NATIONAL URBAN RECONSTRUCTION
AND HOUSING AGENCY (NPC)

NURCHA

CONSTRUCTION FINANCE AND
PROGRAMME MANAGEMENT

2014

ANNUAL REPORT

NURCHA

CONSTRUCTION FINANCE AND
PROGRAMME MANAGEMENT

CONTENTS

MISSION

NURCHA initiates programmes and takes considered risks to ensure a sustainable flow of finance for the construction of low-income and affordable housing, community facilities and infrastructure. We work in partnership with all roleplayers in these markets to maximise the development of sustainable human settlements.

VISION

To be regarded as a partner of choice for those seeking innovative bridging finance solutions.

DEVELOPMENT PRINCIPLES

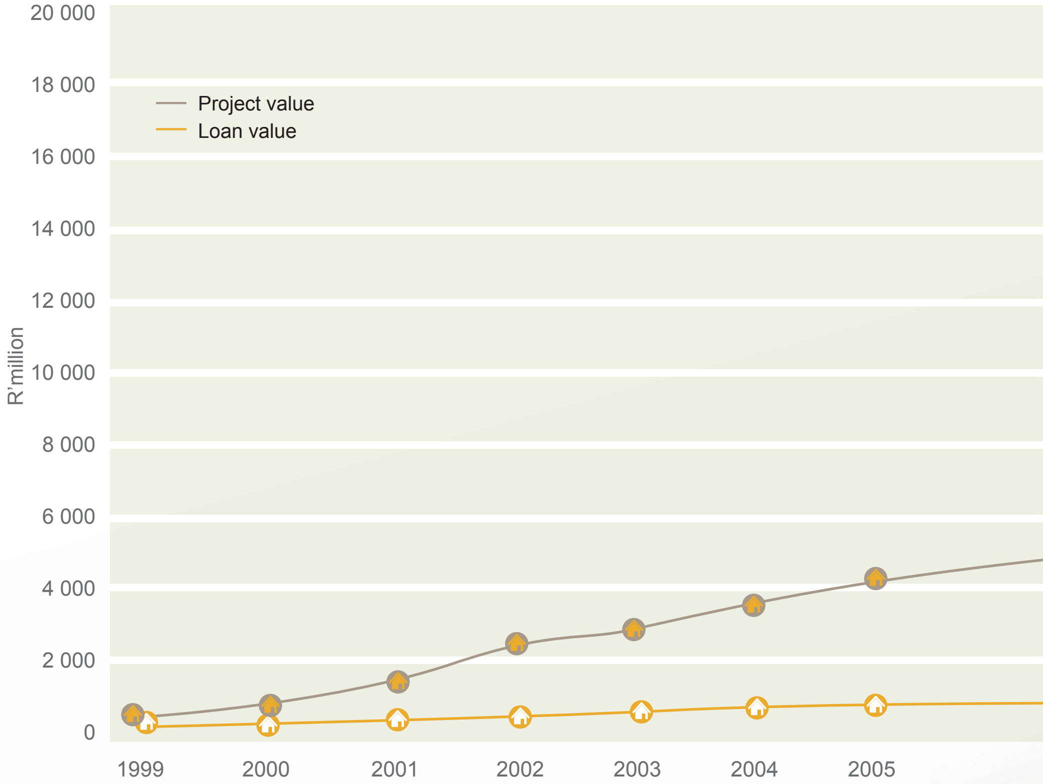
In fulfilling its mission of releasing finance for housing and related infrastructure, NURCHA seeks to act in a manner that maximises the developmental impact of our work. As we implement our programmes, we test them against our development principles, which are to:

- extend the housing market;
- maximise options for financing the construction of housing and related facilities and infrastructure;
- promote synergy and cooperation between public and private sectors; and
- use NURCHA loans to contribute to the emergence of a new generation of successful, black-owned construction companies.

"To overcome apartheid's spatial legacy, the provision of housing and social infrastructure needs to be improved, and planning frameworks across government strengthened" – Minister Nhlanhla Nene, Keynote Address, 18 July 2014.

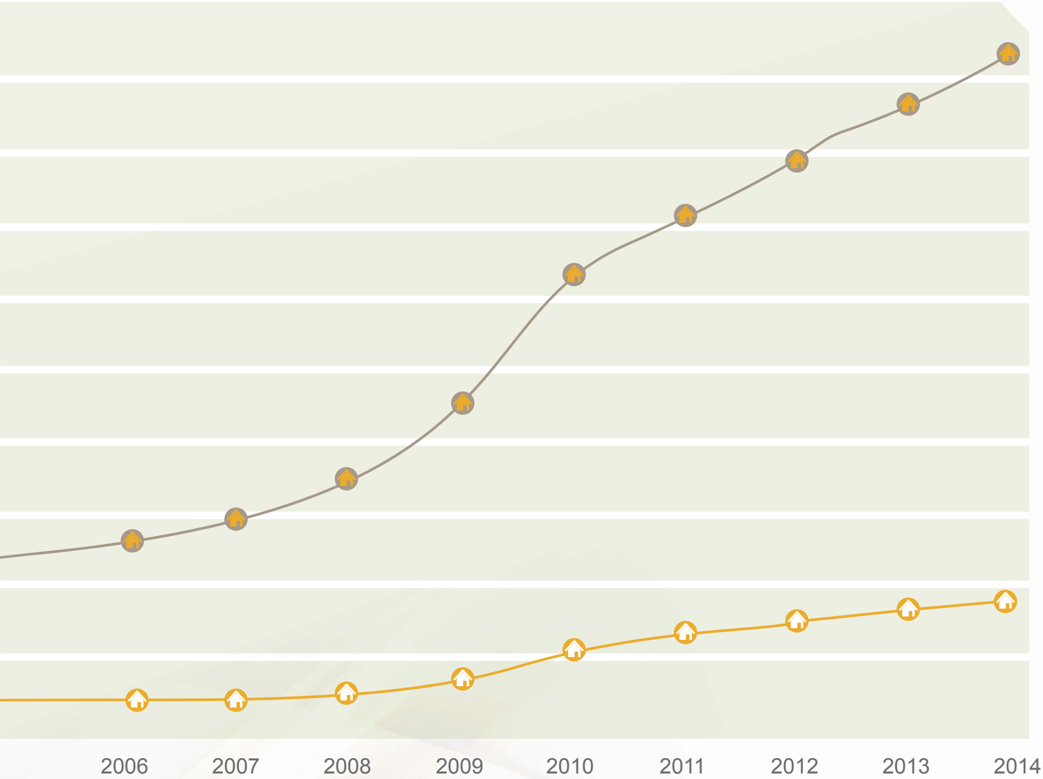
"South Africa is about to become the biggest construction site in Africa and most probably in the developing world. We will build close to 270 000 houses annually as a sector. It looks impossible, but we have been here before. At the height of implementing the BNG policy we were building over 270 000 per year" – Minister Lindiwe Sisulu, Remarks at the Budget Vote Media Briefing, 15 June 2014.

PROJECT AND LOAN VALUE TIMELINE



NURCHA OUTPUTS – SINCE INCEPTION TO MARCH 2014

Programme	Subsidy housing	Affordable housing	Infrastructure and community facilities	Total
Number of loans signed	944	175	281	1 400
Houses in loans signed	344 146	35 973	n/a	380 119
Houses/projects completed	250 133	29 794	184	280 111
Value of loans (Rand)	1,336 billion	1,497 billion	632 million	3,465 billion
Value of projects (Rand)	8,912 billion	5,813 billion	3,848 billion	18,573 billion



KEY HIGHLIGHTS FOR 2014

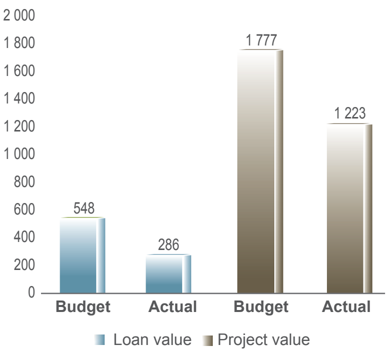
Affordable Housing Programme signs R231 MILLION in loans.

Subsidy Housing Programme signs R55 MILLION in loans.

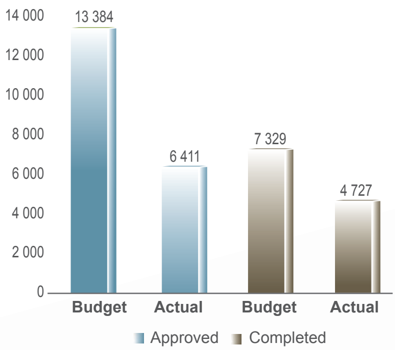
"We will implement the undertaking to build housing and other services to revitalise mining towns, as part of the October 2012 agreement between business, government and labour." President Jacob Zuma, State of the Nation Address, 17 June 2014.

FACTS AND FIGURES
for the year ended 31 March 2014

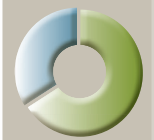
LOAN AND PROJECT VALUES (R'million)



HOUSES IN APPROVED LOANS AND COMPLETED HOUSES

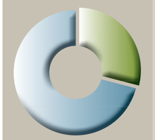


COMPLETED HOUSES/SITES



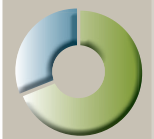
Affordable Housing (including serviced sites)	1 619
Subsidy Housing	3 108
Total	**4 727**
Infrastructure and community facilities Number of projects completed	8

VALUE OF PROJECTS FINANCED (R'million)



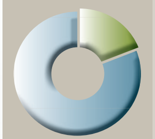
Affordable Housing (including serviced sites)	873,0
Subsidy Housing	349,9
Total	**1 222,9**

NUMBER OF HOUSES/SITES IN APPROVED LOANS



Affordable Housing (including serviced sites)	1 983
Subsidy Housing	4 428
Total	**6 411**
Infrastructure and community facilities Number of approved projects	0

VALUE OF LOANS FINANCED (R'million)



Affordable Housing (including serviced sites)	230,7
Subsidy Housing	55,5
Total	**286,2**

ORGANOGRAM

Department of Human Settlements (Shareholder)

SEDF (Shareholder)

LEVERAGED FINANCE
- Capital Markets
- Development Institutions

NURCHA (NPC)
PBO exemption
Number 18/11/13/1383

NURCHA 100% OWNED SUBSIDIARIES

NURCHA Loan Fund (Pty) Ltd (NLF)	NURCHA Bridging Fund (Pty) Ltd (NBF)	NURCHA Equity Services (Pty) Ltd (NES)	NURCHA Finance Company (Pty) Ltd (NFC)	NURCHA Management Services (Pty) Ltd (NMS)	NURCHA Development Finance (Pty) Ltd (NDF)
Affordable Housing	Affordable Housing	Affordable Housing	Subsidy Housing	Fee-Based Business	Infrastructure
Developers	Developers	Developers	Contractors		Contractors
(PIC)	(Cadiz)	(NURCHA)	(OPIC/RMB)	(NURCHA)	(FutureGrowth)

NURCHA Direct Financing

NUMBER OF PROJECT LOANS BY PROVINCE (2013/2014)

MEMBERS OF THE BOARD

Chairman and executive directors

1. Khehla SHUBANE

Board Chairman
Independent non-executive director

BA (Hons), MBA, Social Science

Date of appointment:
16 May 1995

2. Viwe GQWETHA

Managing Director

BA, Masters in Town and Regional Planning, Strategic Leadership Operations, Programme Management

Date of appointment:
22 August 2007

3. Adél STRUWIG

Executive Director: Lending Portfolio

BCom, MBA

Date of appointment:
1 October 2013

4. Sindisa NXUSANI

Financial Director

BCom, CTA, CA(SA), Financial Management

Date of appointment:
14 March 2007

"Companies are expected to convert or upgrade hostels into family units, attain the occupancy rate of one person per room and also facilitate home ownership options for mine workers" – President Jacob Zuma, State of the Nation Address, 17 June 2014.

Non-executive directors

1. Zyda RYLANDS

Human Capital and Transformation Committee chairperson; Independent non-executive director

BCom (Hons), CA(SA), Executive Education, Financial Management, Human Resource/Management, Transformation

Date of appointment:
16 August 2006

4. Linda SING

Independent non-executive director

BCom (Hons), CAIB, Executive Development Programme, MBA, Banking, Finance

Date of appointment:
18 August 2009

7. Stewart PAPERIN

Non-executive director (SEDF nominee)

BA and MS, Doctor of Humane Letters Degree, Financial Management, Economics, Corporate Governance

Date of appointment:
29 November 2000

2. Thulani NZIMAKWE

Audit Committee chairman; Independent non-executive director

BCom, BAcc, CA(SA), Financial Management

Date of appointment:
4 July 2001

5. Knowles OLIVER

Independent non-executive director

BCom, CA(SA), Financial Management

Date of appointment:
26 June 1997

8. Maleho NKOMO

Independent non-executive director

BCom (Hons), Senior Executive Programme, MCom, Financial Management, HR Management, Corporate Governance, Procurement, Public Sector Management

Date of appointment:
16 August 2006

3. Webster NDODANA

Independent non-executive director

Pr Eng, BSc Eng, BSc, Civil and Structural Engineering

Date of appointment:
16 August 2006

6. Cedric DE BEER

Non-executive director (SEDF nominee)

BA, Strategic Leadership

Date of appointment:
26 June 1997

9. Hendrik Petrus PRINSLOO

Independent non-executive director

BSc Agricultural Economics, MBA, Diploma in Solvency Law, Certificate of Financial Markets

Date of appointment:
12 March 2014

OUR TEAM

1. Bernie; 2. Octavia; 3. Tshepang; 4. Nonti; 5. Katlego; 6. Norman; 7. Hlengiwe; 8. Mpho; 9. Phangi; 10. Busi; 11. Cheryl; 12. Kgabo; 13. Jan; 14. Tlou; 15. Dini; 16. Nhlanhla; 17. Eazy; 18. Zack; 19. Thembeka; 20. Qaqambile; 21. Pfunzo.

22. Sabera; 23. Kgosi; 24. Refiloe; 25. Junaid; 26. Khumo; 27. Roelien; 28. Portia; 29. Sophie; 30. Carol; 31. Mpotsang; 32. Thandeka; 33. Khotso; 34. Jabu; 35. Zanele; 36. Ntsiki; 37. Nohle; 38. Oscar; 39. Nomvula; 40. Dean.

FOREWORD BY THE CHAIRMAN

What is even a bigger cause for celebration is the belief in a future full of possibilities for the current and future generations. This is in the belief that our society, individuals and institutions, will continue with endeavours to create more opportunities for the betterment of the citizens of the country.

South Africans are celebrating 20 years of democracy and with it the positive change experienced by the majority of citizens of this country, particularly the poor. These celebrations are further highlighted by the material changes that have been seen in the daily lives of South Africans evident in the socio-economic development seen in urban and rural areas. The progression in the integration of society across racial and ethnic lines due to freedom ushered by the advent of democracy is a noticeable phenomenon.

What is even a bigger cause for celebration is the belief in a future full of possibilities for the current and future generations. This is in the belief that our society, individuals and institutions will continue with endeavours to create more opportunities for the betterment of the citizens of the country. We have seen pragmatic yet futuristic endeavours to capture the aspirations of the various sectors of society and the nation at large in the National Development Plan (NDP). The NDP was in itself a demonstration of leadership and a laudable response to the unfolding national discourse on the need for inclusive and faster pace of socio-economic change to arrest and reverse the undesirable and resilient challenges in unemployment, poverty and inequality.

Celebration of the 20 years of democracy would not be complete without the mention of the illustrious leader and appropriately referred as the 'last great liberator of the 20th century', the late former President Mr Nelson Mandela. He rallied the energies of other eminent leaders in South Africa and abroad to establish NURCHA. At the establishment of NURCHA in August 1995 his words were, *"The South African Government of National Unity has given high priority to housing development as part of the Reconstruction and Development Programme. The National Urban Reconstruction and Housing Agency (NURCHA) has been established as a Presidential Lead Project to fill a critical niche in housing development in South Africa over the next five to ten years.*

NURCHA also celebrates the many contractors it has financed and particularly those women-owned contractors that have shown resilience and succeeded against all odds.

NURCHA has remained true to its original mandate and over the years made significant achievements as a catalyst to housing delivery and development of contractors to participate and transform the construction industry. In the year under review NURCHA mourned the

passing of Ms Francis Alberts, fondly known as ‘Charm’, who was the first woman-owned contractor to be financed by NURCHA. NURCHA also celebrates the many contractors it has financed and particularly those women-owned construction companies that have shown resilience and succeeded against all odds. Contractors such as Simsi Construction and Project Management CC, Makhosi Nyoka and Associates CC, and Ahanang Hardware and Construction CC are some of the women-owned construction companies in whose enterprise success NURCHA has been a catalyst and are current and historical clients of NURCHA. These contractors are currently playing a notable role in the construction industry. These and many other contractors and developers financed by NURCHA have delivered more than R18,6 billion worth of residential projects since NURCHA’s inception.

Provision of decent shelter remains one of the key areas of focus and well-articulated within the NDP as part of building integrated human settlements that are devoid of the historical apartheid spatial patterns. In the words of Honourable Minister Sisulu, *“We need to educate South Africans that while they live apart, Apartheid lives on”.* Since 1994 and with the advent of a democratic government, in excess of 3,5 million houses have been built with infrastructure and social amenities. Yet the challenge remains sizeable with an estimated backlog of 2,3 million households without adequate shelter.

The delivery efforts have to adequately respond to the growing population, accompanied by the increasing rate of urbanisation which now accounts for 63% of the population staying in cities and towns. On the other hand, the global and the national economy are experiencing a long span of muted growth and projected to remain moderate in the short to medium term. Consequently, the unemployment rate remains high with a low rate of absorption of new entrants, high dependency ratios and high levels of indebtedness that remain a matter of national concern.

These trends may remain the same in the short term as the economic growth projections for the current year have been revised down to 1,7% by both the South African Reserve Bank (SARB) and the International Monetary Fund (IMF) in light of negative sovereign and international variables impacting the economic performance. The SARB has communicated a clear message that the economy is in a period of rising interest rates. However, there is a positive economic outlook with projections of economic growth for next year well above 2%.

The human settlement development challenges and the poor economic outlook are the backdrop to the vision cast by the Minister and captured in the Medium Term Strategy Framework (MTSF) targets. Notably however, is that the announcements made by the Minister to advance human settlement outcomes have strong interventionist instruments that should have a collective impact sufficient to counter the short-term negative economic outlook and trigger positive housing market activity. These will propel the combined efforts of the private and public sector to achieve MTSF targets and significantly reduce housing backlogs, particularly in the Subsidy and Affordable Housing category.

