

Annual Report 2014

for the year ended 31 March

PLANNING FOR THE FUTURE



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Ownership



Passion for purpose



Teamwork



Integrity



Creativity



Achievement

MANDATE

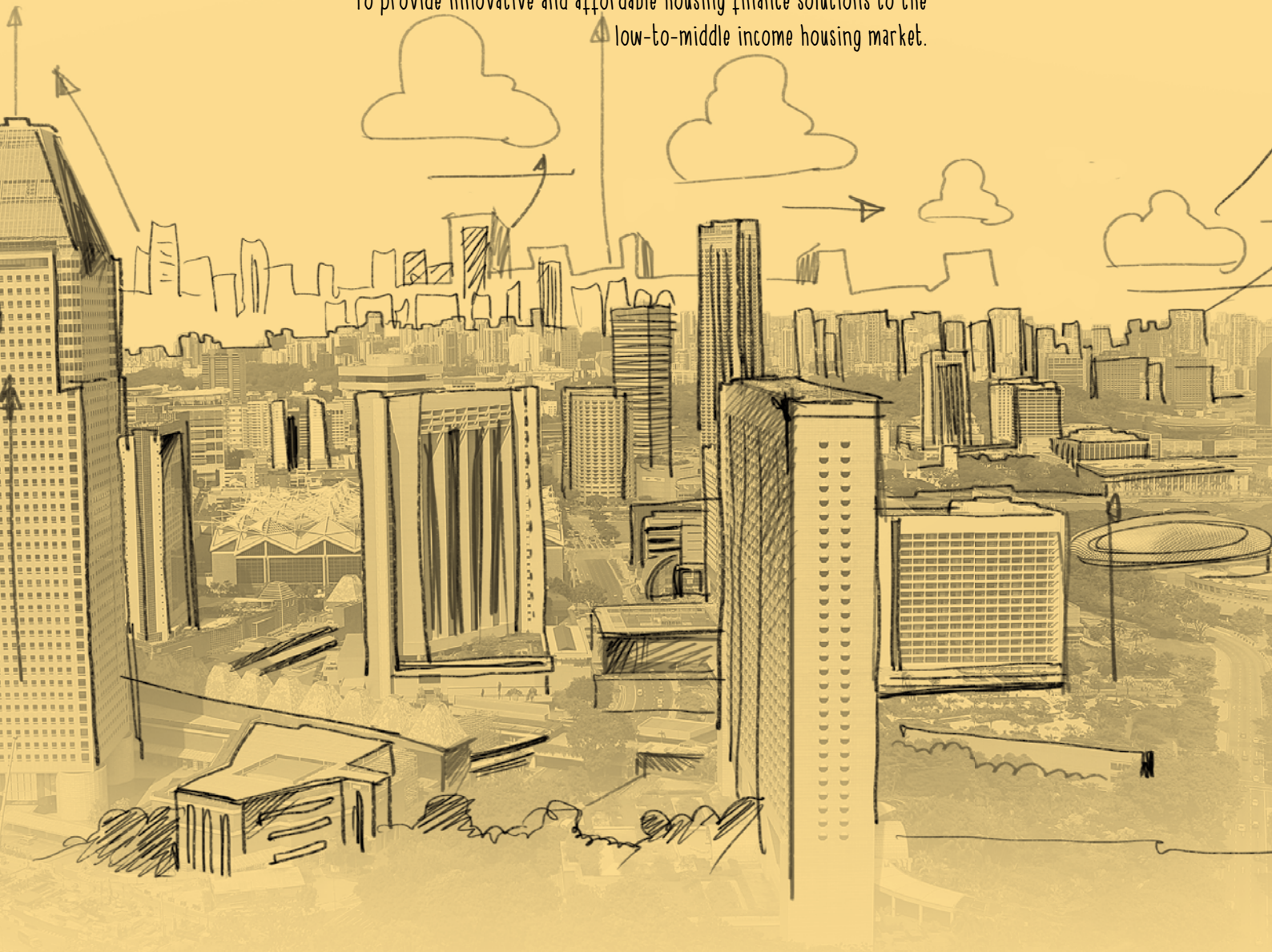
The NHFC was established in 1996 by the National Department of Human Settlements (NDoHS) as a Development Finance Institution (DFI), with the principal mandate of broadening and deepening access to affordable housing finance for the low-to-middle income South African households.

VISION

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

MISSION

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



HOW THE NHFC DELIVERS ON ITS MANDATE

What we do

We make housing finance accessible and affordable to the gap and affordable housing market.

The NHFC achieves its mandate through the facilitation and provision of wholesale financing for various housing tenure for households, depending on their affordability, being:

- Rental housing;
- Home ownership through mortgage loan finance; and
- Incremental housing.



Harmony Village, Cape Town. An instalment purchase agreement development.

Partnership with banks

Through co-financing and risk-enhancement mechanisms, bank lending in this segment of the market is increased and sustained through leveraged funding provided by the NHFC.

Non-banking retail intermediaries

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

Rental housing
Rental housing entails the provision of loans to institutions that offer rental accommodation. The types of rental accommodation offered are:

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

Incremental housing
Funding is made available via approved or selected intermediaries to end-users with household incomes in the R3 500 to R15 000 per month range, and for loans between R1 000 and R20 000. The end-user may use these loans to:

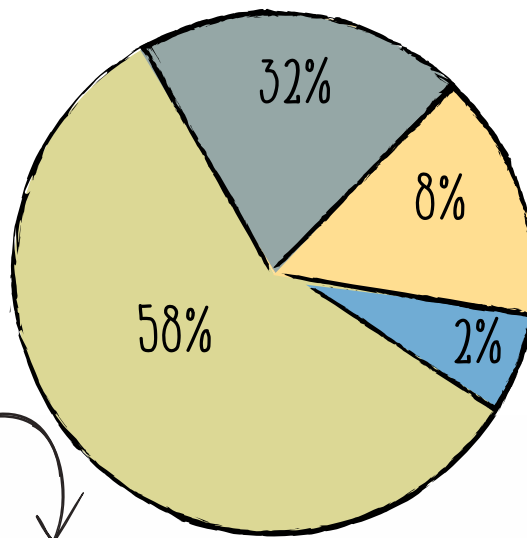
- Purchase building material;
- Buy land on which to build;
- Service land;
- Lay foundations;
- Pay for building works; and
- Top up subsidy amounts from government

Social rental

This is subsidised rental housing that is more affordable than private/commercial rentals and is provided by social housing institutions which are companies not for profit.

These institutions receive subsidies in the form of restructuring capital grants from the Social Housing Regulatory Authority (SHRA), subject to accreditation rules set by the SHRA, as well as top-up institutional subsidies from provincial government.

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

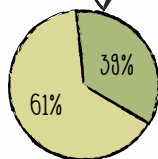


Strategic partnerships
NHFC develops strategic alliances and partnerships with developers, investors and housing development funds etc. through investment in equities, mezzanine and junior debt capital structures of companies that operate within the affordable housing market.

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

Private rental

This type of rental accommodation is provided by private landlords, who do not receive any subsidies or grants. It caters for the affordable rental market, including inner city rental developments. NHFC provides long term funding for the development/refurbishment of inner city buildings into rental accommodation.



Finance Linked Individual Subsidy Programme (FLISP)
NHFC administers and facilitates delivery of and access to the government housing subsidy, FLISP.

FLISP was developed to facilitate sustainable and affordable first time home-ownership opportunities to South African citizens and permanent residents that earn between R3 501 and R15 000 per month.

FLISP subsidy is a grant that is provided to first time homeowners by the provincial governments. NHFC administers the FLISP programme on behalf of the provincial governments. Applicants for the FLISP subsidy submit applications through housing developers, mortgage originators and mortgage lenders.

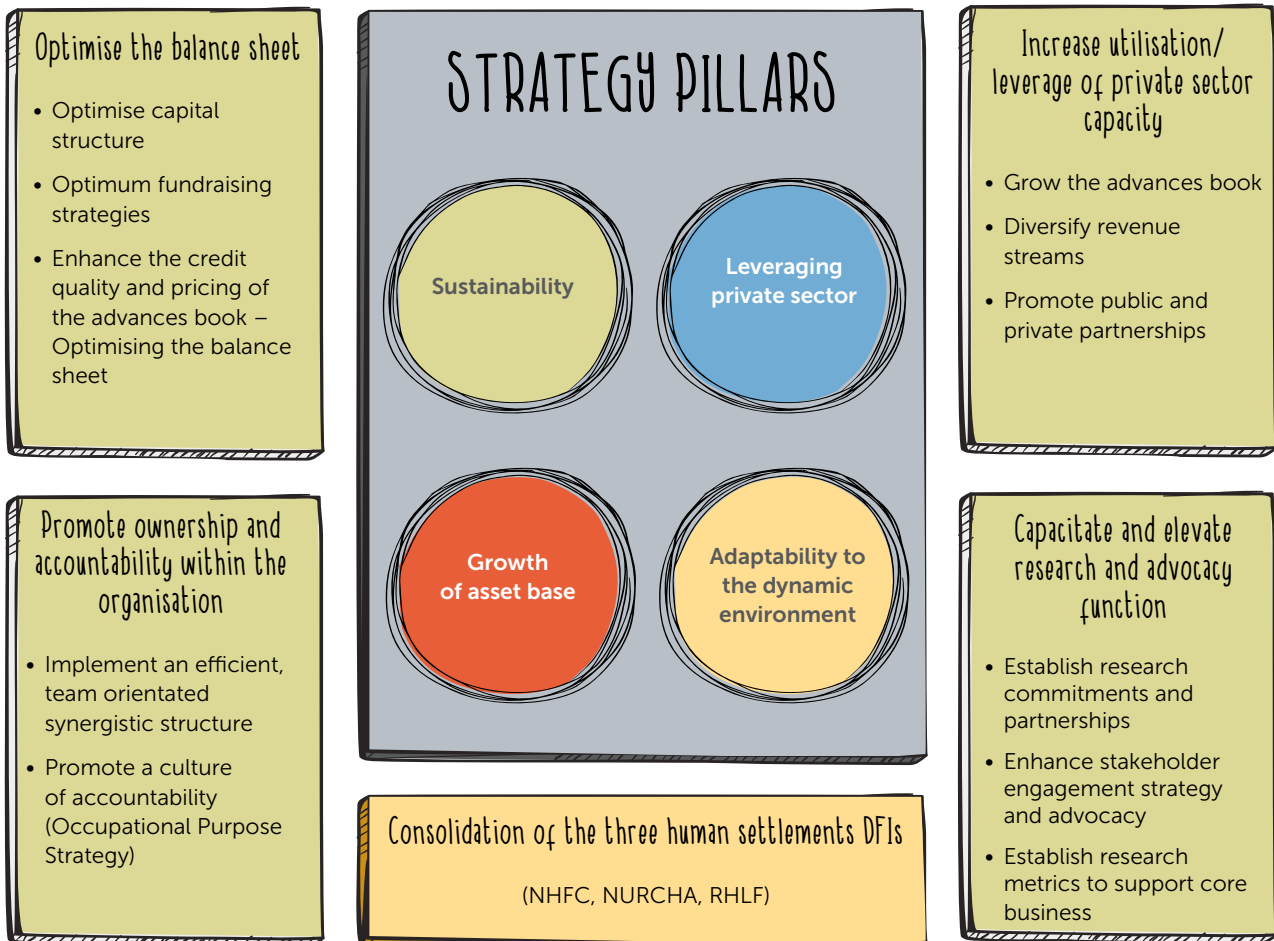
OUR STRATEGY

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

The NHFC's strategy and its strategic objectives are reviewed annually, in consultation with the Board and management. In the recent review of the strategy, the outcome endorsed the relevance and universal recognition of the business model.

The NHFC is undergoing a reorganisation process to improve operational efficiency, strengthen its balance sheet and deliver on the developmental imperatives while remaining sustainable.

OUR STRATEGIC FOCUS AREAS



Our strategic objectives are:

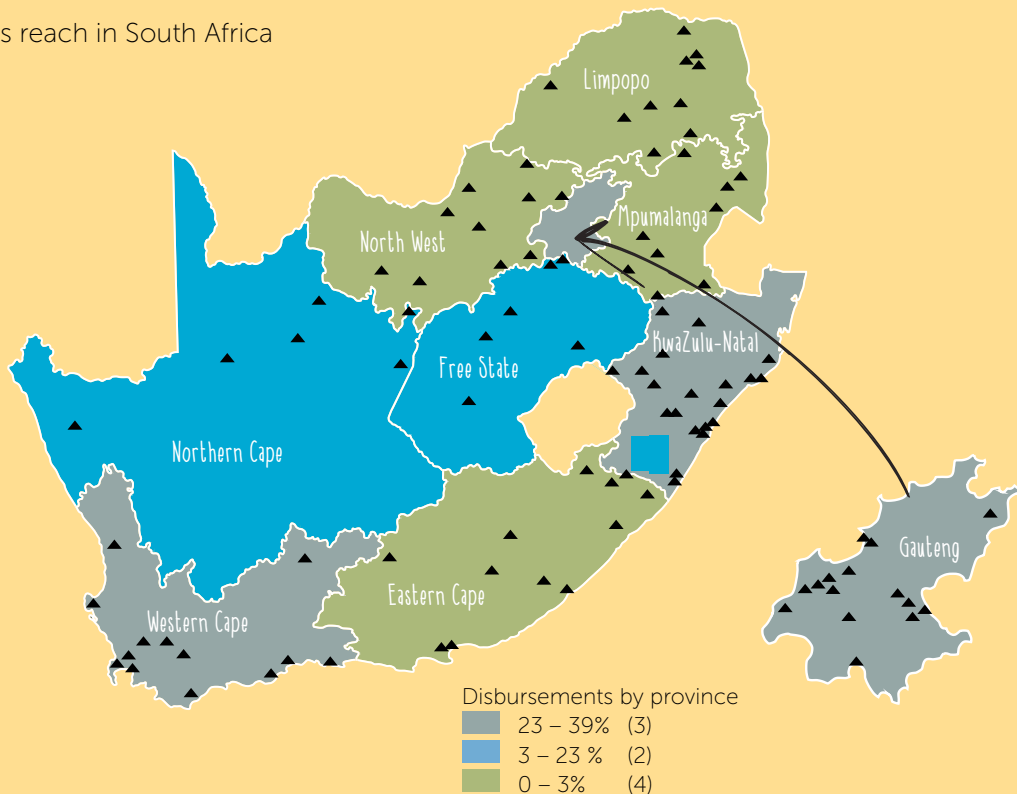
- Expand housing finance activities through the effective provision of housing finance solutions, thus enabling low-to-middle income households to have the choice of renting, owning or incrementally building, thereby meeting their housing needs;
- Facilitate increased and sustained lending by financial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

We achieve our strategic objectives by focusing on the following in order to realise the outcomes that we want:

- Growing our loan book in order to generate income that will be reinvested in lending to our customers;
- Establishing strategic partnerships with other DFIs, the private sector and all spheres of government in order to increase sustained lending in the affordable housing space and the development of housing stock;
- Optimising the NHFC balance sheet by leveraging our resources in order to have meaningful developmental impact;
- Collaborating with a wide variety of stakeholders to develop funding solutions for the affordable housing market; and
- Continuously striving to increase the NHFC's operational efficiency by reducing costs to income ratio and increasing developmental impact.

OUR FOOTPRINT

▲ NHFC's reach in South Africa

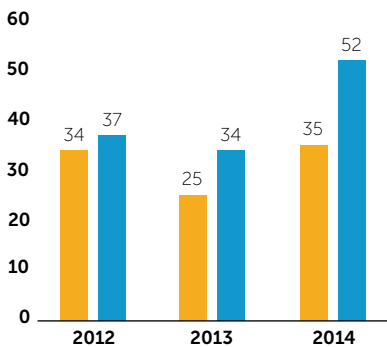


FINANCIAL INDICATORS

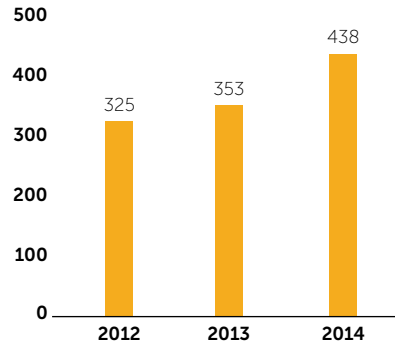
			2014	2013	2012
Profit before tax	(R'000)	Group	35 188	25 252	34 220
		Company	51 767	34 708	37 242
Return on equity	(%)	Group	0,7	0,4	0,9
		Company	1,3	1,1	1,2
Return on assets	(%)	Group	1,2	0,9	1,2
		Company	1,8	1,2	1,4
Cost to income ratio	(%)	Group	66	69	65
		Company	56	64	63
Credit loss ratio	(%)	Group	–	0,7	1,6
		Company	–	0,7	1,5
Provision for impairments/gross advances	(%)	Group	7,8	8,7	8,4
		Company	7,2	8,4	8,1

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

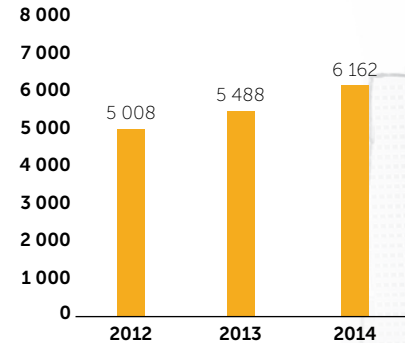
Profit before taxation (R'million)



Cumulative housing opportunities created since 1996 (thousand)



Cumulative disbursements (R'million)



■ Group
■ Company

KEY HIGHLIGHTS

Non-financial

Impact

- **12 537** housing opportunities created
- **16 038** job opportunities facilitated through NHFC funding

Experiential learners

- **12 learnerships** undertaken, which is 15% of NHFC staff complement
- **Five bursaries** awarded
 - Four B-Tech Accounting
 - One LLB

Corporate social investments

- Renovation of **Langa High School** Cape Town
- Sponsorship of **Alexander Orphanage**
- Sponsorships to beneficiaries of the built project in **Port St Johns**

Financial

- High level of disbursements of **R675 million** to date
- Leveraging of **R2,2 billion** of private sector funding into the human settlements space

Challenges

- Funding remains critical to **NHFC growing its loan book**
- Delays in **housing project development process** in the housing market and high indebtedness of households have both constrained the supply and lending, respectively, in the NHFC's target market.
- Constrained **mortgage lending by banks delayed** the uptake that is critical to housing delivery.
- Revise **policies and processes** to enable the scaling up of FLISP.

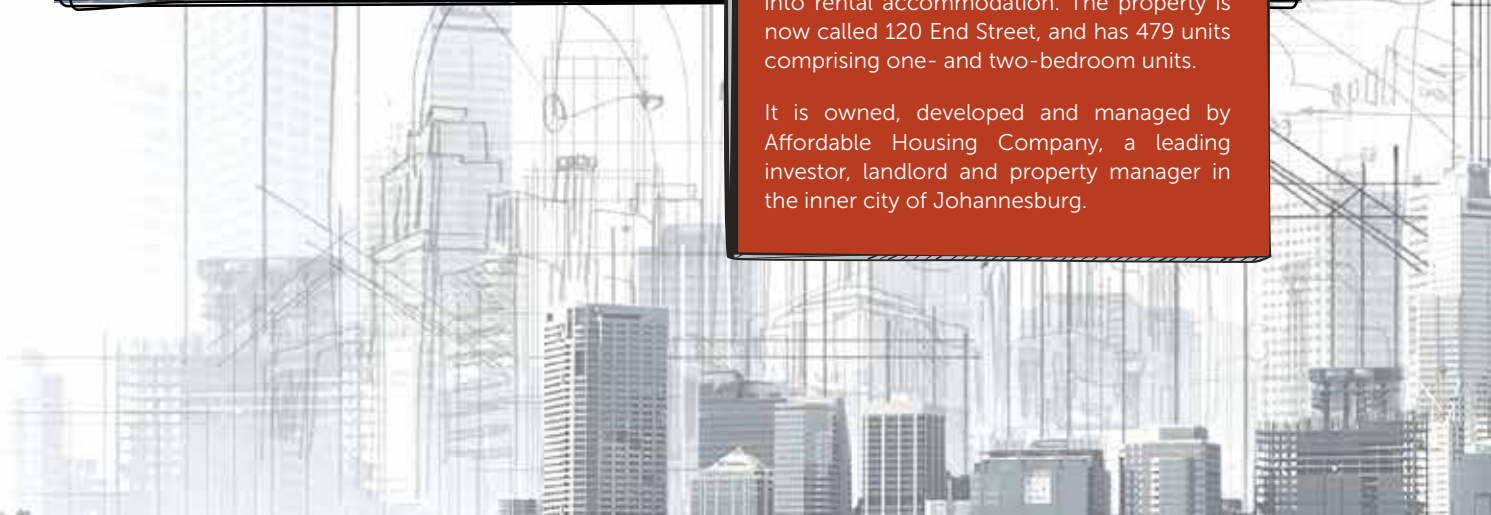
SHOWCASING SOME OF OUR PROJECTS



120 End Street, Johannesburg

NHFC provided funding of R110 million for the conversion and refurbishment of two buildings, Frank & Hirsch and Khan Corner, into rental accommodation. The property is now called 120 End Street, and has 479 units comprising one- and two-bedroom units.

It is owned, developed and managed by Affordable Housing Company, a leading investor, landlord and property manager in the inner city of Johannesburg.





424 Commissioner Street, Johannesburg

The NHFC, together with Gauteng Partnership Fund (GPF), financed the renewal, conversion and refurbishment of the dilapidated 424 Commissioner Street.

NHFC provided a mortgage loan of R7,4 million. The property consists of 34 units, comprising one- and two-bedroom units. It is owned, developed and managed by a black female investor.



Lakehaven Social Housing Project - Phase 1 and 2

The NHFC provided mortgage loan financing of R35,5 million for the development of 312 units, for social housing rental. Other funders of this project are the KwaZulu-Natal provincial government and the Social Housing Regulator.

The project has 34 double-storey blocks of eight two-bedroom units on 17 hectares of land in Durban. The developer is First Metro Housing Company, a social housing entity.

BOARD OF DIRECTORS

Independent Non-executive Directors

1. Prof. Michael Katz (Chairman)

Independent Non-Executive Chair

Chairman, Edward Nathan Sonnenbergs

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

Director as from 10 May 1996

2. Mr Johan Coetzee

Retired banker and director of companies

BA, MBA (University of Pretoria)

Director as from 6 May 2009

3. Ms Anthea Houston

Chief Executive Officer, Communicare, NPC

Post Graduate Management Diploma (UCT)
Banking Licentiate Diploma

Director as from 6 May 2009

4. Mr Sango Ntsaluba

Executive Chairman, Amabubesi Group

CA (SA), BCom (Fort Hare), BCompt Hons (Unisa)
NHD Tax Law (UJ)

Director as from 9 December 2003

5. Ms Phekane Ramarumo

Truly African Solutions

Pr.Pl.n, BA (University of Limpopo), HD (PDA) (Wits)
MRP (SUNYA, USA)

Director as from 6 May 2009

6. Ms Sonnet Swanepoel

CEO Ad Outpost Proprietary Limited

BSc (QS) Honours (University of Pretoria)
Advanced Certificate in Financial Markets

Director as from 13 December 2010

7. Mr Sizwe Tati

Director, Yakani Group

BCom (North Univ) Company Directing
Dip (IoD), Post Graduate Management Diploma
(GSMT), Snr Exec Program (Harvard)

Director as from 2 September 1996

Chief Executive Officer

8. Mr Samson Moraba

BCom (Unisa), PMD (Harvard Business School)

Director as from 11 January 1999

Company Secretary

9. Ms Elsabe Marx

BProc, LLB, LLM (UJ)

Company Secretary as from 1 September 2004



EXECUTIVE MANAGEMENT AND PRESCRIBED OFFICERS

1. Mr Samson Moraba

Chief Executive Officer (CEO)

BCom (Unisa), PMD (Harvard Business School)
Director as from 11 January 1999

2. Ms Zonia Adams

Chief Financial Officer

BCompt Hons (Unisa), CA (SA)
Executive as from January 2007

3. Mr Andrew Chimphondah

Commercial and Strategic Partnerships & Investments Divisions

CA (Z), MBA Durham (UK)
Executive as from September 2008

4. Mr Lawrence Lehabe

Projects Division

BCom (University of Zululand), MSc Marketing
(National University of Ireland)
Executive as from July 2005

5. Mr Zola Lupondwana

Credit

BCom (University of Botswana), ACA, CFA, CA (SA)
Executive as from January 2012

6. Ms Mandu Mamatela

Corporate Strategy

BCom (Hons) (University of North West),
MBA (PU for CHE), IEDP (UK)
Executive as from December 2010

7. Mr Siegfried Mogane

Acting Executive Manager Enterprise-Wide Risk Management

BCom (Unisa), MStrat (University of Cape Town),
Post Graduate Diploma in Management Specialising
in Corporate Governance (Monash University SA)
Executive as from July 2007

8. Ms Nomsa Ntshingila

Human Resources

MSc Clinical Psychology (Medunsa), BSoSc Hons
(University of Bophuthatswana)
Higher Education Diploma BA (Fort Hare)
Executive as from September 2005



CHAIRMAN'S REVIEW



Professor Michael Katz

Global financial markets have been dominated by changing assessments of the outlook for US monetary policy. From May 2013 until the end of January 2014, outflows from emerging markets increased and exchange rates were highly volatile as risk perceptions kept changing in response to data coming out of the US.

