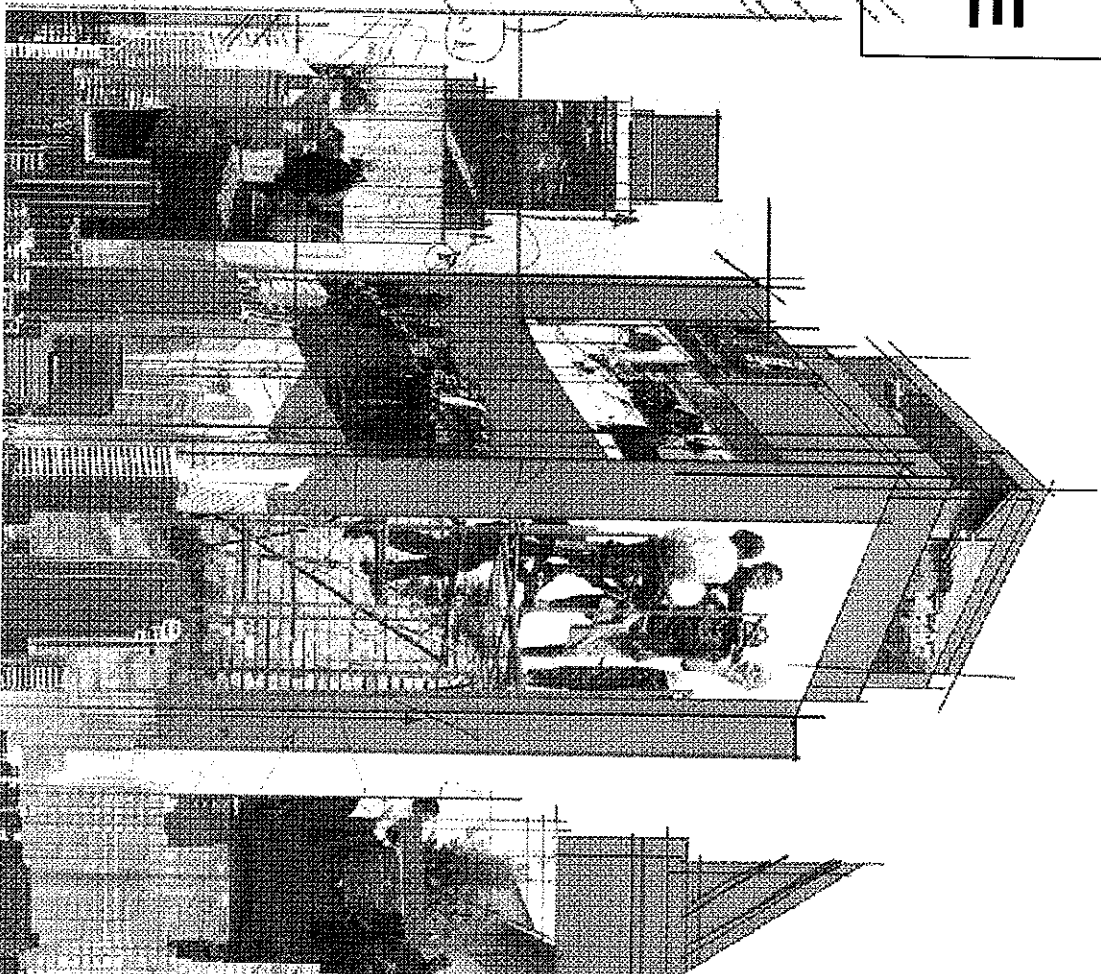


HUMAN SETTLEMENTS PORTFOLIO COMMITTEE 23 SEPTEMBER 2014

NHFC STRATEGIC PLAN 2015-2019



NHFC MANDATE

The **National Housing Finance Corporation Soc Ltd (NHFC)** is a state owned Development Finance Institution with a principal mandate to **broaden and deepen access to affordable housing finance** for the low- and middle-income households.

Target Market:

- The low- to middle-income housing market is any South African household with a regular monthly income between R1 500 and R15 000.
- The market segment is able to contribute towards its housing costs, but unable to access housing finance from Financial Institutions.



VISION, MISSION, VALUES

VISION

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

MISSION

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

VALUES

OWNERSHIP
INTEGRITY

PASSION FOR PURPOSE

TEAMWORK

CREATIVITY

ACHIEVEMENT

STRATEGIC OBJECTIVES

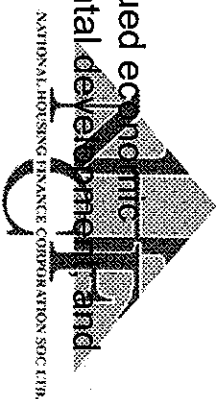
Expand housing finance activities, through the effective provision of housing finance solutions, thus enabling low-to-middle income households to have choice of renting or owning or incrementally building, to meet their housing needs;

Facilitate the increased and sustained lending by financial institutions to the affordable housing market;

Mobilise funding into the human settlement space, on a sustainable basis, in partnership with the broadest range of institutions;

Conduct the business activities of the NHFC in a manner that ensures the continued economic and sustainability of the NHFC whilst promoting lasting social, ethical and environmental development and