The pronouncements made by the Minister in her Budget Speech should impact in three distinct and important areas that affect the delivery of the sector. Firstly, they will energise both the supply and demand sides of the residential market and improve the delivery of new and diverse typologies of housing units to cater for the affordable housing demand in both the rental and mortgage markets. Financial and policy instruments, such as Employer Supported Housing Schemes, Finance Linked Individual Subsidy Programme (FLISP) and Mortgage Default Insurance (MDI), are part of the arsenal envisaged to trigger the residential market stimulation.

Secondly, there is a strong geographical focus to deliver at scale in predetermined geographic areas through integrated mega projects located in urban areas and mining towns. This approach enhances predictability and will gear the role-players to collaborate and contribute towards achievement of the desired scale of human settlement outcomes.

The third area of focus is the capacity of the public sector to lead and deliver at a scale envisaged to peak at 270 000 housing units or opportunities per annum. In this regard three significant announcements stand out; the upgrading of the status of the Housing Development Agency (HDA) to fulfil the role of a developer and support across the spheres of Government, the consolidation of the Development Finance Institutions (DFI) and National Department of Human Settlements (NDHS) capacity to coordinate and ensure responsiveness of the three spheres of Government in support of the plan.

The Minister captured the scale of the effort as follows, *"This means that nothing short of a total mobilisation of society around the issue of the provision of housing for the poor will solve the problems we confront in the short term. However, over and above that, perhaps nothing short of* *some kind of Marshall Plan will see us survive this challenge. This is because, above all that, the very concept of Integrated Human Settlements means a concerted, deliberate, legally supported drive to change the spatial patterns of Apartheid and create a truly united country from our disparate past. For this to succeed we need both the support of the whole society and the intervention of the State."*

NURCHA is one of the entities enjoined to contribute towards achievement of the sector vision as interpreted above and targets set for this term of the administration. NURCHA's Board of Directors is inspired by the vision and has recast it to be embraced by strategic partners, the management team and staff at large. NURCHA is revising its strategic and operational plans to fulfil the expectations of Government within the parameters of its mandate.

As the Chairperson of the Board I wish to thank the rest of the Board members for their dedication and stewardship in fulfilment of the oversight as the Accounting Authority and guidance to the Executive as it steered the organisation out of the 'troubled waters'. Words of appreciation also go to Mr Andrew Canter, who resigned after many years serving as non-executive member of the Board and Chairperson of the Financial Risk Committee. In the same vein I welcome Mr Hein Prinsloo who has recently been appointed as a non-executive Board member.

Another word of appreciation goes to OPIC and FNB as we draw to a close a 10-year lending partnership. This is a partnership that gave NURCHA an appropriate lending capacity to finance Small and Medium Enterprises (SMEs) in the sector. OPIC guarantees of $20 million leveraged a lending facility from FNB at reasonable lending rates for the segment of the market.

Lastly, I wish to express our sincere appreciation to the co-founder of NURCHA and second shareholder, the Soros Economic Development Fund (SEDF), for the multi-faceted impact made to this organisation and partnership with the South African Government. Their contribution has been immense and felt in the various areas of our society. While I recognise SEDF's willingness to explore new areas of collaboration with our Government, I also note that their nexus with NURCHA comes to an end in the next financial year.

Khehla Shubane
Chairman

MANAGING DIRECTOR'S REPORT

> The 19 years of its existence is accentuated by innovations and continuous organisational evolution driven by the sole purpose of providing developmental finance to contractors and developers primarily in the residential market.

As the country celebrates 20 years of democracy, NURCHA is proud to have played a significant role in the human settlements sector. As a Development Finance Institution (DFI), NURCHA has continuously grappled with issues of housing provision for the poorly provided categories of the population. The 19 years of its existence is accentuated by innovations and continuous organisational evolution driven by the sole purpose of providing developmental finance to contractors and developers primarily in the residential market. Out of these efforts, NURCHA has financed R18,6 billion worth of residential projects within its mandate.

Within the Subsidy Housing segment, financing activities since inception have translated into 280 111 housing units borne out of 1 400 loans issued. NURCHA's bridging finance has been a significant catalyst to the subsidy category of the residential market and has financed approximately 10% of all units constructed since 1994.

The Affordable Housing Lending Programme is in its 11th year of existence. It has grown to contribute approximately 10% of the Affordable Housing market financing solutions, completing an average of 2 000 houses per annum out of approximately 20 000 new stock produced by the sector in recent years.

The above achievements were made possible by Government grants, starting with the establishment grant of R61 million in 1995 and a further re-capitalisation of R300 million in the last three financial years. A rand-denominated interest-free loan equivalent to the establishment grant by Government was contributed by the Soros Economic Development Fund (SEDF) towards NURCHA's initial equity. The capitalisation by the founding shareholders established a foundation for leveraging of financing partners to participate in the sector. The many partnerships formed over the 19 years stretched the development impact of NURCHA's

To sustain these results amidst a combination of high construction and lending risks, management is vigorously pursuing stronger partnerships with provincial departments of human settlements and municipalities.

balance sheet which, as of 31 March 2014, is at R600 million. These innovations were done with the full understanding of the DFI mandate and shareholders' expectations of NURCHA's role as a public sector instrument to facilitate the desired developmental changes and enhance access to finance for contractors and developers.

In the course of fulfilling its mandate, NURCHA has also learnt hard lessons as part and parcel of the risks associated with its work and mandate. At particular points in its history, it suffered losses that threatened organisational sustainability. These catastrophic eras triggered organisational changes and learning points. In the year under review, NURCHA is reporting successful implementation of its turnaround strategy that was initiated two years ago primarily to deal with the high levels of defaults that threatened the going concern status of the organisation and its ability to continue with the pioneering work of the past 19 years.

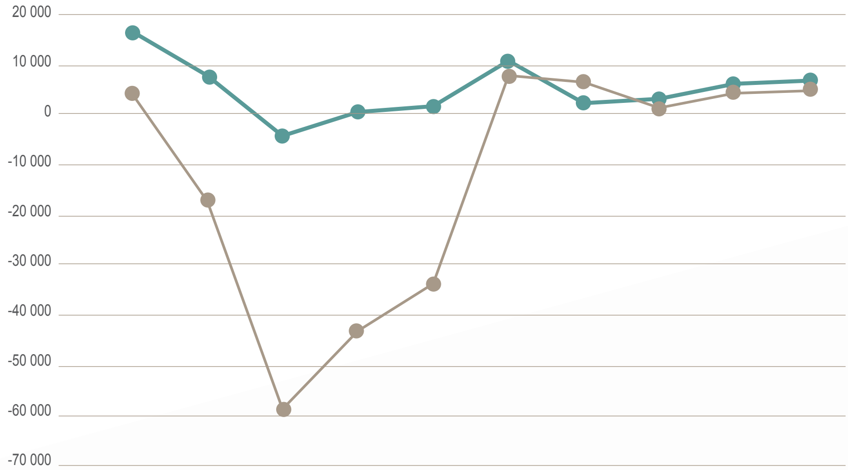
Year under review

The year under review marks the second year of NURCHA's five-year strategic plan which is underpinned by two goals of deepening relevance to the developmental mandate and restoration of organisational sustainability. The strategy was crafted in response to turbulence in the local economy, underperformance in the construction industry, and also internal organisational challenges. In the previous financial year (2012/2013), NURCHA reported positively on the traction of the turnaround strategy and reported an operational surplus, which implied that NURCHA's income fully covered its administrative costs. This was positive and encouraging progress against the backdrop of budgeting for a loss in the preceding 2011/2012 year.

In the financial year under review (2013/2014), NURCHA is pleased to report that operations are back on a stable footing. This significant achievement brings to an end a loss-making period spanning four years (refer to Figure 1 on page 16).

MANAGING DIRECTOR'S REPORT (continued)

FIGURE 1: FINANCIAL PERFORMANCE SINCE 2008/2009 FY



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual audited (R'000)						Budget (R'000)			
Surplus/(deficit) before impairments	15 380	6 733	(5 696)	(798)	417	9 793	1 034	1 928	5 019	5 675
Surplus/(deficit) after impairments	3 149	(18 826)	(61 315)	(45 359)	(35 707)	6 831	5 436	194	3 186	3 697

To sustain these results amidst a combination of high construction and lending risks, management is vigorously pursuing stronger partnerships with provincial departments of human settlements and municipalities. This process will intensify in the forthcoming year to secure a buy-in on a lending framework underpinned by proactive collaboration to extend access to finance beyond what has been achieved to date. The process will culminate in commonly agreed protocols between NURCHA and key role-players in the sector. These protocols will enable NURCHA to step up its lending volumes and development programmes to achieve a higher impact in development outputs and create opportunities for small and medium contractors. Collaborations to ensure that risk mitigation measures work are key to sustainable growth in impact. These will open new financing opportunities for Small and Medium Enterprises (SMEs), thereby creating employment and a conducive environment for enterprise formation.

NURCHA also achieved a laudable milestone of the successful diversification of core business activities with the introduction of a programme and fund management business stream. Two years into the strategy, NURCHA is reporting mutually beneficial collaborations providing programme and fund management-related solutions to the

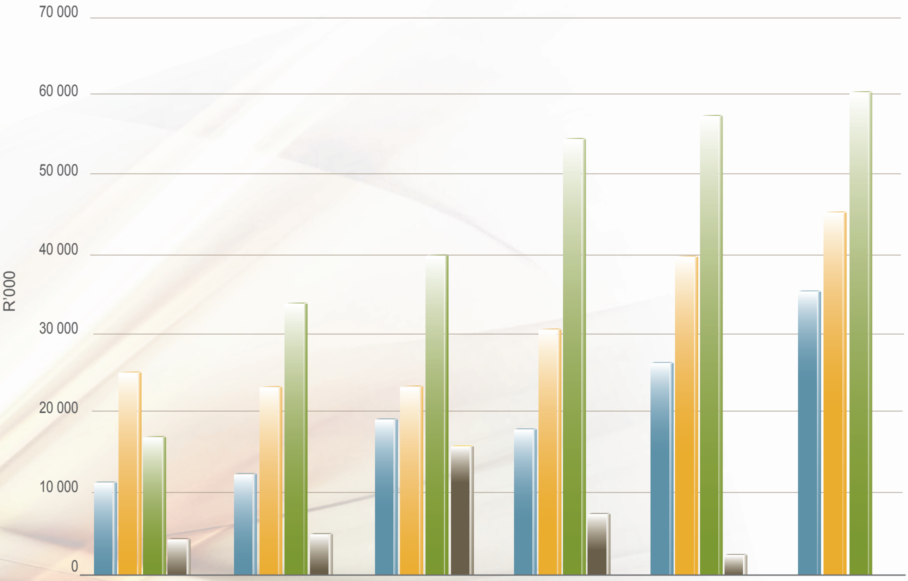
National and Provincial Departments to enhance service delivery efforts in the sector, and also a diversification in respect of non-interest income sources to NURCHA.

Financial performance

In the year under review, and in line with targets set forth in the previous annual report, NURCHA is pleased to report a surplus of R6,8 million after administrative costs and impairments. This was a predefined outcome to measure the success of the turnaround strategy and one that has evaded NURCHA for a span of four years. NURCHA has made credible strides in both pillars of the five-year strategy – that is deepening relevance to the developmental mandate and restoration of financial viability.

The strategy has been driven by diversification of core business activities (sources of income) and effective implementation of risk mitigation measures to maintain the loan book healthy. In the year under review, income was derived from the three income streams, being interest-based income from the lending business portfolio; fee generated through the Programme and Fund Management Portfolio; and money market investments contributing gross revenues of 35%, 48% and 17% respectively. The graph below shows revenue trends and projections.

GROSS REVENUE TRENDS AND PROJECTIONS



2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Actual	Actual	Actual	Projections	Projections	Projections

Income on Money Market investments · Financing Programmes · Programme Management Fees · Other income

COMPANY OVERVIEW · EXECUTIVE REPORTS · OPERATIONAL OVERVIEW · CORPORATE GOVERNANCE · FINANCIAL STATEMENTS

Loan book management and risk mitigation figures have improved significantly and, in the year under review, NURCHA reports an increase of only R3 million, ending the year with 16% in provisions for losses against a four-year peak of 35%.

Administration overheads were kept under control and in line with performance on the income side. Success in this regard is attributable to the flexible model of resourcing of the Programme and Fund Management Portfolio. As a result, there is a proportional relationship between costs of doing business and income in the portfolio. Strategy execution and management mechanisms are in line with this business model.

Lending business portfolio

The year under review saw the completion of migration from the intermediary supported model to direct lending. Business processes are now established and new systems are at advanced stages of development. A number of strategic appointments, including that of an executive director for the Lending Portfolio were made, giving the portfolio a full management complement that is now responsible and accountable for development outcomes, growth and fulfilment of shareholder expectations. The team has set a solid foundation to respond to shareholder expectations and is driving critical areas such as improvement in geographical spread of lending activities across provinces, focusing on mining and fast-growing towns, and setting up special programmes to reach marginalised groups such as women, youth and the disabled.

Further strategies are at advanced stages to introduce regionalised capabilities to ensure effective management of business risks and relationships with clients and stakeholders. The regional capabilities in the form of regional offices will be a critical element of consolidating the new lending model and the newly established direct relationship with clients. These regional offices will also give NURCHA the much-needed insight into the suitability of its products and growth opportunities and give it the responsiveness required by the lending business.

Affordable Housing Lending Programme

The Affordable Housing Programme has grown to be the most prominent pillar of the current loan book. The programme started the year with a healthy exposure of R174 million and in the course on the year grew to a high of R230 million (R166 million at year-end due to repayments on completed projects). This was in response to the Government's Outcome 8 which enjoined NURCHA to show visible impact in financing the development of new affordable housing units. The reported growth was made possible by a grant injection of R300 million transferred to NURCHA over a period of three years. The last tranche was received in the year under review (2013/2014).

Over the past two years, NURCHA also changed the distribution of its equity base to demonstrate focus on the affordable housing segment. The current strategic guideline is to utilise between 66% and 75% of lending capacity towards this strategic housing segment in order to address the undersupply of new housing units. In this regard, NURCHA is challenged but encouraged by the Medium Term Strategic Framework (MTSF) targets set by the National Department of Human Settlements (NDOHS) for the sector and the Ministerial commitment to mobilise all key role-players to rally around achievement of these targets, in which affordable housing remains a priority. The focused drive will take collaboration and integration to an advanced level by addressing major hurdles hampering optimal performance of the housing delivery value chain.

Strategic initiatives, such as focus on mining towns, employer-assisted housing, and financial instruments such as Finance Linked Individual Subsidy Programme (FLISP) and Mortgage Default Insurance (MDI) will stimulate vibrancy of both the supply and demand side of the Affordable Housing market. NURCHA has ongoing engagements with residential developers to find ways of stimulating the flow of project finance to well-located, higher-density developments with both sectional and full title ownership options, rental (including student accommodation) and infill opportunities. In the same vein, there are continuing discussions with financing partners to review and/or restructure financing facilities to be responsive, thereby widening the Affordable Housing segments financed.

Subsidy Housing and Infrastructure Lending Programme

This programme is largely directed at financing working capital requirements of contractors who are delivering subsidised residential projects undertaken by Provincial Departments and municipalities across all provinces. Bridging finance remains the key part of the construction industry as it oils the delivery machinery of all contractors in the industry regardless of size. The strength of the balance sheet distinguishes the contractor and almost predetermines access to finance or lack thereof. The South African construction industry is, however, confronted by transformation challenges where only a handful of contractors have made it to the top tier of contractors with established and predictable relationships with commercial financial services providers.

For a myriad of reasons, a significant majority of contractors remain with weak financial positions despite many years of active participation in the industry, and therefore struggle to access suitable finance. This category of contractors makes up more that 85% of NURCHA's clients. The distinguishing feature of this lending market category is the non-existence of tangible collateral to secure the loans issued. Further to the unsecured nature of the loans are the construction risks that arise from contractors or the employers. These relate to many aspects such as quality, contract terminations and delayed payments which have a negative impact on the project cash flows, project viability and ability of the contractor to complete the project and repay the loan. The effort in this financial year will focus on signing financing protocols with Provincial Departments and Municipalities to mitigate some of these risks. The protocols will outline the terms of collaboration and as such improve the flow of bridging finance to contractors, thereby ensuring a lower default rate.

There is also a category of contractors who are challenged by barriers of entry into the construction industry. NURCHA is making inroads to develop an appropriate product to service this category of contractors. The circumstances of these contractors are such that they require intensive support in a programme-based approach to yield economies of scale. This category not only requires closer collaboration among stakeholders, it also requires innovations and nurturing to accommodate the nascent nature of the enterprises.

To support this category of contractors, NURCHA initiated a pilot programme in the Nelson Mandela Bay Metropolitan Municipality called the Contractor Finance and Development Programme with 13 contractors of which 80% are women, provided them with intensive mentoring support, training and appropriate financing of working capital required. To increase the impact of this initiative, NURCHA is establishing close collaboration with the National Home Builders Regulatory Council (NHBRC) and Small Enterprise Development Agency (SEDA) Construction Incubator Programme. The partnership brings a complementary fit of training, support, mentoring and finance.

The Subsidy Housing Lending Programme lost significant lending capacity after a funding partnership spanning 10 years came to an end in the year under review. The financing structure leveraged a lending facility from FNB on the back of a R180 million guarantee from the Overseas Private Investment Corporation (OPIC). NURCHA is no longer advancing against this facility and it is winding down as contractors settle their loans. Final closure is set for February 2015.

Programme and Fund Management Portfolio

The decision made two years ago to enter the programme management arena was largely spearheaded by the need to complement programme and project management capabilities in the sector in addition to diversifying NURCHA's income base. When the deficiencies are acute they have a direct impact on the NURCHA loan book. NURCHA engages with the employer (provinces or municipality) to find resolutions to challenges such as late or non-payment of contractors. The Programme and Fund Management Portfolio was born out of proactive interventions of this nature.

There are exciting and laudable developments in the sector that give confidence in the new direction the sector is taking with regard to addressing delivery capabilities. Two notable accomplishments are the establishment of the programme management unit at a DDG level in the NDOHS and the strengthening of the role of the Housing Development Agency (HDA) to provide property development capabilities to the sector. NURCHA is keen to provide complementary support to these processes.

In the past two years, NURCHA has supported various initiatives across the provinces. In the Free State province, NURCHA has supported the Human Settlements Department with programme and project management capabilities and processes. NURCHA was appointed to fulfil an account administration role in the Vulindlela PHP project in KwaZulu-Natal. While complex in structure, the project is an innovative housing delivery process that seeks to deliver at scale, but yet participatory in nature.

