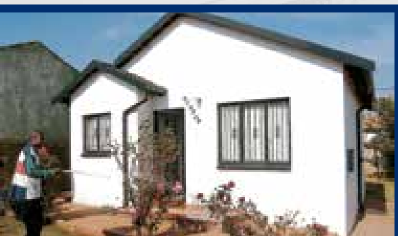
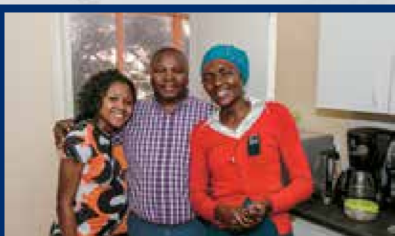
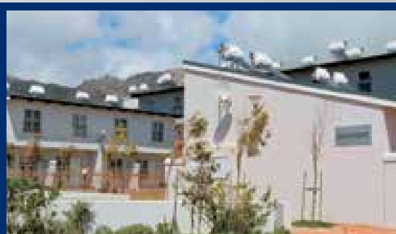
NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

ANNUAL REPORT 2015







CONTENTS

ACRONYMS

AfD	Agence Française de Développement
APP	Annual Performance Plan
BBBEE	Broad Based Black Economic Empowerment
CTCHC	Cape Town Community Housing Company Proprietary Limited (a wholly owned subsidiary of the NHFC)
CSI	Corporate Social Investment
DFI	Development Finance Institution
DPE	Department of Public Enterprises
EIB	European Investment Bank
FLISP	Finance Linked Individual Subsidy Programme
GCR	Global Credit Rating
GPF	Gauteng Partnership Fund
GRI	Global Reporting Initiatives
HiP	Housing Investment Partners (Pty) Limited
IHS	International Housing Solutions (Pty) Limited
ILO	International Labour Organisation
MDI	Mortgage Default Insurance
NDoHS	National Department of Human Settlements
NURCHA	National Urban Reconstruction and Housing Agency
PFMA	Public Finance Management Act 1 of 1999
RCG	Restructuring Capital Grant
RHLF	Rural Housing Loan Fund
SASBO	South African Society of Bank Officials
SHI	Social Housing Institution
SHRA	Social Housing Regulatory Authority
SOC	State Owned Company
TCOE	Total Cost of Employment
TUHF	Trust for Urban Housing Finance Holdings (Pty) Limited
WSP	Workplace Skills Plan

OUR INTEGRATED REPORT

In November 2014, our Board resolved that we should move to integrated reporting over a period of three years, starting in this financial year. We plan to produce an integrated report with full external assurance by 31 March 2018.

This report is aligned to the Global Reporting Initiatives (GRI) G3 reporting principles and is a starting point in our road to full reporting. In the following years from 1 April 2015 to 31 March 2018 we will strive to reconfigure how we report, to fully align with Global Reporting Initiatives G4 Core reporting requirements.

This would include, amongst others, adjusting and or putting the following measures in place:

- Aligning budgets to meet social investment and performance targets;
- Putting infrastructure in place to meet the requirements of integrated reporting; and
- Encouraging an integrated way of thinking within our Company.

An integrated reporting project team has been established to guide us in planning, preparing and compiling our integrated report. The project team will be assisted by experienced consultants chosen on the basis of their expertise in one or more aspects of integrated reporting and GRI.

As a State Owned Company (SOC) and a Development Finance Institution (DFI), an integrated report will enable us to give a holistic picture of the work we are doing in creating housing opportunities which contribute to improving the quality of lives of the underserved segment of the housing market. We will demonstrate our ability to strategically create value for our stakeholders now and into the future. Our goal is to provide our stakeholders with a report that will enable them to make informed decisions regarding our Company.

The Scope and Limitations of this Integrated Report

We will produce an integrated report on an annual basis, this report is our first step in the process. The report covers our performance for the financial year ended 31 March, 2015. The content of this report is aligned to the Companies Act, King Code of Governance Principles, Public Finance Management Act, and National Treasury Regulations and is in accordance the with GRI G3 which features sustainability disclosures that enable the transparent reporting in key sustainability areas.

The reporting index for this report can be found on our website at **www.nhfc.co.za** Our Board and Audit Committee have approved this report.

OUR COMPANY

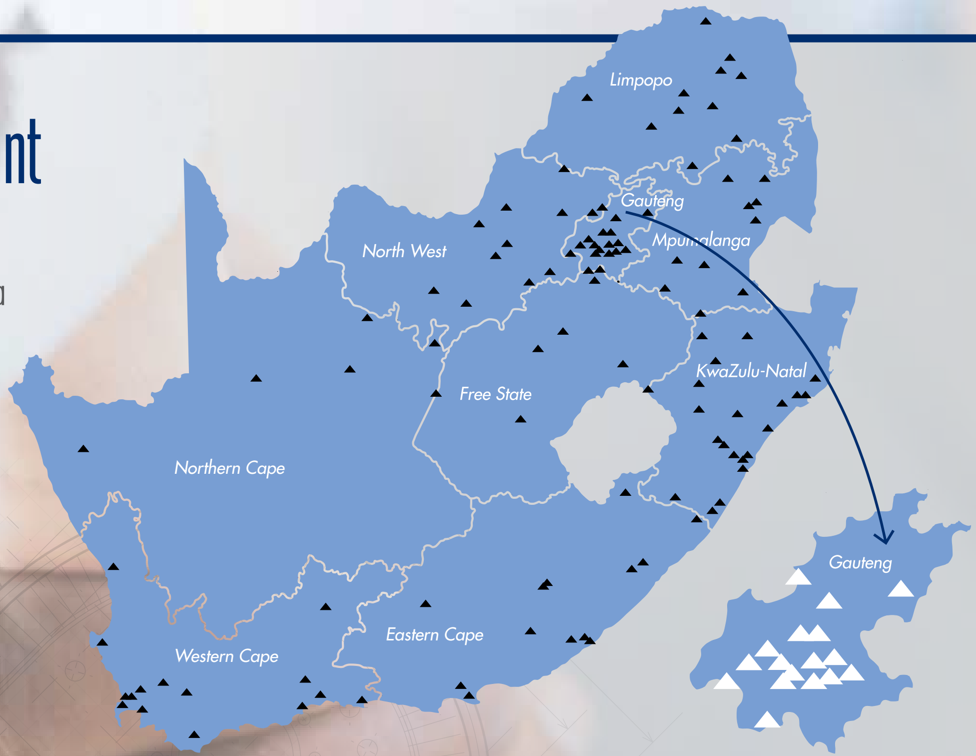
Our Guiding Values

Everything we do at NHFC is in-line with our guiding principles (OPTICA):

OWNERSHIP
PASSION FOR PURPOSE
TEAMWORK
INTEGRITY
CREATIVITY
ACHIEVEMENT

Our Footprint

▲ NHFC's reach in South Africa



MANDATE

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

VISION

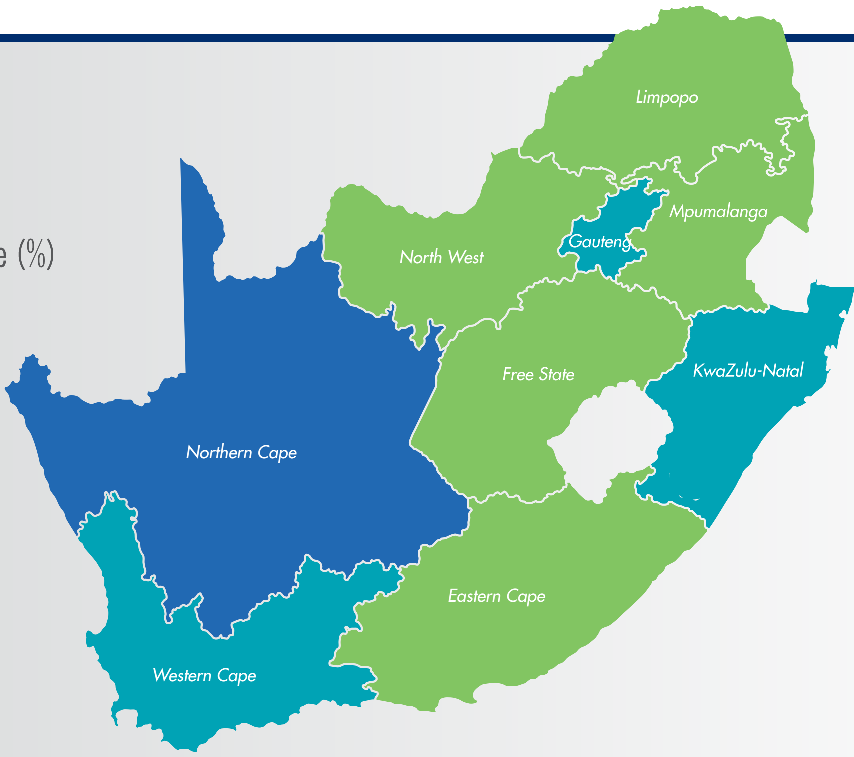
To be the leader in the development of the low-to-middle income housing market.

MISSION

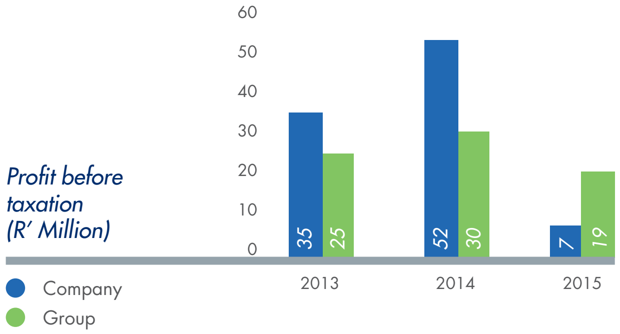
To provide innovative and affordable housing finance solutions to the low-to-middle income housing market.

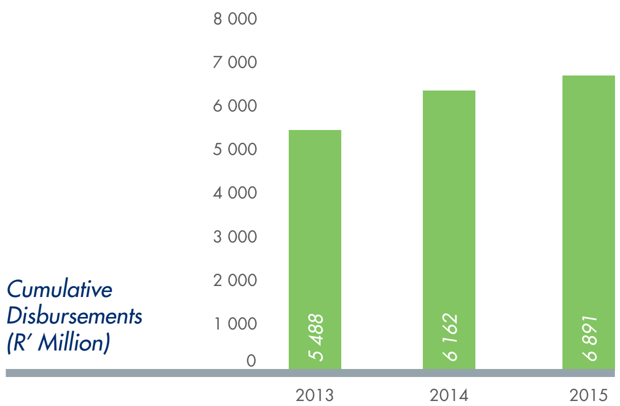
Disbursements by Province (%)

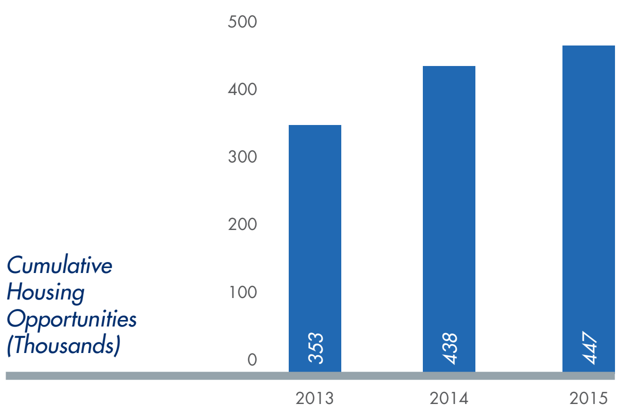
- 20 – 40 (3)
- 10 – 20 (1)
- 0 – 10 (5)



KEY HIGHLIGHTS







Reorganisation Programme

- Positive results from our reorganisation programme continue to emerge with much improved operational efficiencies and effectiveness, and reduction of our cost structure.

Developmental Impact

- Created 9 112 housing opportunities enabling 34 626 beneficiaries access to adequate housing;
- Facilitated the creation of 11 887 job opportunities;
- Leveraged private sector funding of R821 million into the affordable housing space; and
- Empowerment of the previously disadvantaged (including women) by disbursing R144 million of approved loan funds.

Funding

- R230 million in the current year from the Shareholder, and a further R300 million, to be received in tranches of R100 million in each of the following three years.

Disbursements

- Highest annual level of disbursements achieved to date of R729 million, despite liquidity and funding challenges (2014: R675 million).

KEY CHALLENGES

Funding

- Total equity committed by the Shareholder over the Medium Term Expenditure Framework (MTEF) is not adequate for our 5-year strategic plans; we have slowed down business and continue to strive for innovative solutions.

Impairments

- Trading environment has led to net impairments of R35 million (2014 – a net reversal of R2,2 million) and a reduced business pipeline.

Finance Linked Individual Subsidy Programme (FLISP)

- We have not reached the projected delivery levels with FLISP, due to protracted negotiations with key external role-players around the implementation model. Notwithstanding the above, 749 subsidy applications totalling R29,9 million were approved. Participating banks approved R166,6 million home loan finance in favour of these beneficiaries.

Increased Business Activity and Early Settlements by our Clients

- We have noted a marked increase in investment in the affordable housing market by the banking sector. This has resulted in greater price competition and in some cases, early settlements by some of our clients.

OUR BUSINESS MODEL

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

Business Model

DEMAND SIDE

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

- Wholesale funding to retail intermediaries
- Innovative solutions
  - Income linked mortgages
    - *eg. Equity and debt investment in HiP*
  - Instalment sales
    - *eg. Wholesale funding to Cosmopolitan housing developers*
  - MDIC
- Facilitating Government subsidies
  - FLISP

SUPPLY SIDE

- Financing residential developments
  - PROJECTS Social
  - PROJECTS Integrated
  - PROJECTS Multiple projects
- Financing rental stock
  - Wholesale funding to retail intermediaries
    - PROJECTS Private Rental
- Providing incremental loans for building
  - Wholesale funding to retail intermediaries

Supply Side

The supply side of our business aims to address the shortage of housing stock in the low to middle income sector of the market, sometimes called the gap market. This is achieved through investing and financing companies that are involved in large- scale integrated housing projects through various equity and quasi-equity instruments.

Demand Side

To cater to the demand side of our business, we were established as a wholesale financier to extend loans to retail financial intermediaries. The retail financial intermediaries would on-lend to home loan applicants. These beneficiaries either want a microloan to enable them to build a home on an incremental basis, or a mortgage loan to purchase a new, or existing property.

Our Customers

Social housing institutions

Social housing institutions are not- for-profit companies that provide subsidised rental to households with a monthly income of R3 500 to R7 500. The social housing institutions receive institutional subsidies from provincial governments and grant funding from the Social Housing Regulatory Authority (SHRA). Social housing institutions must be accredited by SHRA before they can receive institutional subsidies and grant funding. Subsidies and grant funding constitute 70% of the finance required to build a social housing unit. We provide long-term debt funding of up to 20 years to top up the subsidies and grant funding.

Private landlords

These companies develop rental stock for the affordable housing market and do not receive subsidies from government. We provide long-term debt funding for the development or conversion and refurbishment of existing inner-city buildings into residential units for rental. We provide up to 80% of the funding required for each approved project.

Retail Finance Intermediaries

These financial institutions borrow funds from us to on-lend to end-users. The retail finance intermediaries could be banks or non-banking financial institutions who are registered with the National Credit Regulator. The retail intermediaries provide mortgage bonds or incremental loans. The end-user can use the proceeds of the loan to:

- Purchase building material;
- Buy land on which to build;
- Service their land;
- Pay for building works;
- Purchase a house; and
- Top up subsidy amounts from government to purchase or build a house.

Strategic Partners

We develop partnership with banks, developers and investors who invest in affordable housing projects or lend to end-users. We invest in equity, as well as the mezzanine and junior debt capital structure of our partners. The rationale for such interventions is to mitigate the risks of the partners whilst leveraging private sector funding into the affordable housing space.

DELIVERING ON OUR MANDATE

What We Do

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

We achieve our mandate through the provision of wholesale financing and the facilitation of increased and sustained lending by the private sector for various housing tenure options for households, depending on their affordability. The tenure options are:

- Rental housing;
- Home ownership through mortgage loan financing;
- Incremental housing; and
- Investment in a variety of strategic partnerships.

Rental Housing

Our involvement in Rental housing entails the provision of loans to housing companies that offer rental accommodation. The types of accommodation offered are:

Social rental

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

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

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

Private rental

Private landlords, who do not receive any subsidies or grants, provide this type of rental accommodation. It caters for the affordable rental market, including inner-city rental developments. We provide long-term funding for the development/refurbishment of inner-city buildings into rental accommodation.

Home Ownership

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

Partnership with banks

We provide leveraged funding through co-financing and risk-enhancement mechanisms to increase and sustain bank lending in this segment of the market. We have also partnered with banks in order to make FLISP subsidies accessible to qualifying beneficiaries. Qualifying FLISP subsidy beneficiaries are therefore able to access mortgage finance.

Non-banking intermediaries

We provide wholesale funding to non-banking retail intermediaries who on-lend to households in our target market. Access to home loans is increased and delivered through a nationwide branch network of intermediaries. Funding is available via approved or selected intermediaries to end-users with household incomes in the R3 500 to R15 000 per month range, and for loans up to R20 000.

The end-users may use these loans to:

- Purchase building materials;
- Buy land on which to build;
- Service land;
- Lay foundations;
- Pay for building works; and
- Top-up subsidy amounts from Government in order to acquire/build a complete house.

Troyeville, Johannesburg

Strategic partnerships

We develop strategic alliances and partnerships with developers, investors and housing development funds, through investment in equity, as well as junior, mezzanine and senior debt, and capital structures of companies that operate within the affordable housing market.

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

Our partners are:

- Trust for Urban Housing Finance (TUHF)
- Housing Investment Partners (HiP)
- International Housing Solutions (IHS)

For more information on our strategic partners please see pages 30 to 32.

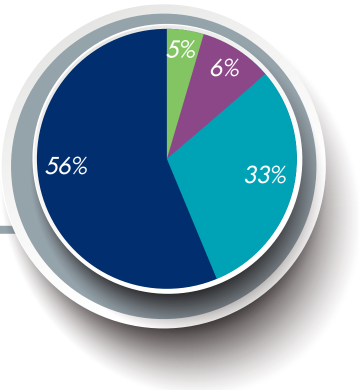
FLISP

We administer and facilitate delivery of and access to FLISP. For more information please see page 30.

Wholly-owned subsidiary

Cape Town Community Housing Company (CTCHC) is a wholly owned subsidiary. For more information on CTCHC please see page 31.

NHFC portfolio split



- Strategic Investment (5%)
- Incremental (6%)
- Home Ownership (33%)
- Rental Housing (56%)

OUR STRATEGY

Our strategic objectives are aligned to The National Development Plan Outcome 8: Sustainable Human Settlements and Improved Quality of Household Life, and the 2014–2019 Medium-Term Strategic Framework (MTSF).