Provide robust, timely and relevant market research



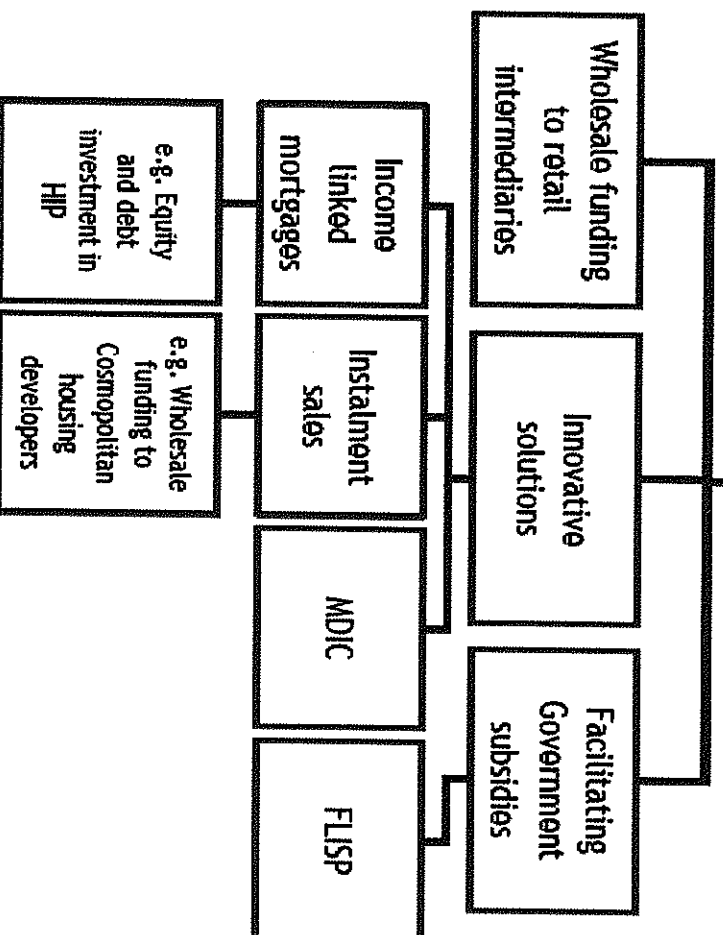
Facilitating Affordable Housing

CURRENT BUSINESS MODEL

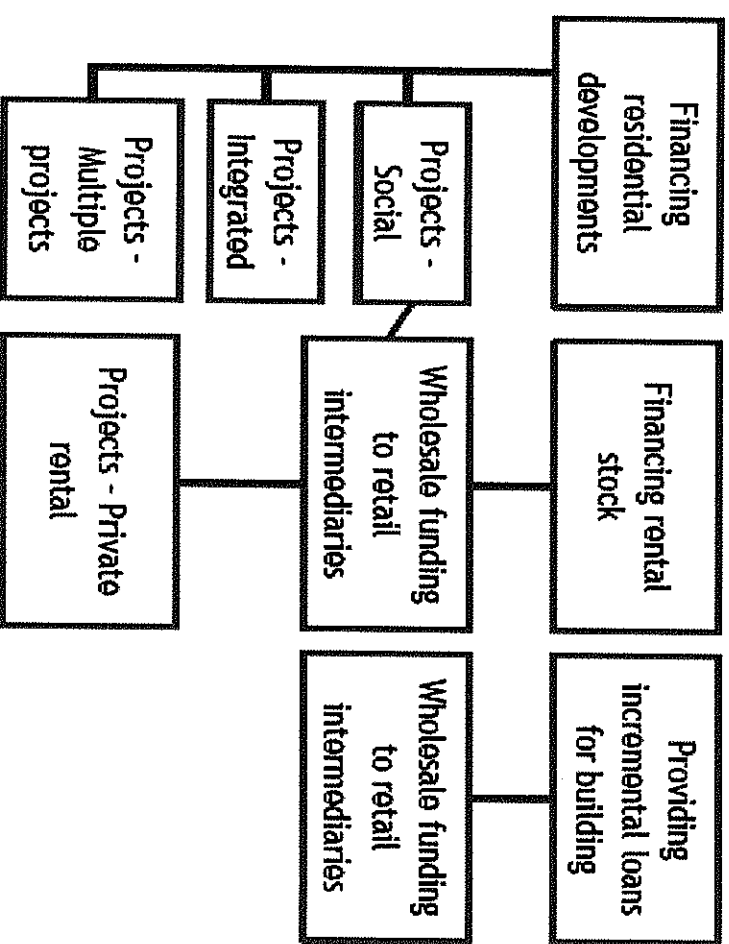
The business model caters to both the demand and the supply of housing in the South African affordable housing market

Demand Side

Promoting private sector provision of end user finance to the target market



Supply Side



STRATEGIC REVIEW

Insights from the strategy session attended by both the NHFC Board and EXCO in May 2014 were essential in informing the 2015 - 2019 (5 year) strategic plan.

