target of 8%.
► Loss of reputation	► Ensured adherence to good corporate governance ► Addressed stakeholder concerns.
► Non-compliance with legislation, regulations and policies	► Identified key legislation that has to be complied with ► Compliance is monitored by the compliance officer with the board providing oversight ► Compliance officer and Human Resources ensure adherence to our Code of Ethics ► Social and Ethics Committee provides oversight of adherence to the code.

Steen Villas, Cape Town

Bad debts, impairments and credit loss ratio at company level

	FY 2016	FY 2017
Current year's net impairment charge/(reversal) (R000)	100 684	(164 211)
Bad debt charge (for year) (R'000)	134 142	259 099
Gross loans & advances (closing) (R000)	2 330 406	2 117 775
Credit loss ratio (including bad debts)	9.0%	4.0%

Material credit risk

As a result of continued depressed trading conditions, we experienced another challenging (although improved) year with respect to impairments and write-offs (see above).

With a concerted effort being made in 2016/17 to manage the credit loss ratio, the company's final ratio for the year was 4.0%, which was in line with the budget of 4% as provided in our Annual Performance Plan.

The quality of the loan book remains strained with the non-performing book (as a percentage of the gross loan book) increasing from 23% as at 31 March 2016 to 24.8% at 31 March 2017. The quality of the loan book is a key performance indicator that is monitored closely by our financiers, NHFC management and the board.

Responses by NHFC management continue to be focused on:

- Raising the bar for new credit applications to ensure that projects are able to withstand expected vagaries in the economic environment;
- Closer monitoring of progress of building projects during construction with respect to costs and project timelines, and taking necessary remedial action whenever necessary;
- After project completion, paying closer attention to emerging industry and economic trends as well as client-specific developments and financial information;
- Restructuring of certain accounts to allow for a turnaround.

The outlook for 2017/18 indicates that in terms of collections and a turn-around of the loan book, the NHFC, like most financiers, will face substantial headwinds. The reasons are well articulated elsewhere in this report: subdued economic growth, poor consumer and business confidence and rising inflation and interest rates. We therefore expect that a number of clients will continue struggling to generate adequate operating cash flows to service their obligations.

Risk appetite statement at company level

NHFC has a risk appetite statement that is reviewed annually. We have improved our performance on some key risk indicators in terms of targets contained in our risk appetite statement compared to the previous financial year, as the table below illustrates

Key Risk Indicator	Risk Appetite	2016 actual achievement	2017 actual achievement
Growth in advances book	5%	-14%	- 2%
Credit loss ratio	3%	9%	4%
Return on equity	0.3%	-2.0%	0.3%
Return on assets	0.4%	-2.8%	1.6%
Private rental capital allocation	33%	34%	37%
Social Housing capital allocation	32%	34%	39%

The NHFC posted a net loss in the financial year-ending 31 March 2016. The table above indicates that we have turned the corner in many respects. It also illustrates that we have grown both the private and social housing rental portfolios. (Capital that could not be deployed towards integrated housing and home-ownership programmes was redeployed to private and social rental programmes.)

Internal controls

Internal Audit is an independent assurance function. Its objectives, authority and responsibilities are formally defined in an internal audit charter approved by the board's audit committee.

Internal Audit forms an integral part of the Enterprise Risk Management Framework.

The Internal Audit function is outsourced to an external service provider as per National Treasury Regulation 27.2.4. The appointed service provider developed a three-year risk-based internal audit plan which was approved by the audit committee and the 2016/17 financial year review completed.

The internal audit review covered five areas/departments of NHFC and four areas of its subsidiary, CTCHC. The internal audit review confirmed internal controls were satisfactory. Identified weaknesses were either moderate or low in internal-control systems. No significant or high-risk areas were identified. Management has put in place a plan with detailed targets to address identified control weaknesses.

Focus areas

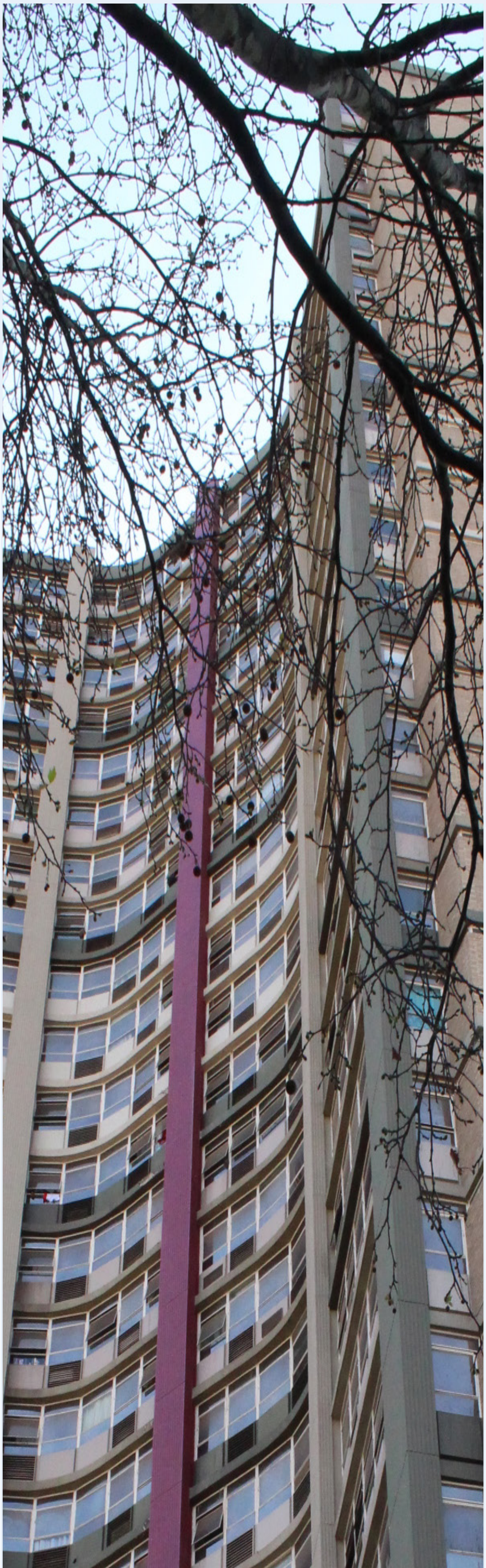
During the past year enterprise risk management focused on the following;

Risk focus areas	Achievement
Close monitoring of risk associated with DFI consolidation	DFI Risk register developed and approved by the board. The DFI Risk register is discussed at every quarterly risk committee meeting.
Regular fraud awareness campaign	Fraud and corruption campaigns were not undertaken. However, fraud and corruption policies were reviewed and approved by the Board. Staff are encouraged to report fraud anonymously through an independent fraud hotline.
Ensuring that the NHFC is better prepared to address business continuity disasters	Disaster management policies from IT and business-operations perspectives were approved by the Board. Plans to operationalise business continuity were postponed until the DFI consolidation is completed.
Benchmarking the risk management process to assess the risk maturity level	To be undertaken post-consolidation. This year the DHS benchmarked the risk maturity levels of all its entities. The NHFC was found to be on level 3 which means it is at an intermediate level of risk management maturity.

Focus areas in 2017/18

- Integrate risk divisions of NHFC, NURCHA and RHLF;
- Integrate the risk management frameworks and policies of the three entities into one;
- Further develop the Risk Appetite Statement.

120 End Street, Johannesburg



Delivering on our strategy

In 2016/17 our strategic objectives derived from (and were aligned with) the strategic plan of the executive authority of the NHFC, Minister of Human Settlements, the Honourable Dr Lindiwe Sisulu.

Each year our Board of directors approves detailed strategy and monitors management's execution of it. In particular, the Board holds management to account for the ethical and effective implementation of strategy, the prudent use of resources, robust management of risks, and the delivery of defined outcomes, measured by key performance indicators.

At the NHFC we are responsible to the minister and, through her offices, to taxpayers and citizens. We are also accountable to funders and co-funders, our relationships with whom are governed by explicit performance covenants.

Here we detail our performance against our four key strategic priorities, the objectives that informed each priority, the vehicles or resources used to pursue the priority, stakeholders impacted, risks addressed and/or mitigated, overall performance and outlook. On pages 22 to 24 we report, in terms of Section 55 (2) of the Public Finance Management Act, on detailed performance against indicators, with commentary.

On pages 12 to 15 we detail how our risk management policies, structures and strategies addressed risks related to each strategic objective.

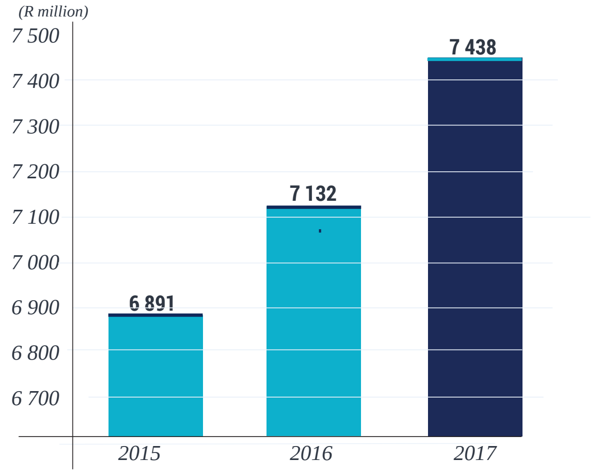
Strategic priority	Objectives informing the priority
Expand housing finance activities	Make housing and housing finance affordable and accessible to those earning between R1 500 and R15 000 per month per household
Facilitate increased and sustained lending by financial institutions	Use our limited financial capital to incentivise private capital to create social value by investing in affordable housing
Ensure the NHFC's sustainability	The NHFC has to demonstrate its ongoing financial resilience
Delivery on the establishment of the new, larger and more impactful HSDB	► Address market failure through innovative financing and effective risk mitigation instruments ► Support the effective transformation of the human settlements sector

Vehicles and resources used	Stakeholders impacted	Outcomes	Outlook
Social housing project funding	Social-housing agencies Contractors	Units Disbursements	Strategic focus area for the DHS. Review of income bands and increased grant quantum will stimulate growth.
Private rental housing	TUHF Developers Landlords Strategic partners AFD EIB Banks	Units Disbursements	Growth foreseen in sub-market. Growth will be impacted by a lack of affordable rental stock to address the R1 500 - R10 000 market segment.
Affordable home ownership	HIP Developers IHS	Units Disbursements	Home ownership will remain constrained due to high indebtedness, poor economic prospects and bank capital requirements.
FLISP		Approvals Disbursements	Strategic focus area for the department of Human Settlements. Increased grants are expected to stimulate home-ownership.
New investment into strategic partnerships	HIP IHS AFD EIB OMCH	Units Investment	Opportunity for HSDB to catalyze private-sector investment.
Incremental housing	Banks RFIs Contractors	Loans approved Disbursements	Poor economic growth prospects and high indebtedness levels will constrain growth.
Affordable home ownership	HIP IHS AFD EIB RFIs	Units delivered Investment	Home ownership will remain constrained due to high indebtedness and poor economic prospects and bank capital requirements.
Private rental housing	TUHF IHS	Units delivered Investment	Growth foreseen in sub-market. Growth will be impacted by lack of affordable rental stock to address the R1 500 – R10 000 market segment.
Grant funding Loan book Costs	Government and co-funders	Return on assets (profit before tax) Credit loss ratio Cost to income ratio	Key drivers of performance such as growth and quality of the advances book will continue to be impacted by the operating environment. Capital allocation and risk management remains key.
► Taxation amendment Act to reclassify NHFC as non- taxpaying ► Companies Tribunal ► DFI consolidation project funding	► NDoHS ► National Treasury	► Consolidate RHLF and NURCHA into NHFC ► Develop Policy framework for establishing HSDB ► Develop Business Case	► Secure approval of the Business Case by JEP ► Secure promulgation of the enabling legislation for HSDB ► Operationalise HSDB

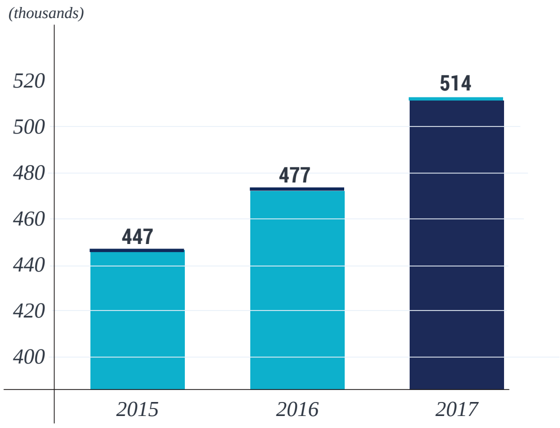
Our performance at a glance

CUMULATIVE DEVELOPMENT IMPACT

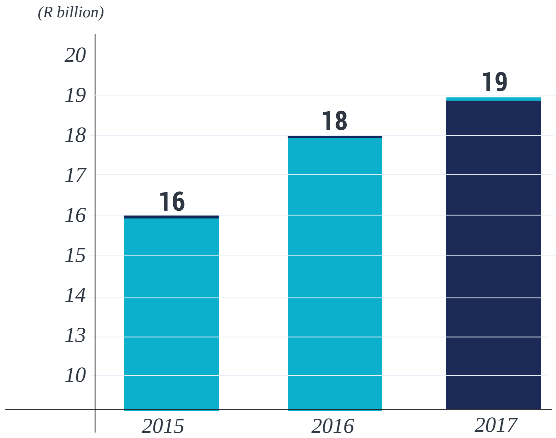
Cumulative funds disbursed directly by NHFC since 1996



Cumulative units/housing opportunities delivered through our funding, interventions and partnerships since 1996

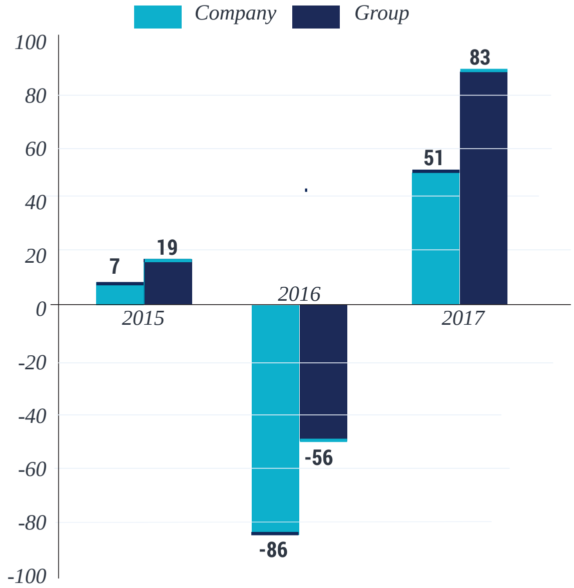


Private-sector funds leveraged through our funding, interventions and partnerships since 1996



FINANCIAL PERFORMANCE

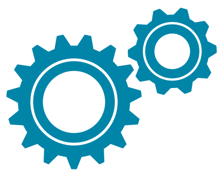
Profit before taxation (R Million)



2017 in numbers

Disbursed R306 million

Facilitated 2 725 housing opportunities through disbursements, impacting 10 355 beneficiaries



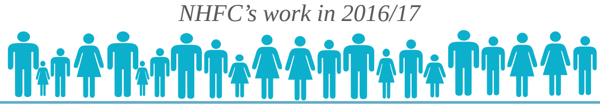
Leveraged R1.63 billion

in private-sector funding for affordable housing

Instrumental in creating 33 428 housing opportunities through leveraged private-sector funding

137 381

individuals whose lives were directly improved through the NHFC's work in 2016/17



In the year under review the NHFC was instrumental in creating 33 428 housing opportunities through leveraged private-sector funding

Performance report

Compiled for the year-ended 31 March 2017 in terms of Section 55(2) of the PFMA

+ Key performance indicators (units/housing opportunities, funds disbursed, private-sector funds leveraged and approvals) are assured by external auditors

Programme 1

Expand housing finance activities through the effective provision of housing finance opportunities (disbursements)
Desired outcomes: Adequate housing and improved quality of living environments

Overview

Performance indicator	Actual 2016/17	Budget 2016/17	Variance	Comments
Number of housing opportunities facilitated through disbursements	2 725	3 200	(475)	Programme 1 impacted by a combination of: ► Economic and market conditions negatively affecting both the households and clients of NHFC; ► Quality and quantity of the pipeline; lack of adjustments in subsidy quantum and capped rentals in Social Housing; ► Seasoned clients graduated to be funded by banks; ► Quality of projects. Lack of adequate equity from start-ups to ensure appropriate gearing and long-term sustainability of projects ► Delays in construction of projects for which funds had been committed.
Total number of beneficiaries (factor of 3.8 utilised)	10 355	12 160	(1 806)	
Value of disbursements (R'm)	306	503	(197)	
Value of approvals (R'm)	302	489	(187)	

Programme 1

Analysis of units/housing opportunities and ultimate beneficiaries

Performance indicator: Number of housing opportunities facilitated through disbursements	Actual 2016/17	Budget 2016/17	Variance	Comments
Number of Social Rental Housing units	1 861	2 014	(153)	Achieved 92% of target. Balance of units resulting from project delays but expected to come on stream in 2017/18.
Number of Private Rental Housing units	738	740	(2)	Target met
Total rental	2 599	2 754	(155)	Overall 94% of target achieved
Number of Affordable Housing units	126	446	(320)	Projections for HIP revised to achieve full disbursement only in the next year due to delays in finalising funding arrangements. Disbursements for IHS drawn first from the foreign currency partner.
Total	**2 725**	**3 200**	**(475)**	**Overall 85% of target achieved**
Total number of beneficiaries (using a factor of 3.8)	10 355	12 160	(1 806)	

Housing units include completed, transferred or occupied rented units.

Social and Private Rental -Number of units arising from disbursements.

Affordable housing – Number of mortgage loans originated through strategic partnerships (in 2016/17 these were effected through HIP), the average loan size being R500 000, revised from R400 000 during the year, which had the effect of reducing the number of units by 89.

Programme 1

Value of housing opportunities facilitated through disbursements

Performance indicator: Value of disbursements (R'm)	Actual 2016/17	Budget 2016/17	Variance	Comments
Social Rental Housing (R'm)	197	153	43	Target exceeded by 28%.
Private Rental Housing (R'm)	44	171	(128)	Delays in construction, facilities approved but not taken up and deals expected to be approved in pipeline that subsequently secured favourable funding elsewhere. The quality and quantum of deal flow in the private rental market deteriorated mainly due to the challenging trading environment. (Commitments at year-end: R165m)
Total rental (R'm)	**240**	**325**	**(85)**	**Overall 74% of target achieved**
Affordable Housing (R'm)	66	178	(112)	Projections for HIP revised to achieve full disbursement only in the next year due to delays in finalising funding arrangements. Disbursements for IHS drawn first from the foreign currency partner. (Commitments at year-end: R356m)
Total disbursed (R'm)	**306**	**503**	**(197)**	**Overall 61% of target achieved**

Programme 1

Analysis of approvals for disbursement

Performance indicator: Value of approvals (R'm)	Actual 2016/17	Budget 2016/17	Variance	Comments
Social Rental Housing (R'm)	143	220	(77)	A number of planned Social Rental housing projects are not viable due to prevailing capping of rentals that may be charged. The model is unsustainable due to escalating costs not recovered from revenues.
Private Rental Housing (R'm)	159	269	(110)	Tightened credit-granting criteria derived from underlying assumptions for viability of projects due to prevailing market conditions and economic outlook. Migration to banks of established clients with credible balance sheets and project pipelines. Lack of adequate equity from start-ups to ensure appropriate gearing and long-term sustainability of projects.
Total approvals (R'm)	**302**	**489**	**(187)**	**Overall 62% of target achieved**

Facilities approved by the relevant governance structure in line with the delegated authority.

Facilities may be withdrawn and/or not taken up by the client.

Programme 2

Facilitate increased and sustained lending by financial institutions

Desired outcomes: Leverage increased private-sector lending to affordable housing

Performance indicator	Actual 2016/17	Budget 2016/17	Variance	Comments
Number of housing opportunities facilitated through leveraged funds	33 428	19 070	14 358	Target exceeded by 75%
Number of beneficiaries (using a factor of 3.8)	127 026	72 466	54 560	Target exceeded by 75%
Value of leveraged funds from private sector (R'm)	1 634	1 380	254	Target exceeded by 18%

Programme 2

Number of housing opportunities facilitated through leveraged funds

Performance indicator: Analysis of housing opportunities facilitated through leveraged funds	Actual 2016/17	Budget 2016/17	Variance	Comments
Private Rental Housing units	4 302	3 500	802	Target exceeded by 23%
Affordable Housing units	1 381	1 780	(399)	Projections for HIP revised to achieve full disbursement only in the next year due to delays in finalising funding arrangements.
Incremental Housing loans	27 745	13 790	13 955	Target exceeded. Leveraged contribution from a retail intermediary with existing facility.
Total	**33 428**	**19 070**	**14 358**	**Overall target exceeded by 75%**
Beneficiaries (using a factor of 3.8)	127 026	72 466	54 560	

Housing units include completed, transferred or occupied rented units.

Private Rental: Number of units arising from strategic partnership with TUHF.

Affordable Housing: Number of mortgage loans arising from funds leveraged through strategic partnership with HIP (average loan size being R500 000). Units arising from strategic partnership with IHS. Units from previously funded integrated developments.

Incremental housing loans: Number of loans arising from activities of retail intermediary.

Programme 2

Leveraged funds

Performance indicator: Analysis of value of leveraged funds	Actual 2016/17	Budget 2016/17	Variance	Comments
Value of leveraged funds from private sector (R'm)	**Actual**	**Budget**	**Variance**	
Private Rental housing (R'm)	339	330	9	Target exceeded by 3%
Affordable Housing (R'm)	684	712	(28)	96% of target achieved
Incremental Housing loans (R'm)	611	338	273	Target exceeded by 81%
Total (R'm)	**1 634**	**1 380**	**254**	**Overall target exceeded by 18%**

Private Rental: Mainly funds leveraged through strategic partnership with TUHF.
Affordable housing: Funds leveraged through strategic partnerships with HIP and IHS.
Incremental housing loans: Funds leveraged through a retail intermediary.