Greater Middelburg

Steenberg Villas, Cape Town

Introduction

During the current reporting period we took the following critical steps to ensure the realisation of our strategic plan:

- Enhanced our capital structure through the raising of debt and equity funding in the short and medium term. This ensures that there is an adequate blending of debt and equity funding critical for us in achieving our objectives.
- Enhanced our pricing model to ensure a better reflection of our true costs of doing business and the risk associated with writing new business.
- Further enhancement of our operational structure by implementing the plans of the strategic review and recently initiated a re-organisation process.
- Continued to rollout the FLISP programme in partnership with the banks and provincial government departments.

Analysis Of Our Strategic Objectives

We are aware that on our own, we would not have the resources required to provide access to housing finance targets on a sustainable basis. Our strategic objectives were crafted with the acknowledgement of our financial limitations. The strategic objectives address both the supply and demand side of the affordable housing market, and are significant in structuring our business model. For more information on our business model please refer to pages 6 to 7 of this report.

Strategic objectives	*Strategic objectives as an enabler*
Expand housing finance activities through the effective provision of housing finance solutions, thus enabling the low-to-middle income households a choice of renting, owning or incrementally building houses, thereby meeting their housing needs.	Our financial instruments offerings have enabled adequate housing and improved quality of living through the development and provision of alternate housing options.
Facilitate increased and sustained lending by financial institutions to the lower end of the market.	Our funding plays a catalytic role in leveraging investment from the private sector into the affordable housing space, resulting in the delivery of affordable housing opportunities for the target market.
Mobilise funding into the human settlement space on a sustainable basis, in partnership with the broadest range of institutions.	We cultivate relationships and source funding from various institutions, typically multilateral agencies and development finance institutions, mobilising much needed capital into the affordable housing space.
Conduct our business in an ethical manner that ensures continued economic sustainability, while promoting lasting social, ethical and environmental development.	We remain a good corporate citizen in our lending activities, while ensuring our financial sustainability.
Stimulate the low-to-middle income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing customers.	We partner with research institutions to stimulate innovation, insights and market knowledge for the development of the affordable housing market.

Performance against our strategic objectives

Our strategic plan for delivery on our mandate and our Annual Performance Plan (APP) is aligned to those of our Shareholder. The Minister of Human Settlements approves the strategic plan and our APP. The approval process ensures that we comply with our mandate and perform to the APP expectations.

Quarterly performance reports are submitted to the NDoHS. Parliament's Human Settlement Portfolio Committee is appraised of our annual performance plans on a yearly basis. Our annual performance targets comprise housing units in the various housing tenure options, budget spend, leveraged funds in the affordable housing space and job creation.

Our Strategy (continued)

The tables below show our performance for each programme linked to our strategic objectives.

Performance Report for the Year Ended 31 March 2015 in terms of Section 55(2) of the PFMA

Programme 1 Summary	Expand housing finance activities through effective provision of housing finance opportunities		
Outcomes	Adequate housing and improved quality of living environments		
Performance indicator	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Estimated number of housing opportunities facilitated through disbursements	4 012	3 151	Target exceeded
Number of beneficiaries benefitting (factor of 3.8 applied)	15 246	11 974	Target exceeded
Value of funds disbursed (R'm)	729	677	Target exceeded
Value of approvals (R'm)	186	309	60% achievement against targets due to delayed business development as a result of liquidity constraints and the impact of the restructuring of the regulator.

Sub-Programme 1	Expand housing finance activities through effective provision of housing finance opportunities		
Outcomes	Adequate housing and improved quality of living environments		
Performance indicator **Estimated number of housing opportunities facilitated through disbursements**	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Number of social affordable housing units*	1 195	1 297	Good performance, achievement of 92%
Number of private rental housing units*	656	531	Target exceeded
Total Rental	**1 851**	**1 828**	
Number of affordable housing units**	2 161	1 323	Target exceeded
Total estimated number of housing opportunities facilitated through disbursements	**4 012**	**3 151**	

Housing units include completed, transferred or occupied units.

* *Social and private rental – estimated number of units arising from disbursements.*

** *Affordable housing – estimated number of mortgage loans originated through strategic partnerships such as HiP; the average loan size being R400 000. Instalment purchase agreements originated through intermediaries, units from previously funded integrated developments mainly Space, Mettle and CTCHC.*

Sub-programme 1	Expand housing finance activities through effective provision of housing finance opportunities		
Outcomes	Adequate housing and improved quality of living environments		
Performance indicator Value of disbursements (R'm)	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Social affordable housing (R'm)	234	136	Target exceeded
Private rental housing (R'm)	133	149	Delays in meeting suspensive conditions; otherwise satisfactory performance
Total Rental	**367**	**285**	
Affordable housing (R'm)	362	392	Good performance, achievement of 92%
Total value of disbursements (R'm)	**729**	**677**	

Sub-programme 1	Expand housing finance activities through effective provision of housing finance opportunities		
Outcomes	Adequate housing and improved quality of living environments		
Performance indicator Value of approvals (R'm)*	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Social affordable housing (R'm)	38	148	Delayed accreditation of clients
Private rental housing (R'm)	148	161	Good performance
Total value of approvals (R'm)	**186**	**309**	

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

Programme 2 Summary	Facilitate increased and sustained lending by financial institutions		
Outcomes	Increased and sustained lending by private sector to human settlement developments		
Performance indicator	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Estimated number of housing opportunities facilitated through leveraged funds	5 100	2 853	Target exceeded
Number of beneficiaries benefitting (factor of 3.8 applied)	19 380	10 841	Target exceeded
Value of leveraged funds from the private sector (R'm)	821	522	Target exceeded

Our Strategy (continued)

Sub-programme 2	Facilitate the increased and sustained lending by financial institutions		
Outcomes	Increased and sustained lending by private sector to human settlement developments		
Performance indicator Estimated number of housing opportunities facilitated through leveraged funds	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Number of private rental housing units*	4 050	2 190	Target exceeded
Number of affordable housing units**	1 050	663	Target exceeded
Total estimated number of housing opportunities facilitated through leveraged funds	**5 100**	**2 853**	

Housing units include completed, transferred or occupied units.
* *Private rental – estimated number of units arising from the strategic partnership with TUHF.*
** *Affordable housing – estimated number of mortgage loans arising from funds leveraged through strategic partnerships such as HiP, the average loan size being R400 000. Units from previously funded integrated developments mainly Space and Mettle.*

Sub-programme 2	Facilitate the increased and sustained lending by financial institutions		
Outcomes	Increased and sustained lending by private sector to human settlement developments		
Performance indicator Value of leveraged funds from the private sector (R'm)	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Private rental housing (R'm) *	321	85	Target exceeded
Affordable housing (R'm) **	500	437	Target exceeded
Total value of leveraged funds from the private sector (R'm)	**821**	**522**	

* *Private rental – mainly funds leveraged through strategic partnership with TUHF.*
** *Affordable housing – formula applied based on historical observation of 1:4. Integrated developments and instalment purchase agreements from existing commitments and projects funded previously.*

Other developmental impact			
Performance indicator	**Actual 2014/2015**	**Budget 2014/15**	**Comments**
Estimated number of jobs facilitated*	11 887	8 224	Target exceeded
Value of disbursements targeted towards women, youth and emerging BEE entrepreneurs (R'm)**	144	127	Target exceeded

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

Lakehaven Estate, KwaZulu-Natal

Our financial instruments offerings have enabled adequate housing and improved quality of living environments through the development and provision of alternate housing options

CHAIRMAN'S REPORT

It is my privilege to report on an improved performance by the NHFC in the year under review.

South Africa saw GDP growth slow to 1.5% in the calendar year 2014, as compared to 2.2% in 2013, which led to a deteriorating economic environment during the year under review. This rate of growth remains far below the full potential of the economy and the growth required to make a meaningful impact on unemployment.

Steenberg Villas, Cape Town

The South African Reserve Bank faces the challenge of maintaining the inflation targets in a weak economic environment. Some of the main risks to inflation are electricity increases, the exchange rate and wage settlements. The Rand has deteriorated against a basket of currencies over the last 12 months. In addition, the international capital markets have been affected by the uncertainty around the normalisation of the monetary policy in the United States after the end of quantitative easing implemented by the United States Federal Reserve after the global financial crisis of 2008/2009. The concern facing the Monetary Policy Committee of the South African Reserve Bank is that projected inflation in the first half of 2016 will overshoot the target of 3% to 6%. As a result, the prime lending rate in South Africa is projected to increase in the second half of 2015 placing pressure on consumers and businesses, which are already financially stretched.

Growth prospects for 2015 and 2016 also do not provide much comfort at 2.1% and 2.2% according to the South African Reserve Bank.

The unsecured lending market has been adversely affected by the placing of African Bank in curatorship in August 2014, and the growth in lending in the sector has slowed significantly from the heights of 2012 and 2013.

The property market followed a steady upward trajectory in 2014 and early 2015, with year-on-year rates of increase in house prices across the different barometers ranging between 5% to 7%. The affordable housing market has shown better fundamentals with respect to recorded price growth.

The NHFC has also noted the increased interest by institutional investors in affordable housing with a number of property funds (listed and unlisted) coming to the fore. This bodes well for the long term prospects of this property sector.

One of the greatest challenges facing people who earn between R3 500 and R15 000 per month is that they yearn for decent housing but their financial limitations preclude them from conventional housing finance. This is the enormous market that the NHFC seeks to satisfy with a whole range of innovative solutions.

I am honoured to chair the Board of the NHFC and consequently aware of the challenges that the organisation faces and the successes that it has achieved in addressing South Africa's gap housing market – that between RDP housing and financial self-reliance.

The NHFC has been a dynamic organisation and always seeks to adapt and improve not only its scale of delivery, but also its effectiveness, and this inevitably led to its restructuring programme. It was never expected that this would be an easy transition, but it was managed with a welcome lack of disruption and an almost immediate improvement in efficiencies. My congratulations go to management and staff for such a successful transition.

The consolidation of the three DFI sector players (NHFC, RHLF and NURCHA) into one body, hopefully under the auspices of the NHFC, is envisaged to provide combined balance sheet strength, and the necessary abilities to provide an end-to-end operation, as well as to broaden housing finance delivery into this portion of the housing market. Furthermore, it will combine urban and rural capabilities, as well as developer and contractor management skills, offering a one-stop service to the affordable housing market – something that has not existed to date. It will also demonstrate improvements in scale and effective delivery to our Shareholder. In this regard, the NHFC Board not only supports the Minister's imperative on the matter, but has also embraced the willingness to orchestrate the process to achieve the desired outcomes of the Shareholder, in a sustainable way. Naturally, to the extent so required by the Shareholders, such a consolidation and integration of the entities will be carried out with great sensitivity that promotes the long-term financial sustainability of the entity, while discharging the Department's mandate.

PROFESSOR MICHAEL KATZ
Chairman

Chairman's Report (continued)

The impairment charge in the reporting year, demonstrates the importance of balancing developmental imperatives with our economic requirements and innovative approaches to new areas of business. There is no denying the seriousness of South Africa's housing situation and I believe that it is vital for the NHFC to try new approaches and, almost inevitably, there will be instances where initiatives are not successful. However, the needs justify the importance of multiple solutions and learnings, sometimes at a cost.

The achievement of profits in certain areas of our business is necessary to allow cross-subsidisation for the risk appetite that is required to meet the department's objective of providing speedier housing solutions. These must be predetermined, measurable risks, most usually driven by the priorities of the Shareholder.

The NHFC is not a DFI in name only, and it is occasionally necessary to revert to Government for recapitalisation. In this regard, I would like to thank the Honourable Minister Lindiwe Sisulu, the Minister of Human Settlements, for demonstrating her, and her department's faith, in the achievements of the NHFC, and the role it plays in the human settlements sector, through the recapitalisation confirmation and the commitment for further funding over the next three-year period.

South African integrated reporting has a strong stakeholder focus, thanks not only to King III, but also to our constitution and legislation, which puts a people-centred approach at the same level as financial profitability. One of our major focus areas has been growing and strengthening our relationships with our stakeholders in the year under review and this is reflected in our results.

In the new financial year, I look forward to developments in our significant initiatives, namely, the organisational restructuring implementation, the DFI consolidation and its consequential re-capitalisation.

The mobilisation of our funding partners, will be at advanced levels, as they usher in a new era of scaled and efficient delivery of integrated sustainable human settlements.

Under the leadership of the CEO and the management team and staff of the NHFC, the organisation has gone from strength to strength.

For the past ten years, Ms Elsabe Marx has provided exemplary support to the Board, and to me personally, through her position as Company Secretary and my sincere thanks go to her. Her replacement will be appointed in the new financial year.

It is a pleasure to welcome two new members to the Board, Protas Phili and Dudu Msomi both of whom will undoubtedly enhance the Board's valued contribution to the organisation through their skills and experience.

Finally, I would like to thank my fellow Board members for sterling performance on the Board and in the sub-committees and in helping to make critical decisions for the guidance and on-going successful performance of the organisation.

PROFESSOR MICHAEL KATZ
Chairman

Fairview Link – Port Elizabeth

Under the leadership of the CEO and the management team and staff of the NHFC, the organisation has gone from strength to strength

CHIEF EXECUTIVE OFFICER'S REPORT

The year under review was challenging and characterised by uncertainty. The recapitalisation of the organisation by the Shareholder remained unresolved for the greater part of the financial year, and confirmation thereof was received late in the year 2014. The Shareholder committed to recapitalisation of R230 million, earmarked for social housing development. This is an aspect of our remit that is not financially sustainable and which relies upon external funding for its continued feasibility.

Emerald Sky, East London

Reorganisation

It became apparent in the previous financial year that an internal restructure of the NHFC was essential. This was driven by a change in the environment in which we operate and the need for improved effectiveness and efficiency. As a consequence, some functions have been consolidated to achieve efficiencies of scale. We have also adopted a client-centric model and a drive to improve our turnaround times for improved service delivery and relationships with our clients.

Regrettably, the restructure resulted in a reduction of the NHFC staff complement from 82 to 53 employees. The majority of those who left the NHFC, were either staff with long service, or those who opted for voluntary retrenchment, as a means of addressing new opportunities.

To embed the restructure, the NHFC continues to implement critical components, while at the same time creating a conducive working environment, by facilitating a staff change management process.

DFI Consolidation

The DFI consolidation is one of the most critical NDoHS initiatives in the year under review, and will have a significant impact on the future of the NHFC. The proposed model will be the incorporation of RHLF and NURCHA into the NHFC and the subsequent formation of an entirely new DFI. While the objective of this consolidation is that of scaling and accelerating the human settlements delivery, the new organisation will also have the necessary skills and experience for delivering a comprehensive basket of services. At the heart of it, the consolidation allows for a more robust balance sheet capacity, to fund and leverage private sector funding, where the combined entity will be greater than the sum of its parts.

This has raised great expectations from the broader stakeholders, including employees, clients, funders, partners, rating agencies and the market, on the opportunity to deliver on the promise of the DFI consolidation, and perhaps even exceed it. The DFI consolidation is gaining traction and the plan is that it be concluded within the next 18 months.

Performance Overview

Despite the many challenges, during the year, we managed to achieve record results in a number of our key performance areas.

Real growth in the advances book was 11%. However, factoring in of early settlements reduced it to no growth. In some ways, early settlements are a two-edged sword; on the one hand they increased our liquidity, balancing the shortfall in our recapitalisation request, allowing us to on-lend money. But, on a long-term basis, we suffer from revenue recognition.

The year saw record level disbursements of R729 million, which is an 8% growth level achievement year-on-year. The actual cost to income ratio was at 60% and, if restructuring costs are excluded, this drops to 48%, compared to 66% in the previous year. This is a commendable achievement.

FLISP

FLISP continues to be an enigma, despite our best efforts to have a new approach adopted in the year under review. There has been no significant progress made with FLISP and we continued to service only four of the nine provinces, with Gauteng being the leader of the pack. This will be a focus area in the upcoming year, I believe all that remains for successful implementation is to design the mechanics on a broader front in a sustainable way. Our recommended centralised funding approach will scale up the programme and help meet the demand that FLISP can potentially satisfy.

Strategic Investments

CTCHC

One of our objectives for the coming year will be to reduce our shareholding in CTCHC. The company has experienced an eight year history of losses. During the current year, we implemented a strategic re-organisation, which proved to be a successful exercise and curtailed new development activities. The company reported a R17 million pre-tax profit, in the year under review.

SAMSON MORABA
Chief Executive Officer

Chief Executive Officer's Report (continued)

TUHF

TUHF as a strategic investment partner, has been a huge success in catalysing the rejuvenation of the inner city. TUHF addresses economic and social issues, providing not only affordable inner city rentals, but also supporting previously disadvantaged rental landlords. During the year under review TUHF continued to make good contribution to group profits.

HiP

HiP is a joint venture between the NHFC and Old Mutual Capital Holding Limited (OMCH) to develop an income-linked housing loan product. Repayments by the borrowers are linked to their salaries and escalate annually in line with salary increases. This product enables first time home buyers in the affordable housing market access to finance with enhanced affordability and a lower risk repayment profile.

The operating model was signed off during 2012 and a Lending Trust 1, amounting to R100 million and funded by NHFC and OMCH, commenced business. The promoters were satisfied with the proof of concept and commenced with the Lending Trust 2, amounting to R625 million and funded by NHFC, OMCH and Futuregrowth Asset Management (Pty) Limited. The funders are satisfied with the quality of the loan book and are considering an expansion in lending to Trust 2 of R1.25 billion. HiP has also commenced with the fundraising initiative for Lending Trust 3 and will focus on pension funds seeking long term returns in excess of inflation and the added benefit of socially responsible investments.

The profitability of HiP is dependent on improving operational efficiencies and the size of the loan book under management where a fixed fund management fee is earned. Break-even is expected in 2018 when the loan book under management exceeds R2,4 billion.

The delayed break-even target date has resulted in the need for additional working capital support from the Shareholders, and contributed to the uncertainty of future sustainable funding support for HiP.

IHS

Total capital commitments as of 31 March 2015 were R1.3 billion, including limited partner commitments of R929.9 million and the USD equivalent of R398.5 million in available commitments from the Overseas Private Investment Corporation (OPIC).

During May 2015 a R24 million subscription was accepted from US-based Sonen Capital.

The fund's investment committee has approved six rental turnkey investments involving total equity commitments of just under R470 million.

The fund's investment pipeline totals approximately R840 million in potential investments and approximately 3 400 units, with an average new investment size of R80 million.

The NHFC has committed R300 million junior debt to leverage an additional R2.7 billion with the total of Fund II being R3 billion.

Mortgage Default Insurance (MDI)

Mortgage default insurance is a specialised form of credit insurance or guarantee that protects mortgage lenders against loss by reason of default on the individual mortgage loans.

The objective of mortgage insurance is to stimulate market confidence to enable lenders (mainly banks), to confidently supply affordable housing loans for the gap or affordable market, on a sustainable basis, which should translate into the increased demand for homeownership, and indirectly, supply of housing.

MDI factors such as shareholding, risk sharing and appropriate prudential and regulatory oversight, remain outstanding.

