

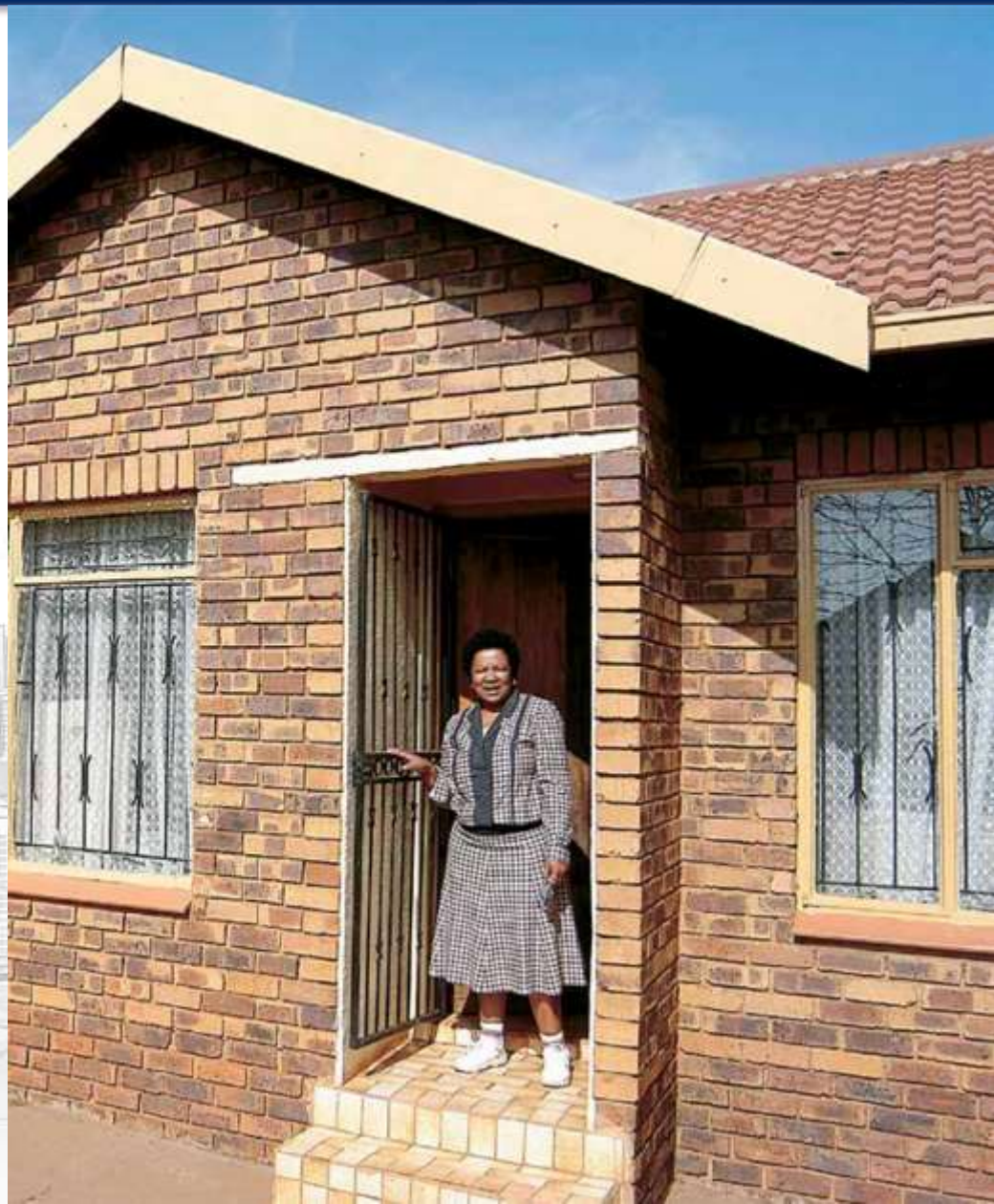


**HUMAN SETTLEMENTS  
PORTFOLIO COMMITTEE  
14 OCTOBER 2015**

**NHFC  
ANNUAL REPORT  
2015**

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# NHFC OVERVIEW

- ❑ **Established:** 1996
- ❑ **Type of Organisation:** Development Finance Institution (DFI)
- ❑ **Ownership:** State Owned Company, 100% SA government
- ❑ **Total Assets:** R 3,1 billion (31 Mar 2015 – group)
- ❑ **Total liabilities:** R 679 million (31 Mar 2015 – group)
- ❑ **Funding Status:** Self sustaining, pays income tax
- ❑ **Credit Rating:** Long term AA-, short term A1+
- ❑ **Main business:** Broadening and deepening access to affordable housing finance for the low-to-middle income SA households
- ❑ **Geographic activities:** National
- ❑ **Number of Employees:** Group 73    Company 53