Other developmental impact

Performance indicator:	Actual 2016/17	Budget 2016/17	Variance	Comments
Number of jobs facilitated*	8 802	7 282	1 520	Target exceeded by 21%
Value of disbursements targeted towards women, youth and emerging B-BBEE entrepreneurs (R'm)**	217	376	(159)	Few private rental clients disbursed during the year

**Formula applied: 11.13 jobs created for every R1 million spent in a project. (Based on outcome of research by DHS).*
***Funds disbursed through NHFC and strategic partners, TUHF and GPF/NHFC Emerging Entrepreneur Empowerment Property co-funding agreement.*

Steen Villas, Cape Town

Through its private sector funding initiatives the NHFC leveraged R1.63 billion for affordable housing in 2016/17

Board of Directors

PROF. MICHAEL KATZ

Independent non-Executive Chairperson

Chairperson: Edward Nathan Sonnenbergs

BCom LLB (Wits), LLM (Harvard Law School), LLD (hc) (Wits)

MR SAMSON MORABA

Chief Executive Officer

BCom (Unisa), PMD (Harvard Business School)

MR JOHAN COETZEE

Director of Companies

BA, MBA (University of Pretoria)

MS ANTHEA HOUSTON

CEO: Communicare NPC

MBA (UCT), Postgraduate Management Diploma (UCT), Banking Licentiate Diploma

MS THEMBI CHILIZA

Acting CEO of KZN Financial Literary Association Trust

B Administration (Fort Hare), Management Development Programme (Durban Westville), Diploma in Management Consulting (NAFCOC), Project management (Stellenbosch)

MR SANGO NTSALUBA

Executive Chairperson: NMT Capital

BCom (Fort Hare), Hons B Compt (Unisa), CA (SA), NHD Tax Law (UJ), M Com (UCT)

MR ADRIAN HARRIS

Innovative Financial Services Strategist and Entrepreneur

B Tech, Advanced Business Programme (Durban University of Technology), MBA (UJ/Wales)

MS PHEKANE RAMARUMO

PR Pln, Chief Executive: Truly African Solutions

BA (U Limpopo), HD (PDA) (Wits) MRP (SUNYA USA)

MR ENOCH GODONGWANA

Independent Consultant

MSc Financial Economics (University of London)

MR SIZWE TATI

Director: Yakani Group

BCom (Acc) (North University), Graduate Diploma Company Directing (IoD), Postgraduate diploma in Management (GSMT), Senior Executive Programme (Harvard)

MR KHEHLA SHUBANE

Independent Consultant

BA Hons (Wits), MBA (Bond University)

Executive Management
and Prescribed Officers

MR SAMSON MORABA
Chief Executive Officer

BCom (Unisa), PMD (Harvard Business School)

MS ZONIA ADAMS
Chief Financial Officer

Hons BCompt (Unisa), CA (SA)

MR LAWRENCE LEHABE
Executive Manager: Lending

BCom (Zululand), MSc Marketing (National University of Ireland)

MR ZOLA LUPONDWANA
Executive Manager: Credit

BCom (Botswana), ACA, CFA, CA (SA)

MS MANDU MAMATELA
Executive Manager: Corporate Strategy

BCom (Hons) (University of North West), MBA (PU for CHE), IEDP (UK) (Wits)

MR SIEGFRIED MOGANE
Executive Manager: Corporate Support Services

BCom (Unisa), M Strat (UCT), Postgraduate Diploma in Management (Corporate Governance) (Monash)

MS NOMSA NTSHINGILA
Executive Manager: Human Resources

MSc Clinical Psychology (Medunsa), BSocSc Hons (University of North West), HED, BA Communications (Fort Hare)

MR ANDREW HIGGS
Company Secretary

B Com (Rhodes), Hons B Compt (Unisa), CA (SA), MTP (SA), MAP (WBS), International Diploma Governance (ICA), Advanced Certificate Governance (hc) (ICA) and University of Manchester, Advanced Executive Diploma in Corporate Governance (Unisa), Making Markets Work certificate (Harvard and WBS), Tax Management Planning (WBS), Certificate Programme in Housing Finance (Wharton Business School), Housing Finance in sub-Saharan Africa

Message from the CHAIRPERSON

Professor Michael Katz

In my message to stakeholders in last year's integrated annual report I intimated that that communication might well have been the last such report by the NHFC in its current form.

It has transpired, of course, that the NHFC ended its 21st year in a form very similar to that which it assumed at its inception in 1996. I can now state, however, that in a year's time we will almost certainly report as a very different organisation, as the Human Settlements Development Bank (HSDB).

Global and local environment

The most significant global developments in the year being reported on have been the decision in June 2016 by British voters to leave the European Union ("Brexit") and the outcome of the US presidential election in November. These political developments formed part of the environment in which the US Federal Reserve has been normalising its monetary policy through raising the US's short-term rates.

Locally, the reporting period was characterised by a challenging trading environment with low growth combined with stubbornly high inflation. In such an environment both business and consumer confidence were very negatively affected, impacting private sector capital investment and consumer spending. Job creation was also negatively affected.

The risk of sovereign credit downgrades due to South Africa's poor economic fundamentals, together with political risks and uncertainty in the regulatory environment, have dominated the capital market and news headlines.

Since the global financial crisis in 2008/09 the property market has experienced intermittent growth which, regrettably, tapered off in the last 12 months mainly due to the factors referred to above. We have noted that bankable property deals that provide a sufficient return for both the

'Our outcomes, our very real impacts in terms of catalysing investment into quality affordable human settlements, were acceptable and well in line with targets set by the shareholder'

NHFC and its client base have been few and far between. This requires more ingenuity from the forthcoming HSDB in order to deliver on its developmental and transformed priority mandate on a sustainable basis.

Credit rating

That the NHFC's credit ratings were downgraded this year reflected the extremely difficult context in which the corporation is mandated to operate and also South Africa's macroeconomic and political climate. The downgrade was linked to the sovereign credit downgrade which affected both public-sector and private-sector businesses. In no way did this development reflect on the strength of our financial controls, risk management or corporate governance, the robustness of which was demonstrated by our return to profitability in 2016/17 despite the challenging circumstances which informed the ratings decision.

Responding to a new operating reality

Profound organisational change was just one element of the NHFC's story in 2016/17.

A narrow reading of our financial commentary might lead one to conclude that the early settlement of loans by larger, "better quality" customers meant that these were "lost" by the NHFC to traditional lenders including a number of this country's leading banks. The reality is that it is largely through the developmental role played by the NHFC and its many effective interventions over 21 years that these important private-sector institutions have been encouraged to increase their exposure to the affordable-housing space. Our "loss" of such clients is, in fact, a tremendous vindication of the NHFC's success in catalysing private-sector investment; this is precisely an outcome that we have consistently worked towards.

The entry of banks and real estate investment trusts into affordable housing is to be welcomed and applauded. This trend does, however, mean that in future those elements of the new HSDB that will remain charged with serving the so-called Gap Market will have to work harder than ever to "balance the books" and to provide the same outstanding husbanding of scarce grant, donor and debt funding at their disposal.

Towards integrated delivery

Most importantly, in 2016/17 our outcomes, our very real impacts in terms of catalysing investment into quality affordable human settlements, were acceptable and well in line with targets set by the shareholder.

Elsewhere in this report, including in the chief executive's report, we give an overview of the considerable work that has gone into the process of consolidating three organisations into one – and to ensuring the ability of the new entity to create even greater value for all stakeholders. Overseen by the Board, this process of consolidation has been successfully driven by NHFC management working in close association with the management teams of the National Urban Reconstruction and Housing Authority (NURCHA) and the Rural Housing Loan Fund (RHLF) and the Department.

My fellow directors and I have been more than satisfied with what has been accomplished to date to ensure a seamless integration.

Our shareholder's decision to entrust much of the leadership of the new entity to the Board and management of the NHFC is gratifying; allow me here to add my testimony to the strength of human and intellectual capital that resides within this organisation. This capital has resulted, most importantly, in social capital – improvement to the quality of life of many thousands of working South Africans – as is reflected in our performance reporting on pages 22 to 24.

Governance

In the year reported it has been my pleasure to welcome to the Board Messrs A Harris, E Godongwana and K Shubane and Ms T Chiliza; I look forward to significant contributions from them. I thank outgoing directors Mr P Phili and Mss D Msomi and S Swanepoel for their sterling service to the NHFC.

Appreciation

As we embark on the many demands that will face our new organisation I thank our Minister, the Honourable Dr Lindiwe Sisulu, for her support and her faith in the leadership and staff of the NHFC and in their ability to keep creating value. I join her in congratulating our CEO, his executive team, the NHFC staff and my fellow directors on a job well done.

I also thank the directors and management of NURCHA and RHLF for their significant contribution to making the establishment of HSDB so smooth and efficient.

In integrating (or "consolidating" as we have become used to calling the HSDB process now well under way), my fellow directors have worked tirelessly, the board and its committees often facing a double workload entailed by governing the "old" NHFC and the "new" development bank. I salute them for their dedication and leadership.

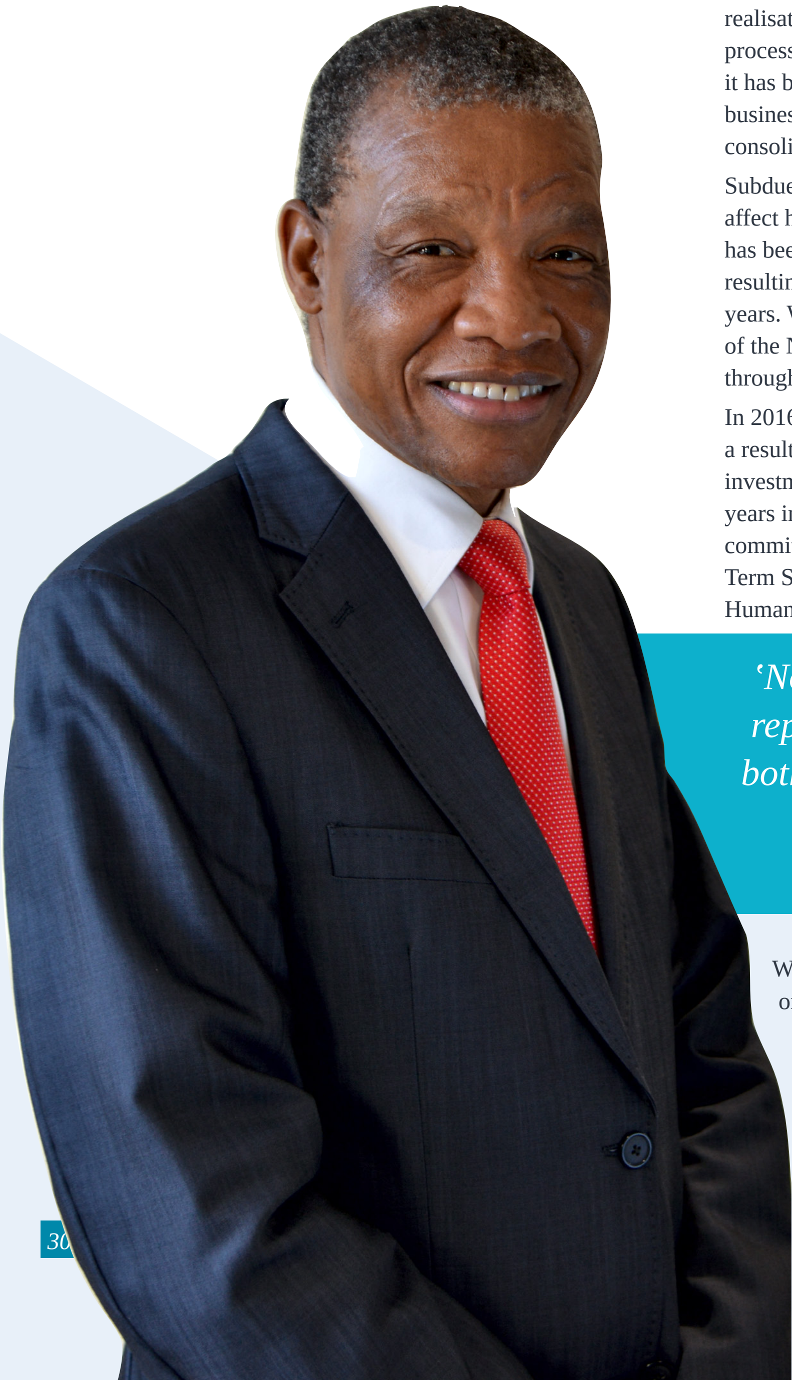
Most importantly, I thank our many partners, our customers, funders and co-funders, for their continuing faith in the NHFC – and in the new HSDB. We shall do our best not to disappoint them.

In the months ahead, physical signs of the NHFC will be dismantled and replaced with signs of the new HSDB. For many this will no doubt be an occasion for some serious reflection on 21 years of service delivery. I trust that such reflection will only serve to inspire us to work even harder as we embrace a new dawn for people's housing.

Professor Michael Katz
Chairperson

Message from
CHIEF EXECUTIVE OFFICER

Samson Moraba



In this report, we account for the NHFC's strategy, leadership and impacts, particularly in 2016/17, while looking towards the prospects of quite a different entity, the Human Settlements Development Bank (HSDB).

Performance in the year

The financial year 2016/17 represented, in stark terms, what may very well be called business unusual. This year the NHFC embarked on two important but equally demanding delivery imperatives: achieving taxing operational targets while ramping up towards the realisation of the development finance institution (DFI) consolidation process. Notwithstanding many challenges, I am happy to report that it has been a good year for the NHFC, both in terms of its traditional business operations and in achieving significant milestones in the DFI consolidation process.

Subdued economic and market conditions continued to negatively affect households and the clients of the NHFC. In addition, there has been a movement by some clients to the formal banking sector, resulting in increased early facility settlements over the last three years. While these early settlements are viewed positively, as a sign of the NHFC's growing maturity, it does adversely impact revenue through foregone interest income.

In 2016/17 our financial performance reflected a profit before tax as a result of savings in operational expenses and better-than-budgeted investment income. At the end of the current financial year, three years into the five-year period, the NHFC is ahead of its mandate commitments for housing opportunities as outlined in the Medium Term Strategic Framework (MTSF) of the National Department of Human Settlements.

> *'Notwithstanding many challenges, I am happy to report that it has been a good year for the NHFC, both in terms of its traditional business operations and in achieving significant milestones in the DFI consolidation process'*

With the Companies Tribunal's approval of an administrative order exempting the NHFC from non-profit company (NPC) restrictions as contained in the Companies Act and the NURCHA and RHLF memorandums of incorporation (such that the applicants may conclude and implement the consolidation on the basis that NHFC remains a for-profit company) the realisation of the HSDB is now in sight.

While pursuing the often onerous consolidation process, we remained focused on our operational responsibilities. Highlights included:

- Creating 36 153 housing opportunities, transforming the lives of 137 381 beneficiaries;
- Together with partners, leveraging and disbursing R1.9 billion in private-sector funding for affordable housing;
- Achieving a profit before tax of R83 million;
- Effectively serving as a market maker, unlocking substantial private investment into affordable housing;
- Improving liquidity (which means more funds available for disbursement) while returning to profitability and managing down bad debts and impairments; and
- Cost containment measures maintained as demonstrated in the cost-to-income ratio.

Our developmental impact has continued to be very substantial. As we bring down the curtain on the NHFC as we know it, it is gratifying to note that we do so with an unblemished record of financial probity and resilience. In only one of our 21 years (2015/16) did we record a pre-tax loss. This year we transformed the previous year's R56 million consolidated loss before taxation into a R83 million profit.

DFI consolidation

In the year under review, significant milestones were achieved to ensure the three DFIs are consolidated. As well as those mentioned above, these milestones included:

- The appointment of a restructured, consolidated Board;
- The Taxation Amendment Act through which the NHFC was reclassified as a non-taxpaying company effective 1 April 2016;
- Setting up a management committee comprising the executive management of the three entities;
- Ongoing change management activities for the employee integration of the three entities; and
- Traction towards the finalisation and approval of key HSDB establishment documents such as policy, enabling legislation, business case and capitalisation.

Tackling a number of challenges

A number of factors impacting the operating environment of the NHFC continue to impact the achievement of set targets for our key Programme 1, especially in relation to approvals and disbursements.

These included:

- Challenges impacting the social housing space. In particular these included the quality of the applications pipeline in the social housing sector, tightened NHFC credit criteria and underlying assumptions for viability, a lack of adjustment to the subsidy quantum and capped rentals in social housing as provided by social housing regulations;
- A lack of bankable projects. Increasingly, the NHFC has experienced a loss of established clients with relatively strong balance sheets in the private rental space; this is reflected in early settlements and a stagnant loan book growth. Today the corporation has to deal with new or emerging clients, typically without any track record of note and without significant own capital. Therefore, significant "hand holding" and appropriate structured financial assistance have become normal interventions;
- Clients experiencing delayed project implementation and projects experiencing cost overruns have had a significant impact on disbursements; and
- The prevailing subdued economic and market context which negatively affect both households and NHFC clients.

I am pleased to report, however, that our robust management of risks and the non-performing loan book resulted in impairments being successfully addressed and our covenants preserved.

In 2016/17 our total disbursements, at R306 million, amounted to only 61% of the target we set ourselves at the outset of the year. This under-performance derived largely from the private rental and affordable housing market where several approved projects experienced delays in construction or where approved facilities were not taken up, resulting in commitments of R521 million being rolled over for future disbursement.

As directed by the shareholder, this year we increased disbursements to social housing. However, approvals lagged due to poor project viability as a result of the regulated caps on qualifying household income which had not been adjusted for nine years. This effectively deterred investment in the social-housing sub-sector. Despite this, it should be noted that 2016/17 saw a large number of previously NHFC-funded social-housing projects coming on stream.

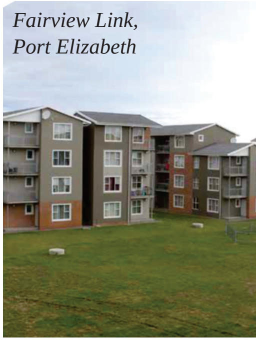
These were some of the challenges we embraced during the year. We remain mindful that many challenges remain but that there are also many opportunities. In successfully exploiting these many opportunities, the strategic partnerships built up by the NHFC over many years will be of the utmost importance.

Strategic partnerships unlocking value

Our investment in the Trust for Urban Housing Finance (TUHF) performed to expectations this year although, as we also experienced, the welcome entry of private funders into previously "red-lined" inner-city areas adversely affected its income statement. Most encouragingly, good progress was made on the implementation of a R1 billion domestic medium term note with the first phase of this process raising R350 million including a R70 million grant from government's Jobs Fund.

Up to the time of writing (July 2017), International Housing Solutions' Fund II, to which the NHFC has committed R300 million, had raised additional equity funding of R1.6 billion which, it is envisaged, will be used to leverage R3.5 billion in debt funding. By year-end the fund had approved investments representing 5 041 units.

The NHFC has to date approved R270 million risk capital for the HIP Trusts which leveraged R1.1 billion private sector investment into the HIP Trusts; co-funding partners are Old Mutual Capital Holdings (OMCH), the majority shareholder, and Futuregrowth Asset Management. HIP has been granted a R100 million grant by the Jobs Fund, which grant will leverage R406 million



Fairview Link, Port Elizabeth

Left: 2016/17 saw a large number of previously NHFC-funded social-housing projects coming on stream

Far left: Delegates attending the DFI stakeholders' workshop

private-sector funding and is expected to deliver 1 100 housing units and generate 344 permanent jobs.

The preferred sale of CTCHC, as at year-end, had not materialised. In the absence of the outright sale of CTCHC, a winding down of its business would be the default option embarked upon by the NHFC.

Building the future of human-settlement funding

By the end of March 2017, the many processes and preparations necessary for the consolidation of this country's three leading human-settlements DFIs and the creation of the HSDB had been substantially completed. As directed by our Minister, Dr Lindiwe Sisulu, the NHFC has been leading this daunting, but most exciting, process.

In addition to Dr Sisulu, here I must acknowledge the director-general of Human Settlements' faith in the NHFC by delegating to the corporation the all-important task of crafting the new bank's business model.

On pages 10 and 11 we present a graphical representation of how the NHFC has created value, of the capitals it has used as inputs and the outputs and outcomes our business model has made possible. As we are reporting here on the performance of the NHFC, this representation is appropriate. But it is certainly true that as the HSDB becomes a physical reality in the new year, the business model on pages 10 and 11 will undergo far-reaching change.

Appreciation and outlook

In preparing for such a momentous change, both to structure and to the delivery of affordable housing, the unstinting, even enthusiastic support received from all of the NHFC's key partners has been most gratifying. I thank, in particular, Agence Française de Développement, the European Investment Bank, Old Mutual, Futuregrowth, KfW Development Bank and TUHF for their belief in the HSDB's ability to have a considerably greater impact.

I need, also, to record my thanks to the Minister for her inspiring and unwavering support while extending my appreciation to a Board of directors which has risen to the many added tasks and demands entailed by the consolidation process. As they prepare for an exciting new future, our staff deserve a special commendation for consistently working with diligence and, very often, great fortitude.

Given the level of new capitalisation which the HSDB is anticipating, I have the greatest confidence that the HSDB will, indeed, be able to have a transformational impact on the affordable and low-cost housing sector. We are already extremely busy putting in place the building blocks to achieve many new additional outcomes – on a scale considerably greater than could be achieved through the sum of the three former entities' efforts. Much work still has to be done on our integration process, to create an HSDB which will become synonymous with innovation, and create whole new markets while unlocking the previously untapped value of secondary markets. With greater means at its disposal, through recapitalisation, the HSDB will have a greater delivery impact, higher risk appetite, and sophisticated risk mitigation instruments, systems and processes.

The NHFC chapter is a proud one of consistent performance and value creation. The next chapter will, I am confident, reflect even greater progress on improving the lives of ordinary working South Africans by sustainably financing the development of integrated human settlements.

Samson Moraba
Chief Executive Officer

In the past year the NHFC created 36 153 housing opportunities, transforming the lives of 137 381 beneficiaries

Westgate Building, Pietermaritzburg

Report from THE CHIEF FINANCIAL OFFICER

Zonia Adams

In 2016/17 the NHFC returned to a consolidated-profit-before tax position after reporting a R56 million pre-tax loss the previous year, the first such loss in the corporation's then 20-year history.

In its final year of reporting in its present form, the NHFC's liquidity continued to improve with net funds available for disbursement at year-end standing at R902 million and net bad debts and impairments reducing relative to the previous year.

This much improved result speaks to a stringent and effective focus on risks, costs and the quality and performance of the loan book and, ultimately, to the financial sustainability of the NHFC and its successor organisation.