The South African economy faced a very challenging environment against this global backdrop, with domestic issues adding to the difficulties. The economy grew by 1,9% in 2013 and contracted by 0,6% in the first quarter of 2014. South Africa's economic landscape has been dominated by a fraught labour relations environment that has seen a number of protracted and damaging strikes, mainly in the mining sector.

The trends in mortgage advances are a reflection of market dynamics and prevailing conditions in the affordable housing market. This illustrates that credit extension is directly linked to an individual's income and household earnings. A significant portion of the NHFC target market (households earning below R15 000 per month) still struggles to access mortgage finance from larger banks due to affordability challenges.

The slowdown in private sector credit extension could be attributed to a number of factors, including consumer indebtedness as well as current legislative reviews, such as the National Credit Amendment Bill. The revised Bill, is aimed at empowering and protecting consumers and borrowers. The NHFC considers such amendments as complementary and necessary enhancements to existing regulatory frameworks.

Performance for the year was pleasing, especially in the current difficult economic environment, with the NHFC exceeding most of its targets. Despite liquidity challenges, the NHFC disbursed R675 million in this year, the highest yet since its incorporation. These disbursements played a catalytic role in leveraging a further R2,2 billion from the private sector into the affordable housing space which resulted in the delivery of 84 503 housing opportunities and the facilitation of 16 038 jobs.

Towards the end of the third quarter, the NHFC faced a critical funding liquidity challenge which necessitated that both management and the Board take steps to have it addressed. As a consequence of engagements with both the NDoHS and National Treasury, a commitment to avail R230 million to the NHFC was agreed as an interim solution, with a view to ultimately resolving the re-capitalisation of the NHFC, so that it can deliver on its Annual Performance Plan 2014/15. In my meeting with the Minister of Human Settlements on 31 January 2014, I received assurance that both matters would be given priority, especially the interim solution which needed to be in place during the first quarter of 2014, so that the NHFC's going concern ability is not in question.

At the NHFC AGM, on 2 April 2014, the Minister once more expressed her commitment to support the NHFC so that it can be enabled to play a significant development role, on a sustainable basis.

On the two strategic matters I raised the previous year, I can report that one has been clarified while the other remains unresolved. Firstly the consolidation of the three Human Settlements Development Finance Institutions into one body has gained momentum. The proposed form puts the NHFC central to this as the repository for the consolidated entities. In the end, it is about scale, efficiency and effectiveness in the provision of a range of finance products that cover the whole Human Settlements spectrum. Secondly as far as the Mortgage Default Insurance (MDI) matter is concerned, further engagements will take place to bring closure to this long awaited facilitative intervention by government that is initiated by the NHFC.

I am certain that the demands and responsibilities expected from the NHFC, as a Human Settlement DFI, have increased and will continue to grow. I am confident that both the Board and Management will rise to the challenge.

At the NHFC AGM held on 2 April 2014, Mr Tati and I were re-elected as directors for a further period of three years.

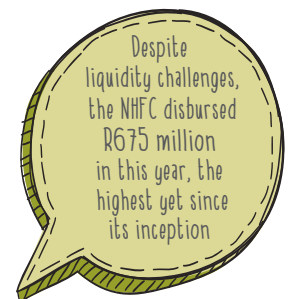
We remain grateful for the confidence and support that the Board of the NHFC enjoyed from the former Minister of Human Settlements, Ms Connie September. We also welcome the new Minister of Human Settlements, Dr Lindiwe Sisulu and we look forward to engaging with her in the provision of finance solutions relevant to the Human Settlements challenges.

To my fellow Board members, I express my gratitude for your continued enthusiastic engagement at Board meetings and dedication and diligence at sub-committee level, which have become your hallmark.

To Executive Management, I have observed with admiration, your commitment, competence and ever learning attitude as we work together to meet the challenges that the NHFC faces.



Professor Michael Katz
Chairman



CHIEF EXECUTIVE OFFICER'S REVIEW



Mr Samson Moraba

The twenty year review (1994 to 2014) by government is welcomed and is a step in the right direction as this review will not only capture the significant achievements made, but will also provide useful lessons that will assist in enhancing economic performance and delivery in the coming years. The NHFC is proud to have made meaningful contribution in the last 18 years through disbursing a cumulative R6,16 billion, while leveraging a further R15,3 billion funding, thus creating 438 000 housing opportunities.

2014 IN PERSPECTIVE

What we set out to do	What we did
Improve the rate of conversion of all approvals into disbursements, through adoption of an aggressive growth strategy	NHFC disbursed R675 million during the year under review, the highest ever, since incorporation.
Make good progress on the national rollout of FLISP	FLISP subsidy approvals totalling 927 to the value of R40 million were achieved through existing protocols with provinces and an estimated R138 million in mortgage loans was leveraged from banks as a result. NHFC has proposed a reviewed FLISP delivery model to further scale up delivery on a full cost recovery basis and a centralised budget approach.
Optimally blend alternative funding with equity from the Shareholder and thus create a mixed funding pool to deliver better affordability levels	NHFC was successful in raising further funding from EIB, one of its funding partners (R250 million), with the view to follow up with AFD, during the year. Shareholder support is receiving urgent attention and a commitment to finding an interim solution has been made, while a long-term solution is also under consideration by the Shareholder.
Undertake the next steps that will make the Mortgage Default Insurance (MDI) initiative a reality	At a meeting between the Finance Minister and the Minister of Human Settlements, a commitment was made that MDI will be pursued, once the issues of policy, risk sharing and supervisory and regulatory oversight are agreed upon.
Re-organise the NHFC	Progress has been made in this regard. A new functional structure has been designed and the Human Capital aspect of operations is being addressed with the view to conclude the structure by the end of the year. Considerable operational efficiencies and cost reductions will be achieved before the end of the 2014/15 financial year.

Overview of performance

A key driver of business performance for a lending business is the loan book growth, the interest margin and the cost efficiency of the business.

There has been an 11% net growth in the advances portfolio, from the previous year.

The NHFC achieved a consolidated profit before tax for the 2013/14 financial year of R35 million, which is an increase of 39% from 2013.

The performance against the budget is mainly due to the loss reported by Cape Town Community Housing Company (CTCHC), a wholly owned subsidiary of the NHFC.

Impairment

A total of R21 million has been impaired during the year while an impairment charge of R23 million has been reversed, resulting in a net impairment reversal of R2 million against a budget of R74 million.

Cost efficiencies

Group operating costs were 7% below budget; if operating expenses are normalised, the Group has achieved a saving of R18 million, 14% below budget.

Operations

The focus of operating divisions to convert approvals to disbursements yielded positive results with Projects and Strategic Partnership divisions exceeding their targets, thereby contributing to the NHFC exceeding its target by 6%.

The financial year approvals of R754 million is at 81% of budget. In light of the NHFC funding constraint, divisions continued to prioritise new applications and adopted a conservative approach to business. However, this is expected to normalise upon receipt of the capital allocation from the Shareholder.

Through its partnerships, the NHFC has leveraged R2,2 billion of private sector funding

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

for the year under review, into the affordable housing space, in line with its mandate and strategy. This is also reflected in the housing and job opportunities created.

Strategic investments

Housing Investment Partners Proprietary Limited (HiP)

NHFC (33,33%) and Old Mutual Capital Holdings Limited (OMCH) (66,67%) entered into a joint venture to establish a fund management company to design, develop and implement an income-linked mortgage product in the affordable housing market. The joint venture was successful in disbursing R100 million by February 2014. The pilot was funded by the HiP Lending Trust 1 (HLT1), with NHFC providing R20 million and the remaining R80 million provided by OMCH. This disbursement was a very important milestone for the NHFC and its relevant strategic partners; it provided the proof of concept. The loan portfolio performance is meeting expectations.

The NHFC's catalytic junior debt funding of R125 million into HiP Lending Trust 2 has managed to leverage R500 million of private sector funding. Mortgage loan transactions of R400 million have already been approved. The debt funding advisor is presently issuing the information memorandum to prospective debt providers for Lending Trust 3 towards an additional R1 billion.

Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF)

NHFC provided a R10 million interest free loan to TUHF in 2003 to develop an operating model to re-develop derelict inner city buildings. TUHF is playing a critical role in the re-development of the inner city of Johannesburg. NHFC's equity stake in TUHF is 33,5%.

TUHF maintained its strong performance and delivered a pre-tax profit of R39 million, a 28% increase on the prior year. NHFC's exposure to this entity is currently R292 million in the form of secured mortgage loans.

TUHF's Domestic Medium Term Notes (DMTN) Programme has been embarked upon in order to raise R1 billion, given improved impetus by the security of the Jobs Fund's grant of the R200 million from government.

As a result, TUHF will now become a more sustainable entity given its improved balance sheet capacity.

Cape Town Community Housing Company Proprietary Limited (CTCHC), wholly owned subsidiary

CTCHC is a property developer specialising in instalment purchase agreements and outright sales. CTCHC's key projects have been approved and include Royal Maitland 3, Morgen's Village 4 and Upington, with a total loan exposure of R194 million.

CTCHC posted a loss for the year under review, mainly due to delays in completing phase 1 of Harmony Village, which was behind schedule.

International Housing Solutions (IHS)

Closure for Phase One of the IHS Fund II valued at R3 billion is on track for conclusion by October 2014.

IHS, which is the Fund Manager, has been successful in reaching the threshold that was required for Phase One.

Other investors supporting the NHFC in Phase One are the International Finance Corporation, the Eskom Pension Fund and WDB Investment Holdings.

The Overseas Private Investment Corporation (OPIC) has expressed a firm interest to inject a further USD80 million into the IHS Fund II in Phase Two.

The Fund, which has a tenure of 10 years, will deliver up to 54 000 housing opportunities in the affordable housing market.

Finance Linked Individual Subsidy Programme (FLISP)

The NHFC is the implementing agent responsible for the administration and implementation of the Finance Linked Individual Subsidy Programme (FLISP). In terms of this mandate, the NHFC is responsible for liaising with the various provincial housing departments and the relevant financial institutions to co-ordinate the implementation of FLISP. The programme provides down payment assistance to qualifying households who have secured mortgage finance to acquire an existing house or a vacant residential serviced stand linked to house-building contracts with home builders registered with the National Home Builders Registration Council (NHBC).

- A total of 927 subsidy approvals totalling R40 million were processed during the period;

- Disbursements of R9,4 million were achieved during the period; and
- Banks committed R138 million of bond finance against the FLISP approvals.

Borrowings

French Development Agency (AFD)

The first facility of €20 million is fully drawn and AFD has indicated it is willing to advance a further loan of €20 million to the NHFC. Negotiations for this loan will commence, following a due diligence exercise.

European Investment Bank (EIB)

The signing of the agreement with EIB is imminent for a second loan of R250 million.

Both these facilities will finance projects for the development of affordable and social housing in South Africa, through the financing of the project activities of the NHFC.

In the above instances, obtaining of further borrowing approvals is underway, and loans should be available in the third quarter of the new financial year.


Future prospects

NHFC's priorities are:

- Secure interim funding and long-term capitalisation;
- Implement the revised FLISP delivery model;
- Deliver a replicable Mining Towns Delivery Concept (based on Impala Platinum/NHFC model);
- Facilitate the Financial Sector Code (FSC) to secure increased and sustained lending;
- Advance the Human Settlements DFI Consolidation process; and
- Implement the strategic reorganisation of the NHFC in order to create organisational efficiencies and initiate triple bottom line reporting.

Appreciation

A hearty thanks goes to the Honourable Ministers, Connie September and Tokyo Sexwale for their utmost support of the NHFC, and at the same time, extend a warm welcome to Minister Dr Lindiwe Sisulu. The co-operation with which we worked together with the



The housing market, especially the affordable segment of the market, continues to be affected by a low appetite by banks for mortgage lending

Department of Human Settlements (DHS) is reflective of the openness and leadership of its Director General, Mr Thabane Zulu. The opportunities we had for continued meaningful engagement and feedback aimed at improving delivery are much appreciated, notwithstanding the challenges on some of the unresolved critical matters, such as funding and the MDI.

My gratitude goes to Chairman of the Board, Professor Michael Katz, for his passion, unerring vision and leadership that are reflected in the Board of the NHFC. Many thanks to my fellow Board members for their insight, flexibility and diligence, especially in Board committee meetings.

Without our funding partners, AFD and EIB, we could not have achieved so much over the past years. I thank them for the role they played in uplifting many South African households, especially those in the low-to-middle income bracket.

We owe much of our success to our clients and partners, through whom we were able to extend the reach and delivery of affordable housing finance to our target market. A special acknowledgement goes to Old Mutual, our strategic partner in HiP, for the successful proof of concept.

I salute the NHFC team, who were resilient in the face of our challenges. They ably contributed to building the foundation for the NHFC's move into the next trajectory and in its delivery of its expanded mandate expectations.



Samson Moraba
CEO

CORPORATE GOVERNANCE

Introduction

The NHFC fulfills its mandate in a manner that is consistent with best practices and with continuous regard to the principles of integrity, fairness, transparency and accountability, as set out in the King Report on Corporate Governance (King III). The Board of Directors (the Board) of the NHFC remains committed to, as far as possible, applying the principles of King III.

The NHFC developed a governance framework for its wholly owned subsidiary (Cape Town Community Housing Company) that sets out guiding corporate governance principles, to ensure that the business of the subsidiary is conducted in an ethical and responsible manner and set key performance areas for monitoring.

The NHFC also plays a supportive role by promoting and encouraging sound corporate governance principles in its investee companies.

NHFC Board and Board committees

Accountability to the Shareholder/Executive Authority

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

Strategic objectives and performance management

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

The Annual Performance Plan is annexed to the Compact and serves as an agreement between the NHFC and its Shareholder and documents the key performance measures against which organisational performance is assessed. The Board sets out the NHFC's strategic objectives

in the Plan and has adopted the Balanced Scorecard methodology to implement the Strategy and measure itself against the key performance measures reflected on pages 114 to 115 of the annual report.

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

Board governance, structures and framework

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

It discharges this responsibility within the powers set out in the NHFC's Memorandum of Incorporation and the Board committee structure depicted in the diagram alongside. While the Board has the authority to delegate powers to Executive Management and Board committees, it remains accountable to the Shareholder.

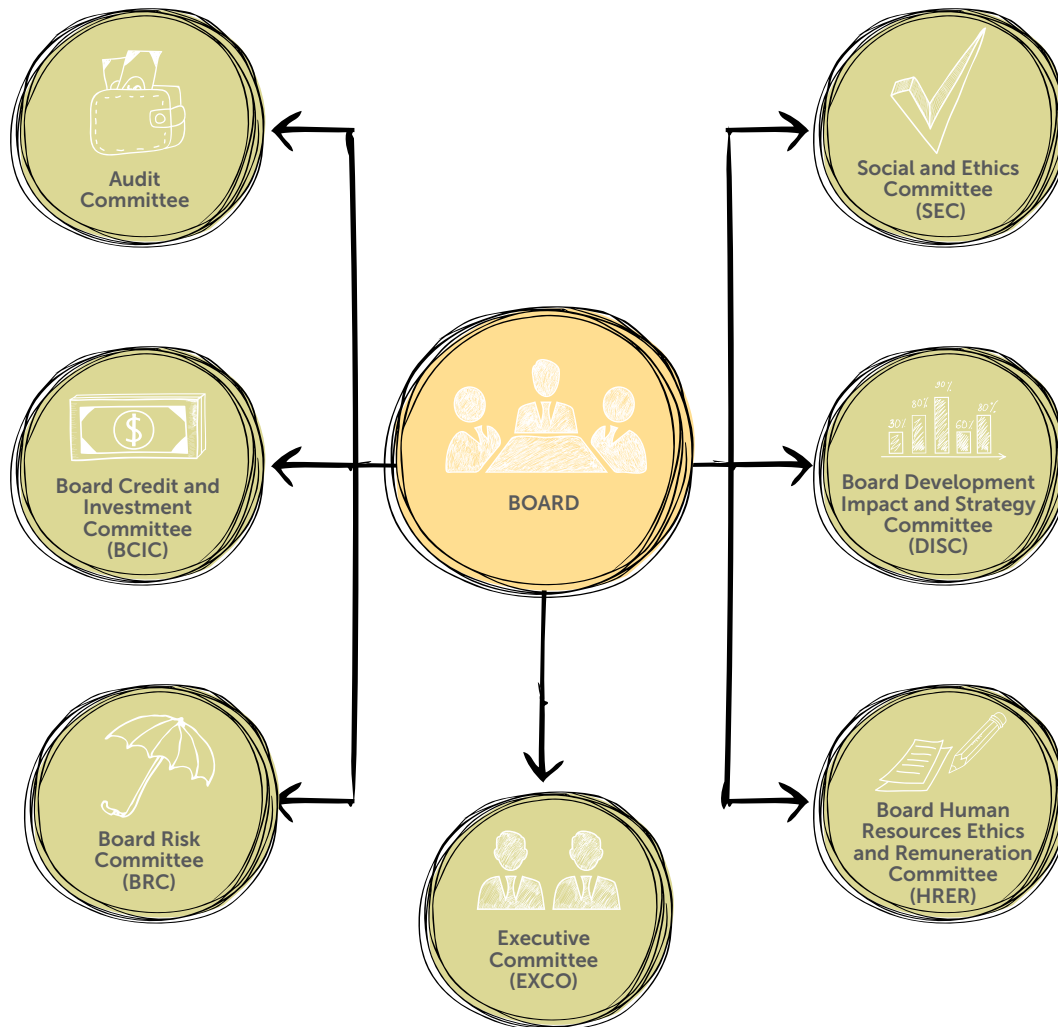
Specific powers and authority have been delegated to the Board committees, each of which has a clearly defined mandate in its written Terms of Reference. The management of day-to-day operations is delegated by the Board to the CEO, the Accounting Officer, who is assisted by the Executive Management Committee (EXCO) and its subcommittees, which operate within the mandate set out in their respective written Terms of References.

Board composition, meetings and proceedings

Board composition

The Board is appointed by the Minister, in her capacity as Shareholder representative, and comprises eight (8) members, the details of which are reflected on page 10 of the annual report. The two vacancies on the Board will be filled in the new financial year.

The NHFC's Board governance structure is as follows:



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

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

Board Charter

The NHFC's Board Charter is reviewed annually and has been aligned with the Department of Human Settlements' framework and King III. It

gives a concise overview of the demarcation of roles, functions, responsibilities and powers of the CEO, the Board and the Shareholder. The Board retains full and effective control over the NHFC by:

- Approving the Strategy, Corporate Plan and Budget, and monitoring management closely in the implementation thereof;
- Monitoring operational and financial performance against the Corporate Balanced Scorecard; and
- Reviewing the Delegated Authority document which sets out the powers that it delegates to management.

CORPORATE GOVERNANCE CONTINUED

The Board meets at least five times a year or more frequently if circumstances so require and the Chairpersons of the respective committees report back to the Board. The record of attendance at Board meetings during the period under review is reflected below:

Name of director	Board	27 June 2013	18 July 2013	26 Sept 2013	28 Nov 2013	27 March 2014
Prof M Katz	Chairman	✓	✓	✓	✓	•
Mr J Coetzee	Independent non-executive directors	✓	•	✓	✓	✓
Ms A Houston		✓	✓	✓	✓	✓
Mr SS Ntsaluba		✓	✓	✓	•	✓
Ms PV Ramarumo		✓	✓	✓	✓	✓
Mr SA Tati		✓	✓	✓	✓	✓
Ms S Swanepoel		✓	✓	✓	✓	✓
Mr SS Moraba		CEO	✓	✓	✓	✓

✓ Present

• Apologies

The NHFC implemented a three year term for non-executive directors in 2009 and the non-executive directors concerned were re-appointed at the 2012 Annual General Meeting (AGM). The NHFC's Memorandum of Incorporation adopted at the same AGM, provides that one-third of the non-executive directors, being the longest serving directors, will rotate and be up for re-election. At the AGM held on 2 April 2014, Professor Katz and Mr Tati were re-elected as directors for a further period of three years.

The Board as a whole was evaluated by an external expert in 2012 and his recommendations were implemented. In line with the Board Charter an evaluation will be conducted in the 2014/2015 financial year.

Ethics and managing conflicts of interest of an executive manager or director

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

Potential conflicts of interest are effectively managed in that the Board and Executive Management are required to disclose any potential conflicts to the Company Secretary at regular meetings. The Declaration of an Interest is a standing item on the agenda of all Board and Board committee meetings; and the Board, Board committee and Executive Committee members are reminded annually to

submit a declaration in terms of Section 75(4) of the Companies Act, Act 71 of 2008, should a director or executive manager wish to rely on a general declaration.

Access to information and professional advice

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

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

Board and statutory committees

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

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

Audit Committee

This committee comprises three Independent non-executive directors. The members, Messrs Ntsaluba (Chairperson) and Tati and Ms Ramarumo, were, in line with the Companies Act provisions, duly appointed at the annual general meeting. The CEO is not a member, but attends. The committee meets at least five times annually. The primary objective of the committee, in terms of its Terms of

Reference, is to assist the Board in discharging its duties relating to the following:

- Oversight of financial reporting, conforming with all applicable legal requirements and accounting standards;
- The operation of adequate systems of internal control and internal audit processes;
- The external audit process;
- Corporate governance; and
- Review and approval of quarterly reports to the Shareholder.

The committee held seven (7) meetings during the period under review and the record of attendance is as follows:

Name of member	Board	23 April 2013	Joint meeting with BRC 10 July 2013	25 July 2013	Joint meeting with BRC 12 Sept 2013	Joint meeting with BRC 19 Sept 2013	23 Oct 2013	27 Jan 2014
Mr SS Ntsaluba	Chairperson	✓	✓	✓	✓	✓	✓	✓
Ms PV Ramarumo	Independent non-executive directors	✓	✓	✓	•	✓	✓	✓
Mr SA Tati		✓	✓	✓	✓	✓	✓	✓

- ✓ Present
• Apologies

Credit and Investment committees at a Board, Board committee and Management committee level:

Board Credit and Investment Committee (BCIC)

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

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

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

The record of attendance for the five BCIC meetings during the period under review is as follows:

Name of member	Board	29 April 2013	6 June 2013	22 Aug 2013	7 Nov 2013	2 Feb 2014
Mr J Coetzee	Chairperson	✓	✓	✓	✓	✓
Mr SA Tati	Independent non-executive directors	✓	✓	✓	✓	•
Ms S Swanepoel		✓	✓	✓	✓	✓
Mr SS Moraba	CEO	✓	✓	✓	✓	✓

- ✓ Present
• Apologies

CORPORATE GOVERNANCE CONTINUED

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

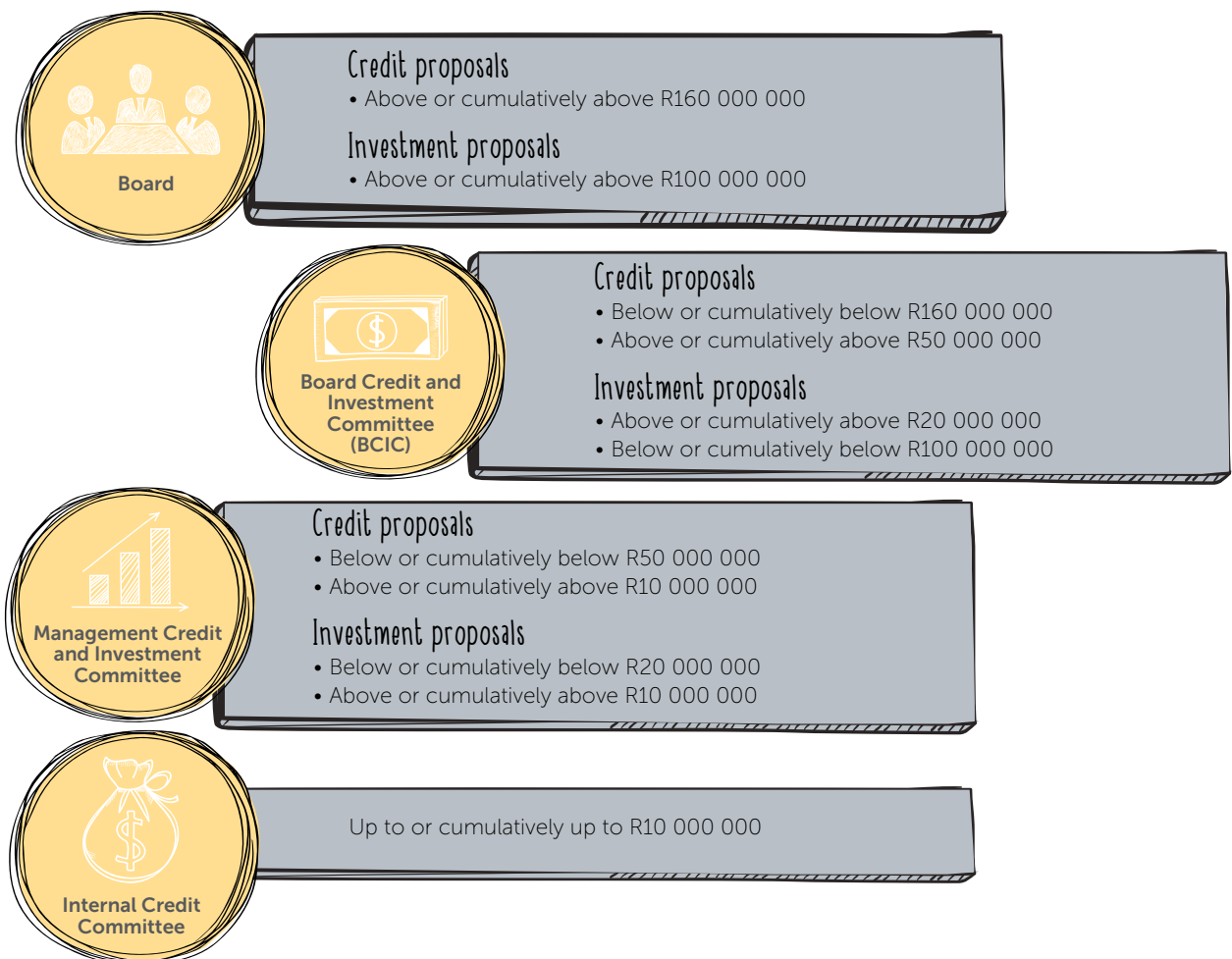
- Recommends the Credit Philosophy, Strategy and Policies to the Board;
- Approves all loan applications for facilities that exceed or cumulatively exceed R50 million up to R160 million, upon recommendation by the Management Credit and Investment Committee (MCIC). BCIC performs its assessment of the inherent risks in a proposed facility within the framework of an approved credit policy;
- Recommends loan facilities that exceed or cumulatively exceed R160 million per client to the Board;
- Recommends the long-term Investments Strategy and Policy to the Board;
- Approves all long-term investments that exceed or cumulatively exceed R20 million

up to R100 million, upon recommendation by the MCIC. BCIC performs its assessment of the risks inherent in an investment within the framework of an approved equity investment policy;

- Recommends the Treasury Management Policy to the Board for approval, and discharges the functions as set out in the Policy; and
- Recommends all long-term investments that exceed R100 million to the Board.