Pricing

Pricing became a key issue in the year under review. We are blending our own capitalisation with borrowings and we need to make sure that we can repay against our commitments. At the same time, the market is very competitive and we cannot afford to out-price the banks. Banks are already approaching our mature clients to buy their NHFC book, driving our high level of early settlements. It is a welcome intervention from a DFI perspective, as our aim is to crowd in the banking sector, and be complementary to them. Most important to us, is our intent to see increased and sustained bank lending in the markets that we serve.

Innovation and Risk

As a DFI, our responsibility is to activate areas previously not addressed and, as a risk taker, fund these new initiatives. We have been funding social housing, which specifically targets households earning in the salary range of R3 500 to R7 500 per month, the lower end of our rental market. This is not profit-making lending and, without Shareholder support, concessionary funding is an essential requirement. We have initiated discussions with a partner prepared to provide concessionary funding to enable the much-needed growth of social housing.

Strategic Funding

The NHFC has secured a second facility of R250 million from the European Investment Bank (EIB) to finance projects for the development of affordable and social housing in South Africa through our project activity.

The Agence Française de Développement (AfD) has confirmed its commitment to continue the provision of funding for the development of affordable and social housing through the NHFC.

The NHFC is looking forward to the on-going future partnership with both AfD and EIB, as together, we continue to make a significant improvement on the quality of life of households, particularly those whose income is at the lower end of the affordable housing market.

Funding is a sustainability risk for the NHFC. Having been capitalised only once at inception in 1996, the organisation has been self-sustaining for the past 18 years and has only recently gone back to the Shareholder to provide the necessary capital to guarantee sustainability for at least the next ten years. This will enable the organisation to benefit new areas of business, especially as the imperative for greater impact brings greater risk. The planned recapitalisation will also gear the NHFC in attracting other sources of funding, from its funding partners.

Prospects

As we move into the coming year, we will look at continuously enhancing our operations in line with the reorganisation, with the intention of transforming the different divisions into profit and loss centres, again driving efficiencies and effectiveness.

We envisage the implementation of the new approach for FLISP in the next financial year.

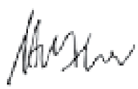
Appreciation

As always, we are indebted to the NDoHS for its on-going belief in our abilities to support and deliver on our mandate. This was more than adequately demonstrated by the Honourable Minister Lindiwe Sisulu, approving our recapitalisation. It has also been a pleasure to have had a meaningful and supportive interaction with the department's Director General, Mr Thabane Zulu.

I would like to express my gratitude to Professor Katz as our Chairman, who continues to provide inspirational leadership, and the Board, for their strategic leadership, diligence, oversight and guidance.

I salute the Executive team and staff who, despite the trying circumstances, remained selfless and had a drive to achieve and deliver a sterling performance.

To our partners and funders, I would like to assure you that we would not have been able to make such a difference in the lives of so many, without you.



SAMSON MORABA
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REPORT

This year has not been without its challenges and we have needed to be flexible and nimble in adapting to changes with our funding expectations not meeting the requirements of our 5-year strategic outlook, on-going liquidity shortfalls and a high level of impairments resulting from the overall economic vulnerability of the underlying market served by the NHFC.

Meadowridge Mews, Parklands, Western Cape

Key Financial Indicators

			Actual March 2015	Budget March 2015	Actual March 2014	Actual March 2013
Profit before tax	R'000	Group	**19 257**	2 341	29 638	25 252
		Company	**6 692**	5 726	51 767	34 708
Return on equity	%	Group	**0.5%**	0%	0.4%	0.4%
		Company	**0.2%**	0.2%	1.3%	1.1%
Return on assets	%	Group	**0.6%**	0.1%	1.0%	0.9%
		Company	**0.2%**	0.2%	1.8%	1.2%
Cost to income ratio	%	Group	**60%**	71%	66%	69%
		Company	**55%**	64%	58%	64%
Credit loss ratio	%	Group	**1.5%**	2.8%	0.0%	0.7%
		Company	**1.4%**	2.5%	0.0%	0.7%

Return on equity: profit after tax/closing net assets (or total closing Shareholder funds)
Return on assets: profit before taxation/closing total assets (excluding funds under management)
Cost to income: total operating costs/total operating income
Credit loss ratio: current year impairment charge/closing gross loans and advances

I believe we rose to the challenge; we are able to report satisfactory year-on-year growth of 8%, and the highest level of disbursements achieved to date totalling R729 million, thus making a significant developmental impact in fulfilling our mandate and our strategic objectives. Through our activities we changed the lives of 34 626 beneficiaries and facilitated the creation of 11 887 jobs.

Our disbursement levels were supported by early debt settlements which improved liquidity and the redeployment of capital. However, this negatively affected real growth in the asset base and related revenue.

It is in this context that we report a 35% decrease in consolidated profit before tax (of R19 million). The reported profit would have been significantly higher were it not for the once off strategic restructure and the related costs incurred during the year. Key emerging economic and business trends that affect our operating environment including increased lending appetite to the gap market by commercial banks as well as the funding assumptions in line with approved Shareholder support, informed a review of our strategic plan. Other factors in the year under review include the reorganisation of both NHFC and its subsidiary CTCHC, and an increased level of impairments.

After a concerted effort by management to reduce costs, our operational expenditure, adjusted for the restructure costs, decreased by 6%.

There was a notable increase of 13% in properties developed for sale and 109% in instalment sale receivables. Our short-term investments increased by 32% from the prior year following an equity injection and early settlements. This contributed to an overall increase in total assets of 7%. The real growth in net loans and advances in the current financial year was 11%, however

ZONIA ADAMS
Chief Financial Officer

Chief Financial Officer's Report (continued)

we have seen a decrease of 3% year-on-year, due to early settlements in the region of R307 million.

We did experience a pleasing upward trend in lending income because of asset growth and the impact of pricing policy changes over the past three years. Unfortunately, this was accompanied by an increase in our impairments of R83 million. Over the past years, we have reported a relatively low credit loss ratio. The overall economic vulnerability of the underlying market we serve has resulted in the impairments, in particular to our non-banking intermediary clients and certain clients involved in large integrated projects.

The funding challenge and a weak social rental housing pipeline affected approvals for the year. In response, we deliberately reduced business development to manage reputational risk. A prioritisation exercise by management has ensured the achievement of 60% of the annual target.

During the period under review, we revised and re-aligned our strategic plan to the Medium Term Strategic Framework of NDoHS, as well as emerging economic and business trends. Considering the above factors that impacted our financial performance, we were able to meet most of our key financial indicators as indicated on page 25. Positive contributions were mainly from increased lending and investment income and negative impact mainly from the level of impairments.

During the current year, the NHFC breached certain financial covenants relating to the AfD loan facility with key contributors being the once-off cost of the NHFC company restructure and the higher level of impairments in particular, relating to non-performance of key integrated projects. AfD has agreed to waive its rights and not to accelerate the repayment of the credit facility. AfD has expressed its continued support as one of our strategic funding partners. All stakeholders were engaged in this regard.

Our Subsidiaries

The restructuring of CTCHC is yielding positive results. CTCHC reported a before taxation profit of R17 million for the year. This good performance emanated from construction activities relating to the Mountain View Villas, Harmony Village and Upington projects, and these projects are shown in the CTCHC balance sheet. The Harmony Village project in particular, delivered in excess of R133 million in revenue.

TUHF continues to generate consistent profits within our group. HiP, the fund manager, still in its incubation phase, remains a loss maker. However, the lending trusts are performing satisfactorily. We expect HiP to break even in the 2018 financial year.

Cash Flow

Rigorous cash flow management, with key factors being the disbursements and collections, ensured the management of the operations within the resources available. The recapitalisation of R230 million from the Shareholder and freed up cash from early settlements, have allowed us to honour our commitments in the current financial year. Short-term investments are R759 million, these include funds managed on behalf of third parties to the value of R193 million, reflecting a net amount of R566 million as capital available for disbursements and operational expenditure for the next financial year.

Credit Rating

Global Credit Rating Co (GCR) confirmed our National Credit rating in November 2014. The international scale-rating outlook was revised down to negative from stable in line with the sovereign rating.

Security Class	*Resting Scale*	*Rating*	*Rating Outlook*
Long-term	National	$AA-_{(ZA)}$	Stable
Short-term	National	$A1+_{(ZA)}$	Stable
Long-term	International	BBB	Negative

Outlook

The strategy has been reviewed in appreciation of the extent to which the external environment affects our business, and our capacity to respond to this. We are already seeing the benefits of the strategic reorganisation, and positive impacts will continue to be realised in future.

Asset growth, supported by quality of revenue through a portfolio mix that promotes sustainability, remains a key driver of profitability. Subdued economic growth, overall market conditions and limited Shareholder funding support, places a strain on future asset growth. This brings capital allocation decisions and risk management to the fore. Our focus will remain on the core business; secured through mortgages, personal suretyships and guarantees, and active monitoring (and limiting) of exposure to equity and quasi-equity investments through the risk appetite statement.

Our efforts to rehabilitate certain key accounts, that have a material effect on the non-performing loan book, are on-going. These include financial re-engineering, recapitalisation of projects with other funders and unlocking sales through our strategic partners.

The Shareholder and National Treasury approved a further budget allocation of R300 million over the MTEF period. The approved budget allocation was significantly lower than the equity funding assumptions in the Board approved strategic plan. The revised Strategic Plan and the impact on our ability to deliver on our mandate and long-term sustainability has been, and continue to be, highlighted to the Shareholder.

ZONIA ADAMS
Chief Financial Officer

Mr Samson Moraba (fifth from the left) with AfD delegates at Coronia Gardens.

OUR OPERATIONS

The Honourable Minister of Human Settlements, Lindiwe Sisulu, pictured with NHFC Board members

Operational Structure

CHIEF EXECUTIVE OFFICER

Debt Lending and Subsidy Programmes

Equity Investments and Subsidiaries

Operational Divisions

Finance and Treasury

Credit Management

Corporate Strategy, Marketing and Research

Corporate Support

Human Resources

Corporate Secretariat

Support Divisions

Our Operational Performance

We had a record performance in disbursements for the year, especially in the current difficult economic environment, with most targets exceeded. Despite the liquidity challenges, we disbursed R729 million in the year under review. These disbursements played a catalytic role in leveraging a further R821 million from the private sector into the affordable housing space which resulted in the delivery of 9 112 housing opportunities impacting the lives of 34 626 beneficiaries and facilitated the creation of 11 887 jobs.

The approvals for the year under review were impacted by the funding challenge that prevailed, and it is worth noting a deliberate reduction in business development to manage reputational risk, in addition to the weak Social Housing Institution pipeline. A prioritisation exercise by management has however, ensured the achievement of 60% of the annual target.

We delivered a strong performance from both the private rental and strategic partnerships while the performance of wholesale lending continues to be impacted by the adverse market conditions affecting the micro lending industry.

Highlights for the period ended 31 March 2015 can be summarised as:

- Disbursements at the end of the financial year were R729 million against the annual budget of R677 million; an achievement of 108%.
- Actual approvals were at R186 million against an annual budget of R309 million, an achievement of 60%.

  New private sector, non co-funded business, was not actively solicited due to funding constraints experienced during the year in order to avoid reckless trading. New social housing business has still not recovered following delays mainly because of allocation of Restructuring Capital Grants.
- The units delivered from the rental programmes were satisfactory.
- The performance of the affordable housing programme continues to be impacted by challenges (end-users not qualifying for mortgage finance and delayed statutory approvals on developments) experienced by clients involved in large integrated projects. Two sizeable NHFC clients with a total exposure estimated at R224 million involved in large-scale affordable housing developments performed poorly. This resulted from poor management of those investment vehicles, prevailing market conditions and delayed statutory approvals. We had to significantly impair these loans, which had an impact on our bottom line. Furthermore, no significant capital allocation has been provided to grow this sector of the business due to prevailing market risks.
- The unsecured lending space, through which we do our wholesale lending business, was negatively affected since the fall of the African Bank Investments Limited. Unsecured incremental housing business was not actively pursued, as the market for this product is highly indebted, with little or no capacity to take on more debt.
- Other performance indicators that show satisfactory performance are BEE funding (113%) and jobs facilitated (145%), mainly as a result of the contribution from TUHF, the Gauteng Partnership Fund (GPF) and the NHFC empowerment fund.

GPF/NHFC Empowerment Fund

The GPF/NHFC Entrepreneur Empowerment Property Co-funding Programme Agreement with a respective split of R140 million/R100 million, was structured in 2011 to empower emerging black entrepreneurs to enter the residential property market, and is progressing well. To date, R48.5 million has been disbursed in respect of 9 of the 20 approved applicants. For most of the approved projects, disbursements are currently paid out of GPF subordinate loan funds. NHFC funding is disbursed once the GPF subordinate funding has been utilised in each project.

Meadowridge Mews, Parklands, Western Cape

Social Housing Institutions (SHIs)

Of the loan approvals target for Social Housing Institutions (SHIs) of R148 million for the year, only R38 million approvals were achieved. This was partly due to funding constraints. In addition, accredited SHIs in the period under review were start-ups and of a poor quality lacking an established track record; we require the latter aspect to further engage the Regulator on how these weaknesses are to be mitigated to avoid the failure of future projects

The full year disbursement target of R136 million was exceeded by R98 million.

In line with the target for the year of 1 297, a total of 1 195 units were facilitated through NHFC loans which enabled access to social housing for 4 541 beneficiaries during the period.

FLISP

The FLISP is a grant that is provided to first time homeowners by provincial governments. It was developed to facilitate sustainable and affordable first time home-ownership opportunities to South African citizens and permanent residents earning between R3 501 and R15 000 per month.

We administer and facilitate delivery and access to FLISP. Beneficiaries use the proceeds of the subsidy as a deposit down payment or to reduce a loan the bank has provided.

The programme is in great demand because of its appeal to both parties in the lending process. It provides an ideal solution to bank's concerns about borrowers' loan servicing capabilities, while giving households opportunities to access previously denied loan facilities. There is a huge demand for assisted financing of this nature. FLISP will be implemented in the forthcoming year.

In the period under review FLISP was instrumental in delivering:

- Subsidy applications of 1 059 totalling R29.9 million were approved in favour of 749 beneficiaries. Participating banks approved R159 million home loan funds in favour of these beneficiaries; and
- Previously approved applications of R32.1 million were paid to 766 beneficiaries. Participating banks have paid out an estimated R115 million in home loan funds to our beneficiaries.

Reservoir Mews, East London.

Avoca Hills, KwaZulu-Natal

Our Subsidiary

CTCHC

CTCHC, a wholly-owned subsidiary, is a property developer for the affordable housing market and provides rental housing in the Western and Northern Cape provinces. One of the objectives for the coming year will be to reduce our shareholding in CTCHC by getting a third party to buy into the company. We have identified potential investors.
Our Board approved a restructuring plan in 2014. This resulted in a positive outcome as reflected by the profit-before-tax of R17 million generated by the subsidiary, despite incurring a once-off restructuring cost of R3.3 million.

During the financial year under review four major projects were under execution:

- **Western Cape:**
  - Westcape (341 units) – 261 units have been transferred to the owners;
  - Mountain View Villas (300 units) – successfully completed during the year and all units are occupied; and
  - Harmony Village Project (850 units) – a total of 551 units have been handed over to instalment buyers. The balance will be completed and transferred in the forthcoming year.
- **Northern Cape**
  - The Augrabies Falls Housing Project (276 gap housing units).

The Harmony Project was the major contributor to revenue and the bottom line. The subsidiary has delivered 789 housing units that benefitted 2 998 households. It made a profit after consecutive years of loss making, following a strategic turnaround effort undertaken to restore the sustainability of CTCHC.

Our Strategic Investments

TUHF

TUHF is an associate company that provides short and long-term finance to landlords, SHI's and tenant-based collectives. The funding is used for the purchase, construction and improvement of property within South African inner-city precincts, where the objective is to supply rental housing.

TUHF targets dilapidated inner-city buildings, converting commercial properties to residential units, or refurbishing residential buildings to provide affordable rental housing. TUHF started in Johannesburg and operations will expand to Cape Town, Port Elizabeth, Durban and Bloemfontein during the next reporting period. The growth of TUHF is driven by the context of the market we want to serve and can be expected to include Tshwane in the foreseeable future.

Initially, TUHF was started as a non-profit organisation. In 2003 it was converted to a limited company. We are a co-founding member of TUHF and provided seed capital of R10 million. We currently hold a 33% stake in the business, with the Public Investment Corporation (PIC), Future Growth, TUHF 21 and TUHF management. We will be listing some of TUHF's instruments on the JSE as a bond-raising programme to raise about R800 million through domestic medium-term notes in the near future.

Our Operations (continued)

The company was granted R200 million by the Government's Jobs Fund and its social contribution justifies leveraging additional capital on the open market. In this financial year, TUHF contributed R8 million to Group profits.

One of the principles of our lending approach is to support emerging entrepreneurs and black economic empowerment. To assist in the financial gearing projects, we provide emerging entrepreneurs, who qualify for debt support, equity-type finance in the form of variable interest subordinated loans.

We provided TUHF with wholesale facilities over the years amounting to R557 million, leveraged R1.5 billion from private investors and generated a book value of R1.8 billion at the end of the year.

TUHF has financed a total of 106 405 rental units since inception, which we believe is set to grow substantially with the implementation of the Domestic Medium Term Note programme.

HiP

Housing Investment Partners (HiP) provides an innovative home loan product. Targeting the lower and middle income housing market (monthly salary of between R3 500 and R30 000) and where house prices range from R200 000 to R650 000. HiP allows homeowners to learn much needed skills around managing finances and maintaining their assets through a comprehensive borrower education programme that is compulsory for all our customers. The primary focus is on employers offering housing assistance to their employees, for example:

- Mining sector;
- Employees of JSE listed companies; and
- Public sector employees (nurses, teachers, police and civil servants).

HiP has disbursed R 400 million and provided 981 homes to first time home-buyers. These figures are expected to increase by 100% by the end of March 2016.

We have successfully leveraged private sector funding for HiP. This programme began with an injection of R100 million in 2009, increasing to R625 million in the year under review. This will grow to R1 125 billion in the forthcoming financial year with the support of our partners Old Mutual and Future Growth, and will be completed in the next financial year when we commit to junior debt of R125 million. This does expose us to risk, so we will ensure that the HiP business is well managed.

Housing Investment Partners (HiP) provides an innovative home loan product targeting the lower and middle income housing market

SOME OF OUR PROJECTS

THE IMIZI HOUSING UTILITY – FAIRVIEW, PORT ELIZABETH

"My family has settled into an apartment in the building and thanks to the subsidies we receive, are able to afford the monthly rentals. This has made a huge difference in our lives and we now have somewhere safe and secure to call home." Resident, Imizi Housing Utility

This project is a green-fields development consisting of 368 social housing units situated in the Fairview suburb in Port Elizabeth. The project is a joint venture development between the applicant and The Home Market, a registered NPC.

The land was obtained as restitution for previously displaced families and the joint venture partners were awarded a Land Availability Agreement by the landowner, the Port Elizabeth Land Restitution and Housing Association, for medium-rise higher-density rental accommodation for the displaced families. It is being developed with the use of Restructuring Capital Grants and Provincial Institutional Subsidies as a turnkey development that will be purchased upon completion by the Imizi Housing Utility.