As anticipated, exogenous factors had a significant bearing on our financial performance, affecting both the NHFC's ability to disburse funds (thereby lessening our broader developmental impact) and the quality and quantity of new investments.

Operating result

The NHFC's financial performance is heavily dependent on the growth of its loan book. While this year total group interest on advances (at R175 million) increased by 12% relative to that of 2015/16, this was adversely impacted by lower-than-budgeted disbursements and a switch in our lending mix, from private rental to social housing. The lower-than-budgeted level of disbursements related largely to a paucity of bankable lending opportunities, a reflection of the country's poor investment climate.

Investment income exceeded budget by R40 million and, at R63 million, represented a 47% rise on the figure for 2015/16. Perhaps somewhat paradoxically, this derived largely from lower-than-budgeted disbursements and the early settlement of security-backed loans by larger, more financially sustainable, clients who, as indicated, have "graduated" to private sector funding. The

'Our much improved result speaks to a stringent and effective focus on risks, costs and the quality and performance of the loan book'

significant decrease in the sale of houses and cost of sales from the prior year was driven by the overall reduction in the sales activities of CTCHC, in line with a prior strategic decision to make no further investment in new projects. On the back of considerably lower net impairments

Key financial indicators

			Actual March 2017	Budget March 2017	Actual March 2016	Actual March 2015
Return on equity [1]	%	Group	1.6%	0.1%	(0.8%)	0.5%
		Company	0.3%	0.3%	(2.0%)	0.2%
Return on assets [2]	%	Group	2.6%	0.2%	(1.8%)	0.6%
		Company	1.6%	0.4%	(2.8%)	0.2%
Cost to income ratio [3]	%	Group	43%	57%	41%	60%
		Company	39%	53%	42%	55%
Credit loss ratio [4] (including bad debts)	%	Group	3%	4%	8.4%	3.1%
		Company	4%	4%	9.0%	2.9%

[1] Return on equity: profit after tax/closing net assets (or total closing shareholder funds)

[2] Return on assets: profit before tax/closing total assets (excluding funds under management)

[3] Cost to income ratio: total operating costs/total operating income

[4] Credit loss ratio including bad debts: current year impairment and bad debt charge on loans and advances/closing gross loans and advances adjusted for bad debts on loans and advances

and bad debts (R59 million against the previous year's R188 million), a surplus of R46 million was achieved. Again, this was significantly better than the previous year's R22 million loss and was achieved despite a R43 million deferred tax asset being unwound at company level following the tax exempt status effective 1 April 2016.

Growth in the net advances portfolio was a muted 1%; stripped of the effects of early settlements, this figure would have stood at 8%, a commendable performance given our developmental mandate and the straitened economic conditions facing South Africa and, in particular, the affordable-housing sector. As was the case in the two previous years, in 2016/17 we experienced a number of early settlements. These settlements were typically made by larger borrowers who had obtained financing elsewhere. The effect of this trend is to diminish somewhat the quality of our assets and require the corporation to concentrate on potentially more costly newly established (usually smaller and less seasoned) customers.

Costs were once again effectively managed; group operating expenses were R12.5 million below budget; the overall cost-to-income ratio of 43% being comparable to the 41% of 2015/16. The corporation's performance on cost containment confirmed that the benefits arising from our restructuring of two years earlier – when the cost-to-income ratio stood at 60% - are likely to be sustainable. The decrease in interest expense (R20 million against R22 million the previous year) is in line with funding assumption of no additional external debt.

At R59 million, net bad debts and impairments represented a 69% decline on the R188 million of 2016/17 at group level. At company level, key clients jointly accounted for R82 million of net bad debts and impairments of R95 million. These include projects adversely impacted by the current trading conditions and one significant client in the unsecured lending market, a sector that continues to suffer from the fall-out that occurred from significant lending in the period from 2011 to 2013 causing the over-indebtedness of clients.

While it is within the NHFC's mandate to take on increased but calculated investment and lending risk in executing

Summarised consolidated financial performance

	March 2017	March 2016	March 2015
Interest on lending operations	175	156	198
Interest on investments	63	42	25
Sale of houses	35	116	198
Non-interest revenue	5	7	9
	277	**322**	**430**
Cost of sales	(32)	(94)	(184)
Net impairments and bad debts	(59)	(188)	(79)
Gross surplus	186	40	167
Operating expenses	(104)	(90)	(145)
	82	(50)	23
Other income	20	16	18
Finance costs	(20)	(22)	(22)
Surplus / (deficit) before tax	**83**	**(56)**	**19**

Summarised consolidated financial position

	March 2017	March 2016	March 2015
Loans and receivables - advances	1 819	1 809	2 067
Equity investments	173	134	100
Instalment sale receivables	122	129	103
Investment property	91	88	81
Other non-current assets	2	40	18
	2 207	**2 200**	**2 368**
Properties developed for sale	73	96	190
Money market investments	959	815	759
Other current assets	43	32	10
Total assets	**3 282**	**3 142**	**3 328**
Net assets	2 924	2 756	2 649
Other financial liabilities	283	317	354
Funds under management	39	45	193
Other current liabilities	36	25	132
Total net assets and liabilities	**3 282**	**3 142**	**3 328**

Signal Hill, Pietermaritzburg

its developmental imperatives, this significantly better performance reflected diligent risk management, including close management and, wherever possible, rehabilitation of the non-performing loan portfolio, carried out in accordance with the board's risk appetite statement and parameters. As a result, the group's credit loss ratio improved to 3% from the 8.4% of the previous year.

Strategic Investments

Our strategic partnerships continue to yield increased scale, delivered through greater leveraging of private sector funding.

Capital raising remains a challenging exercise and a critical priority for TUHF, HIP and IHS.

TUHF's inaugural rated Domestic medium term note programme listing on the JSE was fully subscribed, welcoming new investors to the affordable housing space.

Our investment in TUHF performed to expectations and continues to contribute positively to group performance.

Our investment of R300 million as junior debt funder in the IHS Fund II South Africa is an optimal way of leveraging the NHFC's balance sheet. The deadline for the closing of the capital raising period for the fund was extended to July 2017, to allow for the finalisation of further capital commitments. Total capital commitments are around R1.6 billion which, in turn, will further leverage debt funding. To date a total of around R256 million has been called; approved investments represent 5 041 units. To minimise the fund's foreign currency exposure, initial funds were called from the foreign currency partner which has now contributed its full commitment amount. All future capital calls will therefore be funded by all other partners including the NHFC. Returns to the NHFC flowing in later years are expected to contribute to the increased profitability of the NHFC and group.

In the year, our shareholder's loan in HIP was impaired in the amount of R8 million based on adjusted growth assumptions derived from HIP's current incubation phase. Delays in finalising funding arrangements, coupled with the economic downturn, adversely affected business development and the achievement of targeted new loans. HIP is in the process of concluding a National Treasury Jobs Fund grant funding facility of R100 million. The grant funding into HIP Trust III will leverage R406 million from the private sector resulting in the closure of the HIP Trust III with total funding of R520 million. Conclusion of this funding will assist in steering the HIP Management Company towards a position of profitability. The performance of Trusts I and II remains good.

The NHFC investment in CTCHC over the years has had a significant impact in providing affordable housing solutions in the Western Cape. However, from a financial perspective, CTCHC has experienced a history of losses. The process to sell our 100% interest in CTCHC was unsuccessful. Further rationalisation of CTCHC and the winding down of that company's building projects business will, we envisage, minimise our future exposure to downside risk.

Balance sheet, covenants and cash

Following the receipt of capital injections of R100 million from the shareholder in the past two years, the group's substantially increased liquidity, plus its improved performance on impaired loans, capital adequacy and other key partnership covenants were managed within their required levels.

At year-end the NHFC had R903 million available for disbursements/investments, an encouraging prospect. The net cash position improved by R131 million through early settlements.

A noteworthy development in the year was the downgrading, by Global Credit Rating Co. of the NHFC's national scale ratings to A+ (long-term national), A1 (short-term national) and BB (long-term international), all with a "negative" outlook. This downgrading stemmed from external factors weighing on our key performance drivers: loan book growth, asset quality and profitability.

The downgrade triggered a loss-of-rating event with a funder; the approval of the waiver of the loss-of-rating event and the removal of the loss-of-rating clause from the finance contract is under consideration. We are continuously engaging our funders and stakeholders to manage the impact of the downgrade. In addition, our treasury policy is being amended to address the impacts of the sovereign credit rating downgrade on our investment counterparties.

In consideration of the impact on our target market and operations and, in particular, assumptions around key drivers of performance such as the growth and quality of the advances book, risk mitigation critically centres on responsible lending supporting a robust credit value chain while remaining mindful of, and promoting, developmental impact.

Outlook

Much of the work undertaken by both the directors and management of the NHFC in the past year concerned preparations for the consolidation of the human settlement development finance institutions. Work towards the consolidation of the various finance functions was well advanced at the time of reporting.

As is detailed above, the current taxing economic environment, especially that faced by developers, social housing operators and beneficiaries, is expected to continue exerting pressure on the operational performance of the NHFC and the Humans Settlements Development Bank (HSDB). In the Gap Market which we have traditionally served, the welcome entry of commercial lenders will likely require the corporation to turn more of its human and financial capital deeper down-market, requiring a review of our risk appetite, funding instruments and capital structure. I am confident, however, that the HSDB's finance, lending, support and risk-management functions will be more than adequate to meet these challenges.

The performance of the social housing sector is expected to improve with the formal announcement of adjustments to regulated income bands and rentals, anticipated in the new year. This will have the effect of improving the financial viability of investments in this sector and improve our ability to lend to social-housing operators and entrepreneurs.

Notwithstanding the above difficulties, the NHFC succeeded in developing a relatively robust pipeline with commitments at R758 million at year-end.

The sovereign credit downgrade to sub-investment grade and the implied tightening of government expenditure increases funding risk. The impact on an already strained fiscus, together with a possibly increased borrowing cost, will be particular areas of concern in optimising the HSDB's capital financing model. However, pronouncements by our shareholder inform our expectation that the HSDB will receive substantial new capitalisation. With this capital secured, the HSDB will be in a position to secure very considerable new debt funding, translating into a greater social impact.

Zonia Adams
Chief Financial Officer

Steen Villas, Cape Town

Our capitals:

SOCIAL, HUMAN AND NATURAL CAPITALS

It will be readily appreciated that the NHFC exists to create social value, through the provision of affordable housing opportunities in instances where, without its work and interventions, such housing would not be possible. This impact forms the substance of much of this document's reporting on the corporation's performance. The following is a summary of the NHFC's most material impacts in terms of the social, human, intellectual and natural capitals.

Human capital

Following the reorganisation implemented in 2015, the NHFC's talent management focus continued to be on building efficiencies within the organisation, to do more with less so as to achieve maximum productivity. As such, the moratorium on hiring did not have any adverse effects on the corporation, the trade-off in terms of human versus financial capital translating into an increase in our ability to create social value (our housing-opportunity outcomes).

A key human resources focus in 2016/17 was on the DFI consolidation process, to ensure that employees remained motivated despite uncertainties resulting from the impending changes. As a result the HR function has ensured that employees were motivated to meet NHFC obligations.

Employee development

Employee development is aligned to organisational capacity requirements which are determined annually based on the Shareholder mandate and which determine the annual training plan and compliance report. In 2016/17, 94% of staff were trained, using 96% of the amount budgeted for technical and self-development training; the technical plan had called for 80% of staff to undergo training.

To ensure that the NHFC leadership bench strength was sustainable, targets for leadership development were also achieved. In 2016/17 two key leadership development programmes were run while a new succession planning policy was approved.

The NHFC runs an experiential learning programme which consists of granting scholarships to historically-disadvantaged students at tertiary institutions and offering them a year-long learnerships after graduating. In some instances, some of our graduates were offered employment after their internship. In the period reviewed four bursaries were awarded and six learnerships created. Bursaries are offered to students who are studying financial courses. In 2016/17 R180 500 was budgeted and R 154 892 spent.

Bursaries and learnerships

Year	Number of bursaries	Number of learners	Conversions (to full time employment)
2013/14	4	8	2
2014/15	4	5	3
2015/16	4	8	0
2016/17	4	7	0

Employment equity

On a quarterly basis the Board receives a report on employment equity so as to provide directors with assurance about the level of transformation within the NHFC. Since the reorganisation employee demographics do not reflect those of the country. However, with the DFI consolidation the demographic profile will change.

Remuneration and employee relations

NHFC and the employee representative trade union agreed on a 7.2% salary increase.

Salary increases and performance incentives are based on both individual and company performance as measured against set targets. To this end, when bonuses are awarded, those employees who have exceeded their set targets are incentivized according to their respective employment contracts.

Because of the delays in the DFI consolidation, payment of the deferred portions of the executive incentive was done. These delays will again result in the new cycle of the three-year rolling incentive scheme affected again in 2017/18.

In line with its policy of equal remuneration, no unfair labour practice claim was instituted against the company on the basis of unequal remuneration. Going forward in the Human Settlements Devleopment Bank equity in remuneration will be retained.

In the year only two employer/employee grievances were recorded, against a tolerable five grievances. Two disciplinary actions were carried out, again against a tolerable five.

Two wellness days were conducted during the year. No critical interventions were identified.

Human rights and labour practices

The corporation continues to observe the International Labour Organization's labour standards as enshrined in the fundamental conventions. Through its policies and practices, the NHFC subscribes to protocols on:

- Prohibition of child labour;
- Compulsory labour;
- Freedom of association;
- Elimination of discrimination in employment and occupation; and
- Security practices and human rights grievance mechanisms.

During the period under review, no infringements were identified related to the above human rights and labour practices.

Social capital

The social value created by the NHFC through its disbursements and partnerships is explained throughout this report. The most profound social outcome effected by the corporation relates to the provision of decent affordable housing for large numbers of South African individuals and families.

In addition, the NHFC is instrumental in creating social value through its operation of the FLISP first-time homebuyers' subsidy and by fostering job creation and emerging entrepreneurs (both of these in Gauteng).

In 2016/17, we undertook a wide-ranging process to formalise our corporate social investment (CSI) programme. The NHFC is now committed to spending 1% of net profit after tax on CSI initiatives with these investments being assessed and evaluated for impact.

In the year reported, CSI spend amounted to R116 000, well in advance of the approved 1% after-tax target. Of this amount, R86 000 was allocated towards a GPF entrepreneurs' awards event. The CSI spend was achieved despite the many distractions relating to the DFI consolidation process.

We have made progress on implementing the following pillars which underpin the NHFC CSI Strategy;

- Education for change;
- Strategic partnerships;
- Building committees from the ground up;
- Employer volunteer participation.

Enterprise supplier development and preferential procurement

Our supplier development programme aims to enable those smaller (black-owned) enterprises that are already supplying the company to increase their business with us, and their capacity to supply more broadly.

Each year we set aside a budget to finance the development of housing by women-, youth- and other emerging black-owned businesses. In 2016/17 this budgeted amount was R376 million, of which R217 million was actually disbursed. This underperformance was due to prevailing economic conditions and delays in implementing projects.

In the year reported we significantly increased our preferential procurement expenditure from B-BBEE-compliant suppliers, from 52% to 74%.

Natural capital

As a financial institution, the NHFC has an extremely limited consumption of natural capital. However, through our lending and partnering activities, we have considerable scope for influencing financial investments which can have materially beneficial environmental impacts, especially in terms of energy efficiency and water consumption. In 2016/17 we acknowledged that, to date, the corporation had done little to exert this influence and put in place wide-ranging policies and action plans to remedy this situation. Specifically, this year we:

- Incorporated into loan agreements checklists to ensure that developments comply with environmental regulations, specifically SANS 10400-XA and SANS 204;
- Agreed procedures in terms of which projects are checked for previously agreed environmental investments which must be implemented before a final draw is disbursed;
- Engaged the Green Building Council South Africa on training management in best environmental practice;

Employment equity statistics as at 31 March 2017 (Company)

	Males					Females					
Occupational Levels	Africans	Coloured	Indians	Whites	Total	Africans	Coloured	Indians	Whites	Total	Grand Total
Top Management	4	0	0	1	5	2	1	0	0	3	8
Senior Management	3	0	1	1	5	2	1	0	0	3	8
Professionals	6	0	0	0	6	8	0	0	0	8	14
Skilled Technical	1	0	0	0	1	2	0	1	0	3	4
Semi-Skilled	9	0	0	0	9	10	1	0	0	11	20
TOTAL	23	0	1	2	26	24	3	1	0	28	54
Contract	0	0	0	0	0	0	0	0	0	0	0
Learners	2	0	0	0	2	4	0	0	0	4	6
GRAND TOTAL	25	0	1	2	28	28	3	1	0	32	60
%	89.7	0.0	3.4	6.9	100.0	84.8	12.1	3.0	0	100	

Staff gender ratio per category as at 31 March 2017

- Undertook the first phase of training of relevant staff in the council's Excellence in Design for Greater Efficiencies (EDGE) modules; and
- Undertook discussions with various stakeholders on potential grant/concessionary funding of "green" building investments.

Work undertaken in the year to establish policies and, possibly, a dedicated fund to subsidise green building initiatives is ongoing and will, it is envisaged, culminate in the HSDB having a wide-ranging impact in the area of natural capital.

Above: NHFC Staff 2016/17

Social and Ethics Committee report

The Social and Ethics Committee (SEC) was established in terms of section 72 (4) of the Companies Act and is a committee of the NHFC Board. The mandate of the SEC is to report to the shareholder on its monitoring of the activities of the NHFC. For good corporate governance purposes, the SEC extends its reporting to the main NHFC Board and does this in line with best practice and according to an accepted international benchmarking framework.

As the SEC works in collaboration with other Board committees, its purpose is not to duplicate work done within the NHFC or by other such committees. The SEC is therefore constituted to ensure that the NHFC remains committed to being a socially responsible corporate citizen and creates a sustainable business with regard to the ethical, economic, social and environmental impacts on the communities within which it operates.

In addition to the SEC executing its duties in terms of the Companies Act, for the year-ended 31 March 2017, it has been guided by the King III Report on Corporate Governance and the PFMA. The Companies Act references specific pieces of South African legislation in addition to various principles and standards of the Organisation for Economic Cooperation and Development, the International Labour Organisation and the United Nations Global Compact.

The SEC is composed of two independent non-executive directors and the CEO who are appointed by the shareholder at the annual general meeting. Executive management attend meetings by invitation. The committee meets four times a year.

The SEC's terms of reference include ensuring that the NHFC's strategy addresses the following social and ethics components in its execution:

- That the NHFC conducts its business activities in an ethical and socially responsible manner in fulfilling its duties;
- The NHFC and any associated or subsidiary entities are socially responsible citizens and have created a sustainable business having regard to economic, social and environmental impacts on the communities within which they operate;
- The NHFC promotes equality and also prevents unfair discrimination;
- The NHFC has established a Code of Ethics which includes the prevention of fraud, bribery and corrupt practices;
- The NHFC ensures the protection of human rights;
- The NHFC contributes to the development of the communities in which its business activities are predominantly conducted – which development includes poverty alleviation, environmental management, job creation, public safety, corporate social investment, consumer relationships, the promotion of equality, ethical management and the promotion of fair, safe and ethical labour and employment practices;
- The NHFC ensures that appropriate labour and employment practices are adhered to in terms of labour legislation and the protocols specified in the Companies Act;
- The NHFC manages its stakeholder profile, strategy and policies in a socially, ethically and environmentally responsible manner; and
- The company reports to the shareholder in accordance with the provisions of the Companies Act.

Following training and foundation work to understand the social and ethics issues to be covered by the NHFC, undertaken in the 2016 financial year, the SEC introduced the Global Reporting Initiative (GRI) G4 Reporting Framework as the standard reporting mechanism for Board committees to give assurances to the SEC. These undertakings empower the committees to take responsibility to verify the nature of the activities as stipulated in legislation and by the framework and also include a review of internal policies, charters and codes of ethics and conduct.

The matrix on pages 42 to 45 summarises the reporting framework and the work undertaken by the various Board committees which have reported to the SEC.

It is acknowledged that this is the first year of using this framework and there is much scope for future development. However, the SEC is pleased with the responses received and can confirm that adequate assurance has been provided in most key areas. Further, the SEC can report that work has been carried out in all material areas and that it is planned to escalate coverage in future and to utilise Internal Audit to assist in specific projects and confirmation of the means of verification.

Social and Ethics Committee framework

Focus Areas	Basis	Dimensions	GRI G4 and ISO 26000 Guidelines
Social and economic development, Environment, health and public safety	United Nations Global Compact Principal 1 and 2	Support and protect human rights	G4-SO1 to G4-SO2
	United Nations Global Compact Principle 3, 4, 5 and 6	► Uphold freedom of association and collective bargaining ► Elimination of forced labour ► Elimination of discrimination in employment and occupation	G4-HR4 G4-HR5 G4-HR3
	United Nations Global Compact Principle 7, 9	Promote and support environmental responsibility	G4-EN3 to G4-EN6
			G4-15
Good Corporate citizenship and Consumer relationships		Promotion of equality	G4-24
			G4-PR2

Relevant Standard/Legislation or national guideline	Activities
National Environment Management Act	► NHFC supports and respects the protection of internationally proclaimed human rights (Principle 1 of the UN Principles) ► NHFC ensures that it is not complicit in human rights abuses (Principle 2 of the UN Principles) Provision of housing through the formal review of funding applications of housing providers or investment institutions that have implemented impact assessments and development programmes.
► Employment Equity Act ► Labour Relations Act ► Bill of Rights ► Employee Contracts of Employment	The culture of ethics within which the NHFC has been integrated on a Strategic and Operational level which includes the following: ► Employment screening ► Training initiatives of staff ► Awareness campaigns ► Regular and transparent communication ► Consistent disciplinary system ► Consistent reward system and structures, which include the recognition of staff who "live the Code of Ethics". ► All new employees are bound by HR Manual including the Code of Ethics. 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 (Principle 3 of the UN Principles) ► The elimination of all forms of forced and compulsory labour (Principle 4 of the UN Principles) ► The implementation of effective measures for the abolition of child labour (Principle 5 of the UN Principles) ► The elimination of discrimination in respect of employment and occupation (Principle 6 of the UN Principles). The NHFC is complying with the Employee Equity Act. The suppliers who offer HR Services to NHFC are review evaluated to ensure that there are no violations of freedom of association or collective bargaining either prior to or post engagement of suppliers or clients.
SANS 10400-XA and SANS 204	Application of the NHFC-approved Fraud, Corruption and Prevention Policy as well as the Supply Chain Policy in line with legislation and regulations. These are reviewed annually together with internal and external audit. ► No incidences of fraud have been reported ► No related fines have been imposed on the NHFC ► Compliance certificates are issued to National Treasury ► Annual Stakeholder reviews are undertaken to receive feedback and comment
	► Lists of all social, economic and development charters, memberships in organisations, and stakeholder groups maintained in Risk Division, updated annually.
BBBEE Act and allocation of budget	► 7 282 jobs created ► R376 million spent on BBBEE women and youth and 8 start-ups funded ► Financial contributions made to the Govan Mbeki Housing Awards, a beneficiary at Savannah City, GPF Entrepreneurs Awards ► Seven learnership placements ► Four bursaries awarded ► Employees Participated in the Cleaning Campaign Mandela Day 2016.
Occupational Health and Safety Act	► Implementation of initiatives to mitigate environmental impact of products and services, such as protective clothing on site, adherence to safety measures on site, etc.