Current key highlights:-

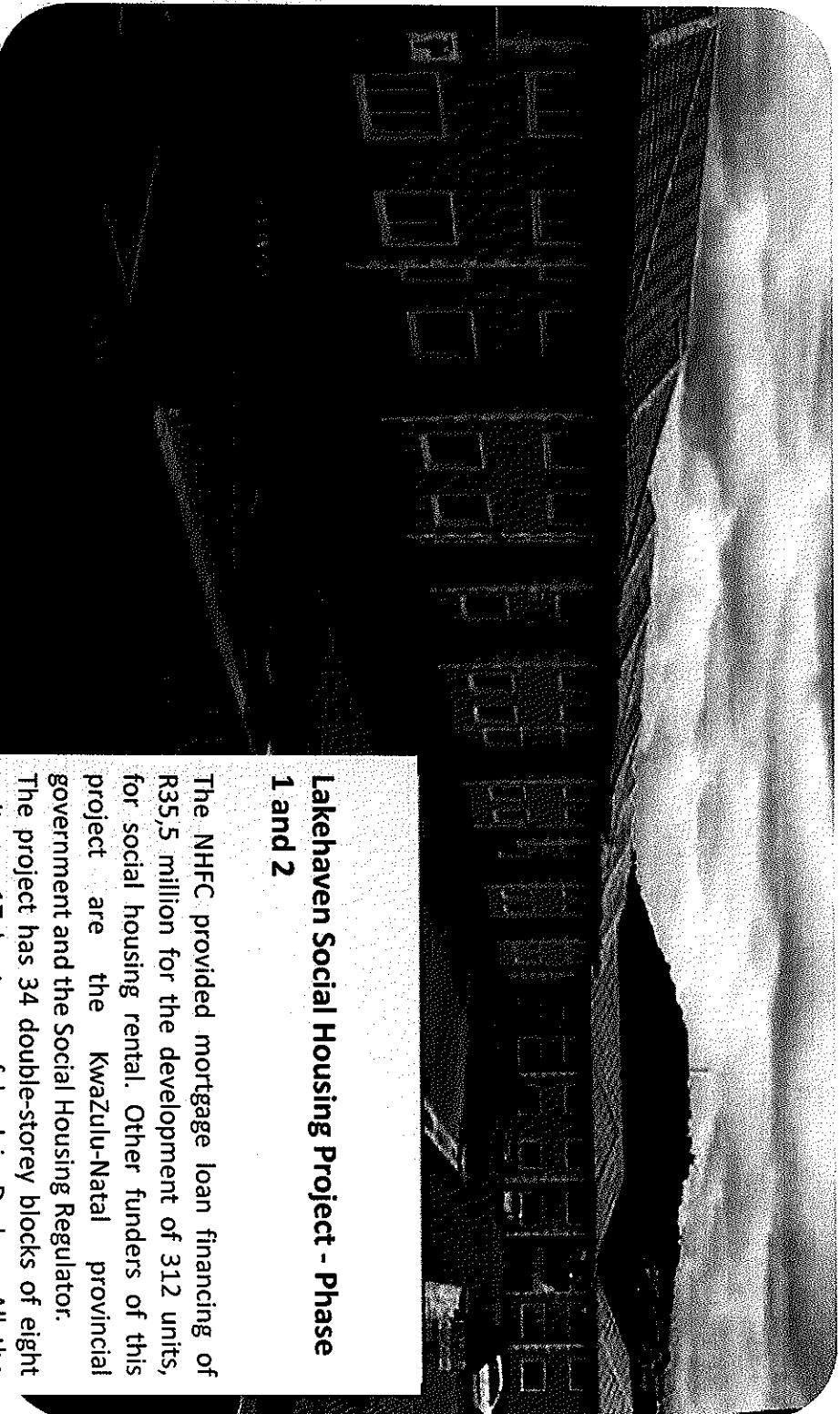
- Infrastructure deficit is significantly hampering economic growth & socio economic development
- GDP growth forecast is on a downward trend
- Inflation growth peak outside inflation target of 3%-6%
- The slowing economy runs the risk of undermining the fiscal situation- revenue growth is set to slow
- Government impose cost cutting measures - on spending
- Rating agencies downgrade SA's sovereign rating
- Household indebtedness remains high, aggravated by rising living costs

STRATEGIC REVIEW continued

The following significant factors consistent with the re-organisation objectives were reconfirmed as critical for the NHFC to ensure realisation of the Strategic Plan:

- Ensuring that the **capital structure** of the NHFC is enhanced through the raising of debt and equity funding in the short and medium term, thereby ensuring that there is an **adequate blend of debt and equity funding**;
- Further **enhancing the pricing model** of the company, to ensure it better reflects the true cost of doing business and the risk associated with writing new business. Where there is cross subsidisation between clients or products in order to achieve the developmental mandate, this will be more explicit or clearer;
- Further **enhancement of the operational structure** of the company through implementing the plans of the strategic re-organisation that has been completed by the NHFC, and
- Growing the loan book and mix of business at a satisfactory rate.

NHFC 2015/19 PROGRAMMES



Lakehaven Social Housing Project - Phase 1 and 2

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

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

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.