The development consists of 111 studio and one-bed apartments for rent to families earning below R3 500 per month, and 257 secondary market one- and two-bed apartments aimed at families earning monthly incomes of R3 501 to R7 500. The rentals have been set at affordable rates.

Some of our Projects (continued)

JOZI HOUSING – CORONIA GARDENS

"The facility extended to us by the NHFC has allowed us to way exceed our expectations in providing housing for the affordable housing market. We are confident that with our management, we will continue to shelter deserving individuals and families and form a base from which they can thrive and prosper. Our tenants report that their lives have changed dramatically and most are able to service their rentals on housing that they would not have been able to afford in the past". Jozi Housing

Our Board Credit Investment Committee (BCIC) held a special meeting in 2010 to approve an application for a R48 339 000 loan in favour of Jozi Housing (Jozi) for the acquisition, refurbishment and additional funding required for the conversion and refurbishment of a derelict hotel building in Berea, Johannesburg. The funding was sourced from the Agence Française de Développement (AfD) in 2010.

The loan facility was primarily used to convert the property into 338 residential units, with the balance used to cover the AfD interest incurred while the property was still undergoing refurbishments and while the facility was under a moratorium.

Jozi Housing was established in April 2003. The principal activity of the company is acquisition, refurbishment, letting and management of rented residential units in the suburbs of Berea and Hillbrow. The company targets individuals and families earning up to R15 000 per month. From humble beginnings with just two properties, Jozi now owns over 22 properties, which translates to 2 421 flats and 175 rooms.

Jozi has performed well overall, and continues to grow. We consider Jozi to be one of the best performing clients in our Group-wide portfolio.

CORPORATE GOVERNANCE

Board of Directors

Independent Non-Executive Directors (from left)

1 **Professor Michael Katz (Chairman)**
Chairman, Edward Nathan Sonnenbergs
BCom LLB (Wits),
LLM (Harvard Law School)
LLD (hc) (Wits)
Director as from 10 May 1996

2 **Mr Johan Coetzee**
Retired banker and Director of companies
BA, MBA (University of Pretoria)
Director as from 6 May 2009

3 **Ms Anthea Houston**
Chief Executive Officer, Communicare, NPC
Post Graduate Management Diploma (UCT)
Banking Licentate Diploma
Director as from 6 May 2009

4 **Ms Dudu Msomi**
Chief Executive Officer – Busara Leadership Partners
BA Degree (Psychology)
(University of Natal, Durban)
BA Honours (University of Natal, Durban)
Post graduate diploma in advertising
(AAA School of Advertising)
Programme for Management Development
(Gordon Institute of Business Science)
MBA (Gordon Institute of Business Science)
Post-graduate diploma in Corporate Governance (UJ)
Director as from 1 September 2014

5 **Mr Sango Ntsaluba**
Executive Chairman, Amabubesi Group
CA (SA), BCom (Fort Hare),
BCompt Hons (Unisa)
NHD Tax Law (UJ)
Director as from 9 December 2003

6 **Mr Protas Phili**
Director: Khwezela Investment Group
Bachelor of Commerce (Accounting)
(University of Natal)
Postgraduate Diploma in Accountancy
(University of Natal)
Advanced Certificate in Auditing
(APT (RAU/UCT))
Master of Commerce (Taxation)
(University of KwaZulu-Natal)
CA (SA)
Director as from 1 September 2014

7 **Ms Phekane Ramarumo**
Truly African Solutions
PR Pln, BA (University of Limpopo),
HD (PDA) (Wits)
MRP (SUNYA USA)
Director as from 6 May 2009

8 **Ms Sonnet Swanepoel**
CEO, Present Future Investments
BSc (QS) Honours (University of Pretoria)
Advanced Certificate in Financial Markets
Director as from 13 December 2010

9 **Mr Sizwe Tati**
Director, Yakani Group
BCom (Acc) (North University),
Graduate Diploma in Company Directing (IoD),
Post Graduate Diploma in Management (GSMT),
Senior Executive Program (Harvard).
Director as from 2 September 1996

10 **Mr Samson Moraba**
Executive Director
Chief Executive Officer
BCom (Unisa),
PMD (Harvard Business School)
Director as from 11 January 1999

Exco

Executive management and prescribed officers (from left)

1 **Mr Samson Moraba**
Chief Executive Officer
BCom (Unisa),
PMD (Harvard Business School)

2 **Ms Zonia Adams**
Chief Financial Officer
BCompt Hons (Unisa), CA (SA)

3 **Mr Lawrence Lehabe**
Executive Manager: Lending
BCom (University of Zululand),
MSc Marketing (National University of Ireland)

4 **Mr Zola Lupondwana**
Executive Manager: Credit
BCom (University of Botswana),
ACA, CFA, CA (SA)

5 **Ms Mandu Mamatela**
Executive Manager: Corporate Strategy
BCom (Hons) (University of North West),
MBA (PU for CHE), IEDP (UK)

6 **Mr Siegfried Mogane**
Executive Manager: Corporate Support Services
BCom (Unisa),
Mstrat (University of Cape Town),
Post Graduate Diploma in Management Specialising in Corporate Governance (Monash University SA)

7 **Ms Nomsa Ntshingila**
Executive Manager: Human Resources
MSc Clinical Psychology (Medunsa),
BSoSc Hons (University of NorthWest),
Higher Education Diploma BA Communications (Fort Hare)

Corporate Governance (continued)

Introduction

Corporate governance structures and processes have been in place in the NHFC since its inception and are continually reviewed to:

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

The NHFC fulfils its mandate in a manner that is consistent with best practices and with continuous regard to the principles of integrity, fairness, transparency, ethical leadership, efficiency and accountability as set out in the King Code of Corporate Governance (King III) to enhance continued housing delivery.
The Board of Directors and senior management of the NHFC remain committed, as far as possible, to apply the principles of King III, the Companies Act, PFMA and Regulations and all other related legislation.

The wholly-owned subsidiary, CTCHC is also covered by the corporate governance principles.

The Board

Accountability to the Shareholder

The NHFC was incorporated under the Companies Act 1973, and under the new Companies Act 2008 it is defined as a State Owned Company (SOC). It is registered as a Schedule 3A State Owned Entity as per the PFMA, and through the Board is accountable to the sole Shareholder, the NDoHS representing the Government of the Republic of South Africa. The Minister of Human Settlements (the Minister) duly represents the Shareholder's interest, determines the NHFC's mandate and holds the Board accountable for managing the operations within that mandate.

Strategic objectives and performance management

During the year under review, the NHFC acted in accordance with its Strategic Business Plan, Annual Performance Plan and Shareholder's Compact as is provided for in the PFMA. These documents are required to be submitted annually to the Shareholder.

The Annual Performance Plan and Compact serve as an agreement documenting the key performance measures against which the organisational performance is assessed. The Board sets out the strategic objectives in the Annual Performance Plan and has adopted the balanced scorecard methodology to implement the strategy, and measures itself against the Key Performance Indicators reflected on pages 158 to 163 of the annual report.

The Board reports formally to the NDoHS on a quarterly basis, as well as to the Parliamentary Portfolio Committee on a half yearly basis.
The CEO is charged with the day-to-day management of operations, and meets regularly and consults with the NDoHS and the Minister.

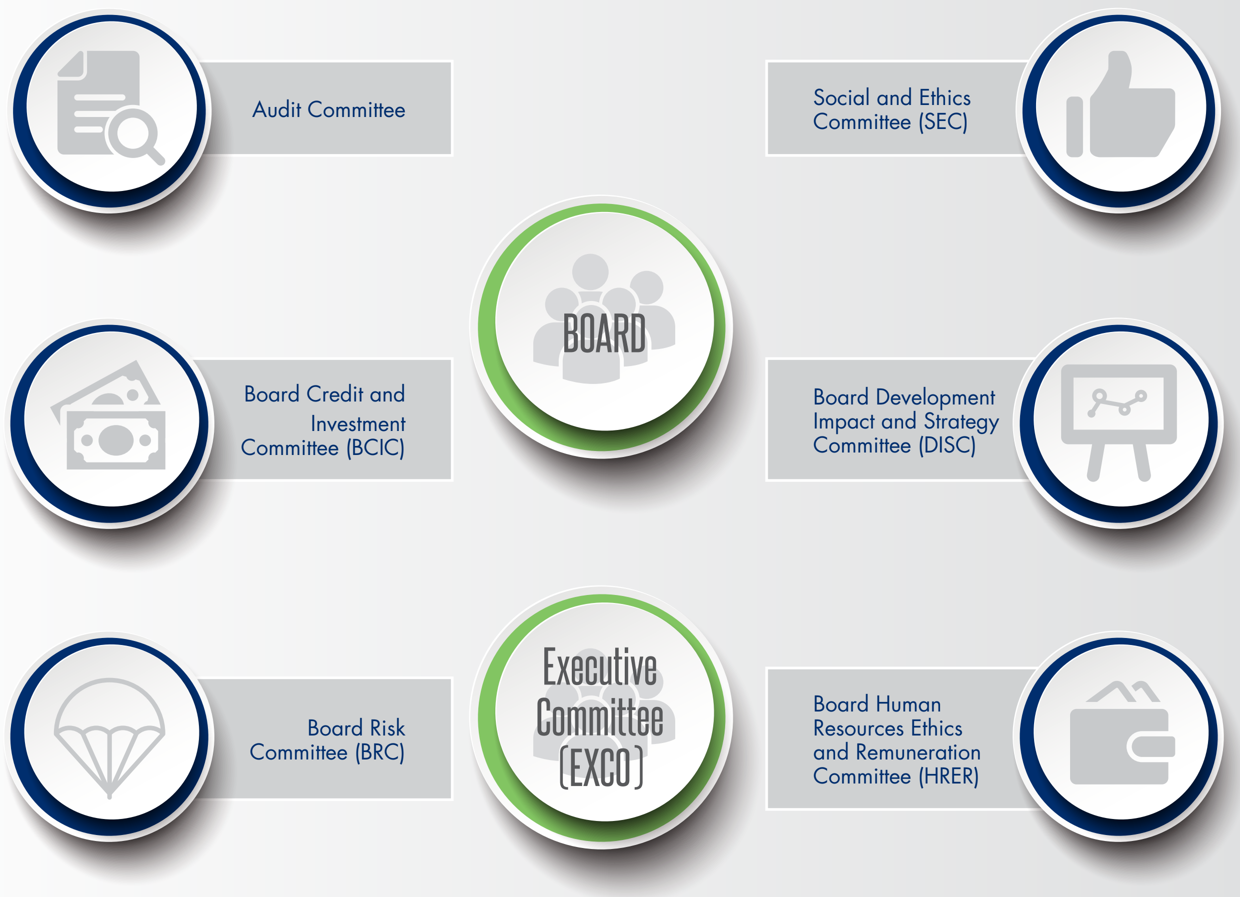
Board Governance, Structures and Framework

The Board, as the Accounting Authority as defined in the PFMA, provides leadership, vision and strategic direction to enhance Shareholder value and ensure long-term sustainability and growth of the NHFC. The Board is responsible for developing and overseeing the execution of the strategy and monitoring of performance against the Annual Performance Plan. It discharges this responsibility within the powers set out in the Memorandum of Incorporation (MOI) and through the Board Committee structure (depicted on page 41). While the Board has the authority to delegate powers to Executive Management and the Board committees, it remains accountable to the Shareholder.

With respect to the Board committees, each has a clearly defined mandate in its written Terms of Reference.

The management of day-to-day operations is delegated by the Board to the CEO, who is assisted by the Executive Management Committee (EXCO) and its subcommittees, which also operate within mandates set out in written Terms of References accordingly.

The NHFC's Board Governance Structure



Corporate Governance (continued)

Board Composition and Meetings

Board composition

The Board is appointed by the Minister and comprises ten members, the details of whom are reflected on page 38 of the annual report.

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

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

In addition to the MOI, the Board has prepared a Board Charter, which is a concise overview of the roles, functions, responsibilities and powers of the CEO, the Board and the interaction and relations with the Shareholder. The Board Charter has been aligned with the NDoHS Compact framework, and is reviewed annually. Through it, the Board retains full and effective control of the organisation by:

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

Non-executive directors are entitled to fees for attendance at Board meetings and these are determined at the annual general meeting with the Shareholder. The directors' fees for the year are disclosed in the annual financial statements.

The MOI of the NHFC provides that at each annual general meeting, on a rotation basis, one-third of the longest serving non-executive directors will automatically retire. These directors may allow themselves to be nominated for re-election for a further period of three years. Such re-appointment is then confirmed by the Shareholder.

It is the policy of the Board to arrange bi-annual external evaluations on its performance and effectiveness, as well as that of the Board committees. The next evaluation will be conducted in 2015. In the alternate years such as 2016, the Board undertakes its own internal self-evaluation.

The Board meets at least five times a year, or more frequently as circumstances require, and the Chairpersons of the respective committees report back to the Board at the Board meetings. The record of attendance at Board meetings for the period under review is reflected on the opposite page.

Name of Director	26 June 2014	24 July 2014	25 Sept 2014	27 Nov 2014	26 Mar 2015
Prof M Katz *^	•	•	X	•	X
Mr J Coetzee^	•	•	•	•	•
Ms A Houston^	•	•	•	•	•
Mr S S Moraba+	•	•	•	•	•
Ms D Msomi^	n	n	•	•	•
Mr S S Ntsaluba^	•	•	•	•	•
Mr P Phili^	n	n	•	•	•
Ms P V Ramarumo^	•	•	X	•	X
Ms S Swanepoel^	•	•	X	•	•
Mr S A Tati^	•	•	•	•	•

* Chairman + Chief executive officer ^ Independent non-executive directors

• Present X Apologies n not applicable

Company Secretary

In terms of the Companies Act and the PFMA, the NHFC is required to appoint a Company Secretary who is answerable to the Board. The Company Secretary plays a pivotal role in the corporate governance of the organisation. Directors have unrestricted access to the advice and services of the Company Secretary, who assists with matters of ethics, good governance and the provision of information and training required by the directors to fully accomplish their fiduciary responsibilities. In addition the Company Secretary oversees the preparation of all Board and Committee meeting agendas and Board packs, and attends the meetings to take the minutes, prepare follow-up task schedules and ensure all resolutions taken are followed through. Currently, the NHFC is in the process of appointing a new Company Secretary, as the previous incumbent resigned towards the end of the 2015 financial year. In the interim, to comply with the Companies Act, the NHFC appointed a service provider to provide company secretarial services until the new appointment is made.

Ethics and Managing Conflicts of Interest

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

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

Access to Information and Professional Advice

In addition to their liaison with the Company Secretary and Chairman

Corporate Governance (continued)

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

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

Board and Statutory Committees

All Board committees have clearly defined Terms of References, which set out the specific responsibilities delegated to them by the Board. Their Terms of References are reviewed annually in order to ensure alignment with governance standards and applicable legislation, the business of the NHFC and mandate from the Shareholder, and to take account of prevailing underlying conditions in the sector in which the organisation operates. All the Board committees are chaired by non-executive directors, and cognisance is taken of the recommendations of the King III recommendations concerning the separation of the role of the Board Chairperson, from the role of Chairpersons on the committees.

Management attends committee meetings by invitation. Management attendance is to give additional perspectives on agenda items where necessary and for the Non-Executive Directors to give direction or request further work, where required.

Guidance is also taken from external professional institutions such as the Institute of Directors, legal and audit firms, which collectively have issued a number of position papers and guidelines to assist companies in their implementation of the various statutes in play.

During the year, and in keeping with the NDoHS policy, two new Directors were recruited and appointed by the Minister to join the Board and fill the then existing vacancies. These two new Directors are Ms Dudu Msomi and Mr Protas Phili.

It is practice for the NHFC that Non-Executive Directors be rotated among the various committees, and the committees' Chairpersons' position are rotated on a staggered basis. This is to provide for robust interaction within the committees and for the various members to bring their skills, new ideas and experience into play when considering agenda items with management, without compromising the existing organisational intellectual knowledge from the longer serving committee and Board members. To this end, Non-Executive Directors may also be invited from other committees to assist in deliberations on agenda items that may cut across more than one committee.

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

Audit Committee

The Audit committee comprises three independent Non-Executive Directors. The members are duly appointed at the annual general meeting by the Shareholder as provided for in the Companies Act. The current serving members are Mr Sango Ntsaluba (Chairperson), Messrs Protas Phili and Sizwe Tati. The CEO, CFO and various executive managers attend meetings by invitation, as do the external and internal auditors. During the year the Committee holds additional in-camera sessions to consider the performance of the executive management and the auditors. The Committee meets at least five times annually and its primary objective is to assist the Board in discharging its duties relating to the following:

- Annual consideration of the audit charter for confirmation by the Board;
- Oversight of financial reporting, conforming with all applicable legal requirements and accounting standards;
- The operation of adequate systems of internal control and internal audit processes;
- Reviewing the annual financial statements and accounting policies;
- Reviewing the effectiveness of management information, risk management practices and other systems of internal control in conjunction with the BRC committee – see below, with specific reference to the findings and recommendations of the external and internal auditors;

- The external audit process;
- Confirmation of compliance with all legal statutes and regulations – in conjunction with SEC – see below;
- Corporate governance in conjunction with SEC – see below; and
- Review of quarterly reports to the Shareholder.

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

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

Internal Audit conforms to the International Standards for the Professional Practice of Internal Auditors as published by the Institute of Internal Auditors. Since this is an outsourced function, it is reviewed every three years, and then an open tender will be published for a new service provider. The NHFC has extended the current service contract of the Internal Auditors for one additional year pending the outcome of the proposed DFI consolidation process as highlighted elsewhere in this Integrated Report.

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

Name of Director	*23 Apr 2014*	*21 Jul 2014*	*25 Sep 2014*	*23 Oct 2014*	*29 Jan 2015*
Mr S S Ntsaluba^*	•	•	•	•	•
Mr P Phili^	n	n	•	•	•
Mr S A Tati^	•	•	•	•	•
Ms P V Ramarumo^	•	•	•	n	n

* Chairman ^ Independent non-executive directors
• Present n not applicable

Corporate Governance (continued)

Board Credit and Investment Committee (BCIC)

BCIC comprises three Independent non-executive directors. Meetings are also attended by the CEO and members of the management team.