# NHFC MANDATE

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

## Target Market:

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

# VISION, MISSION, VALUES

## VISION

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

## MISSION

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

## VALUES

OWNERSHIP

PASSION FOR PURPOSE

TEAMWORK

INTEGRITY

CREATIVITY

ACHIEVEMENT

## STRATEGIC OBJECTIVES

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

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

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

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

Provide robust, timely and relevant market research



# BUSINESS MODEL

## DEMAND SIDE

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

Wholesale funding to retail intermediaries

Innovative solutions

Facilitating Government subsidies

Income linked mortgages

Instalment sales

MDIC

FLISP

*eg. Equity and debt investment in HiP*

*eg. Wholesale funding to Cosmopolitan housing developers*

## SUPPLY SIDE

Financing residential developments

Financing rental stock

Providing incremental loans for building

PROJECTS Social

Wholesale funding to retail intermediaries

Wholesale funding to retail intermediaries

PROJECTS Integrated

PROJECTS Multiple projects

PROJECTS Private Rental

# HOW WE DELIVER ON OUR MANDATE

## Partnership with banks

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

## Rental housing

Provision of loans that offer the following types of rental accommodation:

### Social rental (R 3 500 – R 7 500)

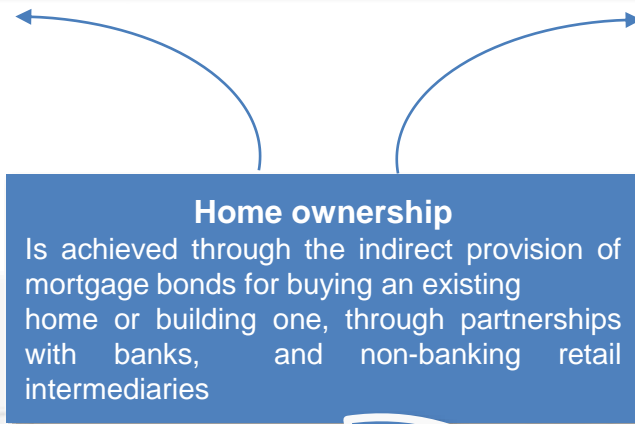
Subsidised rental housing provided by social housing institutions. These institutions receive subsidies in the form of restructuring capital grants from the SHRA as well as top up institutional subsidies from provincial government.

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

### Private rental (up to R15 000)

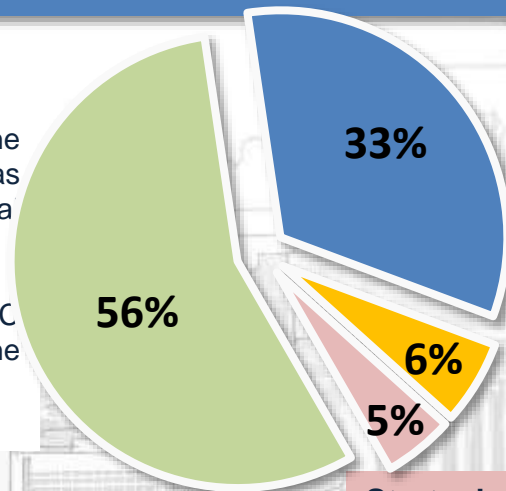
Rental accommodation is provided by private landlords, who do not receive any subsidies or grants. It caters for the affordable rental market, including inner city rental developments.

NHFC provides long term funding for the development/refurbishment of Inner City buildings for rental accommodation.



## Non-banking retail intermediaries

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



## Incremental housing

Incremental housing via approved or selected intermediaries to end-users with household incomes in the R3 500 to R15 000 per month range, and for loans between R1 000 and R20 000.