Social and Ethics Committee framework (continued)

Focus Areas	Basis	Dimensions	GRI G4 and ISO 26000 Guidelines
		Advertising and customer satisfaction surveys	G4-PR7
Labour and employment	ILO Protocol on decent work and working conditions	Employment relationships, educational development	G4-HR1 to G4-HR8, G4-EC3, G4-LA1 to G4-LA16
Governance	OECD	Corporate profile, products, location, business and legal form, markets served, scale of organisation, economic performance and value generated, financial assistance received from government	G4-3 to G4-57, G4-EC1 to G4 –EC4

Reservoir Mews, East London

Relevant Standard/Legislation or national guideline	Activities
	Prepare Corporate Social Investment strategy, Communications Policy, stakeholders workshop held, satisfaction survey undertaken
► Basic Conditions of Employment Act ► Labour Relations Act ► Employment Equity Act ► BBEEE Act ► NHFC Policy ► ILO Protocol ► Union Recognition Agreement ► Skills Development Act	► All employees trained on HR Policies and reviews ► Over 80% of employees received formal training, leadership and technical training and all employees benefited from on-the-job training ► Recognition Agreement signed with Union
► Public Finance Management Act ► National Treasury Guidelines ► Companies Act ► King lll Code ► Internal charters	► Corporate profile included in integrated report and website and social media; ► Memorandum of Incorporation in place ► Annual Performance Plan developed and approved together with Shareholders Compact; ► Codes of ethics and employee values in place ► Key risk, IT and remuneration frameworks in place.

Corporate governance

The NHFC regularly reviews its corporate governance structures and processes in order to ensure that the business:

- *Is managed ethically and effectively and within prudent risk parameters;*
- *Is aligned with best practice;*
- *Complies with legislation and regulation;*
- *Reflects internal developments.*

The company fulfils its mandate in a manner that is consistent with the principles of integrity, fairness, transparency, ethical and effective leadership, efficiency and accountability as set out in the King III Code of Corporate Governance. The Board of directors and senior management are committed, as far as possible, to applying the principles of the King III Code, the PFMA and its regulations, the Companies Act and regulations, and all other related legislation.

GOVERNANCE AND LEADERSHIP HIGHLIGHTS IN 2016/17

As is highlighted in the leadership messages in this integrated report, in 2016/17 the NHFC Board was tasked with considerable additional leadership responsibilities. The scope of work undertaken by directors in the year is borne out by the frequency of Board and committee meetings detailed in this section of the report, and by the individual committee reports.

In addition to involving itself closely in giving strategic direction and oversight to the DFI consolidation process, this year the Board, through the Developmental Impact and Strategy Committee reviewed the corporation's strategy and the bearing of the consolidation process on this strategy. Simultaneously, the Audit and Risk committees undertook a review of risk management and impairments and the bearing these would have on the future strategy of the HSDB while the Social and Ethics Committee devised a new, more effective reporting matrix, as is detailed on page 42. This matrix – and the evolving social capital policy – required considerable and ongoing input from various committees as well as detailed consideration by the Board.

THE BOARD

The NHFC is incorporated under the Companies Act 2008 and is a state-owned company, wholly-owned by the DHS. It is defined as a schedule 3A state-owned entity under the PFMA.

Accountability to the shareholder

The Board is accountable to its sole shareholder, the DHS, representing the government of the Republic of South Africa. The Minister of Human Settlements, as the Executive Authority, represents the shareholder's interest, determines the NHFC's mandate and holds the Board accountable for managing its operations within its mandate.

Strategic objectives and performance management

During the year under review, the NHFC acted in accordance with its Strategic Business Plan, APP and Shareholder's Compact, as mandated by the PFMA. These documents are submitted annually to the shareholder.

The APP and Shareholder's Compact jointly serve as an agreement documenting the key performance measures against which organisational performance is assessed. The Board determines the strategic objectives and measures itself against the key performance indicators reflected on pages 22 to 24 of this integrated report.

The Board reports formally to the DHS every quarter, as well as to the Human Settlements Portfolio Committee in Parliament every six months. The CEO is charged with the day-to-day management of operations, and meets regularly with the DHS department and the Minister.

Board governance, structures and framework

The Board, as the accounting authority, provides leadership, vision and strategic direction to enhance shareholder value and ensure the NHFC's long-term sustainability and growth. The Board is responsible for developing and overseeing the execution of strategy and monitoring performance against the APP.

The Board discharges this responsibility within the powers set out in the Memorandum of Incorporation ("MOI") and through the Board committee structure. Although the Board delegates operational responsibilities to its committees and management, it remains accountable to the DHS.

Each Board committee has a clearly defined mandate in its terms of reference, which the Board reviews and approves each year. The management of day-to-day operations is delegated by the Board to the CEO, who is assisted by the executive committee and its subcommittees.

Board composition and meetings

Board members are appointed by the Minister. There are currently 11 members, details of whom are on page 26 of this report.

With the exception of the CEO, Board members are all independent non-executive directors, and the chairperson is appointed from among them. Their extensive qualifications, experience and specialist skills across the industry, and within their own spheres of competence, enable them to provide balanced, independent advice and judgement in the decision-making processes.

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

In line with the Shareholder's Compact, the Board Charter is a concise overview of the roles, functions, responsibilities and powers of the CEO, the Board and the interaction and relations with the shareholder, and is reviewed annually with the DHS. Through it, the Board retains full and effective control of the organisation by:

- Approving the organisational strategy, APP and budget, and monitoring management closely on the implementation thereof;
- Observing the legitimate interests of the shareholder;
- Monitoring operational and financial performance against the corporate balanced scorecard by ensuring that the required control systems are in place;
- Reviewing the delegated authority policy that sets out the powers it delegates to management;
- Determining and nurturing the moral and ethical culture of the NHFC by formulating guidelines and policies that encourage the participation of management, staff and stakeholders in decision-making processes;
- Supporting a culture of innovation and initiative throughout the organisation and its clients and ensuring that all technology systems used by the company are adequate to guarantee effective and efficient performance;
- Monitoring the socio-economic and ethical compass of the NHFC and its interactions with its clients and stakeholders.

In accordance with government-approved guidelines, at the annual general meeting (AGM) of the company, the shareholder reviews and approves the remuneration of non-executive directors for attending Board and Board committee meetings, and these directors' fees are disclosed in the annual financial statements.

The MOI provides that, on a three-year cycle, one-third of the longest serving non-executive directors will automatically retire at the AGM. These directors may allow themselves to be nominated for re-election for a further period of three years. Such re-appointment is confirmed by the shareholder. At the AGM held on 24 November 2016, Mr P Phili and Ms D Msomi and Ms S Swanepoel automatically retired by rotation. The Minister took the opportunity to restructure the Board and appointed Messrs A Harris, E Godongwana, K Shubane and Ms T Chiliza in their places, pursuant to preparation for the development finance institution consolidation – covered elsewhere in this report.

It is the policy of the Board to arrange bi-annual external evaluations on its performance and effectiveness, as well as that of the Board committees. Under the supervision of an external service provider the board and its committees were evaluated during 2016 and the conclusion was that they were operating satisfactorily. The next external evaluation will be conducted during the 2017 calendar year.

The Board is required to meet quarterly, and additionally to approve the annual financial statements. It may meet more frequently as circumstances require. The chairpersons of the respective Board committees report back to the Board at the quarterly Board meetings. The record of attendance at Board meetings for the period under review is reflected below.

DIRECTOR	07/4/16	30/6/16	21/7/16	22/9/16	24/11/16	31/1/17	28/2/17	30/3/17
Professor M Katz (Chairperson)	•	✓	✓	•	•	•	•	✓
Mr S Moraba (CEO)	✓	✓	✓	✓	✓	✓	✓	✓
Mr S Tati	✓	✓	✓	✓	✓	✓	✓	✓
Mr J Coetzee	✓	✓	✓	✓	✓	✓	✓	✓
Mr S Ntsaluba	•	✓	✓	✓	✓	✓	✓	•
Mr P Phili	✓	✓	✓	✓	✓	N	N	N
Ms S Swanepoel	✓	✓	✓	✓	✓	N	N	N
Ms A Houston	✓	✓	•	•	✓	✓	•	•
Ms P Ramarumo	✓	✓	✓	✓	✓	•	✓	✓
Ms D Msomi	✓	✓	✓	✓	✓	N	N	N
Mr A Harris	N	N	N	N	N	✓	✓	✓
Mr E Godongwana	N	N	N	N	N	✓	✓	✓
Ms T Chiliza	N	N	N	N	N	✓	✓	✓
Mr K Shubane	N	N	N	N	N	✓	•	✓

• Absent with apology N Not applicable

Notes: 1. The meeting on 28 February 2017 was a special meeting called by the Minister of Human Settlements in Cape Town

2. The chairperson of the Board was incapacitated for the meetings of 31 January 2017 and 28 February 2017, having undergone surgery. His absence was condoned by the Board.

Company Secretary

In terms of the Companies Act and the PFMA, the NHFC is required to appoint a Company Secretary who is answerable to the Board. The Company Secretary plays a pivotal role in the corporate governance of the organisation. Directors have unrestricted access to the advice and services of the Company Secretary who assists with matters of ethics, good governance and the provision of information and training required by directors to fully accomplish their fiduciary responsibilities.

In addition, the Company Secretary oversees the preparation of all Board and committee meeting agendas and Board packs, and attends meetings to take minutes, prepares follow-up task schedules and ensures that all resolutions are acted upon.

Ethics and managing conflicts of interest

In line with the Companies Act and the King III Code, the Board is bound to conduct the business of the NHFC in accordance with ethical principles. These are embodied in an internal document, the NHFC Code of Conduct (the Code). The Code also 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.

The declaration of any interest is a standing item on all Board and Board committee meeting agendas. In addition, all Board members and executive managers are required each year to provide a declaration, which is kept on record in the Company Secretary's office. All directors and management are expected to conduct themselves in a professional manner at meetings, and where there may be potential differences in matters of principle when discussing individual agenda matters, these differences are formally noted and handled according to the Compact and Code, and in terms of best practice.

Access to information and professional advice

All directors have unrestricted access to the Company Secretary, the Chairperson of the Board, the CEO and management should they require any additional information outside of that provided in meeting packs, in discharging their duties.

Directors may further seek additional independent professional advice concerning the affairs of the NHFC, by arrangement with the Company Secretary or Board chairperson.

BOARD AND STATUTORY COMMITTEES

All Board committees have clearly defined terms of reference which set out the specific responsibilities delegated to them by the Board. These are reviewed annually in order to ensure alignment with the NHFC's mandate from the shareholder, applicable legislation and regulations, governance standards, the strategic objectives of the NHFC, and to take account of prevailing underlying conditions in the sector in which the organisation operates. All Board committees are chaired by independent non-executive directors, and cognisance is taken of the recommendations of the King III Code recommendations concerning the separation of the role of the Board chairperson from the role of chairperson on each of the committees. Management attends committee meetings by invitation. This attendance provides committees with additional perspectives on agenda items where necessary, and enables non-executive directors to give direction or to request further information where required. Guidance is also taken from external professional institutions and service providers, legal firms and audit firms, which collectively issue position papers, professional opinions, research findings and guidelines, which the NHFC uses to assist itself in its implementation and compliance with various relevant statutes.

It is the practice of the NHFC to rotate non-executive directors among the various committees, and to rotate the chairperson's position of each, on a staggered basis. This is to provide for robust interaction within the committees and to enable various members to bring their skills, new ideas and experience into play when considering agenda items with management, without compromising the existing organisational and intellectual knowledge from the longer-serving committee and Board members. To this end, non-executive directors may also be invited from other committees to assist in deliberations on cross-cutting agenda items.

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

Audit Committee

The Audit Committee is composed of three independent non-executive directors. The members are confirmed and appointed at the AGM by the shareholder, as provided for in the Companies Act. The current serving members are Mr S Ntsaluba (chairperson), Mr S Tati and Ms T Chiliza. The CEO, the Chief Financial Officer and various executive managers attend meetings by invitation, as do the external and internal auditors. During the year the committee holds additional in-camera sessions to consider the performance of the CFO and the support of management in the performance of the audits. In addition, the committee holds further in-camera sessions to assess the performance of the auditors. The Audit Committee meets a minimum of six times a year and its primary objective is to assist the Board in discharging its duties relating to the following:

- Annual consideration of the Audit Committee Charter and terms of reference for confirmation by the Board;
- Oversight of financial reporting as well as compliance with all applicable legal requirements and accounting standards;
- The operation of adequate systems of internal control and internal audit processes;
- Reviewing the annual financial statements, accounting policies, financial provisions, adjustments, estimates and valuations;
- Reviewing the annual integrated report;
- Reviewing the effectiveness of management information and systems of internal control with specific reference to the findings and recommendations of the external and internal auditors;
- Oversight of the external audit process;
- Review of and approval of quarterly reports to the shareholder as delegated by the Board.

The NHFC has an outsourced "whistleblowing" policy. All matters that are raised are reported firstly to an independent external third party, which records and assesses the items, and then they are handed on to the CEO and/or chairperson of the Audit Committee, for investigation and subsequent action.

The Internal Audit function is outsourced to an external service provider, independent of the external audit function. The internal auditors conduct periodic reviews of the key processes related to the significant risks of the company, to provide independent assurance to the Board and management on the effectiveness of the internal control systems. The Audit Committee reviews the work of the internal auditors, and the lead auditor of this function has direct unhindered access (as required) to the chairpersons of the Audit Committee and the Board, to ensure that any significant audit matters requiring immediate Board attention, are dealt with.

The Internal Audit function conforms to the International Standards for the Professional Practice of Internal auditors as published by the Institute of Internal Auditors. Since this is an outsourced function, it is reviewed every three to five years for the service provider to be appointed following an open tender process.

The committee held six meetings during the period under review and the record of attendance is as follows:

DIRECTOR	26 /4/16	7/7/16	26 /7/16	5 /10/16	27/10/16	31/1/17
Mr S Ntsaluba (Chairperson)	•	✓	✓	•	✓	✓
Mr S Tati	✓	✓	✓	✓	•	✓
Mr P Phili	✓	✓	✓	✓	✓	N
Ms P Ramarumo	B	N	N	N	N	N
Ms T Chiliza	N	N	N	N	N	✓

• Absent with apology B By Invitation N Not applicable

Board Credit and Investment Committee

The Board Credit and Investment Committee is composed of five independent non-executive directors. Meetings are also attended by the CEO and members of the management team. As per its terms of reference, its primary objective is to help the Board in fulfilling its credit and investment responsibilities. The committee therefore:

- Annually reviews and recommends its terms of reference, the credit philosophy, framework and policy, risk appetite statement (see page 16) and long-term investment strategy and related policies, to the Board;
- Recommends the treasury management policy to the Board for approval, and discharges the functions as set out in the policy;
- Reviews the quarterly strategic investments and credit reports noting portfolio performances and recommending legal action, impairments, bad debt write-offs or revaluation of investments where applicable to other Board committees and the Board;
- Approves all loan applications for facilities (senior debt) between R50 million and R160 million, upon recommendation by the Management Credit and Investment Committee. Loan applications (senior debt) in excess of R160 million are referred to the Board for approval;
- Approves all long-term investment proposals up to R100 million, upon recommendation by the Management Credit and Investment Committee;
- Long term investment proposals that exceed R100 million are recommended to the Board;
- Considers annual and post investment reviews of strategic and major clients of the NHFC.

The committee meets at least four times a year, and more frequently if required. The record of attendance for the six Board Credit and Investment Committee meetings during the period under review is as follows:

DIRECTOR	30/5/16	24/8/16	29/9/16	8/12/16	16/3/17	30/3/17
Mr J Coetzee (Chairperson)	✓	✓	✓	✓	✓	✓
Mr S Tati	✓	✓	✓	✓	✓	✓
Mr P Phili	✓	✓	✓	N	N	N
Mr S Moraba (CEO)	✓	✓	✓	✓	✓	✓
Ms T Chiliza	N	N	N	N	✓	✓
Mr A Harris	N	N	N	N	✓	✓
Mr K Shubane	N	N	N	N	✓	✓

• Absent with apology B By Invitation N Not applicable

Management Credit and Investment Committee

The Management Credit and Investment Committee is a subcommittee of the Board Credit and Investment Committee, chaired by the CEO, and meets approximately eight times a year, or more frequently if needed. It has its own terms of reference and, as a subordinate committee, is responsible for approving loan facilities (senior debt) up to, or cumulatively up to R50 million per client (which is reviewed annually and by the Board Credit and Investment Committee annually), and recommending amounts in excess of R50 million to the Board Credit and Investment Committee. With respect to long-term investments (equity and quasi equity), the Management Credit Committee can review and approve proposals below or cumulatively below R20 million.
During the year under review MCIC and ICIC authority was centralised under BCIC due to NHFC's liquidity constraints.

Delegation of credit and investment approval

BOARD
CREDIT PROPOSALS (senior debt)
Above or cumulatively above R160 million
INVESTMENT PROPOSALS (equity & quasi equity)
Above or cumulatively above R100 million

BOARD CREDIT & INVESTMENT COMMITTEE (BCIC)
CREDIT PROPOSALS (senior debt)
Below or cumulatively below R160 million
Above or cumulatively above R50 million
INVESTMENT PROPOSALS (equity & quasi equity)
Above or cumulatively above R20 million
Below or cumulatively below R100 million

MANAGEMENT CREDIT & INVESTMENT COMMITTEE
CREDIT PROPOSALS (senior debt)
Below or cumulatively below R50 million
Above or cumulatively above R10 million
INVESTMENT PROPOSALS (equity & quasi equity)
Below or cumulatively below R20 million

INTERNAL CREDIT COMMITTEE
CREDIT PROPOSALS (senior debt)
Up to or cumulatively up to R10 million

Human Resources, Ethics and Remuneration Committee

This committee is composed of three independent non-executive directors and is attended by the CEO and the Executive Manager: human resources.

The committee meets at least four times a year. Its responsibilities include:

- ► Reviewing its terms of reference annually, and recommending any changes to the Board for approval;
- ► Reviewing the human resources policy and strategy every second year, or as required;
- ► Reviewing the remuneration policy and balanced scorecard remuneration framework and recommending it to the Board for approval;
- ► Reviewing and monitoring top HR risks;
- ► Reviewing and monitoring HR audit findings;
- ► Considering and approving salary increases for all staff other than executive managers;
- ► Approving the implementation of bonuses and incentives for all staff other than for executive managers;
- ► Reviewing and recommending executive managers' salary increases and incentive bonuses to the Board;
- ► Reviewing the terms and conditions of executive managers' service agreements;
- ► Annually reviewing and approving succession planning.

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

The NHFC has a zero-tolerance approach towards dishonest, corrupt and illegal conduct. This is central to the Code of Conduct. Criminal behaviour will not be permitted and formal charges would be laid against perpetrators who would be dismissed if found to have participated in unacceptable behaviour. In the past year there were no instances of dishonest, corrupt or illegal conduct reported.

The committee held four meetings during the year under review:

DIRECTOR	9/6/16	8/9/16	10 /11/16	9/3/17
Ms S Swanepoel (Chairperson to 24/11/2016)	✓	✓	✓	N
Ms A Houston	✓	✓	✓	✓
Mr S Ntsaluba	•	•	✓	•
Mr K Shubane (Chairperson from 1/1/2017)	N	N	N	✓

• Absent with apology   N Not applicable

Social and Ethics Committee

The Social and Ethics Committee (SEC) is a mandatory committee of the Board as laid down in terms of section 72 (4) of the Companies Act. Its mandate is to report to the shareholder (generally at the AGM, on its monitoring of the activities of the NHFC as laid down in the Companies Act and which refers to various principles and standards of the Organisation for Economic Cooperation and Development, the International Labour Organisation and the United Nations Global Compact.

In addition to the SEC executing its duties in terms of the Companies Act, it is also guided by the King III Code, the PFMA and other mandatory legislation.

For good corporate governance purposes, the SEC also extends its reporting to the main NHFC Board. This is facilitated by use of the GRI G4 reporting framework for SECs, which is an accepted international best practice benchmark framework.

As the SEC's work is collaborative in nature, its purpose is not to duplicate work done within the company or by other Board committees. The SEC therefore performs its monitoring oversight role within the NHFC to ensure that the company remains committed to being a socially responsible corporate citizen and creates a sustainable business with regard to its integrated performance and its ethical, economic, social and environmental impacts on its stakeholders.

The SEC is composed of two independent non-executive directors. The CEO and management attend meetings by invitation. It meets at least four times a year.

The committee's terms of reference ensure that, in executing its strategy, the company:

- ► Conducts its business activities in an ethical and socially responsible manner;
- ► Undertakes the social and economic development of its employees and other stakeholders;
- ► Promotes equality and prevents unfair discrimination;
- ► Has established a Code of Ethics which includes the prevention of fraud, bribery and corrupt practices;
- ► Ensures the protection of human rights;
- ► Contributes to the development of the communities in which its business activities are predominantly conducted, including poverty alleviation and the beginning of wealth creation;
- ► Ensures that appropriate labour and employment practices are adhered to, both in terms of local legislation and the protocols specified in the Companies Act.

In fulfilling its obligations, the SEC obtains assurance through reports from the following Board committees:

- ► The Board Risk Committee,
- ► The Board Credit and Investment Committee,
- ► The Human Resources, Ethics and Remuneration Committee,
- ► The Developmental Impact and Strategy Committee.