The Programme and Fund Management Portfolio has contributed to the diversification of income sources. The gross income contribution of the portfolio to NURCHA's total income for the period under review is 48%.

Credit risk and control environment

The credit environment continues to be a challenging aspect to manage due to the high risk nature of the environment in which NURCHA lends. With stringent in-house controls and new credit rules, NURCHA has arrested the rise in provisions for losses seen in the past five years. The rise in provisions for losses has reduced from a R61 million high three years ago to R3 million in the year under review.

From time to time NURCHA is confronted by situations in which long-standing clients reach internal borrowing concentration limits that force NURCHA to reject viable affordable housing projects purely as a result of internal prudential risk considerations. The challenge has been addressed through co-funding arrangements and a vigorous drive for diversification of the client base. In the year under review, 64% of new affordable housing loans signed were from new clients.

A further area of control that continues to receive attention is supply chain management. The introduction of the Programme and Fund Management Portfolio came with new systems and processes to support fulfilment of the new business. The volume of services procured in the course of delivering services to clients stretched the supply chain management capabilities to the limit. This area has since been strengthened and resourced accordingly to ensure improved levels of compliance.

The year ahead

NURCHA is gearing itself to adjust its strategic plans and annual performance plans in line with sector targets outlined in the MTSF and the vision cast by the Minister. The three focus areas are:

1. Drive improvements in NURCHA's delivery outputs and impact towards achievement of the MTSF targets. This includes participation in the development of sector strategies in response to strategic programmes and projects.
2. To strengthen and formalise relationships with provinces and metropolitan municipalities against the backdrop of an agreed lending framework to contractors and establish provincial offices with appropriate capabilities to support contractors and manage relations.
3. Increase the impact of the Contractor Finance and Development Programme through collaborations with various stakeholders.

I wish to thank our clients, shareholders, funding partners, the Board Chairperson and members, management and staff for their contribution over this past period and look forward to us jointly striving to meet and surpass 2014/15 targets.

Viwe Gqwetha
Managing Director

COMPANY OVERVIEW
EXECUTIVE REPORTS
OPERATIONAL OVERVIEW
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

REVIEW OF OPERATIONS
Lending Portfolio: Overview

The Lending Portfolio encompasses all lending activities directed largely at financing delivery of new housing units by developers and contractors in the residential market.

Introduction

The Portfolio earns its income from interest and fees charged to clients for access and utilisation of approved loan facilities. All facilities are short-term facilities of no more than 24 months. In the event of rental housing projects NURCHA comes in as a short-term financier and approves projects that have secured takeout finance from long-term financiers. In this case it could be a commercial bank, fund manager or National Housing Finance Corporation (NHFC).

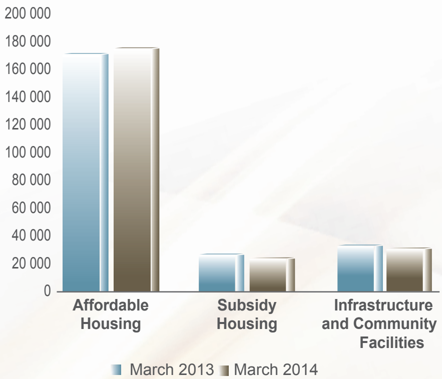
The portfolio is managed by a multi-disciplinary team of professionals under the leadership of an Executive Director and the team is supported by the Credit and Risk, Finance, Information Technology and Marketing departments.

Lending portfolio 2013/2014 in perspective

- The Affordable Housing Programme endeavours to optimise its financing towards supply of units in the gaps housing. There are various factors that influence the pricing and production of units in this category, such as the price of land, funding of bulk services, end user credit-worthiness, appetite of banks to issue mortgage finance and capacity of developers actively investing in projects in this category of the market. These are clearly a mixture of supply side and demand side factors of the market.
- The positive outlook on growth is premised on the complementary nature of instruments such as the Finance Linked Individual Subsidy Programme (FLISP) and the Mortgage Default Insurance (MDI), employer-supported housing schemes and public sector-led release of well-located and ennobled land to stimulate the affordable housing market, delivery and urban densification.
- Affordable housing makes up 76% of NURCHA's total loan book and is testimony to the successful rebalancing of investments to largely support the delivery of this stream of housing. The drive for client and geographic diversification has paid dividends evident from the geographical spread of signed deals in the pipeline, as well as 64% on new deals signed with new clients – that is clients that never borrowed from NURCHA before.

- In the year under review capabilities have been dedicated to grapple with development of new lending products in the supply side of the affordable housing and advance housing delivery in mining and rapid growing towns as well as rental housing stock.
- The figure below shows loan exposures and distribution of debts across the three lending streams from the previous reporting period as a result of deliberate intervention to drive desired organisational outcomes.

LOAN BOOK SPLIT: MARCH 2013 AND MARCH 2014



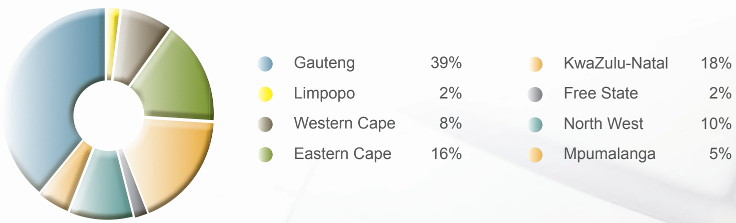
- NURCHA, through its wholly owned subsidiaries, has established funding capacity through facilities from funding partners such as OPIC, SEDF, FNB, FutureGrowth, PIC and Cadiz to finance the supply side of the housing market. The OPIC and FNB facilities matured and was repaid in this financial year 2013/2014. The R300 million grant transferred to NURCHA in three equal tranches as from the financial year 2011/2012, significantly strengthened NURCHA's balance sheet and financial position to leverage private sector partnerships.
- At the beginning of 2012, the Lending Portfolio implemented new business processes and credit rules for applicants in the Subsidy Housing and Infrastructure and Community Facilities Programmes as it was making the shift to direct lending and winding down the role of intermediaries. These changes in products and delivery channels required intensive marketing and direct interaction with contractors across provinces. With the termination of the intermediary lending model, NURCHA prevails in all provinces and plans are afoot to re-establish the provincial capabilities afresh and restore growth in the Subsidy Housing Programme.
- The focus of the Lending Portfolio team is to apply all risk management instruments at its disposal to ensure healthy growth of the loan book and keeping overdue accounts and defaults at a minimum. The table on page 24 provides a summary of the ageing of the loan book. There are R48 million worth of overdue debts of which R27 million is a residual from the historical delinquent book before June 2011. The balance of the overdue debts is primarily due to a single debtor in the Affordable Housing Portfolio that was placed in liquidation by a third party. NURCHA holds tangible collateral on this debt and a full recovery is expected.

Summary of loan ageing as at 31 March 2014

R'million	Not yet due	Total overdue	Total debtors outstanding	Impairments
Affordable Housing	R166 153 921 93%	R12 038 078 7%	R178 191 999 76%	R4 742 602 12%
Subsidy Housing	R18 538 481 83%	R3 734 872 17%	R22 273 353 10%	R3 368 570 9%
Infrastructure	R791 667 2%	R32 894 083 98%	R33 685 750 14%	R30 166 715 79%
Total NURCHA debtors	R185 484 069 79%	R48 667 033 21%	R234 151 102 100%	R38 277 887 100%

- It is, however, pleasing to report that the Lending Portfolio still has good presence across provinces and plans are afoot to improve this aspect, as shown by the graph below.

GEOGRAPHIC SPREAD OF THE LENDING PORTFOLIO



Growth of the Lending Portfolio in 2014/2015

The focus of the next reporting period 2014/2015 is to grow the Lending Portfolio with a focus on the following aspects:

- Deepen market knowledge of NURCHA products through innovative marketing channels.
- Improve the customer satisfaction levels to enhance repeat business and referrals.
- Improve the geographical spread of projects across provinces.
- Support national priority programmes announced by Government, specifically in mining towns and supply of rental housing stock.
- Enhance NURCHA's relationships with other project level participants working with contractors, such as professional teams, employers and suppliers.
- Improve conversion rate from application to loans signed stage.
- Increase the cost-effectiveness of the Lending Portfolio.
- Improve the capacity utilisation of available lending facilities in the Lending Portfolio in general and Affordable Housing in particular.
- Improve product development of new lending instruments in response to development priorities and market requirements.
- Source replacement fund for the expired OPIC facility to fund the Subsidy Housing Programme which lends to small and medium contractors.

Conclusion

The Lending Portfolio experienced lower than expected levels of growth due to the strategic drive aimed at maintaining a healthy loan book such as restructuring of the business model and changes in lending criteria. Poor market performance and the absence of regional offices added to the slow growth. Despite this, the Lending Portfolio has taken up the challenge to grow the business of NURCHA and objectives of Government's Outcome 8 delivery targets.

REVIEW OF OPERATIONS (continued)

Affordable Housing

The year under review has been one of those years where performance was well above the R126 million 10-year average with a R230,7 million value of loans signed.

NURCHA has been operating a financing programme for Affordable Housing projects since 2003. This programme forms a key component of its business operation and acts as a major catalyst to stimulate housing delivery in South Africa.

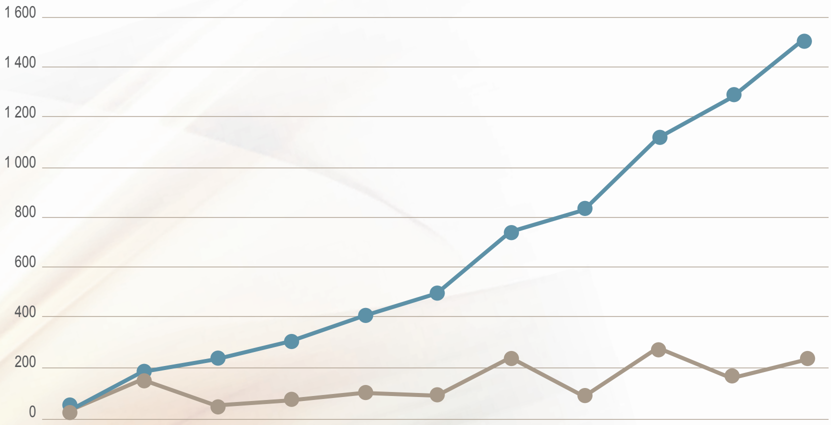
The Affordable Housing Programme is the most viable of NURCHA's lending programmes and significant reliance is placed on this programme as it advances the Outcome 8 development targets set by the National Department of Human Settlements.

The programme provides development finance loans to private sector developers who undertake Affordable Housing projects with a loan duration not exceeding 24 months and the majority of the units selling prices not exceeding R500 000.

Over the last 10 years of its operation the programme has seen significant fluctuations with some years performing above average in terms of loans signed. The year under review has been one of those years where performance was well above the R126 million 10-year average with a R230,7 million value of loans signed.

The graph below shows the annual values and cumulative values since inception of the programme. Factors that influence performance fluctuations differ from year to year, but the banks' appetite for end-user finance, end-user creditworthiness capacity of developers to raise and qualify for more debt funding, feature largely as major influences.

GROWTH OF AFFORDABLE HOUSING LOAN VOLUMES



	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Loans signed	26,6	152,3	49	69	99	88	240	84,9	279	157,8	230,73
Cumulative	26,6	178,9	227,9	296,9	395,9	483,9	723,9	808,8	1 087,8	1 245,6	1 476,3

REVIEW OF OPERATIONS (continued)

Affordable Housing (continued)

Spread of the Affordable Housing loan book

The Affordable Housing loan book for the period under review has been categorised into three categories as follows:

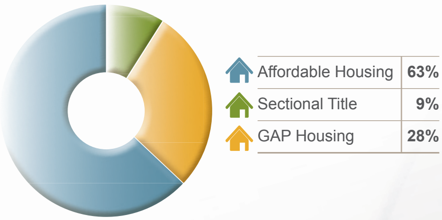
Category	Projects	Units	Percentage of book
Sectional Title Units	7	443	9%
GAP Housing	4	1 418	28%
Affordable Housing	16	3 140	63%
Total	**27**	**5 001**	**100%**

Sectional Title Units are defined as high-density, full title ownership units or sections within a complex or a development and an undivided share of the common property. NURCHA's investment in this category remains unchanged from the previous financial year at 9%.

Gap Housing is a category of bonded housing stock falling within the R3 500 to R10 000 income and housing packages between R105 000 to R391 000 ranges. NURCHA's impact into the GAP housing market decreased from 37% in the previous financial year to 28% in this financial year. This decrease is primarily due to council delays in obtaining town planning approvals which resulted in less stock being brought to the market, as well as concentration limits reached with NURCHA's single largest developer involved in this segment of the market.

Affordable Housing is defined as bonded-free standing houses with prices between R350 000 to R500 000 and for income earners between R10 000 to R16 000 per month. The Affordable Housing category makes up the bulk of the loan book and increased from 54% in the previous financial year to 63% in this financial year.

CATEGORY SPREAD OF THE LOAN BOOK



Budgeted projection versus actual outputs for 2013/2014

The table below sets out the budgeted versus actual outputs for the period under review:

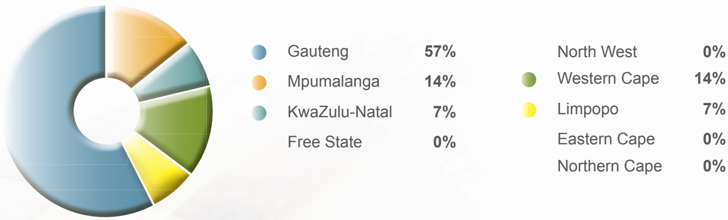
Description	Budget	Actual	Previous year
Contracts signed	23	14	11
No of houses and sites	3 220	1 983	1 813
Value of loans (Rand)	345 000 000	230 729 433	157 816 953
Value of projects (Rand)	690 000 000	873 072 445	654 804 352
Houses completed	2 245	1 619	1 195

The Affordable Housing Portfolio experienced subdued business activity in this financial year with only 61% of targeted number of loans signed. During the financial year under review, 17 new loan applications, out of the budgeted 23 applications, were approved by NURCHA's Credit Committee. 14 of these loans were accepted and signed. Three loans were not taken up by the client for reasons ranging from more favourable offers from other financial institutions to the terms and conditions not suiting the co-funders' requirements.

NURCHA's internal concentration limits has also caused a reduction in the rate of new loan applications from existing clients and only 36% of new business concluded was with existing clients, while loans granted to new clients have increased to 64% of loans signed.

Altogether 1 619 houses were built and handed over, which is 72% of the targeted budget. The delay is primarily due to the backlog in transfers caused by the terminations of the Development Facilitation Act (DFA) approval process, which was replaced by the Town Planning Ordinance process in 2012.

CURRENT GEOGRAPHIC SPREAD OF AFFORDABLE HOUSING LOANS AMONGST THE PROVINCES



The provincial spread of investments in the programme shows predominance of projects in Gauteng province with more than 57% in loans approved. While Gauteng will most likely remain dominant going into the future, NURCHA has increased its investment in Affordable Housing projects in the Western Cape, Limpopo, KwaZulu-Natal and Mpumalanga. NURCHA will continue its marketing efforts to increase investment in unserviced provinces.

Conclusion

The financial year under review did not meet targeted outputs, however, the overall results compare favourably with the past 10-year trends and averages. Over the last five years, this programme has constantly delivered houses and sites to the Affordable Housing market which broadly equates to approximately two thousand three hundred (2 300) units per year. This is a significant contribution to the Outcomes 8 targets set by the National Department of Human Settlements. NURCHA has made progress in seeking new clients, expanding its reach to other provinces and forging relationships with Provincial and National Departments of Human Settlements. Commercial banks have started to show improved appetite to provide end-user finance in the Affordable Housing market and Government priorities with regards to Mining Town Developments and Student and Rental Accommodation will further stimulate the growth of the Affordable Housing Portfolio in the next financial year.

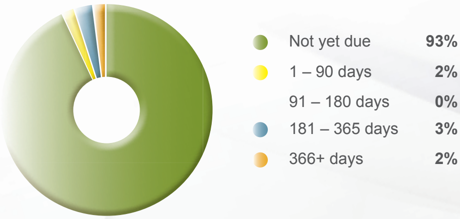
Subsidy Housing

The year under review consolidated the termination of the intermediary lending model, the restructuring of the lending model and lending criteria introduced in 2012.

These were major changes that required a marketing campaign to raise awareness of contractors to product changes and channels of doing business with NURCHA. After the termination of the intermediary model, NURCHA found itself without regional offices and this resulted in a significant reduction in loan applications and a shortfall in annual targets.

NURCHA is, however, pleased to report good traction in changes made and the key indicator of success is in the health of the portfolio of loans issued after the changes had been implemented. The graph below shows the loan book health of the new portfolio which has only 7% in overdue payments.

BREAKDOWN OF REGULAR LOAN BOOK



Programme performance

The programme was financed from various sources of finance which includes direct finance from NURCHA or through ring-fenced fully-owned Special Purpose Vehicles (SPVs) such as NURCHA Equity Services (NES) in partnership with FNB or NURCHA Finance Corporation (NFC) in partnership with OPIC, SEDF and FNB. In the last 10 years, these partners have leveraged access to finance for small and medium contractors in excess of R1,336 billion in loans and on 944 projects financed. This quantum of achievement was made possible by the OPIC/SAFE guarantee of R180 million that provided loan default guarantees to an equivalent FNB facility for the category of contractors.

After 10 years of collaboration, this OPIC, SEDF and FNB partnership has come to an end and NURCHA has applied for replacement funds from National Treasury to establish a similar facility that will ensure that contractors continue to have access to bridging finance. This is with the recognition that bridging finance is the 'life blood' of the construction industry and ensures active and gainful participation by SMEs in the construction industry.

Performance against annual targets

The table below shows actual outputs achieved against budgeted targets.

Performance against output targets shows that the value of projects signed achieved 51% of targeted budget and the number of houses in signed contracts achieved 61% of the budget, despite only signing 42% of the number of loans. The value of loans signed was larger than anticipated with 45% of targeted budget achieved.

	Budget	Actual	Percentage of budget achieved
Contracts signed	26	11	42%
Houses in signed contracts	10 164	4 428	44%
Value of loans (Rand)	124 000 000	55 481 861	45%
Value of projects (Rand)	687 000 000	349 911 460	51%
Houses built	5 084	3 108	61%

Conclusion

The Subsidy Housing Programme has performed below expectations primarily due to the change in lending criteria and the loss of NURCHA's regional presence. The Subsidy Housing Programme is, however, poised for success in the coming financial year following intensive marketing campaigns and anticipated growth in lending to contractors on the CFDP Programme. It is, however, imperative that NURCHA secures suitable funding arrangements to ensure affordable funding to contractors on this programme.