Members of MCIC, BCIC and the Board who have an interest in a loan application must inform the relevant Credit and Investment Committee of a conflict or potential conflict of interest in relation to a particular item on the agenda, and recuse themselves from the discussion of that item, unless the committee decides that the declared interest is trivial or immaterial.

The delegation of credit and investment approval at a Board, Board committee and management committee level is as follows:



Management Credit and Investment Committee (MCIC)

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

MCIC is responsible for approving loan facilities up to, or cumulatively up to, R50 million per client and recommending those in excess of that amount to BCIC. MCIC also recommends all Strategic Investment proposals up to R20 million to BCIC.

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

The Credit Policy provides for the declaration of interests should any credit committee member have an interest in a particular credit application. The relevant committee will in line with PFMA decide whether such a committee member should recuse him/herself from the proceedings on that matter. The Human Resources Policy also provides for staff members to declare any conflict of interest in accordance with clearly defined procedures to do so.

ICC evaluates loan applications and submits recommendations to the CEO or MCIC.

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

Board Human Resources, Ethics and Remuneration Committee (HRER)

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

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

- Review the Code of Ethics and monitor compliance;
- Review Human Resources Policy and Strategy annually;
- Consider the Remuneration Policy as well as broad framework and costs of executive managers' remuneration and recommend it to the Board;
- Review top HR risks;
- Consider HR audit findings and monitor implementation of recommendations; and
- Review provident fund (the Fund) reports to ensure good stewardship of employee retirement savings by the Trustees of the Fund.

In discharging its duties, the committee gives due cognisance to the NHFC's remuneration philosophy. Such philosophy guides the NHFC in the implementation of remuneration practices which attract, retain and motivate appropriately skilled personnel necessary for NHFC to achieve its strategic objectives.

The record of attendance for the four HRER meetings during the year under review is as follows:

Name of member	Board	13 June 2013	4 Sept 2013	28 Nov 2013	19 Mach 2014
Ms A Houston	Chairperson	✓	✓	✓	✓
Mr SS Ntsaluba	Independent non-executive directors	✓	✓	•	•
Ms PV Ramarumo		✓	✓	✓	•
Mr SS Moraba	CEO	✓	✓	✓	✓

✓ Present

• Apologies

CORPORATE GOVERNANCE CONTINUED

Social and Ethics Committee (SEC)

The Social and Ethics Committee (SEC) executes its duties in terms of the Companies Act, Act 71 of 2008 (the Act) and the Regulations thereto, as well as any additional duties assigned to it by the Board. SEC is also guided by the King Report on Corporate Governance in South Africa published in 2009 (King III). The Act references specific pieces of South African legislation and various principles and standards of the Organisation for Economic Cooperation and Development (OECD), the International Labour Organisation (ILO) and the United Nations Global Compact (UNGC).

SEC comprises two independent non-executive directors, Ms Swanepoel and Ms Ramarumo and the CEO, Mr Moraba as well as members and attendees such as subject matter experts on each of the disciplines or areas falling within the mandate of the committee. The committee meets quarterly to discharge its duties.

A formal Terms of Reference has, in line with the above legislation, principles, guidelines and standards, been approved by the Board and guides SEC in performing its monitoring role relating to social and ethics matters, to ensure that the NHFC conducts its business activities in an ethical and socially responsible manner. In fulfilling its duties, SEC obtains the following assurances from the following Board committees:

- Board Human Resources and Ethics Committee (HRER) – provides assurance that the NHFC respects human rights and maintains good employee relationships;
- Board Credit and Investment Committee (BCIC) – provides assurance that environmental, health and public safety issues are considered when credit is granted to NHFC's clients and the NHFC's BBBEE Policy is adhered to;
- Social and Ethics Committee (SEC) also receives assurance from the Executive Committee that it monitors internal environmental, health and safety matters;
- Board Risk Committee (BRC) – provides assurance that an enterprise wide risk management programme is in place that deals with all risks inherent to the social and economic aspects of the NHFC's business and ethical matters. It also provides assurance that the NHFC is complying with all legislation, principles, guidelines and standards relating to all matters falling within SEC's ambit of duties; and
- Board Developmental Impact and Strategy Committee (DISC) – provides assurance that the NHFC plays the developmental role required from it, and is sustainable from a social perspective. DISC also reports on corporate social responsibility and stakeholder relationships to SEC.

The record of attendance for the three meetings is as follows:

Name of director	Board	4 June 2013	22 Aug 2013	7 Nov 2013
Ms S Swanepoel	Chairperson	✓	✓	✓
Ms PV Ramarumo	Independent non-executive director	✓	✓	✓
Mr SS Moraba	CEO	✓	✓	✓

✓ Present



Board Risk Committee (BRC)

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

Committee meetings are attended by the Executive Manager: Enterprise Wide Risk Management, the CFO and the Internal Auditors.

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

- Recommends the Enterprise Wide Risk Management Strategy and Framework as well as the Fraud Prevention Plan to the

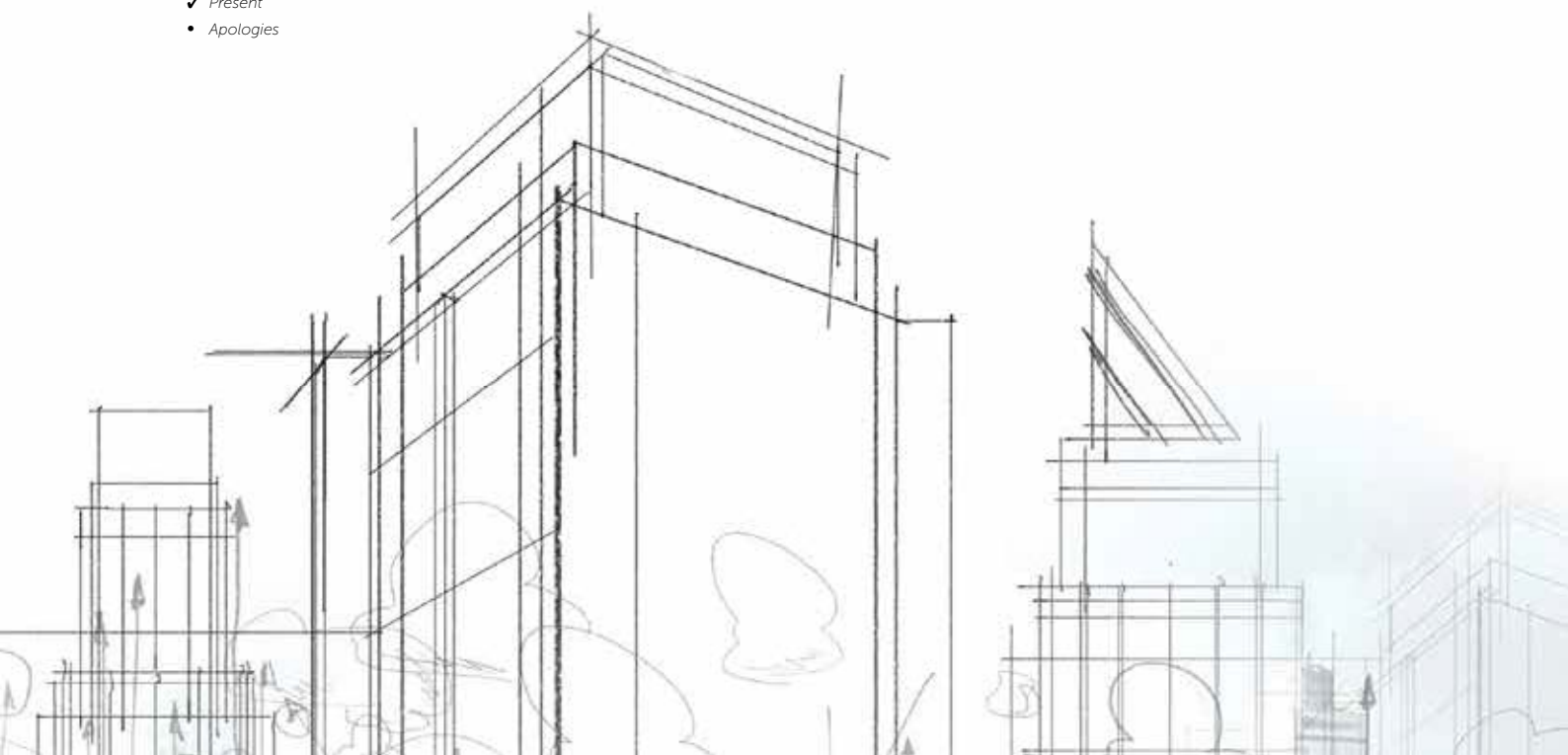
Board and monitors Management in the implementation thereof;

- Evaluates the effectiveness of risk management systems, processes and controls;
- Annually reviews and recommends all Risk Management policies to the Board for approval;
- Approves Financial Risk Management Strategies as recommended by BCIC;
- Reviews and reports on the control of financial risks (including credit and market) to the Board; and
- Ensures that the IT Governance Control Framework and policies are in place and the Information Technology Management Committee is overseeing the implementation thereof.

The record of attendance for the seven meetings during the year under review is as follows:

Name of member	Board	23 April 2013	Joint meeting with the Audit Committee 10 July 2013	25 July 2013	Joint meeting with the Audit Committee 12 Sept 2013	Joint meeting with the Audit Committee 19 Sept 2013	23 Oct 2013	27 Jan 2014
Mr SS Ntsaluba	Chairperson	✓	✓	✓	✓	✓	✓	✓
Ms A Houston	Independent non-executive directors	•	•	✓	•	✓	✓	✓
Mr J Coetzee		•	✓	✓	✓	✓	✓	✓
Mr SA Tati		✓	✓	✓	✓	✓	✓	✓
Mr SS Moraba	CEO	✓	✓	✓	✓	✓	✓	✓

- ✓ Present
- Apologies



CORPORATE GOVERNANCE CONTINUED

Board Developmental Impact and Strategy Committee (DISC)

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

DISC's main objectives are to:

- Review and recommend the NHFC's strategy to the Board and to ensure that

it is both relevant and responsive to the affordable housing market;

- Give the Board assurance that NHFC's strategic objectives are aligned to the Human Settlement Strategy and policies, and deal adequately with developmental impact;
- Recommend amendments to the NHFC's strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved;
- Monitor the NHFC's performance against the objectives set for developmental impact; and
- Monitor the impact of developmental activities on the NHFC's financial strategy.

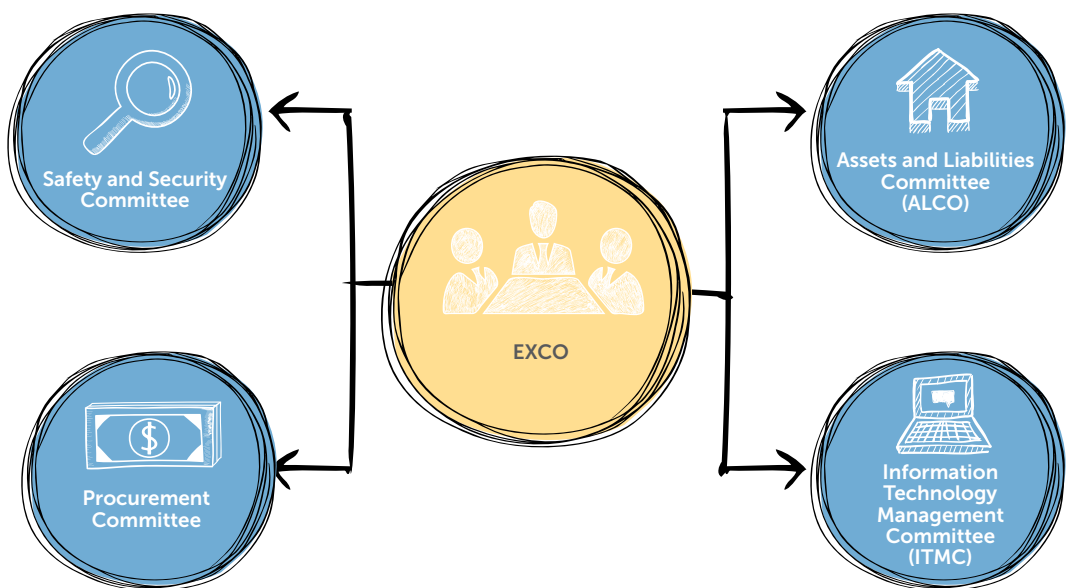
The record of attendance for the four meetings is as follows:

Name of member	Board	29 April 2013	24 June 2013	14 Nov 2013	19 Mar 2014
Mr SA Tati	Chairperson	✓	✓	✓	✓
Mr J Coetzee	Independent non-executive directors	✓	✓	✓	✓
Ms A Houston		✓	•	✓	✓
Ms PV Ramarumo		✓	✓	✓	✓
Mr SS Moraba	CEO	✓	✓	✓	✓

✓ Present

• Apologies

Management committees



Note: The management committee at which credit and investment matters are dealt with is reflected on page 23

Executive Management Committee (EXCO)

EXCO comprises executive managers, reflected on page 11 of the annual report, who assist the CEO in managing the day-to-day business of the NHFC within the powers delegated by the Board. EXCO is also responsible for formulating the NHFC's Strategy and implementing it once approved by the Board.

EXCO is specifically required to give the BCIC assurance that it monitors internal environmental, health and safety matters.

Assets and Liabilities Committee (ALCO)

ALCO is chaired by the CEO and comprises two external specialists, the CFO, Acting Executive Manager: Enterprise Wide Risk Management, Executive Manager: Credit, Treasury Manager and Money Market Dealer. ALCO's overall objectives are to:

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

Information Technology Management Committee (ITMC)

ITMC is chaired by the CEO and comprises the General Manager: IT, Data & Information Manager, Acting Executive Manager: Enterprise Wide Risk Management, Executive Manager: Credit and General Manager: Projects.

ITMC's main objectives are to:

- Develop an IT Governance Framework and oversee the implementation thereof once it is reviewed by EXCO and approved by the Board Risk Committee;
- Ensure that the IT strategy is aligned to the Corporate Plan, in reviewing and recommending it to EXCO;
- Develop an IT Governance Framework and IT Policies, and oversee the implementation thereof once approved by BRC;

- Obtain independent assurance that the IT Internal Framework is effective and submit it to EXCO, which in turn must submit it to the Audit Committee;
- Monitor all IT risks and controls to determine whether they are addressed effectively and relevant plans and controls are in place, and submit them to EXCO, which in turn recommends them to the BRC; and
- Review all IT proposals before submission thereof to EXCO.

Procurement Committee

The Procurement Committee is chaired by the CFO and comprises representatives from Finance, Legal, Risk, Business and the Procurement Manager.

The committee's main objectives are to:

- Monitor and oversee the implementation of the Procurement Policy (the Policy), Procedures and Procurement Code of Conduct (the Code);
- Monitor adherence to the policy, procedures and the Code and receive reports on non-compliance;
- Deal with matters concerning the adjudication and the appointment of service providers of the NHFC to ensure that the procurement system is fair, equitable, transparent and cost effective;
- Take all reasonable steps to prevent abuse of the Supply Chain Management system; and
- Ensure compliance with the laws of South Africa.

Safety and Security Committee (SASC)

SASC comprises the Executive Manager: Human Resources (Chairperson) as well as Legal, IT and Health and Safety representatives.

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

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

ENTERPRISE RISK MANAGEMENT

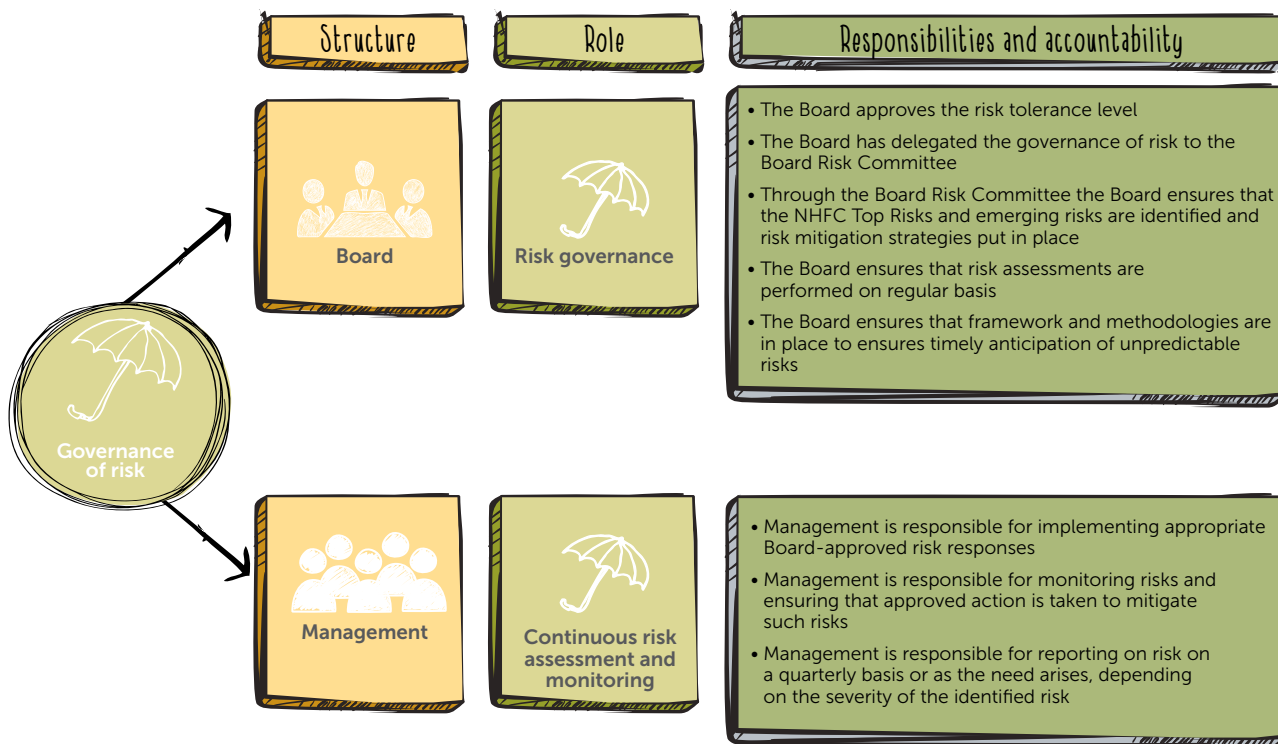
NHFC risk management philosophy

The NHFC has implemented an Enterprise Risk Management (ERM) Framework that has continued to gain maturity. The implemented Enterprise Risk Management Framework is based on an integrated process that allows Management to have an enterprise view of its risks, impacts and opportunities in a dynamic environment.

The NHFC Risk Management Philosophy is premised on a thorough understanding of its risk exposure and this allows Management and the Board to take a holistic view of risk management and establish structures and processes that manage risk on an enterprise wide basis in a consistent manner.

Governance of risk

The Board is accountable for the total process of risk management and its effectiveness, while Management is responsible for implementing Board-approved risk management policies and mitigation strategies. The diagram below illustrates the roles and accountabilities of the Board and Management in the governance of risk.



Board Risk Committee

The Board Risk Committee assists the Board in executing its responsibilities with respect to risk management as illustrated in the diagram alongside.

Chief Executive Officer

The NHFC Chief Executive Officer is accountable to the Board for ensuring the implementation of Board-approved risk management framework, policies and strategy.

Executive management

Executive managers are responsible for identifying and managing risks inherent to the operations of their divisions including identification of emerging risks.

Executive Committee

Management is accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into the day-to day activities of the NHFC.

Enterprise risk management

The Executive Manager EWRM is responsible for the coordination of risk management

activities of the NHFC. This includes developing, recommending and facilitating the implementation of the risk management process throughout the NHFC; and overseeing, monitoring and evaluating the status of the implementation of risk management across the NHFC.

Risk reporting

On a monthly basis the Executive Manager ERM reports to the Executive Committee on the implementation of risk mitigation strategies, identification of emerging risk and, compliance with NHFC core legislation, National Treasury Regulations and NHFC Policies.

The Board Risk Committee receives risk reports from Management on a quarterly basis. The risk report covers progress made in implementing Board ERM Framework and policies. The report also highlights any emerging risks that have been identified in the interim and mitigation strategies that have been implemented.

The Board Risk Committee, which is tasked with assisting the Board in executing its responsibilities with regard to risk management, provides the Board with a report on the management of key risks, on a quarterly basis.

NHFC's risk universe

The diagram below illustrates the NHFC risk universe.



The NHFC reviews its key risks on an annual basis. The risk review is used to identify new risks and enhance and/or develop new risk mitigation strategies.

ENTERPRISE RISK MANAGEMENT CONTINUED

Credit and investment risk

All credit and investment decisions are guided by Board approved Credit and Equity Investment Policies.

As an investor in credit, equity and quasi-equity instruments, credit and investment risks are an integral component of NHFC's business risk. This is especially so in an environment where the NHFC is expected to rely on more debt to finance business operations. This means the issue of understanding and matching of cash flows from assets with liabilities will be of greater importance. In this regard, the NHFC has spent the year enhancing its systems and processes including ensuring that the company is more responsive to the changing market dynamics and its own capital structure in pricing credit and equity risk.

Financial risk (assets and liabilities)

Financial and market risks are managed within the Treasury Department under the leadership of the Chief Financial Officer.

A Treasury Management Policy that governs the financial risk exposures of the NHFC is in place. An Assets and Liabilities Committee provides oversight to the treasury operations. The critical responsibilities of the Assets and Liabilities Committee are to ensure that the risks associated with assets and liabilities mismatches are adequately managed. The core elements of asset and liability matching are interest rate risk, liquidity risk, funding, capital management, and strategic planning.

Operational risk

Each Executive Manager is responsible for identifying and managing risks inherent to the operations of their division and establishing residual risk levels where they need to focus management attention.

Quarterly reports are submitted to the Board Risk Committee, which deals with actions taken by Management to address key risks.

Enterprise risk management has embedded a risk management culture in the business by cascading risk management down to a business level. Risk champions have been appointed in each division and training provided to ensure proper execution of risk management methodologies and processes.

Compliance risk

The Compliance function is centralised under the leadership of the Enterprise Wide Risk Management Executive, with a dedicated Compliance Officer appointed. Quarterly reports are submitted to the Executive Committee, the Audit Committee and Board Risk Committee to ensure that proper oversight is exercised.

NHFC supports the Financial Intelligence Centre (FIC) steps in ensuring that the financial operating environment is strengthened to prevent financial crimes. Under direction from the Board, regulatory and compliance risks associated with NHFC business activities are assessed, mitigated, managed and reported on to internal and external stakeholders.

Fraud risk

The Enterprise Wide Risk Management Executive oversees the day-to-day operations of the fraud risk function. The anonymous hotline is outsourced to "Tip-Offs Anonymous", and any investigation is referred to external parties.

A comprehensive Fraud Prevention Policy is in place and aligned to the ERM Policy and Framework. All possible fraud related incidents will be reported to the Executive Manager: Enterprise Wide Risk Management, the Chief Executive Officer and the Chairperson of the Audit Committee depending on the seriousness of the matter.

Employees are constantly encouraged to report unethical behaviour and/or irregularities through the Tip-Offs Anonymous Hotline.

The year under review

The 2013/2014 year has been challenging for the NHFC due to the following:

- Credit granting remains constrained as lenders in the housing market are not lending at the rate seen in the years between 2003 and 2008;
- There is continued slow growth in the housing market as a whole. However the affordable housing market experienced better growth compared to other sectors of the market; and
- Buyers in the affordable housing market continued to battle to gain access to housing finance due to the prevailing high indebtedness of the affordable housing market.