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

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

The Committee meets at least four times a year, and more frequently, if circumstances so require. The record of attendance for the seven BCIC meetings during the period under review:

Name of Director	*24 April 2014*	*4 June 2014*	*26 June 2014*	*25 Aug 2014*	*13 Nov 2014*	*27 Nov 2104*	*26 Feb 2015*
Mr J Coetzee^*	•	•	•	•	•	•	•
Mr P Phili^	n	n	n	n	•	•	•
Ms S Swanepoel^	•	•	•	•	n	n	n
Mr S A Tati^	•	•	•	•	•	•	•

* Chairman ^ Independent non-executive directors
• Present n not applicable

The delegation of credit and investment approval on Board, Board Committee and Management Committee levels are summarised in the diagram below:

BOARD

Credit Proposals – Above or cumulatively above R160 000 000
Investments Proposals – Above or cumulatively above R100 000 000

BOARD CREDIT AND INVESTMENT COMMITTEE (BCIC)

Credit Proposals – Below or cumulatively below R160 000 000
Above or cumulatively above R50 000 000
Investments Proposals – Above or cumulatively above R20 000 000
Below or cumulatively below R100 000 000

MANAGEMENT CREDIT & INVESTMENT COMMITTEE (MCIC)

Credit Proposals – Below or cumulatively below R50 000 000
Above or cumulatively above R10 000 000
Investments Proposals – Above or cumulatively below R20 000 000
Below or cumulatively above R10 000 000

INTERNAL CREDIT COMMITTEE (ICC)

Up to or cumulatively up to R10 000 000

The Management Credit and Investment Committee (MCIC)

The MCIC is a sub-committee of BCIC, and is chaired by the CEO, and meets approximately eight times a year and more frequently, when required. It has its own Terms of Reference and as a subordinate committee, is responsible for approving loan facilities up to, or cumulatively up to R50 million per client, and recommending those in excess of that amount to BCIC. MCIC also recommends all Strategic Investment proposals up to R20 million to BCIC. These levels are reviewed annually, are included in the Delegation of Authority Policy and are approved by the Board.

The process for considering and recommendation of credit applications from potential clients is that they are all first submitted and logged into the Credit Division, which conducts a thorough assessment and due diligence of the risks associated with the particular application. Once the underlying investigative work has been completed and all the required documentation has been received, the Credit Division prepares a motivation and recommendation to an Internal Credit Committee (ICC).

ICC evaluates the loan applications and depending on the amounts requested and the intricacies of the application (as highlighted above), will submit its recommendations to the CEO or MCIC for consideration or approval. The CEO has the authority to approve loan facilities for any amount below R10 million, upon recommendation by ICC. All loan

Corporate Governance (continued)

facilities approved by the CEO are submitted to the MCIC for noting, and included in his quarterly reports to the Board and the Shareholder.

Human Resources, Ethics and Remuneration Committee (HRER)

HRER comprises three independent non-executive directors and is attended by the CEO and HR Executive Manager.

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

- Review and approve NHFC's Human Resource Policy and Strategy annually;
- Review the Code of Ethics and monitor compliance therewith;
- Consider the staff remuneration policy and its broader framework, for recommendation for Board approval;
- Review the top HR risks;
- Consider HR audit findings and monitor how these are dealt with in terms of the finding recommendations;
- Approve remuneration and performance bonuses for all employees. Annual increases for executive management are considered and recommended to the Board for approval after taking into account the Company and individual performance reviews and benchmarking with other institutions similar in size and nature to the NHFC. Non-Executive Director remuneration is considered annually and recommendations are made to the Board and the Shareholder at the annual general meeting for approval;
- Ensure that the compensation philosophy and practices of NHFC are aligned to its strategy and performance goals;
- Ensure employment practices that are fair, transparent, equitable and consistently applied; and
- Receive and review Provident Fund (the Fund) updates from the Trustees of the Fund on a quarterly basis and to ensure good stewardship of employee retirement savings.

During the year under review, the NHFC undertook a re-structuring exercise in which a number of staff across all disciplines and levels were retrenched. This activity was closely monitored by the HRER committee and the services of external professional service providers were used to ensure the process was open, fair, legal and above-board. Following on from the re-structuring, there have been a number of position changes and consolidation of portfolios. As a result it has been proposed by the HRER that executive managers should undergo additional change management and leadership development to equip them for the challenges ahead.

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

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

The Committee held six meetings during the year under review.

Name of Director	12 June 2014	11 Sept 2014	22 Oct 2104	12 Nov 2014	28 Jan 2015	12 Mar 2015
Ms S Swanepoel^*	n	•	•	•	•	•
Ms A Houston^	•	•	•	•	•	•
Mr S S Ntsaluba^	•	X	•	•	•	•
Ms P V Ramarumo^	•	•	n	n	n	n

* Chairperson ^ Independent non-executive directors • Present
X Apologies n not applicable

Social and Ethics Committee (SEC)

The SEC executes its duties in terms of the Companies Act, as well as any additional duties assigned to it by the Board. The SEC is also guided by King III. The Act references specific pieces of South African legislation and various principles and standards of the Organisation for Economic Cooperation and Development (OECD), the International Labour Organisation (ILO) and the United Nations Global Compact (UNGC).

The SEC comprises two independent non-executive directors, who are appointed by the Shareholder at the annual general meeting and is attended by the CEO. The executive management attend by invitation. The SEC meets three times per annum.

The SEC terms of reference ensures that the NHFC's strategy has considered the following Social and Ethics components in execution:

- The NHFC conducts its business activities in an ethical and socially responsible manner in fulfilling its duties;
- Social and economic development of its employees and other stakeholders impacted by the NHFC;
- The NHFC promotes equality and also prevents unfair discrimination;
- Establishment and the review of the NHFC's ethics and prevention of fraud, bribery and corrupt practices;
- Protection of human rights;
- The NHFC contributes to the development of the communities in which its business activities are predominantly conducted; and
- Ensures appropriate labour and employment practices are adhered to.

In fulfilling its obligations the SEC also obtains assurance through reports from other Board committees:

- BRC which provides assurance that an enterprise-wide risk management programme is in place to deal with all risks inherent to the social and economic aspects of the NHFC's business and ethical matters. BRC also provides assurance that the NHFC is complying with all legislation, principles, guidelines and standards relating to matters falling within the SEC's ambit of duties;
- BCIC provides assurance that environmental, health and public safety issues are considered when credit is granted to the NHFC's clients and that the NHFC's BBBEE policy is adhered to. In addition, it provides assurance that best practice is adopted by the NHFC when undertaking the procurement of goods and services as well as adopting environmental initiatives with respect to its own facilities;

Corporate Governance (continued)

- HRER provides assurance that the NHFC respects human rights and maintains good employee relationships and an equitable work environment ;
- DISC provides assurance that the NHFC plays the developmental role required, and is sustainable from a social perspective. DISC also reports on corporate social responsibility and stakeholder relationships; and
- EXCO gives assurance that it implements and complies to relevant legislation, legal requirements or prevailing codes of best practice with regards to social and economic development matters in line with the UN Global Compact, OECD recommendations on corruption, Employment Equity Act and Broad-Based Black Economic Empowerment Act and that it monitors the impact of its business activities on internal environmental, health and safety matters.

The SEC accomplished the following during the year under review:

- Underwent training to keep abreast of the best practice and trends that are being adopted in this fairly new area of corporate governance. The learnings are to be incorporated by revising its Terms of Reference to ensure that it captures all the duties and assurances required from other Committees;
- Received an update from Management on the ethical awareness programmes that have taken place with staff; and
- Received assurance from HRER that the NHFC's HR policies were properly executed in the organisational restructuring programme that took place.

SEC had three meetings during the year under review.

Name of Director	*3 Apr 2014*	*29 Oct 2014*	*5 Mar 2015*
Ms P V Ramarumo^*	•	•	•
Ms D Msomi^	n	•	•
Ms S Swanepoel^	•	n	n

* Chairperson ^ Independent non-executive directors
• Present n not applicable

Board Risk Committee (BRC)

BRC comprises of four independent non-executive directors and is also attended by the CEO and certain executive managers.

BRC meets at least four times annually and its primary object is to assist the Board in executing its responsibilities with respect to risk management. In fulfilling its mandate as laid down in its Terms of Reference, the Committee:

- Recommends the Enterprise Wide Risk Management Strategy and Framework as well as the Fraud Prevention Plan to the Board, and monitors management in the implementation thereof;
- Evaluates the effectiveness of risk management systems, processes and controls;
- Annually reviews and recommends all Risk Management policies to the Board for approval;
- Approves financial risk management strategies as recommended by BCIC;
- Reviews and reports on the control of financial risks (including credit and market) to the Board; and
- Ensures that the IT governance control framework and policies are in place and the IT Management Committee is overseeing the implementation thereof.

The Committee held four meetings during the period under review.

Name of Director	*23 April 2014*	*24 July 2014*	*23 Oct 2014*	*29 Jan 2015*
Mr P Phili^*	n	n	•	•
Mr J Coetzee^	•	•	•	•
Ms A Houston^	•	•	n	n
Mr S S Moraba+	•	•	•	•
Mr S S Ntsaluba^	•	•	•	•
Ms S Swanepoel^	n	n	•	•
Mr S A Tati^	•	•	•	•

* Chairperson + Chief executive officer ^ Independent non-executive directors
• Present n not applicable

Corporate Governance (continued)

Developmental Impact and Strategy Committee (DISC)

DISC comprises of four independent Non-Executive Directors and is also attended by the CEO and executive managers.

DISC's main objectives are to:

- Review and recommend the NHFC's Strategy to the Board and to ensure that it is both relevant and responsive to the affordable housing market;
- Give the Board assurance that the NHFC's strategic objectives are aligned to the NDoHS Human Settlement Strategy, and deals adequately with developmental impact;
- Recommend amendments to the NHFC's strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved;
- Monitor the NHFC's performance against the objectives set for developmental impact; and
- Monitor the impact of developmental activities on the NHFC's financial strategy.

The Committee held four meetings during the period under review.

Name of Director	*12 Jun 2014*	*26 Jun 2014*	*11 Sep 2014*	*12 Mar 2015*
Mr S A Tati^*	•	•	•	•
Mr J Coetzee^	•	•	•	•
Ms A Houston^	•	•	•	•
Ms D Msomi	n	n	n	•

* Chairman ^ Independent non-executive directors
• Present n not applicable

Management Committees

Executive Management Committee (EXCO)

EXCO comprises the CEO and the Executive Managers who assist the CEO in managing the day-to-day business of the NHFC within the powers delegated to them by the Board, and as per its Terms of Reference.

EXCO is also responsible for formulating the NHFC's strategy and implementing it once approved by the Board, as well as the Annual Business Plan, the Key Performance Indicators for the Strategic Plan, the budget, policies, procedures and internal controls of the organisation, risk assessment, IT, procurement oversight, and quarterly reports that are considered at the various Board committees and all investment applications.

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

Assets and Liabilities Committee (ALCO)

ALCO is chaired by the CEO and includes two external specialists, as well as members of executive management.

ALCO's overall objectives are to:

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

Corporate Governance (continued)

Information Technology Management Committee (ITMC)

ITMC is chaired by the CEO and includes IT management and members of executive management.

ITMC's main objectives are to:

- Ensure that the IT strategy is aligned to the Annual Performance Plan, in reviewing and recommending it to EXCO;
- Develop an IT governance framework and IT policies, and oversee the implementation thereof, once approved by BRC and EXCO;
- Obtain independent assurance that the IT internal framework is effective and submit it to EXCO for review, and then to submit it to the Audit Committee;
- Monitor all IT risks and controls to determine whether they are addressed effectively, and relevant plans and controls are in place and submit them to EXCO, which in turn recommends them to the BRC; and
- Review all IT proposals before submission to EXCO.

Procurement Committee

The Procurement Committee is chaired by the CFO and includes managers from various disciplines who are not involved in the day-to-day procurement activities. The Committee's main objectives are to:

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

Safety and Security Committee (SASC)

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

SASC is a subcommittee of EXCO and its main objective is to monitor, evaluate, advise and make decisions in respect of matters concerning health, safety and security and to report on these matters to SEC.

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

Governance over Subsidiary Companies

The NHFC has acquired several companies over the years which are in the business of the development of affordable housing or the provision of funding to end-users of affordable housing. The majority of these companies are now dormant, with the exception of CTCHC, which is a wholly-owned and managed housing stock development company.

The NHFC has a governance framework for CTCHC that sets out guiding corporate governance principles, to ensure that its business is conducted in a proper, ethical and responsible manner. Governance oversight is handled through the process of delegated authority, to ensure adherence to the NHFC Group's overall subscription to the principles of ethical leadership and good corporate governance.

The NHFC plays a further supportive role by promoting and encouraging sound corporate governance principles in investee companies as detailed in the Credit Report in the Annual Report.

ENTERPRISE RISK MANAGEMENT

Our Enterprise Risk Management (ERM) is focused on the organisation as a whole and aligned to our approved mandate, King III, PFMA and National Treasury regulations.

Risk Governance

The role of the Board

The Board is responsible for the governance of risk and evaluation of the effectiveness of the ERM process, in line with the approved ERM strategy, policy, framework, as well as the risk appetite and risk tolerance levels. The Board has delegated the BRC to oversee the management, implementation and risk reporting of NHFC.

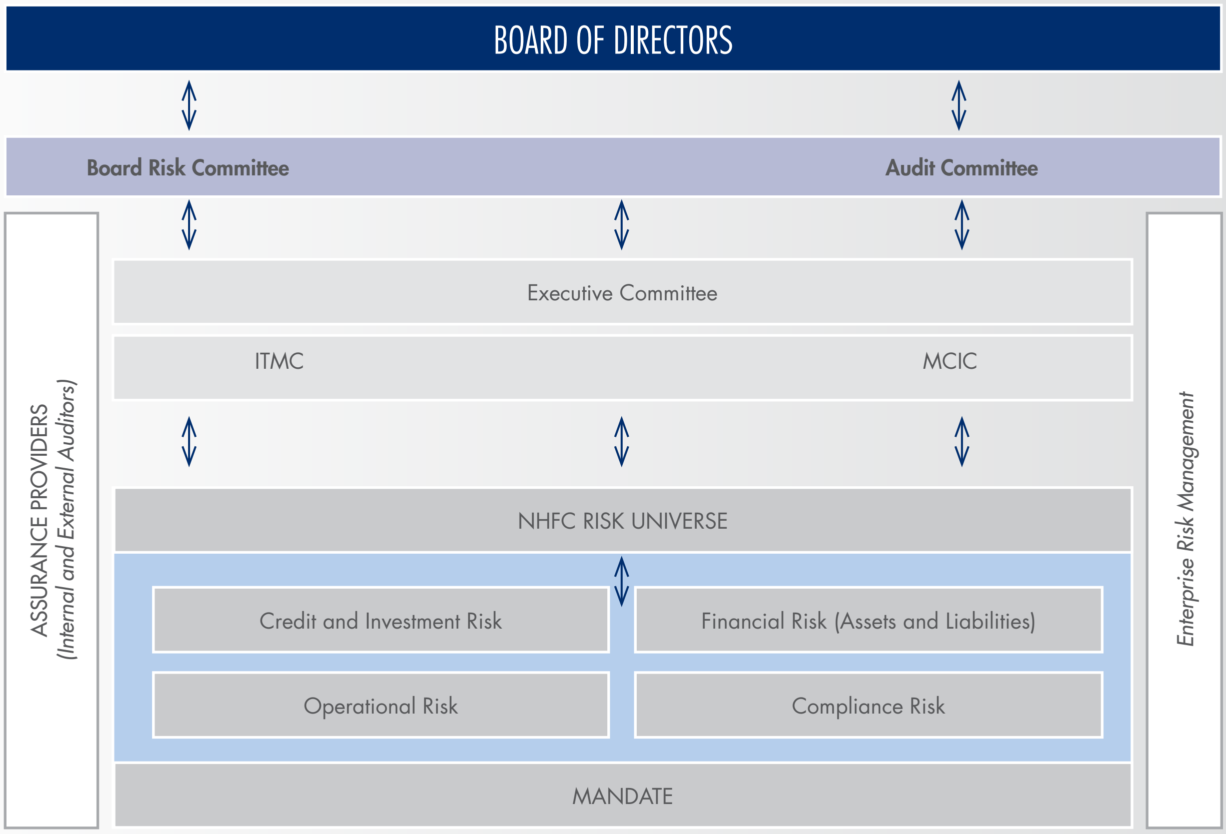
The role of management

Management is responsible for implementing, designing and monitoring the process of risk management and ensuring that the process is integrated into day-to-day business operations activities. Another responsibility of management is to implement appropriate Board-approved risk responses and recommendations of both internal and external auditors.

In our risk management process, we have adopted the combined assurance model:

	First line of defence	Second line of defence	Third line of defence
Who	Management of all business divisions	• Enterprise risk management function • Executive Committee	• Internal Auditors • External Auditors • Board of Directors
Responsibilities	Measures, assesses and controls risks through the daily activities of applying approved policies and procedures	• Support the governance framework • Provides policies, tools and methodologies to business areas for identification, assessment and • Reports to management and Board sub-committee	• Support the governance framework • Provide independent assessment of first and second line of defence • Report to the Audit Committee • Recommend measures that can be implemented to enhance the risk management process

Our Risk Universe and Supporting Governance Structures



Our Risk Management Process

All risks we face are reviewed on an annual basis. The top risks are identified; controls put in place to mitigate the possibility of the risk occurring, and thereafter managed in terms of the approved strategy and methodology.

EXCO receives and reviews the risk reports on a monthly basis while BRC receives and reviews the risk report on a quarterly basis.

Our Key risk areas

As a DFI, we have identified the following top risks that are material to our business operations.

Enterprise Risk Management (continued)

Risk Category	*Risk*	*How is the risk managed*
Funding	Challenge to mobilise funding, raise debt at competitive pricing and equity to support the corporate plan over the MTSF.	Equity injection of R230 million in the current year. Approved budget allocation of R300 million over the Medium Term Expenditure Framework period that is 2015/16 to 2017/18. The Strategic Plan was revised accordingly. Continuous engagement with Shareholder to ensure optimal Shareholder funding support that will enable us to augment with borrowings.
Financial	Challenge in balancing developmental mandate with long-term financial sustainability.	Continued risk-based pricing strategy and implemented a staff re-organisation (in order to achieve operational efficiencies). Capital allocation decisions in line with risk appetite statement. Setting of financial targets informed by a sustainability model to ensure capital preservation. **Credit Rating** We have maintained our national scale rating for a number of years. The international scale-rating outlook was revised down to negative from stable in line with the sovereign rating.
Credit	Challenge in granting quality loans resulting in unsuccessful collections or credit risk in excess of risk tolerance.	Credit granting is governed in terms of the Credit Policy which is reviewed annually and risk tolerance levels. This is further supported by a delegation of credit and investment approvals. Credit risk arising from Treasury activities is governed by a Board approved Treasury Policy aligned to the requirements of the Treasury Regulations as referred to in the PFMA. Our exposure to counterparty risk in confined to at least F1 rated and instituted in terms of short-term credit ratings by a reputable rating agency. Counterparty limits are reviewed by the Board on an annual basis. Second tier limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.
Reputation	Loss of reputation	Code of Ethics in place and continuous engagement of stakeholder
Investment	Challenge to realise expected returns from strategic investments, which are equity and quasi-equity investments.	Investment decisions guided by Investment Policy and Board-approved risk tolerance levels.