The Social and Ethics Committee had five meetings during the year under review and the record of attendance is as follows:

DIRECTOR	4/4/16	22/6/ 16	13/9/016	11/11/16	29/3/17
Ms P Ramarumo (Chairperson)	✓	✓	•	✓	✓
Ms D Msomi	✓	✓	✓	✓	N
Mr S Moraba (CEO)	✓	✓	✓	✓	✓
Ms T Chiliza	N	N	N	N	✓

• Absent with apology   N Not applicable

Board Risk Committee

The Board Risk Committee consists of six independent non-executive directors and is also attended by the CEO and executive managers. It meets six times a year. Its primary objective is to help the Board execute its responsibilities with respect to risk management.

In fulfilling its mandate the committee:

- ► Annually reviews and recommends its terms of reference, 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;
- ► Bi-annually reviews and recommends the risk appetite statement and policy to the Board for approval;
- ► 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 the Board Credit and Investment Committee.

The committee held six meetings during the period under review.

DIRECTOR	26 /4/16	7/4/16	26/7/16	5/10/16	27/10/16	31/1/17
Mr P Phili (Chairperson to 24/11/16))	✓	✓	✓	✓	✓	N
Mr S Tati	✓	✓	✓	✓	•	✓
Mr S Ntsaluba	•	✓	✓	•	✓	✓
Mr J Coetzee	•	✓	✓	✓	✓	✓
Ms S Swanepoel	•	✓	✓	✓	✓	N
Ms P Ramarumo	B	N	N	N	N	•
Mr E Godongwana (Chairperson from 1/1/17)	N	N	N	N	N	✓
Mr K Shubane	N	N	N	N	N	✓
Mr S Moraba	✓	✓	✓	✓	✓	✓

• Absent with apology B By Invitation N Not applicable

Developmental Impact and Strategy Committee

This committee is composed of six independent non-executive directors and, and is attended by the CEO and executive managers.

Its main objectives are to:

- ► Review and recommend strategy to the Board and ensure that the NHFC is both relevant and responsive to the affordable housing market;
- ► Give the Board assurance that the strategic objectives are aligned to the DHS's human settlements strategy;
- ► Review the strategic direction in relation to economic, supply and demand imperatives in the market;
- ► Recommend amendments to the strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved;
- ► Monitor performance against the objectives set for developmental impact;
- ► Monitor the impact of developmental activities on the NHFC's financial strategy.

The committee held three meetings during the period under review.

DIRECTOR	19/7/16	8/9/16	9/3/17
Mr S Tati (Chairperson)	✓	✓	✓
Ms A Houston	✓	✓	✓
Mr J Coetzee	✓	✓	✓
Ms P Ramarumo	✓	✓	✓
Ms D Msomi	✓	✓	N
Mr E Godongwana	N	N	•
Mr A Harris	N	N	✓
Mr S Moraba (CEO)	✓	✓	✓

• Absent with apology N Not applicable

Governance over subsidiary companies

The NHFC is 100% owner of the Cape Town Community Housing Company (Pty) Ltd ("CTCHC"), which is a managed housing stock development company.

The company is subject to the guiding corporate governance principles of the NHFC, which ensure that its business is conducted in a proper, ethical and responsible manner.

The CTCHC has its own Board of two directors, which meets quarterly. The chairperson of the CTCHC Board is the CEO of the NHFC as delegated by the NHFC Board.

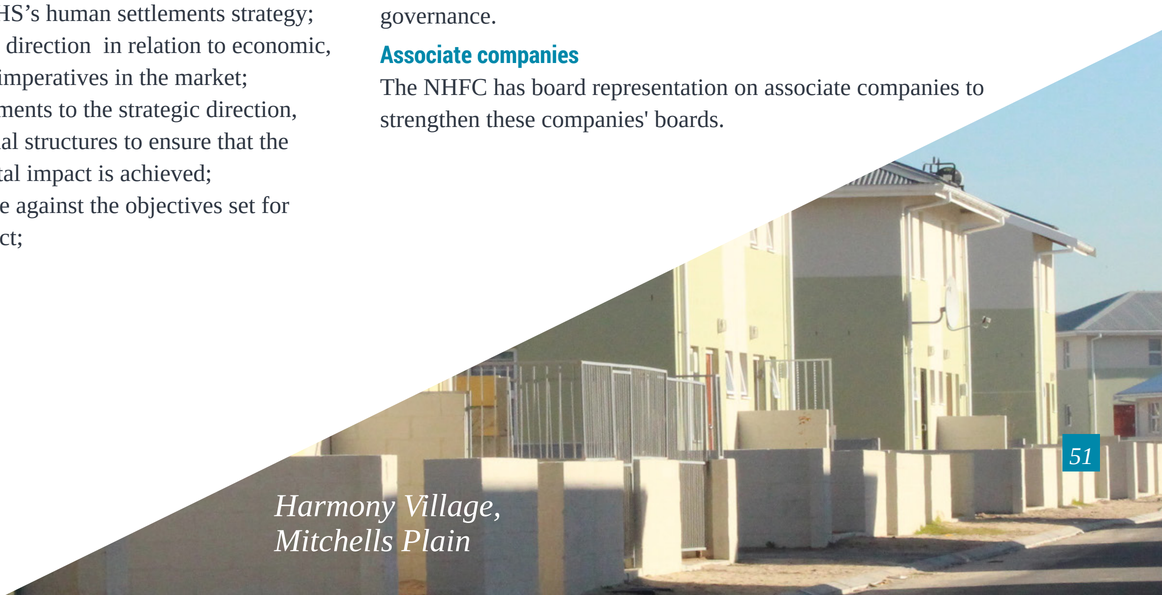
In addition, CTCHC's Audit Committee which comprises members of NHFC's Audit Committee meets quarterly. The annual financial statements, annual report, annual audit plan and charter, and annual internal audit plan are reviewed first by the CTCHC Audit Committee, before being referred to the NHFC Audit Committee.

The head of CTCHC is the Chief Operating Officer. The CTCHC has appointed its own chief operating officer but oversight of the operations and performance of CTCHC is exercised by the NHFC executive manager: lending and the NHFC CFO.

Governance is maintained through delegated authority to ensure adherence to the NHFC group's overall subscription to the principles of ethical leadership and good corporate governance.

Associate companies

The NHFC has board representation on associate companies to strengthen these companies' boards.



Harmony Village, Mitchells Plain

MANAGEMENT COMMITTEES

Executive Committee (EXCO)

EXCO is composed of the CEO and the executive managers, who assist in managing the NHFC's day-to-day business in line with the committee's own terms of reference.

EXCO is also responsible for formulating and implementing the NHFC's Board-approved strategy as well as formulating the APP, key performance indicators for the strategic plan, budget, policies, procedures and internal controls of the organisation, risk assessment, information technology (IT), procurement oversight and quarterly reports (which are all considered by the various Board committees), and all investment applications.

Assets and Liabilities Committee

The Assets and Liabilities Committee is chaired by the CEO. The committee's objectives are to:

- Manage financial risk emanating from the NHFC's operations and borrowing programmes, including liquidity, counterparty matters, credit and market risk (including interest and currency risk);
- Oversee the management of treasury risk to protect the capital of the company, by proactively managing all assets and liabilities;
- Support the NHFC's strategic direction through appropriate analysis and composition of its assets and liabilities.

Information Technology Management Committee

The CEO chairs the Information Technology Management Committee. Its main objectives are to:

- Review the IT strategy, ensure that it is aligned with the APP and recommend it to EXCO;
- Develop an IT governance framework and IT policies, and oversee the implementation thereof, once approved by the Board Risk Committee and EXCO;
- Obtain independent assurance that the IT internal framework is effective and submit such assurance to EXCO for review, and then to the Audit Committee;
- Monitor all IT risks and controls to determine whether they are addressed effectively, ensure that relevant plans and controls are in place and submit these to EXCO, which then recommends them to the Board Risk Committee;
- Review all major IT capital expenditure proposals before submission to EXCO.

Procurement Committee

The CFO chairs the Procurement Committee. The committee's main objectives are to:

- Monitor and ensure the implementation of the procurement policy, procedures and procurement code of conduct, as well as to investigate reports of non-compliance;
- Oversee the adjudication and appointment of service providers to the NHFC to ensure that the procurement process is fair, equitable, transparent and cost-effective. To this end, preference is given to previously disadvantaged service providers and market sectors;
- Take all reasonable steps to prevent abuse of the supply chain management system in compliance with the PFMA and National Treasury regulations;
- Ensure compliance with procurement laws;
- Enact decision-making processes for procurement in order to avoid irregular, fruitless and wasteful expenditure.

Safety and Security Committee

The Safety and Security Committee is chaired by the general manager: human resources. Its main objective is to monitor, evaluate, advise on and make decisions regarding health, safety and security matters, and to report on these matters to the Social and Ethics Committee. It is responsible for monitoring and implementing the safety and security policy, once this is approved by EXCO.

Alleyroad Group Project, Delmas

Harmony Village, Mitchells Plain, Cape Town

Going forward, the NHFC will continue to fulfil its mandate as part of the much larger Human Settlements Development Bank

Annual Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

General Information

Country of incorporation and domicile	South Africa
Members	Prof Michael Katz *(Chairman)*
	Ms Thembi Chiliza
	Mr Johan Coetzee
	Mr Enoch Godongwana
	Mr Adrian Harris
	Ms Anthea Houston
	Mr Samson Moraba *(Chief Executive Officer)*
	Mr Sango Ntsaluba
	Ms Phekane Ramarumo
	Mr Khehla Shubane
	Mr Sizwe Tati
	Ms Dudu Msomi (retired)
	Mr Protas Phili (retired)
	Ms Sonnet Swanepoel (retired)
Postal address	PO Box 31376
	Braamfontein
	2017
Bankers	Standard Bank of South Africa Limited
Auditors	SizweNtsalubaGobodo Inc
	Registered Auditors
Company registration number	1996/005577/30

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Statement of responsibilty by the Board

The Board of Directors, which constitutes the Accounting Authority, is required by the Public Finance Management Act (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the NHFC at 31 March 2017, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the annual financial statements and have been given unrestricted access to all financial records and related data.

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

The annual financial statements are based upon appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors acknowledge that they are ultimately responsible for the systems of financial and risk management and internal control and attach considerable importance in maintaining a strong control environment. To enable the Directors to meet these responsibilities it sets standards of internal control aimed at reducing the risk of error or deficit in a cost-efficient manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of the NHFC's enterprise-wide risk management is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the NHFC endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

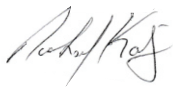
Independent internal auditors assist the Board in their task of ensuring that internal controls are adequate and operate as intended throughout the financial year under review.

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 reviewed the NHFC's cash flow forecast for the year to 31 March 2018, and in light of this review and the current financial position, it is satisfied that the NHFC has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the NHFC's annual financial statements and their report is presented on pages 57 to 59.

The annual financial statements, set out on pages 61 to 105, which have been prepared on the going concern basis, were approved by the Board of Directors on 20 July 2017 and were signed on their behalf by:



Prof Michael Katz
Chairperson

Mr Samson Moraba
Chief Executive Officer

Company Secretary's Certification

Declaration by the Company Secretary in respect of Section 88(2)(e) of the Companies Act

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 for the financial year ending 31 March 2017, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

Andrew Higgs
Company Secretary

Independent Auditor's Report

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries set out on pages 61 to 105, which comprise the consolidated and separate statement of financial position as at 31 March 2017 , the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of National Housing Finance Corporation SOC Limited and its subsidiaries as at 31 March 2017 and its 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Generally recognised accounting practice and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

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

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

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2017, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between these report and the audited financial statements. These reports are the responsibility of the respective preparers.

Based on reading these report we have not identified material inconsistencies between these report and the audited financial statements. However, we have not audited these report and accordingly do not express an opinion on these reports.

Audit tenure

In terms of the IRBA Rule published in the Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Inc. has been the auditor of National Housing Finance Corporation SOC Limited for five years.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the general notice issued in terms thereof, we report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of our tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the "Performance Report" section included in the Integrated Report as set out on pages 22 to 24 of the financial statements, and reported thereon to the directors. The procedures performed were limited to the following selected objectives:

- ►Total value of approvals
- ►Total value of disbursements
- ►Housing opportunities created
- ►Beneficiaries benefitting

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Compliance with legislation

We performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements and compliance with legislation. We did not identify any significant deficiencies in internal control.

SizweNtsalubaGobodo Inc.
Director: Dumisani Manana
Registered Auditor
Chartered Accountant (SA)
Date: 31 July 2017

20 Morris Street East
Woodmead
Johannesburg, 2191

Audit Committee Report

The Audit Committee is pleased to submit its report in compliance with the Public Finance Management Act and the Companies Act of South Africa. Details on the composition and role of the audit committee, frequency of meetings and attendance at meetings are set out in the Corporate Governance Section on pages 46 to 52.

Execution of the Functions of the Audit Committee
The Audit Committee has carried out its functions in terms of the applicable requirements of the Public Finance Management Act, the Companies Act of South Africa and its Audit Committee Charter as approved by the Board.

External Auditors
The Audit Committee approved the external auditors' terms of engagement, scope of work, the annual fee and noted the applicable levels of materiality. Based on written reports submitted, the Audit Committee reviewed, with the external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved. The Audit Committee is satisfied that the 2017 audit was completed without any restrictions on its scope. The Audit Committee is satisfied that the external auditors are independent of the group.

Internal Audit
The Audit Committee has satisfied itself that findings by the Internal Auditors are followed up and implemented by management. The Audit Committee is also satisfied that the Internal Auditors remain independent of management.

Systems of internal controls
The Audit Committee monitors the design and effectiveness of the internal controls system implemented by NHFC. Management ensures that all internal control deficiencies are prevented and corrected as and when they are identified.

Based on the reports and explanations given by management, the Internal Auditors and External Auditors during the year under review, the Audit Committee is of the opinion that the system of internal controls implemented by NHFC is effective. Nothing has come to the attention of the Audit Committee to indicate that a material breakdown in the functioning of internal controls, procedures and systems has occurred during the year under review.

Financial and regulatory reporting
The Audit Committee examined and reviewed the quarterly reports regarding the financial and operational performance of the group, the tracking and monitoring of key performance indicators, details of budgets, forecasts, financial reporting controls and processes, and the adequacy and reliability of management information used during the reporting process.

Evaluation of Annual Financial Statements and Accounting Policies
The Audit Committee has reviewed principles, policies and practices adopted in the preparation of annual financial statements for the 2017 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the audited annual financial statements. The Audit Committee is satisfied that they are adequate and appropriate and that the audited annual financial statements comply in all material respects with the Public Finance Management Act, the Companies Act of South Africa and Generally Recognised Accounting Practice.

The Audit Committee recommended the audited annual financial statements to the Board for approval.

Chairperson of the Audit Committee
Date: 11 July 2017

Directors' Report

Mandate and Principal Activities
The National Housing Finance Corporation SOC Limited (NHFC) was established by the National Department of Human Settlements as a Development Finance Institution (DFI) with the principal mandate of broadening and deepening access to affordable housing finance, for low to middle income South African households. The NHFC is listed as a schedule 3A public entity in terms of the Public Finance Management Act. Details of the NHFC's principal activities are described on pages 6 and 10.

Corporate Governance
For the financial year under review, the Directors have embraced the principles of the King III Code and Companies Act and endeavour to comply with these recommendations as far as possible.

Financial Highlights
The financial highlights are set out on page 20.

Financial Results
The financial results of the NHFC for the year under review are set out on pages 63 to 105.

In 2016/17 the NHFC returned to a consolidated profit position after reporting a loss the previous year, the first such loss in the company's then 20-year history. The profit was achieved despite a deferred tax asset being unwound following the tax exempt status effective 1 April 2016.

During the year a significant number of write-offs have occurred, these also affected the gross loan values and impairment provision balances. The write-offs have arisen on accounts where the NHFC has taken a view that the prospects of recovery are minimal and/or the costs of recovery outweigh the recoverable amount. These write-offs stem mainly from three key clients which have been non-performing for some time and the exposures were previously impaired.

Business Performance Results
The business performance against predetermined objectives for the year under review is set out on pages 22 to 24.

Share Capital and Shareholder
The Government of the Republic of South Africa is the sole shareholder of the NHFC and the Minister of Human Settlements duly represents the shareholder's interest.

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 in order 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 ability of the Company and Group, and has a reasonable expectation that the NHFC has adequate resources to operate in the foreseeable future. The NHFC Group has therefore adopted the going concern basis in preparing the financial statements.

During the year the NHFC was recapitalised by the Shareholder in the amount of R100 million.This was the second tranche of the approved budget allocation of R300 million over the Medium Term Expenditure Framework period. The remaining R100 million will be paid in the following year.

A further allocation of R80 million and R50 million in 2018/19 and 2019/20 respectively has been confirmed by the Shareholder.

Directorate and Secretariat
Details pertaining to the directors and Company Secretary appear on pages 26 and 27 and page 48.

DFI Consolidation
The National Department of Human Settlements (DHS) is currently supported by three development finance institutions (DFIs), the National Housing Finance Corporation SOC Limited (NHFC), the Rural Housing Loan Fund SOC NPC (RHLF) and the National Urban Reconstruction and Housing Agency SOC NPC (NURCHA).

The drive to scale housing finance provision, to greater leverage private sector contribution and thus significantly grow the Human Settlement development impact, became the strategic rationale for the consolidation of the three DFIs. The expected consolidation outcome would be such that the whole is greater than the sum of its parts. This strategic rationale is also supported by the National Treasury's review of the DFIs.

The Ministry of Human Settlements has committed itself to the establishment of a Human Settlements Development Bank (HSDB) in support of the entire human settlements delivery value-chain.

The NHFC will serve as a Consolidated platform for the establishment of the HSDB. In order to implement the Consolidation, NURCHA and RHLF will transfer their respective assets and liabilities to the NHFC at no charge through donation agreements; and thereafter NURCHA and RHLF will be dissolved by way of a winding-up or a deregistration process. It is envisaged that the NHFC will continue in its existing legal format but will change its constitution documents to conform to the HSDB requirements.

Directors' Report

The HSDB establishment will include, among others, the policy, enabling legislation, business case and capitalisation, leading to a fully integrated HSDB.

Significant milestones achieved towards that end include:

- The Taxation Laws Amendment Act No 15 of 2016, published in the Government Gazette on 19 January 2017 under notice 40562. An amendment has been made (with effect from 1 April 2016), to render NHFC exempt from normal tax.
- Restructuring of the NHFC Board by the Minister to oversee the operational integration and legislative establishment of the HSDB.
- The Companies Tribunal at its sitting of 28 April 2017, granted an Administrative Order exempting the Consolidation from the NPC Restrictions as contained in the Companies Act and the NURCHA and RHLF MOIs, such that the Consolidation may be concluded and implemented on the basis that NHFC remains a profit company.

The remaining factors impacting the effective date of the Consolidation are the fulfilment of the various suspensive conditions including obtaining the requisite approvals in terms of the Public Finance Management Act and the necessary approvals from the respective funders.

Every effort is being applied towards completion of all the processes for the earliest effective date for the Consolidation within the 2017/18 financial year.

Remuneration of Directors and Members of Board Committees

Directors' emoluments are set out on pages 103 to 104 of these financial statements.

Audit Committee Members of Board Committees

The appointed Audit Committee members and External Auditors is in line with the Companies Act, Act 71 of 2008.

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 assurance that the assets of the NHFC are safeguarded, 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 assurance that the IT Control process is effective and that the IT assets of the NHFC are safeguarded.

The implementation of the IT Governance Framework is delegated to an IT Management Committee, the details of which are reflected on page 52.

Events after the date

Cape Town Community Housing Company (Proprietary) Limited (CTCHC)

In June 2017 the Board approved the wind-down of the business of CTCHC, to commence in the 2017/18 financial year, to ensure that value is protected. This followed the conclusion of the procurement process to dispose of CTCHC, which was unsuccessful.

Subsidiaries and Associates reporting

The NHFC's investments are disclosed in notes 8 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 22 to 24.

Losses due to criminal conduct and fruitless and wasteful expenditure

In terms of the Materiality Framework agreed with the Shareholder, any losses due to criminal conduct or irregular, fruitless or wasteful expenditure, that individually (or collectively where items are closely related) exceed R1,2 million, must be reported. The NHFC did not incur any losses.