The combination of these factors has resulted in affordable housing developers holding an excess supply of housing stock for which they cannot find loan-qualifying buyers.

Despite these challenges the NHFC saw an all-time increase in its new business pipeline, loan approvals and disbursements.

Liquidity challenge

NHFC was originally capitalised at inception (18 years ago) by its Shareholder with an injection of R1 billion. Over the 18 years since it was established, the NHFC has cumulatively managed to turn over the initial seed capital into R6,16 billion of disbursements, leveraging R15,3 billion from the private sector.

The NHFC as a development finance institution has to manage the interplay between its assets and liabilities, and attain a balance between developmental activities and its own sustainability. In that regard, as a non-deposit taking entity, its main source of capital is debt and equity funding. The mortgage portfolio of the NHFC is long term in nature, with an average term of 15 to 20 years.

In the last year, the NHFC experienced an acute liquidity crisis due to the inability to secure equity as well as debt funding to grow its loan and investment portfolio due to regulatory delays. These liquidity challenges lead to the slowing down of business development and challenges in managing commitments and disbursements. Cost cutting measures have been applied rigorously.

Post year-end, this matter was resolved and it is anticipated that a mix of both debt and equity funding will be forthcoming in the 2014/15 financial year.

The Shareholder has committed to an interim equity funding solution and the company is now in the process of augmenting this equity funding with debt funding.

Embedding of the Combined Assurance Model

The Combined Assurance Model has now been embedded and it ensures that NHFC has three risk defence levels in place. The enterprise risk management structure was designed to ensure that stakeholders are provided with assurance that risk is proactively managed through early detection and mitigation strategies, and reported accordingly to the various governance structures, starting

from operational management to Executive Management and Board Risk Committee.

The three risk defence levels as indicated below:

First Line: Business is responsible for ensuring that a risk controlled environment is established in their operations. Front line staff supported by line management has the responsibility to identify and assess risks, put controls in place and monitor the effectiveness of the risk treatment controls.

Second Line: Group Risk and Enterprise Governance and Compliance perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulatory requirements and legislation.

Third Line: Internal and External Auditors provide assurance on the effectiveness of risk management in the organisation.

Fraud and corruption

During the year, NHFC was made aware of corrupt activities that allegedly took place in its Legal department. A forensic audit was undertaken and it revealed that corrupt activities neither occurred in the NHFC itself, nor did they result in NHFC being financially impacted. The amount involved is below PFMA threshold reporting requirements. The matter has been handed to the South African Police Services.

Risk focus areas for 2014/15

- Integration of compliance risk management
- Continuous anti-money laundering, fraud and anti-corruption campaign
- Finalisation of the re-capitalisation of the NHFC
- Monitoring risk associated with reorganisation

ENTERPRISE RISK MANAGEMENT CONTINUED

Key risk areas

Credit risk	2013/2014	Way forward																								
<p>Credit risk is the risk of loss of principal or income arising from a counterparty or customer that fails to meet its obligations. For the NHFC, this risk arises from lending activities. The management of this risk is critical to the NHFC remaining a financially sustainable entity.</p> <p>Credit risk is singularly the most significant risk that the NHFC is exposed to as it is a core component of lending quality and impacts on the risk versus return model.</p>	<ul style="list-style-type: none"> Despite interest rates being at multi-decade lows, South African economic growth remained below its full potential primarily due to sporadic growth of the country's main trading partners, as well as internal challenges of continued labour unrest and infrastructural backlogs. SA's economic growth rate was 1,9% in 2013 and it contracted by 0,6% in the first quarter of 2014. For the first time in over five years, the Reserve Bank increased the repo rate by 50 basis points in January 2014. This was against a backdrop of a devaluing local currency, capital outflows (from South Africa), slowing growth and rising inflation. 	<ul style="list-style-type: none"> The Credit Division will continue enhancing its risk-based pricing model in line with best practice, particularly as it invests in equity and quasi equity financial instruments. 																								
<p>The robustness of the NHFC's risk management continues to be tested by the economic environment, which is characterised by subdued economic growth, high levels of household indebtedness, high unemployment and increased regulatory requirements of Basel III. These factors have resulted in the attrition of property developers and institutional investors over the past three to four years.</p>	<p>As a result of a record level of approvals at the start of the financial year, the NHFC was able to achieve a record level of disbursements.</p> <ul style="list-style-type: none"> The NHFC has noted that the continued low appetite for mortgage lending has affected the nature of disbursements with lower activity for new developments for sale and a continued, marked increase in developments for rental, especially in the social housing arena. The NHFC has also noted the continued low appetite for wholesale funding from its non-banking retail intermediaries who provide solutions, mainly for incremental housing. Besides providing solutions for incremental housing, these non-banking intermediaries are exposed to the unsecured lending market through other product lines that have largely fed consumer expenditure. Both aspects of business have been under pressure with a marked deterioration in the quality of the loan books. This has manifested itself through increased impairments and bad debt write-offs and poor profitability of the major participants in the market. There has also been consolidation and attrition of micro-lenders in the reporting period with most focusing on business on the rest of the African continent. The total loan book increased by 11% mainly driven by strong performance of the Projects Division. <p>The continued focus on monitoring and proactively managing potential events of default and breaches of covenants in the portfolio has yielded positive results with the credit loss ratio of 0% in the year under review.</p> <table border="1"> <thead> <tr> <th></th> <th>2014</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Growth in loans and advances (%)</td> <td>11</td> <td>5</td> </tr> <tr> <td>Credit loss ratio (%)</td> <td>0</td> <td>0,7</td> </tr> <tr> <td>Non-performing loans as a percentage of advances</td> <td>14%</td> <td>24%</td> </tr> </tbody> </table> <p>Concentration risk of loans and advances by operations:</p> <table border="1"> <thead> <tr> <th></th> <th>2014</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Commercial</td> <td>14%</td> <td>17%</td> </tr> <tr> <td>Projects</td> <td>73%</td> <td>66%</td> </tr> <tr> <td>Retail</td> <td>13%</td> <td>17%</td> </tr> </tbody> </table>		2014	2013	Growth in loans and advances (%)	11	5	Credit loss ratio (%)	0	0,7	Non-performing loans as a percentage of advances	14%	24%		2014	2013	Commercial	14%	17%	Projects	73%	66%	Retail	13%	17%	<ul style="list-style-type: none"> In that regard, the issue of a sustainable funding model for the NHFC and more effective asset and liability matching have been key focus areas during the year under review and into 2014/15. Maximisation of cash collections through more rigorous client performance monitoring will continue to be a priority area especially in an environment of expected interest rate increases which is expected to place additional pressure on clients. Continued focus of capacity building programmes and knowledge sharing with other financial institutions.
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Credit risk	2013/2014	Way forward												
<p>Strategy</p> <p>The NHFC's credit risk objectives are:</p> <ul style="list-style-type: none"> Supporting the achievement of sustainable asset and revenue growth in line with the NHFC's risk appetite; Maintaining best practice in credit risk management; Using appropriate models to assist in decision making; Improving forecasting and reducing variability; and Continuously enhancing collections and recovery, especially from non-performing clients. 	<ul style="list-style-type: none"> The level of wholesale non-performing loans as a percentage of the wholesale gross loan book decreased from 24% in March 2013 to 14% in March 2014 mainly as a result of a proactive effort to restructure accounts for certain clients, especially in the social housing arena. 	<ul style="list-style-type: none"> The key focus will be closer monitoring and where necessary, proactive engagement with clients to ensure that the quality of book continues to improve. This may, occasionally, require the restructuring of loan facilities to ensure better alignment of client interests, needs and cash flows with the underlying NHFC loan facility. 												
<p>Credit risk arising from Treasury activities</p> <p>The NHFC Treasury counterparty risk policy is aligned to the requirements of the Treasury Regulations as referred to in the PFMA which are as follows:</p> <ul style="list-style-type: none"> Selection of counterparties through credit risk analysis; Establishment of investment limits per institution; Monitoring of investments and counterparty exposures against approved limits; and Reassessment of counterparty credit risk based on credit ratings. 	<p>The NHFC's exposure to counterparty risk in respect of all Treasury activities is confined to at least F1 rated institutions in terms of short-term credit ratings by a reputable rating agency.</p> <p>Counterparty limits are reviewed by the Board of Directors on an annual basis. Second tier limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.</p> <table border="1" data-bbox="619 1093 1015 1312"> <thead> <tr> <th></th> <th style="text-align: right;">2014 Rm</th> <th style="text-align: right;">2013 Rm</th> </tr> </thead> <tbody> <tr> <td>Counterparties with external credit ratings</td> <td></td> <td></td> </tr> <tr> <td>Held to maturity money market investments</td> <td style="text-align: right;">139</td> <td style="text-align: right;">1 026</td> </tr> <tr> <td>Cash and short-term deposits</td> <td style="text-align: right;">433</td> <td style="text-align: right;">351</td> </tr> </tbody> </table>		2014 Rm	2013 Rm	Counterparties with external credit ratings			Held to maturity money market investments	139	1 026	Cash and short-term deposits	433	351	
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ENTERPRISE RISK MANAGEMENT CONTINUED

Financial risk	2013/2014	Way forward																						
<p>Financial risk</p> <p>Financial risk is the risk of the NHFC failing to pay its debts and obligations when due because of its inability to convert assets into cash, or because of only being able to convert assets at a substantial discount relative to fair market value in order to honour its obligations.</p> <p>Market risk refers to variability in the market values or interest related payments of interest-bearing assets and liabilities, due to movements of interest rates.</p> <p>The management of liquidity risk takes precedence over the optimisation of interest rate risk, for the NHFC.</p>	<p>To ensure that the Group is able to meet its financial commitments the liquidity management process includes short- and long-term cash flow management.</p> <p>The NHFC experienced a liquidity challenge in the current financial year due to the inability to secure equity funding as well as debt funding to grow its loan and investment portfolio, due to regulatory delays. The necessary approval for shareholder support in the 2014/15 financial year has subsequently been obtained and funds are expected to flow in the second quarter.</p> <p>The Group's efforts at mobilising debt funding have yielded success with the securing of a second facility from an international multi-lateral agency. The process to obtain the necessary approvals for the borrowings from the Shareholder and National Treasury is underway.</p> <p>The low interest rate environment continued during the financial year.</p> <p>The investment portfolio is diversified using a mix of fixed and floating rate instruments within the policy framework.</p>	<p>The Treasury will continue to position itself to support the planned increased level of funding activities in line with the approved Strategic Plan by ensuring appropriate liquidity levels.</p> <p>With the increased level of borrowings the objective is to match in so far as possible the liabilities to the characteristics of the underlying asset base.</p> <p>The management of the impact of the cost of borrowings on the operations of the NHFC from both a sustainability and development role remains a focus.</p>																						
<p>Interest rate risk</p> <p>Interest rate risk is the exposure of the NHFC to increased financing costs and reduced revenues due to adverse changes in interest rates.</p> <p>The NHFC is mainly exposed to interest rate movements on its borrowings, investments in interest-bearing instruments, and loans and receivables portfolio.</p>	<p>Clients that enjoy variable interest rate facilities are subject to interest rates that reset on a change in the prime interest rate or on a quarterly basis in accordance with various market indices. The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.</p> <p>The costs of the borrowings are at both fixed and variable rates and where possible are matched with the related assets. The sensitivity of the portfolios to a 1% change in interest rate is reflected below:</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Increase/ decrease</th> <th colspan="2">Effect on profit before tax</th> </tr> <tr> <th>2014 R'000</th> <th>2013 R'000</th> </tr> </thead> <tbody> <tr> <td>Loans and receivables</td> <td>1%</td> <td>20 866</td> <td>18 149</td> </tr> <tr> <td>Loans and receivables</td> <td>-1%</td> <td>(20 866)</td> <td>(18 149)</td> </tr> <tr> <td>Held to maturity money market investments and short-term investments</td> <td>1%</td> <td>5 733</td> <td>13 773</td> </tr> <tr> <td>Held to maturity money market investments and short-term investments</td> <td>-1%</td> <td>(5 733)</td> <td>(13 773)</td> </tr> </tbody> </table>		Increase/ decrease	Effect on profit before tax		2014 R'000	2013 R'000	Loans and receivables	1%	20 866	18 149	Loans and receivables	-1%	(20 866)	(18 149)	Held to maturity money market investments and short-term investments	1%	5 733	13 773	Held to maturity money market investments and short-term investments	-1%	(5 733)	(13 773)	
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Strategic risk	2013/2014	Way forward												
<p>Capital management and financial sustainability</p> <p>Strategic risk is the potential loss of earnings or capital erosion arising from adverse business decisions, improper implementation of decisions, and lack of responsiveness to changes in the operating environment. Strategic risk also includes the inability to achieve the NHFC's stated objectives, while remaining self-sustainable.</p> <p>The objective of the NHFC capital management strategy is to ensure that it maintains a strong credit rating and generates sufficient capital to support its business objectives and maximise shareholder value.</p>	<p>Credit rating November 2013</p> <table border="1" data-bbox="619 443 1011 568"> <thead> <tr> <th></th> <th>Global Credit Rating Co</th> </tr> </thead> <tbody> <tr> <td>National long-term</td> <td>AA-</td> </tr> <tr> <td>National short-term</td> <td>A1+</td> </tr> </tbody> </table> <p>The NHFC has maintained its credit rating for a number of years.</p> <p>However, it must be noted that the recent sovereign credit rating downgrades have resulted in an increased cost of debt funding for the State and by implication, the NHFC.</p> <p>The NHFC monitors capital using the debt to equity ratio, which is interest-bearing debt divided by equity. In line with the Board-approved Risk Appetite Statement, this ratio should be maintained within a limit of 50%.</p> <table border="1" data-bbox="619 875 1011 965"> <thead> <tr> <th></th> <th>2014</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Interest-bearing debt to equity ratio</td> <td>16%</td> <td>18%</td> </tr> </tbody> </table>		Global Credit Rating Co	National long-term	AA-	National short-term	A1+		2014	2013	Interest-bearing debt to equity ratio	16%	18%	<p>The Group has made significant progress towards a sustainability model that will guide its business decisions to ensure capital preservation while delivering on its developmental mandate. The focus in the next financial year will be the embedding of the model which includes the setting of benchmark targets to ensure financial sustainability.</p>
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SUSTAINABILITY

Social sustainability

Socio-economic development through job creation, skills development and corporate social investment (CSI):

NHFC, through the financing of housing development projects in various provinces and local communities, is able to improve the socio-economic conditions of communities as a result of jobs created during project implementation.

In the year under review, NHFC provided sponsorship and extended financial assistance to a number of small businesses and community based organisations. One example is the sponsoring of young graduates from previously disadvantaged communities with bursaries so they could complete their national diplomas and degrees in financial management, taxation and management accounting. In addition, NHFC provided opportunities for leadership and work experiential training to graduates and matriculants who enrolled in a banking certificate qualifications for a period of 12 months, thereby enhancing their chances of securing full-time employment.



Improving knowledge
and influencing demand/
supply dynamics in the
affordable housing
markets



Being a responsible corporate citizen

Being a responsible corporate citizen, NHFC has adopted a Corporate Social Responsibility Policy which highlights its commitment to respecting the values and principles of sustainable development and a responsible society. A Social and Ethics Board Committee has been established to monitor implementation of the CSI policy.

CSI

Corporate social investment makes a significant contribution to the funding of social development in the country and remains an important element in the funding mix for many organisations. In the past financial year, the NHFC partnered with the Department of Human Settlements by sponsoring items for the house of an eighty year old woman beneficiary in Paarl, Western Cape, in celebration of Nelson Mandela Day. Through this sponsorship the NHFC restored the dignity of an elderly lady who also received a habitable home.

A certificate of appreciation was conferred by NDoHS Minister Connie September in recognition of the Corporation's contribution to the Women's Build Project. In support of this project NHFC sponsored beds for 57 deserving beneficiaries, in Port St Johns.



Women's Day
August 2013, Port St Johns

SUSTAINABILITY CONTINUED

The NHFC, in collaboration with the Western Cape Provincial Department of Human Settlements, participated in the Youth Build 2013, helping to improve Langa High School's infrastructure in order to inspire quality teaching and learning. The school, with an enrolment of 1 200 learners, was lacking an assembly hall for learners and parent gatherings. Youth Builds are undertaken to commemorate Youth Month through engaging in activities that empower and expose youth to the sector, while entrenching the philosophy of integrated human settlements: that human settlements are places where people 'Live, Learn, Play and Leisure'. This approach creates a socially cohesive society.

During August, NHFC partnered with the Department of Human Settlements and the Eastern Cape provincial government to commemorate National Women's Month. The Women's Day celebrations were held in Port St Johns in Umtata under the theme: *A centenary of working together towards*



Minister of Human Settlements
Mrs Connie September at the
launch and tree planting ceremony
at Avoca Hills, KZN

sustainable women empowerment and gender equality. This coincided with the 1913 Native Land Claims 100 years as women played a key role in fighting for the rights of women to own land, property and title deeds. Housing remains a central issue in relation to access and ownership of property and land.

NHFC also funded an orphanage in Alexandra, north of Johannesburg. The Banakekeleni children are a special bunch: hardy, hearty, and full of life. Banakekeleni HIV/AIDS Orphanage/Hospice Haven was established as a social enterprise to care for and support orphans, especially those affected by HIV and AIDS.

Stakeholder relationship management

The NHFC is guided by the King Report III, on Corporate Governance, in defining its stakeholders as the persons, entities or interest groups with whom it has associations. The NHFC, however, places special significance on the people and entities that support it to maximally operate and sustainably deliver on its mandate. In that way the NHFC is collaboratively attentive of its interactions with stakeholders, for the impact and effect these relations may have on the NHFC's performance and reputation. At all times and at all levels of stakeholder relationship management/engagement, the key intent is to communicate, to manage perceptions, to position and to enhance awareness of NHFC's strategic objectives and product offerings.

As a state owned entity, NHFC's delivery on its mandate inevitably reflects the government's impact on the ground. The NHFC was able to contribute significantly to the national government's portrayal of the 20 Years of Freedom Celebrations/Achievements by jointly launching, with the National Department of Human Settlements and its strategic partners, a number of affordable housing projects country-wide.

The NHFC further engages with other housing institutions, such as the Gauteng Partnership Fund (GPF) in the funding and promotion of rental housing projects, as well as collaboratively seeking cost effective solutions that mutually benefit the two organisations and their respective stakeholders. The most sought-after result of these collaborations is a broadened reach of each organisation's profile, positively positioning strategic government partnerships, while effectively saving costs.

In the year under review, the NHFC curtailed its public communication drive, as a strategic cost saving exercise; and instead invested in customised and direct interactions with stakeholders. Notwithstanding the curtailment, key conferences and exhibitions such as SAHF Conference, GPF Affordable Housing Indaba and Rand Show Exhibitions were held. The NHFC is intent on finding resourceful, innovative and cost effective methods of engaging with its stakeholders, including digital media.

Our involvement in consumer education

The NHFC is part of the National Development and Capacity Building Task Team. The role of the Task Team is to develop and review the content of consumer education and capacity building at local government, municipal and provincial spheres.

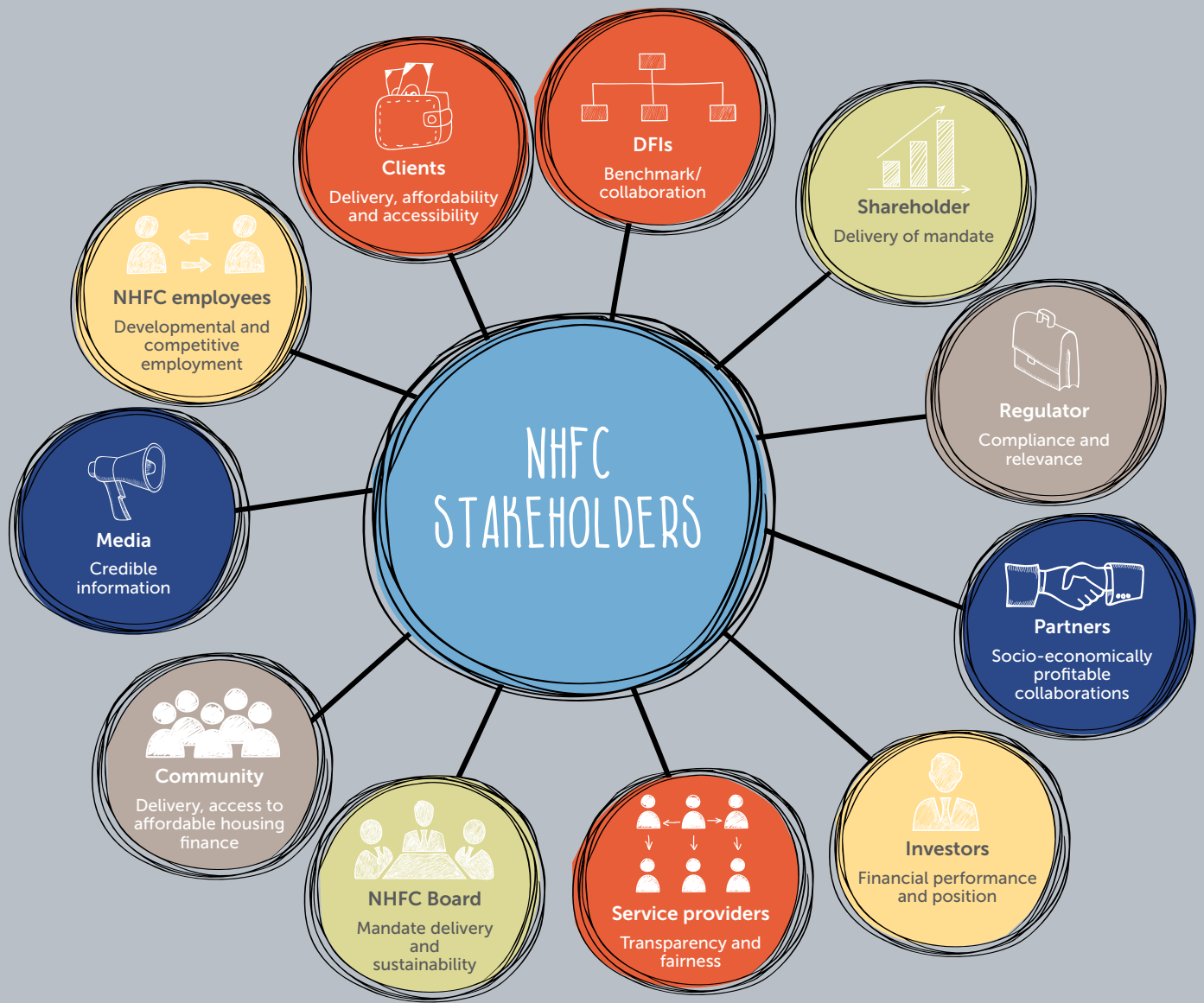
The NHFC assisted the team through research, technical and strategic advice, contributing through direct input or presentations.

Further, the NHFC was previously asked to represent the Task Team at the South African International Housing Conference.

The Task Team is in the process of reviewing the current content of consumer education, methods of rolling out consumer education nationally, and ways to measure the desirable impact.



SUSTAINABILITY CONTINUED



Funding and facilitation of projects, as well as collaboratively seeking cost effective solutions that mutually benefit NHFC and its stakeholders

Enterprise Supplier Development (ESD) critical to growth and transformation

The revised BBBEE codes were gazetted last year by the Department of Trade and Industry.

The NHFC is committed to compliance with legislation that promotes opportunities for black owned entities. The vision of the NHFC is to create long-term growth and sustainability for South Africa. This transformation began with black economic empowerment (BEE) and broad-based black economic empowerment (BBBEE) and now needs to be taken to the next level.

All state owned entities have been mandated to align themselves with the supplier development and localisation principles of the new Procurement Preferential Policy Framework Act (PPPFA). This will ensure that we are in keeping with the mandate of developing skills and creating and retaining wealth within local communities, state-owned entities and government-operated businesses.

At its heart, ESD is about leveraging procurement spending to promote skills development and job creation. Although this topic is high on the national agenda, it is often difficult to implement effectively at an organisational level. Small black-owned suppliers face a number of challenges, including insufficient skills, and for start-up organisations, a lack of track record. Funding can also be an issue, as these organisations do not have the capital available that their larger counterparts have.

In order to effectively assist these companies and the economy as a whole, NHFC intends to take a multi-faceted approach that ensures growth, provides skills transfer, and helps achieve sustainability, skills development, employment and job creation.

NHFC as a responsible state owned entity is passionate about the growth and development of our country, our communities and our people. NHFC fully understands the role that enterprise development plays in the nurturing of SMMEs, driving economies and social change.

Our strategy regarding the development of suppliers includes preferential procurement and payment terms. This enables them to manage cash flow and avoids the requirement to wait 30 to 60 days for payment. We also give these small suppliers advice and access to knowledge in areas where they may be lacking, e.g. procurement and legal issues.

Financial support will be used to incubate small suppliers, ensuring that skill gaps within these businesses are appropriately addressed, and will enable their management teams to gain the right tools and knowledge to become successful.

The NHFC in support of the State of the Nation speech by the Honourable President Jacob Zuma will also prioritise support to small businesses, as well as township and informal businesses where possible.