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APPROVED ANNUAL PERFORMANCE PLAN (APP) FUNDING IMPACT AND FUNDING REQUIREMENTS

APPROVED APP	2015 R'm	2016 R'm	2017 R'm
Disbursements	594	706	776
Leveraged Funds	1 910	2 379	2 536
Total Funding Impact	2 504	3 085	3 312
Shareholder Support	230	420	225
Borrowings	112	138	250
Capital Structure	342	558	475

- APP was submitted in January 2014 and approved by the Shareholder.
- In view of the NHFC liquidity crisis and emerging economic and business trends the APP was reviewed.
- The Strategic Plan is aligned to Medium Term Strategic Plan (MTSF) 2014/15 – 2018/19.

OVERVIEW – AFFORDABLE HOUSING MARKET

Demand/supply

- Approximately 700 000 housing back-log in the affordable housing market.
- Supply of **new** housing stock has averaged 20 000 to 30 000 per annum in the last 3 years, significantly below demand.
- Poor uptake of properties by end-users (constrained availability of mortgages) has resulted in attrition of developers (especially private sector) in affordable housing market.

Borrower

- Remains significantly over-indebted especially in the affordable housing market.
- Unsecured lending credit bubble in last 12 months an indication of severe pressure of consumers in SA.
- Poor consumer confidence has been affected mainly by: 1) rising costs of living (electricity, transport and food), 2) poor job prospects and 3) poor short term economic prospects.

Lenders Perspective

- Appetite for mortgage lending remains constrained due to:
 - Regulatory pressure (Basel III);
 - Poor balance sheets and income statements of consumers (over indebtedness); and
 - Recent poor returns from mortgage lending.



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OVERVIEW – NHFC OPERATING ENVIRONMENT

Current commitments

Total R'm	Mar-15 R'm	Mar-16 R'm	Mar-17 R'm	Mar-18 R'm
1 281	657	411	133	80

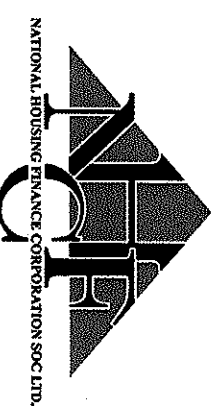
Liquidity challenge of the NHFC

- Management and the Board of the NHFC, mindful of its fiduciary duties and the current commitments of R1.3 billion, have been managing the risks associated with the liquidity crises critically, through rigorous cash management processes and the reprioritisation of disbursements and approvals, whilst awaiting the R230 million capital injection.

- A virement request of R230 million has been approved by both NDOHS and National Treasury however delay in flow of funds, now expected at the end of the second quarter.

Restructuring of NHFC and CTCHC

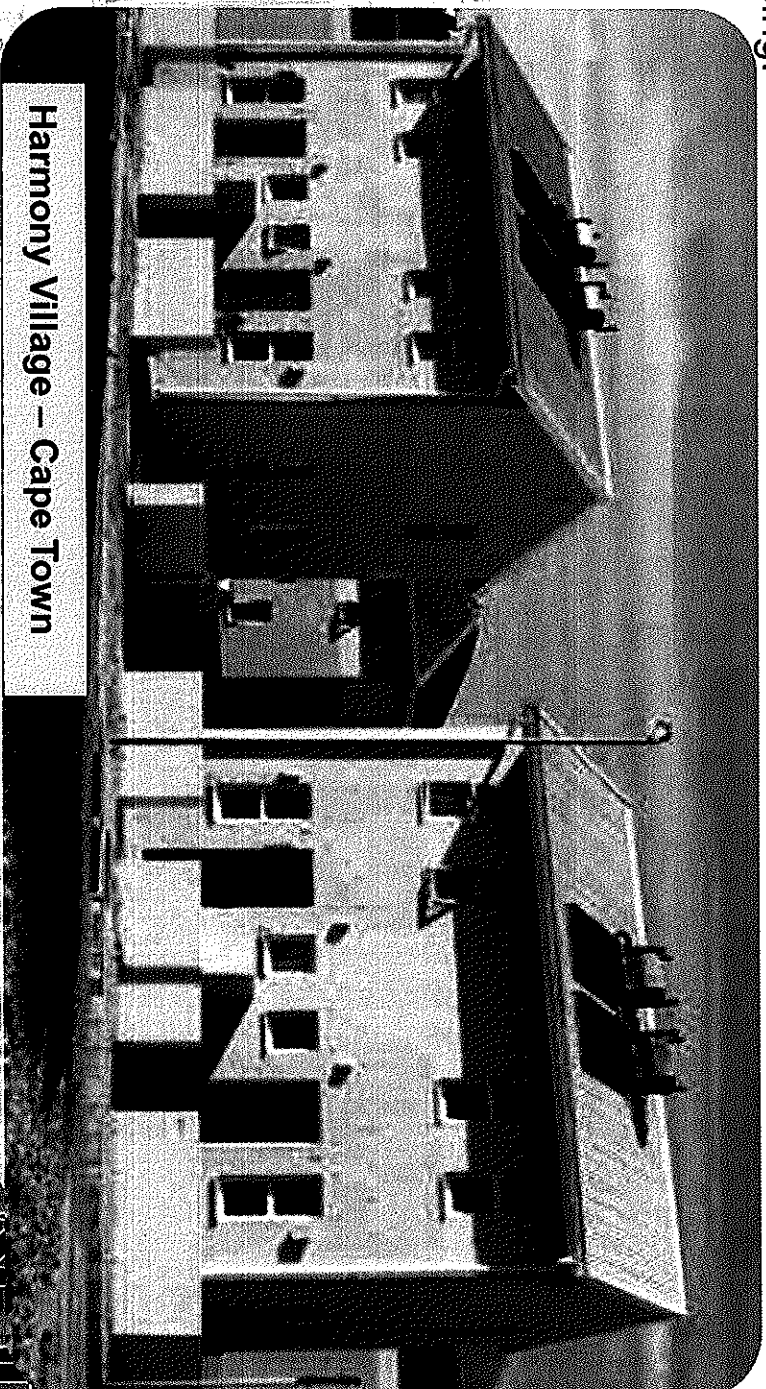
- The restructuring of both the NHFC and its subsidiary has been approved for implementation in the 2014/2015 financial year. The cost of the restructuring has been included in the 2014/15 year budget.