Infrastructure and Community Facilities

The Infrastructure and Community Facilities Programme was scaled down due to significant losses experienced in previous financial years. The change in the lending criteria to that of a certificate-based lending programme resulted in a high fall-out rate on loan applications.

Programme performance

The table below shows the actual outputs achieved against targeted budgets.

Two loans were approved by NURCHA's Credit Committee in this financial year, but were not taken up as contractors were unable to meet the conditions of sanction.

The projects completed are projects signed up in previous reporting periods but completed in this current financial year.

	Budget	Actual	Percentage of budget achieved
Contracts signed	20	–	–
Value of loans (Rand)	79 000 000	–	–
Value of projects (Rand)	400 000 000	–	–
Projects completed	10	8	80%

Conclusion

Management is attending to the redesign of the programme to meet market demand. The redesign will consider lending criteria while maintaining appropriate risk mechanisms to prevent erosion in NURCHA's capital base.

> ***"After reviewing housing delivery from 2005 to 2009 and 2009 to 2014, we have come to the conclusion that we need to change our approach. We need to move from small projects of 200 houses to mega projects of integrated housing mix to cater for different incomes and needs. These will include houses for the indigent, gap housing, rental units, social housing and serviced stands. This will ensure integration of different income groups, different races and lead to the building of a South Africa that truly belongs to all."***
>
> ***Minister Lindiwe Sisulu, Remarks at the Budget Vote Media Briefing, 15 June 2014***

Programme and Fund Management Portfolio: Overview

The Programme and Fund Management Portfolio has matured well although there is still significant work to be done to take it to the next level of maturity and clarity of niche around which to deepen capabilities.

In the year under review NURCHA reports on the portfolio's performance, milestones achieved and benefits and value delivered by the portfolio programmes towards attainment of development outcomes.

The portfolio started in 2011 with four flagship programmes, namely Free State Programme Management Support, Contractor Finance and Development Programme, Vulindlela Housing Programme and Eastern Rural Housing Development Programme. These were started as multi-year programmes and some are at the tail end of delivering of the contracts. During the year under review 2013/2014, NURCHA was also appointed to provide programme management support in the Bucket Eradication Programme. The appointment is with the Eastern Cape Human Settlements Department in concurrence with NDHS and sister departments participating in the programme. All current programmes are at different stages of implementation towards fulfilment the respective scopes, targets and outcomes.

The portfolio achieved an annual gross revenue of R33 million against a target of R39 million. Although the target was missed by 15%, the quantum was a significant 48% of the overall gross revenue. This achievement and the continued growth of revenue, is another milestone in NURCHA's turn-around strategy, particularly as it relates to diversification of income sources.

The portfolio is anchored around a small core team and recruits and procures additional capacity in line with requirements for execution of approved assignments. As a result the costs of delivering business fluctuate in relation to the volume of work and revenue projection per programme on a full cost recovery model. For the success of the portfolio NURCHA invested on diverse set of core capabilities and skills to manage and meet client expectations. The Business Fulfilment Model of this business stream has three sub-streams that define NURCHA niche, i.e. programme management services, fund management and Contractor Finance and Development Programme. The programmes under execution

fall in one of these three sub-streams as outlined below.

Free State Support Programme

This intervention is a combination of change management processes and programme management support to the Free State Department of Human Settlements. The initial scope was set to end on 30 March 2014. There was subsequently an extension to deal with outstanding close-out processes, projects that were part of the variation of scope or deferred recruitments of critical technical resources.

At the initial stages the programme focussed on strengthening the head office and district level technical capacity by deploying construction project managers in each district. The main function was to manage professional teams providing service to the department and stabilise the department through operational support in terms of project management on their current projects. This process also ensured that the department establish internal programme management capabilities with critical competencies, key processes and information systems to support the internal programme management function.

In the year under review the department's financial and non-financial performance had remarkably improved. A mapping exercise of all housing projects is complete and the internal GIS management capabilities are at advanced stages of implementation and the hand-over process are underway. There were outstanding quality assurance issues where NHBRC collaborated with the department to deal with the backlog in enrolments, coupled with improvement in quality assurance processes. In this the department appointed built environment consulting firms to fulfil project quality assurance. This has enhanced the department's capacity to perform on quality assurance, technical verification and improved management of projects. The built environmental consulting firms have become part of the architecture of quality assurance processes on work done by contractors.

Eastern Cape Rural Development Programme

The Eastern Cape Rural Development Programme is aimed at the construction of 500 housing units across three rural municipal areas, namely Umzimvubu, Mhlontlo and Intsika Yethu. The programme progressed slower than expected due to a number of challenges. In March 2014, a handover ceremony of several completed housing units was successfully organised with the participation of the Ward Councillors, the Eastern Cape Department of Human Settlements and other community representatives in Mhlontlo.

The programme implementation model has been changed into a conventional project driven largely by the contractor and with roles defined and enforced in accordance with conventional contracts and conditions. The shift from the original concept of a voucher programme to an approach that places central responsibility on the contractors to drive construction work was informed by lessons learnt in the programme and agreed by the client. The change has delayed projections on of delivery of units. However, even with the changes some challenges will remain such as terrain-related 'double handling' of material, poor access to a significant number of beneficiary sites and poor access to water sources in some areas which affect the performance of contractors.

Contractor Finance and Development Programme

The Contractor Finance and Development Programme (CFDP) was created to support and promote small and medium-sized contractors to develop into, sustainable construction enterprises through training, mentoring and provision of bridging finance. This intervention is done without compromising the pace of delivering quality houses and has created job opportunities with particular focus on female contractors and youth employment. The project sizes in this category are much smaller than projects in NURCHA's traditional lending market. These contractors have on average 40 housing units allocated per contract and require loans less than R1,5 million.

This strategic flagship programme gained momentum in the year under review. The first pilot initiative took root in the Nelson Mandela Metropolitan Municipality which was targeted as the first location for roll-out. The programme enrolled 13 contractors of whom 80% were women. The outcome of the programme has been provision of support, i.e technical construction support and mentorship, to these emerging contractors resulting in successful completion and delivery of their allocated units. A total of 351 housing units were delivered by a group of contractors who were enrolled in the initial phase of the programme.

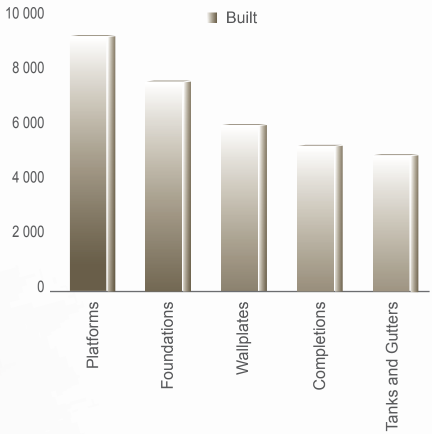
Despite most having been approved for bridging finance, most did not utilise their facilities. Lessons learnt indicate a need to adjust the programme implementation approach from being support-led to bridging finance-led as most contractors were impacted by administrative processes and lack of synergy between lending requirements and institutional processes of the Metro. In response to the need for a customised lending approach to this category of contractors, NURCHA has developed a funding model that specifically caters for the unique characteristics of CFDP contractors. In order for funding to be viable, intensive construction support services are required for these incubator type programmes.

In order to maximise the impact of the CFDP Programme in other provinces, NURCHA is forging relationships with the Small Enterprise Development Agency (SEDA) that has established nine Contractor Incubator Sites across the country, and bridging finance for enrolled contractors will add value to this programme.

Vulindlela Housing Programme

NURCHA is involved in the Vulindlela Enhanced Peoples Housing Programme (EPHP) in KwaZulu-Natal as the Community Resource Organisation. The Vulindlela programme is targeting to deliver 25 000 housing units through the Enhanced Peoples Housing approach. NURCHA function is that of a fund administrator. The total funds available for disbursement towards the project was R328,8 million and to date R300 million (91%) of the funds have been disbursed based on authorised payment requests from the Vulindlela Development Association. NURCHA has supported the programme to achieve completion milestones of 4 770 housing units since inception of the programme as illustrated in the graph below.

CONSTRUCTION PROGRESS



NURCHA fund management systems and timely disbursements of payments continue to be improved in order to achieve optimal levels of production. Better synergy in governance arrangements between the Department of Human Settlements, NURCHA, Dezzo (the technical community resource organisation) and Vulindlela Development Association (VDA) could be improved to achieve speedy resolution of operational challenges, synchronising activities related to production and flow of funds to speed of delivery.

Eastern Cape Bucket Eradication Programme

The Bucket Eradication Programme is an initiative led by the National Department of Human Settlements in partnership with the National Department of Water and Sanitation, and National Department of Co-operative Governance and Traditional Affairs. The national scope of the programme is a direct response of the human settlements sector priority of eradicating 88 127 buckets in formalised areas over the MTSF period. Over the same period, the programme is intended to provide 184 000 households residing in informal settlements with adequate sanitation facilities.

As the implementing agents in the Eastern Cape, NURCHA consulted extensively with the Provincial Department of Human Settlements, and District and Local Municipalities. This culminated in the identification and initiation of nine projects spread across eight municipalities. One of the projects has achieved the Works Completion milestone, while the remainder are in the implementation phase as shown in the table below:

BEP progress summary – March 2014

				Progress versus Scope				
Project Code	Bucket Eradication Programme Projects	Number of Buckets	Number of VIPs	Sites allocated to contractors	Slabs completed	Toilet structures in progress	Structures with plumbing complete	Buckets eradicated to date
1A	1003 VIPs, Ext.6, Phase 2, Stage 2 & 3 (Makana)		1 003	430	324	174	168	111
1B	Bucket to 288 Sites in Makana	288		288	–	–	–	–
2A	Testing of water & sewer network in Paterson	1 245		1 245	–	–	–	–
3A	Bucket eradication to 14 sites in Golden Valley (Baviaans)	14		14	–	–	–	–
4A	Bucket eradication to 1200 sites in Steynsburg	1 200		1 200	871	423	448	448
5A	Bucket eradication to 64 sites at Indwe	64		64	–	–	–	–
6A	Bucket eradication to 21 sites in Jansenville	21		21	–	–	–	–
7A	Bucket eradication to 4 sites in Somerset East	4		4	4	4	4	4
8A	Sewer Reticulation Upgrade in 2290 sites in Nemato, Ndlambe		2 290	1 374	–	–	–	–
	Total	**2 836**	**3 293**	**4 640**	**328**	**601**	**620**	**563**

NURCHA's involvement on the programme has a pervasive influence on many stakeholders. Communities are benefiting from improved services and work opportunities created by construction works while the local and district municipalities are leveraging on the funding that the programme provides to improve their water and sanitation infrastructure. The programme has provided NURCHA with insight to the challenges that confront municipalities. Through the insight gleaned in this programme, NURCHA is ideally positioned to enhance its value proposition in the near future by providing sustainable Human Settlements solutions at a municipal level.

Conclusion

There are operational issues that have received attention in order to optimise the delivery and attainment of the predefined organisational outcomes. The regionalisation of Programme and Fund Management business leading to closer proximity of these services to clients at a provincial level, as well as the introduction of matrix type management arrangements resulting in improved head office coordination and oversight of operations across provinces while allowing effective delivery at a provincial level. Also balancing resourcing mechanisms through use of a combination of skills sourced through consulting arrangements for specialist services, fixed term contracts and permanent staff, to meet programme execution requirements. The resourcing model takes into consideration National Treasury prescripts around cost saving and there is a continuous exercise to minimise costs and keeping recurrent expenditure flexible and optimal.

HUMAN RESOURCES

The purpose of the Human Resource Department is to maintain a fair, equitable and positive working environment for all employees in support of the organisation's strategic objectives. A successful organisation and its value is ultimately dependent upon its people. "Nothing is accomplished in an organisation without its people."

Skills development

The development of employee skills is vital for any organisation to grow and realise its strategic objectives. NURCHA staff members were re-trained on the performance management system, which included the principles of performance contracting and how to conduct performance appraisals. This was done to empower everyone to be more involved in the development of their own contracts and understand what the organisation's strategic objectives are and in return contribute to the organisation realising its strategic objectives.

Employee Wellness Programme

The Employee Wellness Programme aims to establish a work environment that promotes healthy lifestyles, decreases the risk of disease, and enhances the quality of life. Wellness Days are conducted every year to help staff in creating and maintaining this healthy lifestyle. The Wellness Programme offers a variety of services to staff, such as Life Management Services, Telephone Counselling, e-Care and Face-to-face Counselling. These services are convenient and accessible to all staff.

Employment equity

NURCHA has an Employment Equity Committee that meets quarterly to discuss matters relating to employment, equity and diversity. An employment equity report is submitted to the Department of Labour each year.

Corporate social responsibility

In this period, NURCHA assisted two students.

One student was offered a learnership to assist her in acquiring a formal qualification. The student

attended classes on a monthly basis and applied what she learnt in class by being placed in various departments within the organisation.

Another student was based in our Free State Programme where he provided support to the Project Managers on site and exposing him to the construction environment.

Both students have since found permanent employment with other companies.

Enabling decision-making

Effective policy reflects the organisation's culture, direction and guides actions of managers and staff when making decisions. Two new policies were developed and introduced to staff in this financial year, namely the Acting Allowance and Relocation Policy. The creation of the Acting Allowance Policy is part of employee development, where employees are given an opportunity to act in higher positions which exposes them to other areas within the department. The Relocation Policy seeks to attract and retain quality people who provide the competencies which enable NURCHA to achieve the company's strategic objectives.

Communication

A robust face-to-face and written communication with staff resulting in a shared understanding of

the strategic intent of the organisation, business performance and day-to-day matters.

CORPORATE GOVERNANCE

We, the Board of Directors and management of NURCHA, are committed to maintaining the highest standards of corporate governance and embrace the recommendations of the King Code on Corporate Governance.

Corporate governance statement

We strive to provide effective and responsible leadership that is characterised by ethical values based on responsibility, accountability, fairness and transparency. We are committed to strategies that will build a sustainable business by having regard to the company's economic, social and environmental impact on the communities in which we operate. We are committed to an open and transparent governance process that gives NURCHA's stakeholders the assurance that NURCHA is ethically managed in accordance with best practice, the relevant legislation and predetermined risk parameters.

We are satisfied that during the 2013/2014 financial year we continued to perform the company's activities and discharged our responsibilities in accordance with the above principles. Any non-compliance with the principles of King III is explained accordingly in this report.

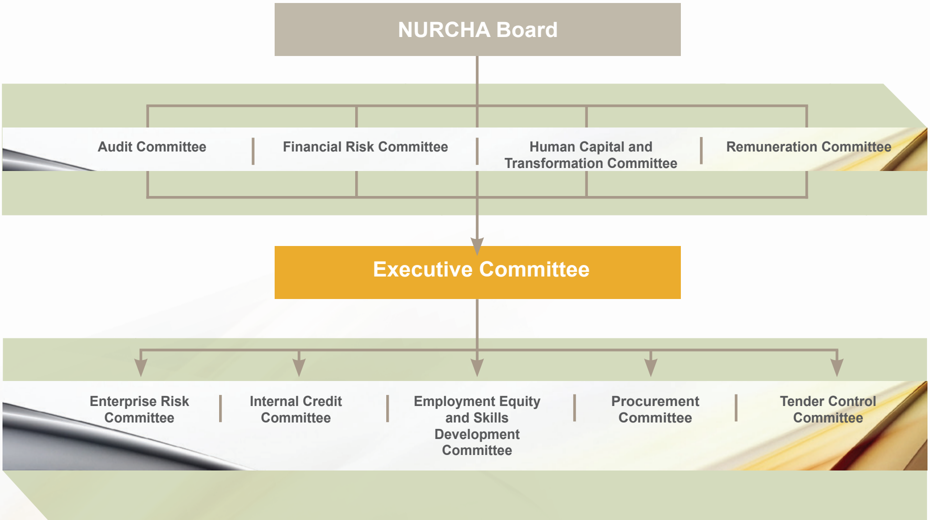
Governing stakeholder relationships

The Board takes account of and responds to the legitimate interests and expectations of stakeholders linked to NURCHA in its decision-making. Stakeholders that could materially affect the operations of the company have been identified and assessed as part of the risk management process. Stakeholders include National, Provincial and Local Government; regulators; funders; contractors; developers; suppliers; employees and communities that NURCHA operates within. The major funders are the South African Government and Soros Economic Development Fund (SEDF).

The Board chairperson signed, on behalf of the Board, the shareholder agreement between the NURCHA Board of Directors and the Executive Authority of the Department of Human Settlements for the 2013/2014 financial year. The purpose of the agreement is to agree on performance expectations and parameters to ensure that the relationship, roles and responsibilities between the parties are clearly defined and that there are no actual or perceived conflicts of interest that would impede achievement of the Government's broad policy objectives and efficient management of NURCHA.

In its reporting to stakeholders the Board presents a balanced and understandable assessment of the company's position. During the financial year, complete, accurate, relevant and reliable reports were delivered timely to major stakeholders. Other information is accessible on request to stakeholders in terms of the Promotion of Access to Information Act, No 2 of 2000 (PAIA).

Governance structures



The Board of Directors

The Board is the highest decision-making body in the company and is responsible for determining the company's strategic direction. It exercises leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. It requires management to execute strategic decisions effectively and in accordance with laws and the legitimate interests and expectations of the various stakeholders.

The Board and all its committees are governed by their charters. The Board's responsibility is to ensure that the company fulfils its mission; honours its legal and contractual obligations to its stakeholders; operates within the parameters of the Public Finance Management Act, No 1 of 1999 (PFMA), and other applicable laws, regulations and codes of business practices; achieves its business and developmental objectives; operates within appropriate risk-management parameters; and that it does so efficiently, effectively, ethically and equitably.

The Board ensured that the funds received from stakeholders are used efficiently and effectively, and in terms of the conditions of loan, conditions of grant and the statutory or other authorities governing the use of the funds.

During the current financial year, the Board met three times. In view of NURCHA's size, the Board is still of the opinion that there is no need for a fourth Board meeting. The Executive Committee consists of the executive directors and meets weekly when the Board is not in session. The Board is also able to solicit independent professional advice, at the expense of the company, where necessary.