Our people

Human capital is at the centre of NHFC achieving its strategic objectives. Consequently talent management activities ensure that NHFC is able to:

- Attract and retain talent for sustainability;
- Promote employee development;
- Facilitate and promote a culture of accountability and responsibility;
- Ensure employee wellness;
- Entrench ethical behaviour; and
- Promote employment equity.

The HR strategy outlines the partnering approach adopted to support business to achieve its strategic objectives, while facilitating a learning environment organisation-wide.

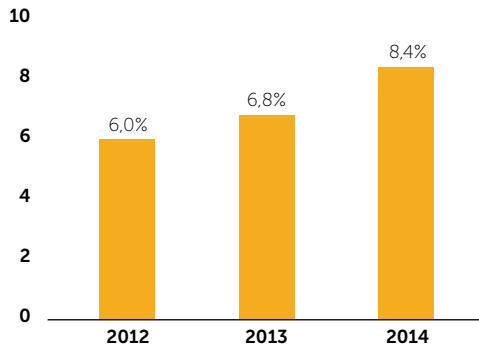
In order to become more efficient, the NHFC embarked on a reorganisation exercise, which among other operational enhancements, has aligned its functional structure to its corporate strategy, while infusing a culture of ownership and accountability in the Corporation. Consequently, all employee job profiles have been adjusted to ensure that occupational roles and responsibilities are defined and decision rights are partitioned.

SUSTAINABILITY CONTINUED

Staff complement

The NHFC has a staff complement of 84 permanent employees, with a stable turnover rate of around 8% in the past two years. Of the 7,1% average turnover, resignations are on average at 3%.

NHFC staff turnover rate (%)



Attracting and retaining talent

Talent management practices are aimed at ensuring that the NHFC staff pipeline is sustainable. This is supported by the following talent management strategies: creation of a robust succession pool, optimisation of the project approach to promote employee engagement, recruiting and promoting within, while addressing identified development gaps.

As a result of talent management strategies, the following have occurred: divisional rotation at executive level, two internal senior management appointments, across-division junior employee rotation, promotion of junior staff member to middle professional levels, as well as realisation of return on investment, where a previously NHFC sponsored graduate student intern was employed as a permanent NHFC employee.

Developing our employees

In promoting a learning organisation, employee development becomes central. Consequently employee development takes place at all levels of the organisation; Leadership development is done in partnership with the Bankseta: Junior Management Development is carried out in partnership with Milpark Business School; while all other technical training is either manager-initiated or conducted through a reputable service provider. Experiential learning is carried out in partnership with Bankseta, Kuyasa and Intec Computer Academy.

As a result of a concerted effort to develop staff, 95% of staff at all levels were trained, with 29% being trained in leadership and 71% in technical skills.

Manager-initiated training is aimed at encouraging managers to coach and mentor staff. As a new initiative to promote a learning culture, any expected outcome from this strategy is still to gain traction.

While employee development is encouraged in the organisation in order to contribute to the national skills bank, any employee aspirational development is measured against employee current performance.

Facilitating and promoting a culture of accountability

As part of promoting efficiencies, employee job profiles were remodelled around the Occupational Purpose and Strategy (OPS). This exercise was aimed at linking individual job profiles to corporate strategy objectives, thereby reflecting each employee's contribution to the overall corporate strategic objectives. Ultimately, this promotes individual employee accountability and facilitates employee pride in understanding their value-add.

In this reporting period, about 80% of job profiles have been aligned to the OPS. Work to embed the OPS organisation-wide is already underway. In line with this, the incentive model will be reviewed.

Rewarding our employees

The NHFC remuneration philosophy is to create an equitable remuneration structure which supports the NHFC's aim of retaining mission critical employees. This is achieved by paying at appropriate market levels, while also being guided by state owned remuneration guidelines and rewarding performance.

Employee benefits

All employees of the NHFC belong to a provident fund, which ensures that at retirement or death, whichever comes first, the employees or their elected beneficiaries are taken care of. The primary objective of the NHFC Provident Fund in the moderate investment category is to attain investment returns in excess of CPI (Consumer Price Index) +5% per annum, net of fees over three-year rolling periods. The secondary objective is to ensure that the risk of

the portfolio measured over a three-year rolling period is appropriate for the performance that is generated.

In the period under review, the Provident Fund's portfolio performance has been good, producing a net return of 12% and outperforming inflation by 5.8% per annum.

NHFC employees also have a disability scheme, which pays up to 75% of monthly salary, in the event of an employee being declared disabled.

As a rule, all employees are expected to belong to a medical aid, which forms part of the total cost of employment (TCOE).

Creating a safe work place

The NHFC takes employee health and safety issues very seriously. To this end, the Executive Management Committee established a Health and Safety Committee which exercises oversight on these issues, to ensure that all environmental, governance, compliance and policy issues are in place and properly observed. There have been no reportable incidents of safety breaches in the period under review.

Employee wellness

It is a condition of employment that all permanent employees of the NHFC belong to a medical aid recommended by NHFC, unless they belong to another recognised medical aid.

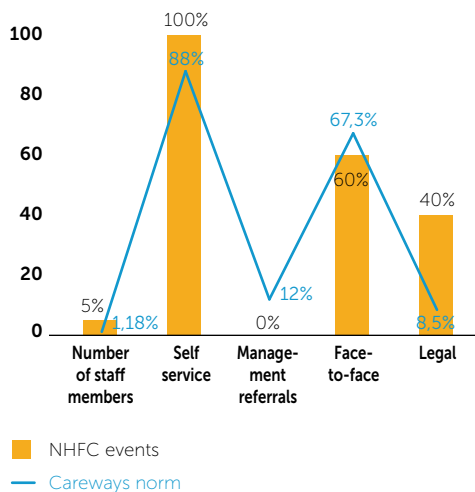
Over and above encouraging employees to be members of recognised medical aids, the NHFC also engages a service provider for a comprehensive employee wellness programme which is aimed at ensuring both vocational and personal employee health. This offering, which is administered in partnership with the service provider, is both for manager referral as well as employee initiated.

On a quarterly basis, the partner service provider gives feedback on service usage.

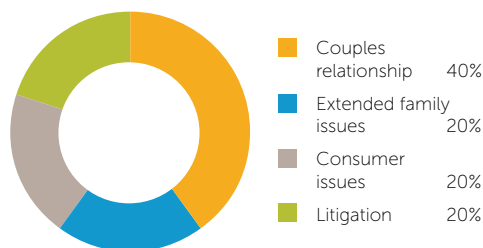
In order to manage the risk of executive ill-health, an annual executive assessment is conducted, with a summarised report submitted to the NHFC. Overall, the wellness programme is measured on three indices: employee self-referral, family-referral as well as manager-referral.

The graphs below show individual participation and self-referrals

Individual participation 2013/14 (%)



Self-referrals – 2013/14



Ethics

The NHFC's Code of Ethics sets out the core values and behavioural standards by which NHFC employees and customers are expected to be bound in the pursuance of business. Our core ethical values, which are both inward and outward looking, cover areas of accountability, honesty, trustworthiness and reliability. Customer-facing employees are expected to display fairness and transparency, respect and integrity, in their dealings with customers.

The NHFC takes ethical matters very seriously, to this end; the "Tip-off Anonymous" is in place for anyone to report suspected fraudulent activities. Consequently, two senior managers were dismissed as a result of employees reporting suspected unethical activities.

SUSTAINABILITY CONTINUED

Succession planning within the NHFC

NHFC is committed to the engagement and retention of its mission critical employees, as well as ensuring that certain identified key roles are not left vacant for a lengthy period of time. To this end, the succession policy is used as a management tool to ensure continued leadership pipeline and mission critical role/s for the sustainability of the NHFC.

The NHFC uses the succession planning framework to identify and develop potential successors for key positions in the organisation. This includes a systematic evaluation process and training.

Employee relations

In order to promote freedom of association in the workplace, the NHFC encourages its employees to belong to a bargaining body.

Therefore, 50+ 1 NHFC employees within the bargaining unit belong to SASBO, which is a registered trade union.

SASBO represents employees who belong to a bargaining unit, on all employee related matters.

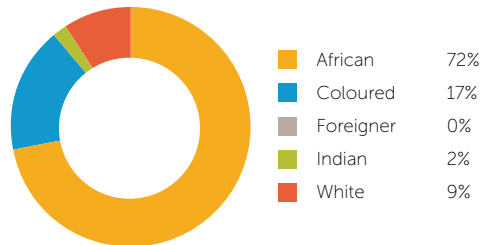
The cordial relationship between NHFC and SASBO continues.

Employment equity

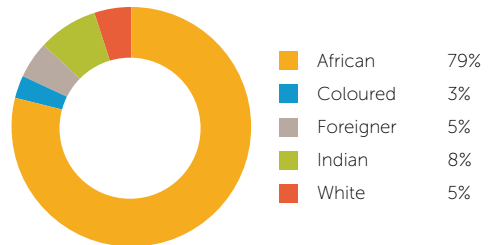
As part of facilitating democracy in the work place, we constantly monitor our employment practices in line with the demographics of the country. We are happy to report that, except for needing to increase the number of black senior females in the organisation, our internal demographics are in line with those of the South African nation.

Equity at a glance as at March 2014

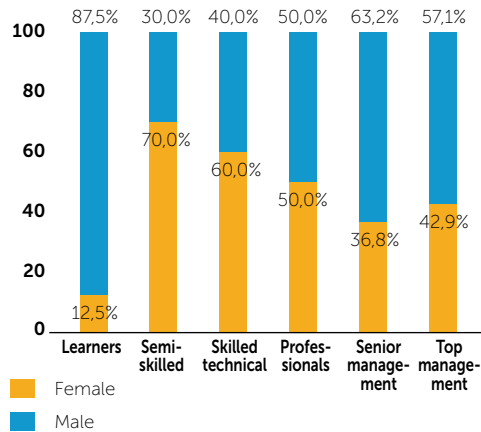
NHFC staff profile – female



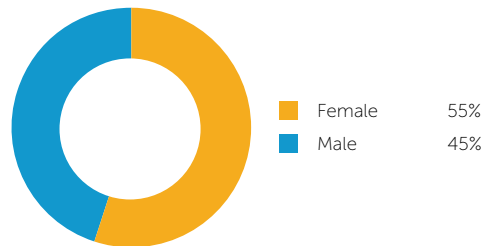
NHFC staff profile – male



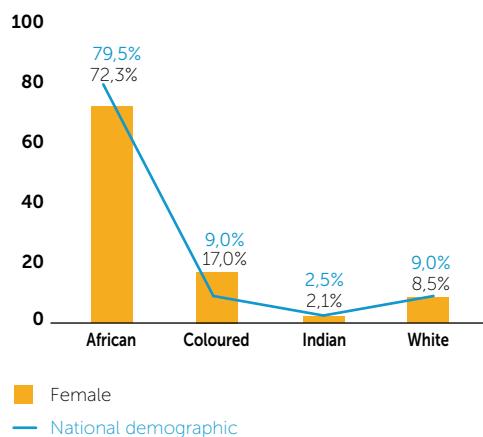
Total staff – male/female ratio (%) by occupational level



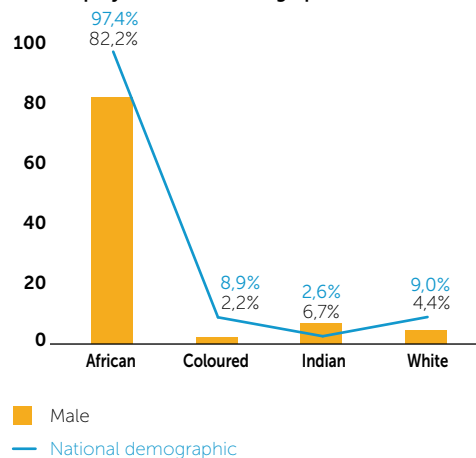
NHFC total staff – male/female ratio



NHFC equity vs national demographics – females (%)



NHFC equity vs national demographics – males (%)



Environmental sustainability

During the financial year, the NHFC formalised and approved an Environmental Policy which saw the company begin its journey in adopting an integrated approach to the country’s environmental challenges. This policy will ensure compliance with environmental laws, regulations and adopting best practice in order to reduce the carbon and environmental footprint of the NHFC and its stakeholders.

The guiding principles in developing NHFC’s environmental strategy have been the United Nations Global Compact, the South African National Standard (SANS) 10400-XA Regulations, and King III Principles. The key benefits of a sound environmental policy are:

- Contributing to a better environment for all;
- Attracting a broader range of clients;
- Attracting a broader range of funding, especially from the multi-lateral agencies; and
- Influencing stakeholders to act responsibly, be they clients (through their projects) or suppliers.

In addition to the Policy, a detailed environmental plan and system were developed (after a detailed cost benefit analysis). These are focused on internal environmental initiatives (with attention to company and staff environmental initiatives) as well as client programmes.



The NHFC believes that there exists significant opportunity to positively influence its clients as they build new structures and refurbish buildings

SUSTAINABILITY CONTINUED

Internal initiatives

Internal initiatives focused on rolling out programmes that consider the environmental hierarchy of "reduce, re-use and recycle". The priority areas were identified as electronic waste, paper, general waste, electricity, water and sanitation. The initiatives included elements of awareness-raising prior to the introduction of the respective initiatives. Satisfactory progress has been made on all initiatives with measurable and tangible benefits being noted. The company is also in the advanced stages of investigating the move to electronic Board packs for early 2014/15 financial year.

External initiatives

NHFC recognises that as a financial institution, its greatest impact on the environment will be through third parties – clients, investments and business partners. NHFC’s environmental policy is linked to and supported by our Environmental Management System (EMS) which is aligned with best practice. The EMS details the policies, procedures, resources and workflow required to identify the environmental impacts of our lending activities.

While recognising that the target market of the NHFC is the affordable housing market, typically with lower margins for developers in this sector, the NHFC believes that there exists significant opportunity to positively influence its clients as they build new structures and refurbish buildings. Many of the NHFC’s clients have, of their own accord, implemented green building technology in their developments. Prior to SANS 10400–XA Regulations, it was compulsory for clients accessing NHFC loans secured from the European Investment Bank (EIB) and the French Development Agency (AFD) to implement energy saving building methods and technology.

With the establishment of SANS 10400–XA, local authorities will now only issue building plans that require compliance with the Regulations. The NHFC is currently updating its marketing and communication material to indicate to all potential borrowers that compliance with SANS 10400-XA requirements is a prerequisite for the NHFC to consider any application for finance. The NHFC is also in the process of amending its loan facility agreements to ensure compliance with the Regulations and processes are being put in place to ensure compliance.

Given the current energy crisis which is expected to last another two to three years, this is an area where NHFC management has focused its attention. This means that for new credit applications, particular attention has been focused on evaluating projects from an environmental perspective, especially with regard to compliance with SANS 10400-XA Regulations and best practice. The focus areas are water heating and insulation measures to reduce carbon footprint, and the NHFC has noted the marked interest and investment in such energy efficient initiatives by clients, beyond compliance requirements.

Way forward

The next twelve months will be focused on more engagement with clients on a cost-effective means of enhancing their environmental initiatives while taking into consideration the affordability constraints of the NHFC target market.



NHFC recognises that its greatest impact on the environment will be through third parties – clients, investments and business partners

Economic sustainability

The NHFC uses various strategies for employing existing resources optimally so that a responsible and beneficial balance can be achieved over the long term.

The balancing of development impact and financial sustainability is essential for the NHFC as a developmental finance institution.

Funding and resources are constantly monitored and rationalised where appropriate, thus ensuring an efficient approach in the manner in which the NHFC participates in the affordable housing market. The NHFC operates in the affordable housing sector and therefore assumes a greater than average market risk, in turn requiring mechanical risk monitoring strategies. All borrowings and funding activities are naturally driven by the NHFC's risk appetite, and are aligned with best practices.

Pricing, scarcity of funds and overall support from government have an impact on the required housing developmental sector in which the NHFC participates.

Notwithstanding that the NHFC is a single sector development finance institution, it is



imperative that it carries out its operations on a financially sound and sustainable basis. This calls for the adoption of sound and prudent financial principles as well as best practices in its operations.

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

Financial performance and position

			2014	2013	2012
Profit before tax	(Rm)	Group	35	25	34
		Company	52	35	37
Return on assets	(%)	Group	1,2	0,9	1,2
		Company	1,8	1,2	1,3
Total assets	(Rm)	Group	3 134	3 616	3 458
		Company	3 102	3 586	3 404
Capital and reserves	(Rm)	Group	2 418	2 402	2 297
		Company	2 431	2 399	2 276
Interest-bearing debt to equity	(%)	Group	16	18	19

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

The loss position of its subsidiary, CTCHC, continues to adversely impact the performance of the Group. Key focus is on implementation of the Board-approved restructuring of CTCHC operations in order to make the subsidiary profitable.

During the year the Poverty Relief Fund was transferred back to the NDoHS resulting in the decrease in total assets.

REMUNERATION REPORT

The issue of employee remuneration has been in the media spotlight recently, with executive remuneration taking centre stage. The NHFC through its Board committee HRER ensures that remuneration is determined in an equitable and transparent manner, taking into account an individual executive manager's value-add to the NHFC.

Consequently, the Department of Public Enterprise Remuneration Guidelines (DPE Guidelines) (2007) was adopted as a basis on which remuneration decisions are based.

The NHFC's remuneration philosophy which drives performance also ensures appropriate alignment with the market median. Where there is a shortage of skill set, our philosophy is to remunerate in line with the market.

NHFC's remuneration structure

NHFC's remuneration structure has the following elements, whose objective collectively is to drive and recognise superior employee performance:

- Employees' annual remuneration package is based on a TCOE which covers all employment costs; and
- Variable incentives portion, which is aimed at driving performance.

The NHFC recognises that a key component of an effective compensation philosophy is a degree of competitiveness with the relevant external labour market.

As a result, the NHFC Executive Remuneration Framework addresses the challenges of attracting and retaining a good calibre of executive managers. The DPE Guidelines (2007) serve as a guide, given the unique positioning of the NHFC, as a state owned entity, as well as a financial institution.

The Human Resources, Ethics and Remuneration Committee (HRER)

This committee approves policy which includes remuneration, its structure and method of application.

On an annual basis, the HRER is also responsible for approving salary and policy reviews and bonus payments for general staff.

Management recommends the policy to HRER for approval, as well as implements the approved policies. It is also charged with the responsibility of managing employee performance and applying transparent remuneration differentiation based on merit.

Annual salary increments

- Annual cost-of-living related salary increases, which are performance related, are awarded once per annum at the end of each financial year.
- The NHFC annual salary increases are implemented one month after the end of each financial year.
- Employees who have been in the employment of the NHFC for six months or more but less than a year are eligible for an inflationary increase while those who are employed for less than six months do not qualify for a salary increase.
- Newly promoted employees who have been in the position for more than six months but less than a year are eligible for an inflationary salary increase and those who have been promoted within the first six months are not eligible for that particular inflationary salary increase.
- Remuneration adjustments outside the annual review exercise may be considered under exceptional circumstances and are subject to agreement with relevant authorities.

Executive/prescribed officers remuneration framework

The NHFC's executive remuneration framework is aligned to that of the general staff, with a base salary and a short-term variable component incentive. The long-term, performance-linked, three-year cycle, deferred incentive component is aimed at driving long-term shareholder value, as well as staff retention.

The executive remuneration framework, which is performance driven, rewards executives for qualitative and quantitative value creation which results in targeted growth and stakeholder returns. In this regard NHFC financial performance measurements and executive scorecards determine the extent of rewards for each executive.

Executive Committee members/prescribed officers service contracts

In the period under reviewed, one executive manager's contract was due for renewal. Another executive manager's contract was terminated as a result of misconduct.

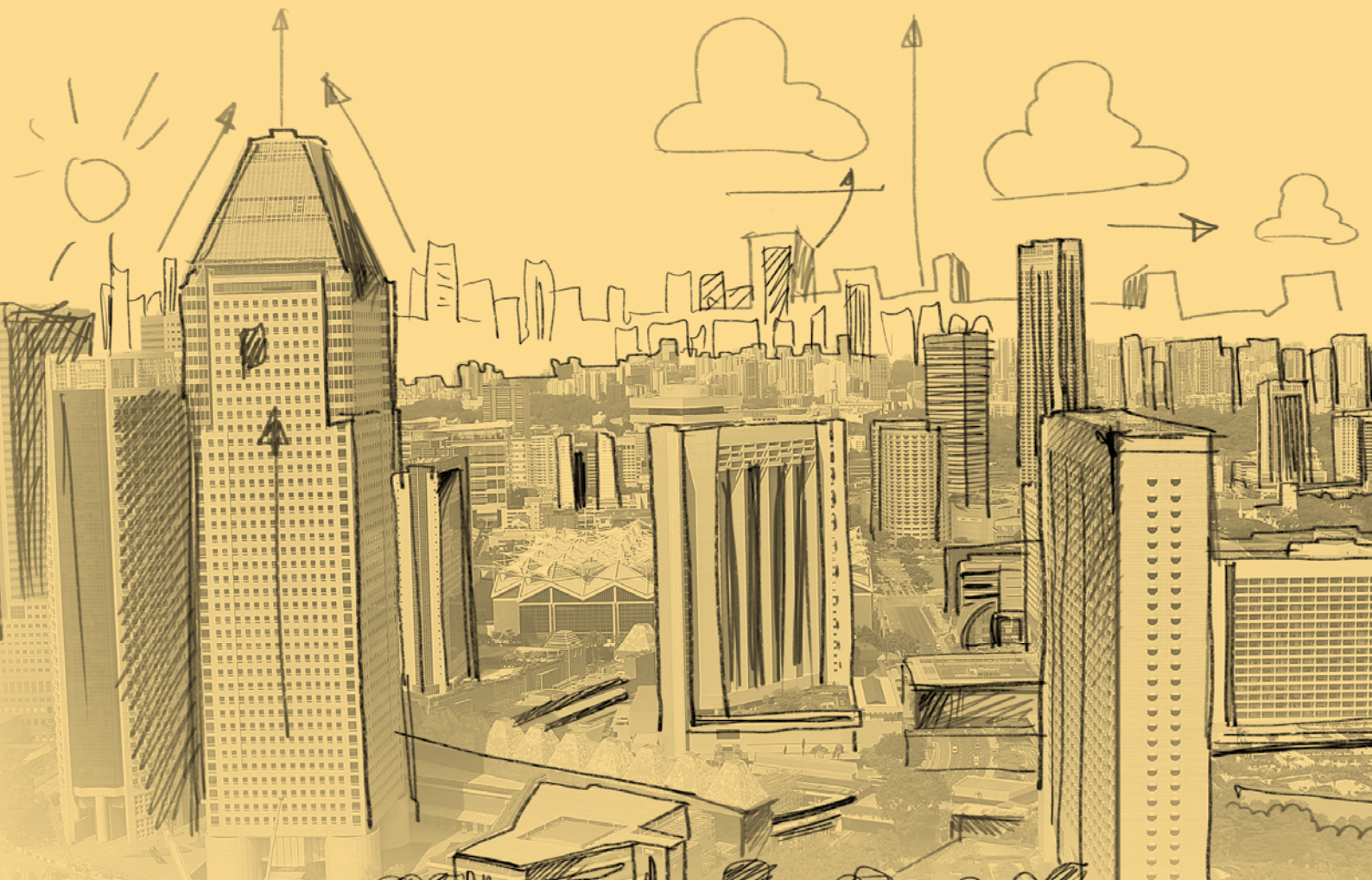
Total remuneration 2013/14

The remuneration of executive managers for the year ended 31 March 2014 is reflected under Executive Management Emoluments in the Notes to the Annual Financial Statements, note 32.

ANNUAL FINANCIAL STATEMENTS

50	Approval of the annual financial statements
50	Certificate of the Company Secretary
51	Independent auditor's report of the National Housing Finance Corporation SOC Limited to Parliament and the shareholders
53	Report of the Audit Committee
54	Directors' report
56	Consolidated statement of financial performance
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60	Notes to the annual financial statements
114	Performance report for the year ended 2014 in terms of section 55(2) of the PFMA

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



APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

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

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

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

The Audit Committee has reviewed the effectiveness of the NHFC and the Group's internal controls and considers the systems appropriate for the effective operation of NHFC and the Group. The Committee has evaluated the Group's annual financial statements and recommended their approval to the Board. The approval is set out on page 53.

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

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

The annual financial statements of NHFC for the year ended 31 March 2014 set out on pages 54 to 115 were approved by the Board of Directors on 24 July 2014 and signed on their behalf by:



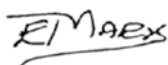
MM Katz
Independent non-executive Chairman



SS Moraba
CEO

CERTIFICATE OF THE COMPANY SECRETARY

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



E Marx
Company Secretary

INDEPENDENT AUDITOR'S REPORT OF THE NATIONAL HOUSING FINANCE CORPORATION SOC LIMITED TO PARLIAMENT AND THE SHAREHOLDER

Report on the consolidated and separate financial statements

Introduction

We have audited the consolidated and separate financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries set out on pages 56 to 115, which comprise the consolidated and separate statement of financial position as at 31 March 2014, the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or

error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of National Housing Finance Corporation SOC Limited and its subsidiaries as at 31 March 2014 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.

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 "Predetermined objectives report" section as set out on pages 114 to 115 of the financial statements, and reported thereon. The procedures performed were limited to the following selected objectives:

INDEPENDENT AUDITOR'S REPORT OF THE NATIONAL HOUSING FINANCE CORPORATION SOC LIMITED TO PARLIAMENT AND THE SHAREHOLDERS CONTINUED

- Total value of approvals on page 115.
- Total value of disbursements on page 115.
- Housing opportunities created on page 115.
- Number of jobs created on page 115.