Risk Category	*Risk*	*How is the risk managed*
Operations – HR	Inability to implement the re-organisation plan effectively, resulting in the re-organisation strategic objectives not being met.	Re-organisation key focus areas implemented and there is regular reporting to, and oversight by the DISC board committee.
Operations – IT	Misalignment between business strategy and IT strategy.	The IT Governance Management Committee oversees IT strategy as approved by the Board Risk Committee.
Business Performance	Inability to achieve the Annual Performance Plan targets.	Performance management strategy in place and implemented. Regular reporting and oversight provided by the Board and the Shareholder.
Business	Challenge to realise DFI consolidation strategic objectives.	Senior management involved in the reviewing of the DFI consolidation plans and alignment to NHFC mandate.
HR	Inability to attract and retain talent.	Board approved staff retention and succession strategy policy implemented.

Material Risks in this Financial Year

Funding Challenge

The economic conditions during the period under review remained tough, resulting in slow economic growth, high unemployment and continued high indebtedness of the consumer. Despite these challenges, we managed to grow a significant pipeline of credible credit applications. However, these applications could not be concluded due to the funding challenges during financial year.

Despite the application to the Shareholder for an equity injection of R930 million over the MTEF period, 2015 – 2018, R530 million has been approved. R230 million was disbursed during this financial year and R300 million will be received in equal instalments over the coming three years. At this stage the organisation is forced to shelve its debt-raising programme due to its inability to sustain additional debt funding.

The response adopted by the NHFC to this funding challenge has been:

- Review and re-priotisation of new business applications towards products that would maximise the NHFC's risk and return profile;
- Reorganisation of the staff complement in order to position the staff complement for new business focus and to allow for operational efficiencies which will be critical in the current challenging environment.

Increased impairments and quality of the loan book

During the period under review there was a marked increase in impairments largely due to two large project clients and also non-banking retail intermediaries in the unsecured lending environment. The non-performing loan book as a percentage of the loans and advances increased from 16% in the previous financial year to 24% in this financial year.

What was notable was that a significant portion of our impairments

Enterprise Risk Management (continued)

were for equity and quasi- equity investments in the form of Shareholders loans, mezzanine and junior debt, and not in our core product – senior debt. As a DFI, the NHFC however, provides risk capital into these structures, enabling private sector funds to flow into the market and thereby achieving the much needed scale. While fully aware of the risk inherent in these equity and quasi-equity investments, our management noted the marked increase of impairments incurred in these investment vehicles largely reflecting poor economic fundamentals and in some cases, poor project execution by our clients. These investment vehicles are typically a means of pooling together a range of institutional investors in large- scale property projects through a syndication process. Investors can either invest in senior debt, mezzanine debt or junior debt depending on their risk and return profile. The key contributory factors leading to poor performance of these vehicles were regulatory delays from municipalities (for approval of building plans), reduced appetite for mortgage lending by the large retail banks, high consumer indebtedness and poor location of certain projects.

This resulted in a net credit loss for the year of 1.5% (excluding the bad debt charge) and at 3.4% including bad debts, in excess of our targeted credit loss ratio of 2.8% for the year. Indications are that the impairment charges will remain on the high end even in the forth-coming financial year.

The response we have adopted has been:

- Curtailing our appetite with respect to equity and quasi-equity investments in line with the recently updated Risk Appetite;
- Closer and more proactive post investment monitoring; and
- Restructuring of certain loans in order the allow for a turn-around in the respective projects.

Financial sustainability

Since the global financial crisis of 2008/2009, it has become apparent that the trading environment in South Africa has changed. This is reflected in sub-optimal economic growth, continued high unemployment, fiscal consolidation, low business and consumer confidence.

More specifically with respect to mortgage lending, the larger banks have curtailed mortgage lending due to regulatory changes (Basel 3) and high consumer indebtedness.

A combination of other factors has affected our funding challenges, high operational cost structure and sub-optimal pricing structure on old business.

These issues have been addressed through a multitude of strategies such as introducing risk-based pricing, a strategic internal restructure and client diversification. However, more needs to be done given that the economic fundamentals are not expected to change in the next 12 to 24 months.

Development Finance Institutions Consolidation

In 2014, the Minister of Human Settlements announced that the three housing development finance institutions – NHFC, RHLF as well as NURCHA would be consolidated into one institution. The Board is awaiting a formal mandate from the Shareholder in this regard.

It is envisaged that the implementation of the consolidation of the DFIs will commence in the 2015/16 financial year, with the timeframe for the final integration likely to extend over the next eighteen months, due to the requirements for an enabling legislation and its enactment process.

The key risks associated with this merger are:

- Achievement of strategic rationale for the consolidation;
- Operational risks of integrating IT systems, processes and people from three different entities;
- Potential loss of key staff and skills as a result of the merger uncertainty; and
- Financial sustainability – each of the entities faces a funding challenge that may be exacerbated by the planned merger; and
- Active Involvement in the process management will ensure that all associated risks are sufficiently mitigated and that we are not adversely impacted.

Breach of financial covenants with AfD

During the current year, we breached certain financial covenants relating to the AfD loan facility with key contributors to the breach being the once-off cost of restructuring and the level of impairments, in particular relating to non-performance of key integrated projects. AfD have agreed to waive its rights and not to accelerate the repayment of the credit facility. AfD has expressed their continued support as one of our strategic funding partners. All stakeholders were engaged in this regard.

Fraud and corruption

In the year under review no fraud or corruption cases were reported. We continue to encourage staff to report incidents of corruption directly or using the fraud hotline, "Tip-Offs Anonymous" which is managed by Deloitte.

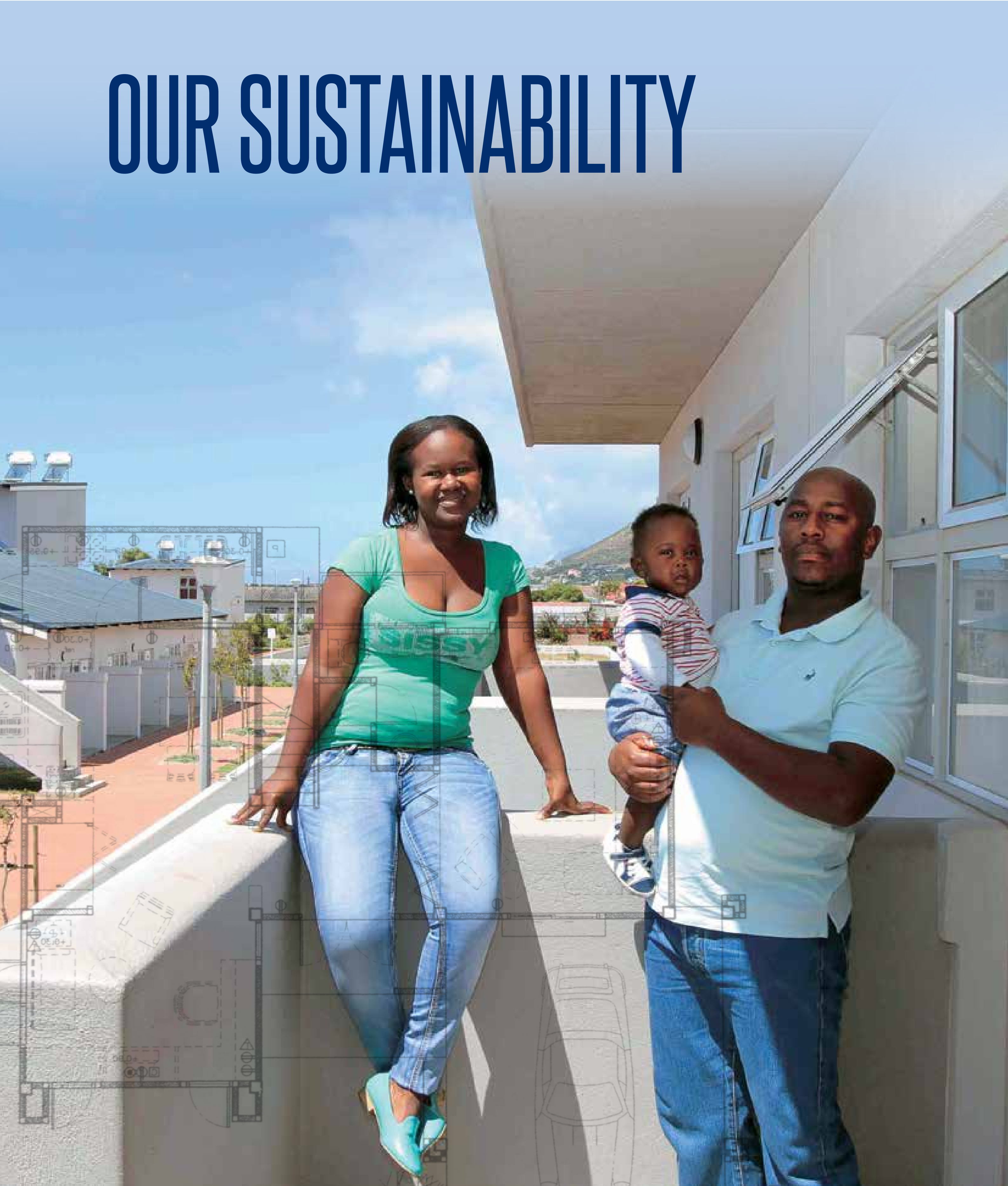
Compliance management

We use a risk-based approach to manage our compliance, ensuring that all compliance-related policies are in place and are approved by the Board. Employees are continuously encouraged to attend compliance related training to ensure that they have a clear understanding of their roles and responsibilities regarding building a fully compliant organisation.

In the coming financial year we will focus on the following risk areas:

- Active management of all risks associated with the consolidation of the Human Settlements Development Finance Institutions to ensure that we are not adversely impacted;
- Active management of the non-performing loan portfolio. Management of drivers of financial covenants with funders to ensure compliance;
- Continuous review and update of our risk appetite statement in response to changes in the business and operating environment;
- Enhancing staff awareness/training programmes on matters relating to risk and compliance management;
- Cascading of risk management to operational areas across our Company and wholly-owned subsidiaries;
- Align risk management reviews to strategic planning and annual performance plans;
- Enhancing risk reporting methods; and
- Put more focus on improved strategies and methodologies to ensure compliance with new or updated legislation that has an impact on our business.

OUR SUSTAINABILITY



Sustainability of the NHFC

The long term sustainability of the NHFC remains a key focus area. In this regard through the development of a sustainability model, target ratios have been set to ensure the financial health of the company whilst mindful of its developmental mandate. Key steps include the following:

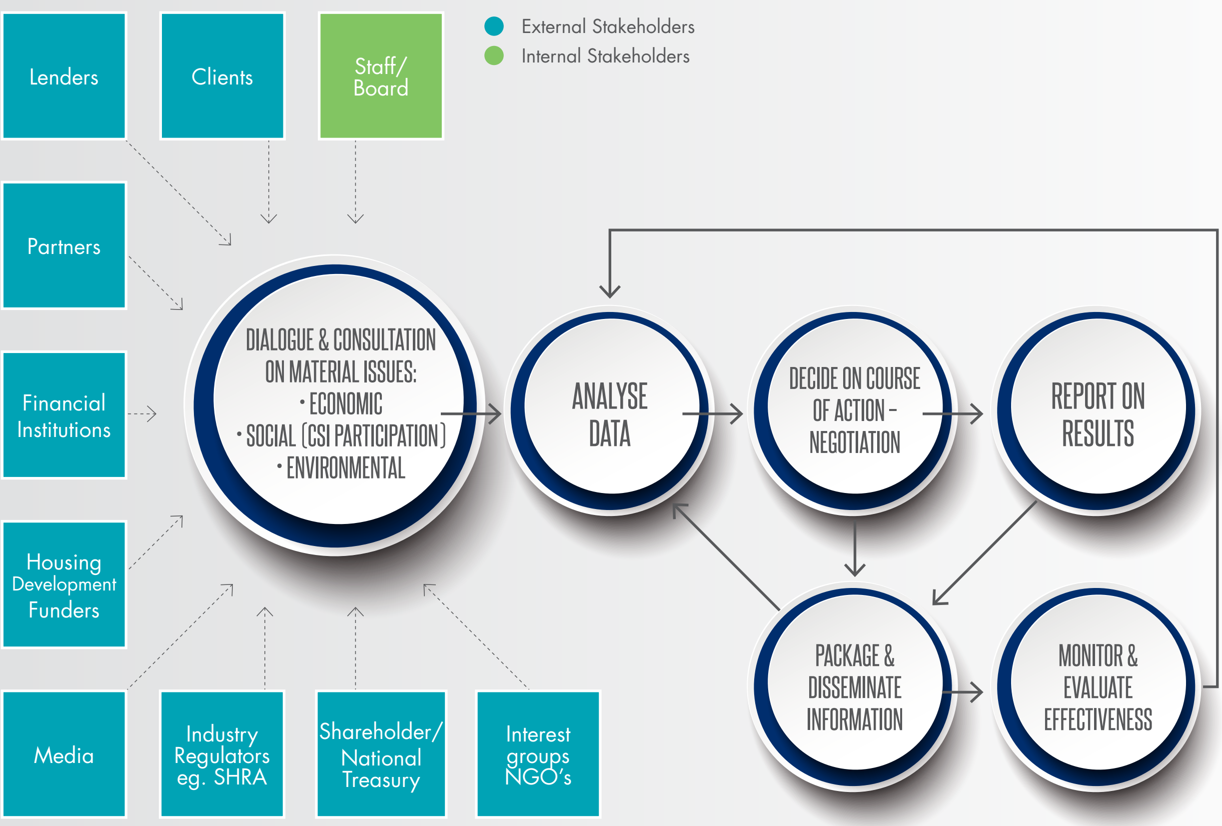
- Ensuring that the capital structure of the NHFC is enhanced through the raising of debt and equity funding in the medium to long term whilst mindful of the impact of borrowings. The capital injection of R1 billion as included in the Strategic Plan in October 2014 would have created a platform towards the sustainability of the NHFC over a 10 year period. With the reduced capital allocation the financial targets are therefore not achievable; a further capital injection would be required in the medium term.
- Asset growth supported by quality of revenue through a portfolio mix that promotes sustainability. The growth is however impacted by both the subdued growth in the economy and the overall market conditions as well as the limited Shareholder support. An average net growth of 5% is forecasted in the revised Strategic Plan.
- Capital allocation decisions and risk management have been brought to the fore. Focus remains on the core business that is secured through mortgages, personal suretyships and guarantees, and active monitoring (and limiting) of exposure to equity and quasi-equity investments.

  In addition, the current Shareholder prioritisation of Social Housing influences the capital allocation across the sub-programmes. This in turn impacts the overall sustainability of the NHFC and reduces the facilitation of private sector funding.
- Continuous enhancement of the pricing model of the company, to ensure it better reflects the true cost of doing business and the risk associated with writing new business. Where there is cross-subsidisation between clients or products in order to achieve the developmental mandate, this will be more explicit or clearer. In addition, whilst acknowledging that there are limitations considering that the NHFC is a price taker in its lending activities. The contribution from its strategic investment portfolio is also key towards improved returns and therefore long-term sustainability.
- The enhancement of the operational structure of the company through the implementation of the strategic re-organisation has been completed.
- Ongoing effort to rehabilitate certain key accounts that have a material effect on the Non Performing Loan (NPL) book through financial engineering, recapitalisation of projects (with other funders), and un-locking sales through our strategic partners. Credit loss ratio is budgeted at 2.5%, reflective of risk appetite. Portfolio risk is enhanced through security arrangements from borrowers.

Our Sustainability (continued)

Our Stakeholder Engagement

The ongoing nature of stakeholder engagement at NHFC



We are placing increasing emphasis on fruitful engagement with the stakeholders in our value chain from both the supply and demand side to build value over time in what is an increasingly complex operating environment. Our role as a DFI means that we have many inter-relations with our stakeholders including our Shareholder, funders, partner organisations in the private and public arena, and with our clients.

We recognise that stakeholders have the ability to influence our success or failure at various levels. We are committed to a stakeholder framework that allows for strategy development in responding to stakeholder concerns and as a guiding principle in our decision-making.

In the period under review we reviewed our integrated stakeholder communication strategy to provide directives, plans and guidelines on how we will communicate with our key internal and external stakeholders and our Shareholder. We have developed a set of measurements and evaluation techniques for reporting on our interactions with stakeholders in the forthcoming year.

Our process includes dialogue and consultation on material issues of sustainable value creation, the analysis of feedback and the timely dissemination of information on our planned course of action. We have put the resources and monitoring systems in place to ensure that we meet the objectives of our stakeholder engagement process.

Objectives and Principles Underlying our Stakeholder Communication

All of our internal and external communications are based on and aligned to our mandate, vision, mission and values and our business plan and strategic intents. Our communications and marketing department coordinates our integrated strategic communication to ensure the understanding and timeous dissemination of our key messaging.

The objectives of our stakeholder engagement planning include building brand awareness, informing and educating our partners and clients, building our reputation, managing perceptions and building a positive framework for the NHFC. Working in an integrated manner with our stakeholders will help us establish our market position and profile, strengthen our competitive edge, satisfy customers and Shareholders and achieve performance targets.

Just as important as disseminating information is the feedback we receive from our stakeholders so we are able to gauge our overall effectiveness. We engage in on-going dialogue to exchange thoughts and views and deepen our insights into the drivers of our business and the needs of our target market. This interaction leads the creation of shared value and contribution to a more sustainable future. It is through this dialogue that we are able to be innovative in our approach in all of activities as they relate to our stakeholders as well as tailoring products and services that continue to meet expectations.

Supporting our Stakeholders

We disseminate information and facilitate dialogues to promote our offerings towards influencing perceptions and strengthening our market share positioning, reputation and relationships. We promise to support our stakeholders with proactive communication on defined material issues to ensure growth and mutually profitable interactions, and we will maintain a consistent corporate image that projects our professionalism and commitment to excellence.

To achieve this we base our communication on the principles of transparency, clarity, openness and honesty, and on being a listening and responsive organisation in building value in a responsible manner that develops and safeguards our material and natural assets for future generations.

Our communication promises a two-way commitment approach with employees and stakeholders and the maintenance of a culture of effective communication. In this way we still support our stakeholders to ensure growth and mutually profitable interactions.

Our Sustainability (continued)

We believe in communication with a clearly defined purpose, and in planning interventions with our stakeholders so that we can ensure they are meaningful and provide a set of outcomes that are useful in decision-making and planning for the future.