Composition of the Board

Board members
Mr K Shubane[1] (Board Chairperson)
Mr A Canter[1, 5]
Mr C de Beer[3, 4]
Mr V Gqwetha[2]
Mr W Ndodana[1]
Ms M Nkomo[1]
Mr S Nxusani[2]
Mr T Nzimakwe[1]
Mr K Oliver[1]
Mr S Paperin[3, 4, 8]
Mr H Prinsloo[3, 6]
Ms Z Rylands[1]
Ms L Sing[1]
Ms A Struwig[2, 7]

1. *Independent non-executive director*
2. *Executive director*
3. *Non-executive director*
4. *SEDF representative*
5. *Resigned 12 March 2014*
6. *Appointed 12 March 2014*
7. *Appointed 1 October 2013*
8. *United States resident*

NURCHA has a unitary Board structure with executive and non-executive directors. The Board charter allows for a maximum of 16 directors. As at 31 March 2014, there were 13 Board members of which 10 were non-executive directors. Seven of the 10 non-executive directors were independent of management and free from any relationship that could materially interfere with the execution of their independent judgement.

Mr Prinsloo was appointed during the year and Mr Canter resigned during the year.

The Board Chairperson

The Board chairperson is an independent non-executive director and is not the chairperson or a member of the Audit Committee. The roles of chairperson and Managing Director (MD) are separate with segregated duties. The chairperson is charged with leading the Board, ensuring its effective functioning and setting its agenda in consultation with the Company Secretary, the MD and other directors.

The chairperson provides leadership at Board level, represents the Board to shareholders and is responsible for ensuring the integrity and effectiveness of the Board and its committees. He communicates with the Minister of Human Settlements when necessary. He maintains a regular dialogue with the Managing Director in respect of all material matters affecting NURCHA, and is available for the Managing Director between Board meetings to provide counsel and advice. He consults with other Board members promptly when considered appropriate and ensures that material matters in respect of the business or governance of NURCHA that he is aware of are tabled at Board meetings. He acts as facilitator at meetings of the Board to ensure that material issues for consideration are tabled and discussed effectively in order to ensure optimal Board decision-making and governance.

Independence

The majority of directors are independent non-executive directors and each Board committee is chaired by an independent non-executive director. The Board strives for the highest standards of integrity and accountability, and each director brings independence of character and judgement to the role.

The independence of Board members who have served on the Board for more than three terms is evaluated by the Board each year. Independence is determined against the criteria set out in King III (the King Code).

Four Board members have served for more than three terms, three members have served for more than two terms, one member has served for more than one term and one member has served for less than one term. The members who have served on the Board for more than three terms were Messrs Canter, Oliver, Nzimakwe and Shubane. These members recused themselves from the meeting while the Board assessed their independence. This assessment had to show that the directors' independence of character and judgement is in no way affected or impaired by the length of their service. After due consideration of their individual circumstances and contributions, the Board concluded that these directors are able to act independently and fulfil their duties irrespective of their tenure.

Messrs De Beer and Paperin are not considered to be independent as they represent SEDF's interests on the Board of NURCHA. Mr Prinsloo is also not considered independent as he served as an adviser to FINCOM for eight months while awaiting his appointment to the Board. He will be considered independent after completing his three-year term.

The Board is still satisfied that all the Board members are capable of using their independent judgement in discussions and on taking decisions.

Knowledge, skill and expertise

The Board considers diversity of views and experience to be an essential part of ensuring that all aspects of strategy and plans are considered. Non-executive directors bring diverse perspectives to the Board deliberations, and they challenge the views of executive directors and management in a constructive manner.

The directors were kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments which could potentially impact on NURCHA's operations.

Appointment, retirement and rotation of directors

NURCHA has a policy detailing the procedures for the recruitment, appointment and retirement of non-executive directors in line with current legislation. This policy includes the renewal of Board and committee members' terms of office. Non-executive Board members are appointed in such a manner that they enhance and complement each others' skills in different fields. The members bring to the Board a wide range of significant financial, technical and other expertise. Knowledge, skill, expertise, independence, as well as gender and demographic representation are considerations in the appointment of directors. Candidates are further subject to suitability enquiries to determine their fitness for directorship.

Non-executive directors are subject to retirement by rotation at least once every three years and are eligible for reappointment depending on their past contribution and future availability to serve on the Board. Directors that are due for rotation are evaluated for their performance and independence.

The recruitment of non-executive directors is followed by a proper induction before the new directors commence with their duties. The induction programme ensures that new directors are familiar with NURCHA's purpose, business, policies and management structures.

During the year under review, a new Board member with knowledge in programme management was appointed. Three non-executive directors were reappointed for another three years in accordance with the rules of director rotation.

Board and director evaluation

The performance of the Board, its supporting committees and individual directors is evaluated each year. The aim of these evaluations is to assist the Board and its committees in the continuous improvement of the Board effectiveness. The Board assessment includes the evaluation of the Board chairperson and the Managing Director.

The Board, its committees, and individual director performance was evaluated this financial year and no major areas of concern were raised. The Board is satisfied with its performance.

Succession planning

The Human Capital and Transformation Committee (HCTC) is responsible for succession planning in the Board. On an ongoing basis the HCTC considers the composition of the Board and its committees to ensure continued effectiveness. The Board appoints an acting chairperson of the Board and each of its committees in the absence of any of the chairpersons. The Board is satisfied that the current pool of talent available within NURCHA and the work being done to strengthen the talent pool provides adequate succession planning for both the short term and the long term.

Management succession planning is an ongoing consideration to ensure that effective management is in place to implement NURCHA's strategy. NURCHA appointed one executive director during the year. The search for a fourth executive director has been put on hold.

Delegation of authority

In terms of the delegation of authority the ultimate responsibility for NURCHA rests with the Board, but to achieve its objectives, the Board may delegate certain of its functions and duties to Board committees, or the Managing Director without abdicating its own responsibilities. The Board committees specialise in certain areas of the business.

The Board has delegated some of the powers entrusted to it to the Managing Director, who is assisted by other executive directors, to run the day-to-day activities in the business, in terms of the PFMA and other legislation. The responsibilities for compliance on an operational basis remain with senior management, and the Board maintains oversight thereof.

Corporate Code of Conduct and Ethics

The directors have a fiduciary duty to act in good faith and with due diligence and care in the best interest of the company and all its stakeholders. The Board has developed a code of ethics that governs the conduct of directors and staff to ensure that at all times they act with utmost integrity, objectivity and in compliance with the organisational policies and the laws of the country.

The Board is satisfied that the company is demonstrating commitment to its code as:

- all directors and personnel declare their interests in order to manage any conflict of interest. They further declare their interests in matters that are discussed at meetings;
- the procurement policy contains measures to combat abuse, fraud and corruption;
- there is an established gift register to be signed by staff when receiving gifts with a value over a certain amount; and
- there is a fraud prevention policy in compliance with the Protected Disclosures Act, No 26 of 2000. The policy has procedures for reporting incidents of fraud and dishonesty, and cases of unethical behaviour in line with NURCHA's code of ethics and the value system. This involves a whistle-blowing hotline whereby employees and members of the public have access to a facility to report unethical behaviour anonymously.

Strategic objectives and business planning

The Board, acting on the recommendations from management, is responsible to stakeholders for setting the strategic direction, through defining objectives and key policies, which are then cascaded throughout NURCHA. Management is charged with detailed planning and implementation of these strategic objectives within appropriate risk parameters. Progress towards the achievement of strategic objectives is reported to the Board, its committees and the stakeholders by management. The Board and its committees monitor the achievement of these objectives throughout the year.

During the current financial year, the Annual Performance Plan (APP) and budget was submitted to National Treasury as required by the PFMA. The APP includes measures and targets against which NURCHA and its performance is assessed.

Board Committees

The following Board committees have been constituted to ensure that the Board operates effectively and efficiently:

Audit Committee

MEMBERS
Mr T Nzimakwe *(Chairperson)*
Ms M Nkomo *(Independent non-executive director)*
Ms L Sing *(Independent non-executive director)*
Mr K Oliver *(Independent non-executive director)*

The Audit Committee is charged with oversight of financial reporting and disclosure, risk management and regulatory compliance.

All the committee members are independent non-executive directors and are financially literate. The Managing Director and Financial Director are required to attend the Audit Committee meetings. The chairman of the Audit Committee attends

The Audit Committee has adopted formal terms of reference and the committee is satisfied that its activities for the year were in compliance with its terms of reference.

the annual general meetings. Membership of the committee is for one year and may be renewed. This committee meets four times a year on average.

The committee ensures that the independence and objectivity of the external auditors is not impaired by approving all non-audit services. All other significant services outside the scope of the pre-approved audit plan carried out by the auditors are approved on a case-by-case basis by the Audit Committee. The committee approves the internal audit plan and has approved all work that has been done outside the plan.

The committee is satisfied that there is consultation and coordination between internal and external audit. The internal and external audit functions are carried out by separate audit firms. The external and internal auditors normally attend the Audit Committee meetings. The committee met in a closed session with internal and external auditors and without management.

The committee reviewed and recommended the quarterly reports and annual financial statements to the Board. It ensured that these reports were produced in terms of Generally Recognised Accounting Practice (GRAP) and the Companies Act, No 71 of 2008 (the Companies Act).

The Audit Committee has adopted formal terms of reference and the committee is satisfied that its activities for the year were in compliance with its terms of reference.

NURCHA's Audit Committee also acts as the risk committee and monitors the overall risk profile of the company. The Audit Committee and the Financial Risk Committee ensure that between them all the major business risks of the company are reviewed.

Financial Risk Committee (FINCOM)

MEMBERS
Ms L Sing *(Chairperson)*
Mr T Nzimakwe
Mr H Prinsloo
Mr W Ndodana
Mr C de Beer
Mr S Paperin
Mr V Gqwetha
Mr S Nxusani
Ms A Struwig

FINCOM has been established to assist the Board to discharge its fiduciary duties as regards the credit and investment functions in NURCHA, and to advise with regard to the funding and capital structure of the company. The committee has also been charged with the responsibility of overseeing the Programme Management Portfolio.

The committee monitors NURCHA's investment, underwriting and credit risks and assists management by providing advice and assistance on these matters, especially with regard to setting limits of authority and monitoring exposure. The committee monitors returns on NURCHA's money market investments and is satisfied that the returns are in line with industry performance.

During the year under review, the committee ensured that credit was granted by NURCHA in accordance with NURCHA's mandate, the undertakings and covenants in the various financing agreements, and that the provision of credit meets the primary aims of promoting sustainable human settlements and entrepreneurial development.

This committee has provided advice and assistance regarding credit and risk management, and taken responsibility for the approval of certain construction finance loans and new lending programmes on behalf of the Board. The committee meets, on average, three times a year.

Human Capital and Transformation Committee (HCTC)

MEMBERS
Ms Z Rylands *(Chairperson)*
Ms M Nkomo *(Independent non-executive director)*
Mr K Shubane *(Independent non-executive director)*

The HCTC carries out the responsibilities of the Nominations Committee, and ensures that NURCHA's human resources, procurement and business practices reflect a commitment to the creation of an equitable, non-racial, non-sexist society. This committee reports on compliance with the Employment Equity Act, No 55 of 1998, and on other transformation issues.

NURCHA does not need to have a Social and Ethics Committee in view of its low public interest score, but in the spirit of good governance the Board decided that HCTC should ensure that Social and Ethics Committee matters are dealt with. HCTC works with other committees in ensuring that these duties are carried out.

The chairperson of the Board is a member of this committee as the Board felt that he brings a valuable contribution to the committee.

Remuneration Committee

MEMBERS
Mr K Shubane *(Chairperson)*
Mr T Nzimakwe *(Independent non-executive director)*
Ms Z Rylands *(Independent non-executive director)*
Ms L Sing *(Independent non-executive director)*

The purpose of the Remuneration Committee is to ensure that remuneration policies and approach, as determined by the Human Capital and Transformation Committee, are fairly applied; to decide on the remuneration of staff; and to make recommendations to the Board and shareholders about the remuneration of non-executive directors.

The committee comprises the chairpersons of the various committees of the Board and is chaired by the chairperson of the Board. The decision to have the chairperson of the Board also chairing the Remuneration Committee was agreed to by the Board as they felt he is the best person to perform this duty. The committee meets at least twice a year.

Board members are paid on the basis of their attendance at meetings. The Board chairman and the committee chairpersons are paid a monthly retainer in addition to the attendance fees. The remuneration of each director and prescribed officers is disclosed on pages 93 to 94 of the annual financial statements.

Attendance at meetings held during the financial year

	Name	Board A/B	Audit A/B	Financial Risk A/B	Human Capital and Transformation A/B	Remuneration A/B
1	Mr K Shubane	3/3			3/3	2/2
2	Ms Z Rylands	0/3			2/3	2/2
3	Ms M Nkomo	3/3	4/4		3/3	
4	Ms L Sing	2/3	3/4	3/3		1/2
5	Mr K Oliver	3/3	4/4			
6	Mr T Nzimakwe	3/3	4/4	2/3		0/2
7	Mr A Canter	2/3		2/3		1/2
8	Mr W Ndodana	3/3		2/3		
9	Mr S Paperin	3/3		0/3		
10	Mr C de Beer	2/3		2/3		
11	Mr V Gqwetha	3/3	3/4	3/3	3/3	2/2
12	Mr S Nxusani	3/3	4/4	3/3	3/3	
13	Ms Adel Struwig	2/3	2/4	2/3	1/3	

Column A is the number of meetings attended by the director.
Column B is the number of meetings held during the year.
Mr Canter resigned during the year.
Ms Sing was appointed to the Remuneration Committee during the year.
Ms Struwig was appointed as a Board member during the year.

Enterprise Risk Management

The NURCHA Board retains ultimate responsibility for risk management, and the culture in the organisation reflects its appetite for risk. Risk management is achieved at all levels through the organisational structure, policies, procedures and appropriate staff training. Due to the inherent nature and complexity of NURCHA's risks, stringent risk-management structures and processes are in place. The Board ensures that the key strategic and business risks of the company are identified, and that management has adequate policies and procedures in place to manage the major risks faced by the company.

NURCHA endeavours to balance the desire to achieve the company's strategic objectives and the level of risk the company is willing to tolerate.

The Board receives regular reports from management and other assurance providers such as the external and internal auditors. These reports show that there are systems implemented to identify, assess, manage, monitor, control and report on material risks throughout the organisation. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and cannot provide absolute assurance against material misstatement or loss.

NURCHA has a risk policy that was developed to guide management in ensuring that the company's risk management takes into account the risks involved in the business activities and to measure the impact and extent of the risk in the achievement of NURCHA's objectives. The Internal Enterprise Risk Committee provides independent oversight and monitoring across NURCHA and reports to the Audit Committee and the Board. Heads of departments are the primary risk owners and ensure that risk management is embedded in daily activities. While individual executive directors and managers retain primary responsibility for managing the risk originating from their operations, the Internal Risk Committee is responsible for ensuring that risks are identified, measured, monitored, controlled and reported to the Audit Committee.

During the year under review, the risk management strategy, revised risk policy, risk management policy, and risk implementation plan were approved by the Board. Strategic and operational risk registers have been developed and documented.

The Board is satisfied that there were no material risks that threaten the sustainability of NURCHA at present.

Internal controls

The foundations for internal control processes lie in NURCHA's governance principles that incorporate and emphasise ethical behaviour, legislative compliance and sound accounting practice.

The system of internal control provides reasonable, but not absolute, assurance on the effectiveness and efficacy of controls. Internal control is designed to mitigate, not eliminate, significant risks faced by the company. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets and adherence to policies, processes and guidelines.

The system of internal control is regularly reviewed and tested for relevance and effectiveness in order to manage the company risks that have a significant impact on the business. Internal auditors conduct periodic reviews across all functions to provide assurance to the Board on the effectiveness of control systems and compliance with agreed policies, procedures and legislation. The relationship between the internal and external auditors is mutually supportive and facilitates proper coverage of financial, operational and compliance controls.

Compliance with the PFMA and Treasury Regulations is continuously being monitored to identify gaps and action plans are put in place to address any identified gaps. NURCHA has complied with the spirit of the framework for levels of materiality and significance that were developed in terms of the requirements of the Act.

The Board is satisfied that NURCHA operates an adequate system of internal control to identify and manage operational and financial risks.

Internal audit

NURCHA has an effective risk-based internal audit function. The internal audit function is outsourced to an outside company that provides an independent assurance to the Audit Committee. The internal audit work is governed by the internal audit charter and informed by NURCHA's strategy. The internal audit charter defines the role, entity status, authority, responsibilities and scope of activities of the internal audit function. It also includes the principles underlying the realisation of the objectives of the function and the translation thereof into operational activities.

The internal auditors continuously give assurance to the Audit Committee by providing written assessments of the effectiveness of NURCHA's systems of internal control and risk management. The performance of the internal auditors was evaluated and the Audit Committee is satisfied with their performance.

Information technology (IT) governance

Information Technology is integrated into NURCHA's risk management framework and the Audit Committee ensures that IT risks are appropriately addressed within the context of NURCHA's risk strategy. NURCHA continues to view technology as a critical part of its business operations. The Board is responsible for ensuring that prudent steps are taken with regard to IT governance, including aligning the IT strategy with NURCHA's strategic objectives and performance targets. The Audit Committee assists the Board in carrying out its IT responsibilities.

The implementation of an information technology strategy and framework is management's responsibility. NURCHA management has thus approved and implemented an IT strategy in line with the business. Key focus areas of this strategy is the consolidation of IT infrastructure and the implementation of best-of-breed systems to support the business processes. This strategy has already reduced the overall business risk by improving systems' redundancy and stability.

Over the past years, NURCHA has invested in core business systems for its financial, marketing and lending operations. These systems, as dictated by the IT strategy roadmap, are now being improved, integrated and embedded to realise efficiencies in the business processes.

During the past year, the focus has been on infrastructure consolidation, and on solutions that support and add value to business processes. 30% of the server environment was virtualised, bringing full redundancy to all of the core systems, and at a reduced total cost of ownership to the business. The financial system's database was standardised such that all NURCHA databases and systems are compatible and prepared for further integration. A loan management system for the Affordable Housing Portfolio was also implemented, reducing manual effort and increasing the integrity of information.

IT, thus, remains a low-risk area for NURCHA, and there has been no critical IT incidents or virus intrusions reported by IT operations. IT incidents as a whole have reduced progressively over the months indicating an improved and robust environment.

The Board is satisfied that NURCHA is on the right path in improving its IT governance in line with best practice.

Regulatory and statutory compliance

NURCHA is a non-profit company in terms of the Companies Act. The company is also registered as a non-profit organisation (NPO) with the Department of Social Development and a Public Benefit Organisation (PBO) with the South African Revenue Services (SARS). NURCHA is governed by the PFMA and the accompanying Treasury Regulations and is classified as a schedule 3(a) public entity under this Act.