The Directors' Report for the year ended 31 March 2017 was approved by the Board of Directors on 20 July 2017 and is signed on their behalf by:

Prof Michael Katz
Chairperson

Mr Samson Moraba
Chief Executive Officer

Statement of Financial Performance

for the year ended 31 March 2017

		Group		Company	
		2017	2016	**2017**	2016
	Note(s)	**R'000**	R'000	**R'000**	R'000
Interest on advances	1	**174 770**	156 305	**175 106**	158 041
Interest received on investments	1	**62 519**	42 499	**61 938**	42 183
Rental income	1	**3 848**	6 459	**1 172**	600
Dividends received	1	**884**	938	**3 530**	2 585
Sale of houses	1	**34 783**	116 194	**–**	–
Revenue		**276 804**	322 395	**241 746**	203 409
Cost of sales	2	**(31 814)**	(94 411)	**–**	–
Net impairments	4	**200 488**	(77 891)	**164 211**	(100 684)
Bad debts	4	**(259 099)**	(109 930)	**(259 099)**	(134 142)
Gross surplus (deficit)		**186 379**	40 163	**146 858**	(31 417)
Other operating income	3	**15 557**	15 814	**8 819**	8 113
Administrative expenses	4	**(88 879)**	(71 478)	**(77 035)**	(63 050)
Other operating expenses	4	**(15 054)**	(18 879)	**(12 885)**	(16 729)
Surplus (deficit) before tax		**98 003**	(34 380)	**65 757**	(103 083)
Fair value adjustments	4	**–**	(4 258)	**4 580**	38 713
Share of profit of an associate		**5 180**	4 388	**–**	–
Finance costs	5	**(19 770)**	(21 529)	**(19 658)**	(21 338)
Surplus (deficit) before taxation		**83 413**	(55 779)	**50 679**	(85 708)
Income tax expense	6	**(37 837)**	33 924	**(43 419)**	30 809
Surplus (deficit) for the year		**45 576**	(21 855)	**7 260**	(54 899)

Statement of Financial Position as at 31 March 2017

		Group		Company	
		2017	2016	**2017**	2016
	Note(s)	**R'000**	R'000	**R'000**	R'000
Assets					
Non-Current Assets					
Loans and receivables – advances	7	**1 477 328**	1 538 900	**1 627 114**	1 734 932
Investment in associate	12	**173 204**	134 045	**137 903**	126 790
Property, plant and equipment	13	**930**	947	**868**	829
Intangible assets	14	**814**	1 187	**811**	1 174
Instalment sale receivables	15	**116 188**	122 001	**–**	–
Investment property	16	**91 124**	88 402	**58 400**	58 000
Deferred tax	6	**–**	37 837	**–**	43 419
		1 859 588	1 923 319	**1 825 096**	1 965 144
Current Assets					
Loans and receivables – advances	7	**341 656**	269 824	**344 672**	285 274
Properties developed for sale	17	**72 844**	95 694	**–**	–
Instalment sale receivables	15	**6 297**	7 074	**–**	–
Other receivables and prepayments	18	**10 650**	8 637	**17 322**	9 687
Held to maturity investments	19	**601 229**	470 285	**601 229**	470 285
Cash and short term deposits	20	**358 113**	344 570	**340 765**	333 947
Income tax receivable	6	**32 554**	23 004	**32 554**	23 004
		1 423 343	1 219 088	**1 336 542**	1 122 197
Total Assets		**3 282 931**	3 142 407	**3 161 638**	3 087 341
Liabilities					
Non-Current Liabilities					
Other financial liabilities	24	**249 274**	283 360	**248 773**	282 090
		249 274	283 360	**248 773**	282 090
Current Liabilities					
Funds under management	23	**39 225**	44 883	**39 225**	44 883
Other financial liabilities	24	**33 269**	33 711	**32 394**	32 394
Provisions	25	**19 034**	11 142	**18 483**	10 531
Trade and other payables	26	**17 439**	13 408	**5 239**	7 179
		108 967	103 144	**95 341**	94 987
Total Liabilities		**358 241**	386 504	**344 114**	377 077
Net Assets		**2 924 690**	2 755 903	**2 817 524**	2 710 264
Issued capital	21	**842**	842	**842**	842
Share premium	21	**879 158**	879 158	**879 158**	879 158
Grant capital	22	**630 000**	530 000	**630 000**	530 000
Retained earnings		**1 362 954**	1 317 378	**1 307 524**	1 300 264
Non distributable reserves		**51 736**	28 525	**–**	–
Total Net Assets		**2 924 690**	2 755 903	**2 817 524**	2 710 264
Total net assets and liabilities		**3 282 931**	3 142 407	**3 161 638**	3 087 341

Statement of Changes in Net Assets

for the year ended 31 March 2017

	Issued capital	Share premium	Total share capital	Non distributable reserve	Grant capital	Total reserves	Retained earnings	Total net assets
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group								
Balance at 01 April 2015	842	879 158	880 000	–	430 000	430 000	1 339 233	2 649 233
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	(21 855)	(21 855)
Grant	–	–	–	–	100 000	100 000	–	100 000
Share of associates reserves	–	–	–	28 525	–	28 525	–	28 525
Total changes	–	–	–	28 525	100 000	128 525	(21 855)	106 670
Balance at 01 April 2016	842	879 158	880 000	28 525	530 000	558 525	1 317 378	2 755 903
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	45 576	45 576
Grant	–	–	–	–	100 000	100 000	–	100 000
Share of associates reserves	–	–	–	23 211	–	23 211	–	23 211
Total changes	–	–	–	23 211	100 000	123 211	45 576	168 787
Balance at 31 March 2017	**842**	**879 158**	**880 000**	**51 736**	**630 000**	**681 736**	**1 362 954**	**2 924 690**
Note(s)	21	21	21		22			
Company								
Balance at 01 April 2015	842	879 158	880 000	–	430 000	430 000	1 355 163	2 665 163
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	(54 899)	(54 899)
Grant	–	–	–	–	100 000	100 000	–	100 000
Total changes	–	–	–	–	100 000	100 000	(54 899)	45 101
Balance at 01 April 2016	842	879 158	880 000	–	530 000	530 000	1 300 264	2 710 264
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	7 260	7 260
Grant	–	–	–	–	100 000	100 000	–	100 000
Total changes	–	–	–	–	100 000	100 000	7 260	107 260
Balance at 31 March 2017	**842**	**879 158**	**880 000**	**–**	**630 000**	**630 000**	**1 307 524**	**2 817 524**
Note(s)	21	21	21		22			

Cash Flow Statement

for the year ended 31 March 2017

		Group		Company	
		2017	2016	**2017**	2016
	Note(s)	**R'000**	R'000	**R'000**	R'000
Cash flows from operating activities					
Receipts					
Sale of goods		**34 783**	116 194	**–**	–
Interest, rental and dividend income		**235 461**	206 201	**232 540**	203 409
Other income		**9 645**	15 814	**5 259**	8 113
		279 889	338 209	**237 799**	211 522
Payments					
Employee costs		**(35 704)**	(51 220)	**(30 211)**	(44 229)
Net cash payment to suppliers		**(68 758)**	(284 441)	**(46 467)**	(207 308)
Finance costs		**(19 770)**	(21 529)	**(19 658)**	(21 338)
Net cash payment to customers		**(53 915)**	180 470	**(47 653)**	234 753
Taxation paid		**(9 550)**	(19 937)	**(9 550)**	(19 937)
		(187 697)	(196 657)	**(153 539)**	(58 059)
Net cash flows from operating activities	27	**92 192**	141 552	**84 260**	153 463
Cash flows from investing activities					
Additions to property, plant and equipment	13	**(553)**	(618)	**(527)**	(594)
Disposal of property, plant and equipment	13	**–**	19	**–**	–
Proceeds from sale of investment property	16	**30**	559	**–**	–
Addition of other intangible assets	14	**(463)**	(204)	**(463)**	(204)
Proceeds from sale of other intangible assets	14	**–**	2	**–**	–
Investment in associate		**(6 533)**	–	**(6 533)**	–
Decrease in Held to Maturity Investment		**(130 944)**	(141 112)	**(130 944)**	(141 112)
Net cash flows from investing activities		**(138 463)**	(141 354)	**(138 467)**	(141 910)
Cash flows from financing activities					
Repayment of borrowings		**(34 528)**	(37 368)	**(33 317)**	(32 162)
Movement in funds under management		**(5 658)**	(148 337)	**(5 658)**	(148 337)
Grant capital		**100 000**	100 000	**100 000**	100 000
Net cash flows from financing activities		**59 814**	(85 705)	**61 025**	(80 499)
Net increase/(decrease) in cash and cash equivalents		**13 543**	(85 507)	**6 818**	(68 946)
Cash and cash equivalents at the beginning of the year		**344 570**	430 077	**333 947**	402 893
Cash and cash equivalents at the end of the year	20	**358 113**	344 570	**340 765**	333 947

Accounting Policies

FOR THE YEAR ENDED 31 MARCH

Corporate Information

The consolidated financial statements of the National Housing Finance Corporation SOC Limited (NHFC) for the year ended 31 March 2017 were approved by the Board on 20 July 2017. 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 presentation

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. The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements for the year ended 31 March 2017 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 Limited, 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 2017.

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

The accounting policies adopted are consisted 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.

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

Investment properties

Management reassesses annually the most appropriate allocation of housing stock into inventory and investment properties categories. 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 11,5%. Such 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 11,5%. For the Group, the valuation is based on open market value for existing use.

Transfers are made to investment properties 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 value. 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 29 for a comprehensive assessment of financial risk management.

Accounting Policies *for the year ended 31 March 2017 (continued)*

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 re-measured 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 cashgenerating 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.

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

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

Accounting Policies *for the year ended 31 March 2017 (continued)*

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

i) 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.

ii) 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.

iii) 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:

Item	**Average useful life**
Computer equipment	33.33%
Computer software	33.33%
Furniture and fittings	16.67%
Motor vehicle	25%
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.

iv) 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.

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

(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 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.

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 writedown 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

(i) Recognition and measurement

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

Intangible assets are armortised over three years and tested for impairment annually.

Accounting Policies *for the year ended 31 March 2017 (continued)*

(ii) Derecognition

Gains and losses arising from the de-recognition of an intangible assets 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 determine 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 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 the stock exchange, the closing price at the reporting date is used.

Where the investment is not listed the discounted cash flow method is used with the appropriate weighted average cost of capital applied to 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 on the statement of financial performance comprise cash at banks, cash on hand and short-term deposits with an original maturity of less than three (3) months. Cash and short-term deposits are considered to be loans and receivables.

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

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

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

Accounting Policies *for the year ended 31 March 2017 (continued)*

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.

Accounting Policies *for the year ended 31 March 2017 (continued)*

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 or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition 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.

(h) Provisions

Provisions are recognised when:

- The group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

The amount of a provision is the best estimate 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 28.

(i) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset 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 entiy 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 all the following conditions have been met:

- Expenditures for the asset have been incurred;
- Borrowing costs have been incurred; and
- Activities that are necessary to prepare the asset for its intended use are in progress.

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

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.

Finance leases – Group as lessor

The Group recognises finance lease receivables on the Statement of Financial Position.

Accounting Policies *for the year ended 31 March 2017 (continued)*

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

Finance 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.

(k) Contingent liabilities and commitments

Contingent liabilities

A contingent 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 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 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:

Sale of houses

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

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

Rental income

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

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).

City of Cape Town, institutional and other subsidies

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

Dividends

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

ii) Revenue from non-exchange transactions

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

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

(m) Taxation

i) 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.

ii) 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.

Accounting Policies *for the year ended 31 March 2017 (continued)*

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 separate administered fund. The contributions made are recognised as an expense in the statement of financial performance.

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

(o) Investment property

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

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

Investment properties are de-recognised when either they have been disposed of or 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 owneroccupied 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 or 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 to 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 the financial and nonfinancial 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.

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 properly. 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

Accounting Policies *for the year ended 31 March 2017 (continued)*

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 earning 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.

1.7 New standards and interpretation

The applicability of the following standards of GRAP has been prescribed by the Minister of Finance for financial years beginning on or after 1 January 2018:

GRAP 105: Transfer of Functions between entities under common control

Ths standard establishes accounting principles for the acquirer in a transfer between entities under common control.

Grap 106: Transfer of functions between entities not under common control

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

Grap 107: Mergers

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

GRAP 18: Segment Reporting

This standard will provide accounting principles for accounting for segment reporting in both separate and consolidated financial statements.

In the case where both conslidated and separate financial statements are presented, segment report presented will be in relation of consolidated financials.

The following accounting standards, amendments to standards and interpretations, have been approved but not yet effective:

GRAP 20: Related parties

This standard will provide information about identifying related party relationships and transactions, identifying outstanding balances, including commitments, between an entity and its related parties, identifying the circumstances in which disclosure of these items is required and determining the disclosures to be made about those items in the consolidated and separate financial statements of the reporting entity.

The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

GRAP 32: Service Concession Arrangements: Grantor

The Standard will prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

GRAP 108: Statutory Receivable

The Standard will prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivable.

The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

GRAP 109: Accounting Principals and Agents

The Standard will outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard provides guidance on whether revenue, expenses, assets and/ or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

IGRAP 17: Interpretation of the standard of GRAP on service Concession Arrangement Where a Grantor Controls a Significant Residual Interest in an Asset

This Standard of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

Notes to the Annual Financial Statements
FOR THE YEAR ENDED 31 MARCH 2017

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
1. Income				
Interest on advances				
Interest on performing advances	**159 050**	131 526	**159 050**	150 970
Interest on impaired advances	**2 080**	7 071	**16 056**	7 071
Interest on instalment sales	**13 640**	17 708	**–**	–
	174 770	156 305	**175 106**	158 041
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	**62 519**	42 499	**61 938**	42 183
Rental income				
Rental income from investment property	**3 848**	6 459	**1 172**	600
Dividend received				
Dividend income	**884**	938	**3 530**	2 585
Sale of houses				
Subsidiary sale of houses	**34 783**	116 194	**–**	–
2. Cost of sales				
Subsidiary cost of sale of houses	**(31 814)**	(94 411)	**–**	–
3. Other operating income				
Other operating income is made up as follows:				
Management fees	**2 210**	738	**–**	738
Levies from instalment sales	**2 176**	2 270	**–**	–
Fair value adjustment on investment properties	**2 752**	8 093	**400**	6 350
Recoveries and refunds	**7 795**	3 772	**7 795**	527
Other interest received	**323**	434	**323**	498
Sundry income	**301**	507	**301**	–
	15 557	15 814	**8 819**	8 113
4. Profit before tax				
Administrative expenses				
Staff costs^	**39 993**	32 081	**34 561**	29 716
Salaries	**32 016**	27 550	**27 062**	25 584
Medical aid contributions	**1 486**	1 412	**1 486**	1 412
Provident fund contributions	**3 385**	3 119	**2 907**	2 720
Bonus	**3 106**	–	**3 106**	–
Management costs*	**30 692**	19 141	**26 718**	14 515
Salaries	**16 776**	15 213	**13 744**	12 462
Medical aid contribution	**562**	592	**562**	592
Provident fund contribution	**1 924**	1 816	**1 518**	1 461
Bonus	**11 430**	1 520	**10 894**	–
Administration	**2 691**	3 381	**1 857**	2 508
Marketing	**3 658**	1 471	**3 600**	1 391
Consultancy	**2 760**	8 314	**2 741**	8 246
Directors' fees	**3 465**	2 816	**3 465**	2 816
Legal fees	**2 296**	1 257	**1 339**	950
Auditors' fees	**2 504**	1 993	**2 074**	2 002
Travel and entertainment	**820**	1 024	**680**	906
	88 879	71 478	**77 035**	63 050
* refer note 31				
^ Number of employees	**71**	75	**54**	55

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
4. Profit before tax (continued)				
Other operating expenses				
Communication	**2 149**	2 031	**1 987**	1 830
Training and development	**944**	842	**880**	821
Office expenses	**2 907**	2 618	**2 014**	2 085
Depreciation and amortisation	**1 399**	1 385	**1 314**	1 151
Sundry expenses	**14**	3 785	**14**	3 785
Operating lease payments	**7 641**	8 218	**6 676**	7 057
	15 054	18 879	**12 885**	16 729
Fair value changes on investments				
Listed investments				
Blue Financial Services Limited	**–**	(4 258)	**–**	(4 258)
	–	(4 258)	**–**	(4 258)
Unlisted investments				
Cape Town Community Housing Company Proprietary Limited	**–**	–	**–**	–
Trust for Urban Housing Finance Holdings Proprietary Limited	**–**	–	**4 580**	42 971
	–	–	**4 580**	42 971
Total	**–**	(4 258)	**4 580**	38 713
Impairments	**(200 488)**	77 891	**(164 211)**	100 684
Impairment raised on debentures	**–**	–	**–**	5 041
Net impairment raised on loans and advances	**(200 488)**	77 733	**(164 211)**	95 485
Impairment on Greenstart dividend	**–**	158	**–**	158
Bad debts written off	**259 099**	109 930	**259 099**	134 142
Bad debts raised other than loans and advances	**–**	1 829	**–**	7 367
Bad debts raised loans and advances	**259 099**	108 101	**259 099**	126 775
5. Finance costs				
Interest on other financial liabilities	**19 770**	21 529	**19 658**	21 338

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
6. Taxation				
Major components of the tax (income) expense				
Current				
Tax provision reversal	–	11 620	–	11 620
Deferred				
Originating and reversing temporary differences	**(37 837)**	(6 589)	**(43 419)**	(15 438)
Prior year under or over provision	–	(469)	–	2 973
Rate change	–	–	–	2 292
Tax losses	–	29 362	–	29 362
	(37 837)	22 304	**(43 419)**	19 189
	(37 837)	33 924	**(43 419)**	30 809
Deferred tax asset: Statement of financial position				
Balance at the beginning of the year	–	15 534	–	24 231
Recognised through the income statement	–	22 303	–	19 188
Balance at the end of the year	–	37 837	–	43 419
Deferred tax asset/liability consists of:				
Provision for leave pay	–	3 772	–	3 772
Provision for incentive bonus	–	3 600	–	3 600
Operating lease	–	876	–	876
Fair value gain on investment property	–	(29 077)	–	(29 077)
Fair value gain on investment in associates	–	–	–	(41 020)
Impairment on Gateway	–	–	–	40 000
General provision for impairment – Retail	–	25 094	–	25 094
Impairment on debentures	–	–	–	19 358
Fair value on equity investment	–	24 001	–	25 600
Impairment of preference shares – Greenstart	–	2 000	–	2 000
Tax loss	–	104 864	–	104 864
Total	–	135 130	–	155 067
Tax rate of 28%	–	37 837	–	43 419
Reconciliation of the tax expense				
A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2017 and 2016 is as follows:				
Accounting surplus (deficit)	**85 547**	(55 779)	**50 679**	(85 708)
Current year tax exemption (2016: 28%)	–	(15 618)	–	(23 998)
Tax effect of adjustments on taxable income				
Non-taxable income	–	(2 900)	–	(3 487)
Permanent difference	–	(17 537)	–	–
Non-deductible expenses	–	13 282	–	13 561
Prior year adjustment	–	469	–	(2 973)
Rate change	–	–	–	(2 292)
Reversal of tax provision	–	(11 620)	–	(11 620)
Reversal of deferred tax due to tax exemption	**37 837**	–	**43 419**	–
Income tax expense reported in the statement of financial performance	**37 837**	(33 924)	**43 419**	(30 809)

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
6. Taxation (continued)				
Income tax receivable: statement of financial position				
Balance at the beginning of the year	**23 004**	3 067	**23 004**	3 067
Tax paid	**9 550**	19 937	**9 550**	19 937
Balance at the end of the year	**32 554**	23 004	**32 554**	23 004

The NHFC is exempt from normal taxation as per Taxation Laws Amendment Act No 15 of 2016 published in the Government Gazette on 19 January 2017 under notice 40562. The deferred tax asset has been reversed to reflect the impact on the tax exemption status. The NHFC however, complies with all other South African taxes, including employees' tax and value added tax amongst others.

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
7. Loans and receivables – advances				
Gross advances				
Opening balances	**2 098 398**	2 278 868	**2 330 406**	2 565 159
Disbursements	**303 229**	212 802	**306 068**	241 050
Repayments	**(234 357)**	(285 171)	**(259 599)**	(349 026)
Amounts previously impaired, written off	**(230 123)**	(46 573)	**(230 123)**	(46 573)
Amounts never impaired but written off during the year	**(28 977)**	(61 528)	**(28 977)**	(80 204)
Balance at the end of the year	**1 908 170**	2 098 398	**2 117 775**	2 330 406
Impairments on advances				
Balances at the beginning of the year	**(289 674)**	(211 941)	**(310 200)**	(214 715)
Amounts impaired in previous years and written off during the year	**230 123**	46 573	**230 123**	46 573
Increase in impairments on advances	**(31 514)**	(150 887)	**(67 791)**	(168 639)
Impairments reversed during the year	**1 879**	26 581	**1 879**	26 581
Impairments raised	**200 488**	(77 733)	**164 211**	(95 485)
Balance at the end of the year	**(89 186)**	(289 674)	**(145 989)**	(310 200)
Comprising:				
Specific impairments	**(56 043)**	(256 547)	**(112 846)**	(277 073)
General impairments	**(33 143)**	(33 127)	**(33 143)**	(33 127)
Net advances	**1 818 984**	1 808 724	**1 971 786**	2 020 206
Maturity analysis				
Receivable within one year	**341 656**	269 824	**344 672**	285 274
Receivable within one to two years	**110 097**	279 219	**148 648**	294 668
Receivable within two to three years	**109 135**	145 838	**129 923**	161 288
Receivable beyond three years	**1 258 096**	1 113 843	**1 348 543**	1 278 976
Net advances	**1 818 984**	1 808 724	**1 971 786**	2 020 206
Non-current assets	**1 477 328**	1 538 900	**1 627 114**	1 734 932
Current assets	**341 656**	269 824	**344 672**	285 274
	1 818 984	1 808 724	**1 971 786**	2 020 206

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

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
8. Investment in listed equity investments				
Blue Financial Services Limited				
Shares at cost – ordinary shares				
Investments in shares at cost	**–**	4 258	**–**	4 258
Fair value adjustment	**–**	(4 258)	**–**	(4 258)
Carrying amount of shares at 31 March 2017	**–**	–	**–**	–

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 equity investment in Blue Financial Services was devalued during July 2013 following a significant decrease in the share price to 13 cents, a further devaluation was taken as a prudent measure given the uncertainties surrounding the company's underlying performance in its operations, the prolonged suspension from the JSE and the lack of audited financial statement. Other factors that inherently affect the company's future prospects include the raising of funding and the settlement of the Debt Restructuring Agreement lenders. In the absence of a quoted share price, the carrying value has been fully impaired.

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
9. Investments in subsidiaries				
Cape Town Community Housing Company Proprietary Limited				
The Cape Town Community Housing Company Proprietary Limited (CTCHC) is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.				
Shares at fair value – ordinary shares				
Original cost			**2 000**	2 000
Accumulated fair value adjustment			**(2 000)**	(2 000)
Carrying amount of shares at 31 March 2017			**–**	–

Management has 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. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. A PE valuation multiple method has been used for the purpose of calculating the residual 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. No fair adjustment was processed in the current financial year.

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
10. Investment in debentures – Cape Town Community Housing Company Proprietary Limited				
Debentures				
Non-convertible debentures at cost – issued prior to 31 March 2004	**–**	–	**18 000**	18 000
Non-convertible debentures at cost – issued prior to 31 March 2005	**–**	–	**2 654**	2 654
Non-convertible debentures at cost – issued prior to 31 March 2006	**–**	–	**543**	543
	–	–	**21 197**	21 197
Accumulated impairment	**–**	–	**(21 197)**	(19 156)
Balance	**–**	–	**–**	2 041
Convertible debentures acquired at cost	**–**	–	**3 000**	3 000
Impairment recognised during the year	**–**	–	**–**	(5 041)
Accumulated impairment	**–**	–	**(3 000)**	–
Carrying amount of debentures at 31 March 2017	**–**	–	**–**	–

The NHFC has subordinated its claims against CTCHC in respect of the debentures in favour of other creditors of CTCHC. R18 million interest on debentures has been suspended.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
11. Investment in preference shares				
Greenstart Proprietary Limited				
Dividends accrued	–	–	–	158
Impairment raised	–	–	–	(158)
Investment in preference shares at fair value	–	–	–	–

Investment in Greenstart – These are redeemable cumulative preference shares redeemable at the option of the issuer. The investment consists of 100 shares at a par value of R1 and a share premium of R24 999 per share. The total value of the preference shares in Greenstart Proprietary Limited is R2,5 million. Dividends in terms of the shareholders' agreement are set at 6,3% per annum on the aggregate subscription price of R2,5 million.