Annual Performance Plan Revised

ASSUMPTIONS

- Assumes optimal mix of shareholder support and debt funding.
- NHFC obtains approval to borrow.
- Includes commitments and new business.
- Operational efficiencies.
- Optimal pricing.



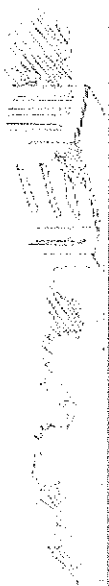
Harmony Village – Cape Town



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OVERVIEW – APP REVISED

Developmental Impact	2015	2016	2017	2018	2019
Total housing opportunities	7 054	14 104	13 622	14 023	14 336
Number of jobs facilitated	11 588	11 123	12 024	12 973	14 011
BEE – targeted disbursements (R'm)	127	136	147	159	171
Funding Impact					
Disbursements (R'm)	677	747	729	765	795
Leveraged Funds (R'm)	810	1 259	986	980	926
Total funding impact	1 487	2 006	1 715	1 745	1 721
Funding Assumptions					
Shareholder Support (R'm)	230	330	600	-	-
Debt Funding (R'm)	-	122	70	68	466
Total funding requirements (R'm)	230	452	670	68	466



KEY PERFORMANCE INDICATORS

Programme	Expand housing finance activities through effective provision of housing finance opportunities								
Outcomes	Adequate housing and improved quality of living environments								
Performance indicator	Strategic Plan Target	MTSF Target	% MTSF *	Medium term targets					
Number of housing opportunities				2015	2016	2017	2018	2019	
Number of Social Housing Units	3 366	27 000	12%	662	600	648	700	756	
Number of Private Rental Housing Units	16 196	25 000	65%	2 614	3 154	3 399	3 460	3 568	
Total Rental	19 561			3 276	3 754	4 047	4 160	4 323	
Number of Affordable Housing Units	17 331			3 777	4 350	3 215	3 122	2 867	
Number of Incremental Housing Loans	26 248			-	6 000	6 360	6 742	7 146	
Total Affordable Housing	43 578	110 000	40%	3 777	10 350	9 575	9 863	10 013	
Total	63 140			7 054	14 104	13 622	14 023	14 336	

KEY PERFORMANCE INDICATORS

Programme	Expand housing finance activities through effective provision of housing finance opportunities						
Outcomes	Housing finance needs met through options of renting, owning or incrementally building.						
Performance indicator	Strategic Plan Target	Medium term targets R'million					
Value of disbursements		2015	2016	2017	2018	2019	
Social Housing	1 143	168	219	236	255	265	
Private Rental Housing	1 053	163	155	224	241	271	
Total Rental Housing	2 197	331	374	460	496	536	
Affordable Housing	1 385	347	342	238	235	223	
Incremental Housing Loans	131	-	30	32	34	36	
Total Affordable Housing	1 517	347	372	269	269	259	
Total value of disbursements	3 713	677	747	729	765	795	

KEY PERFORMANCE INDICATORS

Programme	Facilitate the increased and sustained lending by financial institutions						
Outcomes	Increased and sustained lending by private sector to human settlement developments						
Performance indicator	Strategic Plan Target	Medium term targets R'million					
Value of leveraged funds from the Private sector		2015	2016	2017	2018	2019	
Rental Housing	1 143	163	224	236	255	265	
Affordable Housing	3 554	647	975	686	657	589	
Incremental Housing	262	-	60	64	67	71	
Value of total funds leveraged	4 960	810	1 259	986	980	926	

Finance Linked Subsidy Programme (FLISP)

The achievement of the FLISP targets is dependent on the successful resolution of a set of recommendations currently under review by the Department.