The compliance function's primary responsibility is to assist the Board and the Chief Executive Officer to ensure that all business operations are run with integrity and comply with all applicable legal and regulatory requirements and best practice. NURCHA management is committed to ensuring compliance with NURCHA's regulatory universe and applicable sections of the PFMA and National Treasury Regulations. The regulatory universe was reviewed during the financial year.

NURCHA has a decentralised compliance structure, and the compliance function reports to the Audit Committee through the Company Secretary. The regulatory universe and compliance policy were reviewed during the year. Training and awareness on the Protection of Personal Information Act, No 4 of 2013 (POPI), was provided to all staff members.

Company Secretary

The Company Secretary is empowered to properly fulfil her duties. The functions of the Company Secretary are in line with the requirements of the Companies Act. The Company Secretary is a source of guidance and advice to the Board, and within the company, on matters of ethics and good governance. The Company Secretary oversees the induction of new directors and the ongoing education of directors. NURCHA submits all returns as required of public entities in terms of the PFMA, Treasury Regulations and other relevant legislation, and ensures that all such returns are accurate, correct and up to date.

Going concern

The directors have reviewed the facts and assumptions and, based on their knowledge of NURCHA, existing forecasts and current resources, believe that the company has sufficient resources to continue operating as a going concern for the year ahead.

The Board believes the solvency and liquidity requirements are in line with the provisions of the Companies Act.

Sustainability

The Board views both sustainable growth and sustainable development as important elements of NURCHA's existence, and is committed to adopting business practices that bring about positive change to the economy, the environment and the social conditions that NURCHA operates within. NURCHA programmes contribute to the development and maintenance of sustainable Human Settlements, and the creation of employment through enterprise development in the communities that NURCHA works with. NURCHA's performance outputs are reflected under the Lending Portfolio report.

Skills development, employment equity and corporate social responsibility are discussed under the human resources report. NURCHA has a Black Economic Empowerment (BEE) strategy in line with the Broad-Based Black Economic Empowerment Act, No 53 of 2003 (BBBEE Act). The strategy guides NURCHA activities in the area of social transformation.

The Procurement Committee and Tender Control Committee monitor compliance with the procurement policy to ensure meaningful black economic empowerment in approving service providers and ensure fairness and transparency in the selection of business suppliers. This is done in line with the BBBEE Act and the Preferential Procurement Policy Framework, No 5 of 2000.

NURCHA has been formally assessed by a verification agency this year in terms of the BEE codes and has been rated level 3 on the BEE scorecard.

NURCHA uses its programmes to optimise the utilisation of its financial and administrative resources and avoids fruitless and wasteful expenditure, in the process contributing to the economic stability of South Africa.

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CERTIFICATE BY COMPANY SECRETARY

It is hereby certified, in terms of the Companies Act, that for the year ended 31 March 2014 the company has lodged with the Registrar of Companies all such returns as are required of a company incorporated as a non-profit organisation, in terms of this Act, and that all such returns are true, correct and up to date.

Ntsiki Ndzimbomvu
Company Secretary

12 August 2014

AUDIT COMMITTEE REPORT

The Audit Committee hereby presents the report for the financial year ended 31 March 2014 in accordance with the Treasury Regulations and the PFMA.

Audit Committee's responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1(a) of the PFMA and Treasury Regulations 27.1.7 and 27.1.10(b) and (c).

Section 51 (1) (a) of the PFMA states that:

The accounting authority must ensure that the public entity has and maintains:

I. Effective, efficient and transparent systems of financial and risk management and internal controls;
II. A system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77;
III. An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective; and
IV. A system for properly evaluating all major capital projects prior to a financial decision on the project.

The Audit Committee reports that it has performed its duties as delegated by the Board and has a majority of independent non-executive directors who are financially literate as recommended by King III. The committee met four times during the financial year, evaluated its performance, and addressed matters of conflict of interest within the company. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities as contained therein. The committee's chairman attended the annual general meeting during the year.

1. Appointment and oversight of the external auditors

The committee maintains a professional relationship with the external auditors and coordinates activities between external and internal auditors. We have reviewed the engagement letter and agreed on the terms, the fee, the nature and scope of the audit function, and are satisfied that the auditors have conducted the audit in accordance with the agreed terms. We are satisfied with the auditors' independence and objectivity.

2. Monitoring the company's compliance with legislative, regulatory, contractual and other obligations

We have continued to monitor that management complies with legislative, regulatory and other contractual obligations.

3. Appointment of internal auditors, and review of internal controls

The committee approved the internal audit plan for the year.

We are satisfied with the cooperation between the internal and external auditors and that the combined assurance addresses all significant risks facing NURCHA.

All internal audits were completed independently of management and the reports were presented directly to the Audit Committee for review, together with management's responses.

4. **Monitoring the definition of risks and the adequacy and efficacy of risk management processes**

   The committee is aware of, and has monitored, the risks that affect the organisation. The ongoing internal audit process provides the Audit Committee with the assurance that all major issues regarding the appropriateness and effectiveness of internal controls are reported. Findings that have been raised by the internal auditors have been noted and the committee will ensure that they are addressed in the next financial year.

5. **Examination and review of the financial statements and accompanying reports**

   During the year the committee examined and reviewed the quarterly reports on the operational and financial performance of the company. The committee has reviewed the annual financial statements for the year ended 31 March 2014.

The committee confirms that the annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) and the Companies Act. All provisions and contingencies have been reviewed and disclosed. The external auditors' management letter has been reviewed and the Audit Committee has satisfied itself with management's responses.

The Audit Committee concurs and accepts the independent external auditors' conclusion on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.

T Nzimakwe
Chairperson – Audit Committee

12 August 2014

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON NATIONAL URBAN RECONSTRUCTION HOUSING AGENCY AND ITS SUBSIDIARIES

Introduction

We have audited the consolidated and separate financial statements of the National Urban Reconstruction and Housing Agency set out on pages 66 to 95, which comprise the statement of financial position as at 31 March 2014, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority'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 financial statements in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act of South Africa, and for such internal control as the accounting authority 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the National Urban Reconstruction Housing Agency as at 31 March 2014 and financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act of South Africa.

Report on other legal and regulatory requirements

In accordance with the Public Audit Act and the general notice issued in terms thereof, we report the following findings on the reported performance information against predetermined objectives, non-compliance with laws and legislation as well as internal control. The objective of our test 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 reported performance information for the following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2014:

- Programme 1: Affordable Housing on pages 26 to 29.
- Programme 2: Subsidy Housing on pages 30 to 31.
- Programme 3: Infrastructure and Community Facilities on pages 32 to 33.

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 Key Performance Indicators. 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 Key Performance Indicators.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity had complied with applicable laws and legislations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act, are as follows:

Treasury regulations

- Minimum points to be obtained for functionality and the weight for each criterion were not stated in the bid document or request for proposal as required by paragraph 3.3 of the National Treasury Instruction Note.
- Bids were not advertised for a minimum of 21 days as required by Treasury Regulations, paragraph 16A6.3(c).
- No justifiable reasons for tender that was not advertised in Tender Bulletin and national newspaper; deviation is not complying with Treasury Regulations and Practice Note.

Internal control

We considered internal control relevant to our audit of the consolidated and separate financial statements, annual performance report and compliance with laws and legislation. The matters reported above are limited to the significant internal control deficiencies that resulted on the findings on non-compliance with laws and legislation included in this report.

Leadership

Limited oversight over the financial reporting and compliance and the related internal controls.

Financial and performance management

Reviewing and monitoring of compliance with laws and regulations was not adequate.

Ngubane & Co Inc

Thomas Nkomozephi
Director

Registered Auditor
12 August 2014

DIRECTORS' REPORT
for the year ended 31 March 2014

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

Nature of business

National Urban Reconstruction and Housing Agency (NURCHA) was incorporated in the Republic of South Africa as a non-profit company in terms of the Companies Act, 2008. The company is listed as a Schedule 3A public entity in terms of the Public Finance and Management Act (PFMA). It was established in 1995 as a partnership between the South African Government represented by the National Department of Human Settlements and Soros Economic Development Fund (SEDF).

NURCHA's mandate is to ensure availability of bridging finance to small, medium and established contractors building low- and moderate-income housing, related infrastructure and community facilities. To achieve this NURCHA:

- lends to contractors and developers directly;
- facilitates lending to contractors by other lenders by sharing risk with them; and
- may, with the permission of the Board of Directors and with the necessary permission in terms of the PFMA, provide other forms of financing (such as equity, quasi-equity or debt) to assist in the development of empowered construction and development companies.

The Programme and Fund Management Support Services Portfolio, which was established in April 2012, has continued to exist during the year under review. Details of programmes conducted during the year are provided fully on pages 34 to 39.

Subsidiary companies

NURCHA has established subsidiary companies which are established to ring-fence funds provided by various funders. These companies are 100% owned by NURCHA. Details of these companies are provided on page 5.

Directors, prescribed officers and company secretary

The names of the directors, prescribed officers and company secretary are stated on pages 93 and 94.

Material resolutions

During the year there were no material resolutions in the company and its subsidiary companies.

Directors' responsibility for financial statements

The directors are responsible for the preparation, integrity and fair presentation of the financial statements and other financial information included in this report. In presenting the accompanying financial statements standards of Generally Recognised Accounting Practice (GRAP) have been followed, applicable accounting assumptions have been used while prudent judgement and estimates have been made.

The financial statements have been audited by the independent accounting firm, Ngubane and Company (Jhb) Inc., which was given unrestricted access to all financial records and related data, including all resolutions and minutes of all meetings of members and the Board of Directors. The directors believe that all representations made to the independent auditors during the audit were valid and appropriate.

The financial statements were approved by the directors on 12 August 2014.

Internal controls

Management of the company is committed to build a controls-based environment which is conducive to accurate, complete and valid financial reporting. There were no significant weaknesses in controls that were identified during the current financial year.

Directors' statement on going concern assumption

The going concern assumption has been adopted in preparing the financial statements. The directors have no reason to believe that the company will not be a going concern in the foreseeable future based on the 2015 budget, cash flow forecasts and available cash resources.

The OPIC/RMB loan facility which is due for repayment by February 2015 was reduced to R200 262 as at year-end and was fully settled after year-end. NURCHA is currently negotiating with the Department of Human Settlements, National Treasury and other private funders for the replacement of this facility. Futuregrowth Asset Management has indicated that they will consider this proposal. The necessary PFMA application will be submitted to the relevant authority soon.

The First National Bank (FNB) R85 million facility which was used to finance developers on the Affordable Housing Programme expired in August 2013 and FNB did not extend the facility. NURCHA has continued financing new applications under the Affordable Housing Programme using own funds, Cadiz Asset Management (Cadiz) and Public Investment Corporation (PIC) loan facilities.

As reported in previous years, the Government of South Africa, through the Department of Human Settlements and National Treasury, approved a budget allocation of R300 million, which was to be paid to NURCHA in three equal tranches. All three tranches have now been received. The last tranche was received during the reporting period. The directors are satisfied that NURCHA has access to adequate resources to continue in operational existence for the foreseeable future. The accumulated reserves of the company are reported at R390 million during the financial year. This is after accounting for impairments in loans amounting to R4,7 million and reversal of impairments in investment in associate company.

NURCHA remains a going concern and has continued to adopt the going concern basis in preparing the financial statements.

Property, plant and equipment

Furniture and equipment were acquired at a cost of R357 048 (2013: R638 839). There were no changes in the nature of property, plant and equipment nor in the policy regarding their use during the year under review. As reported in the previous year, Phase 1 of the development of the Loan Management System (LMS) commenced during the year under review. Full implementation of Phase 1 is expected in the first quarter of the 2014/2015 financial year.

Group construction finance facilities

Group construction finance facilities raised in the form of cash deposits as well as non-cash guarantees as at the year-end were as follows:

	2014 R'000	2013 R'000
Construction finance capital received in the form of cash deposits	**222 409**	87 007
Non-cash guarantee facilities secured	**–**	178 974
Overdraft facility	**–**	85 000
SEDF loan for construction finance	**61 660**	61 660
Futuregrowth loan for construction finance	**135 000**	135 000
Cadiz Asset Management loan for construction finance	**75 000**	75 000
Public Investment Corporation (PIC) loan for construction finance	**100 000**	100 000
Total capacity before contingent liabilities	**594 069**	722 641
Commitments relating to loans signed and issued by NURCHA	**428 450**	502 408

Project losses

Project losses of R1,3 million (2013: R80,9 million) were incurred during the year under review as a result of defaults on loans to construction projects. NURCHA will pursue legal action on some of these contractors or employers and a portion of this amount may be recovered as the contractors have assets in the background and/or the claims are considered valid.

The write-offs in prior years (2013 and 2012 financial years) have adversely affected the accumulated reserves of the group as they were very high and the recovery of the debts may take long.

Allowance for impairment of loans

During the year under review, the allowance for impairment of loans increased by R3,4 million (2013: R63,2 million – decrease). The increase is mainly due to a single developer with two projects which was placed under liquidation by one of the commercial banks.

Delays in payment of contractor claims by other organs of state are still being experienced. The matter has been brought to the attention of the Department of Human Settlements and National Treasury for their intervention.

NURCHA Finance Company (Proprietary) Limited (NFC)

NURCHA, through its subsidiary NFC, continued its role as primary lender of the FNB facility secured by Overseas Private Investment Corporation (OPIC) and South Africa Financing Enterprise (SAFE). In terms of the extension agreement, the final availability date is February 2014 and the final repayment date is February 2015. Loans signed after February 2013 under the Subsidy Housing Programme are financed out of NURCHA's own funds.

NFC has lent R89,6 million (2013: R335,1 million) to contractors during the year using the direct lending method. The use of the direct lending method is in line with the decision of the Board in the 2012 financial year regarding the termination of relationship with the intermediaries to manage aspects of the loan book on its behalf. The withdrawals from the first loss account amounted to R172 696 (2013: R13,3 million) during the year under review; however, R550 968 (2013: R2,1 million) was recovered from the contractor. In the 2013 financial year, the first loss deposit was topped up by R5,4 million to R10 million in line with the extension agreement entered into with FNB and OPIC.

TUSK has continued supporting projects that were signed through them to their completion but all new projects are signed directly with NURCHA.

Auditors

The auditors of NURCHA and its subsidiary companies are Ngubane and Company. They have carried out an independent examination of the financial statements 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 with International Standards on Auditing and have reported their findings in the audit report on pages 59 to 61.

Post-balance sheet events

No significant events occurred between year-end and the date of this report.

Development outputs

The following table provides development outputs for the year ended 2013/2014:

	Contracts signed		**Houses/sites in contracts**		**Houses/sites completed**		**Loans signed (R million)**		**Project values (R million)**	
	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**
Subsidy Housing	26	**11**	10 164	**4 428**	5 084	**3 108**	124,0	**55,5**	687,0	**349,9**
Affordable Housing	23	**14**	3 220	**1 983**	2 245	**1 619**	345,0	**230,7**	690,0	**873**
Infrastructure/ community facilities	20	**–**	N/A	**N/A**	10	**8**	79,0	**–**	400,0	**–**

The annual financial statements as set out on pages 55 to 96 have been approved by the directors and are signed on their behalf by Mr K Shubane and Mr V Gqwetha.

Khehla Shubane
Chairperson – Board

Viwe Gqwetha
Managing Director

STATEMENT OF FINANCIAL POSITION
as at 31 March 2014

	Notes	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
Assets					
Current assets		**646 334**	522 183	**349 879**	309 485
Loans for construction projects	3	**175 028**	192 940	**80 236**	130 444
Trade and other receivables	8	**13 795**	10 719	**543**	6 629
Cash and cash equivalents	9	**457 511**	318 524	**269 100**	172 412
Non-current assets		**26 553**	14 041	**345 122**	271 371
Loans for construction projects	3	**20 859**	9 454	**12 965**	3 670
Loans receivable and investments in subsidiaries used for construction projects	4	**–**	–	**326 280**	262 849
Investments in associates	5	**3 217**	1 435	**3 400**	1 700
Property, plant and equipment	6	**687**	729	**687**	729
Intangible assets	7	**1 790**	2 423	**1 790**	2 423
Total assets		**672 887**	536 224	**695 001**	580 856
Liabilities					
Current liabilities		**184 716**	157 717	**10 307**	11 035
Trade and other payables	14	**25 263**	29 479	**8 118**	9 103
Provisions	15	**2 189**	1 932	**2 189**	1 932
Managed funds	16	**157 064**	100 753	**–**	–
Bank loans to finance projects	17	**200**	25 552	**–**	–
Non-current liabilities		**60 313**	57 827	**52 313**	47 827
SEDF loan	11	**52 313**	47 827	**52 313**	47 827
Cadiz loan	12	**8 000**	8 000	**–**	–
Futuregrowth loan	13	**–**	2 000	**–**	–
Net assets		**427 858**	320 680	**632 381**	521 994
Formation grants	10	**38 300**	38 300	**38 300**	38 300
Capital contributed by Government		**300 000**	200 000	**300 000**	200 000
Other reserves		**199 284**	199 284	**199 284**	199 284
Accumulated (deficit)/surplus		**(109 726)**	(116 904)	**94 797**	84 410
Total net assets and liabilities		**672 887**	536 224	**695 001**	580 856

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 March 2014

		Consolidated		Company	
		2014	2013	**2014**	2013
	Notes	**R'000**	R'000	**R'000**	R'000
Revenue from exchange transactions		**70 049**	52 355	**60 581**	57 701
Interest on money market investments		**11 594**	10 319	**11 158**	9 906
Interest on loans for construction projects		**25 311**	31 230	**30 318**	27 597
Fees on loans for construction projects		**6 082**	5 156	**23 594**	24 301
Programme management fees		**33 803**	17 051	**–**	–
Less: Interest paid		**(6 741)**	(11 401)	**(4 489)**	(4 103)
Other income	18	**5 055**	5 136	**3 109**	1 893
Net surplus before administration expenses		**75 104**	57 491	**63 690**	59 594
Administration expenses	19	**(65 311)**	(57 074)	**(49 456)**	(46 247)
Operating surplus		**9 793**	417	**14 234**	13 347
Other gains/(losses)		**(2 962)**	(36 124)	**(3 847)**	(16 784)
(Increase)/decrease in impairments of loans	20	**(3 426)**	63 168	**(5 019)**	18 980
Bad debts written off		**(1 319)**	(80 882)	**(875)**	(28 221)
Loss on disposal of fixed asset		**(5)**	(9)	**(5)**	(9)
Impairment reversal/(loss)		**1 788**	(18 401)	**2 052**	(7 534)
		6 831	(35 707)	**10 387**	(3 437)
Share of profit of associates	5	**347**	76	**–**	–
Surplus/(deficit) for the year		**7 178**	(35 631)	**10 387**	(3 437)