## Strategic Partnerships

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

# CORPORATE GOVERNANCE



Audit Committee



Board Credit and  
Investment  
Committee (BCIC)



Board Risk  
Committee (BRC)



Social and Ethics  
Committee (SEC)



Board Development  
Impact and Strategy  
Committee (DISC)



Board Human  
Resources Ethics  
and Remuneration  
Committee (HRER)







# Business Performance



# 2015 IN PERSPECTIVE

## Key Highlights

- ❖ **Re-capitalization**
  - Actual injection of R230 million 2015
  - Confirmed recapitalisation of R300m over MTEF period (2026: R100m, 2017: R100m, 2018: R100m).
- ❖ **Growth in revenue (Lending income)**
  - 23% growth in Lending Income. (Adversely affected by early settlements)
- ❖ **Liquidity**
  - Early Settlements of R307 million boosted cash flow, but adverse on revenue (R15 million impact)
- ❖ **Cost to Income**
  - 48% actual achievement from 66% (2014) due to revenue growth and cost containment

## Financial: Funding Impact

- ❖ **Disbursements**
  - Record level of R729 million disbursements achieved, 8% growth y/y
- ❖ **Leveraging**
  - R821 million of private sector funding into the human settlement space.
- ❖ **Funding**
  - Secured second facility from EIB (R250 million), subject to necessary approvals.

## Challenges

- Funding remains critical to NHFC growing its loan book
- High level of settlements and impairments
- Constrained mortgage lending by banks delayed the uptake that is critical to housing delivery.

# KEY BUSINESS PERFORMANCE INDICATORS

Performance indicator	Actual 2014/15	Budget 2014/15	Variance	Comments
Estimated number of housing opportunities facilitated through disbursements and leveraged funds	9 112	6 004	3 108	Target exceeded
Number of beneficiaries benefitting (factor of 3.8 applied)	34 625	22 815	11 810	Target exceeded
Value of funds disbursed( R'm)	729	677	52	Target exceeded
Value of approvals (R'm)	186	309	(123)	Weak SHRA pipeline and delayed accreditation of applicants.
Value of leveraged funds from the Private sector ( R'm)	821	522	299	Target exceeded

## Other developmental impact

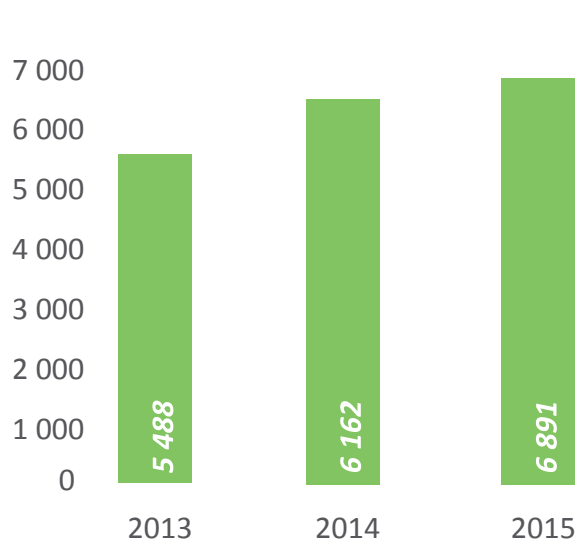
Performance indicator	Actual 2014/15	Budget 2014/15	Variance	Comments
Estimated number of jobs facilitated*	11 887	8 224	3 663	Target exceeded
Value of disbursements targetted towards women, youth and emerging BEE entrepreneurs (R'm)**	144	127	17	Target exceeded

\* Formula applied: 11.13 jobs created for every R1 million spent in a project. (Based on outcome of research by NDOHS).

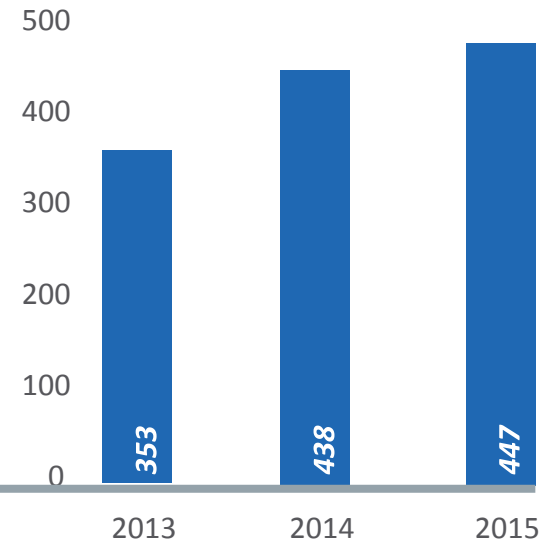
\*\* Funds disbursed through Strategic Partners TUHF and GPF/NHFC Entrepreneur Empowerment Property co-funding agreement.