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.

Additional matter

Although we identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter:

Achievement of planned targets

Refer to the information as set out on pages 114 to 115 for information on the achievement of planned targets for the year.

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.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2014, we have read the directors' report and the report of the audit committee for the purpose of identifying whether there are any material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.



SizweNtsalubaGobodo Inc.
Registered Auditor

Per DH Manana
Chartered Accountant (SA)
Registered Auditor
Director

24 July 2014

SizweNtsalubaGobodo
20 Morris Street East
Woodmead
Johannesburg, 2191

REPORT OF THE AUDIT COMMITTEE

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

The committee's responsibilities are in line with the Public Finance Management Act, Act 1 of 1999 and the Treasury Regulations and it has discharged all of its responsibilities set out in its Terms of Reference. The committee has, among other things, reviewed the following during the 2013/14 financial year:

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

The internal controls implemented by NHFC focus on identified key risk areas. Management monitors all internal controls closely and ensures that action is taken to correct deficiencies as they are identified. The CEO and Executive Management provide the required

assurance that risks are effectively managed as well as the effectiveness of internal controls.

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

Following our review of the annual financial statements of the NHFC for the year ended 31 March 2014, we are of the opinion that they comply in all material respects with the relevant provisions of the Companies Act, the Public Finance Management Act and Generally Recognised Accounting Practice.

The Audit Committee, at its meeting held on 21 July 2014, recommended these annual financial statements, which were prepared on a going concern basis, to the Board for approval.



SS Ntsaluba

Chairman of the Audit Committee

DIRECTORS' REPORT

The Directors present their report for the year ended 31 March 2014.

Mandate and principal activities

The NHFC's mandate and principal activities are described on pages 1 to 5 in the profile section.

Financial highlights

The financial highlights are set out on page 6.

Financial results

The financial results of the NHFC for the year under review are set out on pages 56 to 113 of these financial statements.

Share capital and shareholder

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

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

Dividends

In terms of an agreed policy with its Shareholder, all profits are retained by the NHFC 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 Group and has a reasonable expectation that the NHFC has adequate resources to operate in the foreseeable future. The Group has adopted the going concern basis in preparing the financial statements.

Directors and Company Secretary

There were no changes in the composition of the NHFC's Board of Directors or Company Secretary.

Remuneration of directors and members of Board committees

Directors' emoluments are set out on page 109 of these financial statements.

Audit Committee members and external auditors

The Audit Committee members and external auditors will, in line with the Companies Act, Act 71 of 2008, be appointed at the Annual General Meeting scheduled for November 2014.

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

Internal control

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

Information technology

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

The implementation of an IT Governance Framework, once approved by the Board Risk Committee, is delegated to an IT Management Committee, the details of which are reflected on page 27.

Events after the reporting date

There were no significant events after the reporting date.

Subsidiaries and associates

The NHFC's investments are disclosed in notes 8 to 12 of the annual financial statements.

Information required by the Public Finance Management Act

(a) Performance

The performance of the NHFC against the Shareholder's Compact with the Minister of Human Settlements is set out on pages 114 to 115.

(b) Losses due to criminal conduct and wasteful expenditure

In terms of the Materiality Framework agreed with the Shareholder, any losses due to criminal conduct or irregular or fruitless and wasteful expenditure, that individually (or collectively where items are closely related) exceed R1,05 million, must be reported. The NHFC did not incur any losses falling within or below its Materiality Framework.

The directors' report for the year ended 31 March 2014 was approved by the Board of Directors on 24 July 2014 and is signed on their behalf by:



MM Katz

Independent non-executive Chairman



S Moraba

Chief Executive Officer

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 March 2014

	Note	Group		Company	
		2014	Restated 2013	2014	Restated 2013
		R'000	R'000	R'000	R'000
Interest on advances	2,1	166 250	140 162	173 881	141 927
Interest on investments	2,2	31 396	45 597	31 111	45 536
Rental income	2,3	3 069	6 983	2 615	3 632
Dividends received	2,4	158	158	2 320	1 872
Sale of houses	2,5	43 474	19 465	–	–
Revenue		244 347	212 365	209 927	192 967
Cost of sales	2,6	(40 089)	(16 489)	–	–
Net impairments	7	2 188	(15 457)	2 188	(15 457)
Gross profit		206 446	180 419	212 115	177 510
Other operating income	3	5 410	7 886	1 578	983
Administrative expenses	4,1	(107 076)	(107 869)	(91 859)	(95 427)
Other operating expenses	4,2	(16 567)	(15 880)	(14 104)	(13 701)
Operating income		88 213	64 556	107 730	69 365
Fair value changes on investments	4,3	(9 225)	(16 517)	(3 144)	(5 313)
Bad debts		(30 322)	(5 148)	(30 322)	(5 148)
Finance costs	5	(22 789)	(24 594)	(22 497)	(24 196)
Share of profit of an associate	12	9 311	6 955	–	–
Surplus before tax		35 188	25 252	51 767	34 708
Income tax expense	6	(19 117)	(16 463)	(20 254)	(9 229)
Surplus for the year		16 071	8 789	31 513	25 479

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2014

	Note	Group		Company	
		2014	Restated 2013	2014	Restated 2013
		R'000	R'000	R'000	R'000
Assets					
Non-current assets					
Loans and receivables – advances	7	1 864 010	1 519 392	2 063 433	1 607 176
Investment in listed equity investments	8	4 258	13 483	4 258	13 483
Investment in subsidiaries	9	–	–	7 991	7 991
Investment in debentures	10	–	–	6 197	6 197
Investment preference shares	11	2 658	2 658	2 658	2 658
Investment in associate	12	87 703	80 822	92 260	86 179
Property, plant and equipment	13	1 303	1 336	877	890
Intangible assets	14	444	390	416	325
Instalment sale receivables	15	43 303	29 105	–	–
Investment property	16	74 279	72 072	51 000	51 000
Goodwill	17	2 714	2 714	–	–
Deferred taxation	6	12 448	11 760	17 528	17 977
		2 093 120	1 733 732	2 246 618	1 793 876
Current assets					
Loans and receivables – advances	7	280 368	409 840	282 551	409 840
Properties developed for sale	18	168 566	78 099	–	–
Instalment sale receivables	15	5 729	6 500	–	–
Other receivables and prepayments	19	13 039	11 134	11 073	12 488
Held to maturity investments	20	139 413	1 026 383	139 413	1 026 383
Cash and short-term deposits	21	433 918	350 919	422 597	343 205
		1 041 033	1 882 875	855 634	1 791 916
Total assets		3 134 153	3 616 607	3 102 252	3 585 792
Net assets and liabilities					
Net assets					
Issued capital	22	842	842	842	842
Share premium	22	879 158	879 158	879 158	879 158
Grant capital	23	200 000	200 000	200 000	200 000
Retained earnings		1 337 782	1 321 711	1 350 542	1 319 029
Total net assets		2 417 782	2 401 711	2 430 542	2 399 029
Non-current liabilities					
Funds under management	24	225 765	698 980	225 765	698 980
Other financial liabilities	25	335 538	214 510	328 685	199 394
		561 303	913 490	554 450	898 374
Current liabilities					
Other financial liabilities	25	55 901	215 107	51 054	213 225
Provisions	26	58 291	63 227	57 384	62 458
Trade and other payables	27	36 904	15 496	4 850	5 130
Income tax payable	6	3 972	7 576	3 972	7 576
		155 068	301 406	117 260	288 389
Total liabilities		716 371	1 214 896	671 710	1 186 763
Total net assets and liabilities		3 134 153	3 616 607	3 102 252	3 585 792

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 March 2014

	Issued capital R'000	Share premium R'000	Grant capital R'000	Retained earnings R'000	Total R'000
Group					
Balance at 1 April 2012	842	879 158	200 000	1 217 079	2 297 079
Restatement of permanent differences	-	-	-	(13 936)	(13 936)
Amounts reclassified from the development fund	-	-	-	155 260	155 260
Tax effect on amounts reclassified	-	-	-	(45 481)	(45 481)
Adjusted opening balance 1 April 2012	842	879 158	200 000	1 312 922	2 392 922
Surplus for year ended 31 March 2013	-	-	-	8 789	8 789
Balance at 31 March 2013	842	879 158	200 000	1 321 711	2 401 711
Surplus for year ended 31 March 2014	-	-	-	16 071	16 071
As at 31 March 2014	842	879 158	200 000	1 337 782	2 417 782
Company					
Balance at 1 April 2012	842	879 158	200 000	1 183 771	2 263 771
Amounts reclassified from the development fund	-	-	-	155 260	155 260
Tax effect on amounts reclassified	-	-	-	(45 481)	(45 481)
Adjusted opening balance 1 April 2012	842	879 158	200 000	1 293 550	2 373 550
Surplus for year ended 31 March 2013	-	-	-	25 479	25 479
Balance at 31 March 2013	842	879 158	200 000	1 319 029	2 399 029
Surplus for year ended 31 March 2014	-	-	-	31 513	31 513
As at 31 March 2014	842	879 158	200 000	1 350 542	2 430 542

STATEMENT OF CASH FLOWS

For the year ended 31 March 2014

	Note	Group		Company	
		2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
Operating activities					
Receipts					
Sale of goods and services		43 474	15 500	–	–
Interest, rental and dividend income		200 873	196 865	209 927	192 967
Other operating revenue		3 204	2 056	1 578	758
		247 551	214 421	211 505	193 725
Payments					
Employee costs		(76 480)	(80 845)	(64 358)	(70 717)
Net cash payment to customers		(213 539)	(123 707)	(327 330)	(138 085)
Net cash payment to suppliers		(201 883)	(67 487)	(73 509)	(37 629)
Finance costs		(22 789)	(24 594)	(22 497)	(24 196)
Taxation paid		(24 559)	(11 400)	(24 559)	(11 400)
Net cash flows used in operating activities	28	(291 699)	(93 612)	(300 748)	(88 302)
Investing activities					
Additions to property plant and equipment and intangible assets	13/14	(915)	(640)	(735)	(568)
Proceeds from sale of property, plant and equipment and intangible assets	13/14	37	37	–	–
Investment in listed equity instruments	8	–	(30 000)	–	(30 000)
Investment in associates	12	–	(30 845)	–	(30 845)
Investment in preference shares	12	–	(35 158)	–	(36 875)
Decrease in held to maturity investments	20	886 970	108 372	886 970	108 372
Net cash from investing activities		886 092	11 766	886 235	10 084
Financing activities					
(Decrease)/increase in funds under management	24	(473 215)	1 518	(473 215)	1 518
Reclassification of funds under management		–	157 946	–	157 946
Repayment of borrowings	26	(38 179)	(8 699)	(32 880)	(15 306)
Net cash flows from financing activities		(511 394)	150 765	(506 095)	144 158
Net decrease in cash and cash equivalents		82 999	68 919	79 392	65 940
Cash and cash equivalents at 1 April	21	350 919	282 000	343 205	277 265
Cash and cash equivalents at 31 March	28,4	433 918	350 919	422 597	343 205

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2014

1. Group accounting policies

Corporate Information

The consolidated financial statements of the National Housing Finance Corporation SOC Limited (NHFC) for the year ended 31 March 2014 were approved by the Board on 24 July 2014. NHFC is a public company incorporated and domiciled in South Africa, the shares of which are held by the Government of the Republic of South Africa.

1.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000), except as otherwise indicated. The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements for the year ended 31 March 2014 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 2014.

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 consistent with those of the previous year.

1.5 Summary of significant judgements, estimates and assumptions

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

Bonus provision

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

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 13,5%. 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 13.5%. 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 30 for a comprehensive assessment of financial risk management.

1.6 Summary of significant accounting policies

(a) Business combinations and goodwill

i) Business combinations from 1 January 2010

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be 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 cash-generating units that are expected to benefit from synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

1. Group accounting policies continued

1.6 Summary of significant accounting policies continued

- 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) cost less impairment. 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.

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:

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

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

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstance indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying value exceeds the estimated recoverable amount, the assets are written down to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use.

The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Impairment losses are recognised in the statement of financial performance.

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

Leasehold improvements relate to operating leases.

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 write-down or loss occurs. The amount of any reversal of any write-down of properties developed for on-selling, arising from an increase in net realisable value, is recognised as a reduction in the amount of properties developed for on-selling recognised as an expense in the period in which the reversals occur.

(f) Intangible assets

i) Recognition and measurement

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

1. Group accounting policies continued

1.6 Summary of significant accounting policies continued

ii) De-recognition

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

(g) Financial instruments

i) Financial assets

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

- Financial instruments at fair value, comprising both derivative and non-derivative financial assets and financial liabilities;
- Financial instruments at amortised cost comprising only non-derivative financial assets and financial liabilities; or
- 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 for 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 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).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

1. Group accounting policies continued

1.6 Summary of significant accounting policies continued

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

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

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

Instalment sale receivables

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

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

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

iii) Financial liabilities

Recognition and measurement

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

Financial liabilities comprise the following:

Other payables

Other payables are recognised at fair value.

Interest-bearing loans and borrowings

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

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

iv) De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form

of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

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

(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 amount of the obligation.

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

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Provisions are not recognised for future operating losses.

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

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note 29.

(i) Borrowing costs

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

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

The capitalisation of borrowing costs commences when:

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

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

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

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

(j) Leases

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

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of financial performance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

1. Group accounting policies continued

1.6 Summary of significant accounting policies continued

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

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

Finance leases – Group as lessor

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

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

(k) Contingent liabilities and commitments

Contingent liabilities

A 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:

Interest income

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

Dividends

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

Rental income

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

Sale of houses

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

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

City of Cape Town, institutional and other subsidies

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

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.

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 properties

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

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

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

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

(p) Related party disclosures

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

1. Group accounting policies continued

1.6 Summary of significant accounting policies continued

(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 non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further, information about assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

Investment property

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

Capitalisation method (investment property)

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

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 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 Interpretations

The following standard has been adopted by the NHFC for the first time pertaining to the year beginning 1 April 2013, and does not have a material impact on the NHFC.

GRAP 25 Employee Benefits

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

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

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

This Standard is similar to IAS 19 which was previously adopted; therefore the impact on the financial statements was not material.

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

GRAP 108 Statutory Receivables

The purpose of the Standard of GRAP 108 is to provide accounting principles for the accounting for statutory receivables.

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

GRAP 20 Related Parties

The purpose of the Standard of GRAP 20 is to provide accounting principles for:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties; and
- determining the disclosures to be made in relation to related party transactions and relations.

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

GRAP 32 Service Concession Arrangements: Grantor

The purpose of the Standard of GRAP 32 is to provide accounting principles for the accounting of service concession arrangements.

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

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

GRAP 18 Segment Reporting

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

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

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

GRAP 105: Transfer of Functions between Entities under Common Control

The Standard establishes accounting principles for the acquirer in a transfer between entities under common control. The Standard has been approved, but its effective date has not been determined by the Minister of Finance.

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. The Standard has been approved, but its effective date has not been determined by the Minister of Finance.

GRAP 107: Mergers

The Standard establishes accounting principles for the combined entity and combining entities in a merger. The Standard has been approved by the Board but its effective date has not been determined by the Minister of Finance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
2. Income				
2.1 Interest on advances				
Interest on performing advances	163 579	131 291	172 769	134 339
Interest on impaired advances	1 112	7 588	1 112	7 588
Interest on instalment sales	1 559	1 283	–	–
	166 250	140 162	173 881	141 927
2.2 Interest on investments				
Interest on short-term deposits and held-to-maturity investments	31 396	45 597	31 111	45 536
2.3 Rental income				
Rental income from investment property and subsidiary properties	3 069	6 983	2 615	3 632
2.4 Dividend received				
Dividend income – TUHF	–	–	2 162	1 714
Dividend income – Greenstart	158	158	158	158
	158	158	2 320	1 872
2.5 Sale of houses				
Subsidiary sale of houses	43 474	19 465	–	–
2.6 Cost of sales				
Subsidiary cost of sale of houses referred to in 2.5	(40 089)	(16 489)	–	–
	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
3. Other operating income				
Other operating income is made up as follows:				
Levies from instalment sales	996	985	–	–
Other interest received	1 049	134	1 049	134
Fair value gain on investment property	2 207	5 830	–	225
Sundry income	1 158	937	529	624
	5 410	7 886	1 578	983

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
4. Profit before tax				
Profit before tax is stated after taking the following into account:				
4.1 Administrative expenses	107 076	107 869	91 859	95 427
Staff costs*	49 264	48 311	42 207	48 667
– Salaries	41 810	39 159	34 753	40 589
– Medical aid contributions	2 599	2 822	2 599	2 822
– Provident fund contributions	4 855	6 330	4 855	5 256
Management costs (refer note 32)*	27 216	32 534	22 150	22 050
Administration	5 342	4 727	4 601	4 085
Marketing	1 652	1 981	1 202	1 683
Consultancy and advisory services	11 712	10 627	11 568	10 585
Directors' fees	2 438	3 131	2 224	2 966
Legal fees	5 608	3 062	5 060	2 771
Auditors' remuneration	2 398	2 351	1 837	1 737
– Audit fees	2 398	2 351	1 837	1 737
Travel and entertainment	1 446	1 145	1 010	883
4.2 Other operating expenses	16 567	15 880	14 104	13 701
Communication	2 173	2 196	1 618	1 690
Training and development	1 239	1 008	1 239	1 008
Office expenses	3 130	2 796	2 344	2 260
Depreciation and amortisation	879	951	648	704
Sundry expenses	1 305	73	1 209	71
Operating lease payments: property and certain equipment	7 841	8 856	7 046	7 968
*Number of employees	116	117	84	88
4.3 Fair value changes on investments				
Listed investment	(9 225)	(16 517)	(9 225)	(16 517)
Blue Financial Services Limited	(9 225)	(16 517)	(9 225)	(16 517)
Unlisted investment	–	–	6 081	11 204
Cape Town Community Housing Company Proprietary Limited	–	–	–	2 155
Trust for Urban Housing Finance Holdings Proprietary Limited	–	–	4 661	6 689
Housing Investment Partners Proprietary Limited	–	–	1 420	2 360
Total	(9 225)	(16 517)	(3 144)	(5 313)
	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
5. Finance costs				
Interest on other financial liabilities	22 789	24 594	22 497	24 196

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
6. Income tax				
Statement of financial performance				
Current income tax				
Current income tax charge	19 805	21 113	19 805	21 113
Prior year adjustment	–	2 227	–	2 227
	19 805	23 340	19 805	23 340
Deferred tax	(688)	(6 877)	449	(14 111)
Income tax expense	19 117	16 463	20 254	9 229
Deferred tax asset: Statement of financial position				
Balance at the beginning of the year	11 760	4 883	17 977	3 866
Recognised through the income statement	688	6 877	(449)	14 111
Balance at the end of the year	12 448	11 760	17 528	17 977
<i>Deferred tax asset/liability consists of:</i>				
Provision for leave pay	6 009	5 531	6 009	5 531
Provision for incentive bonus	6 142	11 446	6 142	11 446
Operating lease	1 367	1 088	1 367	1 088
Fair value gain on investments	–	–	(15 157)	(11 093)
Fair value gain on investment property	(19 545)	(19 545)	(19 545)	(19 545)
Impairment on Gateway	–	–	33 300	33 300
General provision for impairment – Retail	33 339	32 479	33 339	32 479
FV on equity investment – BFS	17 144	11 000	17 144	11 000
Total	44 456	41 999	62 599	64 206
Tax rate of 28%	12 448	11 760	17 528	17 977
A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2014 and 2013 is as follows:				
Accounting profit before tax from operations	35 188	25 252	51 767	34 708
At SA statutory income tax rate of 28%	9 853	7 071	14 495	9 718
Non-taxable income	(250)	(21)	(1 229)	(1 546)
Bad debts previously allowed deduction	6 433	–	6 433	–
Non-deductible expenses	3 081	(1 540)	555	2 586
Change in tax rate impact on capital assets	–	1 354	–	1 354
Prior year adjustment	–	9 599	–	(2 883)
Income tax expense reported in the statement of financial performance	19 117	16 463	20 254	9 229
Income tax receivable: statement of financial position				
Balance at the beginning of the year	(7 576)	4 364	(7 576)	4 364
Tax paid	24 559	11 400	24 559	11 400
Normal tax charge	(19 805)	(21 113)	(19 805)	(21 113)
Penalties	(1 150)	–	(1 150)	–
Underprovision of prior year taxes	–	(2 227)	–	(2 227)
Balance at the end of the year	(3 972)	(7 576)	(3 972)	(7 576)

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
7. Loans and receivables - advances				
Gross advances				
Opening balances	2 113 589	1 999 992	2 201 373	2 074 014
Disbursements	529 556	479 592	675 704	479 592
Repayments	(293 621)	(360 847)	(325 947)	(347 085)
Amounts previously impaired, written off	(22 976)	(5 148)	(22 976)	(5 148)
Balance at the end of the year	2 326 548	2 113 589	2 528 153	2 201 373
Impairments on advances				
Balances at the beginning of the year	(184 357)	(168 900)	(184 357)	(168 900)
Impairments raised	2 188	(15 457)	2 188	(15 457)
Amounts impaired in previous years and written off during the year	22 976	5 148	22 976	5 148
Increase in impairments on advances	(23 362)	(21 320)	(23 362)	(21 320)
Impairments reversed during the year*	2 574	715	2 574	715
Balance at the end of the year	(182 169)	(184 357)	(182 169)	(184 357)
<i>Comprising:</i>				
Specific impairments	(137 717)	(141 052)	(137 717)	(141 052)
General impairments	(44 452)	(43 305)	(44 452)	(43 305)
Net advances	2 144 378	1 929 232	2 345 984	2 017 016
Maturity analysis				
Receivable within one year	280 368	409 840	282 551	409 840
Receivable within one to two years	190 191	330 410	201 055	342 099
Receivable within two to three years	312 325	284 466	323 095	284 467
Receivable beyond three years	1 361 494	904 516	1 539 283	980 610
Net advances	2 144 378	1 929 232	2 345 984	2 017 016
Non-current assets	1 864 010	1 519 392	2 063 433	1 607 176
Current assets	280 368	409 840	282 551	409 840
	2 144 378	1 929 232	2 345 984	2 017 016

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
8. Investment in listed equity investments				
Blue Financial Services Limited				
Shares at cost – ordinary shares				
Investment in shares at cost	13 483	30 000	13 483	30 000
Fair value adjustment	(9 225)	(16 517)	(9 225)	(16 517)
Carrying amount of shares at 31 March 2014	4 258	13 483	4 258	13 483

As part of a debt restructuring agreement, the NHFC acquired 67 415 730 ordinary shares by converting a R30 million interest bearing loan owed by Blue Financial Services Limited to equity. This is equivalent to 0,88% of the issued capital. The conversion took place in July 2012 at an agreed share price of 44,5 cents per share. The 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 reduced to a prudent recoverable amount.

9. Investment in subsidiaries

Company

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.

	2014 R'000	2013 R'000
Shares at fair value – ordinary shares		
Opening balance	7 991	5 836
Fair value adjustment	–	2 155
Carrying amount of shares at 31 March 2014	7 991	7 991

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

CTCHC is solvent after the NHFC has subordinated its claims against CTCHC in respect of the debentures in favour of other creditors. The company is however in a turnaround phase. 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.

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 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	–	–	(18 000)	(18 000)
Balance	–	–	3 197	3 197
Convertible debentures acquired at cost	–	–	3 000	3 000
Carrying amount of debentures	–	–	6 197	6 197

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

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
11. Investment in preference shares				
Greenstart Proprietary Limited				
Opening balance	2 658	2 658	2 658	2 658
Dividends accrued	158	158	158	158
Dividends received	(158)	(158)	(158)	(158)
Investment in preference shares at fair value	2 658	2 658	2 658	2 658

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

12. Investment in associate

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 33,48% 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 prime lending rate for five years (2013 to 2017). The conversion amount of R40 million has been allocated as R29 million consideration for the increase in shareholding, while the balance of R11 million has been recognised as loans and receivables representing the fair value of future dividends expected over the five years. The B ordinary shares will automatically be converted to equity shares in 2017.

