NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

20

CELEBRATING 20 YEARS OF CHANGING LIVES

1996 – 2016

2016 INTEGRATED REPORT

CONTENTS

ACRONYMS AND ABBREVIATIONS

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

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

SNAPSHOT

20 YEARS OF PROVIDING ACCESS TO AFFORDABLE HOUSING FINANCE

1994
Housing rights enshrined in the Constitution

1996
The National Housing Finance Commission (NHFC) established as a micro-financing tool for incremental housing with an initial capitalisation of R880 million

Registered as a public company with four main divisions: Niche Market Lenders, Housing Equity Fund, Housing Institutions Development Fund and Rural Housing Loan Fund (RHLF)

1997
Social Housing Foundation established under the auspices of the NHFC to support, capacitate and establish a viable social housing sector

1998
Subsidiary company Gateway Homeloans (Pty) Ltd established to deliver housing at scale to the gap market (R25 000–R60 000) and to promote the secondary home loan market process in the low income housing sector

1998
The NHFC and City of Cape Town form a 50/50 joint venture for the provision of social housing. The joint venture is established as the Cape Town Community Housing Company (CTCHC)

1999
The loan book reaches R1 billion milestone

Sponsors and co-founds the Micro Finance Regulatory Council

2001
Restructures existing institutions into divisions: Alternative Tenure, Incremental Housing and Home Ownership

The RHLF and Social Housing Foundation become independent entities

2002
Provides technical assistance in drafting of the Community Re-investment Bill

Tasked to help implement the Presidential Job Summit Housing Pilot

2003
Sets up the Trust for Urban Housing Finance (TUHF) with other partners and provides start-up capital

2004
The total asset base reaches R1.4 billion. Responds to government's 2004 Breaking New Ground strategy by broadening and deepening access

2005
Served on the government negotiating team following the signing of the Memorandum of Understanding between the Minister of Housing and Chief Executive Officers (CEOs) of four major banks

Implementing agent for the Kliptown project, which formed part of the 50-year anniversary of the Freedom Charter

2006
Instrumental in the National Credit Bill process and the formation of the Regulatory Institution in terms of the National Credit Act

2008
Establishes, with Old Mutual, Housing Investment Partners (HIP), which designed and developed the innovative income linked home loan product

2009
The NHFC acquires 100% shareholding of CTCHC

Establishes a retail division (Home Front) to accelerate the provision of access to affordable housing

2010
Concludes external funding agreements with Agence Française de Dèveloppement and the European Investment Bank

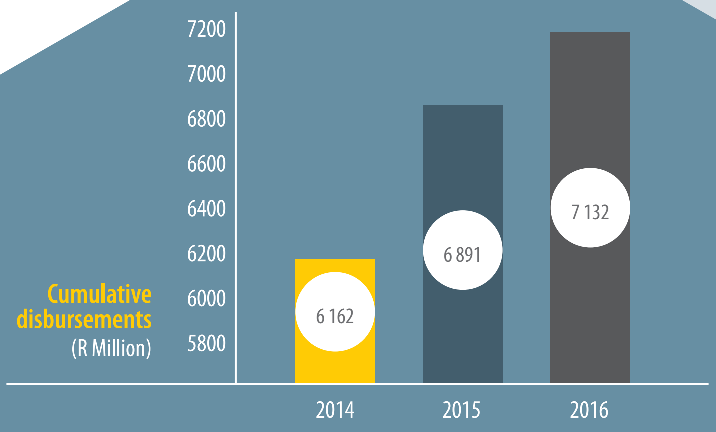
2012
Enters into a co-funding agreement with the Gauteng Partnership Fund (GPF) to enhance access to housing finance for historically disadvantaged entrepreneurs who otherwise would be excluded from participating in the residential property market

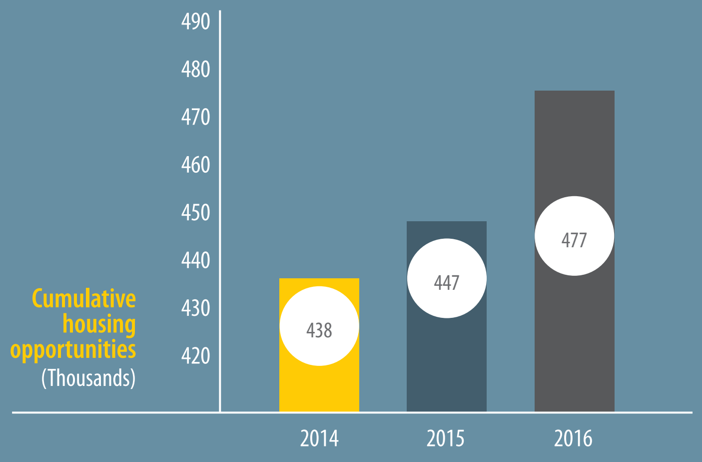
2015
The strategic focus and intent is the conclusion of the consolidation process to deliver a Human Settlements Development Finance Institution and thus significantly grow the human settlements development impact

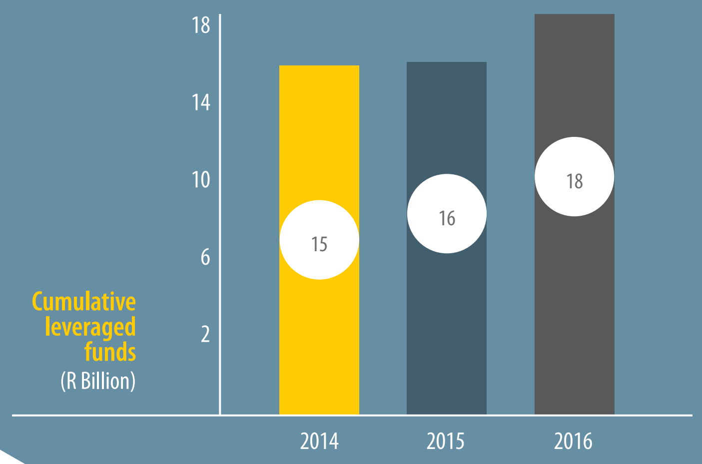
2016
In 2016 the NHFC applied to National Treasury for income tax exemption status in order for the assets and liabilities of the RHLF and the National Urban Reconstruction and Housing Agency (NURCHA), which are tax exempt Public Benefit Organisations, to be transferred to the NHFC as part of the DFI consolidation process

Providing housing finance | Development of sustainable human settlements | Development of integrated urban and rural communities

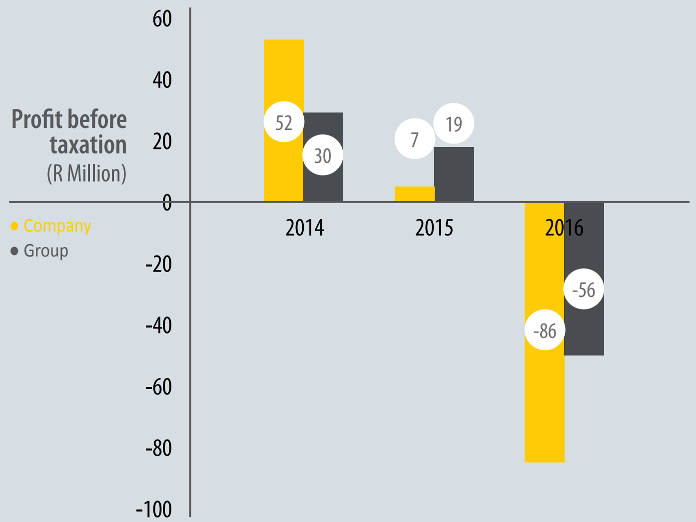
CUMULATIVE DEVELOPMENTAL IMPACT







FINANCIAL PERFORMANCE, HIGHLIGHTS AND CHALLENGES IN 2015/16



Highlights 2015/16

- Facilitated the creation of 30 386 housing opportunities, transforming the lives of 115 466 beneficiaries.
- Facilitated the creation of 9 157 job opportunities.
- Disbursements profile has significantly changed; over 70 percent of disbursements are to broad-based black economic empowerment (B-BBEE) clients (in terms of majority ownership). Value of disbursements targeted towards women, youth and emerging B-BBEE entrepreneurs amounted to R226 million.
- Strategic partnerships to leverage private sector funding and achieve scale mobilised R1.5 billion into the sector.
- Liquidity improved through shareholder recapitalisation (of R100 million) and early settlements.
- Cost containment measures improved cost to income ratio from 60 percent in 2014/15 to 41 percent in 2015/16.
- Agence Française de Développement (a funder) agreed to replace the return on assets financial covenant in our funding agreement with a liquidity covenant.
- Annual credit rating confirmed by Global Credit Ratings at AA- (long term) and A1+ (short term).
- Although the graduation of clients (through refinancing of their loans by larger banks) resulted in early settlements and adversely affected financial performance, the broader objective of serving as a market maker has created new players (banks and real estate investment trusts) that are investing in affordable rental housing (including inner city housing) and social housing.

Challenges 2015/16

- Current economic and market conditions negatively affected both the NHFC's beneficiaries and clients.
- Concerns around the viability of the current social housing funding model, which discourages large institutions from accrediting new projects.
- Graduation of our seasoned clients into the formal banking sector has seen more start-up or emerging clients come on board, affecting the quality of projects.
- Higher than expected impairments and reduced revenue resulted, for the first time, in a consolidated deficit before tax for the year.

ABOUT OUR REPORT

This integrated report is our primary communication with stakeholders. It sets out the material aspects of the economic, social and environmental impacts of our operations, and explains how our strategy, governance, performance and prospects create value over time.

Towards integrated thinking

As a public sector development finance institution (DFI), we have an ethical and social obligation to clearly communicate these aspects of our work. This allows our shareholder, the national Department of Human Settlements (DHS), and home seekers, private sector property developers and investors, strategic partners, other public sector institutions, employees, suppliers and the broader housing sector to hold the leadership team accountable.

It also allows these stakeholders to make informed decisions regarding their relationship with the group and their role in the collaborative efforts to realise the right of access to adequate housing for all.

In our first integrated report, published last year, we set out to reconfigure how we report to align fully to the Global Reporting Initiative (GRI) G4 reporting framework. We established an integrated reporting task team to guide us in the planning, preparation and compiling of this report. We also set out to align budgets to meet social investment and performance targets, and put the infrastructure in place to meet the requirements of integrated reporting. We have also made progress in encouraging an integrated way of thinking throughout our organisation, with the Board's Social and Ethics Committee (SEC) now tasked with strengthening reporting in the coming year.

Scope

The report covers the financial year ended 31 March 2016 – the first full year of our journey towards producing an integrated report. Comparatives have been included where applicable. The report also sets out our impacts as a company and, where relevant, a shareholder of subsidiary and associate companies. It builds on the previous year's report, which was prepared based on the G3 reporting framework of the GRI. This year's report has been prepared in accordance with the GRI G4 reporting framework's core requirements, an index for which is available on the NHFC website (www.nhfc.co.za).

In addition to the GRI G4 reporting framework's core requirements, this report aligns with the requirements of the Public Finance Management Act (PFMA) (1999) and National Treasury Regulations. The NHFC is a schedule 3A public entity according to the PFMA. The report has also been prepared with due consideration to the content requirements of the Companies Act (2008) and the King Code of Governance for South Africa (King III) (2009). This integrated report has been internally assured.

Board statement of responsibility

The Board and its subcommittees are ultimately responsible for overseeing the integrity and completeness of the integrated report. The Board has applied its collective mind to the preparation and presentation of the integrated report, and concluded that the completeness of the material matters dealt with and the reliability of data and information presented were taken into consideration and have been materially presented according to the GRI G4 reporting framework's core requirements. The Board approved the 2015/16 integrated report on 21 July 2016.

Forward looking statements

The report contains statements related to our future business and financial performance, and future events or developments that may constitute forward looking statements. Such statements are based on current expectations and assumptions, some of which are beyond our control. Whether these expectations or assumptions come to bear depends on several risks, uncertainties and factors, some of which are discussed in the risk section of this report. Should one or more of these risks or uncertainties materialise, or should underlying expectations not occur or assumptions prove incorrect, actual results, performance or achievements may vary materially from those described explicitly or implicitly in the relevant forward looking statement.

Report content considerations

GRI G4 principles for defining report content	NHFC's considerations
Stakeholder inclusiveness	We place our stakeholders at the centre of our reporting because they are the primary audience for this communication. An individual or entity is considered a stakeholder if they can reasonably be expected to affect or be affected by our business activities. The engagements we have had with stakeholders throughout this year and prior years have informed our considerations of the nature and extent of information included in the integrated report.
Sustainability context	Our objectives and performance targets are reported on with recognition that our operations have an effect on the broader economy, society and the environment, whether directly or indirectly, over the short, medium and long term. Where appropriate, our integrated report sets out how, if at all, we have considered these impacts and what actions we have taken to maximise the positive effects and mitigate the negative. We are also responsive in our thinking, operations and reporting to the trade-offs that might need to be made between positive and negative impacts to support the broader goal of overall long-term sustainability.
Materiality	Our integrated report includes only the material aspects of our impacts and value creation process. We consider a matter to be material if it can reasonably be expected to affect the assessments and decisions of our stakeholders.
Completeness	The integrated report draws content from periodic reports, based on the infrastructure and processes we have started to realign or put in place to ensure that our thinking on sustainability is an integrated, all-year-round part of our normal business activities. The integrated reporting project team established last year has performed a gap analysis to identify which parts of our operations are without these processes or infrastructure.

NHFC/Agence Française de Développement Social Housing workshop

BUSINESS OVERVIEW AND STRATEGY

ABOUT THE NHFC

The DHS, formerly the Department of Housing, established the NHFC in 1996 to expand access to affordable housing finance for low to middle income South African households.

This market is generally defined as those households that earn between R1 500 and R15 000 per month. These households earn enough to contribute to the costs of meeting their own housing needs, but are generally underserved by financial institutions because they are considered higher risk. Therefore, to fulfil the state's constitutional obligation to take reasonable legislative and other measures to progressively realise the right of access to adequate housing, the DHS established the NHFC, as both a state-owned company (SOC) and DFI, to be one of its key delivery agents.

Meadowridge, Parklands, Cape Town, Western Cape

Our values
How we act to get to our future

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

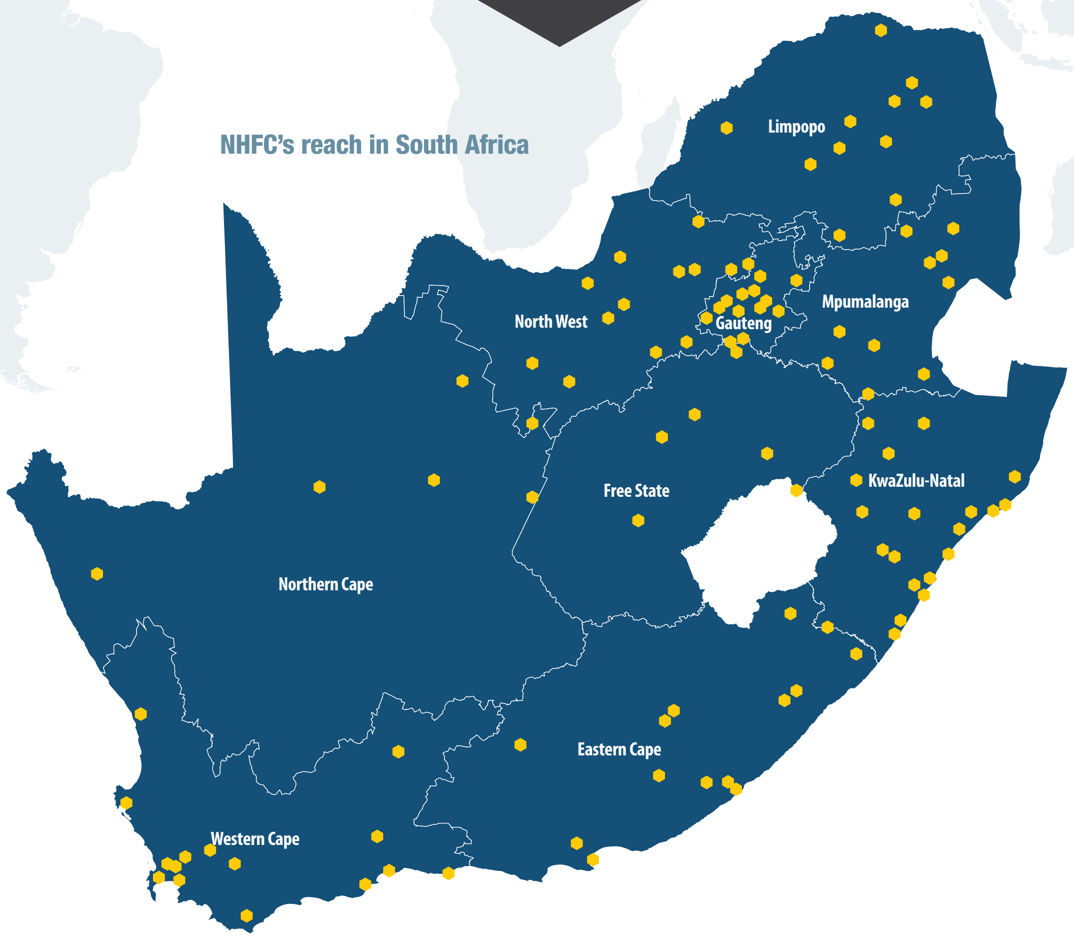
Our mission
What we do to get to our future

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

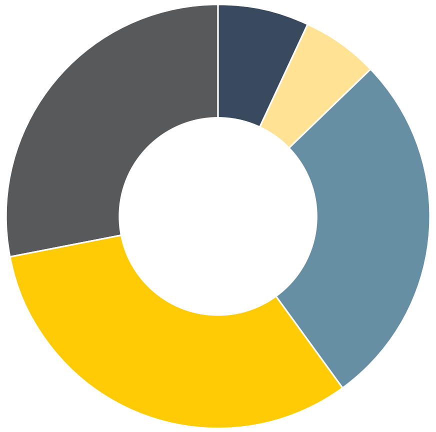
Our vision
Where we want to be in future

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

NHFC's reach in South Africa



Portfolio split



- Strategic investments (7%)
- Incremental (6%)
- Home ownership (27%)
- Private rental housing (32%)
- Social rental housing (28%)

Home ownership includes investments by the NHFC that are typically secured by a mortgage where the NHFC's wholesale clients have provided mortgage finance to end users (in the case of non-banking retail intermediaries) or the NHFC has provided bridging finance to its clients to develop housing units that are then sold on completion to end users.

Incremental housing is funding provided by the NHFC to non-banking retail intermediaries who then on-lend funding to end users to fund housing improvements on an incremental basis. Loans are, on average, R1 000 to R20 000 per client.

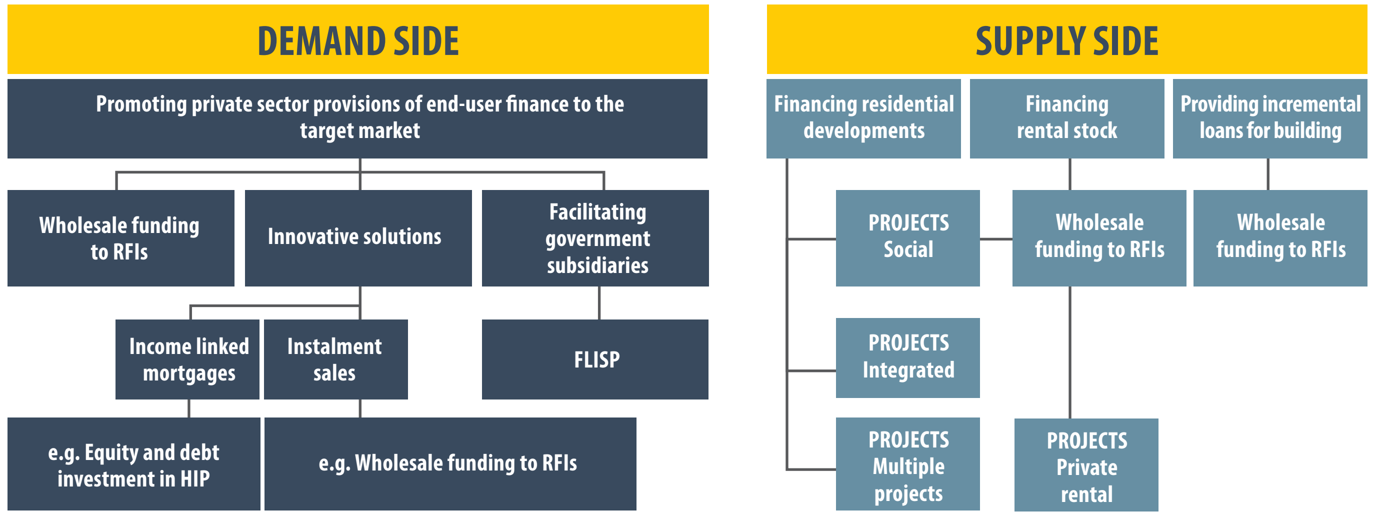
Private rental housing is provided by the landlords, who do not receive any subsidies or grants. It caters for the affordable rental market, including inner city rental developments. The NHFC provides long-term funding for the development/refurbishment of inner city buildings into rental accommodation.

Social rental housing is subsidised rental housing that is more affordable than private/commercial rental and is provided by social housing institutions (SHIs) that are not-for-profit companies. They receive subsidies in the form of restructuring capital grants from the Social Housing Regulatory Authority, and are subject to its accreditation rules, as well as top-up institution subsidies from provincial government.

Strategic partnerships are those that the NHFC develops strategic alliances with, including developers, investors and housing development funds, through the provision of risk capital and 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.

BUSINESS MODEL AND OBJECTIVES

We fulfil our mandate primarily by providing wholesale funding to SHIs, non-banking retail finance intermediaries (RFIs), and private sector property developers and investors. This provision is linked to our developmental goals. These institutions and individuals use the funding to develop affordable housing projects, which are available to rent or buy, or are offered as social housing. RFIs also use the funding to lend to those beneficiaries needing to buy land, building material and other capital goods to incrementally build their houses. Through strategic partnerships with financial institutions and intermediaries and holdings in other housing companies, we also mobilise funding and facilitate the extension of credit to ultimately benefit the target market. This funding and the acquisition of strategic interests are through term loans, equity and quasi equity instruments, such as debentures and preference shares. In addition, we administer the Finance Linked Individual Subsidy Programme (FLISP), a provincial government housing grant for first-time homeowners in the target market, on behalf of some provincial human settlements departments.



We also partner with research institutions to generate research and market analyses that inform our work and that of other institutions operating in the affordable housing market.

We make these interventions in both the demand and supply side of the market to open up rental or ownership housing opportunities for low to middle income South African households. We conduct our business activities in an ethical manner, with due consideration to our financial sustainability and the broader goals of economic, social and environmental development.

Stakeholder engagement

Our business model is premised on building relationships with stakeholders, as the need for affordable housing is too great to tackle on our own. We are also accountable to the Minister of Human Settlements – government's signatory to the 2014 Social Contract for Sustainable Human Settlements. As such, we are committed to working with property developers and investors, various banking institutions, civil society, professional bodies, and research institutions towards the goals of providing access to adequate housing, undoing apartheid's urban spatial legacy, and developing a functional and equitable residential property market. We also recognise that it is only possible to achieve these goals by working collectively to produce sustainable benefits for all involved.