# PERFORMANCE HIGHLIGHTS

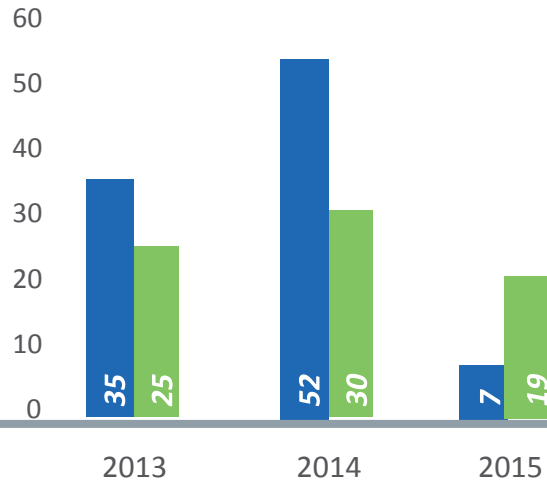
**Cumulative Disbursements (R' Million)**



**Cumulative Housing Opportunities (Thousands)**



**Profit before taxation (R' Million)**



- Company
- Group

# Financial Performance



*Steenberg Villas, Cape Town*

# STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	GROUP		COMPANY	
		2015	Restated 2014	2015	2014
		R '000	R '000	R '000	R '000
Interest on advances	1	198 497	166 250	213 545	173 881
Interest received on investments	1	24 670	31 396	24 240	31 111
Rental income	1	7 827	3 069	1 412	2 615
Dividends received	1	753	158	2 310	2 320
Sale of houses	1	198 485	43 474	-	-
<b>Revenue</b>		<b>430 232</b>	<b>244 347</b>	<b>241 507</b>	<b>209 927</b>
Cost of sales	2	(183 674)	(40 089)	-	-
Net impairments	4	(35 144)	2 188	(36 360)	2 188
<b>Gross surplus</b>		<b>211 414</b>	<b>206 446</b>	<b>205 147</b>	<b>212 115</b>
Other operating income	3	17 215	5 410	9 915	1 578
Administrative expenses	4	(129 214)	(107 076)	(112 778)	(91 859)
Other operating expenses	4	(15 520)	(16 567)	(13 575)	(14 104)
<b>Surplus before tax</b>		<b>83 895</b>	<b>88 213</b>	<b>88 709</b>	<b>107 730</b>
Fair value adjustments	4	-	(9 225)	(16 432)	(3 144)
Bad debts	4	(44 032)	(30 322)	(44 032)	(30 322)
Share of profit of an associate		1 234	3 761	-	-
Finance costs	5	(21 840)	(22 789)	(21 553)	(22 497)
<b>Surplus before taxation</b>		<b>19 257</b>	<b>29 638</b>	<b>6 692</b>	<b>51 767</b>
Income tax expense	6	(5 688)	(19 117)	(2 071)	(20 254)
<b>Surplus for the year</b>		<b>13 569</b>	<b>10 521</b>	<b>4 621</b>	<b>31 513</b>