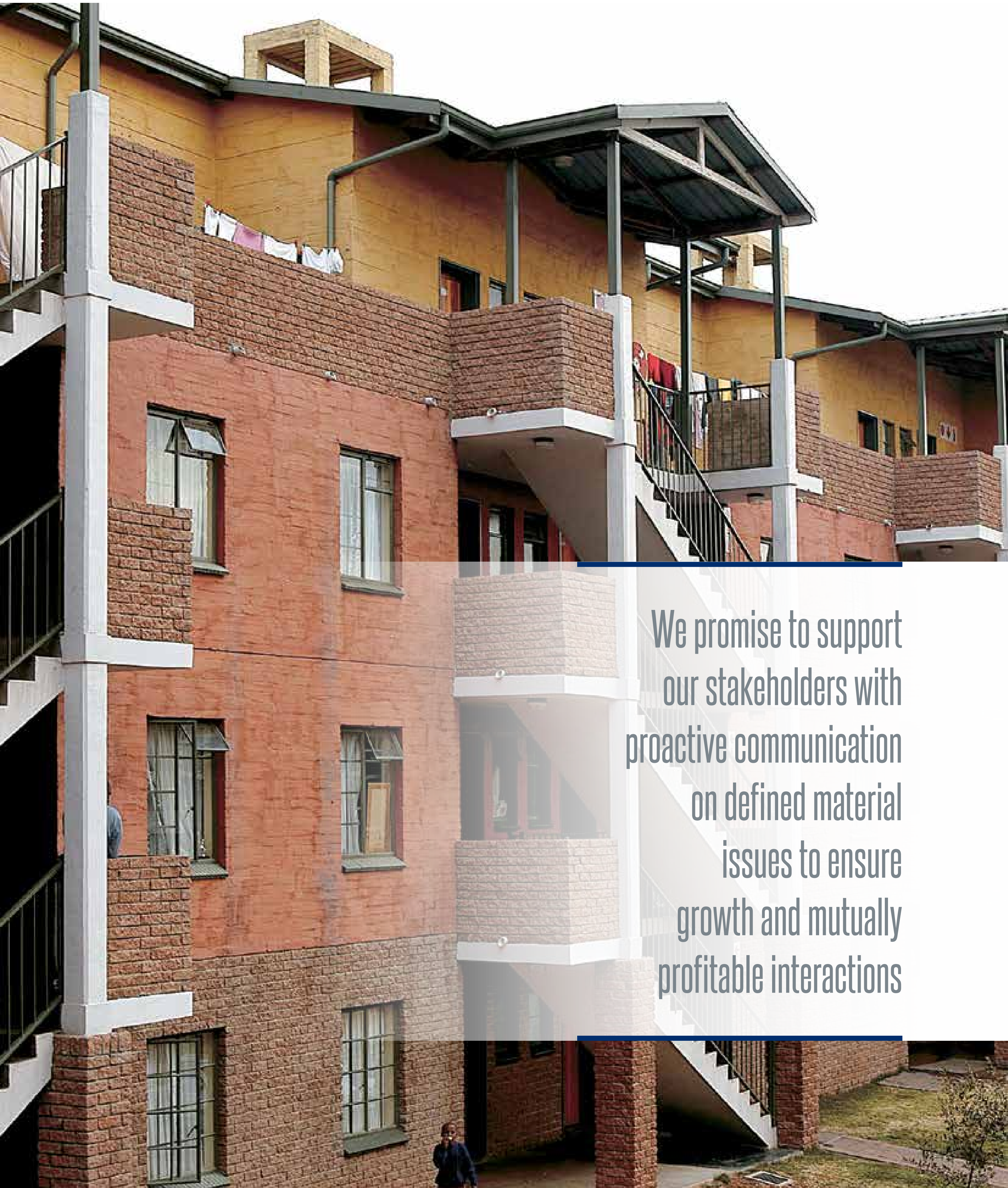
Part of this communication is education. One of our imperatives is to develop and conduct research into the sector, and the dissemination of this information will help all of our stakeholders keep a finger on the pulse of our operating environment and take a flexible and innovative approach to meeting current and future challenges, while planning ahead to mitigate risks.

All communication with our stakeholders is crucial, as these interactions and associations can positively or negatively impact on our performance and reputation. All communication with stakeholders should thus be based on acquired insights about their needs and value-adding expectations. Regular and direct communication with our stakeholders is vital.

Internal engagement efforts with our staff and Board are directed toward a thorough understanding of our Company and its successes and challenges, its strategic business intents to help motivate and drive performance and a united focus.

In the forthcoming year, we will present our materiality matrix in line with best practice in our reporting framework and guidelines. This will be based on surveys and research and a stakeholder consultation process. We will use an external and internal ranking process, our corporate risk and issue assessment and feedback from stakeholder and option leaders, and a media scan.

Troyeville, Johannesburg



We promise to support our stakeholders with proactive communication on defined material issues to ensure growth and mutually profitable interactions

OUR PEOPLE

Introduction

We consider our people to be our most important stakeholders, especially in the developmental finance sector which is sustained through both vigorous governance and innovative thinking.

During the period under review, we implemented a reorganisation strategy to drive effectiveness and efficiencies in a challenging and rapidly changing operating environment. This saw us reduce our staff complement from 82 to 53 in consultation with the finance union – South African Society of Bank Officials (SASBO). Many long-serving staff members took up voluntary retrenchment, with only three additional retrenchments. Our HR policies and procedures ensured the process went smoothly and has led to a major cost savings and streamlined operations. The process has aligned our functional structure to our corporate strategy.

Our employment practices are guided by the International Labour Organisation (ILO) whose principles are enshrined in the South African Constitution's Labour Relations Act (LRA), and are also in alignment with the UN Global Compact. This outlines protocols such as the prohibition of child labour and the rights of pregnant women to promote social justice, labour peace and democracy in the workplace, as well as aligning with our internal values.

Decent work forms part of the Basic Conditions of Employment Act, and our policies and procedures are reviewed annually to comply with relevant labour legislation.

Attracting and Retaining Talent

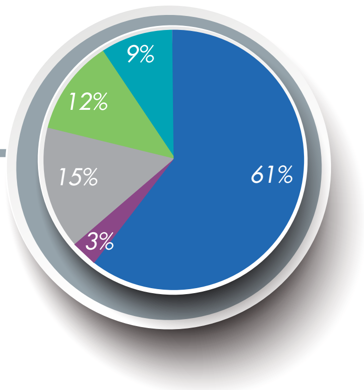
As the scope of our mandate increases, especially in light of the proposed merger of DFI's in the housing sector, it is vital that we attract staff with the skills and experience to allow us to fulfil a broader mandate. This requires a thorough audit of our identified development gaps and strategies to attract and retain qualified people both internally and externally.

Staff Turnover

Due to the restructure which took place in the period under review, the total number of NHFC terminations for the financial year 2014/15 is 32, inclusive of terminations as a result of resignations (see the pie chart below for reasons attributed for a higher than normal staff turnover).

Terminations in %

- Voluntary retrenchment (61%)
- Deceased (3%)
- Early Retirement (15%)
- Resignation (12%)
- Compulsory (9%)



Our People (continued)

Succession Planning

We are committed to the engagement and retention of our mission critical employees, the transformation process and ensuring that certain identified key roles are not left vacant for a lengthy period of time. Our succession policy is used as a management tool to ensure a continued leadership pipeline to ensure our sustainability. Whenever possible we seek to source talent internally as this has significant benefits in mitigating the risk of key employee loss and costs associated with external recruitment (see Figures 1 and 2).

Occupational Health and Safety

We take the health and safety of our staff seriously and take every measure against health hazards arising either directly from the actions or activities of our employees. As a result, we have appointed health and safety representatives to ensure that there is compliance with health and safety regulations as overseen by our Safety and Security committee, and we review our policy annually. In the period under review, a health and safety drill was conducted to ensure that employees are aware of their environment.

Employee Wellness

We encourage our employees to belong to a recognised medical aid, and we engage a service provider for a comprehensive employee wellness programme. This offering, which is administered with the assistance of the service provider, is both for manager and employee initiated referral. An annual executive assessment is conducted to manage the risk of executive ill-health.

Training and Education

Our HR drivers include supporting and facilitating staff development and skills acquisition needed to assist us in meeting our strategic objectives, while ensuring a learning environment.

We have trained 60% of staff with 60% of our budget spent during the period under review. This includes technical and aspirational training. For leadership training we have partnered with the Bankseta, which offers the International Executive Development Programme.

In terms of the UN Principles and the principles of the ILO Protocol on decent work; good employment relationships contribute towards the educational development of our employees, and is in line with complying with the national imperatives on transformation. Consequently, the requirements of the Skills Development Act as well as the Workplace Skills Plan (WSP) are met and submitted to the Bankseta. Practically, employee training in line with the requirements of the WSP, is to train and develop our employees as per our plan within the training budget.

Training plans for the forthcoming year

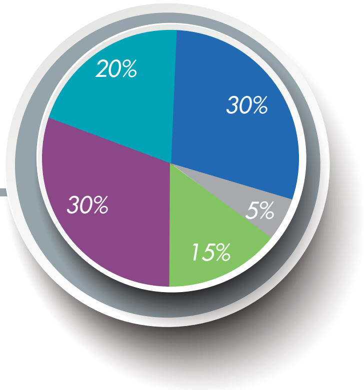
Our training plans include technical skills acquisition, as identified in the 2016 divisional plans, aspirational training for employee self improvement, experiential training, as well as leadership development, in partnership with the Bankseta. For the forthcoming year, technical training plans include utilising 80% of the training budget to train 80% of staff. Technical staff training plans includes employee coaching and leadership development, to ensure that we are able to deliver more with less.

Leadership development

Leadership development entails developing new managers and the existing executives to transition to more demanding roles. The pie charts below indicate our leadership development plans.

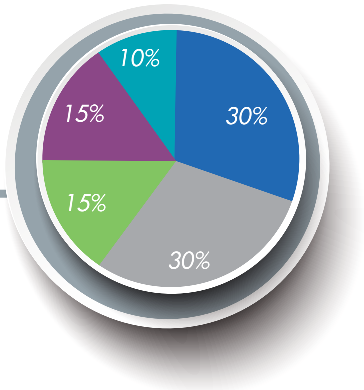
Note: The two pie charts illustrate the various development interventions and the choice of interventions, which are different for executives and managers/employees, targeted for key roles.

Figure 1: Appropriate Methods for Developing C-Suite Executives



- Experience and feedback (30%)
- Education (5%)
- Mentoring (15%)
- Peer Interactions (30%)
- Executive Coaching (20%)

Figure 2: Appropriate Methods for Developing Managers Transitioning to Executive Management



- Experience and feedback (30%)
- Education (30%)
- Mentoring (15%)
- Peer Interactions (15%)
- Executive coaching (10%)

Our People (continued)

Diversity and Equal Opportunity

Our commitment to equal opportunity is reflected in our HR policy and in our compliance with the Employee Equity Act, as enshrined in the UN Principles and the ILO Protocol on decent work and working conditions. Our HR strategy outlines the practical implementation of our policies. Accordingly, our recruitment plans at all times are aimed at promoting equality and prevention of unfair discrimination.

In complying with the Department of Labour requirements, we submitted our employment equity report to the Department of Trade and Industry. The unintended consequences of the restructure was an imbalance with our demographic profile. The plan for 2016 is to correct the profile so that it complies with the national demographics.

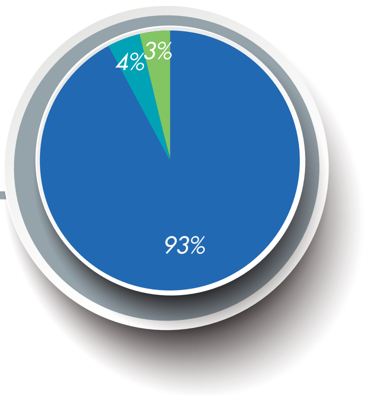
Our Employee Grievance Procedures

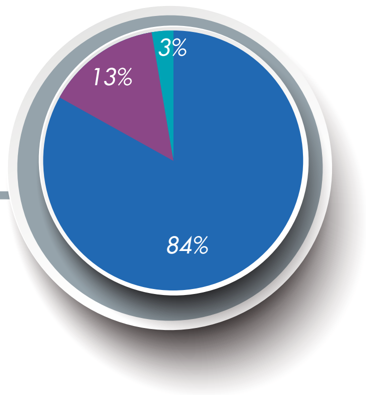
During the year we engaged with our staff to ensure full understanding of business strategy requirements despite the restructure that took place. To this end, awareness workshops were held including those through which all staff were alerted of a grievance procedure which is available to both full-time and part-time employees. HR's facilitative role in ensuring a fair grievance process and also in providing guidance including on the role of the managers in dispute handling was also outlined. Our HR policy includes processes and channels for workers to use and mechanisms for them to provide feedback on company practices and workplace issues, particularly those directly impacting their wellbeing, is available on the intranet.

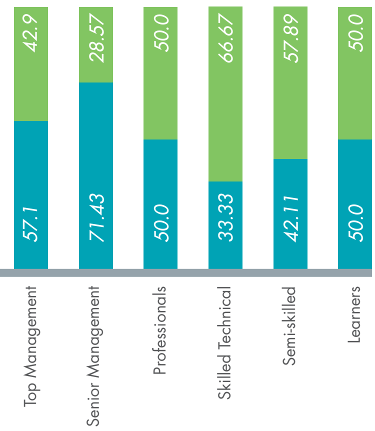
Equal Remuneration

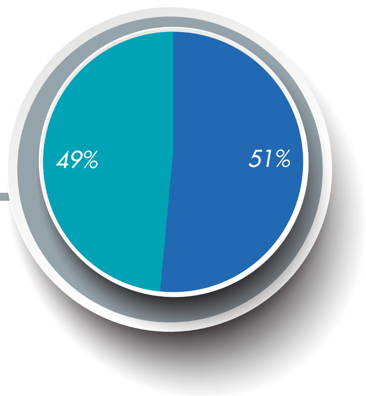
We are committed to equal opportunity and equal pay for equal jobs. This is in alignment with our transformation policies and regulations. As a result, we have a remuneration policy which defines how our grading system works to determine each job's value through a process of job evaluation. Gender and race don't play any part in the grading of the job or in the remuneration of our employees.

Equity Profile for Financial Year 2015









OUR REMUNERATION REPORT

In order for us to deliver on our mandate, we are committed to a remuneration philosophy, based on the following key principles:

- A remuneration structure that will support our aim of retaining mission critical employees, which will enable us to deliver on the Shareholder expectations;
- Remuneration at an appropriate level in relation to external competing markets, Government guidelines and industry;
- Rewarding performance beyond the level of agreed targets and goals by means of individual merit increases, and performance incentives;
- Recognition of the application of additional skills and expertise to benefit our operations; and
- Reflecting a fair and transparent system of reward;

Our remuneration structure has the following elements, which aim to drive and recognise superior employee performance:

- Employees' annual remuneration packages, which are based on a Total Cost of Employment (TCOE), covering all employment costs; and The variable incentives portion, which is aimed at driving performance and at retaining core skills at both executive and staff level. Our incentive scheme is our competitive edge.

As a result, our Executive Remuneration Framework has a base salary and a short-and long-term variable component incentive scheme, in a three-year cycle, with a deferred component to drive long-term Shareholder value and to retain key skill-sets. It addresses the challenges of attracting and retaining a good calibre of executive managers. The Department of Public Enterprises Guidelines (2007) serves as a guide, given our unique positioning, as a state owned company and as a financial institution.

Therefore, executive performance is measured on both qualitative and quantitative value creation, which results in growth and stakeholder returns. Our performance and individual divisional/executive scorecards determine how we reward our executives and subordinates.

Executive rewards (variable component), which is aimed at driving the Shareholder value creation, are linked to a three year performance contract, reviewed annually.

The HRER, is a Board committee that ensure remuneration is determined in an equitable and transparent manner, taking into account individual executive managers/divisional value-add.

Emoluments for Director's and Prescribed Officers'/Executive Managers' in the Period Under Review

Due to the financial challenges experienced by the corporation, we did not declare bonuses in the financial year under review. However, the deferred portion of the executive incentive, which has a cycle of three years, was paid according to each executive contract.

The remuneration of executive managers for the period under review is reflected under Executive Management Emoluments in the Notes to the Annual Financial Statements, note 32.

OUR COMMUNITIES

Getting Behind Our Communities

During the period under review we placed emphasis on alignment and compliance within an increasingly complex mandatory environment towards promoting equality and alleviating poverty. We also put substantial work and planning into how we can make the greatest impact for our stakeholder communities through our strategy to meet the transformative policies such as the amended Codes of Good Practice and the New Growth Plan; but also in fulfilling our mandate as a state-owned company.

A major achievement has been the development of a multi-faceted approach to both empowering our suppliers helping them increase their competitiveness, and expanding the number of people employed in their operations. These interventions include incubation, capacity and capability building, knowledge and skills transfer.

We made major inroads into developing a comprehensive approach and strategy for corporate social investment (CSI) for the future during the period under review with a detailed plan under review by the Board. In the new financial year we will be implementing our CSI strategy in partnership with the NDoHS and other role players.

Enterprise and Supplier Development

We are committed to building on our empowerment credentials, and during the period under review, we put emphasis on building our Broad-Based Black Economic Empowerment (BBBEE) policies in line with the national agenda of promoting opportunities for black-owned companies.

In securing our on-going supplier base, our strategic emphasis is on previously disadvantaged South Africans with special representation from companies run by black women and black people living with disabilities. Our focus will expand to include helping our youth get started in business in line with government's multi-faceted approach that encompasses small and medium enterprises (SMEs), cooperatives as well as township and rural businesses. We are also mindful of our Shareholder's assertion that women have significant potential in building the economy.

Preferential Procurement

We acknowledge that the growth of SME's will help address the high unemployment and poverty that we face as a society. SME's face many challenges including a lack of skills, cash flow and knowledge of legal and procurement issues. We are thus committed to helping these businesses on their road to success and sustainability. To achieve these aims, we provide an advisory service and access to information for small businesses seeking to establish a business relationship with us.

Our Communities (continued)

Our suppliers need to have a verified BBBEE status level to do business with us, and are also requested to provide their transformation plans on how they intend improving their contributor status. Whenever required, we engage with suppliers to assist them in developing improvement plans.

Our preferential procurement policy and payment terms, acknowledge that small companies often do not have a large cash reserve, and in order to get foot in the door, they require short-term funds to complete the scope of work.

We conduct loss reviews for suppliers who are unsuccessful in their application to work with us, and with an understanding of why they were not awarded the contract they are able to better meet our requirements and those of other clients in the future. We have increased our offerings to black entrepreneurs through non-financial support in skills development, skills transfer, employment and job creation. Financial support will be used to incubate small suppliers to ensure that the skills gaps in these businesses are addressed, and enable their management teams gain the right tools and knowledge to achieve success.

The BBBEE transformational environment will now be run in accordance with the amended Codes of Good Practice, which will come into effect in May 2015. This marks a new beginning in the re-orientation of the transformation policy to put more emphasis on productive BBBEE and the growth of black industrialists through the enterprise and supplier development element of the new scorecard. We are committed to building on our empowerment credentials by aligning to the BBBEE Codes.

Education for Positive Social Change

The challenges of the education system in South Africa are well documented. The country simply does not have the resources to deliver quality education for all young people, and needs the active support of a range of government departments, civil society agencies and business.

We are currently reviewing a bursary scheme with the participation of social housing institutions aimed at uplifting tenants residing in our social housing projects. Deserving students from all provinces will be invited to apply for a bursaries awarded on an annual basis.