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

	Group	
	2014 R'000	2013 R'000
Share of the associate's balance sheet:		
Total assets	645 350	542 956
Total liabilities	(593 143)	(496 944)
Retained earnings effect of change in shareholding	(3 618)	(3 618)
Net asset	48 589	42 394
Carrying amount of the investment in company	45 340	40 679
GRAP 104 – Fair value reversal	(7 397)	(7 397)
Fair value adjustment	(4 661)	–
Investment at cost	33 282	33 282
Carrying amount of the investment in company		
Accumulated share of the associate's profit	11 744	5 029
Accumulated share of the associate's reserves	796	554
Prior year share of changes in reserves	–	242
Less: Equity distribution	(2 430)	–
Current year share of profit of associate	9 311	6 715
Current year share of profit	9 311	6 997
Gain on change in shareholding	–	(282)
Carrying amount of the investment	52 703	45 822
Less: Goodwill	(3 428)	(3 428)
Carrying amount of the investment in TUHF	49 275	42 394
Share of the associate's revenue	68 001	55 090
Investment in preference shares		
Opening balance	35 000	–
Acquisition of preference shares	–	35 000
Carrying amount of investment preference shares	35 000	35 000
Carrying amount of investment in TUHF Holdings Proprietary Limited	87 703	80 822

12. Investment in associate continued

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

The NHFC has a 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	
	2014 R'000	2013 R'000
Share of the associate's balance sheet:		
Current assets	–	–
Non-current assets	–	–
Current liabilities	–	–
Net asset	–	–
Carrying amount of the investment in company	7 233	7 233
Accumulated share of the associate's loss	(7 233)	(7 233)
Current year share of loss of associate	–	–
Current year share of loss	–	(1 805)
Loss on change in shareholding	–	(38)
Share in changes in retained earnings	–	–
Carrying amount of the investment	–	–
Share of the associate's revenue	400	23
The Group's share of unrecognised losses amounts to R18 785 million.		
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. 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	87 703	80 822

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

12. Investment in associate continued

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	
	2014 R'000	2013 R'000
Investment in equity shares opening balance		
Original investment in TUHF	40 679	3 145
Increase in investment in associate	–	30 845
Acquisition of B ordinary shares in TUHF	–	29 815
Conversion of working capital loan to equity	–	1 030
Fair value adjustment in investment in TUHF	4 661	6 689
Carrying amount of the equity	45 340	40 679
Investment in preference shares		
Opening balance	35 000	–
Acquisition of preference shares	–	35 000
Carrying amount of investment preference shares	35 000	35 000
Total investment in associates TUHF	80 340	75 679

The investment in TUHF has been valued to its fair value. TUHF has undergone significant growth in recent years and is expected to maintain similar growth in the foreseeable future. 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.

Investment in redeemable cumulative preference shares. The investment consists of 35 000 shares at par value of R1 000 per share. The total preference shares in TUHF is R35 million. Dividends in terms of shareholders' agreement, are set at the prevailing prime lending rate less corporate tax of 28% as at 31 March 2014.

12. Investment in associate continued

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	
	2014 R'000	2013 R'000
Share of the associate's balance sheet:		
Investment in shares opening balance	10 500	8 140
Movement in investment in associate	1 420	2 360
Fair value adjustment	1 420	2 360
Carrying amount of the investment HiP	11 920	10 500
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 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 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 HIP Proprietary Limited.		
The investee has a different reporting date of 31 December. 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.		
Carrying amount of total investment in associates	92 260	86 179

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

13. Property, plant and equipment

	2014			2013		
	Cost R'000	Accu- mulated depreciation R'000	Carrying value R'000	Cost R'000	Accu- mulated depreciation R'000	Carrying value R'000
Group						
Computer equipment	8 509	(8 006)	503	8 324	(7 671)	653
Furniture and fittings	3 128	(3 007)	121	3 104	(2 962)	142
Motor vehicle	396	(351)	45	396	(313)	83
Office equipment	916	(697)	219	697	(616)	81
Leasehold improvements	1 262	(847)	415	1 074	(697)	377
Total	14 211	(12 908)	1 303	13 595	(12 259)	1 336

Reconciliation of property, plant and equipment for Group – 2014

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Total R'000
Computer equipment	653	226	(12)	–	(364)	503
Furniture and fittings	142	23	–	–	(44)	121
Motor vehicle	83	–	–	–	(38)	45
Office equipment	81	217	–	–	(80)	219
Leasehold improvements	377	188	–	–	(150)	415
	1 336	655	(12)	–	(676)	1 303

Reconciliation of property, plant and equipment for Group – 2013

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

13. Property, plant and equipment continued

	2014			2013		
	Cost R'000	Accu- mulated depreciation R'000	Carrying value R'000	Cost R'000	Accu- mulated depreciation R'000	Carrying value R'000
Company						
Computer equipment	8 056	(7 625)	431	7 920	(7 324)	596
Furniture and fittings	2 891	(2 817)	74	2 881	(2 786)	95
Motor vehicle	195	(195)	–	195	(182)	13
Office equipment	755	(583)	172	561	(532)	29
Leasehold improvements	846	(646)	200	724	(567)	157
Total	12 743	(11 866)	877	12 281	(11 391)	890

Reconciliation of property, plant and equipment for Company – 2014

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Computer equipment	596	166	(12)	(319)	431
Furniture and fittings	95	10	–	(31)	74
Motor vehicle	13	–	–	(13)	–
Office equipment	29	194	–	(51)	172
Leasehold improvements	157	122	–	(79)	200
	890	492	(12)	(493)	877

Reconciliation of property, plant and equipment for Company – 2013

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

Fully depreciated assets that are still in use amount to R16,07 million (2013: R15,05 million).

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

14. Intangible assets

	2014			2013		
	Cost R'000	Accu- mulated amortisation R'000	Carrying value R'000	Cost R'000	Accu- mulated amortisa- tion R'000	Carrying value R'000
Group						
Computer software	5 948	(5 504)	444	5 689	(5 299)	390
Total	5 948	(5 504)	444	5 689	(5 299)	390

Reconciliation of intangible assets for Group – 2014

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisa- tion R'000	Total R'000
Computer software	390	259	–	(205)	444
	390	259	–	(205)	444

Reconciliation of intangible assets for Group – 2013

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisa- tion R'000	Total R'000
Computer software	447	140	–	(197)	390
	447	140	–	(197)	390

	2014			2013		
	Cost R'000	Accu- mulated amortisation R'000	Carrying value R'000	Cost R'000	Accu- mulated amortisa- tion R'000	Carrying value R'000
Company						
Computer software	5 606	(5 190)	416	5 363	(5 038)	325
Total	5 606	(5 190)	416	5 363	(5 038)	325

Reconciliation of intangible assets for Company – 2014

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisa- tion R'000	Total R'000
Computer software	325	243	–	(152)	416
	325	243	–	(152)	416

Reconciliation of Intangible assets for Company – 2013

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisa- tion R'000	Total R'000
Computer software	327	126	–	(128)	325
	327	126	–	(128)	325

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
15. Instalment sale receivables				
Gross investment in the lease due	75 012	50 275	–	–
Less: Unearned finance income	(25 980)	(14 148)	–	–
Present value of minimum lease payments receivable	49 032	36 127	–	–
Less: Provision for impairment of receivables		(522)	–	–
	49 032	35 605	–	–
Non-current assets	43 303	29 105	–	–
Current assets	5 729	6 500	–	–
	49 032	35 605	–	–

The average term on the instalment sale receivable is 12,4 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest was 10,9% (2013: 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 R49 032 million (2013: R35 605 million) is the maximum exposure to credit risk.

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
16. Investment property				
Cost/valuation	74 279	72 072	51 000	51 000
Accumulated impairments	–	–	–	–
Carrying value	74 279	72 072	51 000	51 000
Reconciliation of investment property:				
Opening balance	72 072	72 072	51 000	50 775
Fair value gain/(loss)	2 207	–	–	225
Closing balance	74 279	72 072	51 000	51 000
The following amounts have been recognised in the income statement:				
Fair value gain/(loss)	2 207	–	–	225
Rental income	3 069	6 983	2 615	3 632

Investment property for the Company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, G Wampach (Registered Professional Valuer at Meldane Property and Valuation Services CC) on 11 March 2014. Mr Wampach is not connected to the Company and has experience in property valuation. The capitalisation of net income method of valuation was used, based on a capitalisation rate of 13,0%. 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 in the region of between 13,0% and 15,0%. The yield has been reduced from last year due to higher assessment rates and water charges introduced during the period under review.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

16. Investment property continued

Details of property

- a) Description: Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place
 b) Situated at: The corner of President, Human, Clark and FH Odendaal Streets

In addition, for the Group, a percentage of the housing stock held by 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, Siyakhula Property Valuers. The effective date of the revaluation was 31 March 2014. Revaluations were done by Mr GB Adams, of Siyakhula 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	
		2014	2013
		R'000	R'000
17.	Goodwill		
	At 31 March at cost	2 714	2 714

The goodwill relates to the investment in CTCHC. NHFC holds a 100% shareholding in the company. The subsidiary is solvent after the NHFC has subordinated its claims against CTCHC in respect of the debentures in favour of other creditors. A separate discounted cashflow has been performed to test for impairment.

		Group		Company	
		2014	Restated	2014	Restated
		R'000	2013	R'000	2013
			R'000		R'000
18.	Properties developed for sale				
	Properties developed for sale	125 652	40 829	–	–
	Carrying value of repossessed properties	42 914	37 270	–	–
		168 566	78 099	–	–

Included in housing stock is 830 units previously held under instalment sale, that were transferred into the name of CTCHC, upon the cancellation of the instalment sales, at the remaining balance of the instalment sale.

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
19. Other receivables and prepayments				
Deposits and prepayments	2 624	148	2	2
Dividends receivable	–	–	1 446	1 714
Staff debtors	1 313	1 478	1 303	1 478
Other receivables	9 102	9 508	8 322	9 294
	13 039	11 134	11 073	12 488

Deposits and prepayments mainly relate to office rental deposits.

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

Other staff debtors are charged interest at prime.

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

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
20. Held-to-maturity investments				
Held-to-maturity money market investments – NHFC	39 846	563 178	39 846	563 178
Absa Bank Limited	–	60 000	–	60 000
Investec Bank Limited	–	60 000	–	60 000
Standard Bank of South Africa Limited	–	80 000	–	80 000
Rand Merchant Bank, a division of FirstRand Bank Limited	–	80 000	–	80 000
Nedbank Limited	–	100 271	–	100 271
Land and Agricultural Bank of South Africa Limited	19 438	77 609	19 438	77 609
Eskom Limited	19 650	77 875	19 650	77 875
Trans-Caledon Tunnel Authority (TCTA)	–	19 746	–	19 746
Interest receivable	758	7 677	758	7 677
Held-to-maturity money market investments – Job summit related projects*	99 567	463 205	99 567	463 205
Absa Bank Limited	–	80 000	–	80 000
Rand Merchant Bank, a division of FirstRand Bank Limited	–	60 000	–	60 000
Standard Bank of South Africa Limited	–	80 000	–	80 000
Nedbank Limited	20 000	40 000	20 000	40 000
Investec Bank Limited	–	80 000	–	80 000
Land and Agricultural Bank of South Africa Limited	19 438	58 154	19 438	58 154
Eskom Limited	58 375	38 989	58 375	38 989
Trans-Caledon Tunnel Authority (TCTA)	–	19 476	–	19 476
Interest receivable	1 754	6 586	1 754	6 586
Total held-to-maturity money market investments	139 413	1 026 383	139 413	1 026 383

* Funds under management- refer note 24

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
21. Cash and short-term deposits				
Short-term deposits – NHFC	291 577	93 575	291 577	93 575
Absa Bank Limited	55 543	20 582	55 543	20 582
Investec Bank Limited	66 282	21 077	66 282	21 077
Nedbank Limited	50 542	15 698	50 542	15 698
Rand Merchant Bank, a division of FirstRand Bank Limited	28 313	6 801	28 313	6 801
Standard Bank of South Africa Limited	51 377	12 610	51 377	12 610
Stanlib Limited	29 476	6 766	29 476	6 766
Trans-Caledon Tunnel Authority (TCTA)	10 044	10 040	10 044	10 040
Short-term deposits – Job summit related projects*	15 620	73 391	15 620	73 391
ABSA Bank Limited	1 594	8 176	1 594	8 176
Investec Bank Limited	5 987	12 140	5 987	12 140
Nedbank Limited	914	19 687	914	19 687
Rand Merchant Bank, a division of FirstRand Bank Limited	4 144	12 588	4 144	12 588
Standard Bank of South Africa Limited	–	13 226	–	13 226
Stanlib Limited	2 980	7 574	2 980	7 574
Short-term deposits – Abahlali*	1 113	1 063	1 113	1 063
Absa Bank Limited	1 113	1 063	1 113	1 063
Short-term deposits – FLISP*	107 842	167 937	107 842	167 937
Standard Bank of South Africa Limited	–	38 198	–	38 198
Reserve Bank Limited	107 842	129 739	107 842	129 739
Cash at bank and in hand	17 767	14 953	6 446	7 238
Standard Bank of South Africa Limited	16 808	14 747	5 490	7 036
FLISP – Standard Bank of South Africa Limited	953	200	953	200
Cash on hand	7	7	3	3
Total cash and short-term deposits	433 918	350 919	422 597	343 205
NHFC	308 391	107 960	297 069	100 246
Short-term deposits	291 577	93 575	291 577	93 575
Cash at bank	16 814	14 385	5 493	6 671
Job summit*	15 620	73 391	15 620	73 391
Short-term deposits	15 620	73 391	15 620	73 391
Abahlali*	1 113	1 063	1 113	1 063
Short-term deposits	1 113	1 063	1 113	1 063
FLISP*	108 795	168 505	108 795	168 505
Short-term deposits	108 795	168 505	108 795	168 505
Total	433 918	350 919	422 597	343 205

* Funds under management – refer note 24

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
22. 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

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
23. Grant capital	200 000	200 000	200 000	200 000

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

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
24. Funds under management				
Job summit ^(a)				
Poverty Relief Funds	115 857	472 155	115 857	472 155
Subsidies – KwaZulu-Natal	–	57 257	–	57 257
Abahlali ^(b)	1 113	1 063	1 113	1 063
FLISP ^(c)	108 795	168 505	108 795	168 505
Total funds under management	225 765	698 980	225 765	698 980

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

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

(c) 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 20) and short-term deposits (note 21).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
25. Other financial liabilities				
Dutch International Guarantees for Housing (DIGH) – Loan 1	1 080	1 395	–	–
The loan bears interest at a fixed rate of 7,88% per annum and is repayable in annual instalments of R1 080 172 (2013: R397 378). The final instalment is payable on 9 July 2014.				
Dutch International Guarantees for Housing (DIGH) – Loan 2	3 264	4 005	–	–
The loan bears interest at a fixed rate of 5,78% per annum and is repayable in annual instalments of R753 894 (2013: R984 205). The final instalment is payable on 17 January 2016.				
Development Fund	–	11 098	–	–
This facility bears interest at a rate of 0% per annum and is repayable once project income is received.				
EIB	202 691	219 476	202 691	219 476
This loan bears interest at a variable rate of 3M Jibar with a maximum margin of 0,40% per annum and is repayable in semi-annual capital instalments of R8 308 077 which commenced in the current financial year (2013: nil) exclusive of interest. Interest and capital is paid bi-annually on 15 June and 15 December of each year. The final instalment is payable on 15 December 2025.				
Agence Francaise de Developpement (AFD)	177 048	193 143	177 048	193 143
This loan bears interest at a fixed rate of 6,078% per annum and is repayable in semi-annual capital instalments of R7 888 692 (2013: R7 888 692) exclusive of interest. Interest and capital is paid bi-annually on 31 May and 30 November of each year. The final instalment is payable on 24 November 2024.				
Xhara Hais Municipality – College Site	264	–	–	–
This facility is an advance from the municipality on their infrastructure contribution and is interest free.				
City of Cape Town – Wescap Villas	6 592	–	–	–
This facility is interest free and repayable when individual units transfer to end users. The full outstanding amount to be repaid by no later than 30 June 2015.				
City of Cape Town	500	500	–	–
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.				
	391 439	429 617	379 739	412 619
Non-current liabilities at amortised cost	335 538	214 510	328 685	199 394
Current liabilities at amortised cost	55 901	215 107	51 054	213 225
	391 439	429 617	379 739	412 619

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
26. Provisions				
Total provisions	58 291	63 227	57 384	62 458
Provision for leave pay				
Opening balance as at 1 April	5 995	5 373	5 531	5 053
Provision utilised for the year	(175)	(158)	(175)	(158)
Additional provision raised	543	780	405	636
Closing balance as at 31 March	6 363	5 995	5 761	5 531
Provision for incentive bonus				
Opening balance as at 1 April	11 446	11 446	11 446	11 446
Provision utilised for the year	(11 446)	(7 592)	(11 446)	(7 592)
Additional provision raised	6 142	7 592	6 142	7 592
Closing balance as at 31 March	6 142	11 446	6 142	11 446
Provision for municipal rates				
Opening balance as at 1 April	305	305	–	–
Provision utilised for the year	–	–	–	–
Additional provision raised	–	–	–	–
Closing balance as at 31 March	305	305	–	–
Provision for tax				
Opening balance as at 1 April	45 481	–	45 481	–
Provision utilised for the year	–	45 481	–	45 481
Additional provision raised	–	–	–	–
Closing balance as at 31 March	45 481	45 481	45 481	45 481

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 2015 financial year.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
27. Trade and other payables				
Trade payables	16 589	11 283	52	1 622
Accrued expenses	7 750	3 062	3 431	2 420
Accrual for lease payments	1 367	1 088	1 367	1 088
Deferred revenue	–	8	–	–
Subsidies received in advance	11 198	55	–	–
	36 904	15 496	4 850	5 130

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

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

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

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

	Notes	Group		Company	
		2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
28. Cash flows from operating activities					
Net profit before tax		35 188	25 252	51 767	34 708
Non-cash and separately presented items	28.1	540	20 098	3 313	21 249
Working capital changes	28.2	(89 329)	41 626	(3 939)	50 707
Tax paid	28.3	(24 559)	(11 400)	(24 559)	(11 400)
Prior year adjustment		–	(45 481)	–	(45 481)
Increase in advances		(213 539)	(123 707)	(327 330)	(138 085)
Net cash flows used in operating activities		(291 699)	(93 612)	(300 748)	(88 302)
28.1 Non-cash and separately presented items					
Depreciation		879	950	645	704
Net impairments		(2 188)	15 457	(2 188)	15 457
Loss on sale of property, plant and equipment		12	–	12	–
Fair value loss on listed equity investment		9 225	16 517	9 225	16 517
Dividends received from preference shares		2 430	–	–	–
Fair value adjustment on equity investment		–	–	(6 081)	(11 204)
Share of profit of an associate		(9 311)	(6 955)	–	–
Fair value adjustment on property investment		(2 207)	(5 829)	–	(225)
Premium paid		1 700	–	1 700	–
Amounts previously impaired, written off		–	(42)	–	–
		540	20 098	3 313	21 249

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
28. Cash flows from operating activities continued				
28.2 Working capital changes				
(Increase) in properties developed for sale	(90 467)	(14 347)	–	–
(Increase)/ decrease in instalment sale receivable	(13 427)	2 674	–	–
(Increase)/decrease in accounts receivable	(1 906)	(520)	1 415	(3 018)
Increase/(decrease) in accounts payable	21 407	7 716	(280)	7 766
(Decrease)/increase in provisions	(4 936)	46 103	(5 074)	45 959
Net increase in working capital	(89 329)	41 626	(3 939)	50 707
28.3 Tax paid				
Previous year closing balance	(7 576)	4 364	(7 576)	4 364
Tax charge for the year	(19 805)	(23 340)	(19 805)	(23 340)
Penalties	(1 150)	–	(1 150)	–
Balance at the end of the year – current tax	3 972	7 576	3 972	7 576
Tax paid	(24 559)	(11 400)	(24 559)	(11 400)
28.4 Cash and cash equivalents				
Cash and cash equivalents consist of cash on hand and investment in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:				
Cash on hand and balances with banks	17 767	14 953	6 446	7 239
Short-term deposits	416 151	335 966	416 151	335 966
	433 918	350 919	422 597	343 205

28.5 Property, plant and equipment and intangible assets

During the period, the Group acquired property, plant and equipment and intangible assets with an aggregated cost of R915 000 (2013: R640 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 R735 000 (2013: R 568 000). None of the additions were acquired by means of government grants.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

29. Contingent liabilities and commitments

Contingencies

At 31 March 2014 the Group had a contingent liability in respect of bank guarantees amounting to R14 701 000 (2013: R533 000), arising in the ordinary course of business from which it is anticipated that no material liability will arise.

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
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 2014 to 31 March 2017. The lease has an escalation clause of 8% per annum. A deposit guarantee to the lessor of R533 500 (2013: R533 500).				
Future minimum rentals payable under current operating lease as at 31 March 2014:				
Within one year	6 137	6 792	5 220	6 006
National Housing Finance Corporation SOC Limited	5 220	6 006	5 220	6 006
Cape Town Community Housing Proprietary Limited	917	786		
After one year but not more than five years	12 550	16 982	11 648	14 315
National Housing Finance Corporation SOC Limited	11 648	14 315	11 648	14 315
Cape Town Community Housing Proprietary Limited	902	2 667		
Total office operating lease commitments – office buildings	18 687	23 774	16 868	20 321
Operating lease commitments – Office photocopiers				
The Group entered into operating leases for photocopiers. The leases are currently on a month to month basis.				
Future minimum rentals payable under the lease as at 31 March 2014:				
Within one year	21	23	21	23
After one year but not more than five years	–	–	–	–
	21	23	21	23
Total Group commitments	18 708	23 797	16 889	20 344

30. Financial risk management

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

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

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

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

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

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

Credit risk

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

Loans and receivables – advances

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

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

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

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

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

Financial instruments and cash deposits

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

30. Financial risk management continued

Maximum exposure to credit risk

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
Loans and receivables – advances	2 144 378	1 929 232	2 345 984	2 017 016
Instalment sale receivables	49 032	35 605	–	–
Held-to-maturity investments	139 413	1 026 383	139 413	1 026 383
Cash and short-term deposits	433 918	350 919	422 597	343 205
Other receivables	13 039	11 134	11 073	12 488
Investment in preference shares	37 658	37 658	37 658	37 658

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.

Credit quality of loans and receivables – advances

	Group	
	2014 R'000	Restated 2013 R'000
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.		
Neither past due nor impaired	1 933 856	1 614 990
Past due but not impaired*	35 555	203 388
Impaired**	357 137	295 211
	2 326 548	2 113 589
Less: Specific impairments	(137 717)	(141 052)
General impairments	(44 452)	(43 305)
Net advances	2 144 378	1 929 232

* 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.

30. Financial risk management *continued*Credit quality of loans and receivables – advances *continued*

	Ageing of amounts due						
	Total	Capital		30 to	60 to	90 to	
	balance	instal-	30 days	60 days	90 days	120 days	
	R'000	ment	R'000	R'000	R'000	R'000	
Ageing analysis of advances that are past due, but not impaired:	2014	35 555	25 073	385	419	424	9 253
	2013	203 388	197 972	862	884	1 119	2 551

	Company	
	2014	Restated 2013
	R'000	R'000
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.		
Neither past due nor impaired	2 131 196	1 691 644
Past due but not impaired*	35 555	203 388
Impaired**	361 402	306 341
	2 528 153	2 201 373
Less: Specific impairments	(137 717)	(141 052)
General impairments	(44 452)	(43 305)
Net advances	2 345 984	2 017 016

* 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.

	Ageing of amounts due						
	Total	Future		30 to	60 to	90 to	
	R'000	R'000	30 days	60 days	90 days	120 days	
	R'000	R'000	R'000	R'000	R'000	R'000	
Ageing analysis of advances that are past due, but not impaired:	2014	35 555	25 073	385	419	424	9 253
	2013	203 388	197 972	862	884	1 119	2 551

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 2014 amounts to R429 million (2013: R800 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 R9 million (2013: R122 million).

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

30. Financial risk management continued

Credit quality and concentration of other financial assets

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
Counterparties with external credit ratings of at least F1				
– Held-to-maturity investments – money market	139 413	1 026 383	139 413	1 026 383
– Cash and short-term deposits	433 918	350 919	422 597	343 205
Counterparties assessed by reference to historical information about counterparty default rates				
– Instalment sale receivables	49 032	35 605	–	–

Other receivables and prepayments are considered current and are not considered impaired.

The investment in preference shares is not considered impaired.

Concentration risk of loans and receivables by operations

Commercial	14%
Projects	73%
Retail	13%

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.