# STATEMENT OF FINANCIAL POSITION

	Note(s)	GROUP		COMPANY	
		2015	Restated 2014	2015	2014
		R '000	R '000	R '000	R '000
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Funds under management	24	193 220	225 765	193 220	225 765
Other financial liabilities	25	295 754	335 538	293 276	328 685
		<b>488 974</b>	<b>561 303</b>	<b>486 496</b>	<b>554 450</b>
<b>Current liabilities</b>					
Other financial liabilities	25	58 686	55 901	53 370	51 054
Provisions	26	62 421	58 291	61 666	57 384
Trade and other payables	27	69 102	36 904	6 965	4 850
Income tax payable	6	–	3 972	–	3 972
		<b>190 209</b>	<b>155 068</b>	<b>122 001</b>	<b>117 260</b>
<b>Total liabilities</b>		<b>679 183</b>	<b>716 371</b>	<b>608 497</b>	<b>671 710</b>
<b>Net assets</b>					
Issued capital	22	842	842	842	842
Share premium	22	879 158	879 158	879 158	879 158
Grant capital	23	430 000	200 000	430 000	200 000
Retained earnings		1 339 233	1 325 664	1 355 163	1 350 542
<b>Total net assets</b>		<b>2 649 233</b>	<b>2 405 664</b>	<b>2 665 163</b>	<b>2 430 542</b>
<b>Total net assets and liabilities</b>		<b>3 328 416</b>	<b>3 122 035</b>	<b>3 273 660</b>	<b>3 102 252</b>

# STATEMENT OF FINANCIAL POSITION cont....

	Note(s)	GROUP		COMPANY	
		2015	Restated 2014	2015	2014
		R '000	R '000	R '000	R '000
<b>Assets</b>					
<b>Non-current assets</b>					
Loans and receivables – advances	7	1 895 404	1 851 892	2 164 023	2 063 433
Investment in listed equity investments	8	4 258	4 258	4 258	4 258
Investment in subsidiaries	9	–	–	–	7 991
Investment in debentures	10	–	–	5 041	6 197
Investment preference shares	11	–	2 658	–	2 658
Investment in associate	12	95 388	87 703	83 819	92 260
Property, plant and equipment	13	930	1 303	597	877
Intangible assets	14	1 788	444	1 759	416
Instalment sale receivables	15	92 301	43 303	–	–
Investment property	16	80 868	74 279	51 650	51 000
Goodwill	17	–	2 714	–	–
Deferred taxation	6	15 534	12 448	24 231	17 528
		<b>2 186 471</b>	<b>2 081 002</b>	<b>2 335 378</b>	<b>2 246 618</b>
<b>Current assets</b>					
Loans and receivables – advances	7	171 523	280 368	186 421	282 551
Properties developed for sale	18	190 438	168 566	–	–
Instalment sale receivables	15	10 295	5 729	–	–
Other receivables and prepayments	19	7 372	13 039	16 728	11 073
Held to maturity investments	20	329 173	139 413	329 173	139 413
Cash and short term deposits	21	430 077	433 918	402 893	422 597
Current tax receivable	6	3 067	–	3 067	–
		<b>1 141 945</b>	<b>1 041 033</b>	<b>938 282</b>	<b>855 634</b>
<b>Total assets</b>		<b>3 328 416</b>	<b>3 122 035</b>	<b>3 273 660</b>	<b>3 102 252</b>