FLISP – FORECAST APPROVALS

	Actual 2014	Forecast 2015	2016	2017	2018	2019	Total
Number of approved applications	1 696	852	1 704	3 408	4 090	4 907	14 961
Number of beneficiaries benefiting	5 766	2 897	4 794	11 587	13 906	16 684	49 868
% of MTSF Target (70 000)							21%
Private Sector Investment (leveraging) Rm	202	221	443	886	1 063	1 276	3 889

FLISP – BUDGET

Capital Grant – once off

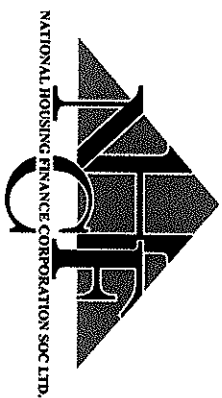
IT capex requirements	R10.0m
Consultancy (legal, IT etc)	R .2m
Business development costs	R .3m
Total initial set-up cost (excl Opex)	R10,5m

Operational Cost

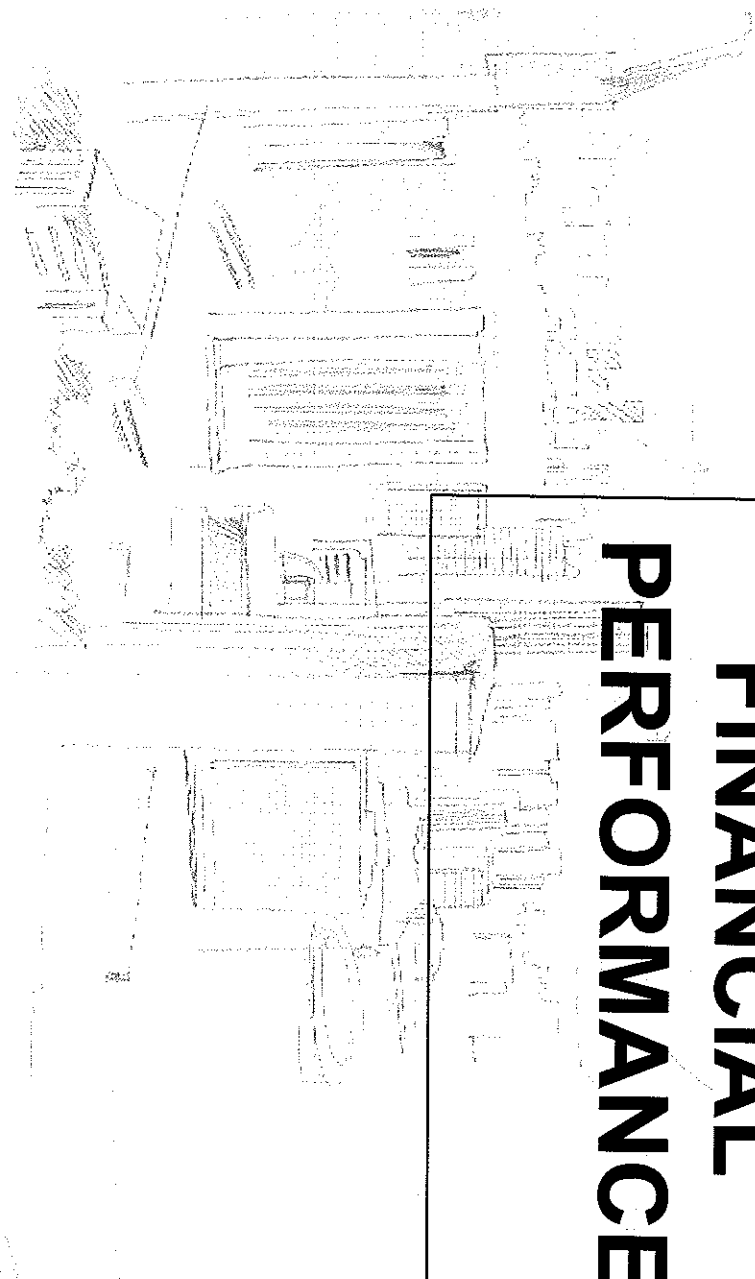
	Actual 2014	2015	2016	2017	2018	2019	Total
Cost to Fiscus (Rm)	5.9	5.2	5.5	5.8	6.1	6.5	29.1

FLISP Disbursement

	2015	2016	2017	2018	2019	Total
DORA allocation (Rm)	34	72	144	174	208	632



FINANCIAL PERFORMANCE



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GROUP FINANCIAL PERFORMANCE

	GROUP					
	Mar-14 Actual R' 000	Mar-15 Forecast R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Lending income	166 250	185 891	226 188	288 244	343 166	477 830
Interest on investments	31 396	18 462	10 660	26 571	21 550	19 662
Rental income	3 069	2 746	2 746	3 721	4 087	4 507
Dividends received	158	2 320	2 320	2 320	2 320	2 320
Sale of houses	43 474	160 853	144 606	97 558	55 153	11 725
Revenue	244 347	370 272	386 520	418 414	426 276	516 044
Cost of sales	(40 089)	(153 975)	(135 295)	(90 123)	(50 642)	(11 139)
Impairments	2 188	(44 788)	(64 413)	(72 009)	(78 250)	(86 424)
Gross profit	206 446	171 509	186 812	256 283	297 384	418 481
Other operating income	5 410	18 515	21 168	20 108	18 786	18 188
Operating expenses	(123 643)	(146 784)	(115 332)	(122 535)	(130 349)	(138 781)
Operating profit/ (Loss)	88 213	43 240	92 649	153 856	185 821	297 888
Fair value adjustments	(9 225)	-	-	-	-	-
Bad Debts	(30 322)	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(22 789)	(22 978)	(25 876)	(33 608)	(35 394)	(55 811)
Share of profit of associates	9 311	8 009	7 695	8 465	9 311	10 242
Profit/ (Loss before tax)	35 188	23 092	68 770	122 446	152 845	244 736
Taxation	(19 117)	(8 888)	(17 499)	(32 260)	(40 685)	(66 945)
Surplus after tax	16 071	14 204	51 271	90 186	112 160	177 791