STATEMENT OF CASH FLOWS
for the year ended 31 March 2014

		Consolidated		Company	
		2014	2013	**2014**	2013
	Note	**R'000**	R'000	**R'000**	R'000
Cash flows from operating activities	22	**64 197**	(65 447)	**25 166**	(13 927)
Cash flows from investing activities		**2 141**	50 134	**(28 478)**	(76 357)
Repayments from/(disbursement to) loans for construction projects		**3 081**	51 629	**35 894**	(56 290)
Increase in investment in subsidiaries		**–**	–	**(63 431)**	(18 572)
Proceeds on disposal of fixed assets		**91**	1	**90**	1
Acquisition of fixed assets		**(379)**	(639)	**(379)**	(639)
Acquisition of intangible assets		**(652)**	(857)	**(652)**	(857)
Cash flows from financing activities		**72 649**	41 319	**100 000**	100 000
Capital grants received		**100 000**	100 000	**100 000**	100 000
Decrease in loans obtained		**(2 000)**	(6 000)	**–**	–
Decrease in overdraft facilities		**(25 351)**	(52 681)	**–**	–
Net cash generated		**138 987**	26 006	**96 688**	9 716
Balance at the beginning of the year		**318 524**	292 518	**172 412**	162 696
Balance at the end of the year		**457 511**	318 524	**269 100**	172 412

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2014

	Formation grants R'000	Contributed capital R'000	Other reserves R'000	Accumulated surplus R'000	Total R'000
Consolidated					
Balance at 31 March 2012	38 300	100 000	199 284	(81 273)	256 311
Deficit for the year	–	–	–	(35 631)	(35 631)
Capital grant received	–	100 000	–	–	100 000
Balance at 31 March 2013	38 300	200 000	199 284	(116 904)	320 680
Surplus for the year	**–**	**–**	**–**	**7 178**	**7 178**
Capital grant received	**–**	**100 000**	**–**	**–**	**100 000**
Balance at 31 March 2014	**38 300**	**300 000**	**199 284**	**(109 726)**	**427 858**
Company					
Balance at 31 March 2012	38 300	100 000	199 284	87 847	425 431
Deficit for the year	–	–	–	(3 437)	(3 437)
Capital grant received	–	100 000	–	–	100 000
Balance at 31 March 2013	38 300	200 000	199 284	84 410	521 994
Surplus for the year	**–**	**–**	**–**	**10 387**	**10 387**
Capital grant received	**–**	**100 000**	**–**	**–**	**100 000**
Balance at 31 March 2014	**38 300**	**300 000**	**199 284**	**94 797**	**632 381**

1. Accounting policies

1.1 Basis of preparation

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), as issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act No 1 of 1999).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.3 Going concern assumption

These annual financial statements were prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative information

Current year comparatives (budget)

Budget information in accordance with GRAP 1 and 24, has been provided in a separate disclosure note to these annual financial statements.

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and/or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

1.5 Standards, amendments to standards and interpretations issued but not yet effective

The following Standards of GRAP and/or amendments thereto have been issued by the Accounting Standards Board, but will only become effective in future periods or have not been given an effective date by the Minister of Finance. The entity has not early adopted any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5:

Standard number	Standard name	Effective date (if applicable)
	Preface to Interpretations of the Standards of GRAP	No effective date
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	No effective date
GRAP 18	Segment Reporting	No effective date

1.6 Significant judgements and estimates

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

1.7 Principles of consolidation

Subsidiaries

Subsidiaries are entities that are controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial policies of an entity so as to both obtain benefits from its activities.

Intercompany transactions, balances and transactions between group companies are eliminated on consolidation.

Investments in subsidiaries are accounted for at cost in the company accounts. The carrying amount of these investments are reviewed annually and written down for impairment where considered necessary.

Non-controlling interest

Non-controlling interest is initially measured at the cost of the investment. Subsequently the non-controlling interest consist of the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity since the acquisition date.

1. Accounting policies (continued)

1.8 Non-distributable reserves

The company is registered under the Companies Act as a company limited by guarantee and as such no part of its income and assets shall be transferred to members, directly or indirectly. All reserves of the company are, therefore, non-distributable, including the accumulated surplus which represents the surplus of income earned over expenditure since inception.

1.9 Property, plant and equipment

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost where acquired through exchange transactions. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The depreciable amount is determined after taking into account an asset's residual value, where applicable.

The annual depreciation rates are based on the following estimated asset useful lives:

Asset category	Useful life
Computer hardware	3 years
Furniture and office equipment	5 years
Leasehold improvements	Lease period

1.10 Intangible assets

Costs that are directly associated with the production of identifiable and unique software controlled by NURCHA, and that will probably generate economic benefits, are recognised as intangible assets.

Acquired computer software is capitalised on the basis of the cost incurred to acquire and bring the specific software to use. These costs are amortised over the estimated useful life of three years.

Annual licence renewals and incidental costs are written off as period costs.

1.11 Construction finance capacity

Construction finance capacity includes undertakings and cash received from sponsors.

1.12 Financial instruments

Financial instruments are initially measured at cost, which includes transaction costs. Subsequently, these instruments are measured as set out below.

Loans and receivables

Financial assets, being originated loans and receivables not held-for-trading, are measured at fair value. Those that do not have a fixed maturity are measured at cost.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Provisions and contingent liabilities

Provisions are made for all contractual legal obligations, including leave pay guaranteed in employment contracts to employees. Where provisions meet the definition of a liability, they are disclosed as such. Provisions are measured at the best estimate of the expenditure required to settle the present obligation, and reflects the present value of the expenditure required to settle the obligation where the time value is material. A possible obligation (a contingent liability) is disclosed but not accrued. However, disclosure is not required if payment is remote.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost. Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

1.13 Foreign currencies

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

1.14 Financial liabilities

Loans are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. In the case of short-term payables, the impact of discounting is not material and cost approximates amortised cost.

1.15 Revenue

Revenue from exchange transactions comprises interest received and fees from services rendered. Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable. Loan raising fees are recognised upon signing of the loan agreement and administration fees are accrued over the life of the loan. Revenue from services rendered is recognised with reference to the stage of completion of the service being rendered when the outcome of the transaction can reliably be estimated.

1. Accounting policies (continued)

1.16 Employee benefits

The group operates a defined contribution provident fund based on a percentage of employees' retirement earnings. Contributions to the fund are charged to the statement of financial performance as incurred.

1.17 Operating lease payments

Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the term of the lease.

1.18 Investments in associate companies

Associates are entities in which the company has a long-term investment and over which the group has the power to exercise significant influence over the financial and operating policies. Associates are neither a subsidiary nor a joint venture. Significant influence is normally evidenced by 20% or more of the company's voting rights. The financial statements of the associates are used by the company to apply the equity method.

The investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the company's share of net assets of the associates, less any impairment value.

The statement of financial performance reflects the share of the results of operations of the associates.

Where the company's share of losses of an associate exceeds the carrying amount of the associate, the investment is carried at nil. Additional losses are only recognised to the extent that the company has incurred obligations or made payments on behalf of the associates.

1.19 Impairments

Financial assets are impaired if their carrying amounts are greater than their estimated recoverable amount. At each balance sheet date an assessment is made to ascertain if a financial asset or group of assets may be impaired. If any such evidence exists, the recoverable amount of that specific asset or portfolio of assets is estimated and any impairment loss is recognised.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Impairment of loans for construction projects and receivables

Actual project losses, recoveries and provisions for probable impairment losses are reflected in the statement of financial performance in arriving at the surplus or deficit for the year.

Provisions for project losses are determined on the basis of a review of the progress of the project compared to a planned repayment schedule. The non-receipt of a planned repayment is followed up to determine the reason for non-payment and the necessary corrective action taken.

These losses are written off through the statement of financial performance immediately. An impairment provision, based on expected future cash flows, is created if the loss cannot be determined accurately.

In certain cases sponsors reimburse the company for losses incurred.

Impairment of investments in associates

Investments in associates are evaluated annually for impairment by comparing the entire carrying value of the investment to the recoverable amount, which is the higher of value in use or fair value less costs to sell. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the associate is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where the observable data indicates that there is a measurable decrease in the estimated future cash flows. An impairment loss is recognised in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Public Finance Management Act or is in contravention of the entity's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2. Taxation

The company is exempted from income tax in terms of Section 10(I)(cN) of the Income Tax Act, 1962.

	Consolidated		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
3. Financial assets				
Loans for construction projects:				
Loans for construction projects	**234 165**	237 246	**120 087**	155 981
Impairments of loans	**(38 278)**	(34 852)	**(26 886)**	(21 867)
	195 887	202 394	**93 201**	134 114
Non-current	**20 859**	9 454	**12 965**	3 670
Current	**175 028**	192 940	**80 236**	130 444
	195 887	202 394	**93 201**	134 114
The above loans bear interest at rates ranging between 9,0% and 14,0% per annum, are secured and are repayable on completion of the projects or by:				
31 March 2014	**–**	192 940	**–**	130 444
31 March 2015	**175 029**	7 529	**80 237**	1 745
31 March 2016	**12 471**	321	**12 471**	321
31 March 2017	**7 952**	354	**58**	354
31 March 2018	**64**	392	**64**	392
31 March 2019	**71**	433	**71**	433
31 March 2020	**79**	208	**79**	208
31 March 2021	**88**	87	**88**	87
31 March 2022	**98**	96	**98**	96
31 March 2023	**35**	34	**35**	34
	195 887	202 394	**93 201**	134 114

The loans are secured by subordination or cession of shareholders' loans in the borrowing entities; cession of book debts; work in progress in projects; mortgage bonds over properties; pledges of cash balances and personal suretyship by the borrowing entities' shareholders (where applicable). These securities are ceded to funders where applicable.

	Consolidated		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
4. Loans receivable and investments in subsidiaries				
The loans to subsidiary companies are unsecured and have no fixed term. Interest on the interest-bearing portion of loans is charged at prime less 1,5%.				
NURCHA Finance Company (Proprietary) Limited – used for Subsidy Housing bridging loans				
Interest-bearing loan	**–**	–	**99 153**	84 632
Non-interest-bearing loan	**–**	–	**16 576**	7 974
Total	**–**	–	**115 729**	92 606
NURCHA Equity Services (Proprietary) Limited – used for Affordable Housing bridging loans				
Interest-bearing loan	**–**	–	**20 735**	21 612
Non-interest-bearing loan	**–**	–	**18 031**	15 464
Total	**–**	–	**38 766**	37 076
NURCHA Development Finance (Proprietary) Limited – used for Infrastructure bridging loans				
Interest-bearing loan	**–**	–	**31 732**	42 256
Non-interest-bearing loan	**–**	–	**4 515**	3 157
Total	**–**	–	**36 247**	45 413
NURCHA Management Services (Proprietary) Limited – used for Programme management services				
Interest-bearing loan	**–**	–	**4 937**	25 715
Non-interest-bearing loan	**–**	–	**39 134**	31 290
Total	**–**	–	**44 071**	57 005
NURCHA Bridging Finance (Proprietary) Limited – used for Affordable Housing bridging loans				
Interest-bearing loan	**–**	–	**19 768**	10 595
Non-interest-bearing loan	**–**	–	**7 356**	4 195
Total	**–**	–	**27 124**	14 790
NURCHA Loan Fund (Proprietary) Limited – used for Affordable Housing bridging loans				
Interest-bearing loan	**–**	–	**58 391**	13 131
Non-interest-bearing loan	**–**	–	**5 952**	2 828
Total	**–**	–	**64 343**	15 959
	–	–	**326 280**	262 849

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
5. Investments in associates				
NURCHA has a 30% interest in TUSK and SEBRA. The following table illustrates their summarised financial information:				
TUSK Construction Support Services (Proprietary) Limited:				
Balance at the beginning of the year	**1 435**	1 397	**1 700**	1 700
Reversal of amounts previously impaired	**1 435**	1 397	**1 700**	–
Share of profit of associates	**347**	76	**–**	–
Impairment loss	**–**	(1 435)	**–**	–
Balance at the end of the year	**3 217**	1 435	**3 400**	1 700
SEBRA (Proprietary) Limited:				
Balance at the beginning of the year	**–**	–	**–**	–
Share of profit/(loss) of associates	**–**	–	**–**	–
Net impairments	**–**	–	**–**	–
Balance at the end of the year	**–**	–	**–**	–
Total	**3 217**	1 435	**3 400**	1 700
Summary of associates' balance sheet:				
TUSK Construction Support Services (Proprietary) Limited:				
Non-current assets	**926**	2 907	**926**	2 907
Current assets	**3 093**	2 991	**3 093**	2 991
Non-current liabilities	**(1 069)**	(1 047)	**(1 069)**	(1 047)
Current liabilities	**(1 146)**	(3 666)	**(1 146)**	(3 666)
Attributable net asset value	**1 804**	1 185	**1 804**	1 185
SEBRA (Proprietary) Limited:				
Non-current assets	**16**	74	**16**	74
Current assets	**1 305**	1 144	**1 305**	1 144
Non-current liabilities	**(482)**	(640)	**(482)**	(640)
Current liabilities	**(566)**	(1 660)	**(566)**	(1 660)
Attributable net asset value	**273**	(1 082)	**273**	(1 082)
Total	**2 077**	103	**2 077**	103

6. Property, plant and equipment

	Computer equipment	Furniture and fittings	Leasehold improve-ments	Total
Consolidated summary				
Cost				
At 31 March 2012	2 228	1 445	856	4 529
Additions	276	65	298	639
Disposals	(10)	–	–	(10)
At 31 March 2013	2 494	1 510	1 154	5 158
Additions	**345**	**34**	**–**	**379**
Disposals	**(950)**	**(322)**	**(71)**	**(1 343)**
At 31 March 2014	**1 889**	**1 222**	**1 083**	**4 194**
Accumulated depreciation				
At 31 March 2012	(1 797)	(1 330)	(856)	(3 983)
Depreciation	(353)	(78)	(24)	(455)
Disposal	9	–	–	9
At 31 March 2013	(2 141)	(1 408)	(880)	(4 429)
Depreciation	**(238)**	**(41)**	**(47)**	**(326)**
Disposal	**922**	**319**	**7**	**1 248**
At 31 March 2014	**(1 457)**	**(1 130)**	**(920)**	**(3 507)**
Net carrying value				
At 31 March 2012	431	115	–	546
At 31 March 2013	353	102	274	729
At 31 March 2014	**432**	**92**	**163**	**687**

Note:
There are no fixed assets in the subsidiary companies and accordingly, the company and the group figures are identical.

7. Intangible assets

	SLIM	Insight	CRM	Other software	Crystal report writer	Total
Consolidated summary						
Cost						
At 31 March 2012	2 657	250	1 468	112	119	4 606
Additions	405	–	31	422	–	858
Disposals	–	–	–	–	–	–
At 31 March 2013	3 062	250	1 499	534	119	5 464
Additions	**–**	**–**	**53**	**598**	**–**	**651**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**
At 31 March 2014	**3 062**	**250**	**1 552**	**1 132**	**119**	**6 115**
Accumulated depreciation						
At 31 March 2012	(784)	(118)	(524)	(41)	(85)	(1 552)
Amortisation	(849)	(82)	(489)	(40)	(29)	(1 489)
Disposal	–	–	–	–	–	–
At 31 March 2013	(1 633)	(200)	(1 013)	(81)	(114)	(3 041)
Depreciation	**(634)**	**(50)**	**(476)**	**(119)**	**(5)**	**(1 284)**
Disposal	**–**	**–**	**–**	**–**	**–**	**–**
At 31 March 2014	**(2 267)**	**(250)**	**(1 489)**	**(200)**	**(119)**	**(4 325)**
Net carrying value						
At 31 March 2012	1 873	132	944	71	34	3 054
At 31 March 2013	1 429	50	486	453	5	2 423
At 31 March 2014	**795**	**–**	**63**	**932**	**–**	**1 790**

Note:
There are no intangible assets in the subsidiary companies and accordingly, the company and the group figures are identical.