# DFI CONSOLIDATION



# Background High Level...Proposal for a Consolidated DFI...

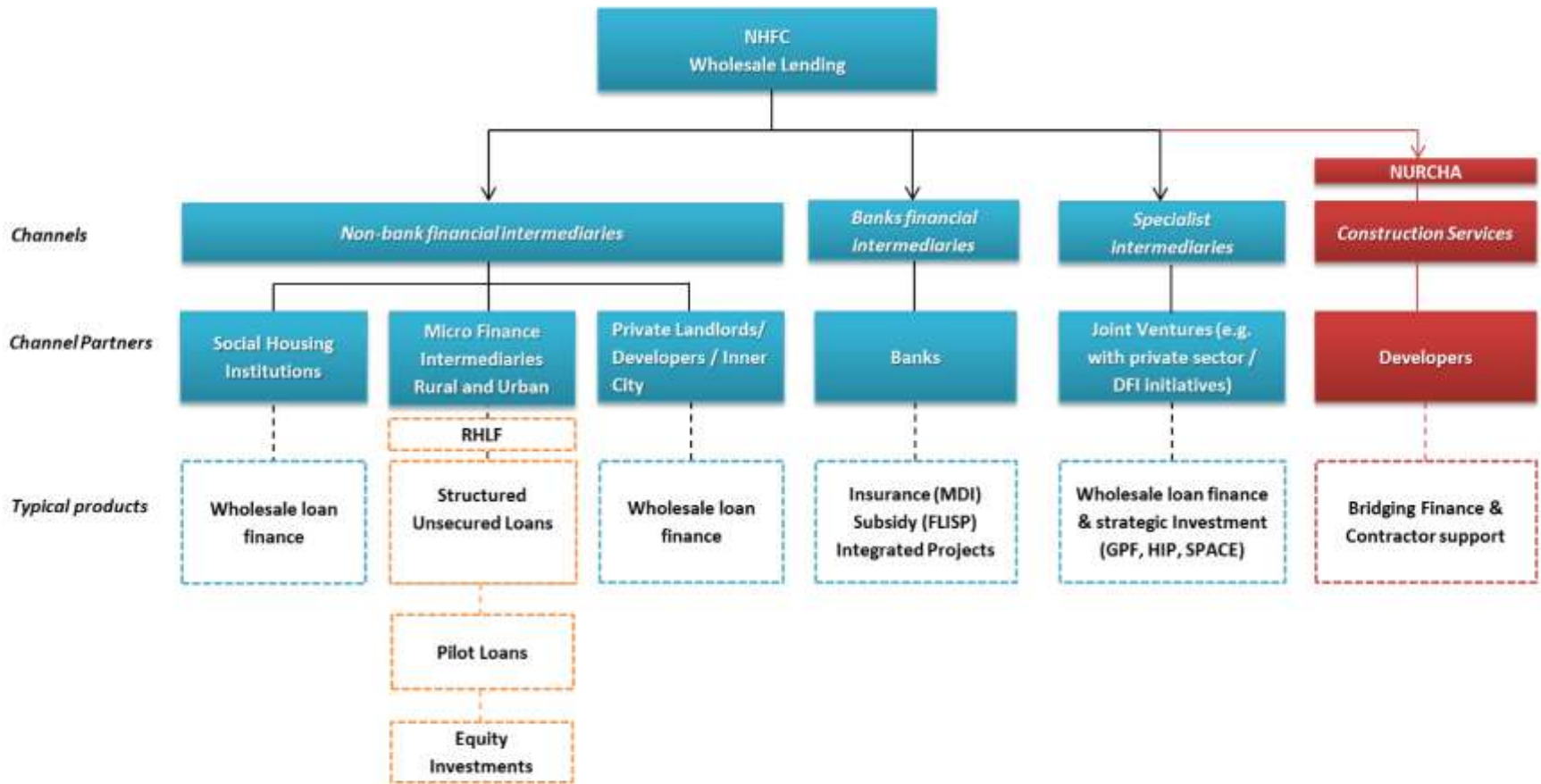
- The HSDFI will be established through enabling legislation.
- The options analysis has indicated that the entity should be established by enabling legislation as a Government Business Enterprise, being a section 3B entity in terms of the Public Finance Management Act. The primary reasons for this form of entity are:
  - To ensure that the entity has the mandate and capability to raise funding from external sources to meet its objectives.
  - To enable the entity to invest surplus funds directly in its own activities and not be required to place these funds with National Treasury.
  - To ensure that the entity is established by legislation as a tax exempt entity enabling the entity to reinvest the tax saving towards achievement of its objectives.



# OVERVIEW OF DFIs

	NHFC	NURCHA	RHLF
<b>Established</b>	1996	1995	1996
<b>Company form (Co's Act) PFMA</b>	(Pty) Ltd Schedule 3A	NPC PBO exemption Schedule 3A	NPC Schedule 3A
<b>Ownership</b>	100% government	50% government 50% Soros Economic Development Fund	100% government
<b>Tax status</b>	Tax paying entity	Non tax paying entity	Non tax paying entity
<b>Total Assets</b>	R3.2 billion	R582 million	R575 million
<b>Total Liabilities</b>	R679 million Includes managed funds of R193 million	R143 million Includes managed funds of R59 million	R140 million
<b>Key Mandate</b>	Broadening and deepening access to affordable housing finance for the low- to middle income households	Bridging finance to small, medium and established contractors building low- and moderate-income housing, related infrastructure and community facilities	Facilitate funding to enable rural low income earners to better living conditions through improving their housing situation.
<b>Number of staff</b>	73 (Group) 53 (Company)	43	15

# CONSOLIDATED HUMAN SETTLEMENTS



Provision of wholesale funding and facilitation of affordable housing finance solutions.

A wholesale finance institution, that facilitates housing microloans through intermediary or retail housing finance.

Provides bridging finance and construction support services to contractors and developers.