12. Investments in associates

12.1 Investment in associate – Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF)

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 effectively owns 32,60% of the issued share capital consisting of ordinary shares and B ordinary shares. B ordinary shares were 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 the prime lending rate for five years (2013 to 2017). The conversion amount of R40 million has been allocated between increase in shareholding of R29 million, while the balance of R11 million has been recognised as loans and receivables representing the fair value of future dividends expected over the five years. A further R6.5 million has been converted from shareholders loan to C class ordinary shares during 2017.

The following table illustrates the summarised financial information of NHFC's investment in TUHF:

	Group	
	2017 R'000	2016 R'000
Share of the associate's balance sheet		
Total assets	**834 655**	739 680
Total liabilities	**(702 984)**	(640 635)
Net assets	**131 671**	99 045
Investment at cost	**33 282**	33 282
Accumulated share of profit of an associate	**33 918**	26 309
Accumulated share of reserves in associate	**31 845**	7 299
Carrying amount of investment in associate at 31 March	**99 045**	66 891
Current year share of profit in associate	**9 414**	7 609
Other reserves	–	(3 978)
Current year share of reserves in associate	**23 212**	28 524
Carrying amount of the investment in TUHF	**131 671**	99 045
Share of the associate's revenue	**102 900**	85 713
Investment in C class ordinary shares		
Acquisition of C class ordinary shares	6 533	–
Investment in preference shares		
Opening balance	**35 000**	35 000
Acquisition of preference shares	–	–
Carrying amount of investment in preference shares	**35 000**	35 000
Carrying amount of investment in TUHF Holdings Proprietary Limited	**173 204**	134 045

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

12. Investments in associates (continued)

12.2 Investment in associate – Housing Investment Partners Proprietary Limited (HiP)

The NHFC has a 33.33% equity shareholding in HiP, the fund management company that developed the income linked mortgage loan product and arranges and manages the debt funds that provide the mortgage loan funding.

The following table illustrates the summarised financial information of NHFC's investment in HiP:

	Group	
	2017 R'000	2016 R'000
Share of the associate's balance sheet		
Current assets	**1 126**	1 849
Non-current assets	**153**	346
Current liabilities	**(1 238)**	(500)
Non-current liabilities	**(28 833)**	(26 006)
Net asset	**(28 792)**	(24 311)
Share of the associate's revenue	**5 758**	4 422
Share of losses from the associate	**(4 234)**	(5 745)

The Group's share of cumulative losses amounts to R28,792 million but limited to R28,545 million in 2017 (R24,311 million in 2016) which have been recognised to Shareholder loan investment.

The Group's share of cumulative losses in the associate HiP have been recognised up to the carrying amount of the investment, being R7 233 million. For this reason no share of losses of HiP has been recognised in Group accounts in the accounts in the current financial year.

The investee has a different reporting date of 31 December. There is no material impact for the current year as all losses have been written off against the investment at group level.The different reporting date has however been considered when preparing the valuation of the investment.

Total carrying amount of the investment in associates – Group	**173 204**	134 045

12.3 Investment in associate – Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF)

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

	Company	
	2017 R'000	2016 R'000
Investment in equity shares opening balance		
Original investment in TUHF	**91 790**	48 819
Fair value adjustment in investment in TUHF	**4 580**	42 971
Carrying amount of the equity	**96 370**	91 790
Investment in C class ordinary shares	**–**	–
Acquisition of C class ordinary shares	**6 533**	–
Carrying amount of investment in C class ordinary shares	**6 533**	–
Investment in preference shares		
Opening balance	**35 000**	35 000
Acquisition of preference shares	**–**	–
Carrying amount of investment in preference shares	**35 000**	35 000
Total investment in associates TUHF	**137 903**	126 790

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

12. Investments in associates (continued)

The investment in TUHF has been valued at fair value, except for preference shares which are carried at cost. Constraints in the capital markets in the short to medium term are expected to cause some challenges in sustaining the growth momentum achieved in the past few years. Management has 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. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in TUHF.

NHFC's shareholders loan to the value of R6.5 million have been converted to C ordinary shares in the 2017 financial year. The transaction has been concluded with all conditions precedent fulfilled. No material changes took place in the effective shareholding.

The investment in redeemable cumulative preference shares consists of 35 000 shares at a par value of R1 000 per share. The total value of the preference shares in TUHF is R35 million. Dividends in terms of the shareholders' agreement are set at the prevailing prime lending rate less corporate tax of 28% during the year ended 31 March 2017.

12.4 Investment in associate – Housing Investment Partners Proprietary Limited (HiP)

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

	Company	
	2017 R'000	2016 R'000
Share of the associate's balance sheet		
Original cost	**7 232**	7 232
Accumulated fair value adjustment	**(7 232)**	(7 232)
Carrying amount of the investment HiP	**–**	–

HiP is an entity established to operate as a fund manager that designed and developed the innovative income linked retail home loans product. HiP originates, manages and administers the debt funds that provide the mortgage loan funding. Management has applied a discounted cash flow (DCF) method in arriving at the valuation of HiP. 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 represents the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual 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. No fair value adjustment was processed in the current financial year.

The investee has a different reporting date of 31 December. The different reporting date has however been considered when preparing the valuation of the investment.

Carrying amount of total investment in associates	**137 903**	126 790

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

	Group					
	2017			2016		
	Cost/ Valuation R'000	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
13. Property, plant and equipment						
Furniture and fittings	**2 619**	**(2 588)**	**31**	2 619	(2 565)	54
Motor vehicles	**637**	**(486)**	**151**	637	(412)	225
Office equipment	**576**	**(510)**	**66**	554	(468)	86
Computer equipment	**6 640**	**(6 034)**	**606**	6 122	(5 652)	470
Leasehold improvements	**1 299**	**(1 223)**	**76**	1 299	(1 187)	112
Total	**11 771**	**(10 841)**	**930**	11 231	(10 284)	947

	Company					
	2017			2016		
	Cost/ Valuation R'000	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture and fittings	**2 373**	**(2 356)**	**17**	2 373	(2 344)	29
Motor vehicles	**436**	**(288)**	**148**	436	(228)	208
Office equipment	**425**	**(381)**	**44**	403	(346)	57
Computer equipment	**6 245**	**(5 656)**	**589**	5 740	(5 311)	429
Leasehold improvements	**883**	**(813)**	**70**	883	(777)	106
Total	**10 362**	**(9 494)**	**868**	9 835	(9 006)	829

Reconciliation of property, plant and equipment

	Group – 2017				
	Opening balance R'000	**Additions R'000**	**Disposals R'000**	**Depreciation R'000**	**Total R'000**
Furniture and fittings	**54**	**–**	**–**	**(23)**	**31**
Motor vehicles	**225**	**–**	**–**	**(74)**	**151**
Office equipment	**86**	**35**	**(6)**	**(49)**	**66**
Computer equipment	**470**	**518**	**–**	**(382)**	**606**
Leasehold improvements	**112**	**–**	**–**	**(36)**	**76**
	947	**553**	**(6)**	**(564)**	**930**

Reconciliation of property, plant and equipment

	Group – 2016				
	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fittings	88	–	–	(34)	54
Motor vehicles	31	241	–	(47)	225
Office equipment	143	31	(5)	(83)	86
Computer equipment	406	309	(14)	(231)	470
Leasehold improvements	262	37	–	(187)	112
	930	618	(19)	(582)	947

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment

	Company – 2017			
	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	29	–	(12)	17
Motor vehicles	208	–	(60)	148
Office equipment	57	22	(35)	44
Computer equipment	429	505	(345)	589
Leasehold improvements	106	–	(36)	70
	829	527	(488)	868

Reconciliation of property, plant and equipment

	Company – 2016			
	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	48	–	(19)	29
Motor vehicles	–	241	(33)	208
Office equipment	97	27	(67)	57
Computer equipment	324	289	(184)	429
Leasehold improvements	128	37	(59)	106
	597	594	(362)	829

The cost of fully depreciated assets that are still in use amount to R10 million (2016: R 8.9 million), and for the Group R10.2 million (2016:R9.9 million).

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

No significant amount was incurred to repair and maintain property, plant and equipment.

	Group					
	2017			2016		
	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
14. Intangible assets						
Computer software, other	3 962	(3 148)	814	3 500	(2 313)	1 187
Total	3 962	(3 148)	814	3 500	(2 313)	1 187

	Company					
	2017			2016		
	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software, other	3 619	(2 808)	811	3 157	(1 983)	1 174
Total	3 619	(2 808)	811	3 157	(1 983)	1 174

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

14. Intangible assets (continued)

Reconciliation of intangible assets

	Group – 2017			
	Opening balance R'000	**Additions R'000**	**Amortisation R'000**	**Total R'000**
Computer software, other	**1 187**	**462**	**(835)**	**814**

Reconciliation of intangible assets

	Group – 2016				
	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Total R'000
Computer software, other	1 788	204	(2)	(803)	1 187

Reconciliation of intangible assets

	Company – 2017			
	Opening balance R'000	**Additions R'000**	**Amortisation R'000**	**Total R'000**
Computer software, other	**1 174**	**463**	**(826)**	**811**

Reconciliation of intangible assets

	Company – 2016			
	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software, other	1 759	204	(789)	1 174

	Group		**Company**	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
15. Instalment sale receivables				
Gross investment in the lease due	**252 222**	268 760	**–**	–
	252 222	268 760	**–**	–
less: Unearned finance revenue	**(129 737)**	(139 685)	**–**	–
	122 485	129 075	**–**	–
Non-current assets	**116 188**	122 001	**–**	–
Current assets	**6 297**	7 074	**–**	–
	122 485	129 075	**–**	–

The average term on the instalment sale receivable is 16 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest was 10,9% (2016: 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 R122 485 million (2016: R129 075 million) is the maximum exposure to credit risk.

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

	Group					
	2017			2016		
	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000
16. Investment property						
Investment property	**91 124**	**–**	**91 124**	88 402	–	88 402

	Company					
	2017			2016		
	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	**58 400**	**–**	**58 400**	58 000	–	58 000

Reconciliation of investment property

	Group – 2017			
	Opening balance R'000	Disposals R'000	Fair value adjustments R'000	Total R'000
Investment property	**88 402**	**(30)**	**2 752**	**91 124**

Reconciliation of investment property

	Group – 2016			
	Opening balance R'000	Disposals R'000	Fair value adjustments R'000	Total R'000
Investment property	80 868	(559)	8 093	88 402

Reconciliation of investment property

	Company – 2017		
	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	**58 000**	**400**	**58 400**

Reconciliation of investment property

	Company – 2016		
	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	51 650	6 350	58 000

Investment property for the Company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, A Balme (Registered Professional Valuer at Balme Van Wyk & Tugman (Pty) Ltd) on 14 February 2017. Mr A Balme 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 11,5%. 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. The capitalisation rate for the subject area is 11,5%.

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
16. Investment property (continued)				
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	**2 752**	8 093	**400**	6 350
Net rental income	**3 848**	6 459	**1 172**	600
	6 600	14 552	**1 572**	6 950
Details of investment property				
– Purchase price: 1 December 2008	**44 932**	44 932	**21 654**	21 654
– Additions since purchase or valuation	**46 192**	43 470	**36 746**	36 346
	91 124	88 402	**58 400**	58 000

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 CTCHC 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 April 2017. 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 2017 R'000	Group 2016 R'000	Company 2017 R'000	Company 2016 R'000
17. Properties developed for sale				
Properties developed for sale	**3 156**	3 982	**–**	–
Carrying value of repossessed properties	**69 688**	91 712	**–**	–
	72 844	95 694	**–**	–

Included in housing stock are units previously held under instalment sale, that were transferred into the name of Cape Town Community Housing Proprietary Limited, upon the cancellation of the instalment sales, at the remaining balance of the instalment sale.

	Group 2017 R'000	Group 2016 R'000	Company 2017 R'000	Company 2016 R'000
18. Other receivables and prepayments				
Staff debtors	**2 338**	2 262	**2 338**	2 262
Deposits and prepayments	**153**	568	**2**	2
Other debtors receivables	**8 159**	5 807	**12 336**	5 776
Dividends receivable	**–**	–	**2 646**	1 647
	10 650	8 637	**17 322**	9 687

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 the prime lending rate.

Other receivables consist mainly of interest receivable.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
19. Held-to-maturity investments				
ABSA Bank Limited	**60 000**	–	**60 000**	–
Investec Bank Limited	**40 000**	20 000	**40 000**	20 000
Nedbank Limited	**80 000**	60 000	**80 000**	60 000
Land and Agricultural Bank of South Africa Limited	**111 718**	95 733	**111 718**	95 733
Eskom Limited	**112 766**	57 790	**112 766**	57 790
Trans-Caledon Tunnel Authority (TCTA)	**48 365**	80 000	**48 365**	80 000
Standard Bank of South Africa Limited	**40 000**	–	**40 000**	–
Transnet SOC Limited	**18 380**	76 762	**18 380**	76 762
Development Bank of South Africa Limited	**90 000**	80 000	**90 000**	80 000
Held-to-maturity money market investments – NHFC	**601 229**	470 285	**601 229**	470 285
Total held-to-maturity money market investments	**601 229**	470 285	**601 229**	470 285

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	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
20. Cash and short-term deposits				
Short-term deposits – NHFC				
ABSA Bank Limited	**48 557**	45 734	**48 557**	45 734
Investec Bank Limited	**7 178**	9 788	**7 178**	9 788
Nedbank Limited	**4 476**	7 616	**4 476**	7 616
Standard Bank of South Africa Limited	**4 959**	11 892	**4 959**	11 892
Rand Merchant Bank, a division of First Rand Bank Limited	**11 678**	10 238	**11 678**	10 238
Stanlib Limited	**41 714**	38 678	**41 714**	38 678
Trans-Caledon Tunnel Authority (TCTA)	**–**	10 056	**–**	10 056
South African Reserve Bank	**176 276**	147 947	**176 276**	147 947
	294 838	281 949	**294 838**	281 949
Short-term deposits – Abahlali*				
ABSA Bank Limited	**1 323**	1 240	**1 323**	1 240
Short-term deposits – FLISP*				
Reserve Bank (Flisp-Gauteng)	**33 180**	43 509	**33 180**	43 509
Reserve Bank (Flisp-Free State)	**–**	5	**–**	5
	33 180	43 514	**33 180**	43 514
Cash at bank and in hand				
Cash on hand	**12**	12	**3**	3
Standard Bank of South Africa Limited	**24 038**	17 726	**6 699**	7 112
FLISP – Standard Bank of South Africa limited	**101**	129	**101**	129
Abahlali – Standard Bank of South Africa limited	**4 621**	–	**4 621**	–
	28 772	17 867	**11 424**	7 244
Total cash and short-term deposits	**358 113**	344 570	**340 765**	333 947
NHFC				
Short-term deposits	**294 838**	281 949	**294 838**	281 949
Cash at Bank	**24 050**	17 738	**6 702**	7 115
	318 888	299 687	**301 540**	289 064
Abahlali*				
Short-term deposits	**5 945**	1 240	**5 945**	1 240
FLISP*				
Short-term deposits	**33 280**	43 643	**33 280**	43 643
	358 113	344 570	**340 765**	333 947

*Funds under management refer to note 23.

A lease guarantee of R533 500 is in place with the Standard Bank over the office rental lease agreement in the event that NHFC defaults on their rental.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
21. Issued capital and share premium				
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

The unissued shares are under the control of the shareholder.

22. Grant Capital				
Opening balance	**530 000**	430 000	**530 000**	430 000
Additions	**100 000**	100 000	**100 000**	100 000
	630 000	530 000	**630 000**	530 000

The initial grant of R200 million arose as a 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. During the previous financial years grant capital amounting to R330 million was received from the shareholder and a further R100 million received during the current year.

23. Funds under management				
Abahlali[(a)]	**5 945**	1 240	**5 945**	1 240
FLISP[(b)]	**33 280**	43 643	**33 280**	43 643
	39 225	44 883	**39 225**	44 883

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

(b) The NHFC is managing funds on behalf of the various provincial government human settlements departments relating to Finance Link Individual Subsidy Programme. All uncommitted budgetary allocations were returned to the provinces.

The net income on these funds is capitalised.

Funds under management are invested in held-to-maturity investments (note 19) and short-term deposits (note 20).

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
24. Other financial liabilities				
At amortised cost				
Dutch International Guarantees for Housing (DIGH) – Loan 1 The loan bears interest at a fixed rate of 8.84% per annum and is repayable in annual instalments of R0 (2016: R381 023). The final instalment was payable on 9 July 2016.	**–**	381	**–**	–
Dutch International Guarantees for Housing (DIGH) – Loan 2 The loan bears interest at a fixed rate of 7.09% per annum and is repayable in annual instalments of R874 841 (2016: R935 995). The final instalment is payable on 17 January 2018.	**875**	1 706	**–**	–
Agence Francaise de Developpement (AFD) This loan bears interest at a fixed rate of 6.078% per annum and is repayable in equal semi-annual capital instalments of R7 888 692 (2016: R7 888 692) exclusive of interest. Interest and capital is paid biannually on 31 May and 31 November of each year. The final instalment is payable on 24 November 2024.	**128 762**	144 881	**128 762**	144 881
European Investment Bank (EIB) This loan bears interest at a quarterly variable rate of 3M Jibar with a maximum margin of 0.40% per annum and is repayable in semi-annual equal capital instalments of R 8 308 077 (2016:R8 308 077) exclusive of interest. Interest and capital is paid biannually on 15 June and 15 December of each year. The final instalment is payable on 15 December 2025.	**152 405**	169 603	**152 405**	169 603
City of Cape Town The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town. The loan is payable as and when the company becomes profitable.	**500**	500	**–**	–
	282 543	317 071	**281 167**	314 484
Total other financial liabilities	**282 543**	317 071	**281 167**	314 484
Non-current liabilities				
At amortised cost	**249 274**	283 360	**248 773**	282 090
Current liabilities				
At amortised cost	**33 269**	33 711	**32 394**	32 394

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
25. Provisions				
Provisions	**19 034**	11 142	**18 483**	10 531
Total provisions	**19 034**	11 142	**18 483**	10 531
Provision for leave pay				
Opening balance as at 1 April	**4 078**	4 635	**3 772**	4 185
Provision utilised for the year	**651**	(557)	**711**	(413)
Closing balance as at 31 March	**4 729**	4 078	**4 483**	3 772
Provision for incentive bonus				
Opening balance as at 1 April	**3 600**	12 000	**3 600**	12 000
Provision utilised for the year	**(3 571)**	(8 400)	**(3 571)**	(8 400)
Additional provision raised	**13 971**	–	**13 971**	–
Closing balance as at 31 March	**14 000**	3 600	**14 000**	3 600
Provision for tax				
Opening balance as at 1 April	**3 159**	45 481	**3 159**	45 481
Provision utilised for the year	**–**	(45 481)	**–**	(45 481)
Additional provision raised	**–**	3 159	**–**	3 159
Reversed during the year	**(3 159)**	–	**(3 159)**	–
Closing balance as at 31 March	**–**	3 159	**–**	3 159
Provision for municipal rates				
Opening balance as at 1 April	**305**	305	**–**	–
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 2018 year. Provision for incentive bonus includes the three year rolling incentive scheme for executives.

Provision for municipal rates covers the rates that are outstanding and is payable when certain erven are transferred into the name of CTCHC.

	Group 2017 R'000	Group 2016 R'000	Company 2017 R'000	Company 2016 R'000
26. Trade and other payables				
Trade payables	**3 502**	9 814	**5 239**	6 303
Payments received in advanced	**9**	9	**–**	–
Accrued expense	**13 479**	2 359	**–**	–
Accrued audit fees	**449**	350	**–**	–
Accrual for lease payments	**–**	876	**–**	876
	17 439	13 408	5 239	7 179

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.

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
27. Cash flows from operating activities				
Net profit before tax	**83 413**	(55 779)	**50 679**	(85 708)
Non-cash and separately presented items	**42 119**	70 139	**78 856**	59 774
Working capital changes	**44 969**	(33 341)	**10 742**	(35 419)
Tax paid	**(9 550)**	(19 937)	**(9 550)**	(19 937)
Increase in advances	**(68 759)**	180 470	**(46 467)**	234 753
Net cash flows generated from (used in) operations	**92 192**	141 552	**84 260**	153 463
Non-cash and separately presented items				
Depreciation and amortisation	**1 399**	1 385	**1 314**	1 151
Loss/(profit) on sale of PPE	**6**	–	**–**	–
Dividends accrued	**–**	–	**(2 646)**	–
Interest accrued on Greenstart	**–**	(158)	**–**	(158)
Share of profit of an associate	**(5 180)**	(10 133)	**–**	–
Fair value loss on listed equity investments	**–**	4 258	**(4 580)**	(38 713)
Bad debt written off	**259 099**	–	**259 099**	–
Fair value adjustment on property investment	**(2 752)**	(8 093)	**(400)**	(6 350)
Impairment on advances	**(200 488)**	77 733	**(164 211)**	95 485
Impairment on Greenstart	**–**	158	**–**	158
Impairment of debentures	**–**	–	**–**	5 041
Provision for withholding tax	**(3 160)**	3 160	**(3 160)**	3 160
Rental income	**(566)**	–	**(500)**	–
Instalment sale levy	**(179)**	–	**–**	–
Bad debts written off- Other	**–**	1 829	**–**	–
Accrued interest on investment	**(6 060)**	–	**(6 060)**	–
Net cash flows used in operations	**42 119**	70 139	**78 856**	59 774
Working capital changes				
(Increase)/ decrease in properties developed for sale	**22 850**	94 744	**–**	–
(Increase)/ decrease in instalment sale receivable	**2 422**	(26 479)	**–**	–
(Increase)/ decrease in accounts receivable	**4 613**	(3 095)	**1 571**	7 041
Increase/ (decrease) in accounts payables	**4 031**	(55 694)	**(1 941)**	215
(Decrease)/ increase in provisions	**11 052**	(42 817)	**11 112**	(42 675)
	44 969	(33 341)	**10 742**	(35 419)
Tax paid				
Balance at beginning of the year	**23 004**	3 067	**23 004**	3 067
Balance at end of the year – current tax	**(32 554)**	(23 004)	**(32 554)**	(23 004)
	(9 550)	(19 937)	**(9 550)**	(19 937)
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:				
Cash on hand and balances with banks	**28 772**	17 867	**11 424**	7 244
Short-term deposits	**329 341**	326 703	**329 341**	326 703
	358 113	344 570	**340 765**	333 947

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 R1 012 000 (2016: R1 328 000). 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 R990 000 (2016: R1 314 000). None of the additions were acquired by means of government grants.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

28. Contingent liabilities and commitments

Contingencies

At 31 March 2017 the Group did not have any contingent liability in respect of bank guarantees (2016: R0), arising in the ordinary course of business from which it is anticipated that no material liability will arise.