During the year under review, we undertook many initiatives to cultivate good stakeholder relationships. These include, among others, participating in a marketing campaign to raise awareness of the significant role that HIP plays in the market and how those who qualify can access funding. HIP is a joint venture with Old Mutual and Futuregrowth that rolls out an alternative home loan instrument that is not linked to prime, but indexed to individual personal income growth. In partnership with the Centre for Affordable Housing in Africa, we launched a research study on the performance of mortgage lending in South Africa – a topic that is relevant to banks and practitioners in the affordable housing space. To promote the DHS's role in supporting new home seekers, we profiled some of the key FLISP flagship projects on the Breaking New Ground TV series. We strengthen our relationship with our shareholder by undertaking joint programmes. These include projects such as the women build project in Taueatsoala village in Limpopo, the presidential handover ceremony of the N2 Gateway project, exhibitions we staged at events across the country, as well as sponsorship contributions we made, such as buying furniture for housing beneficiaries in Limpopo.

Key stakeholder relationships

National Treasury:
Provides regulatory framework/ convenor of the Public Entity Risk Management Forum

Parliament (DHS Portfolio Committee)

Human settlement DFIs:
RHLF/NURCHA [In the process of merging with the NHFC]

DHS: Shareholder
The NHFC aligns with the shareholder's priorities

SHIs:
Social Housing Regulatory Authority-accredited, not-for-profit companies that develop affordable rental housing projects funded through NHFC long-term loans

Low to middle income households:
Primary beneficiaries

Other housing institutions:
Provincial and local housing departments and agencies, the Social Housing Regulatory Authority, the Housing Development Agency and the GPF

NHFC employees:
Our most valuable resource

Emerging Entrepreneur Empowerment Property Fund Programme:
A co-funded arrangement between the NHFC and the GPF to benefit companies wholly owned by historically disadvantaged individuals

Strategic partners:
CTCHC, TUHF, HIP, International Housing Solutions

NHFC

Research institutions:
Including Statistics South Africa, the Council for Scientific and Industrial Research, and the Centre for Affordable Housing Africa

International funders:
DFIs that support the work of the NHFC, including Agence Française de Développement and the European Investment Bank

Property investors:
Private companies that receive long-term funding from the NHFC to develop or refurbish inner city buildings into affordable rental accommodation

Construction industry/ industry regulators:
Indirect beneficiary of the NHFC's work

Suppliers:
We create a conducive environment for small and medium enterprises

Banks (and industry regulators):
Partners to provide finance to the affordable housing market and to FLISP

Media:
Plays a role in keeping our stakeholders informed about our business

RFIs:
Non-banking institutions that on-lend NHFC funding

Community:
We recognise social responsibility opportunities, job creation and environmental impact where we operate

Our strategy

Core to our strategic focus is the sustained and growing mobilisation of funds into the affordable housing market, through appropriate intermediaries, on a financially and economically sustainable basis. Our strategy pillars are sustainability, leveraging the private sector, growing the asset base and being adaptable to the dynamic environment.

How we deliver on our strategy

The business model is designed to deliver on our strategic plan. As a key delivery agent for the DHS, we draw strategic direction and performance goals from the National Development Plan 2030 and the 2014–2019 Medium Term Strategic Framework (MTSF). Our strategic objectives and key performance indicators are aligned with the MTSF's Outcome 8: Sustainable human settlements and improved quality of household life. The current strategic plan, approved by the Board and presented to Parliament in March 2015, covers the financial years from 2014/15 to 2018/19. The strategic plan formed the basis of the annual performance plan (APP) for the current financial year and sets out our strategic objectives.

Reservoir Mews, East London, Eastern Cape

What we aim to do	How we aim to do it	Which stakeholders we affect directly	What this produces	Who is responsible	What risks we face
Expand housing finance activities through the effective provision of housing finance solutions, thus enabling low to middle income households to choose between renting, owning or incrementally building, and thereby meeting their housing needs	Our funding programmes provide term loans of varying duration to SHIs, property practitioners and RFIs, which either develop affordable housing projects or on-lend to home seekers to rent, buy or build a home	• Low to middle income households • SHIs • Private landlords and developers • Non-banking retail intermediaries • Social Housing Regulatory Authority	• Social housing and private rental stock, including in inner cities • Affordable housing for ownership • Incremental housing • Jobs and B-BBEE, particularly for women and youth	Debt lending and subsidy programmes Credit management	Mandate breach Market relevance Financial sustainability Credit risk Investment risk
Facilitate increased and sustained lending by financial institutions to the lower end of the housing market	Our co-financing and risk enhancement mechanisms facilitate, increase and sustain lending	• Low to middle income households • Banks and non-banking retail intermediaries • National and provincial governments	• Affordable housing for ownership • Incremental housing • Jobs and B-BBEE, particularly for women and youth	Debt lending and subsidy programmes Equity investments and subsidiaries Credit management	Funding
Mobilise funding for human settlements on a sustainable basis, in partnership with the broadest range of institutions	We build relationships with other institutions, including public sector and other DFIs, and multilateral agencies to mobilise funding	• Agence Française de Développement • European Investment Bank	• Funding for the affordable housing market • Social housing rental units and home ownership stock • Affordable housing for home ownership • Jobs and B-BBEE, particularly for women and youth	Equity investments and subsidiaries Finance and treasury Credit management	
Conduct the NHFC's business activities in an ethical manner that ensures continued economic sustainability, while promoting lasting social, ethical and environmental development	We follow best practice in corporate governance, risk management and sustainability, while fulfilling the developmental mandate set by our shareholder	• DHS • Employees • Broader society and the environment	• Outcomes and performance aligned to objectives of shareholder • Sustainability (economic, social and environmental)	Board of Directors Support divisions, under the leadership of the CEO	Operational Human resources Reputational Compliance
Stimulate the low to middle income housing sector by providing robust, relevant and timely research and market analysis	We partner with and support research institutions to conduct research and market analysis	• Research institutions • Broader society	• Research and market analyses on human settlements and the affordable housing market	Corporate strategy, research and stakeholder management	

Through implementing our business model over the medium term, we plan to facilitate the provision of at least 21 289 rental housing opportunities and 26 608 affordable housing opportunities.

Performance targets over the MTSF period, 2015-2019

Performance indicator	NHFC Number of housing opportunities
Social housing rental units	5 899
Private rental housing units	15 390
Total rental	**21 289**
Affordable housing units	9 110
Incremental housing units	17 498
Total affordable housing	**26 608**
Grand total	**47 897**

The material aspects of the current year's performance against the strategic objectives and performance targets are discussed in the CEO's report (page 29), with detailed programme-level performance information set out in the Operational Performance section.

Operational structure

BOARD OF DIRECTORS

LEADERSHIP TEAM

Independent non-executive directors

Independent Non-executive Chairperson: Professor Michael Katz
Chairperson: Edward Nathan Sonnenbergs
Bachelor of Commerce, Bachelor of Laws (University of the Witwatersrand), Master of Laws (Harvard Law School), Doctor of Laws (hc) (University of the Witwatersrand)

Mr Sizwe Tati
Director: Yakani Group
Bachelor of Commerce in Accounting (North University), Graduate Diploma in Company Directing (Institute of Directors), Postgraduate Diploma in Management (GSMT), Senior Executive Program (Harvard)

Ms Anthea Houston
CEO: Communicare NPC
Postgraduate Management Diploma (University of Cape Town), Banking Licentiate Diploma

Ms Dudu Msomi
CEO: Busara Leadership Partners
Bachelor of Arts in Psychology (University of Natal, Durban), Bachelor of Arts Honours (University of Natal, Durban), Postgraduate Diploma in Advertising (AAA School of Advertising), Programme for Management Development (Gordon Institute of Business Science), Master of Business Administration (Gordon Institute of Business Science), Postgraduate Diploma in Corporate Governance (University of Johannesburg)

Mr Sango Ntsaluba
Executive Chairperson: NMT Capital
Bachelor of Commerce (University of Fort Hare), Bachelor of Accounting Science Honours (University of South Africa), CA (SA), NHD Tax Law (University of Johannesburg)

Mr Protas Phili
Director: Khwezela Investment Group
Bachelor of Commerce (University of Natal), CA (SA), Postgraduate Diploma in Accountancy (University of Natal), Advanced Certificate in Auditing (Accounting Professional Training) (University of Johannesburg/University of Cape Town), Master of Commerce in Taxation (University of KwaZulu-Natal)

Ms Phekane Ramarumo Pr.Pln
Chief Executive: Truly African Solutions, Bachelor of Arts (University of Limpopo), HD (PDA) (University of the Witwatersrand), Master of Regional Planning (State University of New York at Albany, United States)

Ms Sonnet Swanepoel
CEO: Present Future Investments
Bachelor of Science in Quantity Surveying Honours (University of Pretoria), Advanced Certificate in Financial Markets

Mr Johan Coetzee
Retired banker and director of companies
Bachelor of Arts, Master of Business Administration (University of Pretoria)

Executive director

CEO: Mr Samson Moraba
Bachelor of Commerce (Unisa), Program for Management Development (Harvard Business School)

EXECUTIVE COMMITTEE

Executive management and prescribed officers

Mr Samson Moraba, CEO
Bachelor of Commerce (Unisa), Program for Management Development (Harvard Business School)

Ms Zonia Adams
Chief Financial Officer
Bachelor of Accounting Science Honours (Unisa), CA (South Africa)

Mr Lawrence Lehabe
Executive Manager: Lending
Bachelor of Commerce (University of Zululand), Master of Science in Marketing (National University of Ireland)

Mr Zola Lupondwana
Executive Manager: Credit
Bachelor of Commerce (University of Botswana), ACA, Chartered Financial Analyst, CA (South Africa)

LEADERSHIP TEAM

Ms Mandu Mamatela
Executive Manager: Corporate Strategy
Bachelor of Commerce Honours (North-West University), Master of Business Administration (PU for CHE), IEDP (United Kingdom)

Mr Siegfried Mogane
Executive Manager: Corporate Support Services
Bachelor of Commerce (Unisa), Master of Strategy (University of Cape Town), Postgraduate Diploma in Management (Corporate Governance) (Monash University South Africa)

Ms Nomsa Ntshingila
Executive Manager: Human Resources
Master of Science in Clinical Psychology (Medunsa), Bachelor of Social Science Honours (North-West University), Higher Education Diploma, Bachelor of Arts in Communications (University of Fort Hare)

Mr Andrew Higgs
Company Secretary
Bachelor of Commerce (Rhodes University), Bachelor of Accounting Science Honours (SA), CA (SA), MAP (WBS), MTP (SA), International Diploma Governance (ICA), Advanced Certificate in Governance (hc) (ICA), Diploma in Corporate Governance (SA and Institute of Directors)

OUTLOOK AND PERFORMANCE REVIEW

Meadowridge, Parklands, Cape Town, Western Cape

CHAIRPERSON'S REPORT

Overview

The 2015/16 financial year is the NHFC's 20th year, and possibly the last in its current form. This milestone provides us with an opportunity to reflect on the past two decades and prepare for the changes ahead. Since inception, our role as a DFI has evolved and continuously been reviewed to ensure we remain an important and relevant vehicle for addressing failures in the market segment we serve (households earning between R1 500 and R15 000 a month). We have had to undertake greater risk to nurture and develop the new targeted housing market. This has to be done on a self-sustaining basis, in a way that complements and crowds in the private sector, rather than being competitive. While much has been done in the past 20 years to improve the access of all South Africans to adequate housing, including our cumulative contribution of 477 000 housing opportunities, with R7 billion direct disbursements and a further R18 billion leveraged disbursements, there is still much work to be done.

This opportunity for reflection comes at a critical juncture in South Africa's development. Low economic growth continues to hamper the country's growth prospects in the short to medium term, with a depreciating currency, falling commodity prices, and low business and consumer confidence all being features of the domestic economy in the year under review.

Interest rates are in an upward cycle and the South African Reserve Bank increased its benchmark interest rate. Inflation and interest rates have an inverse effect on our target market's ability to maintain their contribution to subsidised housing costs, service loan debt or meet their rental obligations. Higher inflation and interest rates also affect the viability of the projects we are approached to fund and household demand for credit, which has remained subdued despite a slight recovery in the period under review.

If our target market experiences financial difficulties, so do our customers – the recipients of our wholesale finance to whom our target market is indebted. This has consequences for our financial sustainability and our ability to fulfil our developmental mandate.

For the first time in its history, the NHFC is reporting a R22 million after tax loss in the 2015/16 financial year. This is due to higher than expected impairments as a result of the non-performance of two major clients and its wholly owned subsidiary. Turn around of these clients continues, but recovery will be a challenge, especially in the prevailing environment of slow economic growth.

However, it is pleasing to see that we have reduced costs significantly, without compromising effectiveness, as a result of our restructuring. The cost to income ratio decreased to 41 percent in 2015/16, from 60 percent in 2014/15. >>

DFI consolidation

The DFI consolidation process experienced significant delays due to legal issues around the NHFC's acquisition and sale transaction of the asset and liabilities of the NURCHA and the RHLF. Central to the delay was choosing the most appropriate tax neutral basis for effecting the transaction.

In his Budget Speech 2016, the Minister of Finance announced tax amendments that grant a special tax exemption to the NHFC to enable it to effect the above transaction on a tax neutral basis.

The three entities agreed to start the consolidation immediately and not wait for the signing of the Tax Amendment Bill later in the year or early in January 2017.

Shareholder funding support

We thank the Minister for her continued support of the NHFC. We have received R330 million of the R635.8 million allocated to us during the MTSF period (2014/15 – 2018/19). The balance of the funds is expected to flow in the following three years.

The receipt of a tranche of R100 million in the current year, together with early settlements, contributed to an improved liquidity position. Optimal shareholder support is key to our ability to deliver on our mandate. We continue to manage our operations within the resources available.

Governance

A warm welcome to Mr Andrew Higgs, who takes over as the new Company Secretary. Andrew brings a wealth of experience in financial and corporate governance to this role. I wish him well in his new capacity.

Appreciation

I wish to express my deep appreciation to the Honourable Minister Dr Lindiwe Sisulu for her confidence, support, guidance and regard for the NHFC as a key agent in delivering optimal funding and financing the Strategy for Human Settlements.

A special thanks to my fellow Board members for their support over the years, and for providing valuable leadership, insight and guidance to the delivery of the NHFC mandate, as per our Shareholder Compact. Over the past 20 years, we have shared in the NHFC's distinct history, great leadership, memories and experiences.

On behalf of the Board of Directors, I thank the CEO, his executive team and staff of the NHFC for their continued commitment to helping the majority of South Africans access affordable, well located, quality houses, through the provision of innovative housing finance solutions, leading to sustainable and empowered communities.

Although we expect the subdued economic environment to continue in the short to medium term, we all need to work even harder to deliver on the DFI consolidation promise, that of significant scale, delivery across the whole human settlements value chain and the long-term financial sustainability of the consolidated Human Settlements Development Finance Institution.

PROFESSOR MICHAEL KATZ
Chairperson

CHIEF EXECUTIVE OFFICER'S REPORT

Overview

Since its inception 20 years ago, the NHFC has evolved, adapted and remained relevant to the changing environment, both in terms of government policies and priorities, while remaining grounded by its financial sustainability goals as a DFI. We have been a pioneer in the financing of social and inner city rental housing, in the absence of private sector funding, and thus contributing to its regeneration with great success through organisations like the TUHF, a successful associate that extended the NHFC's delivery. The NHFC subsequently took bold steps that would be game changers in the affordable housing market, such as piloting the secondary home loan process through Gateway Home Loans; launching Home Front Finance, which piloted an employer based partnership with the private sector at a retail level; and conducting a feasibility study and initiating a pilot on mortgage default insurance. Lastly, we pushed the boundaries of innovation by developing an income linked home loan instrument as opposed to a mortgage, through HIP, a joint venture with Old Mutual that aims to provide options for households in the affordable housing market. Our work aligns with and contributes to the realisation of South Africa's National Development Plan.

These developments and initiatives, among others, have made the NHFC the organisation it is today. The successes we have gained and the lessons learnt from our failures have allowed us to better prepare for the constantly changing shareholder development imperatives and market environment in which we operate. >>

Acacia Park, Msunduzi, Pietermaritzburg, KwaZulu-Natal

Project launch of Tamaleti Flats, Kempton Park, Johannesburg, Gauteng

Strategy

Restructuring

Our restructuring as a focused, efficient and effective DFI is largely complete. We have realigned the allocation of resources optimally to improve our effectiveness and efficiency, as evidenced by the significant drop in our cost to income ratio during 2015/16.

The restructuring drive is supported by our customer-centric revised pricing and our core system and processes. The last aspect of this transformation is the transition from a cost centre to a profit centre for all our lending businesses.

DFI consolidation

The DFI consolidation, although delayed due to legal issues around the acquisition and sale transaction, which forms the basis of the consolidation process, has advanced steadily.

As mentioned last year, with the support of National Treasury, the acquisition of assets and liabilities of both the RHLF and the NURCHA by the NHFC, will be dealt with through an amendment of section 10(1)(t) of the Income Tax Act, whose aim is to make the transaction tax neutral. The income tax amendment was announced in the Finance Minister's February 2016 Budget Speech, as part of the passing of the Additional Tax Policy and Administrative Adjustments.

Noting that the existing DFIs are already active, the rationale behind the consolidation still remains pertinent as a consolidated human settlements institution with sufficient capitalisation and the ability to mobilise the necessary funding would be better placed to meet and, in particular, achieve the following requirements:

- Mobilise increased private sector credit to households.
- Facilitate and support credit extension and finance innovation.
- Maximise leveraging of government housing finance assets.
- Ensure that the existing institutional capacity is retained and optimised and realigned as far as possible.
- Realise synergies and effect cost savings in respect of better coordination and programme alignment, together with savings in reporting, governance and systems.
- Maximise balance sheet capabilities by more effectively using the combined resources of the DFIs.
- Regularise and strengthen the mandate and authority of the Human Settlements Development Finance Institution.

Performance overview

The NHFC recorded a consolidated loss before tax of R56 million against a budgeted profit of R48 million. Much of this is due to the impairments and write-offs of loans to key clients, highlighting our vulnerability to the impact of the larger non-performing portfolio, as reported on in the prior year.

Impairments and write-offs totalled R188 million, compared to R79 million in the prior year, and were driven by several key clients, jointly contributing R201 million at company level, which have all been non-performing accounts for quite some time. Turning these accounts around has proved a challenge.

Our improved cost structure, the result of the 2014/15 restructuring, has decreased the cost to income ratio from 60 percent in 2014/15 to 41 percent in 2015/16.

The overall decrease of 6 percent in total assets is mainly due to the return of funds managed on behalf of the KwaZulu-Natal provincial government. The increased level of impairments and subdued disbursements for the year had a significant effect on the loans and advances portfolio, which decreased by 12 percent. This is in spite of the 4 percent increase in shareholder equity following the recapitalisation of R100 million.

Strategic investments

Cape Town Community Housing Company (wholly owned subsidiary)

Although the CTCHC posted a profit of R14 million for 2015/16, we have had to impair and write off R42 million in non-recoverable debt for the same period and reverse R1.5 million of interest income.

This excludes prior year impairments and write-offs. No formal response as yet has been received from the national DHS on the sale of the majority shareholding request. Section 54(2) of the PFMA requires that before a public entity concludes a transaction of this nature, approval must be sought from the executive authority (DHS) for the public entity and the National Treasury must be notified.

TUHF

Despite TUHF's positive performance for the 2015/16 financial year, it has been adversely affected by a reduced asset base as a result of higher than expected client settlements, as well as suspended interest on problematic projects. The arrears are expected to improve following the conclusion of the Durban portfolio, where it experienced the highest concentration of non-performance.

HIP

The NHFC is invested in HIP through equity and shareholder loans and directly in the two trusts (Trust I and II) through junior debt. We hold a 33 percent equity stake in the management company together with Old Mutual, which holds 67 percent equity.

The NHFC's total investment of R270 million in junior debt in the trusts has leveraged a further R1.08 billion from the private sector. This brings total investment in the trusts to R1.35 billion.

HIP's main challenge remains its ability to raise capital in the current market so it can continue to lend to the target market.

International Housing Solutions

We have committed R300 million in the form of risk capital to Fund II, which is projected to generate R2.4 billion. To date, a total of R117.3 million has been called. Capital is initially drawn from KfW as the fund's foreign currency investor.

Outlook

We expect difficult economic conditions to persist in 2016/17, but with significantly lower impairment charges, as a result of the remedial steps that are already in place.

The NHFC will focus relentlessly on consummation of the acquisition and sale transaction, operational integration and participation to effect the Human Settlements Development Finance Institution.

The NHFC, in partnership with the Social Housing Regulatory Authority, is well positioned to deliver social rental housing and private, affordable rental in South Africa's inner cities.

Appreciation

I would like to thank the Honourable Minister of Human Settlements, Dr Lindiwe Sisulu, for her leadership and resolve on the consolidation of the human settlements DFIs.

My gratitude also goes to the department for their support, under the leadership of the Director-General, Mr Mbulelo Tshangana. I would also like to thank our Chairman, Prof Michael Katz, for his exemplary leadership.

The ongoing immense support of our external stakeholders, including the Portfolio Committee of Human Settlements, the National Treasury, our clients and funders, has been immeasurable, and for this, we are truly grateful.

Lastly, I wish to thank the Executive team and staff for their commitment to meeting the human settlements needs of the majority of underserved, average working South Africans.

SAMSON MORABA
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REPORT

This year, for the first time since inception, we are reporting a consolidated loss before tax of R56 million against a budgeted profit of R48 million. Much of this is due to the impairments of loans to three key clients, highlighting our vulnerability to the impact of the larger non-performing portfolio. Income growth was adversely affected by the revenue lost to non-performing clients, as well as below budgeted disbursements. The increased impairments from these three clients were due to:

- Significant risk exposure to the unsecured lending market. The sector has experienced turmoil over the last 24 months, mainly because of excessive lending and loose credit criteria by non-banking retail intermediaries. This turmoil was exemplified by the curatorship of African Bank Investments Limited as a result of a distressed loan book.
- Exposure to two mega national housing projects that underperformed. Reasons for underperformance include poor location of projects (affecting viability), poor project management by our client, a curb in mortgage lending by established banks (affecting offtake of completed units) and municipal delays in approving plans. The significant build-up of interest has made some of the projects unviable, hence the impairments. However, where possible, remedial action is being taken to turn the projects around.

Mountain View Villas, Maitland, Cape Town, Western Cape

Key financial indicators

			Actual March 2016	Budget March 2016	Actual March 2015	Actual March 2014
Return on equity	%	Group	**(0.8%)**	1.2%	0.5%	0.4%
		Company	**(2.0%)**	1.3%	0.2%	1.3%
Return on assets	%	Group	**(1.8%)**	1.5%	0.6%	1.0%
		Company	**(2.8%)**	1.6%	0.2%	1.8%
Cost to income ratio	%	Group	**41%**	53%	60%	66%
		Company	**42%**	46%	55%	58%
Credit loss ratio	%	Group	**3.7%**	2.5%	1.4%	0.0%
		Company	**4.1%**	2.5%	1.3%	0.0%
Credit loss ratio (including bad debts)	%	Group	**8.4%**	-	3.1%	0.9%
		Company	**9.0%**	-	2.9%	0.8%

Return on equity: Profit after tax/closing net assets (or total closing shareholder funds)
Return on assets: Profit before tax/closing total assets (excluding funds under management)
Cost to income ratio: Total operating costs/total operating income
Credit loss ratio: Current year impairment charge on loans and advances/closing gross loans and advances
Credit loss ratio including bad debts: Current year impairment and bad debt charge on loans and advances/closing gross loans and advances adjusted for bad debts on loans and advances; no budget included, not previously budgeted for on this basis

Excluding these impairments, we would have recorded a profit and a lower bad debt ratio. Prevailing subdued economic and market conditions continue to negatively affect our clients and target market. The current conditions have reduced the growth rate and quality of the advances book, with adverse effects on profitability. Along with quality and interest margins, growth in the loan book is a key driver of financial performance in a lending business such as ours.