FINANCIAL PERFORMANCE

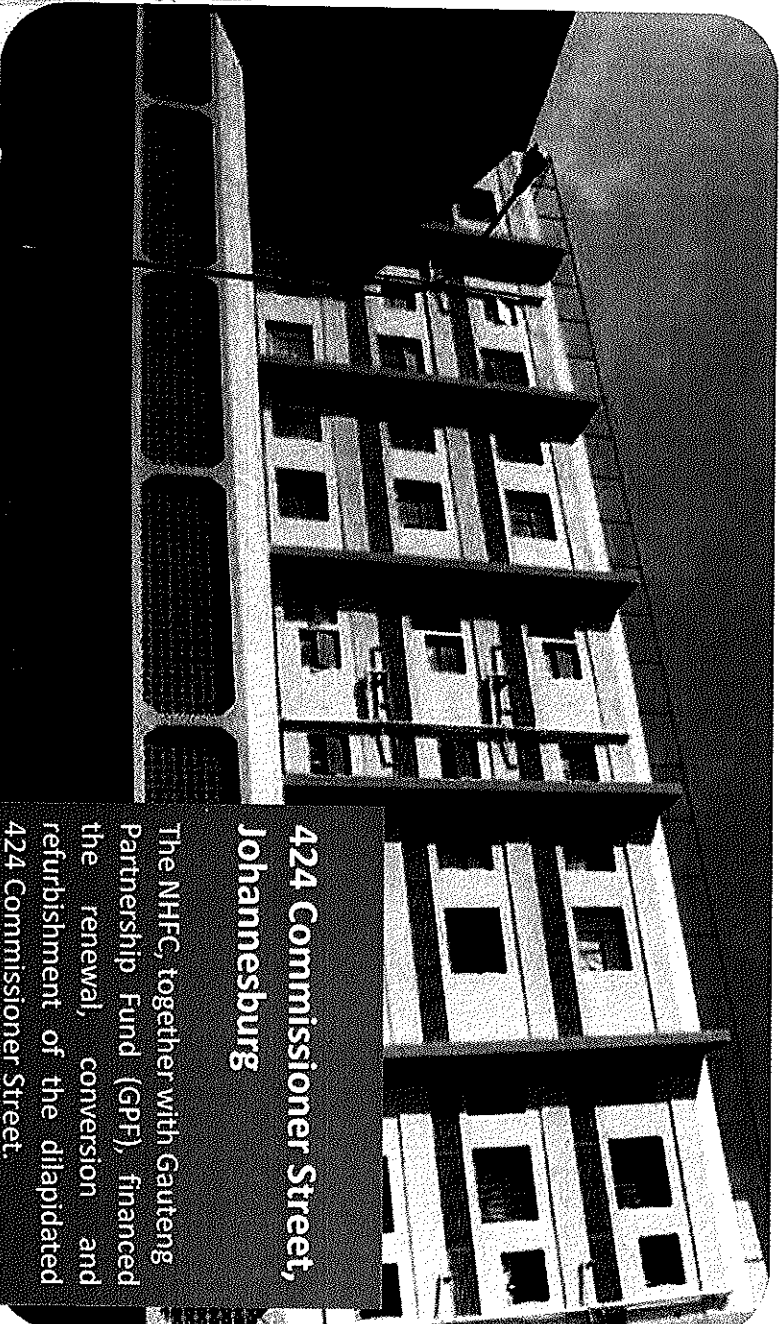
Key Drivers

<i>Lending income</i>	<ul style="list-style-type: none"> • Growth in disbursements • Moderate interest rate increase • Strategic Investments structure, return flowing in later years. Contributions evident from 2018/19 financial year.
<i>Sale of houses / Cost of sales</i>	<ul style="list-style-type: none"> • Strategic decision to exit the business of CTCHC being a developer after completion of the existing projects. • Existing projects: Harmony Village, Upington, Mountain View and Westcape.
<i>Impairments</i>	<ul style="list-style-type: none"> • Driven by growth in advances portfolio. Credit loss ratio of 2% assumed for 2014/15 thereafter 2.5%
<i>Operational expenses</i>	<ul style="list-style-type: none"> • Cost of restructuring in 2014/15
<i>Finance cost</i>	<ul style="list-style-type: none"> • Increase in line with increased gearing