Operating lease commitment – Group as lessee

The Group entered into a commercial lease on the property from which it operates. The lease is effective from 1 April 2012 to 31 March 2017. The lease has an escalation clause of 8% per annum. A deposit guarantee to the lessor of R0 (2016: R533 500). The lease has been extended for two years effective 1 April 2017 to 31 March 2019 with deposit guarantee of R533 500.

Future minimum rentals payable under current operating lease as at 31 March 2017:

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
National Housing Finance Corporation SOC Limited	**4 510**	6 043	**4 510**	6 043
Cape Town Community Housing Proprietary Limited	**808**	736	**–**	–
Within one year	**5 318**	**6 779**	**4 510**	**6 043**
National Housing Finance Corporation SOC Limited	5 295	–	5 295	–
Cape Town Community Housing Proprietary Limited	–	–	–	–
After one year but not more than five years	**5 295**	–	**5 295**	–
Total office operating lease commitments – office buildings	**10 613**	**6 779**	**9 805**	**6 043**

Operating lease commitments – Office photocopiers

The leases are currently on a month to month basis.

Within one year	–	14	–	14
Total office photocopiers	**–**	**14**	**–**	**14**
Total Group commitments	**10 613**	**6 793**	**9 805**	**6 057**

29. 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, equity and quasi equity investment 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.

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 in the form of senior debt 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.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

The credit policy provides for comprehensive sanctioning structures and credit risk acceptance proceseses 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 risk.

Short-term deposits and held-to-maturity money market investments are placed with financial institutions rated at least P-1 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.

Financial assets exposed to credit risk at year-end were as follows:

Maximum exposure to credit risk.

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
Loans and receivables – advances	**1 818 984**	1 808 724	**1 971 786**	2 020 206
Instalment sale receivables	**122 485**	129 075	**–**	–
Held-to-maturity investments	**601 229**	470 285	**601 229**	470 285
Cash and short-term deposits	**358 113**	344 570	**340 765**	333 947
Other receivables and prepayments	**10 650**	8 637	**17 322**	9 687
Investment in preference shares	**35 000**	35 000	**35 000**	35 000

Collateral and other credit enhancements – 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.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
29. Financial risk management (continued)				
Credit quality of loans and receivables				
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	**1 546 036**	1 590 951	**1 592 997**	1 797 253
Past due but not impaired*	**105 593**	49 028	**105 593**	49 028
Impaired**	**256 541**	458 419	**419 185**	484 125
	1 908 170	2 098 398	**2 117 775**	2 330 406
Less: Specific impairments	**(56 043)**	(256 547)	**(112 846)**	(277 073)
General impairments	**(33 143)**	(33 127)	**(33 143)**	(33 127)
Net advances	**1 818 984**	1 808 724	**1 971 786**	2 020 206

* 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.

Group				Ageing of amounts due			
		Total balance R'000	Capital instalment R'000	30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 120 days R'000
Ageing analysis of advances that are past due, but not impaired:	**2017**	**105 593**	**71 366**	**754**	**831**	**828**	**31 814**
Ageing analysis of advances that are past due, but not impaired:	2016	49 028	30 400	581	580	576	16 891

Company				Ageing of amounts due			
		Total balance R'000	Capital instalment R'000	30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 120 days R'000
Ageing analysis of advances that are past due, but not impaired:	**2017**	**105 593**	**71 366**	**754**	**831**	**828**	**31 814**
Ageing analysis of advances that are past due, but not impaired:	2016	49 028	30 400	581	580	576	16 891

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; and
- 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 2017 amounts to R798 million (2016: R453 million).

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

The carrying amounts of advances that would otherwise be past due whose terms have been renegotiated amounts to R3 million (2016: R8 million).

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Group		Company	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
29. Financial risk management (continued)				
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least P-1				
– Held-to-maturity investments – money market	**601 229**	470 285	**601 229**	470 285
– Cash and short-term deposits	**358 113**	344 570	**340 765**	333 947
Counterparties assessed by reference to historical information about counterparty default rates – Instalment sale receivables	**122 485**	129 075	**–**	–

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 operation:

Strategic investment	10%
Incremental	6%
Home Ownership	16%
Private Rental Housing	29%
Social Rental Housing	39%

Interest rate risk

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

The objectives of managing interest rate risk are to:

- identify and quantify interest rate risk and to structure assets and liabilities to reduce the impact of changes in interest rates;
- minimise the negative impact of adverse interest rate movement on the Group's returns within an acceptable risk profile;
- reduce the cost of capital and minimise the effect of interest rate 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.

		Group 2017		Group 2016	
	Strategy	**Fixed rate R'000**	**Linked rate R'000**	Fixed rate R'000	Linked rate R'000
The Group 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	**323 904**	**1 495 080**	308 194	1 500 530
Instalment sale receivables average interest rate of 10.9% p.a.	1	**122 485**	**–**	129 075	–
Held-to-maturity investment rates vary between 6.98% and 8.98% p.a.	2	**–**	**601 229**	–	470 285
Cash and short-term deposits rates vary between 5.5% and 7.98% p.a.	2	**–**	**358 113**	–	344 570
Liabilities					
Funds under management – rates are linked to short-term investment rates	–	**–**	**39 225**	–	44 883
AFD loan – the rate is fixed at 6.078%	–	**128 762**	**–**	144 881	–
EIB loan– the rate varies between 7.433% and 7.742%	–	**–**	**152 405**	–	169 603
Other financial liabilities – the rate is fixed at 7.09% and 8.84%	–	**875**	**–**	2 087	–

Notes to the Annual Financial Statements
for the year ended 31 March 2017 (continued)

		Company 2017		Company 2016	
	Strategy	Fixed rate R'000	Linked rate R'000	Fixed rate R'000	Linked rate R'000
29. Financial risk management (continued)					
Assets					
Loan and receivables – advances rates vary between 5% and 14% p.a.	1	**349 670**	**1 622 116**	338 733	1 681 473
Held-to-maturity investments rates vary between 6.98% and 8.9% p.a.	2	**–**	**601 229**	–	470 285
Cash and short-term deposits rates vary between 5.5% and 7.97% p.a.	2	**–**	**340 765**	–	333 947
Liabilities					
Funds under management – rates are linked to short-term investment rates	–	**–**	**39 225**	–	44 883
AFD loan – the rate is fixed at 6.078%	–	**128 762**	**–**	144 881	–
EIB loan– the rate varies between 7.433% and 7.742%	–	**–**	**152 405**	–	169 603

Interest rate risk management strategy is as follows:

1. Clients who access 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.

		Group		Company	
	Increase/ decrease %	Effect on profit before tax 2017 R'000	Effect on profit before tax 2016 R'000	Effect on profit before tax 2017 R'000	Effect on profit before tax 2016 R'000
Loans and receivables – advances	1	**14 951**	15 005	**16 621**	16 815
	(1)	**(14 951)**	(15 005)	**(16 621)**	(16 815)
Held-to-maturity investments	1	**6 012**	4 702	**6 012**	4 702
	(1)	**(6 012)**	(4 702)	**(6 012)**	(4 702)
Cash and short-term deposits	1	**3 581**	3 445	**3 408**	3 339
	(1)	**(3 581)**	3 445	**(3 408)**	(3 339)
Other financial liabilities	1	**(1 524)**	(1 696)	**(1 524)**	(1 696)
	(1)	**1 524**	1 696	**1 524**	1 696
The Group earns interest as follows:					
Interest on advances		**174 770**	156 305	**175 106**	158 041
Interest on investment		**62 519**	42 499	**61 938**	42 183
		237 289	198 804	**237 044**	200 224
The Group's interest obligations are as follows:					
Interest on other financial liabilities		**19 770**	21 529	**19 658**	21 338

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for the year ended 31 March 2017 (continued)

29. Financial risk management (continued)

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
- mobilisation of funding.

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 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 2017				
Trade and other payables	**17 439**	**–**	**–**	**17 439**
Funds under management	**–**	**–**	**39 225**	**39 225**
Other financial liabilities	**–**	**33 269**	**249 274**	**282 543**
	17 439	**33 269**	**288 499**	**339 207**
As at 31 March 2016				
Trade and other payables	13 408	–	–	13 408
Funds under management	–	–	44 883	44 883
Other financial liabilities	–	33 711	283 360	317 071
	13 408	33 711	328 243	375 362

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 35%.

Total interest bearing debt	282 543	317 071
Total equity	2 924 690	2 755 903
Debt to equity ratio	10 %	12 %

Credit rating

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

National	
Long term	A+
Short term	A1
International	BB

The National Scale Ratings of the NHFC were downgraded in the financial year on the back of challenging market conditions that translated to poor asset quality, loan book growth and profitability. The international ratings were mostly affected by the downgrade of the sovereign as the NHFC rating is underpinned by its support from government.

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for the year ended 31 March 2017 (continued)

29. Financial risk management (continued)

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
2017				
Unlisted equity investments	**–**	**138 204**	**–**	**138 204**
2016				
Unlisted equity investments	–	99 045	–	99 045

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2017				
Unlisted equity investments	**–**	**102 903**	**–**	**102 903**
2016				
Unlisted equity investments	–	91 790	–	91 790

Financial assets by category

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

	Group 2017			
	Fair value through profit and loss R'000	Loans and receivables R'000	Held-to Maturity investments R'000	Total R'000
Investment in unlisted equity investments	**138 204**	**–**	**–**	**138 204**
Loans and receivables – advances	**–**	**1 818 984**	**–**	**1 818 984**
Instalment sale receivables	**–**	**–**	**122 485**	**122 485**
Held-to-maturity investments	**–**	**–**	**601 229**	**601 229**
Cash and short-term deposits	**–**	**358 113**	**–**	**358 113**
Other receivables	**–**	**10 650**	**–**	**10 650**
Investment in preference shares	**–**	**–**	**35 000**	**35 000**
	138 204	**2 187 747**	**758 714**	**3 084 665**

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for the year ended 31 March 2017 (continued)

	Group 2016			
	Fair value through profit and loss R'000	Loans and receivables R'000	Held-to Maturity investments R'000	Total R'000
Investment in unlisted equity investments	99 045	–	–	99 045
Loans and receivables – advances	–	1 808 724	–	1 808 724
Instalment sale receivables	–	–	129 075	129 075
Held-to-maturity investments	–	–	470 285	470 285
Cash and short-term deposits	–	344 570	–	344 570
Other receivables	–	8 637	–	8 637
Investment in preference shares	–	–	35 000	35 000
	99 045	2 161 931	634 360	2 895 336

	Company 2017			
	Fair value through profit and loss R'000	**Loans and receivables R'000**	**Held-to Maturity investments R'000**	**Total R'000**
Investment in unlisted equity investments	**102 903**	**–**	**–**	**102 903**
Loans and receivables – advances	**–**	**1 971 786**	**–**	**1 971 786**
Held-to-maturity investments	**–**	**–**	**601 229**	**601 229**
Cash and short-term deposits	**–**	**340 765**	**–**	**340 765**
Other receivables	**–**	**17 322**	**–**	**17 322**
Investment in preference shares	**–**	**–**	**35 000**	**35 000**
	102 903	**2 329 873**	**636 229**	**3 069 005**

	Company 2016			
Investment in unlisted equity investments	**91 790**	**–**	**–**	**91 790**
Loans and receivables – advances	**–**	**2 020 206**	**–**	**2 020 206**
Held-to-maturity investments	**–**	**–**	**470 285**	**470 285**
Cash and short-term deposits	**–**	**333 947**	**–**	**333 947**
Other receivables	**–**	**9 687**	**–**	**9 687**
Investment in preference shares	**–**	**–**	**35 000**	**35 000**
	91 790	**2 363 840**	**505 285**	**2 960 915**

Financial liabilities by category

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

	Group	Group
	2017 Financial liabilities at amortised cost R'000	2016 Financial liabilities at amortised cost R'000
Other financial liabilities	**282 543**	317 071
Trade and other payables	**17 435**	13 408
Funds under management	**39 225**	44 883
	339 203	375 362

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

	Company 2017 Financial liabilities at amortised cost R'000	Company 2016 Financial liabilities at amortised cost R'000
29. Financial risk management (continued)		
Other financial liabilities	**281 167**	314 484
Trade and other payables	**5 239**	7 179
Funds under management	**39 225**	44 883
	325 631	366 546

30. Related parties

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	2017 % equity interest	2016 % 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**	33
Housing Investment Partners Proprietary Limited	RSA	**33**	33
Mortgage Default Insurance Company Proprietary Limited	RSA	**100**	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:

	Company		Company	
	Amounts owed by/to related parties 2017 R'000	**Transactions with related parties 2017 R'000**	Amounts owed by/to related parties 2016 R'000	Transactions with related parties 2016 R'000
Cape Town Community Housing Company Proprietary Limited				
– Advances	**224 412**	**–**	241 869	–
– Disbursements	**–**	**–**	–	28 248
– Interest received	**–**	**13 975**	–	23 403
– Payroll administration	**–**	**8 208**	–	7 832
– Accounts receivable	**2 947**	**–**	5 538	–
Housing Investment Partners Proprietary Limited				
– Working capital loan	**28 454**	**–**	25 707	–
– Disbursements	**–**	**57 597**	–	77 213
– Advances	**178 575**	**–**	135 514	–
Trust for Urban Housing Finance Holdings Proprietary Limited				
– Conversion to C Class ordinary shares	**–**	**6 533**	–	–
– Advances	**244 701**	**–**	264 074	–
– Interest received	**–**	**23 553**	–	22 704
– Dividend income	**–**	**3 530**	–	2 585
– Equity investment	**102 903**	**–**	–	91 790

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for the year ended 31 March 2017 (continued)

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

Although the NHFC has a relationship with our sole shareholder, the Department of Human Settlements, 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 31.

31. Directors'and prescribed officers'/executive managers'emoluments

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

National Housing Finance Corporation SOC Limited

R'000	Fees	Salaries	Bonuses	Post-employment pension and medical benefits	Board fees for investee companies	Total 2017	Total[7] 2016
Non-executive Chairman							
Prof. M Katz[1]	–	–	–	–	–	–	–
Directors – independent non-executives							
Mr J Coetzee[2]	465	–	–	–	178	643	555
Ms AW Houston[3]	232	–	–	–	–	232	183
Mr SS Ntsaluba	352	–	–	–	–	352	477
Ms PV Ramarumo	351	–	–	–	–	351	235
Ms S Swanepoel[4]	273	–	–	–	–	273	347
Mr SA Tati	498	–	–	–	–	498	420
Mr PT Phili[4]	400	–	–	–	–	400	429
Ms D Msomi[4]	213	–	–	–	–	213	170
Ms T Chiliza[5]	142	–	–	–	–	142	–
Mr K Shubane[5]	129	–	–	–	–	129	–
Mr E Godongwana[5]	109	–	–	–	–	109	–
Mr A Harris[5]	123	–	–	–	–	123	–
Directors' fees	**3 287**	**–**	**–**	**–**	**178**	**3 465**	**2 816**
Chief Executive Officer and executive director							
Mr SS Moraba[6]	–	3 982	4 137	433	–	8 552	4 168
Executive managers/and Prescribed officers							
Z Lupondwana	–	1 245	808	195	–	2 248	1 342
N Ntshingila	–	1 238	905	282	–	2 425	1 442
L Lehabe	–	1 621	1 087	260	–	2 968	1 790
S Mogane	–	1 328	887	276	–	2 491	1 527
M Mamatela	–	1 518	1 025	203	–	2 746	1 611
Z Adams	–	1 568	1 198	309	–	3 075	1 769
A Higgs	–	1 244	847	122	–	2 213	866
Management costs	**–**	**13 744**	**10 894**	**2 080**	**–**	**26 718**	**14 515**

1. Prof Katz has waived his right to fees.
2. Board fees earned by Mr Coetzee as a representative of the NHFC on the HIP (Pty) Ltd Board and HIP Trust 1.
3. Fees are paid to Communicare Ltd as an employer of AW Houston who has ceded them to Communicare Ltd.
4. Ms S Swanepoel, Mr PT Phili and Ms D Msomi retired as directors on 24 November 2016.
5. Ms T Chiliza, Mr K Shubane, Mr E Godongwana and Mr A Harris were appointed as directors on 24 November 2016.
6. The CEO is the only director with a service contract with NHFC. The notice period does not exceed 1 year.
7. No bonuses were declared in the 2016 financial year.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

31. Directors'and prescribed officers'/executive managers'emoluments (continued)

Directors' and senior management emoluments

Cape Town Community Housing Company (Proprietary) Limited

R'000	Fees*	Salaries	Bonuses	Post-employment pension and medical benefits	Board fees for investee companies	Total 2017	Total 2016
Chairman							
SS Moraba							
Directors – Non-executives	–	–	–	–	–	–	–
Directors' fees	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Key members of management							
P Jones	–	1 222	110	161	–	1 493	1 568
W Jurgens	–	1 278	378	170	–	1 826	1 810
F Moos	–	532	48	75	–	655	1 248
Management costs	**–**	**3 032**	**536**	**406**	**–**	**3 974**	**4 626**

Mr SS Moraba and Mrs N Ntshingila are executives of the holding company and currently serve on the subsidiary's board; however receive no remuneration as board members.

* No remuneration was paid for services as director for the 2017 and 2016 financial year

32. Events after the statement of financial position date

Cape Town Community Housing Company (Proprietary) Limited (CTCHC)

In June 2017 the Board approved the wind-down of the business of CTCHC, to commence in the 2017/18 financial year, to ensure that value is protected. This followed the conclusion of the procurement process to dispose of CTCHC, which was unsuccessful.

DFI Consolidation

The National Department of Human Settlements (NDOHS) is currently supported by three Development Finance Institutions (DFIs), the National Housing Finance Corporation SOC Limited (NHFC), the Rural Housing Loan Fund SOC NPC (RHLF) and the National Urban Reconstruction and Housing Agency SOC NPC (NURCHA).

The drive to scale housing finance provision, to greater leverage private sector contribution and thus significantly grow the Human Settlement development impact, became the strategic rationale for the consolidation of the three DFIs. The expected consolidation outcome would be such that the whole is greater than the sum of its parts. This strategic rationale is also supported by the National Treasury's review of the DFIs.

The Ministry of Human Settlements has committed itself to the establishment of a Human Settlements Development Bank (HSDB) in support of the entire human settlements delivery value-chain.

The NHFC will serve as a Consolidated platform for the establishment of the HSDB. In order to implement the Consolidation, NURCHA and RHLF will transfer their respective assets and liabilities to the NHFC at no charge through donation agreements; and thereafter NURCHA and RHLF will be dissolved by way of a winding-up or a deregistration process. It is envisaged that the NHFC will continue in its existing legal format but will change its constitution documents to conform to the HSDB requirements.

Key to the HSDB establishment will include, among others, the Policy, Enabling Legislation, Business Case and Capitalisation, leading to a fully integrated HSDB.

Significant milestones achieved towards that end, include:

- The Taxation Laws Amendment Act No 15 of 2016, published in the Government Gazette on 19 January 2017 under notice 40562. An amendment has been made (with effect from 1 April 2016), to render NHFC exempt from normal tax.
- Restructuring of the NHFC Board by the Minister to oversee the operational integration and legislative establishment of the HSDB.
- The Companies Tribunal at its sitting of 28 April 2017, granted an Administrative Order exempting the Consolidation from the NPC Restrictions as contained in the Companies Act and the NURCHA and RHLF MOIs, such that the Consolidation may be concluded and implemented on the basis that NHFC remains a profit company.

Notes to the Annual Financial Statements

for the year ended 31 March 2017 (continued)

The remaining factors impacting the effective date of the Consolidation are the fulfilment of the various suspensive conditions including obtaining the requisite approvals in terms of the Public Finance Management Act No 1 of 1999 (PFMA) and the necessary approvals from the respective funders.

Every effort is being applied towards completion of all the processes for the earliest effective date for the Consolidation within the 2017/18 financial year.

PERFORMANCE REPORT FOR THE YEAR ENDED 2017 IN TERMS OF SECTION 55(2) OF THE PFMA

	Actual R'000	Budget R'000
Sale of goods	34 783	46 110
Rental of facilities and equipment	3 848	1 629
Interest on advances	174 770	173 489
Interest on investments	62 519	22 327
Dividends received	884	2 310
Other income	15 557	20 220
	292 361	266 085
Impairments and bad debts	(58 611)	(81 568)
Cost of sales	(31 814)	(43 246)
Expenses	(103 933)	(114 938)
	98 003	26 333
Fair value adjustments	–	–
Finance costs	(19 770)	(20 601)
Share of surplus from associates	5 180	-
	83 413	5 732
Taxation	(37 837)	(3 216)
Surplus after tax	**45 576**	**2 516**

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

- ►The prevailing subdued economic and market conditions continue to negatively affect the households and clients of the NHFC, impacting both the growth rate as well as quality of the advances book.
- ►The profitability of the NHFC remains vulnerable to the impact of the increased non-performing portfolio.
- ►There has been movement of some clients to the formal banking sector resulting in increased settlements over the last three years, and R131 million in the current year. Whilst settlements are viewed as a positive sign of maturity within the role of a development finance institution, as it does however, adversely impact the revenue through foregone interest income.
- ►The gross profit margin contribution from CTCHC resulting from sale of houses is R 2.9 million. There has been an overall reduction in the construction activities of CTCHC in line with a previous decision of no new investment.
- ►Investment income exceeds budget by R40 million as a result of excess cash held for future disbursements as well as early settlements.
- ►Impairments and bad debts at R59 million for group and R95 million for company mainly due continued tough trading conditions impacting profitability and capital raising prospects of our client base, amongst other reasons.
- ►Group operating expenses are below budget by R11 million mainly due to the continued benefits of the rationalisation of the company and various cost containment initiatives. The concerted effort by management to manage its operational cost structure is reflected in the cost to income at 43%.
- ►Reduction in Surplus after Tax as a result of the unwinding of the deferred tax asset of R38 million following the change in the tax status of the NHFC effective 1 April 2016.

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

National Housing Finance Corporation Soc Ltd.

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