However, our improved cost structure, the result of a restructuring that took place in 2014/15, has seen our cost to income ratio decrease from 60 percent in 2014/15 to 41 percent in 2015/16. This has helped mitigate the extent of the loss that would have otherwise been recorded and supports long-term financial sustainability.

Early settlements of R123 million in 2015/16 also negatively affected the advances book and financial performance. The settlements continued the prior year's trend, resulting in decreased revenue. The early settlements have typically included some of our seasoned customers transferring their debt to banks or real estate investment trusts, which have begun to invest in the affordable rental housing market. This, however, affirms our mandate. We took on the challenge of investing in a sector thought too risky and, through good governance and prudent financial management, helped our customers build up a profile that allowed them to access products and services in the commercial finance sector. Although the graduation of select clients to the larger banks is the normal course of our business, we have struggled to source business from new entrants due to the contraction in the number of property investors in the last two to three years.

The early settlements also contributed to our improved liquidity, as did the receipt of the first tranche of R100 million in 2015/16 of the R300 million National Treasury-approved recapitalisation from our shareholder. The balance is to be transferred over the medium term. A further allocation of R105.8 million in 2018/19 has since been confirmed by our shareholder. The role of our longstanding partnership with our strategic funding partners remains valuable in the mobilisation of sustainable funding of human settlements. During the year, the Agence Française de Développement agreed to replace the return on assets covenant in our agreement with it with a liquidity covenant. The change allows for a covenant that more accurately reflects the nature and risks of our business.

Our financial performance is to be read alongside our developmental impact, as well as our risk appetite in responding to the affordable housing market. Trade-offs are sometimes required between the two and a flexible, collaborative approach is needed in managing debtors. We thus rely on our robust credit management value chain and collaborative customer relationships to mitigate default risks. >>

NHFC's financial position

	Actual March 2016 (Rm)	Actual March 2015 (Rm)	Actual March 2014 (Rm)
Consolidated financial position			
Loans and receivables - advances	1 809	2 067	2 132
Total assets	**3 142**	**3 328**	**3 122**
Net assets	2 756	2 649	2 406
Other financial liabilities	317	354	391
Total net assets and liabilities	**3 142**	**3 328**	**3 122**
Consolidated financial performance			
Revenue	322	430	244
Net impairments and bad debts	188	79	28
Operating expenses	90	145	123
Finance costs	22	22	23
(Deficit)/surplus before tax	**(56)**	**19**	**30**

Mountain View Villas, Maitland, Cape Town, Western Cape

"THE ROLE OF OUR LONGSTANDING PARTNERSHIP WITH OUR STRATEGIC FUNDING PARTNERS REMAINS VALUABLE IN THE MOBILISATION OF SUSTAINABLE FUNDING OF HUMAN SETTLEMENTS."

ZONIA ADAMS, CHIEF FINANCIAL OFFICER

We continue to work closely with customers in financial distress to help them through rehabilitation and restructuring where necessary.

Our experience with respect to equity and quasi equity investments in particular has been challenging. Examples of such investments include investments in junior debt, mezzanine debt, shareholder loans and equity where the investments display characteristics similar to equity and where security is low or non-existent.

We believe, however, that there remains a role for such investments, which enable us to play a catalytic role in stimulating private sector investment and facilitating B-BBEE in line with our mandate.

Our disbursements of R241 million this year played such a role in leveraging a further R1.5 billion from the private sector into the affordable housing space. This facilitated the delivery of 30 386 housing opportunities, impacting the lives of 115 466 beneficiaries, helping to create 9 157 jobs and facilitating the disbursement of R226 million to women, youth and emerging B-BBEE entrepreneurs.

With respect to the statement of financial position, the overall decrease of 6 percent in total assets is mainly due to the return of funds managed on behalf of the KwaZulu-Natal provincial government (77 percent of the funds under management). The increased level of impairments and subdued disbursements for the year had a significant effect on the loans and advances portfolio, which decreased by 12 percent. This is in spite of the increase of 4 percent in shareholder's equity following the recapitalisation of R100 million. The economic slowdown and trend of early settlements and prepayments influenced our disbursement rate.

Our long-term financial sustainability remains a focus area. We have set target ratios to support the financial health of the company and help it fulfil its developmental mandate. The material steps we are taking, as well as the forward looking measures to return us to profitability detailed earlier, include:

- Enhancing our capital structure by raising debt and equity funding over the medium to long term. Key to any funding programme is an optimal level of capitalisation.
- Making the resultant revenue mix a key consideration in our approach to growing our assets.
- Bringing capital allocation decisions and risk management to the fore. This involves focusing on the core business, secured through mortgages, personal suretyships and guarantees, and actively monitoring and reviewing exposure to equity and quasi equity investments.
- Continuously enhancing the pricing model of the company to better reflect the true cost of doing business and the associated risks – including making the choice to cross-subsidise clients or products in a more intentional and development-oriented manner.
- Continuing efforts to rehabilitate key accounts that have a material effect on the non-performing loan book.

These focus areas will remain relevant and no doubt inform the imminent DFI consolidation.

This year we extended our 20-year record of receiving unqualified audit opinions, thanks to our prudent financial management protocols.

We have also maintained our credit ratings at AA- (long term) and A1+ (short term), despite the deterioration of the economy and its effects on our customers and ultimate beneficiaries. Maintaining a healthy credit rating is crucial for us as we head into the DFI consolidation and continue to optimise our capital financing model.

Forecasts from analysts and the economic data released in the first half of 2016 indicate that the South African economy faces headwinds from many fronts. This is especially so in the property finance market due to the rising interest rate trajectory in a slow economic growth environment. With this in mind, management efforts to extract and protect value in the existing book, grow the book through securing bankable projects and continue to pay attention to our operational cost efficiency will become more important.

ZONIA ADAMS
Chief Financial Officer

OPERATIONAL PERFORMANCE

We report each quarter to the shareholder and Board Committees on our performance against the targets set in our five-year strategic plan and APP. We include the contributions made by our subsidiaries and associate companies. Our key performance indicators are based on our assessment of how outputs from our group-level business activities contribute towards our strategic objectives and desired effect in the target market. As a wholesale lending business, our activities have an indirect impact on our target market; therefore, our key performance indicators focus on our role in facilitating access to, rather than directly providing, affordable housing.

We measure and report on:

- Housing opportunities.
- Disbursements: the value of wholesale funding paid towards affordable housing development projects for ownership, social housing and private rental (including in inner cities) and incremental housing.
- Approvals: the value of financing facilities approved for affordable housing development projects for ownership, social housing and private rental (including in inner cities and incremental housing).
- Jobs facilitated: the estimated number of jobs created through disbursements and strategic partnerships.
- Disbursements to historically disadvantaged individuals: the value of disbursements targeted towards women, youth and emerging B-BBEE entrepreneurs.

Our Board oversees the performance of the business, as does our shareholder and Parliament's Human Settlements Portfolio Committee. Our CEO is ultimately responsible for business performance and our key performance indicators form part of how we measure and assess the individual performance of our operational staff as per our human resources plan.

In 2015/16, we disbursed R241 million (59 percent of target) to clients and approved R340 million in loans (73 percent of target). A further R1.5 billion against a target of R650 million was leveraged from partners into projects in which we are invested. The funds disbursed and leveraged in 2015/16 generated 30 386 housing opportunities.

Notwithstanding the current challenging trading environment, the NHFC has achieved most of its impact targets. This was mainly due to good performance from the leveraging programmes, largely through contributions from strategic partnerships and a retail intermediary for incremental housing loans. The other development targets, namely jobs facilitated and B-BBEE funding, were exceeded. We facilitated 9 157 jobs against a target of 4 339 jobs and disbursed R226 million to B-BBEE clients against a target of R90 million.

The tables that follow set out our current year performance against the 2015/16 APP.

Consolidated performance towards MTSF targets

Performance indicator (number of housing opportunities)	Five-year MTSF target (2014/15 to 2018/19)	Cumulative MTSF target to date (2014/15 and 2015/16)	Cumulative MTSF actual to date (2014/15 and 2015/16)
Social housing	5 899	2 255	1 695
Private rental	15 390	5 719	8 761
Total rental	**21 289**	**7 974**	**10 456**
Affordable housing	9 110	4 387	5 820
Incremental housing	17 498	4 000	23 223
Total affordable housing	**26 608**	**8 387**	**29 043**
Grand total	**47 897**	**16 361**	**39 498**
FLISP			1 968
Grand total, including FLISP	**47 897**	**16 361**	**41 466**

Performance against predetermined objectives

Programme 1: Expand housing activities through the effective provision of housing finance opportunities through disbursements

Performance indicator (number of housing opportunities facilitated)	Actual 2015/16	Target 2015/16	Variance	Comments
Social housing units	500	958	-458	Below budgeted disbursements due to construction delays experienced at projects of social housing clients.
Private rental housing units	78	398	-320	Disbursements anticipated to roll over to 2016/17.
Total rental	**578**	**1 356**	**-778**	
Affordable housing units	845	1 196	-351	Major clients are experiencing cashflow challenges due to poor sales. Disbursements from a strategic investment first drawn from the international investor due to foreign currency impact. Contribution included in leveraged impact.
Incremental housing loans	-	1 333	-1 333	No disbursements due to market constraints affecting unsecured lending. Existing facilities expired.
Total affordable housing	**845**	**2 529**	**-1 684**	
Total	**1 423**	**3 885**	**-2 462**	
Number of beneficiaries (factor of 3.8 used)	**5 407**	**14 763**	**-9 356**	

Housing units include completed, transferred or occupied rented units.
* Social and private rental: Number of units arising from disbursements.
** Affordable housing: Number of mortgage loans originated through strategic partnerships such as HIP with an average loan size of R400 000. Instalment purchase agreements originated through intermediaries, units from previously funded integrated developments.

Value of disbursements (Rm)

Performance indicator	Actual 2015/16	Target 2015/16	Variance	Comments
Social affordable housing	23	101	-78	Projects delayed because of construction delays and slow payments of subsidies. Most social housing drawings did not materialise and have been rolled over to 2016/17.
Private rental housing	76	111	-35	Clients experienced challenges, including cost overruns and delayed project rollouts.
Total rental housing	**99**	**212**	**-113**	
Affordable housing	142	174	-32	Disbursements from a strategic investment first drawn from the international investor due to foreign currency impact. Contribution included in leveraged impact.
Incremental housing loans	-	20	-20	No disbursements due to market constraints affecting unsecured lending. Existing facility expired and no new business.
Total affordable housing	**142**	**194**	**-52**	
Total	**241**	**406**	**-165**	

Value of approvals (Rm)

Performance indicator	Actual 2015/16	Target 2015/16	Variance	Comments
Social affordable housing	142	250	-108	Slowdown in the market and poorer quality of applications from SHIs.
Private rental housing	73	174	-101	Increased competition from financial sector.
Total rental	**215**	**424**	**-209**	
Affordable housing loans	-	40	-40	Unsecured lending business in the current weak economic environment (job losses, high interest rates) is not a viable business for the NHFC and the business has been curtailed until market conditions improve significantly.
Affordable housing	125	-	125	The enlargement of a strategic investment's second investment trust.
Total	**340**	**464**	**-124**	

* Facilities approved by the relevant governance structure in line with the delegated authority.
Facilities may be withdrawn and/or not taken by the client.

Avoca Hills, KwaZulu-Natal

Programme 2: Facilitate increased and sustained lending by financial institutions

Performance indicator (number of housing opportunities facilitated through leveraged funds)	Actual 2015/16	Target 2015/16	Variance	Comments
Private rental housing units*	3 977	2 600	1 377	Target exceeded
Affordable housing units**	1 763	1 206	557	Target exceeded
Incremental housing loans***	23 223	2 667	20 556	Target exceeded
Total	**28 963**	**6 473**	**22 490**	
Number of beneficiaries (factor of 3.8 used)	**110 059**	**24 597**	**85 462**	

Housing units include completed, transferred or occupied rented units.
* Private rental: Number of units arising from strategic partnership with TUHF.
** Affordable housing: Number of mortgage loans arising from funds leveraged through strategic partnerships, such as HIP with an average loan size of R400 000 and International Housing Solutions with an average loan size of R500 000. Units from previously funded integrated developments.
*** Incremental housing loans: Number of loans arising from retail intermediary.

Leveraged funds from private sector (Rm)

Performance indicator	Actual 2015/16	Target 2015/16	Variance	Comments
Private rental housing	367	45	322	Target exceeded
Affordable housing	684	565	119	Target exceeded
Incremental housing loans	458	40	418	Target exceeded
Total	**1 509**	**650**	**859**	

Other developmental impact

Performance indicator	Actual 2015/16	Target 2015/16	Variance	Comments
Number of jobs facilitated*	9 157	4 339	4 818	Target exceeded
Value of aggregated disbursements targeted towards women, youth and emerging B-BEEE entrepreneurs (Rm)	226	90	136	Target exceeded

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

The above budgeted performance is mainly as a result of the leveraged contribution from a retail intermediary and the strategic partnership with TUHF. In addition, the aggregated disbursements targeted towards women, youth and emerging B-BBEE entrepreneurs also include the actual disbursements to companies with a shareholding in excess of 50 percent in the hands of historically disadvantaged individuals.

Some of our clients and projects

Tamaleti Flats, Kempton Park, Johannesburg, Gauteng

"THE NHFC AND THE GPF HAVE MADE PROPERTY FINANCE ACCESSIBLE FOR NEW ENTREPRENEURS WHO OTHERWISE WOULD BE EXCLUDED FROM PARTICIPATING IN THE RESIDENTIAL PROPERTY MARKETS DUE TO INACCESSIBILITY OF FINANCE FROM TRADITIONAL LENDERS."

LINDIWE MBONGWE, MANAGING DIRECTOR OF CAPE GANNET

Tamaleti Flats is a development from Cape Gannet, which is 100 percent black owned. The company was selected to participate in the Entrepreneur Empowerment Property Fund Programme, which the NHFC co-funds with the GPF. The loan facility was primarily used to build 24 units, comprising 18 two-bedroom and six bachelor units in Kempton Park, targeting households earning R7 500 to R15 000 a month. Despite delays, the project was completed on time and in budget in February 2016.

"WITHOUT FUNDING FROM THE NHFC, NONE OF THESE PROJECTS WOULD HAVE COME INTO BEING OR THEY WOULD HAVE BEEN SIGNIFICANTLY MORE EXPENSIVE."

TONY LLOYD, CHIEF FINANCIAL OFFICER OF IMIZI HOUSING UTILITY

Fairview Link is a housing project developed by the Imizi Housing Utility, an SHI that offers affordable, conveniently located rental apartments to low to middle income households in Nelson Mandela Bay, Port Elizabeth. In 2014/15, we approved funding of R30 million towards the completion of Fairview Link, which provides 368 modern units of rental housing priced between R650 and R2 500 per month. It is built on land expropriated to the Port Elizabeth Land and Community Restoration Association, a community-based organisation of people forcibly removed from the area in the 1960s. The project's broader goals are to provide affordable housing for the target group and to contribute to the social, spatial and economic integration of Port Elizabeth.

We offered Imizi favourable interest rates and a repayment period of 20 years to make the project viable. We also work closely with the institution to support our economic, social and environmental goals.

The project was recognised as South Africa's best social housing project at the 2015 Govan Mbeki Awards, which recognises excellence in the human settlements sector. This is the second Imizi project that we have funded and which has won awards. The first was the nearby Walmer Link, a 347-unit affordable rental housing project. We are funding Imizi's third project in the area, Willowdene Village, which is expecting its first tenants in June 2016.

Fairview Link and Willowdene Village, Port Elizabeth, Eastern Cape

The NHFC approved a loan in favour of Jas House (Pty) Ltd for the acquisition, refurbishment and conversion of an existing warehouse building in the inner city of Johannesburg. Jas House used the funding to convert the property into 221 rental residential units, 132 mini storage units and 15 retail shops. The conversion of the property was completed in August 2015 and the units have been tenanted.

The Madulammoho Housing Association has a greenfield project in Scottsdene, Cape Town. It is a social housing development comprising 500 residential units, 189 of which are for households earning less than R3 500 a month and the rest for those earning between R3 501 and R7 500 a month. This development is aimed at renting and selling to people with incomes above the social housing bands. It complements the expansion of this housing area.

Human Settlements Minister Honourable Lindiwe Sisulu and Deputy Minister Zou Kota-Fredericks

CORPORATE GOVERNANCE AND RISK MANAGEMENT

CORPORATE GOVERNANCE

Introduction

We have had corporate governance structures and processes in place since our inception. These are continually reviewed to:

- Reflect internal developments.
- Ensure the business is managed ethically and within prudent risk parameters.
- Align with best practice.
- Comply with legislation and regulation.

We fulfil our mandate in a manner that is consistent with best practices and the principles of integrity, fairness, transparency, ethical leadership, efficiency and accountability as set out in King III. The Board of Directors and senior management remain committed, as far as possible, to applying the principles of King III, the PFMA and its regulations, the Companies Act, and all other related legislation.

The Board

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

Accountability to the shareholder

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

Strategic objectives and performance management

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

The APP and compact serve as an agreement documenting the key performance measures against which organisational performance is assessed.

Women entrepreneurs of Cape Gannet celebrating their first successful project

NHFC's Board governance structure

The Board sets out the strategic objectives. It measures itself against the key performance indicators reflected on pages 35 to 37 of this integrated report.

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

Board governance, structures and framework

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

The Board discharges this responsibility within the powers set out in the Memorandum of Incorporation and through the Board Committee structure (depicted above). Although the Board delegates responsibilities to its Committees and executive management, it remains accountable to the DHS.

Each Board Committee has a clearly defined mandate in its terms of reference, which the Board approves and reviews each year. The Board delegates the management of day-to-day operations to the CEO, who is assisted by the Executive Committee (EXCO) and its subcommittees.

Board composition and meetings

The Minister of Human Settlements appoints the Board, which comprises 10 members, the details of whom are reflected on pages 20-21 of the annual report.

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

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

The Board Charter has been aligned with the DHS shareholder compact framework and is reviewed annually. Through it, the Board retains full and effective control of the organisation by:

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

Non-executive directors are remunerated for attending Board meetings and their fees are approved by the shareholder at the annual general meeting. The directors' fees for the year are disclosed in the annual financial statements.

The Memorandum of Incorporation provides that, on a three-year cycle, one-third of the longest serving non-executive directors will automatically retire at our annual general meeting. These directors may allow themselves to be nominated for re-election for a further period of three years. Such re-appointment is then confirmed by the shareholder.

It is the policy of the Board to arrange external evaluations every two years on its performance and effectiveness, as well as that of the Board Committees. The next evaluation will be conducted in 2017. In alternate years, the Board undertakes its own internal self-evaluation.

The Board meets at least four times a year, or more frequently as circumstances require, and the Chairs of the respective Committees report back to the Board at the Board meetings. The record of attendance at Board meetings for the period under review is reflected below.

Director name	25 Jun 2015	23 Jul 2015	17 Sep 2015	26 Nov 2015
Prof M Katz (Chairperson)	√	•	√	√
Mr S Moraba (CEO)	√	√	√	√
Mr S Tati	√	√	√	√
Mr J Coetzee	√	√	√	√
Mr S Ntsaluba	•	√	√	√
Mr P Phili	√	√	√	√
Ms S Swanepoel	√	√	√	√
Ms A Houston	•	√	√	√
Ms P Ramarumo	√	√	√	√
Ms D Msomi	√	√	•	√

• Absent with apology

Company Secretary

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

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

Ethics and managing conflicts of interest

In line with King III, the Board is bound to conduct the business of the NHFC in accordance with the ethical principles as set out in the NHFC 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.

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

Access to information and professional advice

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

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

Fairview Link, Port Elizabeth, Eastern Cape

Board and statutory Committees

All Board Committees have clearly defined terms of reference, which set out the specific responsibilities delegated to them by the Board. These are reviewed annually to ensure alignment with governance standards and applicable legislation, the business of the NHFC and our mandate from the shareholder, and to take account of prevailing underlying conditions in the sector in which the organisation operates. All the Board Committees are chaired by non-executive directors, and cognisance is taken of the King III recommendations concerning the separation of the role of the Board Chairperson from the role of Committee Chairs.

Management attends Committee meetings by invitation. This attendance provides Committees with an additional perspective on agenda items where necessary, and enables the non-executive directors to give direction or request further information where required. Guidance is also taken from external professional institutions, legal firms and audit firms, which collectively have issued several position papers and guidelines to assist companies in their implementation of various relevant statutes.

It is the practice to review the composition of non-executive directors on the various Committees, and to rotate the Chairperson's position on each on a staggered basis. This allows for robust interaction within the Committees and enables various members to use their skills, ideas and experience when considering agenda items with management, without compromising the existing organisational intellectual knowledge from the longer-serving Committee and Board members. To this end, non-executive directors may also be invited from other Committees to assist in deliberations on cross-cutting agenda items.

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

Audit Committee

The Audit Committee is composed of three independent non-executive directors. The members are duly appointed at the annual general meeting by the shareholder, as provided for in the Companies Act.
The current serving members are Mr S Ntsaluba (Chairperson), Mr P Phili and Mr S Tati. The CEO, the Chief Financial Officer and various executive managers attend meetings by invitation, as do the external and internal auditors. During the year, the Committee holds additional closed meeting sessions to consider the cooperation of executive management and the auditors. The Committee meets at least five times a year and its primary objective is to assist the Board in discharging its duties relating to the following:

- Annual consideration of the audit charter for confirmation by the Board.
- Oversight of financial reporting, confirming compliance with all applicable legal requirements and accounting standards.
- The operation of adequate systems of internal control and internal audit processes.
- Reviewing the annual financial statements and accounting policies.
- Reviewing the effectiveness of management information, risk management practices and other systems of internal control in conjunction with the Board Risk Committee (see below), with specific reference to the findings and recommendations of the external and internal auditors.
- The external audit process.
- Confirmation of compliance with all legal statutes and regulations in conjunction with the SEC (see below).
- Corporate governance in conjunction with the SEC.
- Review of quarterly reports to the shareholder.

In addition to the above, the NHFC has an outsourced whistleblowing policy. All matters that are raised are reported to the CEO and/or Chairperson of the Audit Committee for investigation and subsequent action.

The internal audit function is outsourced to an external service provider, independent of the external audit function. The internal auditors conduct periodic reviews of the key processes related to the significant risk of the company, to provide independent assurance to the Board and management on the effectiveness of the internal control systems. The Audit Committee reviews the work of the internal auditors, and the lead auditor of this function has unfettered access to the Chairperson of the Audit Committee and the Board to ensure that any significant audit matters requiring immediate Board attention are escalated.

The internal audit conforms to the International Standards for the Professional Practice of Internal Auditors as published by the Institute of Internal Auditors.
Since this is an outsourced function, it is reviewed every three to five years, and then an open tender is published for a new service provider.

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

Director name	28 Apr 2015	16 Jul 2015	29 Jul 2015	8 Sep 2015	28 Oct 2015	28 Jan 2016
Mr S Ntsaluba (Chairperson)	√	√	√	√	√	√
Mr S Tati	√	√	√	√	√	√
Mr P Phili	√	√	√	√	√	√


A unit at Highlands Loft, Johannesburg, Gauteng

Board Credit and Investment Committee

The Board Credit and Investment Committee comprises three independent non-executive directors and the CEO. Members of the management team also attend meetings.