GROUP FINANCIAL POSITION

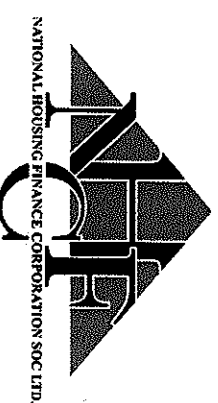
	Mar-14 Actual R'000	Mar-15 Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Assets						
Loan assets	2 144 379	2 279 570	2 903 860	3 396 068	3 770 765	4 309 737
Equity investments	94 619	102 628	110 323	118 788	128 099	138 341
Instalment sale receivables	49 032	79 184	87 349	85 905	84 461	83 017
Investment property	74 278	74 278	51 000	51 000	51 000	51 000
Other non current assets	16 909	19 527	20 424	19 097	16 522	16 522
	2 379 217	2 555 187	3 172 956	3 670 858	4 050 848	4 598 617
Properties developed for sale	168 566	291 293	90 009	70 574	39 971	1 246
Money Market Investment	573 331	466 740	518 966	750 328	534 279	611 503
Other current assets	13 039	16 896	12 014	13 306	15 881	2 575
Total	3 134 153	3 330 116	3 793 945	4 505 065	4 640 978	5 213 941
Equity and Liabilities						
Capital and reserves	2 417 782	2 661 987	3 043 258	3 733 444	3 845 604	4 023 395
Other financial liabilities	335 538	329 388	405 756	427 028	427 352	788 323
Funds under management	225 765	225 765	225 765	225 765	225 765	225 765
Current Liabilities	455 068	112 976	119 165	118 827	142 256	176 457
Total	3 134 153	3 330 116	3 793 945	4 505 065	4 640 978	5 213 941

SHOWCASING OUR PROJECTS



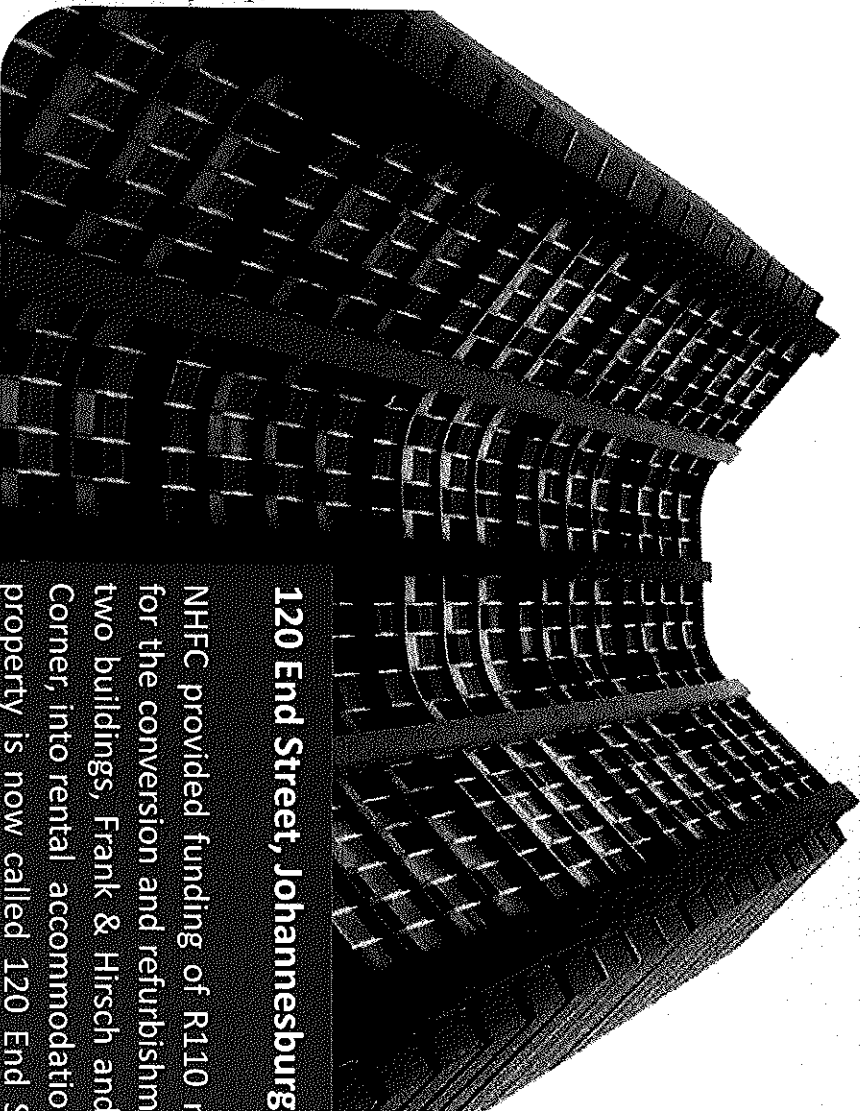
424 Commissioner Street, Johannesburg

The NHFC, together with Gauteng Partnership Fund (GPF), financed the renewal, conversion and refurbishment of the dilapidated 424 Commissioner Street. NHFC provided a mortgage loan of R7,4 million. The property consists of 34 units, comprising one- and two bedroom units. It is owned, developed and managed by a black female.



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SHOWCASING OUR PROJECTS



120 End Street, Johannesburg

NHFC provided funding of R110 million for the conversion and refurbishment of two buildings, Frank & Hirsch and Khan Corner, into rental accommodation. The property is now called 120 End Street, and has 479 units comprising one- and two-bedroom units. It is owned, developed and managed by Affordable Housing Company, a leading investor, landlord and property manager in the inner city of Johannesburg.



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