30. Financial risk management *continued*Interest rate risk *continued*

	Group 2014		Group 2013 Restated		
	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	57 795	2 086 583	114 306	1 814 926
Instalment sale receivables average interest rate of 11% p.a.	1	49 032	–	35 605	–
Held-to-maturity investment rates vary between 5,05% and 5,8% p.a.	2	–	139 413	–	1 026 383
Cash and short-term deposits rates vary between 4,50% and 5,74% p.a.	2	–	433 918	–	350 919
Liabilities					
Funds under management – rates are linked to short-term investment rates		–	225 765	–	698 980
AFD loan – the rate is fixed at 6,078%		177 048	–	193 143	–
EIB loan– the rate varies between 5,525% and 6,125%		–	202 691	–	219 476
Other financial liabilities – the rate varies between 7,33% and 8,6%		4 344	–	5 400	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

30. Financial risk management continued

Interest rate risk continued

	Company 2014			Company 2013 Restated	
	Strategy	Fixed rate R'000	Linked rate R'000	Fixed rate R'000	Linked rate R'000
The Company is exposed to interest rate risk on the following assets and liabilities:					
Assets					
Loan and receivables – advances rates vary between 5% and 14% p.a.	1	57 795	2 288 188	114 306	1 902 710
Held-to-maturity investments rates vary between 5,05% and 5,8% p.a.	2	–	139 413	–	1 026 383
Cash and short-term deposits rates vary between 4,50% and 5,74% p.a.	2	–	422 597	–	343 205
Liabilities					
Funds under management – rates are linked to short-term investment rates		–	225 765	–	698 980
AFD loan – the rate is fixed at 6,078%		177 048	–	193 143	–
EIB loan– the rate varies between 5,525% and 6,125%		–	202 691	–	219 476

Interest rate risk management strategy is as follows:

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

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

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

30. Financial risk management continued

Interest rate sensitivity

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

	Increase/ decrease %	Group		Company	
		Effect on profit before tax 2014 R'000	Restated Effect on profit before tax 2013 R'000	Effect on profit before tax 2014 R'000	Restated Effect on profit before tax 2013 R'000
Loans and receivables – advances	1 (1)	20 866 (20 866)	18 149 (18 149)	22 882 (22 882)	19 027 (19 027)
Held-to-maturity investments	1 (1)	1 394 (1 394)	10 264 (10 264)	1 394 (1 394)	10 264 (10 264)
Cash and short-term deposits	1 (1)	4 339 (4 339)	3 509 (3 509)	4 226 (4 226)	3 432 (3 432)
Other financial liabilities	1 (1)	(2 027) 2 027	(2 195) 2 195	(2 027) 2 027	(2 195) 2 195

The Group earns interest as follows:

	Group		Company	
	2014 R'000	Restated 2013 R'000	2014 R'000	Restated 2013 R'000
Interest on advances	166 250	140 162	173 881	141 927
Interest on cash and cash equivalents	31 396	45 597	31 111	45 536
	197 646	185 759	204 992	187 463

The Group's interest obligations are as follows:

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Interest on other financial liabilities	22 789	24 594	22 497	24 196
	22 789	24 594	22 497	24 196

Liquidity risk

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

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

- short- and long-term cash flow management;
- diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- at least 60% of money market portfolio to mature within six months;
- limiting capital market investments to 30% of the portfolio; and
- the Group is in the process of mobilisation funding. Discussions are underway with local as well as international DFI's. A funding plan was approved by the Board and the process to obtain the necessary approvals is underway.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

30. Financial risk management continued

Interest rate risk continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2014 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 2014				
Trade and other payables	24 339	1 367	11 198	36 904
Funds under management	–	–	225 765	225 765
Debentures	–	–	–	–
Other financial liabilities	–	55 901	335 538	391 439
	24 339	57 268	572 501	654 108
As at 31 March 2013 – restated				
Trade and other payables	14 345	1 088	63	15 496
Funds under management	–	–	698 980	698 980
Debentures	–	–	–	–
Other financial liabilities	–	215 107	214 510	429 617
	14 345	216 195	913 553	1 144 093

Fair value of financial instruments

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

Capital management

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

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

	2014 R'000	Restated 2013 R'000
Total interest bearing debt	391 439	429 617
Total equity	2 417 782	2 401 711
Debt to equity ratio	16%	18%

Credit rating

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

National

Long term AA-

Short term A1+

30. 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	Restated R'000
2014				
Listed equity investments	4 258	–	–	4 258
Unlisted equity investments	–	–	–	–
Total	4 258	–	–	4 258
2013				
Listed equity investments	13 483	–	–	13 483
Unlisted equity investments	–	–	–	–
Total	13 483	–	–	13 483

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Restated R'000
2014				
Listed equity investments	4 258	–	–	4 258
Unlisted equity investments	–	65 251	–	65 251
Total	4 258	65 251	–	69 509
2013				
Listed equity investments	13 483	–	–	13 483
Unlisted equity investments	–	59 170	–	59 170
Total	13 483	59 170	–	72 653

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

30. Financial risk management continued

Financial assets by category

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

	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Group – 2014				
Investment in listed equity investments	4 258	–	–	4 258
Investment in unlisted equity investments	–	–	–	–
Loans and receivables – advances	–	2 144 378	–	2 144 378
Instalment sale receivables	–	49 032	–	49 032
Held-to-maturity investments	–	–	139 413	139 413
Cash and short-term deposits	–	433 918	–	433 918
Other receivables	–	13 039	–	13 039
Investment in preference shares	–	–	37 658	37 658
	4 258	2 640 367	177 071	2 821 696
Group – 2013 – Restated				
Investment in listed equity investments	13 483	–	–	13 483
Investment in unlisted equity investments	–	–	–	–
Loans and receivables – advances	–	1 929 232	–	1 929 232
Instalment sale receivables	–	35 605	–	35 605
Held-to-maturity investments	–	–	1 026 383	1 026 383
Cash and short-term deposits	–	350 919	–	350 919
Other receivables	–	11 134	–	11 134
Investment in preference shares	–	–	37 658	37 658
	13 483	2 326 890	1 064 041	3 404 414

30. Financial risk management continued

Financial assets by category continued

	Fair value through profit and loss R'000	Loans and receivables R'000	Held-to- maturity investments R'000	Total R'000
Company – 2014				
Investment in listed equity investments	4 258	–	–	4 258
Investment in unlisted equity investments	62 251	–	–	62 251
Loans and receivables – advances	–	2 345 984	–	2 345 984
Instalment sale receivables	–	–	–	–
Held-to-maturity investments	–	–	139 413	139 413
Cash and short-term deposits	–	422 597	–	422 597
Other receivables	–	11 073	–	11 073
Investment in preference shares	–	–	37 658	37 658
	66 509	2 779 654	177 071	3 023 234
Company – 2013 – Restated				
Investment in listed equity investments	13 483	–	–	13 483
Investment in unlisted equity investments	59 170	–	–	59 170
Loans and receivables – advances	–	2 017 016	–	2 017 016
Instalment sale receivables	–	–	–	–
Held-to-maturity investments	–	–	1 026 383	1 026 383
Cash and short-term deposits	–	343 205	–	343 205
Other receivables	–	12 488	–	12 488
Investment in preference shares	–	–	37 658	37 658
	72 653	2 372 709	1 064 041	3 509 403

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

30. Financial risk management continued

Financial liabilities by category

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

	Financial liabilities at amortised cost R'000
Group – 2014	
Other financial liabilities	391 439
Trade and other payables	36 904
Funds under management	225 765
	654 108
Group – 2013 – Restated	
Other financial liabilities	429 617
Trade and other payables	15 496
Funds under management	698 980
	1 144 093
Company – 2014	
Other financial liabilities	379 739
Trade and other payables	4 850
Funds under management	225 765
	610 354
Company – 2013 – Restated	
Other financial liabilities	412 619
Trade and other payables	5 130
Funds under management	698 980
	1 116 729

31. Related parties disclosure

The consolidated financial statements include the financial statements of National Housing Finance Corporation SOC Limited, its subsidiaries and associates as listed below.

	Country of incorporation	2014 % equity interest	2013 % equity interest
Gateway Homeloans Proprietary Limited	RSA	100	100
Gateway Homeloans 001 Proprietary Limited	RSA	100	100
Cape Town Community Housing Company Proprietary Limited	RSA	100	100
Trust for Urban Housing Finance Holdings Proprietary Limited	RSA	33,5	33,5
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:

Related party	Group 2014		Group 2013	
	Amounts owed by/ to related parties R'000	Transactions with related parties R'000	Amounts owed by/ to related parties R'000	Transactions with related parties R'000
Transactions with other public entities				
Thubelisha/NDoHS				
Advances	-	-	14 306	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

31. Related parties disclosure continued

	Company 2014		Company 2013	
	Amounts owed by/ to related parties R'000	Transactions with related parties R'000	Amounts owed by/ to related parties R'000	Transactions with related parties R'000
Cape Town Community Housing Company Proprietary Limited				
– Debentures	7 991	–	7 991	–
– Advances	194 002	–	82 392	–
– Disbursements	–	146 148	–	26 940
– Interest received	–	8 458	–	3 976
– Working capital loan	6 363	6 363	6 806	6 806
– Accounts receivable	–	3 098	–	594
Thubelisha/NDoHS				
Advances	–	–	14 306	–
Housing Investment Partners Proprietary Limited				
– Working capital loan	12 210	12 210	7 227	7 227
– Disbursements	–	133 039	–	1 641
– Interest received	–	890	–	65
– Advances	–	24 489	–	–
Trust for Urban Housing Finance Holdings Proprietary Limited				
– Working capital loan	6 533	6 533	–	–
– Advances	285 689	–	305 745	–
– Interest received	–	21 706	–	24 856

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.

The amount owed by Thubelisha which was fully impaired in the previous financial years has been written off in the current financial year.

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

Transactions with key management personnel are disclosed under note 32.

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

32.1 National Housing Finance Corporation SOC Limited

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

	Short-term employee benefits			Post-employment pension and medical benefits R'000	Other ³ R'000	Total 2014 R'000	Total 2013 R'000
	Fees R'000	Salaries R'000	Bonuses R'000				
Non-executive Chairman							
Prof M Katz ¹	-	-	-	-	-	-	-
Directors – independent non-executives	2 178	-	-	-	46	2 224	2 967
Tax adjustment ⁴						-	843
SA Tati	430	-	-	-	-	430	344
SS Ntsaluba	451	-	-	-	-	451	326
S Khoza	-	-	-	-	-	-	62
S Swanepoel	221	-	-	-	-	221	207
AW Houston ⁵	311	-	-	-	46	357	363
J Coetzee	383	-	-	-	-	383	632
PV Ramarumo	382	-	-	-	-	382	190
Chief Executive Officer and executive director							
SS Moraba ²		3 336	2 681	411	12	6 440	6 465
Executive managers/ Prescribed officers		9 107	5 156	1 441	6	15 710	15 585
Z Lupondwana		1 008	233	148	-	1 388	1 155
N Ntshingila		1 114	639	168	-	1 922	1 932
S Mutepe ⁶		-	-	-	-	-	1 975
A Chimpondah		1 472	855	159	1	2 487	2 480
L Lehabe		1 370	858	211	4	2 443	2 406
S Mogane		1 133	233	227	-	1 593	1 553
M Mamatela		1 248	932	163	1	2 343	1 948
Z Adams		1 270	854	293	-	2 417	2 402
T Sihlaba ⁷		492	552	72	-	1 116	1 709
Management costs		12 443	7 837	1 852	18	22 150	22 050

¹ Prof Katz agreed not to charge fees.

² The CEO is the only director with a service contract with the NHFC. The notice period does not exceed one year.

³ Other includes travel costs for directors' and risk benefits.

⁴ The tax adjustment of R843 000 relates to tax for directors' fees not accounted for and therefore not disclosed in the previous years.

⁵ AW Houston 2013 includes other costs – travel costs of R74 000.

⁶ Sydney Mutepe resigned from the NHFC effective from 12 October 2012.

⁷ Employee resigned during the year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

32. Directors' and prescribed officers'/executive managers' emoluments continued

32.2 Directors and senior management emoluments – Cape Town Community Housing Company Proprietary Limited

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

	Short-term employee benefits			Post-employment pension and medical benefits R'000	Other* R'000	Total 2014 R'000	Total 2013 R'000
	Fees R'000	Salaries R'000	Bonuses R'000				
Chairman							
S Moraba	–	–	–	–	–	–	–
Directors – Non-executives	–	–	–	–	–	214	166
AD Egbers		–	–	–	–	34	42
R Fisher		–	–	–	–	32	24
P Naylor		–	–	–	–	78	47
DTV Msibi		–	–	–	–	49	37
A Viljoen		–	–	–	–	21	16
Chief Executive Officer and executive director							
F Mudimu		1 446		185	–	1 631	1 420
Key members of management		2 804		431	199	3 434	3 004
P Jones		1 002		158	72	1 232	1 132
W Jurgens		858		135	60	1 053	968
S Stofile		433		74	67	574	529
F Moos		511		64	–	575	375
Management costs		4 250	–	616	199	5 065	4 424

* Other includes travel costs for management.

Messrs S Moraba, A Chimpondah, S Mogane 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.

33. Events after the statement of financial position date

Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF)

The management of TUHF is in discussions with a potential third party investor with regard to an equity investment which may influence the NHFC shareholding of 33,5%.

34. Restatement of prior period error

A. Development fund

In 1998, the Department of Housing (NDoHS) allocated R100 million, the Development Fund, to the National Housing Finance Corporation (SOC) Limited (NHFC). The Development Fund was utilised by NHFC from 1998 to promote emerging housing development projects, to support the housing development sector and other government housing initiatives. Part of NHFC's mandate included a "joint venture" with the National Urban Reconstruction and Housing Agency (NURCHA). In terms of the collaboration between the two entities, NURCHA would select the housing development projects whilst the NHFC performed the treasury function and facilitation of funding to the development projects financed by the Development Fund.

From 1998 to 2001, the NHFC held and managed the Development Fund on behalf of the NDoHS, under the "joint venture" with NURCHA, in a separate account with the interest income therefore being earned by the NDoHS, and thus not being taxable in the hands of the NHFC.

During 2001, owing to a decrease in emerging development projects and NURCHA's divergent focus on other housing development programmes and projects, a submission was made by NURCHA to the NDoHS requesting additional funding. This resulted in the NDoHS splitting the Development Fund and granting equal amounts to the NHFC and NURCHA respectively. At this point in time the Development Fund had increased to an amount of approximately R150 million, resulting in each entity receiving approximately R75 million.

The NHFC and NURCHA continued to utilise their separate portions of the Development Fund for their respective housing development projects and programmes. Specifically, the NHFC used the Development Fund to fund the following development mandate imperatives, that of:

- Nurturing the development of the social housing sector, by funding the institutional project setup costs of new social housing institutions, since 1998;
- Where necessary, supporting higher development impact projects in the affordable housing market; and
- Promoting product and service innovation to sustain growth in underserved segments of the housing market.

The NHFC however continued to report on, and treat its portion of the Development Fund as it had historically, i.e. as if it were acting as an agent of the NDoHS.

In the current year, the NHFC embarked on a process to regularise the past treatment of the Development Fund. The funds have therefore been reclassified as retained earnings, allowing equity treatment and thus reducing the funds under management, in which the liability is removed.

The income tax expense from 2001 until 2013 has been quantified and a provision raised for such amounts.

The interest on the outstanding income tax expense from 2001 until 2013 has also been quantified and a provision raised accordingly.

To regularise the NHFC's tax affairs for any tax exposure associated with the granting of the Development Fund from 2001, an application will be made under the Voluntary Disclosure Programme (VDP), coupled with a proposal for entering into a compromise agreement, as provided for in terms of sections 225 to 233 and sections 200 to 205 of the Tax Administration Act, 2011.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

34. Restatement of prior period error continued

B. Instalment sales and investment properties – CTCHC subsidiary

CTCHC entered into instalment purchase agreements (IPA) since 2001 and recognised the revenue from the sale when the purchaser took occupation of the property.

In September 2013 the Cape Town High Court ruled against NHFC's subsidiary CTCHC in the case where CTCHC's tenants had challenged an eviction order as a result of non-payment of the instalment purchase agreements rentals.

As a result of the court ruling, CTCHC corrected the accounting treatment of the prior years.

- Group auditors' technical opinion considered that all the other conditions of a sale of a house on instalment sale to be recognised as revenue were met on the date when the IPAs were entered into except for the condition of the recordal of the IPA in the Deeds Office. All significant risks and rewards of ownership of the houses passed on the signature of the IPAs.
- The additional interest and charges for lawful occupation however, previously raised, before the IPAs were recorded with the Deeds Office, had to be permanently reversed as, CTCHC could only legally levy those charges from the date of recordal. This results in a permanent reversal for charges raised before the date of recordal amounting amounting to R20 million.
- In line with the above only the permanent differences relating to damages to unlawful occupation and the interest have been reversed at Group level.

Comparative figures have been adjusted to conform to the rectification

	Group 31 March 2013			Company 31 March 2013		
	Previously reported R'000	Adjustment R'000	Restated R'000	Previously reported R'000	Adjustment R'000	Restated R'000
Assets						
Non-current assets						
Loans and receivables – advances	1 514 122	5 270	1 519 392	1 601 906	5 270	1 607 176
Investment property	78 584	(6 512)	72 072	51 000	–	51 000
Current assets						
Properties developed for sale	80 979	(2 880)	78 099	–	–	–
Other receivables and prepayments	32 023	(20 889)	11 134	22 463	(11 689)	12 488
Net assets and liabilities						
Net assets						
Retained earnings*	1 236 484	85 227	1 321 711	1 215 210	103 819	1 319 029
Non-current liabilities						
Funds under management	856 926	(157 946)	698 980	856 926	(157 946)	698 980
Current liabilities						
Provisions	17 746	45 481	63 227	16 977	45 481	62 458
Income tax payable	5 349	2 227	7 576	5 349	2 227	7 576

34. Restatement of prior period error *continued*Comparative figures have been adjusted to conform to the rectification *continued*

	Group 31 March 2013			Company 31 March 2013		
	Previously reported R'000	Adjustment R'000	Restated R'000	Previously reported R'000	Adjustment R'000	Restated R'000
Interest on advances	144 817	(4 655)	140 162	141 927	–	141 927
Interest on investments	37 731	7 866	45 597	37 670	7 866	45 536
Other operating income	19 575	(11 689)	7 886	12 672	(11 689)	983
Administrative expenses	(107 959)	90	(107 869)	(95 516)	89	(95 427)
Operating income	73 033	(8 477)	64 556	73 099	(3 734)	69 365
Surplus before tax	33 729	(8 477)	25 252	38 442	(3 734)	34 708
Income tax expense	(14 236)	(2 227)	(16 463)	(7 002)	(2 227)	(9 229)

* The impact of the permanent differences for the period before 31 March 2012 have been adjusted as part of retained earnings, see statement of changes in equity.

PERFORMANCE REPORT FOR THE YEAR ENDED 2014 IN TERMS OF SECTION 55(2) OF THE PFMA

For the year ended 31 March 2014

Budgeted and actual Group results for the year ended 31 March 2014

	Actual R'000	Budget R'000
Income		
Lending income	166 250	227 193
Investment income	31 396	23 738
Sale of houses	43 474	10 492
Other income	8 636	10 648
Total income	249 756	272 071
Impairments	2 188	(74 356)
Cost of sales	(40 089)	(8 057)
Operating expenses	(123 642)	(133 429)
Operating profit	88 213	56 229
Fair value changes on investments	(9 225)	–
Bad debts	(30 322)	–
Interest paid	(22 789)	(17 752)
Share of profit of an associate	9 311	5 775
Surplus before tax	35 188	44 252
Tax	(19 117)	(6 791)
Surplus after tax	16 071	37 461

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

- Although at a company level the NHFC exceeded its budget, the Group performance was adversely impacted by the loss reported by CTCHC. Key focus is on the implementation of the Board approved restructuring of the CTCHC operations in order to make the subsidiary profitable.
- Lending income was impacted by the timing in which disbursements have been achieved in current year. Although year to date disbursements targets have been exceeded, these only occurred in the later part of the period and thus have led to an adverse performance in the lending income generated.
- The impairments charge was significantly less than expected due to the concerted effort to manage credit risk. In addition amounts that were previously impaired were written off.
- Concerted effort by management to reduce/contain costs yielded a saving in operational expenses.
- Included in operating expenses is a charge of R9,2 million for a fair value adjustment for a JSE Stock Exchange listed equity investment.

Key performance indicators

Key performance highlights under challenging economic conditions for the period under review include:

- Achievement of disbursements of R675 million against a budget of R638 million, the highest since incorporation;
- The disbursements played a catalytic role in leveraging a further R2,2 billion from the private sector into affordable housing. The budgeted amount of R1,5 billion was therefore exceeded by 44%;
- Loan approvals of R754 million were achieved against a budget of R935 million resulting in a negative variance of 19%. The loan approvals is the aggregate of all loans recorded through all credit committees of the NHFC and includes loans withdrawn or cancelled for the period in question. The approvals were impacted by the prevailing funding challenge which resulted in a prioritisation exercise by management;
- The women funding empowerment target was not achieved and this is largely due to scarcity of viable projects undertaken by women entrepreneurs. Key stakeholders are being engaged in order to address the shortcoming going forward; and
- A strong performance from both the Projects Division and Strategic Partnerships whilst the performance of the Commercial Division continues to be impacted by the adverse market conditions affecting the micro lending industry.

Budgeted and actual Group results for the year ended 31 March 2014 continued

Key performance indicators continued

	Actual	Budget
Funding impact		
Number of approvals		
Projects	22	17
Commercial	–	5
Strategic Investments	5	4
Total number of approvals	27	26
Value of approvals (R'm)		
Projects	669	661
Commercial	–	178
Strategic Investments	85	96
Total value of approvals (R'm)	754	935
Disbursements (R'm)		
Projects	483	418
Commercial	60	120
Strategic Investments	132	100
Total value of disbursements (R'm)	675	638
Leveraged funds (R'm)	2 204	1 526
Total funding impact (R'm)	2 879	2 164
Developmental Impact		
Housing opportunities		
Housing units ¹	8 109	4 603
Incremental loans ²	4 000	4 761
Mortgage loans ³	–	149
Strategic Investments	428	480
Total impact	12 537	9 993
Impact leveraged through others⁴	71 966	11 478
Total impact	84 503	21 471
Beneficiaries benefiting⁵	321 111	81 588
Number of jobs created⁶	16 038	11 743
Value of disbursements targeted towards women-managed/owned companies (R'm)	21	98

¹ Housing units includes completed, transferred or occupied rented units, buildings purchased for conversion into residential buildings.

² These housing opportunities are computed by dividing the total funding impact by the average loan size of R15 000. The amount of R15 000 is based on the historical observation as well as confirmed by clients, for the market that the NHFC is mandated to serve.

³ These housing opportunities are computed by dividing total funding impact by the average loan size of R300 000. The housing opportunities created are based on the units generated from the Joint Venture with Old Mutual Capital Holdings Proprietary Limited which provides end-user finance in the affordable housing market through a vehicle called Housing Investment Partners Lending Trusts.

⁴ These numbers are calculated on the same basis as above as a result of the actual funds leveraged from the other partners. Leveraged funds for Strategic Investments represent the other funds leveraged by Housing Investments Partners Proprietary Limited such as funding from Old Mutual Capital Holdings Proprietary Limited and related parties. Commercial represents the other funds leveraged by the Retail Intermediaries as a result of the NHFC funding.

⁵ It is estimated that 84 503 housing opportunities were facilitated against a budget of 21 471.

⁶ An estimated 16 038 jobs were facilitated from NHFC funded projects. Direct disbursements into projects amounted to R483 million and a further R958 million was leveraged from the private sector bringing the total to R1,441 billion. For every R1 million spent in a human settlements project, 11,13 jobs were created (outcome of research by the Department of Human Settlements on the capital grant investment) and therefore the funding impact has resulted in the facilitation of 16 038 jobs against a budget of 11 743. The target was therefore exceeded by 36%.

ACRONYMS

AFD	Agence Française de Développement (French Development Agency)	ICC	Internal Credit Committee
AGM	Annual General Meeting	IHS	International Housing Solutions
ALCO	Assets and Liabilities Committee	ILO	International Labour Organisation
BEE	Black Economic Empowerment	IPA	Instalment Purchase Agreement
BBBEE	Broad Based Black Economic Empowerment Act, No 53 of 2003	ITMC	Information Technology Management Committee
BCIC	Board Credit and Investment Committee	MCIC	Management Credit and Investment Committee
BRC	Board Risk Committee	MDI	Mortgage Default Insurance
CEO	Chief Executive Officer	MDIC	Mortgage Default Insurance Company Limited
CFO	Chief Financial Officer	NDoHS	National Department of Human Settlements
CPD	Corporation for Public Deposits	NHBRC	National Home Builders Registration Council
CPI	Consumer Price Index	NHFC	National Housing Finance Corporation SOC Limited
CSI	Corporate Social Investment	NURCHA	National Urban Reconstruction and Housing Agency
CTCHC	Cape Town Community Housing Company Proprietary Limited (a wholly owned subsidiary of the NHFC)	OECD	Organisation for Economic Cooperation and Development
DCF	Discounted cash flow	OMCH	Old Mutual Capital Holdings Proprietary Limited
DFIs	Development Finance Institutions	OPIC	Overseas Private Investment Corporation
DHS	Department of Human Settlements	OPS	Occupational Purpose and Strategy
DIGH	Dutch International Guarantees for Housing	P&SCM	Procurement and Supply Chain Management
DISC	Board Development Impact and Strategy Committee	PAA	Public Audit Act
DMTN	Domestic Medium Term Notes	PFMA	Public Finance Management Act 1 of 1999
DPE	Department of Public Enterprises	PPPFA	Preferential Procurement Policy Framework Act, No 5 of 2000
EIB	European Investment Bank	RHLF	Rural Housing Loan Fund
EMS	Environmental Management System	SAHF	South Africa Housing Foundation
ERM	Enterprise Risk Management	SANS	South African National Standards
ESD	Enterprise Supplier Development	SASC	Safety and Security Committee
EXCO	Executive Committee	SEC	Social and Ethics Committee
EWRM	Enterprise Wide Risk Management	SMME	Small Micro and Medium Enterprises
FIC	Financial Intelligence Centre	SHRA	Social Housing Regulatory Authority
FLISP	Finance Linked Individual Subsidy Programme	TCOE	Total Cost of Employment
FSC	Financial Sector Charter	TUHF	Trust for Urban Housing Finance Holdings Proprietary Limited
GPF	Gauteng Partnership Fund	UNGC	United Nations Global Compact
GRAP	Generally Recognised Accounting Practice	VDP	Voluntary Disclosure Programme
HiP	Housing Investment Partners Proprietary Limited		
HR	Human Resources		
HRER	Board Human Resources Ethics and Remuneration Committee		

ADMINISTRATION

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Honourable President Jacob Zuma and
Ms Connie September: Minister of Human Settlements
at the Cornubia Housing Project Launch



www.nhfc.co.za