As per its terms of reference, its primary objective is to help the Board in fulfilling its credit and investment responsibilities. The Committee therefore:

- Recommends the credit philosophy and long-term investment strategy and policies to the Board.
- Approves all loan applications for facilities that exceed or cumulatively exceed R50 million up to R160 million, on recommendation by the Management Credit and Investment Committee. It assesses the inherent risks in a proposed facility within the framework of an approved Credit Policy.
- Recommends the Treasury Management Policy to the Board for approval, and discharges the functions as set out in the policy.
- Recommends loan facilities that exceed or cumulatively exceed R160 million per client to the Board.
- Approves all long-term investments that exceed or cumulatively exceed R20 million up to R100 million, on recommendation by the Management Credit and Investment Committee. It assesses the risks inherent in an investment within the framework of an approved investment policy.
- Recommends all long-term investments that exceed R100 million to the Board.

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

Director name	12 Jun 2015	23 Jun 2015	27 Aug 2015	19 Oct 2015	17 Nov 2015	12 Jan 2016	24 Feb 2016
Mr J Coetzee (Chairperson)	√	√	√	√	√	√	√
Mr S Tati	√	√	√	√	√	√	√
Mr P Phili	√	√	√	√	√	√	√
Mr S Moraba (CEO)	√	√	√	√	•	√	√

• Absent with apology

Delegation of credit and investment approval

Board

Credit proposals
- Above or cumulatively above R160 million

Investment proposals
- Above or cumulatively above R100 million

Board Credit and Investment Committee

Credit proposals
- Below or cumulatively below R160 million
- Above or cumulatively above R50 million

Investment proposals
- Above or cumulatively above R20 million
- Below or cumulatively below R100 million

Management Credit and Investment Committee

Credit proposals
- Below or cumulatively below R50 million
- Above or cumulatively above R10 million

Investment proposals
- Above or cumulatively above R20 million
- Below or cumulatively below R10 million

Internal Credit Committee

Up to or cumulatively up to R10 million

Steve Tshwete Social Housing project, Greater Middleburg, Mpumalanga

Board Human Resources, Ethics and Remuneration Committee

This Committee consists of three independent non-executive directors and meetings are attended by the CEO and Human Resources Executive Manager.

The Human Resources, Ethics and Remuneration Committee meets at least four times a year and its responsibilities include:

- Reviewing its terms of reference annually and recommending any changes to the Board for approval.
- Reviewing the human resources policy and strategy every second year or as required.
- Recommending the remuneration policy as well as the broad framework and cost of executive managers' remuneration to the Board.
- Reviewing the top human resources risks and monitoring how the risks are being mitigated.
- Ensuring that the human resources audit findings are resolved.
- Considering and approving salary increases for all staff other than executive managers.
- Approving the implementation of bonuses and incentives for all staff, except for executive managers.
- Recommending executive managers' salary increases and incentive bonuses to the Board.
- Reviewing and approving succession planning.
- Reviewing the terms and conditions of executive managers' service agreements.
- Recommending the methodology used to structure severance packages for executive managers and deviations thereto.
- Annually reviewing the performance evaluation system, with the key performance indicators on the corporate balance scorecard.
- Providing assurance to the SEC.

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

We have a zero tolerance approach to dishonest, corrupt and illegal conduct. This is central to the Code of Conduct. Criminal behaviour will not be permitted and formal charges will be laid against perpetrators, who would be dismissed if found to have participated in unacceptable behaviour.

The Committee held six meetings during the year under review.

Director name	11 Jun 2015	17 Jun 2015	10 Sep 2015	9 Oct 2015	28 Jan 2016	8 Mar 2016
Ms S Swanepoel (Chairperson)	√	√	√	√	√	√
Ms A Houston	√	•	√	√	√	√
Mr S Ntsaluba	√	√	√	√	√	√

• Absent with apology

Social and Ethics Committee

The SEC is established in terms of section 72(4) of the Companies Act and is constituted as a Committee of the NHFC Board. The mandate of the SEC is to report to the shareholder (generally at the annual general meeting) on its monitoring of the NHFC's activities. For good corporate governance purposes, the SEC extends its reporting to the main Board and does this in line with best practice and an accepted international benchmark framework.

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

In addition to the SEC executing its duties in terms of the Companies Act, it is also guided by the King III Report on Corporate Governance and the PFMA. The Companies Act references specific pieces of South African legislation, in addition to various principles and standards of the Organisation for Economic Co-operation and Development, the International Labour Organization (ILO) and the United Nations Global Compact.

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

The Committee's terms of reference ensure that the NHFC's strategy has included the following social and ethics components in its execution:

- The NHFC conducts its business activities in an ethical and socially responsible manner in fulfilling its duties.
- Social and economic development of its employees and other stakeholders that are affected by the NHFC.
- The NHFC promotes equality and also prevents unfair discrimination.
- The NHFC has established a Code of Ethics, which includes the prevention of fraud, bribery and corrupt practices.
- The NHFC ensures the protection of human rights.
- The NHFC contributes to the development of the communities in which its business activities are predominantly conducted – which includes poverty alleviation and the beginning of wealth creation.
- The NHFC ensures that appropriate labour and employment practices are adhered to, both in terms of local legislation and the protocols specified in the Companies Act.

In fulfilling its obligations, the SEC obtains assurance through reports from other Board Committees:

- *The Board Risk Committee,* which provides assurance that the NHFC is complying with laws and best practices and that an Enterprise Wide Risk Management Policy is in place.

- *The Board Credit and Investment Committee,* which provides assurance that environmental, health and public safety issues are considered when credit is granted to the NHFC's clients and ensures adherence to the NHFC's B-BBEE policy. Indirectly, the provision of investments and lending to housing intermediaries results in poverty alleviation and wealth creation. Furthermore, this Committee provides assurance that the NHFC's clients adopt best practices when undertaking the procurement of goods and services, as well as adopting environmental initiatives with respect to their operations.

- *The Board Human Resources, Ethics and Remuneration Committee,* which provides assurance that the NHFC respects human rights and maintains good employee relationships and an equitable work environment.

- *The Board Developmental Impact and Strategy Committee,* which provides assurance that the NHFC plays the required developmental role, which is sustainable from a social perspective. It also reports on corporate social responsibility and stakeholder relationships.

- *EXCO,* which gives assurance that the NHFC complies with and implements relevant legislation, legal requirements or prevailing codes of best practice with regards to social and economic development matters in line with the protocols in the Companies Act, and that the company monitors the impact of its business activities on environmental, health, safety and procurement matters.

During the year under review, the SEC appreciated the growing importance of its substance and impact within the organisation and its role in reporting to the shareholder. However, as this is a new developmental area, especially within the public sector, the SEC has pursued a greater understanding of its role and performance as defined in the international context.

As a result, the SEC members and executive management have undertaken rigorous internal development and external training to look more deeply into what it means to have a social and ethical conscience and standing. This has been further bolstered by a corporate governance Board workshop, which highlighted the growing importance of the SEC, particularly with the advent of King IV, and the increased focus on social commitment and ethical issues. The outcome of this is a complete overhaul of the Committee's terms of reference and annual work plan.

In the coming year the SEC will therefore also be implementing the GRI G4 reporting framework, and conducting a further review of internal policies, charters and codes of ethics and conduct.

For the period under review, reports from the Committees have identified that the following work has been undertaken and reported through to the SEC:

Focus area	Basis	Activity
Social and economic development	United Nations Global Impact and Organisation for Economic Co-operation and Development Recommendations against Corruption	• The NHFC has prepared a stakeholder strategy and policy • The NHFC has a defined policy towards corporate social investment spend for education, job creation, environmental and economic development, sponsorship and launches • The NHFC undertakes various conservation and recycling measures • The NHFC ensures client compliance with various construction and building regulations, including the provision of energy efficient systems for electricity and water provision, as well as waste and sanitation management • The NHFC has strong policies against corruption and no instances of corruption have been recorded during the year
Good corporate citizenship	Local legislation	• The Employment Equity Report has been prepared and submitted to the Department of Labour • There have been no breaches of any human resources protocols and no regulatory fines have been imposed • The NHFC has a 100 percent commitment to B-BBEE clients • The NHFC has a diverse portfolio of housing opportunities as a DFI
Environment, health and public safety	Local legislation	• The NHFC has prepared environment, credit, pricing, and risk evaluation policies, as well as charters on the environment, ethics, conduct and governance for the Board and all Committees • The NHFC has internal protocols on health and safety, as well as a Management Governance Committee. No health and safety contraventions have been reported
Consumer relationships	Internal protocols	• The NHFC has contributed donations to support a women's build programme • The NHFC regularly interacts with its shareholder at various platforms, and with stakeholders • The NHFC has a policy of commitment of funding to support women, youth and emerging B-BBEE entrepreneurs
Labour and employment	ILO protocol Local legislation	• There were no human relations disputes or grievances raised during the year • All employees have contracts of employment stipulating their terms and conditions of employment • There were no reportable incidents or accidents in terms of the Occupational Health and Standards legislation • A recognition agreement is in place with the Sasbo union • A high majority of staff have received training. Leadership development and change management programmes are in place following the re-organisation undertaken earlier in the 2015 calendar year • All employees were engaged in the performance management reviews • The NHFC policy prevents the employment of minors and this intention is further followed through with clients • The rights of pregnant women are enshrined • The NHFC complies with the requirements of the Skills Development Act and has prepared and submitted a workplace skills plan to the BANKSETA • The NHFC has a grading system that benchmarks and determines the worth of each job, without any form of discrimination • There have been no reports of discrimination, victimisation disputes or strikes of any kind in the workplace

The SEC had two meetings during the year under review and the record of attendance is as follows:

Director name	31 Aug 2015	5 Feb 2016
Ms P Ramarumo (Chairperson)	√	√
Ms D Msomi	√	√
Mr S Moraba (CEO)	√	√

Walmer Link, Port Elizabeth, Eastern Cape

Board Risk Committee

The Board Risk Committee consists of five independent non-executive directors and the CEO. Certain executive managers also attend. It meets at least four times a year and its primary objective is to help the Board execute its responsibilities with respect to risk management.

In fulfilling its mandate, as laid down in its terms of reference, 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 the Board Credit and Investment Committee.

The Committee held six meetings during the period under review.

Director name	28 Apr 2015	16 Jul 2015	29 Jul 2015	8 Sep 2015	28 Oct 2015	28 Jan 2016
Mr P Phili (Chairperson)	√	√	•	√	√	√
Mr S Tati	√	√	√	√	√	√
Mr S Ntsaluba	√	√	√	√	•	√
Mr J Coetzee	√	√	√	√	√	√
Ms S Swanepoel	•	√	√	√	√	√
Mr S Moraba (CEO)	√	√	√	√	√	√

• Absent with apology

Board Developmental Impact and Strategy Committee

This Committee is composed of five independent non-executive directors and the CEO. Executive managers also attend meetings.

Its 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 the NHFC's strategic objectives are aligned to the DHS's human settlements strategy and deal 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.
- Monitor the impact of developmental activities on the NHFC's financial strategy.

The Committee held two meetings during the period under review.

Director name	10 Sep 2015	3 Mar 2016
Mr S Tati (Chairperson)	√	√
Ms A Houston	√	√
Mr J Coetzee	√	√
Ms P Ramarumo	√	√
Ms D Msomi	•	√
Mr S Moraba (CEO)	√	√

• Absent with apology

Governance over subsidiary companies

The NHFC is the sole owner of the CTCHC, which is a managed housing stock development company.

The company is subject to the guiding corporate governance principles of the NHFC, which ensures that its business is conducted in a proper, ethical and responsible manner. Governance oversight is handled through the process of delegated authority, to ensure adherence to the NHFC group's overall subscription to the principles of ethical leadership and good corporate governance.

MANAGEMENT COMMITTEES

EXCO

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

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

Management Credit and Investment Committee

The Management Credit and Investment Committee is a subcommittee of the Board Credit and Investment Committee. It is chaired by the CEO, and meets about eight times a year.

It has its own terms of reference and, as a subordinate Committee, 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 the Board Credit and Investment Committee.

It also recommends all strategic investment proposals above R20 million to the Board Credit and Investment Committee and approves all strategic investments between R10 million and R20 million. These levels are reviewed each year, included in the Delegation of Authority Policy, and approved by the Board.

Assets and Liabilities Committee

The Assets and Liabilities Committee is chaired by the CEO and comprises executive managers. The Committee may invite up to two external specialists per meeting.

The Committee's objectives are to:

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

Information Technology Management Committee

The CEO chairs the Information Technology Management Committee, which includes representatives drawn from IT management and executive management.

Its main objectives are to:

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

Procurement Committee

The Chief Financial Officer chairs the Procurement Committee, which includes managers from various disciplines who are not involved in day-to-day procurement activities.

The Procurement Committee's main objectives are to:

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

Safety and Security Committee

The Safety and Security Committee comprises the Executive Manager: Human Resources (Chairperson), as well as representatives from the legal, IT, and health and safety divisions.

The Committee's main objective is to monitor, evaluate, advise on and make decisions regarding health, safety and security matters, and to report on these matters to the SEC. It is responsible for monitoring and implementing the safety and security policy, once it is approved by EXCO.

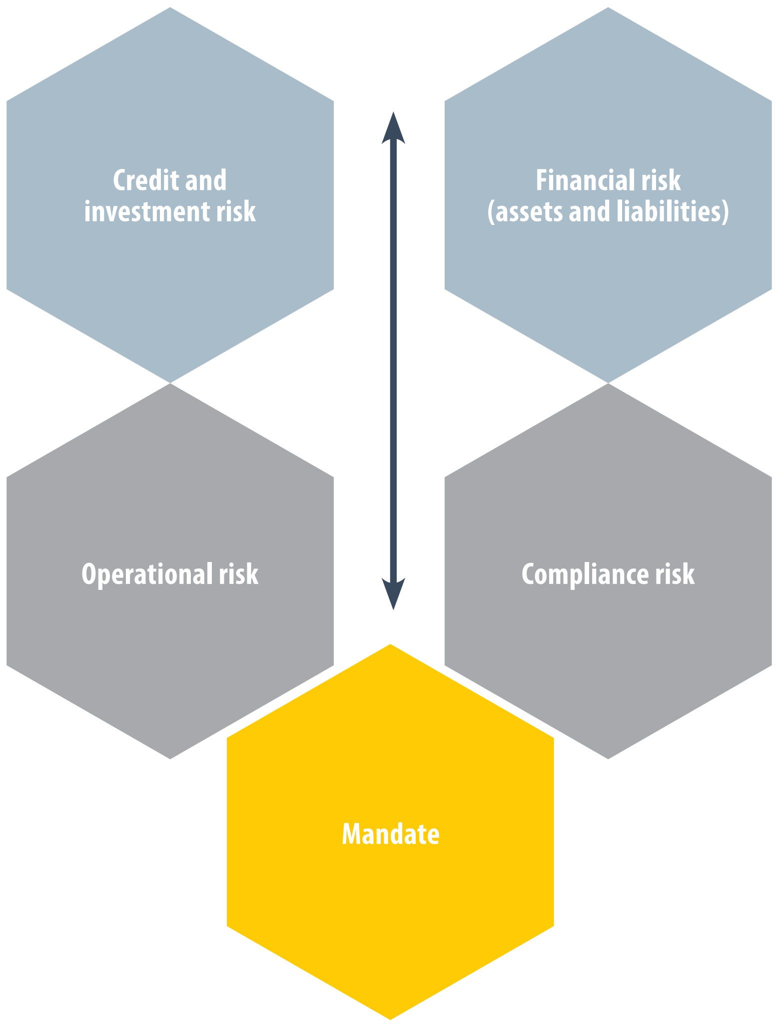
ENTERPRISE RISK MANAGEMENT

DFIs exist to create markets or to correct market failure. Therefore, DFIs, by their nature, must take calculated risks to mobilise private sector investment in unserved or underserved markets. We have robust risk management processes and frameworks supported by good internal controls that have ensured that we operate within Board-approved risk appetite tolerance levels.

Risk focus for 2016

The NHFC identified 11 top strategic risks in the 2015/16 financial year, and focused on the following five risks that are material and have a direct bearing on the achievement of strategic objectives for the year under review.

Funding risk
The risk of the inability of the NHFC to mobilise funding, raise debt at competitive prices and raise equity to support the corporate plan over the MTSF period and thus achieve housing impact as per the agreement signed with the shareholder. The NHFC raised R535.8 million over the MTSF period from the shareholder, of which we have received about R330 million to date.



Financial sustainability risk
The risk that the NHFC may not be pricing optimally, which would result in the NHFC eroding its capital base over the medium to long term. This could result in the NHFC not meeting its mandate and developmental objectives. This risk has been mitigated by reviewing pricing across the product range and adopting a prudent borrowing policy.

Credit risk
The risk of our customers and partners not paying. This risk is managed by enforcing contractual obligations with customers and reviewing the credit granting impairment policy each year.

Investment risk
The risk that the NHFC may not realise the expected returns from investments in equity and quasi equity instruments. This risk is managed through an investment policy that sets out clear guidelines for investing in various instruments.

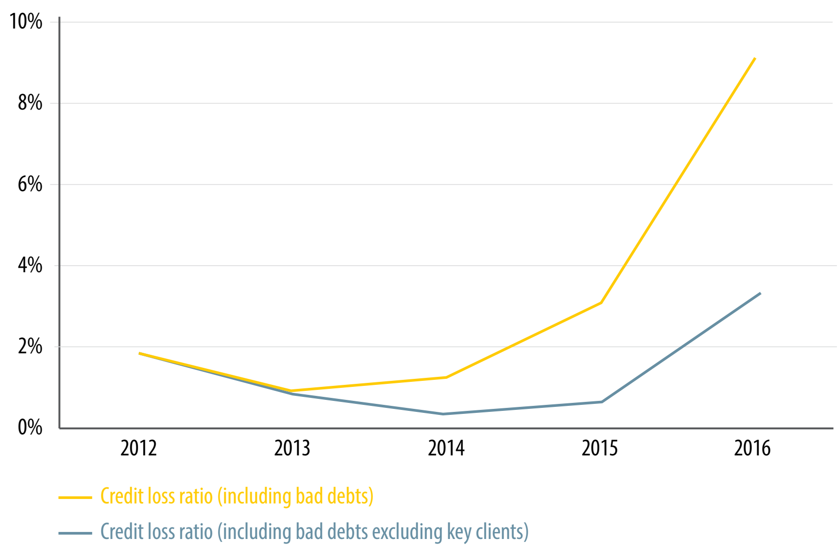
Business performance risk
The risk that the NHFC may not achieve performance targets as per the approved APP. This risk is mitigated through targeted business development initiatives aimed at ensuring that the NHFC adopts a robust pipeline of new projects to finance.

Material risks in this financial year

Impairments and bad debt write-offs increased and the quality of the loan book deteriorated in 2015/16 as a result of continued adverse trading conditions.

The bulk of the increased impairments and bad debt write-offs over the past two financial years stem from financial difficulties experienced by two clients involved in mega projects, an unsecured lender and one SHI client. The following factors also had an effect:

Credit loss ratio trends – Company



- Established banks' reduced appetite for mortgage lending affected the take-up of completed units of select clients.
- A slow regulatory process to approve building plans by municipalities.
- Significant cost overruns in some projects due to rising construction inflation and poor project management by clients.
- Poor management decisions regarding project configuration and location.

The NHFC identified most of these clients as non-performing in the previous financial year. As a result, the non-performing loan book as a percentage of the gross loan book has remained steady at 23 percent over the past 12 months. The NHFC has experienced a high non-performing loan book to gross loan book ratio mainly due to the protracted nature of the processes for restructuring accounts and exposure to mega projects, which have displayed unusually high developmental risk. While efforts are being undertaken to turn around some of these projects, the processes have been protracted and challenging. While some will be turned around through restructuring initiatives, others may require write-offs in the short to medium term.

Our core lending product is senior debt, which is secured with a first covering mortgage bond. However, if one analyses our credit losses, there was a significant spike in the impairment and bad debt charge from quasi equity investments in the form of mezzanine and junior debt, which are typically unsecured and riskier investments.

Management's responses have focused on:

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

The outlook for 2016/17 indicates that the NHFC, like most financiers, will face challenges relating to collections and improving the loan book, as outlined elsewhere in this report. We expect that our clients will continue to struggle to generate adequate operating cash flows to service their obligations.

Embedding a risk culture across the organisation

The implementation of the Enterprise Wide Risk Management Policy is supported by an enhanced operational risk management awareness campaign. Every NHFC division now has an operational risk register. In addition, the NHFC developed the risk appetite statement to ensure that management and the Board take strategic decisions that are informed by the NHFC's risk appetite. The NHFC divisions have a Board-approved policy that governs the execution of their work. All policies are reviewed annually.

Internal audit

The NHFC internal audit function is outsourced. The relationship with the internal auditors is governed by an internal audit charter as required by National Treasury Regulations. The internal auditors' role is to provide the Board and management with an objective assurance that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks, both current and emerging, that threaten the achievement of the NHFC's strategic objectives.

Internal audit is responsible for developing a three-year, risk-based audit plan that takes into account any risks or control concerns that have been identified by management or the Board Audit Committee. The Board Audit Committee approves the audit plan and budget.

The internal auditors report to the Audit Committee and attend all Audit Committee meetings. They also have direct access to the CEO, Chairperson of the Audit Committee and Chairperson of the Board.

Key focus areas during the past year
The internal auditors performed nine assignments during the year under review: eight internal controls and risk reviews and one training session on risk management for risk champions. The Board Audit Committee planned and approved the eight internal controls and risk reviews. The internal auditors have not provided any consultancy service to the NHFC.

The internal auditors' review of the NHFC's internal controls rated three areas as optimum, one area as good, two areas as acceptable and two areas were not rated as they were follow-ups from the previous year's findings.

During the year under review the internal auditors engaged with the following stakeholders:

- Executive management
- Board Risk Committee
- Board Audit Committee
- External auditors.

Compliance

We complied with the PFMA, National Treasury Regulations, the Companies Act, the National Credit Act and legislation that had a direct impact on our business during the year under review.

Fraud and corruption

The NHFC maintains a fraud hotline, which is independently managed by Deloitte. During the year under review, there were no incidents of fraud or corruption reported through the hotline, directly to management or to the compliance officer.

Risk management achievements

Risk management met the following milestones during the year under review:

- Cascaded risk management to all operations of the NHFC. All NHFC divisions have risk champions who act as links to enterprise risk management.
- Aligned risk reviews to strategic planning and APPs.
- Reviewed the risk appetite statement.
- Enhanced compliance awareness to the Financial Intelligence Centre Act (2001) and anti-money-laundering campaigns.

Risk management and compliance focus areas over the next year

- Close monitoring of DFI consolidation to ensure that the risks thereof are identified early and communicated to stakeholders.
- Regular fraud and awareness campaigns.
- Ensuring that the NHFC is better prepared to manage business continuity disasters.
- Benchmarking risk management processes.
- Assessing the NHFC's risk maturity level.

SOCIAL AND ENVIRONMENTAL IMPACTS

Fairview Link, Port Elizabeth, Eastern Cape

ENTERPRISE SUPPLIER DEVELOPMENT

Enterprise development is embedded in all of the NHFC's activities. This is aligned with the transformational objective of government to see increased and sustained participation of black people, women and other historically disadvantaged individuals in the economy. Our procurement and lending practices demonstrate that we are committed to doing our part to help realise this objective.

Funding B-BBEE enterprises

In partnership with the GPF, we provide finance to emerging black entrepreneurs wishing to enter the residential property market in Gauteng. We have set aside R240 million for this initiative. To date, 20 new entrepreneurs have been assisted with funding, more than half of whom are women. Of the amount allocated, R125.2 million is committed to approved deals and R65.6 million has been disbursed. Through our direct lending activities and our investment in TUHF, a NHFC associate company, we have facilitated the provision of funding of R226 million to B-BBEE companies.