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
8. Trade and other receivables				
Programme management receivables	**2 225**	3 924	**–**	–
Intermediary share of losses	**535**	25 073	**535**	14 245
Impairment of intermediary share of losses	**–**	(18 456)	**–**	(7 627)
Value added tax	**24**	96	**–**	–
Trade and other receivables	**11 011**	82	**8**	11
	13 795	10 719	**543**	6 629
9. Cash and cash equivalents				
Money market and call deposits held for the purpose of funding potential lending programmes	**275 713**	76 198	**265 041**	166 951
Cash at bank and in hand	**23 543**	141 573	**4 059**	5 461
Managed funds	**158 255**	100 753	**–**	–
	457 511	318 524	**269 100**	172 412
Commitments and agreements signed	**428 450**	502 409	**205 460**	189 698
10. Formation grants				
Formation grants received from:				
– SA Government – Department of Human Settlements	**20 000**	20 000	**20 000**	20 000
– Open Society Institute of New York	**18 300**	18 300	**18 300**	18 300
	38 300	38 300	**38 300**	38 300

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	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
11. SEDF loan				
The loan from SEDF is Rand denominated, interest free, unsecured and repayable in two years. Repayment date is 6 February 2016.	**61 660**	61 660	**61 660**	61 660
The loan is to be reduced by annual claims arising from attributable project losses each year. The loan has been stated at fair value at an interest rate of 9% per annum.				
Carrying value at inception	**25 153**	25 153	**25 153**	25 153
Accrued interest at a discount rate of 9% (2013: 9%)	**27 160**	22 674	**27 160**	22 674
Carrying value	**52 313**	47 827	**52 313**	47 827
12. Cadiz loan				
The loan bears interest at prime interest rate plus 1% and interest is payable monthly. Final capital repayment date is 6 July 2017. The loan is secured by subordination of shareholders' loan account; pledge and cession of bank account, shares and book debts; and cession of contractor securities.	**8 000**	8 000	**–**	–
13. Futuregrowth loan				
The loan bears interest at prime interest rate and interest is repayable monthly. Final capital repayment date is February 2016. The loan is secured by subordination of shareholders' loan account; pledge and cession of bank account, shares and book debts; and cession of contractor securities.	**–**	2 000	**–**	–

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
14. Trade and other payables				
Trade payables	**2 663**	2 003	**483**	1 283
Value added tax	**36**	–	**–**	–
Accrued expenses	**681**	538	**513**	247
CFDP grant	**14 317**	19 364	**–**	–
Other payables	**7 566**	7 574	**7 122**	7 573
	25 263	29 479	**8 118**	9 103
15. Provisions				
Opening balance	**1 932**	1 448	**1 932**	1 448
Provisions raised	**612**	606	**612**	606
Amounts used	**(355)**	(122)	**(355)**	(122)
Closing balance	**2 189**	1 932	**2 189**	1 932
16. Managed funds				
Vulindlela rural housing project	**26 278**	100 753	**–**	–
Eastern Cape rural housing pilot	**27 919**	–	**–**	–
Eastern Cape bucket eradication programme	**102 867**	–	**–**	–
	157 064	100 753	**–**	–
17. Bank loans to finance projects				
These loans are secured as set out below:				
17.1 Secured by guarantees from sponsors				
First National Bank – OSI	**5 000**	5 000	**5 000**	5 000
First National Bank – SAFE	**US$20 000**	US$20 000	**US$20 000**	US$20 000
17.2 Secured by cash security deposits				
First National Bank	**–**	10 000	**–**	–
17.3 Secured by cash security deposits and pledge of housing contractors' loans	**200**	31 064	**–**	–

		Consolidated		Company	
		2014	2013	**2014**	2013
		R'000	R'000	**R'000**	R'000
18.	**Other income**				
	Interest from current bank accounts	**1 579**	923	**298**	182
	Bad debts recovered	**2 358**	2 498	**2 034**	360
	Interest on shareholders' loan to SEBRA	**37**	107	**37**	107
	Interest charge on outstanding additional security from intermediaries	**996**	1 608	**740**	1 244
	Other income	**85**	–	**–**	–
		5 055	5 136	**3 109**	1 893
19.	**Administration expenses**				
	Employee-related costs	**24 644**	23 855	**24 644**	23 855
	Depreciation and amortisation expense	**1 611**	1 543	**1 611**	1 543
	Repairs and maintenance	**360**	221	**360**	208
	General expenses	**38 696**	31 455	**22 841**	20 641
		65 311	57 074	**49 456**	46 247
20.	**Allowance for impairments of loans**				
20.1	**Impairments of loans**				
	Balance at the beginning of the year	**34 852**	98 020	**21 867**	13 092
	Adjusted by:	**3 426**	(63 168)	**5 019**	8 775
	– Additional impairments raised	**6 229**	17 979	**5 032**	40 523
	– Used on loans written off	**–**	(70 764)	**–**	(31 748)
	– Impairments reversed during the year	**(2 803)**	(10 383)	**(13)**	–
	Amount attributed to loans for construction projects deducted to show fair value	**38 278**	34 852	**26 886**	21 867
	(Increase)/decrease in impairments of loans charged to the statement of financial performance	**(3 426)**	63 168	**(5 019)**	18 980

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
20.2 Composition of impairments of loans				
Infrastructure emerging contractors	**30 167**	31 674	**22 143**	21 867
Affordable Housing contractors	**4 743**	–	**4 743**	–
Subsidy Housing emerging contractors	**3 369**	3 178	**–**	–
	38 279	34 852	**26 886**	21 867
21. Surplus/(deficit) for the year is stated after charging				
Audit fees	**1 039**	817	**1 039**	817
– Statutory audit	**1 003**	795	**1 003**	795
– Other services	**36**	22	**36**	22
Consulting fees	**622**	2 015	**622**	2 015
Operating lease charges				
– premises	**2 019**	1 825	**2 019**	1 825
Depreciation and amortisation	**1 611**	1 543	**1 611**	1 543
Directors' emoluments – refer to note 33	**4 981**	4 396	**4 981**	4 396
– fees	**824**	756	**824**	756
– for executive services	**4 157**	3 640	**4 157**	3 640
Guarantee fees for office rental	**3**	3	**3**	3

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
22. Cash flows from operating activities				
Surplus/(deficit) for the year	**7 178**	(35 631)	**10 387**	(3 437)
Adjusted for non-cash flow items:				
– Depreciation	**328**	454	**328**	454
– Amortisation	**1 283**	1 489	**1 283**	1 489
– Interest accrued on SEDF loan	**4 487**	4 101	**4 487**	4 101
– Share of profits of associates	**(347)**	(76)	**–**	–
– Increase/(decrease) in impairments of trade receivables	**(1 788)**	18 401	**(2 053)**	7 535
– Increase/(decrease) in impairments of loans	**3 426**	(63 168)	**5 019**	(18 980)
Loss on disposal of fixed assets	**5**	–	**5**	–
Working capital changes:	**49 625**	8 983	**5 710**	(5 089)
Movement in accounts receivable	**(2 725)**	(6 834)	**6 438**	(6 592)
Movement in accounts payable	**(3 960)**	18 958	**(728)**	1 503
Movement in managed funds	**56 310**	(3 141)	**–**	–
Cash generated/(utilised) from operating activities	**64 197**	(65 447)	**25 166**	(13 927)
23. Operating lease commitments				
The company has property lease commitments for the periods reflected below:				
Within one year	**1 994**	1 994	**1 994**	1 994
Between two and five years	**1 163**	3 157	**1 163**	3 157
Total operating lease commitments	**3 157**	5 151	**3 157**	5 151

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
24. Amount available for construction finance				
24.1 Accumulated surplus	**222 409**	87 007	**209 605**	198 544
Add:				
a) Overdraft capacity secured by SAFE guarantee	**–**	178 975	**–**	–
b) FNB overdraft facility used for loans to contractors secured by pledge of housing loan book	**–**	85 000	**–**	–
c) SEDF loan available for construction finance	**61 660**	61 660	**61 660**	61 660
d) Futuregrowth facility available for construction finance	**135 000**	135 000	**–**	–
e) Cadiz facility available for construction finance	**75 000**	75 000	**–**	–
e) PIC facility available for construction finance	**100 000**	100 000	**–**	–
Total consolidated capacity	**594 069**	722 642	**271 265**	260 204
Less:				
24.2 Construction finance capacity committed				
Loans granted and committed	**428 450**	502 409	**205 460**	189 698
Consolidated committed capacity	**428 450**	502 409	**205 460**	189 698
Total capacity still available	**165 619**	220 233	**65 805**	70 506

	Consolidated		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
25. Related party transactions				
25.1 Summary of FNB/OPIC arrangement for facility based on guarantees received from sponsors				
SAFE guarantee of $20 million converted at R10,7277 per dollar (2013: R9,4197 per dollar)	**214 554**	188 394	**–**	–
NURCHA cash	**10 378**	10 000	**–**	–
Total surety	**224 932**	198 394	**–**	–
Actual facility granted				
95% of sureties available	**213 685**	188 474	**–**	–
Project losses to be split as follows:	**213 685**	188 474	**–**	
First loss reserve: R10 million	**10 378**	10 000	**–**	–
Thereafter: SAFE	**203 307**	178 474	**–**	–
Actual amounts drawn down				
Balance at the beginning of the year	**15 455**	55 226	**–**	–
Amounts drawn down during the year	**89 586**	335 075	**–**	–
Amounts repaid during the year	**(105 716)**	(365 824)	**–**	–
Project losses	**(174)**	(13 271)	**–**	–
Interest	**1 049**	4 249	**–**	–
Balance at year-end	**200**	15 455	**–**	–
25.2 South African Government through NDOHS				
Recapitalisation grant	**300 000**	200 000	**300 000**	200 000
Contractor Finance and Development Programme grant	**–**	20 000	**–**	20 000
	300 000	220 000	**300 000**	220 000

		Consolidated		Company	
		2014	2013	**2014**	2013
		R'000	R'000	**R'000**	R'000
25.3	**Subsidiary companies**				
	Transactions with subsidiaries are conducted at arm's length and include administration fees and interest charged by NURCHA:				
	Administration fees				
	NURCHA Finance Company (Proprietary) Limited	**–**	–	**2 870**	3 649
	NURCHA Equity Services (Proprietary) Limited	**–**	–	**2 567**	3 174
	NURCHA Development Finance (Proprietary) Limited	**–**	–	**2 264**	3 539
	NURCHA Management Services (Proprietary) Limited	**–**	–	**6 554**	7 157
	NURCHA Bridging Finance (Proprietary) Limited	**–**	–	**3 161**	2 965
	NURCHA Loan Fund (Proprietary) Limited	**–**	–	**3 124**	2 829
	Total	**–**	–	**20 540**	23 313
	Interest income				
	NURCHA Finance Company (Proprietary) Limited	**–**	–	**5 963**	4 847
	NURCHA Equity Services (Proprietary) Limited	**–**	–	**1 524**	1 790
	NURCHA Development Finance (Proprietary) Limited	**–**	–	**3 066**	2 896
	NURCHA Management Services (Proprietary) Limited	**–**	–	**1 347**	2 410
	NURCHA Bridging Finance (Proprietary) Limited	**–**	–	**1 919**	1 016
	NURCHA Loan Fund (Proprietary) Limited	**–**	–	**2 129**	47
	Total	**–**	–	**15 948**	13 006
	Loans balances of subsidiary companies are shown in note 4.				
25.4	**Associate companies**				
	Transactions with associates are conducted at arm's length and include fees charged by associates	**5 818**	5 962	**–**	–

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
26. Cumulative support by South African Government through NDOHS since inception				
Formation grant	**20 000**	20 000	**20 000**	20 000
Specialised lending grant	**61 660**	61 660	**61 660**	61 660
Recapitalisation grant	**300 000**	200 000	**300 000**	200 000
Interest on loan grant	**3 500**	3 500	**569**	569
Contractor Finance and Development Programme grant	**20 000**	20 000	**20 000**	20 000
Total support received to date	**405 160**	305 160	**402 229**	302 229
27. Cumulative support by various Soros Foundations since inception				
Formation grant	**18 300**	18 300	**18 300**	18 300
Project losses recovered	**8 801**	8 801	**8 801**	8 801
Savings grants received	**5 155**	5 155	**5 155**	5 155
Administration expenses grants	**11 672**	11 672	**11 672**	11 672
Grants received – OSI	**13 369**	13 369	**13 369**	13 369
Total grants	**57 297**	57 297	**57 297**	57 297
Guarantees supplied – SAFE	**203 307**	178 474	**–**	–
$10 million as a 10-year loan facility – SEDF	**61 660**	61 660	**61 660**	61 660
OSI's share of guarantee commitment	**264 967**	240 134	**61 660**	61 660
Total support received to date	**322 264**	297 431	**118 957**	118 957

28. Financial instruments

28.1 Business and credit risk concentration

Credit risk is the risk of financial loss to NURCHA group due to customers not meeting their contractual obligations. Financial instruments which potentially subject the group to concentration of credit risk are primarily cash, financial assets, long-term investments and trade receivables. As regards cash, the group deals with major financial institutions in South Africa. Other long-term investments and advances are made with the appropriate levels of security where considered necessary. The contractors, project managers and financiers with which the group does business are located entirely in South Africa. The group establishes an allowance for doubtful loans based upon factors surrounding the general and specific credit risk of these counterparties, historical trends and other information.

28.2 Interest rate risk

Interest rate risk is the risk borne by an interest-bearing asset or liability due to variability of interest rates. The group is exposed to interest rate risk through its cash, financial assets, long-term investments and interest-bearing borrowings. The group does not hedge its long-term interest exposure. Cash reserves/unutilised funds are monitored and managed in terms of the investment policy and mandate.

28.3 Liquidity risk

Liquidity risk is the risk that an entity within the group will be unable to meet its obligations as they become due. The group has minimised the risk of illiquidity by ensuring that adequate unutilised borrowing facilities are maintained. The liquidity risk is governed by the investment policy and mandate.

28.4 Currency risk

Currency risk arises primarily from foreign guarantees. The group is exposed to foreign currency risk arising from a guarantee from its sponsors, OPIC and SAFE, on the FNB/OPIC facility. The guarantee is denominated in US dollars.

	Consolidated 2014 R'000	Consolidated 2013 R'000	Company 2014 R'000	Company 2013 R'000
29. Irregular expenditure				
Opening balance	**–**	–	**–**	–
Irregular expenditure – current year	**4 367**	418	**4 367**	418
Less: Irregular expenditure condoned	**(4 367)**	(418)	**(4 367)**	(418)
Closing balance	**–**	–	**–**	–

Irregular expenditure emanates from the entity's procurement policy not being fully aligned to the PFMA. The irregular expenditure relates to deviations from the procurement processes that are prescribed in the PFMA that were not complied with fully. No disciplinary procedures are required and no financial losses were incurred by the entity because of this non-compliance. The reported irregular expenditure has been condoned by the Accounting Authority. The entity has put in place corrective measures and plans to ensure that the entity's procurement policies are fully aligned to the PFMA so that irregular expenditure of this nature is not incurred in the future.

30. Events after reporting date

There are no events after reporting date to report.

31. Contingent liabilities

There are no contingent liabilities to report.

32. Comparative figures

Where necessary, comparative figures have been reclassified in line with current presentation.

33. Directors' and prescribed officers' remuneration

		Consolidated		Company	
		2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
Executive directors					
M Dlabantu	– Salary	**–**	380	**–**	380
	– Provident	**–**	51	**–**	51
Total		**–**	431	**–**	431
VS Gqwetha	– Salary	**1 608**	1 503	**1 608**	1 503
	– Provident	**318**	285	**318**	285
Total		**1 926**	1 788	**1 926**	1 788
SA Nxusani	– Salary	**1 270**	1 187	**1 270**	1 187
	– Provident	**251**	234	**251**	234
Total		**1 521**	1 421	**1 521**	1 421
A Struwig*	– Salary	**639**	–	**639**	–
	– Provident	**71**	–	**71**	–
Total		**710**	–	**710**	–
Total executive directors		**4 157**	3 640	**4 157**	3 640
Prescribed officers					
N Cleaver	– Salary	**945**	903	**945**	903
	– Provident	**105**	79	**105**	79
Total		**1 050**	982	**1 050**	982
T Mosia	– Salary	**868**	743	**868**	743
	– Provident	**96**	83	**96**	83
Total		**964**	826	**964**	826
N Ndzimbomvu**	– Salary	**810**	774	**810**	774
	– Provident	**90**	67	**90**	67
Total		**900**	841	**900**	841
A Struwig	– Salary	**500**	956	**500**	956
	– Provident	**56**	83	**56**	83
Total		**556**	1 039	**556**	1 039
Total prescribed officers		**3 470**	3 688	**3 470**	3 688

* *The director was appointed on 1 October 2013.*
** *Company Secretary.*

	Consolidated		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
33. Directors' and prescribed officers' remuneration (continued)				
Non-executive directors' remuneration				
C de Beer***	**27**	–	**27**	–
A Canter^	**57**	99	**57**	99
W Ndodana	**34**	25	**34**	25
M Nkomo	**70**	66	**70**	66
T Nzimakwe	**129**	146	**129**	146
K Oliver	**48**	50	**48**	50
S Paperin***	**21**	–	**21**	–
Z Rylands	**91**	89	**91**	89
K Shubane	**243**	221	**243**	221
L Sing	**104**	62	**104**	62
Total non-executive directors	**824**	758	**824**	758
Grand total	**8 451**	8 086	**8 451**	8 086

**** The director fees of the non-executive directors are paid to their employers.*

^ The director resigned on 12 March 2014.

		Budget	Actual
34.	**Comparison of budget and actual amounts**		
	Revenue		
	Lending revenue	37 051	24 652
	Investment revenue	13 242	11 594
	Rendering of service revenue	44 124	33 803
	Other income	–	7 189
	Total revenue	94 417	77 238
	Expenses		
	Employee costs	35 023	24 644
	Operating expenses	50 050	40 667
	Bad debts written off	–	1 319
	Impairment of loans for construction projects	757	3 426
	Other expenses	–	4
	Total expenses	85 830	70 060
	Surplus	8 587	7 178
35.	**Key Performance Indicators**		
35.1	**Value of loans signed (R'million)**		
	Subsidy Housing	124,0	55,5
	Affordable Housing (including serviced sites)	345,0	230,7
	Infrastructure and community facilities	79,0	–
35.2	**Houses/sites and infrastructure projects completed**		
	Subsidy Housing	5 084	3 108
	Affordable Housing (including serviced sites)	2 245	1 619
	Infrastructure and community facilities	10	8
35.3	**Loan defaults (R'million)**		
	Impairment of loans for construction projects	110 494	38 278

ACRONYMS

CFDP	Contractor Finance Development Programme
DFI	Development Finance Institution
FG	Future Growth Asset Managers
FLISP	Finance Linked Individual Subsidy Programme
FNB	First National Bank
GRAP	Generally Recognised Accounting Practice
HDA	Housing Development Agency
IFRS	International Financial Reporting Standards
MDI	Mortgage Default Insurance
MTSF	Medium Term Strategy Framework
NBF	NURCHA Bridging Fund (Proprietary) Limited
NDF	NURCHA Development Finance (Proprietary) Limited
NDOHS	National Department of Human Settlements
NES	NURCHA Equity Services (Proprietary) Limited
NFC	NURCHA Finance Company (Proprietary) Limited
NHBRC	National Home Builders Regulatory Council
NLF	NURCHA Loan Fund (Proprietary) Limited
NMS	NURCHA Management Services (Proprietary) Limited
NURCHA	National Urban Reconstruction and Housing Agency
OPIC	Overseas Private Investment Corporation
OSI	Open Society Institute
PFMA	Public Finance Management Act
PIC	Public Investment Corporation
PMU	Programme Management Unit
SAFE	South African Financing Company
SARS	South African Revenue Service
SEDF	Soros Economic Development Fund
SEBRA	Support Empower Bridge Reconstruct Account (Proprietary) Limited
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprise

ADMINISTRATION

Registration Number

1995/004248/08

Registered Office

3rd Floor
54 on Bath Offices
Rosebank, 2196
PO Box 2452
Saxonwold, 2132

Auditors

Ngubane and Co (Johannesburg) Inc
Chartered Accountants (SA)
Midrand Business Park
563 Old Pretoria Road
Midrand, 2194
PO Box 8468
Halfway House, 1685

Treasury Managers

Nedgroup Investments
BOE Clocktower Precinct
V&A Waterfront
Cape Town, 8001
PO Box 1510
Cape Town, 8000

Directors

Mr K Shubane *(Chairman)*
Mr V Gqwetha *(Managing Director)*
Mr S Nxusani *(Financial Director)*
Ms A Struwig (*Executive Director: Lending Portfolio)*
Mr C de Beer
Mr W Ndodana
Ms M Nkomo
Mr T Nzimakwe
Mr K Oliver
Mr S Paperin (USA)
Mr H Prinsloo
Ms Z Rylands
Ms L Sing

Company Secretary

Ms Ntsiki Ndzimbomvu

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NURCHA

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