Preferential procurement

The amended B-BBEE Codes of Good Practice, which came into effect on 1 May 2015, have introduced additional demands that affect transformation initiatives. The amended codes reorient the transformation policy to address the issue of fronting, emphasise B-BBEE enterprises that are more productive, and promote the growth of black industrialists.

The NHFC is committed to building on its empowerment credentials by aligning with the B-BBEE codes and complying with legislation that opens up opportunities for black-owned companies.

Our Procurement and Supply Chain Policy ensures that we have governance practices in place to achieve the objectives set out in the Financial Sector Code. These codes set specific targets for procurement from verified B-BBEE suppliers. It also incentivises procurement from qualifying small enterprises. The NHFC also considers procurement from value-adding suppliers whose goods are manufactured or assembled in South Africa when raw materials are not locally available. The codes provide for points in this regard. Our preferential procurement expenditure has escalated to reach 52 percent actual spend on B-BBEE compliant suppliers in the year under review.

Central supplier database

Our suppliers must be registered with the National Treasury and their B-BBEE status must be verified. They are also asked to provide plans on how they intend improving their B-BBEE contributor level. We are engaging with our suppliers to help them develop these plans where necessary.

Supplier development

We help our suppliers develop to ensure that we contribute to creating an enabling environment for small and medium enterprises that allows them to access the support provided by economic development institutions. Our support also encourages and nurtures a culture of entrepreneurship in South Africa and helps to develop black industrialists. Our development programme aims to transform the NHFC's supply chain, thereby ensuring the active economic participation of small and medium enterprises.

The NHFC has maintained its strategy regarding supplier development, including honouring preferential procurement and shorter payment terms. This helps small and medium enterprises, as well as qualifying small enterprises, manage their cash flow and remain financially viable. We also provide advice and access to knowledge where needed; for example, regarding procurement and legal issues. The NHFC also conducts loss reviews with those suppliers who are not awarded contracts to help them improve.

We retain our strategic emphasis on working with previously disadvantaged South African suppliers, with a focus on including companies run by black women and black people living with disabilities.

We will continue to take a multi-faceted approach that ensures growth, provides for skills transfer, and helps to create jobs, develop skills and attain sustainable growth.

Looking ahead

We intend to form a partnership with the Industrial Supplier Development Association, a Department of Public Enterprises initiative, which advocates for supplier development in the industrialisation, localisation and transformation programmes. We believe that the association is a key lever for economic growth within SOCs.

HUMAN CAPITAL

The NHFC's employees are its most valuable competitive advantage. As a result, the NHFC is committed to developing, engaging and retaining its most valuable asset for value creation.

Remuneration principles

The Board's Human Resources, Ethics and Remuneration Committee oversees the governance of remuneration practices, while executive management undertakes management responsibility, including that of ensuring compliance with the applicable regulatory requirements and alignment with codes of good remuneration practice.

The Human Resources Executive Manager has the authority to consult independent remuneration consultants, to benchmark remuneration in line with current market practices and to comply with legislation. The management of remuneration practices is in line with our remuneration philosophy and must support and reinforce our culture and values.

Our remuneration policy is transparent. It is communicated to all employees through staff workshops and is available on the intranet. All employees' personal remuneration information is treated confidentially and is always dealt with in terms of regulatory requirements. All remuneration practices are aligned with principles of equity and equality, and implemented on the basis of differentiation in respect of performance.

Total remuneration for the year ended 31 March 2016

The remuneration of executive managers and prescribed officers for the year ended 31 March 2016 is set out in the annual financial statements. The amounts disclosed are the amounts recognised as an expense during the reporting period related to key management personnel.

Policies, practices and procedures

Our employment policies, practices and procedures are benchmarked against best practice in human resource management to produce expected value. They also comply with relevant legislative and other codes and standards, including those of the ILO and the labour laws of South Africa. The ILO standards and South African legislation set minimum labour standards, including prohibiting child and compulsory labour, allowing freedom of association, eliminating discrimination in employment and occupation, and instituting security practices and barring any human rights violation.

During the period under review, there were no infringements related to the above human rights and labour practices. There were also no cases filed by employees against us at the Commission for Conciliation, Mediation and Arbitration, or the bargaining councils.

Beyond these minimums, our employment policies, practices and procedures also cover diversity and equal opportunity, fair remuneration, talent management, training and development of staff, occupational health and safety, and dispute resolution. In 2015/16, we reviewed these policies, practices and procedures, and held employee awareness workshops.

Change management

The reorganisation we embarked on in the previous year had a significant impact on our people. As a result, we engaged a service provider to guide us through a process of change management to mitigate any adverse effects from the restructuring. The process yielded a series of mitigation activities, which are currently underway. These activities are expected to improve communication in the organisation, drive productivity and enhance leadership effectiveness to embed change, thus leading to engaged employees.

Diversity and equal opportunity

The employment equity demographics have not changed much since the reorganisation, which means that recruitment decisions have to factor in finding the best suitable candidates to match the national demographics.

Nonetheless, in the 2015/16 reporting period, we met our regulatory responsibilities in terms of reporting our employment equity performance to the Department of Labour.

Equal remuneration

The NHFC has a grading system that determines the relative worth of a job. This is done through a transparent job evaluation process conducted by a service provider. The outcome of the evaluation process is shared with all the stakeholders, including the employee. For the period under review, no position underwent a job evaluation review.

Talent management

In our quest to develop and motivate employees, we have developed a talent management framework that spans the human resource management spectrum (recruitment, employee development, performance management and succession planning).

For the reporting period, the following activities took place:

- Two employees were employed in key positions and two others resigned, bringing the annual turnover to 3.7 percent against a target of 8 percent.
- As part of leadership development, all EXCO members attended a team

Employee demographics, 2015/16

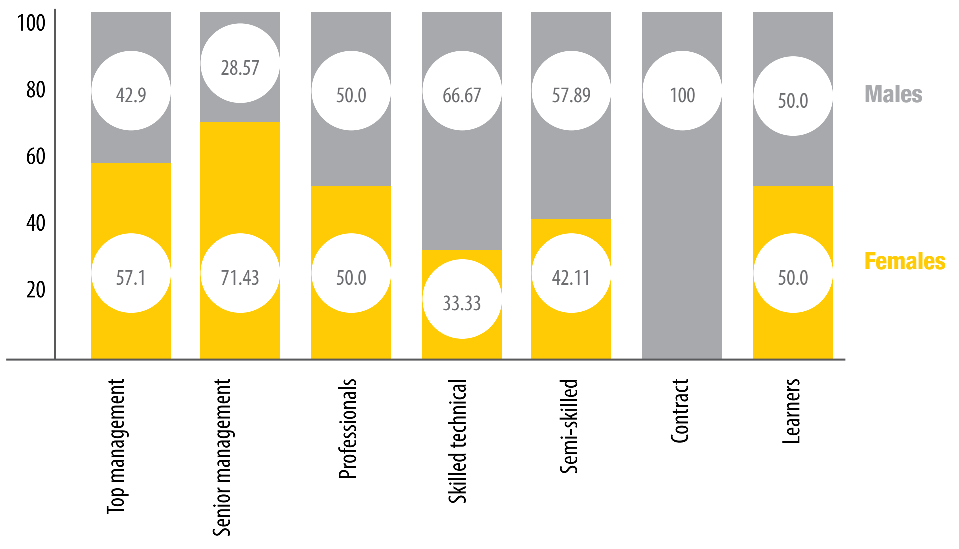
Males

Occupational levels	African	Coloured	Indian	White	TOTAL
Top management	4	0	0	1	5
Senior management	3	0	1	1	5
Professionals	7	0	0	0	7
Skilled technical	2	0	0	0	2
Semi-skilled	9	0	0	0	9
TOTAL PERMANENT	25	0	1	2	28
Contract	0	0	0	0	0
Learners	2	0	0	0	2
GRAND TOTAL	27	0	1	2	30
%	90	0	3.3	6.7	100

Females

African	Coloured	Indian	White	TOTAL	GRAND TOTAL
2	1	0	0	3	8
1	1	0	0	2	7
7	0	0	0	7	14
3	0	1	0	4	6
10	1	0	0	11	20
23	3	1	0	27	55
0	0	0	0	0	0
4	1	0	0	5	7
27	4	1	0	32	62
84.4	12.5	3.1	0	100	

Staff male/female ratio, 2015/16 (%)



effectiveness programme facilitated by a consulting firm, and coaching sessions facilitated by an international service provider.

- The NHFC and its counterpart, the finance industry union Sasbo, successfully negotiated salary increases for employees covered by the bargaining agreement.
- The reviewed human resources policies and succession planning strategy were approved for implementation in 2016/17.

Training and education

Staff training is central to our human resources strategy. It is aligned with both succession planning and leadership pipeline development, as well as employee competence. It also complies with the requirements of the Skills Development Act (1998). During the year under review, we exceeded our target by training 96 percent of staff against a target of 80 percent. The inputs to our training programme include performance reviews, technical competency gap identification and leadership development.

Since the inception of our experiential training in 2013, at least 20 learners, 20 percent of whom we currently employ, have participated in our learnership programme for graduate students and interns. The programme includes:

- A bursary scheme, which funds the graduate studies of students from previously disadvantaged communities. On completion, the graduate is offered a one-year internship. Depending on the availability of suitable vacancies at the end of the internship, the intern may be offered a suitable position.
- A learnership programme, which is provided in partnership with the BANKSETA. This programme provides experiential training to newly qualified students. It also runs over 12 months and learners are rotated within the NHFC's different business units.

Occupational health and safety

Our approach to employee wellness is comprehensive. Health issues addressed through occupational healthcare include medical, psychological, environmental, general health practices and financial matters. These programmes are managed and regulated through our organisational policies and procedures.

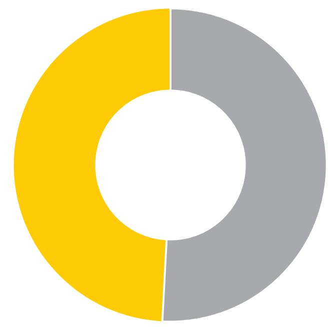
We also comply with the requirements of the Occupational Health and Safety Act (1993). As a result of the Health and Safety Committee members having accepted voluntary retrenchment in February 2015, we conducted one health and safety drill. Nominations for the new health and safety representatives are underway. Once appointed, they will attend the prerequisite training on the legislative requirements and to acquaint themselves with the expectations of the role.

Dispute resolution

The NHFC has a recognition agreement with the employee representative, the finance industry union Sasbo. In terms of the agreement, the union is mandated to represent employees in any dispute. This includes representation in salary negotiations, grievances and disciplinary hearings. In 2015/16, the NHFC negotiated salaries with the representative trade union for the first time as the proportion of unionised members to non-unionised staff members exceeded the requisite threshold.

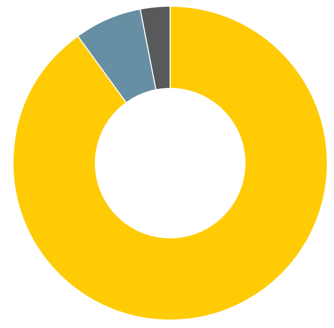
The NHFC's robust grievance mechanism has, over time, created a more democratic work environment. All NHFC employees have access to grievance mechanisms that allow them to voice their concerns without fear of punishment or retribution. For the period under review, the NHFC recorded a 3 percent grievance record against a target of 5 percent, and no disciplinary action was taken against any of the employees.

Male vs female employees



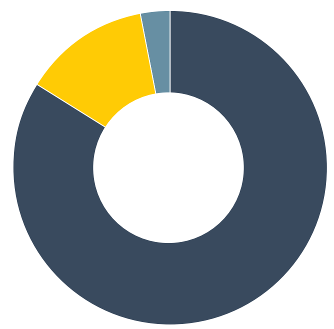
- Females (51%)
- Males (49%)

Male employees



- African (90%)
- White (7%)
- Indian (3%)

Female employees



- African (84%)
- Coloured (13%)
- Indian (3%)

OUR ENVIRONMENT

We continue to roll out our internal environmental plan and we play an advisory role for our clients in this regard. Our strategy is guided by the United Nations Global Compact, the South African National Standard 10400-XA Regulations, King III principles and best practice. Protecting our environment and reducing any negative impacts of our activities is not only embedded in our value system, it also makes business sense. Our environmental policy helps us to:

- Contribute to creating a better environment for all.
- Appeal to a wider ambit of clients.
- Attract a broader range of funding, especially from multilateral agencies.
- Influence our stakeholders, including clients and suppliers, to act responsibly.

As we are not directly involved in manufacturing or construction, our greatest environmental impact is through the building and renovation projects of our clients and investment and business partners. The NHFC has thus adopted and embedded a new investment appraisal process that reviews compliance with legislation and any extra initiatives adopted by the project sponsors that affect the environment.

We evaluate projects from an environmental perspective, especially with respect to compliance with South African National Standard 10400-XA regulations and best practice.

Our staff members have suggested and adopted various practices, and have helped us raise awareness and implement a "reduce, re-use and recycle" mindset to minimise waste. Our focus areas include electronic usage and disposal, paper, general waste, electricity, and water and sanitation. We can report satisfactory progress in this respect and tangible benefits.

Way forward

In the next financial year, we will focus on further engagement and effective monitoring of our clients' environmental initiatives. We are conducting feasibility studies into expanded solutions for affordable and innovative environmental practices for use in our clients' projects. Implementation of the environmental plan, however, must be tempered by the tough economic reality that our clients face.

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2016

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GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Board of Directors	Prof. Michael Katz (Chairperson) Mr Johan Coetzee Ms Anthea Houston Mr Samson Moraba (Chief Executive Officer) Ms Dudu Msomi Mr Sango Ntsaluba Mr Protas Phili Ms Phekane Ramarumo Ms Sonnet Swanepoel Mr Sizwe Tati
Postal address	PO Box 31376 Braamfontein 2017
Bankers	Standard Bank of South Africa Limited
Auditors	SizweNtsalubaGobodo Inc Registered Auditors
Company registration number	1996/005577/30

Statement of responsibility by the Board

The Board of Directors, which constitutes the Accounting Authority, is required by the Public Finance Management Act (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the NHFC at 31 March 2016, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the annual financial statements and have been given unrestricted access to all financial records and related data.

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

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

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

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

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

The Directors have reviewed the NHFC's cash flow forecast for the year to 31 March 2017, and in light of this review and the current financial position, it is satisfied that we have access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the NHFC's annual financial statements and their report is presented on pages 69 to 70.

The annual financial statements, set out on pages 72 to 126, which have been prepared on the going concern basis, were approved by the Board of Directors on 21 July 2016 and were signed on their behalf by:

Prof. Michael Katz Independent Non-executive Chairperson	**Mr Samson Moraba** Chief Executive Officer

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

I hereby confirm in terms of Section 88(2)(e) of the Companies Act, Act 71 of 2008, that the NHFC lodged with the Commissioner of Intellectual Property and Companies, all such returns and notices as are required of a State Owned Enterprise in terms of the Act for the financial year ending 31 March 2016, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

Andrew Higgs
Company Secretary

Independent Auditors Report

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 72 to 126, which comprise the consolidated and separate statement of financial position as at 31 March 2016 , 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.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

Opinion
In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of National Housing Finance Corporation SOC Limited and its subsidiaries as at 31 March 2016 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 "Report on Predetermined objectives" as set out on pages 122 to 126 of the financial statements, and reported thereon to the directors. The procedures performed were limited to the following selected objectives:

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

Independent Auditors Report

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

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

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

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

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

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

Other reports required by the Companies Act
As part of our audit of the financial statements for the year ended 31 March 2016, we have read the Directors' Report for the purpose of identifying whether there are any material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

SizweNtsalubaGobodo Inc.
Registered Auditor

Per DH Manana
Chartered Accountant (SA)
Registered Auditor
Director
21 July 2016

SizweNtsalubaGobodo
20 Morris Street East
Woodmead
Johannesburg, 2191

Audit Committee Report

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

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

External Auditors
The Audit Committee approved the external auditors' terms of engagement, scope of work, the annual fee and noted the applicable levels of materiality. Based on written reports submitted, the Audit Committee reviewed, with external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved. The Audit Committee is satisfied that the 2016 audit was completed without any restrictions on its scope. The Audit Committee is satisfied that the external auditors are independent of the group.

Internal Audit
The Audit Committee has satisfied itself that findings by the Internal Audit are followed up and implemented by management.

The Audit Committee is also satisfied that the Internal Audit remains independent of management.

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

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

Evaluation of Annual Financial Statements and Accounting Policies
The Audit Committee has reviewed principles, policies and practices adopted in the preparation of annual financial statements for the 2016 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the audited annual financial statements. The Audit Committee is satisfied that they are adequate and appropriate and that the audited annual financial statements comply in all material respects with the Public Finance Management Act, the Companies Act of South Africa and Generally Recognised Accounting Practice.

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

SS Ntsaluba
Chairman of the Audit Committee
7 July 2016

Director's Report

Mandate and Principal Activities
The National Housing Finance Corporation SOC Limited (NHFC) was established by the National Department of Human Settlements as a Development Finance Institution (DFI) with the principal mandate of broadening and deepening access to affordable housing finance, for low to middle income South African households. The NHFC is listed as a schedule 3A public entity in terms of the Public Finance Management Act. Details of the NHFC's principal activities are described on pages 14 to 15.

Corporate Governance
The Directors embrace the principles of the King III Code and Companies Act and endeavour to comply with these recommendations as far as possible.

Financial Highlights
The financial highlights are set out on page 9.

Financial Results
The financial results of the NHFC for the year under review are set out on pages 74 to 121 of these financial statements.

Business Performance Results
The business performance against predetermined objectives for the year under review is set out on pages 122 to 126.

Share Capital and Shareholder
The Government of the Republic of South Africa is the sole shareholder of the NHFC and the Minister of Human Settlements duly represents the shareholder's interest. There were no changes to the authorised and issued share capital of the NHFC during the year.

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

Going Concern
The Board has given particular attention to the assessment of the going concern ability of the Company and Group, and has a reasonable expectation that the NHFC has adequate resources to operate in the foreseeable future. The NHFC Group has therefore adopted the going concern basis in preparing the financial statements.

During the year the NHFC was recapitalised by the Shareholder in the amount of R100 million. This was the first tranche of the approved budget allocation of R300 million over the Medium Term Expenditure Framework period. The remainder will be paid in tranches of R100 million in each of the following two years. A further allocation of R105.8 million in 2018/19 has since been confirmed by the Shareholder.

Directorate and Secretariat
Details pertaining to the directors appear on pages 20 and 21. During the year the position of the Company Secretary was filled.

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

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

In line with the recommended structure of the transaction, the NHFC, as the identified institution, will acquire the assets and liabilities of both RHLF and NURCHA. This is viewed as stage one of the transaction towards a fully integrated Human Settlements Development Finance Institution supported by an enabling act.

The DFI consolidation has fallen behind schedule, and will not be concluded within the stipulated timeframe as reported in the previous financial year. The delay has been due to unanticipated regulatory matters.

A significant milestone has been achieved though, which will accelerate the conclusion of the DFI consolidation. The Finance Minister in his budget speech of February 2016 proposed a special tax exemption similar to that provided to certain government entities that will enable the consolidation with the two tax exempted entities. Further amendments will be considered to ensure that the transfer of assets from both RHLF and NURCHA to the NHFC is tax neutral.

It is envisaged that the implementation of the consolidation of the DFIs will start in the 2016/17 financial year, with the timeframe for the final integration likely to extend over the next eighteen months, due to the requirements of the enabling legislation and its enactment process.

Remuneration of Directors and Members of Board Committees
Directors' emoluments are set out on pages 119 and 120 of these financial statements.

Audit Committee Members of Board Committees
The appointed Audit Committee members and External Auditors is in line with the Companies Act, Act 71 of 2008. NHFC's policy is, where possible, to not use the External Auditors for non-audit services. In cases where the External Auditors are to be used for non-audit services, prior approval of the Audit Committee must be obtained.

Internal Control
An effective internal control framework is the responsibility of the Board. The control framework provides a 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 the IT Governance Framework is delegated to an IT Management Committee, the details of which are reflected on page 55.

Events after the reporting date
The NHFC converted some of its debt issued to TUHF to equity, the conversion was effected after the fulfilment of all conditions.

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

Performance
The performance of the NHFC against the Shareholder's Compact with the Minister of Human Settlements is set out on pages 122 to 126.

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

The Directors' Report for the year ended 31 March 2016 was approved by the Board of Directors on 21 July 2016 and is signed on their behalf by:

Prof. Michael Katz
Independent Non-executive Chairperson

Mr Samson Moraba
Chief Executive Officer

Statement of Financial Performance

		Group		Company	
	Note(s)	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Interest on advances	1	156,305	198,497	158,041	213,545
Interest received on investments	1	42,499	24,670	42,183	24,240
Rental income	1	6,459	7,827	600	1,412
Dividends received	1	938	753	2,585	2,310
Sale of houses	1	116,194	198,485	-	-
Revenue		**322,395**	**430,232**	**203,409**	**241,507**
Cost of sales	2	(94,411)	(183,674)	-	-
Net impairments	4	(77,891)	(35,144)	(100,684)	(36,360)
Gross surplus		**150,093**	**211,414**	**102,725**	**205,147**
Other operating income	3	15,814	17,215	8,113	9,915
Administrative expenses	4	(71,478)	(129,214)	(63,050)	(112,778)
Other operating expenses	4	(18,879)	(15,520)	(16,729)	(13,575)
Surplus before tax		**75,550**	**83,895**	**31,059**	**88,709**
Fair value adjustments	4	(4,258)	-	38,713	(16,432)
Bad debts	4	(109,930)	(44,032)	(134,142)	(44,032)
Share of profit of an associate		4,388	1,234	-	-
Finance costs	5	(21,529)	(21,840)	(21,338)	(21,553)
(Deficit) surplus before taxation		**(55,779)**	**19,257**	**(85,708)**	**6,692**
Income tax expense	6	33,924	(5,688)	30,809	(2,071)
(Deficit) surplus for the year		**(21,855)**	**13,569**	**(54,899)**	**4,621**

Statement of Financial Position as at March 31, 2016

		Group		Company	
	Note(s)	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Assets					
Non-current assets					
Loans and receivables - advances	7	1,538,900	1,895,404	1,734,932	2,164,023
Investment in listed equity investments	8	-	4,258	-	4,258
Investment in debentures	10	-	-	-	5,041
Investment in associate	12	134,045	95,388	126,790	83,819
Property, plant and equipment	13	947	930	829	597
Intangible assets	14	1,187	1,788	1,174	1,759
Instalment sale receivables	15	122,001	92,301	-	-
Investment property	16	88,402	80,868	58,000	51,650
Deferred tax	6	37,837	15,534	43,419	24,231
		1,923,319	**2,186,471**	**1,965,144**	**2,335,378**
Current assets					
Loans and receivables - advances	7	269,824	171,523	285,274	186,421
Properties developed for sale	18	95,694	190,438	-	-
Instalment sale receivables	15	7,074	10,295	-	-
Other receivables and prepayments	19	8,637	7,372	9,687	16,728
Held to maturity investments	20	470,285	329,173	470,285	329,173
Cash and short term deposits	21	344,570	430,077	333,947	402,893
Income tax receivable	6	23,004	3,067	23,004	3,067
		1,219,088	**1,141,945**	**1,122,197**	**938,282**
Total assets		**3,142,407**	**3,328,416**	**3,087,341**	**3,273,660**
Liabilities					
Non-current liabilities					
Funds under management	24	44,883	193,220	44,883	193,220
Other financial liabilities	25	283,360	295,754	282,090	293,276
		328,243	**488,974**	**326,973**	**486,496**
Current liabilities					
Other financial liabilities	25	33,711	58,686	32,394	53,370
Provisions	26	11,142	62,421	10,531	61,666
Trade and other payables	27	13,408	69,102	7,179	6,965
		58,261	**190,209**	**50,104**	**122,001**
Total liabilities		**386,504**	**679,183**	**377,077**	**608,497**
Net assets		**2,755,903**	**2,649,233**	**2,710,264**	**2,665,163**
Issued capital	22	842	842	842	842
Share premium	22	879,158	879,158	879,158	879,158
Grant capital	23	530,000	430,000	530,000	430,000
Retained earnings		1,317,378	1,339,233	1,300,264	1,355,163
Non distributable reserves		28,525	-	-	-
Total net sssets		**2,755,903**	**2,649,233**	**2,710,264**	**2,665,163**
Total net assets and liabilities		**3,142,407**	**3,328,416**	**3,087,341**	**3,273,660**

Statement of Changes in Net Assets

	Issued capital	Share premium	Total share capital	Non distributable reserves	Grant capital	Total reserves	Retained earnings	Total net assets
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group								
Balance at April 01, 2014	842	879,158	880,000	-	200,000	200,000	1,325,664	2,405,664
Changes in net assets								
Surplus for the year	-	-	-	-	-	-	13,569	13,569
Grant	-	-	-	-	230,000	230,000	-	230,000
Total changes	-	-	-	-	230,000	230,000	13,569	243,569
Balance at April 01, 2015	842	879,158	880,000	-	430,000	430,000	1,339,233	2,649,233
Changes in net assets								
Surplus for the year	-	-	-	-	-	-	(21,855)	(21,855)
Grant	-	-	-	-	100,000	100,000	-	100,000
Share of associates reserves	-	-	-	28,525	-	28,525	-	28,525
Total changes	-	-	-	28,525	100,000	128,525	(21,855)	106,670
Balance at March 31, 2016	842	879,158	880,000	28,525	530,000	558,525	1,317,378	2,755,903
Note(s)	22	22	22		23			
Company								
Balance at April 01, 2014	842	879,158	880,000	-	200,000	200,000	1,350,542	2,430,542
Changes in net assets								
Surplus for the year	-	-	-	-	-	-	4,621	4,621
Grant	-	-	-	-	230,000	230,000	-	230,000
Total changes	-	-	-	-	230,000	230,000	4,621	234,621
Balance at April 01, 2015	842	879,158	880,000	-	430,000	430,000	1,355,163	2,665,163
Changes in net assets								
Surplus for the year	-	-	-	-	-	-	(54,899)	(54,899)
Grant	-	-	-	-	100,000	100,000	-	100,000
Total changes	-	-	-	-	100,000	100,000	(54,899)	45,101
Balance at March 31, 2016	842	879,158	880,000	-	530,000	530,000	1,300,264	2,710,264
Note(s)	22	22	22		23			

Cash Flow Statement

		Group		Company	
	Notes	**2016** R'000	**2015** R'000	**2016** R'000	**2015** R'000
Cash flows from operating activities					
Receipts					
Sale of goods		116,194	198,485	-	-
Interest, rental and dividend income		206,201	231,747	203,409	241,508
Other income		15,814	17,215	8,113	9,915
		338,209	447,447	211,522	251,423
Payments					
Employee costs		(51,220)	(107,668)	(44,229)	(93,666)
Net cash payment to suppliers		(284,441)	(310,110)	(207,308)	(75,675)
Finance costs		(21,529)	(21,840)	(21,338)	(21,553)
Net cash payment to customers		180,470	35,402	234,753	(37,164)
Taxation paid		(19,937)	(15,813)	(19,937)	(15,813)
		(196,657)	(420,029)	(58,059)	(243,871)
Net cash flows from operating activities	28	**141,552**	**27,418**	**153,463**	**7,552**
Cash flows from investing activities					
Additions to property, plant and equipment	13	(618)	(226)	(594)	(117)
Disposal of property, plant and equipment	13	19	32	-	-
Proceeds from sale of investment property	16	559	-	-	-
Addition of other intangible assets	14	(204)	(1,761)	(204)	(1,741)
Proceeds from sale of other intangible assets	14	2	-	-	-
Decrease in Held to Maturity Investment		(141,112)	(189,760)	(141,112)	(189,760)
Net cash flows from investing activities		**(141,354)**	**(191,715)**	**(141,910)**	**(191,618)**
Cash flows from financing activities					
Repayment of borrowings		(37,368)	(36,999)	(32,162)	(33,093)
Movement in funds under management		(148,337)	(32,545)	(148,337)	(32,545)
Grant capital		100,000	230,000	100,000	230,000
Net cash flows from financing activities		**(85,705)**	**160,456**	**(80,499)**	**164,362**
Net increase/(decrease) in cash and cash equivalents		(85,507)	(3,841)	(68,946)	(19,704)
Cash and cash equivalents at the beginning of the year		430,077	433,918	402,893	422,597
Cash and cash equivalents at the end of the year	21	**344,570**	**430,077**	**333,947**	**402,893**

Accounting Policies

Corporate information
The consolidated financial statements of the National Housing Finance Corporation SOC Limited (NHFC) for the year ended 31 March 2016 were approved by the Board on 21 July 2016. NHFC is a public company incorporated and domiciled in South Africa, the shares of which are held by the Government of the Republic of South Africa.

1.1 Basis of presentation
The consolidated financial statements have been prepared on a historical cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000), except as otherwise indicated. The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements for the year ended 31 March 2016 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 2016.

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

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

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

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

1.4 Changes in accounting policy and disclosure
The accounting policies adopted are consisted with those of the previous year.

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

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

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

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

The fair value of the Company's investment property is determined using the capitalisation of net income method of valuation based on a capitalisation rate of 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 cashgenerating units that are expected to benefit from synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

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

ii) Business combinations prior to 1 January 2010
In comparison to the above-mentioned requirements, the following differences applied:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.
- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.
- When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that would otherwise have been required under the contract.
- Contingent consideration was recognised only if the Group had a present obligation, the economic outflow of which was more likely than not, and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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

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

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

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

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

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

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

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

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

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

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

iii) Depreciation
Depreciation is calculated on a straight-line basis over the asset's expected useful life, using the following depreciation rates to reduce the carrying value to recoverable amount:

Item	Average useful life
Computer hardware	33.33%
Computer software	33.33%
Furniture and fittings	16.67%
Motor vehicles	25%
Office Equipment	16.67%
Leasehold improvements	period of lease

The 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 derecognised 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 derecognised.

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

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

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

(g) Financial instruments
i) Financial assets
Financial assets within the scope of GRAP 104 are classified financial instruments into three different categories:
a) Financial instruments at fair value, comprising both derivative and non-derivative financial assets and financial liabilities;
b) Financial instruments at amortised cost comprising only non-derivative financial assets and financial liabilities; or
c) Financial instruments at cost, comprising investments in residual interests where the fair value cannot be reliably determined.

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

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

Financial instruments at fair value (with revenue or expense recognised as a surplus or deficit in the statement of financial performance)

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

Financial instruments held at amortised cost
These are non-derivative financial assets or financial liabilities that have fixed or determinable payments.

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

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

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

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

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

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit and loss when the investments are derecognised 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 derecognised 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).

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 derecognised 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 derecognised, as well as through the amortisation process.

iv) De-recognition of financial assets and liabilities
Financial assets
A financial asset is derecognised 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 derecognised 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 obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the obligation.

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

Provisions are not recognised for future operating losses. If an entity has a contract which is onerous, the present obligation under the contract shall be recognised and measured as provision.

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

(i) Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use.The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings;
- Weighted average of the borrowing costs applicable to the entiy on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:
- Expenditures for the asset have been incurred;
- Borrowing costs have been incurred; and
- Activities that are necessary to prepare the asset for its intended use are in progress.

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

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

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

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

Finance leases - Group as lessor
The Group recognises finance lease receivables on the Statement of Financial Position.

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

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

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

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

(k) Contingent liabilities and commitments

Contingent liabilities
A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are not recognised in the statement of financial position but disclosed in notes.

Commitments
Items are classified as commitments where the Group has committed itself to future transactions. Commitments are not recognised in the statement of financial position but disclosed in the notes.

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

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

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

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

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

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

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

ii) Revenue from non-exchange transactions

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

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

Investment properties are derecognised 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.

(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 property. Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

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

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

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

1.7 New standards and interpretation

The following standard has been adopted by the NHFC but do not have a material impact on the the annual report:

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.

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.

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 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 relations;
- 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.

The following standards have been adopted by the NHFC effective 1 April 2015:

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, with the effective date for years commencing on or after 1 April 2015.

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

	Group		Company	
	2016 R'000	**2015** R'000	**2016** R'000	**2015** R'000
1. Income				
Interest on advances				
Interest on performing advances	131,526	182,303	150,970	204,440
Interest on impaired advances	7,071	9,105	7,071	9,105
Interest on instalment sales	17,708	7,089	-	-
	156,305	**198,497**	**158,041**	**213,545**
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	42,499	24,670	42,183	24,240
Rental income				
Rental income from investment property	6,459	7,827	600	1,412
Dividend received				
Dividend income - TUHF	938	753	2,585	2,310
Sale of houses				
Subsidiary sale of houses	116,194	198,485	-	-
2. Cost of sales				
Subsidiary cost of sale of houses	(94,411)	(183,674)	-	-
3. Other operating income				
Other operating income is made up as follows:				
Management fees	738	4,370	738	4,370
Levies from instalment sales	2,270	1,663	-	-
Recoveries and refund	3,772	3,526	527	3,526
Other interest received	434	199	498	520
Sundry income	507	868	-	849
Fair value adjustment on investment properties	8,093	6,589	6,350	650
	15,814	**17,215**	**8,113**	**9,915**
4. Profit before tax				
Administrative expenses				
Staff costs*	25,867	85,090	23,502	75,543
Salaries	21,336	78,900	19,370	69,353
Medical aid contributions	1,412	2,408	1,412	2,408
Provident fund contributions	3,119	3,782	2,720	3,782
Management costs (refer note 32)*	25,355	22,552	20,729	18,123
Administration	3,381	5,505	2,508	4,659
Marketing	1,471	1,363	1,391	1,049
Consultancy	8,314	7,281	8,246	7,248
Directors' fees	2,816	2,635	2,816	2,517
Legal fees	1,257	1,152	950	950
Auditors fees	1,993	2,504	2,002	1,881
Travel and entertainment	1,024	1,132	906	808
	71,478	**129,214**	**63,050**	**112,778**

Notes to the Annual Financial Statements (cont.)

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
4. Profit before tax (continued)				
Other operating expenses				
Communication	2,031	2,058	1,830	1,807
Tranining and development	842	674	821	607
Office expenses	2,618	2,752	2,085	2,281
Depreciation and amortisation	1,385	965	1,151	763
Sundry expenses	3,785	818	3,785	818
Operating lease payments	8,218	8,253	7,057	7,299
	18,879	**15,520**	**16,729**	**13,575**
*Number of employees	75	73	55	53
Fair value changes on investments: Listed investments				
Blue Financial Services Limited	(4,258)	-	(4,258)	-
	(4,258)	-	(4,258)	-
Unlisted investements				
Cape Town Community Housing Company Proprietary Limited	-	-	-	(7,991)
Trust for Urban Housing Finance Holdings Proprietary Limited	-	-	42,971	3,479
Housing Investment Partners Proprietary Limited	-	-	-	(11,920)
	-	-	42,971	(16,432)
Total	**(4,258)**	**-**	**38,713**	**(16,432)**
Impairments	**77,891**	**35,144**	**100,684**	**36,360**
Impairment raised on debentures	-	-	5,041	1,156
Impairment raised on preference shares	-	2,658	-	2,658
Impairment raised on goodwill	-	2,714	-	-
Impairment raised on loans and advances	77,733	29,772	95,485	32,546
Impairment on Greenstart dividend	158	-	158	-
Bad debts written off	**109,930**	**44,032**	**134,142**	**44,032**
Bad debts raised other than loans and advances	1,829	1,372	7,367	1,372
Bad debts raised loan and advances	108,101	42,660	126,775	42,660
5. Finance costs				
Interest on other financial liabilities	21,529	21,840	21,338	21,553

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
6. Taxation				
Major components of the tax expense (income)				
Current				
Local income tax - current period	-	(8,495)	-	(8,495)
Underprovision of prior year taxes - penalties	-	(279)	-	(279)
Tax provision reversal	11,620	-	11,620	-
	11,620	**(8,774)**	**11,620**	**(8,774)**
Deferred				
Originating and reversing temporary differences	(6,589)	3,086	(15,438)	6,703
Prior year under or over provision	(469)	-	2,973	-
Rate change	-	-	2,292	-
Tax losses	29,362	-	29,362	-
	22,304	**3,086**	**19,189**	**6,703**
	33,924	**(5,688)**	**30,809**	**(2,071)**
Deferred tax asset: Statement of financial position				
Balance at the beginning of the year	15,534	12,448	24,231	17,528
Recognised through the income statement	22,303	3,086	19,188	6,703
Balance at the end of the year	**37,837**	**15,534**	**43,419**	**24,231**
Deferred tax asset/liabilty consists of:				
Provision for leave pay	3,772	4,185	3,772	4,185
Provision for incentive bonus	3,600	12,000	3,600	12,000
Operating lease	876	1,314	876	1,314
Fair value gain on investment property	(29,077)	(19,978)	(29,077)	(19,978)
Fair value gain on investment in associates	-	-	(41,020)	(9,529)
Impairment on Gateway	-	-	40,000	33,300
General provision for impairment - Retail	25,094	38,967	25,094	38,967
Impairment on debentures	-	-	19,358	1,156
Fair value on equity investment	24,001	16,332	25,600	22,466
Impairment of Preference shares - Greenstart	2,000	2,658	2,000	2,658
Tax loss	104,864	-	104,864	-
Total	**135,130**	**55,478**	**155,067**	**86,539**
Tax rate of 28%	**37,837**	**15,534**	**43,419**	**24,231**
Reconciliation of the tax expense				
A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2016 and 2015 is as follows:				
Accounting (deficit) surplus	(55,779)	19,257	(85,708)	6,692
Tax at the applicable tax rate of 28% (2015: 28%)	(15,618)	5,392	(23,998)	1,874
Tax effect of adjustments on taxable income				
Non-taxable income	(2,900)	(275)	(3,487)	(814)
Permanent difference	(17,537)	-	-	-

Notes to the Annual Financial Statements (cont.)

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
6. Taxation (continued)				
Non-deductible expenses	13,282	1,279	13,561	1,719
Underprovision of prior year taxes	-	279	-	279
Prior year adjustment	469	(987)	(2,973)	(987)
Rate change	-	-	(2,292)	-
Reversal of tax provision	(11,620)	-	(11,620)	-
Income tax expense reported in the statement of financial performance	**(33,924)**	**5,688**	**(30,809)**	**2,071**
Income tax receivable: statement of financial position				
Balance at the beginning of the year	3,067	(3,972)	3,067	(3,972)
Tax paid	19,937	15,813	19,937	15,813
Current	-	(8,495)	-	(8,495)
Penalties	-	(279)	-	(279)
Balance at the end of the year	**23,004**	**3,067**	**23,004**	**3,067**
7. Loans and receivables - advances				
Gross advances				
Opening balances	2,278,868	2,314,429	2,565,159	2,528,153
Disbursements	212,802	538,391	241,050	729,221
Repayments	(285,171)	(531,292)	(349,026)	(649,555)
Amounts previously impaired, written off	(46,573)	(41,576)	(46,573)	(41,576)
Amount never impaired but written off during the year	(61,528)	(1,084)	(80,204)	(1,084)
Balance at the end of the year	**2,098,398**	**2,278,868**	**2,330,406**	**2,565,159**
Impairments on advances				
Balances at the beginning of the year	(211,941)	(182,169)	(214,715)	(182,169)
Amounts impaired in previous years and written off during the year	46,573	41,576	46,573	41,576
Increase in impairments on advances	(150,887)	(77,793)	(168,639)	(80,567)
Impairments reversed during the year*	26,581	5,361	26,581	5,361
Amounts never impaired but written off during the year	-	1,084	-	1,084
Impairments raised	(77,733)	(29,772)	(95,485)	(32,546)
Balance at the end of the year	**(289,674)**	**(211,941)**	**(310,200)**	**(214,715)**
Comprising:				
Specific impairments	(256,547)	(159,985)	(277,073)	(162,759)
General impairments	(33,127)	(51,956)	(33,127)	(51,956)
Net advances	**1,808,724**	**2,066,927**	**2,020,206**	**2,350,444**
Maturity analysis				
Receivable within one year	269,824	171,523	285,274	186,421
Receivable within one to two years	279,219	331,589	294,668	367,411
Receivable within two to three years	145,838	376,214	161,288	386,295
Receivable beyond three years	1,113,843	1,187,601	1,278,976	1,410,317
Net advances	**1,808,724**	**2,066,927**	**2,020,206**	**2,350,444**
Non-current assets	1,538,900	1,895,404	1,734,932	2,164,023
Current assets	269,824	171,523	285,274	186,421
	1,808,724	**2,066,927**	**2,020,206**	**2,350,444**

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

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
8. Investment in listed equity investments				
Blue Financial Services Limited				
Shares at cost - ordinary shares				
Carrying amount of investment in shares	4,258	4,258	4,258	4,258
Fair value adjustment	(4,258)	-	(4,258)	-
Carrying amount of shares at 31 March 2016	**-**	**4,258**	**-**	**4,258**

As part of a debt restructuring agreement, the NHFC acquired 67 415 730 ordinary shares by converting a R30 million interest bearing loan owed by Blue Financial Services Limited to equity. This is equivalent to 0,88% of the issued capital. The conversion took place in July 2012 at an agreed share price of 44,5 cents per share. The equity investment in Blue Financial Services was devalued during July 2013 following a significant decrease in the share price to 13 cents, a further devaluation was taken as a prudent measure given the uncertainties surrounding the company's underlying performance in its operations, the prolonged suspension from the JSE and the lack of audited financial statement. Other factors that inherently affect the company's future prospects include the raising of funding and the settlement of the Debt Restructuring Agreement lenders. In the absence of a quoted share price, the carrying value has been fully impaired.

9. Investments in subsidiaries

Cape Town Community Housing Company Proprietary Limited

The Cape Town Community Housing Company Proprietary Limited (CTCHC) is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Shares at fair value - ordinary shares				
Opening balance	-	-	-	7,991
Fair value adjustment	-	-	-	(7,991)
Carrying amount of shares at 31 March 2016	-	-	-	-

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.

10. Investment in debentures - Cape Town Community Housing Company Proprietary Limited

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
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	-	-	(19,156)	(18, 000)
Balance	-	-	2,041	3,197
Convertible debentures acquired at cost	-	-	3,000	3,000
Impairment recognised during the current year	-	-	(5,041)	(1,156)
Carrying amount of debentures at 31 March 2016	**-**	**-**	**-**	**5,041**

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

Notes to the Annual Financial Statements (cont.)

	Group		Company	
	2016 R'000	**2015** R'000	**2016** R'000	**2015** R'000
11. Investment in preference shares				
Greenstart Proprietary Limited				
Opening balance	-	2,658	-	2,658
Dividends accrued	-	-	158	-
Dividends Impaired	-	(2,658)	(158)	(2,658)
Investment in preference shares at fair value	-	-	-	-

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

12. Investments in associates

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

The company is involved in the provision of commercial property finance in the form of bridging finance and long-term loans for the regeneration of South African inner city precincts and surrounding suburbs. The NHFC effectively owns 32,60% of the issued share capital consisting of ordinary shares and B ordinary shares. B ordinary shares were acquired as part of the restructuring in which the NHFC converted R40 million of its term loans to B ordinary shares which carry the same weight and voting rights as existing equity shares. B ordinary shares have an unconditional right to receive dividends at 75% of the prime lending rate for five years (2013 to 2017). The conversion amount of R40 million has been allocated between increase in shareholding of R29 million, while the balance of R11 million has been recognised as loans and receivables representing the fair value of future dividends expected over the five years. 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	
	2016 R'000	**2015** R'000
Total assets	739,680	714,657
Total liabilities	(640,635)	(647,766)
Net asset	**99,045**	**66,891**
Investment at cost	33,282	33,282
Accumulated share of profit in associate	26,309	18,625
Accumulated share of reserves in associate	7,299	796
Carrying amount of investment in associate as at 31 March	**66,891**	**52,703**
Current year share of profit in associate	7,609	7,684
Other reserves	(3,978)	6,504
Current year share of reserves in associate	28,524	-
Carrying amount of investment in associate as at 31 March	**99,045**	**66,891**
Share of the associate's revenue	85,713	80,041
Investment in preference shares		
Opening balance	35,000	35,000
Carrying amount of investment preference shares	35,000	35,000
Carrying amount of investment in TUHF Holdings Proprietary Limited	134,045	95,388

Notes to the Annual Financial Statements (cont.)

12. Investments in associates (continued)

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

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

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

	Group	
	2016 R '000	**2015** R '000
Share of the associate's balance sheet		
Current assets	1,849	3,886
Non-current assets	346	254
Current liabilities	(500)	(1,041)
Non-current liabilities	(26,006)	(21,665)
Net asset	**(24,311)**	**(18,566)**
Carrying amount of the investment in company	-	7,233
Accumulated share of the associate's loss	-	(7,233)
Carrying amount of the investment	-	-
Share of the associate's revenue	4,422	2,292

The Group's share of cumulative losses amounts to R24,311 million in 2016 (R18,566 million in 2015) which have been recognised to Shareholder loan investment. The Group's share of cumulative losses in the associate HiP have been recognised up to the carrying amount of the investment, being R7,233 million. In the current financial year, losses amounting to R5,8 million have been recognised in the Group accounts as a result of subordination of shareholders loans. The investee has a different reporting date of 31 December. There is no material impact for the current year as all losses have been written off against the investment at group level.The different reporting date has however been considered when preparing the valuation of the investment.

Total carrying amount of the investment in associates - Group	134,045	95,388

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	
	2016 R '000	**2015** R '000
Investment in equity shares opening balance		
Original investment in TUHF	48,819	45,340
Fair value adjustment in investment in TUHF	42,971	3,479
Carrying amount of the equity	**91,790**	**48,819**
Investment in preference shares		
Opening balance	35,000	35,000
Acquisition of preference shares	-	-
Carrying amount of investment in preference shares	**35,000**	**35,000**
Total investment in associates TUHF	**126,790**	**83,819**

The investment in TUHF has been valued at fair value, except for preference shares which are carried at cost. Constraints in the capital markets in the short to medium term are expected to cause some challenges in sustaining the growth momentum achieved in the past few years. Management has applied a discounted cash flow (DCF) method in arriving at the valuation of TUHF. Company projections have been reviewed to understand the reasonableness of projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in TUHF.

12. Investments in associates (continued)

The investment in redeemable cumulative preference shares consists of 35 000 shares at a par value of R1 000 per share. The total value of the preference shares in TUHF is R35 million. Dividends in terms of the shareholders' agreement are set at the prevailing prime lending rate less corporate tax of 28% as at 31 March 2016.

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	
	2016 R '000	**2015** R '000
Share of the associate's balance sheet		
Investment in shares opening balance	-	11,920
Movement in investment in associate	-	(11,920)
Fair value adjustment	-	(11,920)
Carrying amount of the investment HiP	-	-

HiP is an entity established to operate as a fund manager that designed and developed the innovative income linked retail home loans product. HiP originates, manages and administers the debt funds that provide the mortgage loan funding. Management has applied a discounted cash flow (DCF) method in arriving at the valuation of HiP. Company projections have been reviewed to understand the reasonableness in projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represents the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in HiP. The investee has a different reporting date of 31 December. The different reporting date has however been considered when preparing the valuation of the investment.

Carrying amount of total investment in asscociates	126,790	83,819

Notes to the Annual Financial Statements (cont.)

13. Property, plant and equipment

Group	2016			2015		
	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture and fittings	2,619	(2,565)	54	3,137	(3,049)	88
Motor vehicles	637	(412)	225	396	(365)	31
Office equipment	554	(468)	86	910	(767)	143
Computer equipment	6,122	(5,652)	470	8,490	(8,084)	406
Leasehold improvements	1,299	(1,187)	112	1,263	(1,001)	262
Total	11,231	(10,284)	947	14,196	(13,266)	930

Company	2016			2015		
	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture and fittings	2,373	(2,344)	29	2,891	(2,843)	48
Motor vehicles	436	(228)	208	195	(195)	-
Office equipment	403	(346)	57	755	(658)	97
Computer equipment	5,740	(5,311)	429	8,102	(7,778)	324
Leasehold improvements	883	(777)	106	846	(718)	128
Total	9,835	(9,006)	829	12,789	(12,192)	597

Reconciliation of property, plant and equipment - Group - 2016

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

Reconciliation of property, plant and equipment - Group - 2015

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fittings	121	9	-	(42)	88
Motor vehicles	45	-	-	(14)	31
Office equipment	219	26	(5)	(97)	143
Computer equipment	503	191	(46)	(242)	406
Leasehold improvements	415	-	-	(153)	262
	1,303	226	(51)	(548)	930

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Company - 2016

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

Reconciliation of property, plant and equipment - Company - 2015

	Opening balance R'000	Additions through entity combinations R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fittings	74	-	-	(26)	48
Office equipment	172	-	-	(75)	97
Computer equipment	431	117	(32)	(192)	324
Leasehold improvements	200	-	-	(72)	128
	877	117	(32)	(365)	597

Fully depreciated assets that are still in use amount to R8.9 million (2015: R 16.38 million)
No property, plant and equipment has been pledged as security.
Assets with an original cost of R7.9 million were written off during the year due to redundancy and discontinued operational requirements.
The economic value has been fully utilised, these assets will be disposed off once retired from operational need.

Notes to the Annual Financial Statements (cont.)

14. Intangible assets

Group	2016			2015		
	Cost / Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software, other	3,500	(2,313)	1,187	7,694	(5,906)	1,788
Total	3,500	(2,313)	1,187	7,694	(5,906)	1,788

Company	2016			2015		
	Cost / Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software, other	3,157	(1,983)	1,174	7,346	(5,587)	1,759
Total	3,157	(1,983)	1,174	7,346	(5,587)	1,759

Reconciliation of intangible assets - Group - 2016

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

Reconciliation of intangible assets - Group - 2015

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software, other	444	1,761	(417)	1,788

Reconciliation of intangible assets - Company - 2016

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

Reconciliation of intangible assets - Company - 2015

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software, other	416	1,741	(398)	1,759

15. Instalment sale receivables

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Gross investment in instalment sale receivable due	268,760	209,601	-	-
	268,760	209,601	-	-
Less: unearned finance revenue	(139,685)	(107,005)	-	-
	129,075	102,596	-	-
Non-current assets	122,001	92,301	-	-
Current assets	7,074	10,295	-	-
	129,075	102,596	-	-

The average term on the instalment sale receivable is 16 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest was 10,9% (2015: 10,1%) per annum. Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.
The amount of R129 075 million (2015: R102 596 million) is the maximum exposure to credit risk.

16. Investment property

Group	2016			2015		
	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	88,402	-	88,402	80,868	-	80,868

Company	2016			2015		
Investment property	58,000	-	58,000	51,650	-	51,650

Reconciliation of investment property - Group - 2016

	Opening balance R'000	Disposal R'000	Fair value adjustments R'000	Total R'000
Investment property	80,868	(559)	8,093	88,402

Reconciliation of investment property - Group - 2015

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	74,279	6,589	80,868

Reconciliation of investment property - Company - 2016

Investment property	51,650	6,350	58,000

Reconciliation of investment property - Company - 2015

Investment property	51,000	650	51,650

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 09 March 2016. 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%.

Notes to the Annual Financial Statements (cont.)

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	8,093	6,589	6,350	650
Rental income	6,459	7,827	600	1,412
	14,552	**14,416**	**6,950**	**2,062**
Details of property				
Property terms and conditions				
- Purchase price	44,932	44,932	21,654	21,654
- Additions since purchase or valuation	43,470	35,936	36,346	29,996
	88,402	**80,868**	**58,000**	**51,650**

a) Description: Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place
b) Situated at: The corner of President, Human, Clark and FH Odendaal Streets
In addition, for the Group, a percentage of the housing stock held by CTCHC was reclassified as investment property due to the directors' assessment of the allocation of houses held for investment purposes.
The houses were valued by an independent valuator, Siyakulu Property Valuers. The effective date of the revaluation was 22 April 2016. Revaluations were done by Mr GB Adams, of Siyakulu Property Valuers. Mr Adams is not connected to the Company and has recent experience in location and category of the investment property being valued.
The valuation was based on open market value for existing use.

17. Goodwill

Group	2016			2015		
	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Goodwill	-	-	-	2,714	(2,714)	-

Reconciliation of goodwill - Group - 2015

	Opening balance R'000	Impairment loss R'000	Total R'000
Goodwill	2,714	(2,714)	-

The goodwill relates to the investment in CTCHC. NHFC holds a 100% shareholding in the company. 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.

18. Properties developed for sale

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Properties developed for sale	3,982	94,330	-	-
Carrying value of repossed properties	91,712	96,108	-	-
	95,694	**190,438**	**-**	**-**

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

19. Other receivables and prepayments

Deposits and prepayments	568	562	2	2
Staff debtors	2,262	2,583	2,262	2,583
Inter-company loans	-	-	-	8,024
Other debtors receivables	5,807	4,227	5,776	4,562
Dividend receivable	-	-	1,647	1,557
	8,637	**7,372**	**9,687**	**16,728**

Deposits and prepayments mainly relate to office rental deposits.
Study loans included in staff debtors are non-interest bearing and are written off or recovered when studies are completed.
Other staff debtors are charged interest at the prime lending rate.
Other receivables consist mainly of interest receivable.

20. Held-to-maturity investments

Development Bank of South Africa Limited	80,000	-	80,000	-
ABSA Bank Limited	-	20,000	-	20,000
Investec Bank Limited	20,000	20,000	20,000	20,000
Standard Bank of South Africa Limited	-	20,000	-	20,000
Rand Merchant Bank, a division of FirstRand Bank Limited	-	20,000	-	20,000
Nedbank Limited	60,000	20,000	60,000	20,000
Land and Agricultural Bank of South Africa Limited	95,733	58,477	95,733	58,477
Eskom SOC Limited	57,790	58,406	57,790	58,406
Trans-Caledon Tunnel Authority (TCTA)	80,000	58,115	80,000	58,115
Transnet SOC Limited	76,762	54,175	76,762	54,175
Held-to-maturity money market investments - NHFC	**470,285**	**329,173**	**470,285**	**329,173**
Total held-to-maturity money market investments	**470,285**	**329,173**	**470,285**	**329,173**

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 (cont.)

21. Cash and short term deposits

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Short-term deposits - NHFC				
ABSA Bank Limited	45,734	44,072	45,734	44,072
Investec Bank Limited	9,788	16,129	9,788	16,129
Nedbank Limited	7,616	13,117	7,616	13,117
Standard Bank of South Africa Limited	11,892	13,729	11,892	13,729
Rand Merchant Bank, a division of First Rand Bank Limited	10,238	15,365	10,238	15,365
Stanlib Limited	38,678	36,247	38,678	36,247
Trans-Celedon Tunnel Authority (TCTA)	10,056	10,042	10,056	10,042
South African Reserve Bank	147,947	49,831	147,947	49,831
	281,949	198,532	281,949	198,532
Short-term deposits - Institutional Subsidies*				
ABSA Bank Limited	-	7,512	-	7,512
Investec Bank Limited	-	10,375	-	10,375
Nedbank Limited	-	9,195	-	9,195
Rand Merchant Bank	-	11,084	-	11,084
Stanlib Limited	-	11,386	-	11,386
South African Reserve Bank	-	66,783	-	66,783
	-	116,335	-	116,335
Short-term deposits - Abahlali*				
ABSA Bank Limited	1,240	1,172	1,240	1,172
Short-term deposits - FLISP*				
Reserve Bank (Flisp-Gauteng)	43,509	62,078	43,509	62,078
Reserve Bank (Flisp-Eastern Cape)	-	1,995	-	1,995
Reserve Bank (Flisp-Free State)	5	2,504	5	2,504
Reserve Bank (Flisp-Northen Cape)	-	6,978	-	6,978
Reserve Bank (Flisp-North West Prov)	-	792	-	792
Reserve Bank (Flisp-Mpumalanga)	-	181	-	181
	43,514	74,528	43,514	74,528
Cash at bank and in hand				
Cash on hand	12	12	3	3
Standard Bank of South Africa Limited	17,726	38,313	7,112	11,138
FLISP - Standard Bank of South Africa limited	129	1,185	129	1,185
	17,867	39,510	7,244	12,326
Total cash and short-term deposits	344,570	430,077	333,947	402,893

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
NHFC				
Short-term deposits	281,949	198,532	281,949	198,532
Cash at Bank	17,738	38,325	7,115	11,141
	299,687	236,857	289,064	209,673
Institutional Subsidies*				
Short-term deposits	-	116,335	-	116,335
Abahlali*				
Short-term deposits	1,240	1,172	1,240	1,172
FLISP*				
Short-term deposits	43,643	75,713	43,643	75,713
	344,570	430,077	333,947	402,893

*Funds under management refer to note 24.

22. Issued capital and share premium

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Capital				
Ordinary shares				
Authorised				
100 000 000 Ordinary shares of R0,01 each	1,000	1,000	1,000	1,000
Issued and fully paid				
84 187 332 ordinary shares of R0,01 each	842	842	842	842
Share premium	879,158	879,158	879,158	879,158

23. Grant Capital

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Opening balance	430,000	200,000	430,000	200,000
Movement	100,000	230,000	100,000	230,000
	530,000	430,000	530,000	430,000

The initial grant of R200 million arose as a result of the merger of the Housing Equity Fund and the Housing Institutions Development Fund in the 2002 financial year. They are considered to be permanent and are therefore included in Shareholder's equity. There are no conditions attached to these grants. During the previous financial year grant capital amounting to R230 million was received from the shareholder. Further grants to the value of R100 million were received from the shareholder during the 2016 year.

24. Funds under management

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Institutional Subsidies[a]	-	116,335	-	116,335
Abahlali[b]	1,240	1,172	1,240	1,172
FLISP[c]	43,643	75,713	43,643	75,713
	44,883	193,220	44,883	193,220

(a) The NHFC is managing funds on behalf of the Kwazulu Natal province relating to social housing rental units. The total funds were returned to the province during the financial year.
(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 (cont.)

	Group		Company	
	2016 R'000	**2015** R'000	**2016** R'000	**2015** R'000
25. Other financial liabilities				
At amortised cost				
Dutch International Guarantees for Housing (DIGH) - Loan 1 The loan bears interest at a fixed rate of 8.84% per annum and is repayable in annual instalments of R381 023 (2015: R377 306). The final instalment is payable on 9 July 2016.	381	742	-	-
Dutch International Guarantees for Housing (DIGH) - Loan 2 The loan bears interest at a fixed rate of 7.09% per annum and is repayable in annual instalments of R935 995 (2015: R1 676 721). The final instalment is payable on 17 January 2018.	1,706	2,506	-	-
Agence Francaise de Developpement (AFD) This loan bears interest at a fixed rate of 6.078% per annum and is repayable in equal semi-annual capital instalments of R 7 888 692 (2015: R7 888 692) exclusive of interest. Interest and capital is paid biannually on 31 May and 31 November of each year.The final instalment is payable on 24 November 2024.	144,881	160,948	144,881	160,948
European Investment Bank (EIB) This loan bears interest at a quartely variable rate of 3M Jibar with a maximum margin of 0.40% annum and is repayable in semi-annual equal capital instalments of R 8 308 077 (2015:R8 308 077) 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.	169,603	185,698	169,603	185,698
City of Cape Town - Wescape Villas This facility is interest free and repayable when individual units transfer to end users.	-	4,046	-	-
City of Cape Town The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town. The loan is payable as and when the company becomes profitable.	500	500	-	-
	317,071	354,440	314,484	346,646
Total other financial liabilities	317,071	354,440	314,484	346,646
Non-current liabilities				
At amortised cost	283,360	295,754	282,090	293,276
Current liabilities				
At amortised cost	33,711	58,686	32,394	53,370

	Group		Company	
	2016 R'000	**2015** R'000	**2016** R'000	**2015** R'000
26. Provisions				
Provisions	11,142	62,421	10,531	61,666
Total provisions	**11,142**	**62,421**	**10,531**	**61,666**
Provision for leave pay				
Opening balance as at 1 April	4,635	6,363	4,185	5,761
Provision utilised for the year	(557)	(2,313)	(413)	(1,865)
Additional provision raised	-	585	-	289
Closing balance as at 31 March	**4,078**	**4,635**	**3,772**	**4,185**
Provision for incentive bonus				
Opening balance as at 1 April	12,000	6,142	12,000	6,142
Provision utilised for the year	(8,400)	(4,019)	(8,400)	(4,019)
Additional provision raised	-	12,000	-	12,000
Reversed during the year	-	(2,123)	-	(2,123)
Closing balance as at 31 March	**3,600**	**12,000**	**3,600**	**12,000**
Provision for tax				
Opening balance as at 1 April	45,481	45,481	45,481	45,481
Provision utilised for the year	(45,481)	-	(45,481)	-
Additional provision raised	3,159	-	3,159	-
Closing balance as at 31 March	**3,159**	**45,481**	**3,159**	**45,481**
Provision for municipal rates				
Opening balance as at 1 April	305	305	-	-
Closing balance as at 31 March	**305**	**305**	**-**	**-**

Leave pay provision is realised when employees take leave or terminate employment.
Provision for incentive bonus is expected to be realised when deferred bonuses are paid. Provision for incentive bonus includes the three year rolling incentive scheme for executives.
Provision for municipal rates covers the rates that are outstanding and is payable when certain erven are transferred into the name of CTCHC.
The provision for tax had been previously set aside for the estimated liability on the reclassification of the development fund in the 2014 year, an amount of R33,8 million was paid to settle the liability with the excess portion reversed. Additional provision raised in respect of withholding tax on foreign interest payments.

	Group 2016	Group 2015	Company 2016	Company 2015
27. Trade and other payables				
Trade payables	9,814	40,396	6,303	5,651
Payments received in advanced	9	23,480	-	-
Accrued expense	2,359	3,243	-	-
Accrued audit fees	350	669	-	-
Accrual for lease payments	876	1,314	876	1,314
	13,408	69,102	7,179	6,965

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

Notes to the Annual Financial Statements (cont.)

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
28. Cash flows from operating activities				
Net profit before tax	(55,779)	19,257	(85,708)	6,692
Non-cash and separately presented items	70,139	21,855	59,774	52,935
Working capital changes	(33,341)	(33,441)	(35,419)	742
Tax paid	(19,937)	(15,813)	(19,937)	(15,813)
Increase in advances	180,470	35,560	234,753	(37,004)
Net cash flows generated from (used in) operations	**141,552**	**27,418**	**153,463**	**7,552**
Non-cash and separately presented items				
Depreciation and amortisation	1,385	964	1,151	761
Loss/(Profit) on sale of property, plant and equipment	-	(12)	-	-
Interest accrued on Greenstart	(158)	-	(158)	-
Share of profit of an associate	(10,133)	(7,684)	-	-
Fair value loss on listed equity investments	4,258	-	(38,713)	16,432
Fair value adjustment on property investment	(8,093)	(6,589)	(6,350)	(650)
Impairment on advances	77,733	29,772	95,485	32,546
Impairment on Greenstart	158	2,658	158	2,658
Impairment on goodwill	-	2,714	-	-
Impairment of debentures	-	-	5,041	1,156
Provision for withholding tax	3,160	-	3,160	-
Property, plant and equipment write off due to theft	-	71	-	71
Movement in Property, plant and equipment	-	(39)	-	(39)
Bad debts written off - other	1,829	-	-	-
Net cash flows used in operations	**70,139**	**21,855**	**59,774**	**52,935**
Working capital changes				
(Increase)/ decrease in properties developed for sale	94,744	(21,872)	-	-
(Increase)/ decrease in instalment sale receivable	(26,479)	(53,564)	-	-
(Increase)/ decrease in accounts receivable	(3,095)	5,667	7,041	(5,654)
Increase/ (decrease) in accounts payables	(55,694)	32,198	215	2,114
(Decrease)/ increase in provisions	(42,817)	4,130	(42,675)	4,283
	(33,341)	(33,441)	(35,419)	742

	Group		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Tax paid				
Balance at beginning of the year	3,067	(3,972)	3,067	(3,972)
Current tax for the year recognised in surplus or deficit	-	(8,495)	-	(8,495)
Penalties	-	(279)	-	(279)
Balance at end of the year - current tax	(23,004)	(3,067)	(23,004)	(3,067)
	(19,937)	**(15,813)**	**(19,937)**	**(15,813)**

Cash and cash equivalents

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

	Group 2016	Group 2015	Company 2016	Company 2015
Cash on hand and balances with banks	17,867	39,510	7,244	12,326
Short-term deposits	326,703	390,567	326,703	390,567
	344,570	**430,077**	**333,947**	**402,893**

Property, plant and equipment and intangible assets

During the period, the Group acquired property, plant and equipment and intangible assets with an aggregated cost of R1 328 000 (2015: R1 876 000). 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 R1 314 000 (2015: R1 858 000). None of the additions were acquired by means of government grants.

29. Contingent liabilities and commitments

Contingencies

At 31 March 2016 the Group did not have any contingent liability in respect of bank guarantees (2015: R2 626 800), arising in the ordinary course of business from which it is anticipated that no material liability will arise.

Operating lease commitment - Group as lessee

The Group entered into a commercial lease on the property from which it operates. The lease is effective from 1 April 2012 to 31 March 2017. The lease has an escalation clause of 8% per annum. A deposit guarantee to the lessor of R533 500 (2015: R533 500).

Future minimum rentals payable under current operating lease as at 31 March 2016:

	Group 2016	Group 2015	Company 2016	Company 2015
National Housing Finance Corporation SOC Limited	6,043	5,604	6,043	5,604
Cape Town Community Housing Proprietary Limited	736	902	-	-
Within one year	6,779	6,506	6,043	5,604
National Housing Finance Corporation SOC Limited	-	6,043	-	6,043
After one year but not more than five years	-	6,043	-	6,043
Total office operating lease commitments – office buildings	**6,779**	**12,549**	**6,043**	**11,647**

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 2016:

	Group 2016	Group 2015	Company 2016	Company 2015
Within one year	14	16	14	16
	14	16	14	16
Total Group commitments	**6,793**	**12,565**	**6,057**	**11,663**

Notes to the Annual Financial Statements (cont.)

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, equity and quasi equity investment risk, interest rate risk and liquidity risk.

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

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

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

Credit risk

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

Loans and receivables – advances

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

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

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

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

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

Financial instruments and cash deposits

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

Short-term deposits and held-to-maturity money market investments are placed with financial institutions rated at least P-1 or better in terms of short-term credit ratings by a reputable rating agency. Counterparty limits are reviewed by the Board of Directors on an annual basis. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group exposure at year-end is within approved counterparty limits.

30. Financial risk management (continued)

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

Maximum exposure to credit risk.

	Group		Company	
	2016 R'000	**2015** R'000	**2016** R'000	**2015** R'000
Loans and receivables - advances	1,808,724	2,066,927	2,020,206	2,350,444
Instalment sale receivables	129,075	102,596	-	-
Held-to-maturity investments	470,285	329,173	470,285	329,173
Cash and short-term deposits	344,570	430,077	333,947	402,893
Other receivables and prepayments	8,637	7,372	9,687	16,728
Investment in preference shares	35,000	35,000	35,000	35,000

Collateral and other credit enhancements – loans and receivables advances

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

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

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

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

Credit quality of loans and receivables

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

Neither past due nor impaired	1,590,951	1,663,583	1,797,253	1,949,874
Past due but not impaired*	49,028	53,598	49,028	53,598
Impaired**	458,419	561,687	484,125	561,687
	2,098,398	2,278,868	2,330,406	2,565,159
Less: Specific impairments	(256,547)	(159,985)	(277,073)	(162,759)
General impairments	(33,127)	(51,956)	(33,127)	(51,956)
Net advances	**1,808,724**	**2,066,927**	**2,020,206**	**2,350,444**

* 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.

Notes to the Annual Financial Statements (cont.)

30. Financial risk management (continued)

				Ageing of amounts due			
Group		**Total balance R'000**	**Capital instalment R'000**	**30 days R'000**	**30 to 60 days R'000**	**60 to 90 days R'000**	**90 to 120 days R'000**
Ageing analysis of advances that are past due, but not impaired:	2016	49,028	30,400	581	580	576	16,891
Ageing analysis of advances that are past due, but not impaired:	2015	53,598	40,959	545	520	537	11,037
Company							
Ageing analysis of advances that are past due, but not impaired:	2016	49,028	30,400	581	580	576	16,891
Ageing analysis of advances that are past due, but not impaired:	2015	53,598	40,959	545	520	537	11,037

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 2016 amounts to R453 million (2015: R614 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 R8 million (2015: RNil).

	Group		Company	
	2016 R'000	**2015 R'000**	**2016 R'000**	**2015 R'000**
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least P-1				
- Held-to-maturity investments – money market	470,285	329,173	470,285	329,173
- Cash and short term deposits	344,570	430,077	333,947	402,893
Counterparties assessed by reference to historical information about counterparty default rates				
- Instalment sale receivables	129,075	102,596	-	-

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

30. Financial risk management (continued)

Concentration risk of loans and receivables by operation

Strategic investment	7%
Incremental	6%
Home Ownership	27%
Private Rental Housing	32%
Social Rental Housing	28%

Interest rate risk

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

		Group 2016		Group 2015	
	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	432,116	1,376,608	197,475	1,869,452
Instalment sale receivables average interest rate of 10.9% p.a.	1	129,075	-	102,596	-
Held-to-maturity investment rates vary between 5,98% and 8.2% p.a.	2	-	470,285	-	329,173
Cash and short-term deposits rates vary between 4,25% and 7.75% p.a.	2	-	344,570	-	430,077
Liabilities					
Funds under management – rates are linked to short-term investment rates	-	-	44,883	-	193,220
AFD loan – the rate is fixed at 6,078%	-	144,881	-	160,948	-
EIB loan– the rate varies between 6,533% and 7,433%	-	-	169,603	-	185,698
Other financial liabilities – the rate is fixed at 7.09% and 8.84%	-	2,087	-	3,248	-

		Company 2016		Company 2015	
	Strategy	**Fixed rate R'000**	**Linked rate R'000**	**Fixed rate R'000**	**Linked rate R'000**
Assets					
Loan and receivables – advances rates vary between 5% and 14% p.a.	1	432,116	1,588,090	197,475	2,152,969
Held-to-maturity investments rates vary between 5,82% and 6,85% p.a.	2	-	470,285	-	329,173
Cash and short-term deposits rates vary between 4,50% and 6,79% p.a.	2	-	333,947	-	402,893
Liabilities					
Funds under management – rates are linked to short-term investment rates	-	-	44,883	-	193,220
AFD loan – the rate is fixed at 6,078%	-	144,881	-	160,948	-
EIB loan– the rate varies between 6.2% and 6,533%	-	-	169,603	-	185,698

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.

Notes to the Annual Financial Statements (cont.)

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.

		Group		Company	
	Increase/ decrease %	Effect on profit before tax 2016 R'000	Effect on profit before tax 2015 R'000	Effect on profit before tax 2016 R'000	Effect on profit before tax 2015 R'000
Loans and receivables – advances	1	13,766	18,695	15,881	21,530
	(1)	(13,766)	(18,695)	(15,881)	(21,530)
Held-to-maturity investments	1	4,702	3,292	4,702	3,292
	(1)	(4,702)	(3,292)	(4,702)	(3,292)
Cash and short-term deposits	1	3,445	4,301	3,339	4,029
	(1)	(3,445)	(4,301)	(3,339)	(4,029)
Other financial liabilities	1	(1,696)	(1,857)	(1,696)	(1,857)
	(1)	1,696	1,857	1,696	1,857
The Group earns interest as follows:					
Interest on advances		156,305	198,497	158,041	213,545
Interest on advances		42,499	24,670	42,183	24,240
		198,804	**223,167**	**200,224**	**237,785**
The Group's interest obligations are as follows:					
Interest on other financial liabilities		21,529	21,840	21,338	21,553

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

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:
- short- and long-term cash flow management;
- diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- at least 60% of money market portfolio to mature within six months;
- limiting capital market investments to 30% of the portfolio; and
- mobilisation of funding.

30. Financial risk management (continued)
The table below summarises the maturity profile of the Group's financial liabilities at 31 March based on contractual undiscounted payments.

	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
As at 31 March 2016				
Trade and other payables	13,408	-	-	13,408
Funds under management	-	-	44,883	44,883
Other financial liabilities	-	33,711	283,360	317,071
	13,408	**33,711**	**328,243**	**375,362**
As at 31 March 2015				
Trade and other payables	8,198	60,904	-	69,102
Funds under management	-	-	193,220	193,220
Other financial liabilities	-	58,686	295,754	354,440
	8,198	**119,590**	**488,974**	**616,762**

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

Capital management
The objective of the Group's capital management is to ensure that it maintains a strong credit rating and generates sufficient capital to support its business objectives and maximise shareholder value. The Group monitors capital using the debt to equity ratio, which is the interest-bearing debt divided by the equity. The Group's policy is to keep the ratio at 35%.

Total interest bearing debt	317,071	354,440
Total equity	2,755,903	2,649,233
Debt to equity ratio	12 %	13 %

Credit rating
The credit ratings below are provided by the Global Credit Rating Co.
National
Long term AA-
Short term A1+
International BBB-

The outlook in the current financial year for the national ratings was changed to negative from stable. During the year the international scale rating was downgraded to BBB- from BBB with outlook as stable following a downward revision of the sovereign rating.

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.

Notes to the Annual Financial Statements (cont.)

30. Financial risk management (continued)

	Group			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2016				
Unlisted equity investments	-	99,045	-	99,045
2015				
Listed equity investments	4,258	-	-	4,258
Unlisted equity investments		60,388	-	60,388
Total	4,258	60,388	-	64,646

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2016				
Unlisted equity investments	-	91,790	-	91,790
2015				
Listed equity investments	4,258	-	-	4,258
Unlisted equity investments	-	48,819	-	48,819
Total	4,258	48,819	-	53,077

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 2016				
Investment in unlisted equity investments	99,045	-	-	99,045
Loans and receivables – advances	-	1,808,724	-	1,808,724
Instalment sale receivables	-	-	129,075	129,075
Held-to-maturity investments	-	-	470,285	470,285
Cash and short-term deposits	-	344,570	-	344,570
Other receivables	-	8,637	-	8,637
Investment in preference shares	-	-	35,000	35,000
	99,045	2,161,931	634,360	2,895,336
Group 2015				
Investment in listed equity investments	4,258	-	-	4,258
Investment in unlisted equity investments	60,388	-	-	60,388
Loans and receivables – advances	-	2,066,927	-	2,066,927
Instalment sale receivables	-	-	102,596	102,596
Held-to-maturity investments	-	-	329,173	329,173
Cash and short-term deposits	-	430,077	-	430,077
Other receivables	-	7,372	-	7,372
Investment in preference shares	-	-	35,000	35,000
	64,646	2,504,376	466,769	3,035,791

30. Financial risk management (continued)

	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Company 2016				
Investment in unlisted equity investments	91,790	-	-	91,790
Loans and receivables – advances	-	2,020,206	-	2,020,206
Held-to-maturity investments	-	-	470,285	470,285
Cash and short-term deposits	-	333,947	-	333,947
Other receivables	-	9,687	-	9,687
Investment in preference shares	-	-	35,000	35,000
	91,790	2,363,840	505,285	2,960,915
Company 2015				
Investment in listed equity investments	4,258	-	-	4,258
Investment in unlisted equity investments	48,819	-	-	48,819
Loans and receivables – advances	-	2,350,444	-	2,350,444
Held-to-maturity investments	-	-	329,173	329,173
Cash and short-term deposits	-	402,893	-	402,893
Other receivables	-	16,728	-	16,728
Investment in preference shares	-	-	35,000	35,000
	53,077	2,770,065	364,173	3,187,315

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 2016	
Other financial liabilities	317,071
Trade and other payables	13,408
Funds under management	44,883
	375,362
Group 2015	
Other financial liabilities	354,440
Trade and other payables	69,102
Funds under management	193,220
	616,762
Company 2016	
Other financial liabilities	314,484
Trade and other payables	7,179
Funds under management	44,883
	366,546
Company 2015	
Other financial liabilities	346,646
Trade and other payables	6,965
Funds under management	193,220
	546,831

Notes to the Annual Financial Statements (cont.)

31. Related parties

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

	Country of incorporation	2016 % equity interest	2015 % 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	34
Housing Investment Partners Proprietary Limited	RSA	33	33
Mortgage Default Insurance Company Proprietary Limited	RSA	100	100

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

	Company			
	Amounts owed by/ to related parties 2016 R'000	Transactions with related parties 2016 R'000	Amounts owed by/ to related parties 2015 R'000	Transactions with related parties 2015 R'000
Cape Town Community Housing Company Proprietary Limited				
- Debentures	-	-	5,041	-
- Advances	241,869	-	267,455	-
- Disbursements	-	28,248	-	190,831
- Interest received	-	23,403	-	22,119
- Working capital loan	-	-	3,266	3,266
- Accounts receivable	-	5,538	-	8,024
Housing Investment Partners Proprietary Limited (and Trust 1 & 2)				
- Working capital loan	25,707	-	21,450	-
- Disbursements	-	77,213	-	200,555
- Advances	135,514	-	95,843	-
Trust for Urban Housing Finance Holdings Proprietary Limited				
- Disbursement	-	-	45,991	45,991
- Advances	264,074	-	325,950	-
- Interest received	-	22,704	-	25,354
- Dividend income	-	2,585	-	2,310
- Equity investment	-	91,790	-	83,819

Terms and conditions with related parties

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

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

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

The amounts disclosed in the table below are the amounts recognised as an expense during the reporting period related to key management personnel.
National Housing Finance Corporation SOC Limited.

	Fees R'000	Salaries R'000	Bonuses R'000	Post-employment pension and medical benefits R'000	Other R'000	Total 2016 R'000	Total 2015 R'000
Non-executive Chairman							
Prof. M Katz[1]	-	-	-	-	-	-	-
Directors - independent non-executives							
Mr J Coetzee[2]	555	-	-	-	-	555	582
Ms AW Houston[3]	183	-	-	-	-	183	267
Mr SS Ntsaluba	477	-	-	-	-	477	390
Ms PV Ramarumo	235	-	-	-	-	235	295
Ms S Swanepoel	347	-	-	-	-	347	287
Mr SA Tati	420	-	-	-	-	420	405
Mr PT Phili	429	-	-	-	-	429	182
Ms D Msomi	170	-	-	-	-	170	109
Directors' fees	**2,816**	**-**	**-**	**-**	**-**	**2,816**	**2,517**
Chief Executive Officer and executive director							
Mr SS Moraba[4]	-	3,677	2,424	491	-	6,592	5,278
Executive managers / and Prescribed officers							
Z Lupondwana	-	1,159	384	183	-	1,726	1,360
N Ntshingila	-	1,169	578	273	-	2,020	1,701
S Mutepe	-	-	-	-	-	-	255
A Chimpondah[5]	-	-	409	-	-	409	1,751
L Lehabe	-	1,534	745	256	-	2,535	2,154
S Mogane	-	1,259	214	268	-	1,741	1,446
M Mamatela	-	1,412	722	199	-	2,333	2,048
Z Adams	-	1,470	738	299	-	2,507	2,130
A Higgs[6]	-	782	-	84	-	866	-
Management costs	**-**	**12,462**	**6,214**	**2,053**	**-**	**20,729**	**18,123**

1. Prof Katz agreed not to charge fees.
2. Included in this amount is Board fees totalling R 174 000 earned by Mr Coetzee as a representative of the NHFC on the HIP (Pty) Ltd Board.
3. Fees are paid to Communicare Ltd as an employer of AW Houston.
4. The CEO is the only director with a service contract with NHFC. The notice period does not exceed 1 year.
5. A Chimpondah resigned from the NHFC effective from 30 September 2014.
6. A Higgs was employed as an executive manager as from 01 August 2015.

Notes to the Annual Financial Statements (cont.)

32. Directors'and prescribed officers' / executive managers'emoluments (continued)
Directors' and senior management emoluments - Cape Town Community Housing Company Proprietary Limited

	Fees* R '000	Salaries* R '000	Bonuses* R '000	Post-employment pension and medical benefits* R '000	Other*** R '000	Total* 2016 R '000	Total 2015 R '000
Chairman							
Mr SS Moraba	-	-	-	-	-	-	-
Directors - Non-executives							
Mrs AD Egbers**	-	-	-	-	-	-	15
Mr R Fisher**	-	-	-	-	-	-	24
Mr P Taylor**	-	-	-	-	-	-	29
Mr DTV Msibi**	-	-	-	-	-	-	35
Mrs A Viljoen**	-	-	-	-	-	-	16
Directors' fees	-	-	-	-	-	-	**119**
Chief Executive Officer and executive director							
F Mudimu**	-	-	-	-	-	-	1,158
Key members of management							
P Jones	-	1,041	302	153	72	1,568	1,209
W Jurgens	-	1,071	548	131	60	1,810	1,096
S Stofile**	-	-	-	-	-	-	421
F Moos	-	507	670	71	-	1,248	545
Management costs	**-**	**2,619**	**1,520**	**355**	**132**	**4,626**	**4,429**

Mr SS Moraba and Mrs N Ntshingila are executives of the holding company and currently serve on the subsidiary's board; however receive no remuneration as board members.
* No remuneration was paid for services as director for the 2016 financial year.
** Resigned during the 2015 financial year.
***Other benefits comprise travel allowance.

33. Events after the statement of financial position date

Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF)
As at the balance sheet date, management were in discussion with TUHF Holdings (Pty) Ltd regarding the conversion of an NHFC's shareholders loan to the value of R 6.5 million to C ordinary shares. The transaction has been concluded with all conditions precedent fulfilled. No material changes took place in the effective shareholding.

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

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

In line with the recommended structure of the transaction, the NHFC, as the identified institution, will acquire the assets and liabilities of both RHLF and NURCHA. This is viewed as stage one of the transaction towards a fully integrated Human Settlements Development Finance Institution supported by an enabling act.

The DFI consolidation has fallen behind schedule, and will not be concluded within the stipulated timeframe as reported in the previous financial year. The delay has been due to unanticipated regulatory matters.

A significant milestone has been achieved though, which will accelerate the conclusion of the DFI consolidation. The Finance Minister in his budget speech of February 2016 proposed a special tax exemption similar to that provided to certain government entities that will enable the consolidation with the two tax exempted entities. Further amendments will be considered to ensure that the transfer of assets from both RHLF and NURCHA to the NHFC is tax neutral.

It is envisaged that the implementation of the consolidation of the DFIs will commence in the 2016/17 financial year, with the timeframe for the final integration likely to extend over the next eighteen months, due to the requirements of the enabling legislation and its enactment process.

Performance report for the year ended 2016 in terms of Section 55(2) of the PFMA

	Actual R'000	Budget R'000
Sale of goods	116,194	98,648
Rental of facilities and equipment	6,459	3,721
Interest on advances	156,305	190,527
Interest on investments	42,499	14,131
Dividends received	938	2,320
Other income	15,814	19,168
	338,209	328,515
Impairments	(77,891)	(55,790)
Cost of sales	(94,411)	(91,302)
Expenses	(90,357)	(113,686)
	75,550	67,737
Fair value adjustments	(4,258)	-
Bad debts	(109,930)	(5,697)
Finance costs	(21,529)	(21,633)
Share of profit of an associate	4,388	7,695
	(55,779)	48,102
Taxation	33,924	(14,148)
Surplus after tax	**(21,855)**	**33,954**

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:

• The prevailing subdued economic and market conditions continue to negatively affect the households and clients of the NHFC, impacting both the growth rate as well as quality of the advances book.

• As in the prior year and as reported previously, the profitability of the NHFC remains vulnerable to the impact of the increased non-performing portfolio. This is more so with respect to the non-banking retail intermediary clients (in the unsecured landing space) and select clients in the Debt Lending division who launched large integrated housing projects around 2010/11.

• In addition, there has been the movement of some seasoned clients to the formal banking sector with the resulting impact of prepayments over the last two years, and R123 million in the current year. Whilst the early repayments are viewed as positive within the role of a development finance institution, it does however, adversely impact the revenue.

• Lending income has been adversely affected by revenue foregone on the increased non-performing advances portfolio, lower than budgeted disbursements (achieved 59%) and client settlements.

• Impairments and bad debts are significantly higher at R188 million for group and R235 million for company accounts.

• The reasons for the significant impairments vary from overall market conditions, cost overruns, going concern challenges, working capital challenges, delayed municipal approvals and delayed roll-out of key projects due to infrastructural delays.

• In particular the challenge has been on the continued hardships of three key clients.

• The impact of these impairments and bad debts are significant on the NHFC's profitability and credit loss ratio if looked at in the medium to longer term trends also noting the impact of the key clients on these ratios. In the financial years 2012 to 2014, the average credit loss ratio was 1.3% including bad debts, but the last two financial years have seen a significant increase to 2.9% in 2015 and 9% in 2016.

• Investment income exceeding budget by R28 million. The liquidity position of the NHFC has improved with the receipt of the first tranche capital allocation of R100 million. The liquidity position was further improved by early settlements and prepayments.

• Through a concerted effort by management the cost structure has been optimised building on the benefits realised in the restructuring process completed during the prior financial year as reflected in the significantly improved cost to income ratio of 41% in the current year from 66% in 2014.

• The gross profit margin contribution from CTCHC resulting from sale of houses is R22 million. Although significant in the current year, this margin will not be sustained in the forthcoming years given the overall reduction in sales activities in CTCHC.

• The unlisted investments impacted by challenges and delays around capital raising and in some instances higher than expected client settlements.

Programme 1 Summary	**Expand housing finance activities through effective provision of housing finance opportunities**			
Outcomes	**Adequate housing and improved quality of living environments**			
Performance indicator	**Actual 2015/16**	**Budget 2015/16**	**Variance**	**Comments**
Number of housing opportunities facilitated through disbursements	1 423	3 885	(2 462)	Programme 1 impacted by a combination of : • reduced business pipeline (due to previous funding constraints); • the prevailing subdued economic and market environment which negatively affect both the households and clients of NHFC; • challenges impacting the social housing space; • lack of bankable projects; • increased competition from financial sector; and • project delays of committed funds.
Number of beneficiaries benefitting (factor of 3.8 applied)	5 407	14 763	(9 356)	
Value of funds disbursed(R'm)	241	406	(165)	
Value of approvals (R'm)	340	464	(124)	

Sub - Programme 1	**Expand housing finance activities through effective provision of housing finance opportunities**			
Outcomes	**Adequate housing and improved quality of living environments**			
Performance indicator Number of housing opportunities facilitated through disbursements	**Actual 2015/16**	**Budget 2015/16**	**Variance**	**Comments**
Number of Social Affordable Housing Units*	500	958	(458)	Below budgeted disbursements due to construction delays experienced by clients. Disbursed anticipated to roll over to 2016/17.
Number of Private Rental Housing Units*	78	398	(320)	
Total Rental	**578**	**1 356**	**(778)**	
Number of Affordable Housing Units**	845	1 196	(351)	Major clients are experiencing cashflow challenges due to poor sales. Disbursements from a strategic investment first drawn from an international investor due to foreign currency impact. Contribution included in leveraged impact.
Incremental Housing Loans	-	1 333	(1 333)	No disbursements due to market constraints affecting unsecured lending. Existing facilities expired
Total Affordable Housing	**845**	**2 529**	**(1 684)**	
Total	**1 423**	**3 885**	**(2 462)**	
Total number of beneficiaries benefiting (factor of 3.8 applied)	**5 407**	**14 763**	**(9 356)**	

Housing units include completed, transferred or occupied units.

* Social and Private Rental – number of units arising from disbursements.

** Affordable Housing – number of mortgage loans originated through Strategic Partnerships such as HIP, the average loan size being R400 000. Instalments Purchase Agreements originated through intermediaries, units from previously funded integrated developments mainly Space, Mettle and CTCHC.

Performance report for the year ended 2016 in terms of Section 55(2) of the PFMA (cont.)

Sub - Programme 1	Expand housing finance activities through effective provision of housing finance opportunities			
Outcomes	Adequate housing and improved quality of living environments			
Performance indicator Value of disbursements (R'm)	**Actual 2015/16**	**Budget 2015/16**	**Variance**	**Comments**
Social Affordable Housing (R'm)	23	101	(78)	Projects delayed because of construction delays and slow payments of subsidies. Most social housing drawings did not materialise and are rolled over to 2016/17.
Private Rental Housing (R'm)	76	111	(35)	Clients experienced challenges, including cost overruns and delayed project rollouts.
Total Rental Housing (R'm)	**99**	**212**	**(113)**	
Affordable Housing (R'm)	142	174	(32)	Disbursements from a strategic investment first drawn from an international investor due to foreign currency impact. Contribution included in leveraged impact.
Incremental Housing Loans (R'm)	-	20	(20)	No disbursements due to market constraints affecting unsecured lending. Existing facility expired and no new business.
Total Affordable Housing (R'm)	**142**	**194**	**(52)**	
Total value of disbursements (R'm)	**241**	**406**	**(165)**	

Sub - Programme 1	Expand housing finance activities through effective provision of housing finance opportunities			
Outcomes	Adequate housing and improved quality of living environments			
Performance indicator Value of approvals (R'm)*	**Actual 2015/16**	**Budget 2015/16**	**Variance**	**Comments**
Social Affordable Housing (R'm)	142	250	(108)	Slowdown in the market and poorer quality of applications from social housing institutions.
Private Rental Housing (R'm)	73	174	(101)	Increased competition from financial sector.
Total Rental Housing (R'm)	**215**	**424**	**(209)**	
Affordable Housing (R'm)	125	-	125	The enlargement of a strategic investment's second investment trust.
Incremental Housing Loans (R'm)	-	40	(40)	Unsecured lending business in the current weak economic environment (job losses, high interest rates) is not a viable business for NHFC and the business has been curtailed until market conditions improve significantly.
Affordable Housing (R'm)	**125**	**40**	**85**	
Total value of approvals (R'm)	**340**	**464**	**(124)**	

* Facilitied approved by the relevant governance structures in line with the delegated authority.
Facilities may be withdrawn and/or not taken by the client.

Programme 2 Summary	Facilitate the increased and sustained lending by financial institutions			
Outcomes	Increased and sustained lending by private sector to human settlement developments			
Performance indicator	**Actual 2015/16**	**Budget 2015/16**	**Variance**	**Comments**
Number of housing opportunities facilitated through leveraged funds	28 963	6 473	22 490	Target exceeded
Number of beneficiaries benefitting (factor of 3.8 applied)	110 059	24 597	85 462	Target exceeded
Value of leveraged funds from the Private sector (R'm)	1 509	650	859	Target exceeded

Sub - Programme 2	Facilitate the increased and sustained lending by financial institutions			
Outcomes	Increased and sustained lending by private sector to human settlement developments			
Performance indicator Number of housing opportunities facilitated through leveraged funds	**Actual 2015/16**	**Budget 2015/16**	**Variance**	**Comments**
Number of Private Rental Housing Units*	3 977	2 600	1 377	Target exceeded
Number of Affordable Housing Units*	1 763	1 206	557	Target exceeded
Number of Incremental Housing Loans***	23 223	2 667	20 556	Target exceeded
Total number of housing opportunities facilitated through leveraged funds	**28 963**	**6 473**	**22 490**	

Housing units include completed, transferred or occupied units.
* Private Rental – number of units arising from Strategic Partnership with TUHF.
** Affordable Housing – number of mortgage loans arising from funds leveraged through Strategic Partnerships such as HIP (average loan size being R400 000) and IHS (average loan size being R500 000). Units from previously funded integrated developments mainly Space and Mettle.
*** Incremental Housing Loans – number of loans arising from Retail Intermediary.

Performance report for the year ended 2016 in terms of Section 55(2) of the PFMA (cont.)

Sub - Programme 2	Facilitate the increased and sustained lending by financial institutions
Outcomes	Increased and sustained lending by private sector to human settlement developments

Performance indicator Value of leveraged funds from the Private Sector (R'm)	Actual 2015/16	Budget 2015/16	Variance	Comments
Private Rental Housing (R'm) *	367	45	322	Target exceeded
Affordable Housing (R'm) **	684	565	119	Target exceeded
Incremental Housing Loans (R'm)	458	40	418	Target exceeded
Total value of leveraged funds from the Private Sector (R'm)	**1 509**	**650**	**859**	

* Private Rental – mainly funds leveraged through Strategic Partnership with TUHF.
** Affordable Housing - formula applied based on historical observation of 1:4. Integrated developments and Instalment Purchase Agreements from existing commitments and projects funded previously.

Other developmental impact

Performance indicator	Actual 2015/16	Budget 2015/16	Variance	Comments
Number of jobs facilitated*	9 157	4 339	4 818	Target exceeded
Value of aggregated disbursements targetted towards women, youth and emerging BEE entrepreneurs (R'm)**	226	90	136	Target exceeded

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

GLOSSARY OF TERMS

Credit loss ratio The ratio of impairment charges on loans and advances to gross loan advances.

Housing opportunity The estimated number of housing units made accessible to the target market through disbursements and funds leveraged from the private sector.

Home ownership This includes investments by the NHFC that are typically secured by a mortgage where the NHFC's wholesale clients have provided mortgage finance to end users (in the case of non-banking retail intermediaries) or the NHFC has provided bridging finance to its clients to develop housing units that are then sold on completion to end users.

Incremental housing Funding provided by the NHFC to non-banking retail intermediaries who then on-lend funding to end users to fund housing improvements on an incremental basis. Loans are, on average, R1 000 to R20 000 per client.

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

Social rental housing Subsidised rental housing that is more affordable than private/commercial rental and is provided by SHIs that are not-for-profit companies. They receive subsidies in the form of restructuring capital grants from the Social Housing Regulatory Authority, and are subject to its accreditation rules, as well as top-up institution subsidies from provincial government.

Strategic partnerships Those that the NHFC develops strategic alliances with, including developers, investors and housing development funds, through investment in equities and 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.

Term loan A loan repayable in instalments over a fixed period.

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

CELEBRATING 20 YEARS
OF CHANGING LIVES
1996 – 2016

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