Corporate Social Investment

We have long embraced CSI initiatives with meaningful involvement in numerous community-related projects, and we consider our contributions to be integral to our business, not only in fulfilling socio-economic development imperatives outlined and measured under the BBBEE Act, but also in improved community relations, boosting the morale of our employees and maintaining our image as a good corporate citizen.

CSI makes a significant contribution to the funding of social development in the country and remains an important element in the funding mix for many non-profit organisations and communities.

This year, we have further entrenched our activities by adopting a well-defined, deliberate and measurable approach toward ensuring the most effective outcomes from our activities and accurate reporting in line with the frameworks we have adopted. Our DISC Board Committee gave a directive for an integrated CSI strategy to be developed, and we have started implementing projects with further plans to build and expand our activities during the current financial year.

Our CSI strategy reflects our core values, vision and mission and our activities are based on the strategic pillars of:

- Education for change;
- Partnering for the greater good;
- Building communities from the ground up; and
- Employees volunteer participation.

Our key focus is on educational support and the provision of houses for vulnerable people in conjunction with our partners in the housing sector. We work closely with national and provincial government departments, the media, NGOs and NPOs to identify worthy recipients.

Our Communities (continued)

Building Communities From The Ground Up

In alignment with our mandate to provide funding solutions for home ownership, we intend partnering with municipal CSI divisions within an identified province on a rotational basis each year. Land will be secured and two houses will be built each year for two orphaned or child-headed households. We intend developing partnerships with building material suppliers, the National Home Builders Registration Council (NHBRC) and developers to achieve this objective.

We will also be assisting with home improvements for two families with special emphasis on older women. This would include the addition of a bedroom, toilet or bathroom, in homes where they do not exist.

Partnering for the Greater Good

Charitable organisations, NPOs and NGOs do critical work in our communities, but report being stretched to the limit with rising costs and decreasing support from government and business in the current economic climate. We believe that strategic partnerships can bridge this gap and leverage greater achievements. We are forging new partnerships where we believe we can provide the greatest positive impact to developmental projects through the allocation of our experience and resources.

During the period under review we were involved in numerous community events during which we were active in raising awareness of our activities. This included media interviews, the distribution of marketing material such as FLISP brochures, branding and one-on-one interactions with the media and members of the public.

Some of these events include:

- Supporting and empowering military veterans is high on the government agenda. In line with our strategy, we donated R20 000 to support a community event at Fleurhof, Gauteng where housing units where allocated to military veterans, which brought valued publicity and support to the plight of these beneficiaries;
- We donated R21 500 to the Woman Build project, where we purchased a bedroom suite for one of their beneficiaries. This gift was handed over to the beneficiary by the Honourable Minister Lindiwe Sisulu. In partnership with the NDoHS, we intend putting our weight behind annual projects such as Women Build, Youth Build and sponsorships in the housing arena; and
- As an acknowledgement of the on-going support we receive from the NDoHS, we contributed toward the budget vote occasion in Parliament, during which the Minister outlined plans for the consolidation of the work of the department and the allocation of resources.

Employee Support and Involvement

Our CSI philosophy has been embraced by our staff, and includes donations and volunteering to assist in the painting, refurbishment and cleaning of the homes we provide for beneficiaries. These activities help forge a bond between the departments and our functions and an opportunity to re-affirm our commitment to positive change in South Africa.

We look forward to reporting on the measured successes of our enterprise and supplier development and CSI initiatives in our next integrated report.

We are forging new partnerships where we believe we can provide the greatest positive impact to developmental projects through the allocation of our experience and resources

OUR ENVIRONMENT

While still in its infancy, we continue to roll out our environmental plan both internally, and in an advisory role to our clients.

Our strategy is guided by the United Nations Global Compact, the South African National Standard (SANS) 10400-XA Regulations, King III principles and best practice. Protecting our environment and reducing any negative impacts of our activities is embedded in our value system.

The key benefits of our environmental policy are:

- Contributing to a better environment for all;
- Attracting a broader range of clients;
- Attracting a broader range of funding, especially from the multilateral agencies; and
- Influencing our stakeholders including clients and suppliers to act responsibly.

We have developed an environmental plan and system after a thorough benefit and cost analysis that not only reduces our impact on our internal environment; and our client-focused initiatives are influential in environmental protection throughout our value chain.

Our staff have suggested and adopted various practices, and have helped us build awareness and implement a 'reduce, re-use and recycle' mind-set to minimise waste. We focus on areas such as electronic usage and disposal, paper, general waste, electricity, and water and sanitation. We can report satisfactory progress and tangible benefits. In the new financial year, we will put measurements and targets in place.

Our environmental plan is linked to and supported by our environmental management system (EMS), which is aligned with best practice. The EMS details the policies, procedures, resources and workflow required to identify the environmental impacts of our lending activities. As we are not directly involved in manufacture or construction, our greatest environmental impact is through our clients, investments and business partners in their building and renovation projects.

The affordable housing market typically brings lower margins for developers and we have used our influence to focus on energy reduction measures. While the energy crisis, which is expected to last another two to three years, has devastating effects on production, it has bought with it the innovation of new technology such as a variety of water heating and insulation measures to reduce the carbon footprint and bring down costs. Our clients have shown marked interest in adopting energy saving devices, a prime example being the use of affordable solar panels delivering a 40% to 45% cost saving in the electricity bill of an average household.

We are active in evaluating projects from an environmental perspective, especially with respect to compliance with SANS 10400-XA regulations and best practice. We note that our clients are meeting, and often exceeding compliance requirements as enshrined in our new credit application process. Clients have accepted and provided valuable input in the NHFC's enhanced credit application process, which will play an integral part in our environmental plans as clients roll-out their building projects.

We have a valuable and on-going sounding board in our multilateral funders who are well versed in environmental issues. Their knowledge and guidance is a key driver in helping us mitigate the challenges of the current energy crisis. In partnership with our funders, we are actively investigating options to provide affordable funding specifically through concessionary funding models for the environmentally-friendly aspects of housing projects.

Way Forward

In the forthcoming year, we will focus on further engagement and effective monitoring of our client's environmental initiatives. We are conducting feasibility studies into expanded solutions for affordable and innovative environmental practices to bring to our client's projects.

ANNUAL FINANCIAL STATEMENTS

Statement of Responsibility by the Board

The Board of Directors, which constitutes the Accounting Authority, is required by the Public Finance Management Act (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the NHFC at 31 March 2015, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the annual financial statements and have been given unrestricted access to all financial records and related data.

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

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

The Directors acknowledge that they are ultimately responsible for the systems of internal financial control and place considerable importance in maintaining a strong control environment.

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

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

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

The Directors have reviewed the NHFC's cash flow forecast for the year to 31 March 2016, and in light of this review and the current financial position, it is satisfied that we have access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the NHFC's annual financial statements and their report is presented on pages 85 to 86.

The annual financial statements, set out on pages 88 to 163, which have been prepared on the going concern basis, were approved by the Board of Directors on 23 July 2015 and were signed on their behalf by:

Prof. Michael Katz
Independent Non-Executive Chairman

Mr Samson Moraba
Chief Executive Officer

Company Secretary's Certification

Declaration by the Company Secretary in respect of Section 88(2)(e) of the Companies Act

I hereby confirm in terms of Section 88(2)(e) of the Companies Act, Act 71 of 2008, that the NHFC lodged with the Commissioner of Intellectual Property and Companies, all such returns and notices as are required of a State Owned Enterprise in terms of the Act for the financial year ending 31 March 2015, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

Andrew Higgs
for the Company Secretariat Division

Independent Auditor's Report

of the National Housing Finance Corporation SOC Limited to Parliament and the Shareholder

Report on the Consolidated and Separate Financial Statements

Introduction

We have audited the consolidated and separate financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries set out on pages 90 to 163, which comprise the consolidated and separate statement of financial position as at 31 March 2015, the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Director's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of National Housing Finance Corporation SOC Limited and its subsidiaries as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act and the Companies Act of South Africa.

Report on the other Legal and Regulatory Requirements

In accordance with the PAA and the general notice issued in terms thereof, we report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of our tests was to identify reportable findings as described under each

Independent Auditor's Report (continued)

subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined Objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the "Predetermined objectives report" as set out on pages 158 to 163 of the financial statements, and reported thereon to the Directors. The procedures performed were limited to the following selected objectives:

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

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

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

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

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

Compliance with Legislation

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

Internal Control

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

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2015, we have read the Directors' Report for the purpose of identifying whether there are any material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on the reports.

SizweNtsalubaGobodo Inc
Registered Auditors

Per DH Manana
Chartered Accountant (SA)
Registered Auditor
Director
23 July 2015

SizweNtsalubaGobodo
20 Morris Street East
Woodmead
Johannesburg, 2191

Audit Committee Report

The Audit Committee is pleased to submit its report in compliance with the Public Finance Management Act and the Companies Act of South Africa. Details on the composition and role of the Audit Committee, frequency of meetings and attendance at meetings are set out in the Corporate Governance Section on pages 44 to 45.

Execution of the Functions of the Audit Committee

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

External Auditors

The Audit Committee approved the external auditors' terms of engagement, scope of work, the annual fee and noted the applicable levels of materiality. Based on written reports submitted, the Audit Committee reviewed, with external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved. The Audit Committee is satisfied that the 2015 audit was completed without any restrictions on its scope. The Audit Committee is satisfied that the external auditors are independent of the Group.

Internal Audit

The Audit Committee has satisfied itself that findings by the Internal Audit are followed up and implemented by management. The Audit Committee is also satisfied that the Internal Audit remains independent of management.

System of Internal Controls

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

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

Evaluation of Annual Financial Statements and Accounting Policies

The Audit Committee has reviewed principles, policies and practices adopted in the preparation of annual financial statements for the 2015 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the audited annual financial statements. The Audit Committee is satisfied that they are adequate and appropriate and that the audited annual financial statements comply in all material respects with the Public Finance Management Act, the Companies Act of South Africa and Generally Recognised Accounting Practice.

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

SS Ntsaluba
Chairman of the Audit Committee
16 July 2015

Director's Report

Mandate and Principal Activities

The National Housing Finance Corporation SOC Limited (NHFC) was established by the National Department of Human Settlements as a Development Finance Institution with the principal mandate of broadening and deepening access to affordable housing finance, for low to middle income South African households. The NHFC is listed as a schedule 3A public entity in terms of the Public Finance Management Act. Details of the NHFC's principal activities are described on pages 8 to 9.

Corporate Governance

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

Financial Highlights

The financial highlights are set out on page 4.

Financial Results

The financial results of the NHFC for the year under review are set out on pages 90 to 157 of these financial statements.

Business Performance Results

The business performance against predetermined objectives for the year under review is set out on pages 158 to 163.

Share Capital and Shareholder

The Government of the Republic of South Africa is the sole Shareholder of the NHFC and the Minister of Human Settlements duly represents the Shareholder's interest.

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

Dividends

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

Going Concern

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

During the year the NHFC was recapitalised by the Shareholder in the amount of R230 million. In addition, the Shareholder and National Treasury approved a budget allocation of R300 million over the Medium Term Expenditure Framework period, which is to be paid in three tranches of R100 million in each of the following three years.

Directorate and Secretariat

Details pertaining to the directors appear on page 38. During the year the two vacancies on the Board were filled. Towards the end of the financial year the Company Secretary resigned and the NHFC is in the process of recruiting a replacement. In the meantime, the Secretariat services have been outsourced to an external service provider.

Strategic Developments

Strategic Reorganisation

The implementation of the strategic reorganisation programme, aimed at enhanced operational efficiencies in the medium to long term, resulted in the reduction in human capital both at NHFC and its subsidiary CTCHC. In addition the Board of CTCHC was reconstituted during the year.

Shareholder Funding and Strategic Plan

The Shareholder and National Treasury approved a budget allocation of R300 million for the NHFC over the Medium Term Expenditure Framework period. The approved budget allocation is significantly lower than the equity funding assumptions in the Board approved Strategic Plan. The Strategic Plan has therefore subsequently been revised accordingly and the impact thereof on both the ability of the NHFC to deliver on its mandate and long-term sustainability has been, and continue to be highlighted to the Shareholder.

DFI Consolidation

Human Settlements is currently supported by three DFIs, the National Housing Finance Corporation SOC Limited (NHFC), the Rural Housing Loan Fund (RHLF) and the National Urban Reconstruction and Housing Agency (NURCHA).

Director's Report (continued)

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

It is envisaged that the implementation of the consolidation of the DFIs will commence in the 2015/16 financial year, with the timeframe for the final integration likely to extend over the next eighteen months, due to the requirements for an enabling legislation and its enactment process.

The Board is awaiting a formal mandate from the Shareholder in this regard.

Remuneration of Directors and Members of Board Committees

Directors' emoluments are set out on page 154 and 155 of these financial statements.

Audit Committee Members of Board Committees

The Audit Committee members and External Auditors were appointed at the Annual General Meeting held in November 2014, in line with the Companies Act, Act 71 of 2008.

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

Internal Control

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

Information Technology

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

The implementation of the IT Governance Framework is delegated to an IT Management Committee, the details of which are reflected on page 54.

Events After the Reporting Date

There were no significant events after the reporting date.

Subsidiaries and Associates

The NHFC's investments are disclosed in notes 8 to 12 of the Annual Financial Statements.

Information Required by the Public Finance Management Act

Performance

The performance of the NHFC against the Shareholder's Compact with the Minister of Human Settlements is set out on pages 158 and 163.

Losses due to criminal conduct and fruitless and wasteful expenditure

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

The Directors' Report for the year ended 31 March 2015 was approved by the Board of Directors on 23 July 2015 and is signed on their behalf by:

MM Katz
Independent Non-Executive Chairman

SS Moraba
Chief Executive Officer

Statement of Financial Performance

For the year ended 31 March 2015

		GROUP		COMPANY	
		2015	Restated 2014	**2015**	2014
	Note(s)	**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	**–**	–
Revenue		**430 232**	244 347	**241 507**	209 927
Cost of sales	2	**(183 674)**	(40 089)	**–**	–
Net impairments	4	**(35 144)**	2 188	**(36 360)**	2 188
Gross surplus		**211 414**	206 446	**205 147**	212 115
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)
Surplus before tax		**83 895**	88 213	**88 709**	107 730
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)
Surplus before taxation		**19 257**	29 638	**6 692**	51 767
Income tax expense	6	**(5 688)**	(19 117)	**(2 071)**	(20 254)
Surplus for the year		**13 569**	10 521	**4 621**	31 513

Statement of Financial Position

As at 31 March 2015

		GROUP		COMPANY	
		2015	Restated 2014	**2015**	2014
	Note(s)	**R '000**	R '000	**R '000**	R '000
Assets					
Non-current assets					
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
		2 186 471	2 081 002	**2 335 378**	2 246 618
Current assets					
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**	–
		1 141 945	1 041 033	**938 282**	855 634
Total assets		**3 328 416**	3 122 035	**3 273 660**	3 102 252

Statement of Financial Position (continued)

As at 31 March 2015

		GROUP		COMPANY	
		2015	Restated 2014	**2015**	2014
	Note(s)	**R '000**	R '000	**R '000**	R '000
Liabilities					
Non-current liabilities					
Funds under management	24	**193 220**	225 765	**193 220**	225 765
Other financial liabilities	25	**295 754**	335 538	**293 276**	328 685
		488 974	561 303	**486 496**	554 450
Current liabilities					
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
		190 209	155 068	**122 001**	117 260
Total liabilities		**679 183**	716 371	**608 497**	671 710
Net assets		**2 649 233**	2 405 664	**2 665 163**	2 430 542
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
Total net assets		**2 649 233**	2 405 664	**2 665 163**	2 430 542
Total net assets and liabilities		**3 328 416**	3 122 035	**3 273 660**	3 102 252

Statement of Changes in Net Assets

For the year ended 31 March 2015

	Issued capital R '000	Share premium R '000	Total share capital R '000	Grant capital R '000	Retained earnings R '000	Total net assets R '000
Group (Restated)						
Balance at 1 April 2013	**842**	**879 158**	**880 000**	**200 000**	**1 315 143**	**2 395 143**
Changes in net assets						
Surplus for the year	–	–	–	–	10 521	10 521
Total changes	–	–	–	–	10 521	10 521
Balance at 1 April 2014	**842**	**879 158**	**880 000**	**200 000**	**1 325 664**	**2 405 664**
Changes in net assets						
Surplus for the year	–	–	–	–	13 569	13 569
Grant	–	–	–	230 000	–	230 000
Total changes	–	–	–	230 000	13 569	243 569
Balance at 31 March 2015	**842**	**879 158**	**880 000**	**430 000**	**1 339 233**	**2 649 233**
Note(s)	22	22		23		
Company						
Balance at 1 April 2013	**842**	**879 158**	**880 000**	**200 000**	**1 319 029**	**2 399 029**
Changes in net assets						
Surplus for the year	–	–	–	–	31 513	31 513
Total changes	–	–	–	–	31 513	31 513
Balance at 1 April 2014	**842**	**879 158**	**880 000**	**200 000**	**1 350 542**	**2 430 542**
Changes in net assets						
Surplus for the year	–	–	–	–	4 621	4 621
Grant capital	–	–	–	230 000	–	230 000
Total changes	–	–	–	230 000	4 621	234 621
Balance at 31 March 2015	**842**	**879 158**	**880 000**	**430 000**	**1 355 163**	**2 665 163**
Note(s)	22	22		23		

Cash Flow Statement

For the year ended 31 March 2015

		GROUP		COMPANY	
		2015	Restated 2014	2015	2014
	Note(s)	R '000	R '000	R '000	R '000
Cash flows from operating activities					
Receipts					
Sale of goods		198 485	43 474	–	–
Interest, rental and dividend income		231 747	200 873	241 508	209 927
Other income		17 215	3 204	9 915	1 578
Other cash item		–	–	–	–
		447 447	247 551	251 423	211 505
Payments					
Employee costs		(107 668)	(76 480)	(93 666)	(64 358)
Net cash payment to suppliers		(310 110)	(201 883)	(75 675)	(73 509)
Finance costs		(21 840)	(22 789)	(21 553)	(22 497)
Net cash payment to customers		35 402	(213 539)	(37 164)	(327 330)
Taxation paid		(15 813)	(24 559)	(15 813)	(24 559)
		(420 029)	(539 250)	(243 871)	(512 253)
Net cash flows from operating activities	28	27 418	(291 699)	7 552	(300 748)
Cash flows from investing activities					
Additions to property, plant and equipment	13	(226)	(655)	(117)	(492)
Disposal of property, plant and equipment		32	37	–	–
Addition of other intangible assets	14	(1 761)	(259)	(1 741)	(243)
Decrease/(increase) in held to maturity investments		(189 760)	886 970	(189 760)	886 970
Net cash flows from investing activities		(191 715)	886 093	(191 618)	886 235
Cash flows from financing activities					
Repayment of borrowings		(36 999)	(38 179)	(33 093)	(32 880)
Movement in funds under management		(32 545)	(473 216)	(32 545)	(473 215)
Grant capital		230 000	–	230 000	–
Net cash flows from financing activities		160 456	(511 395)	164 362	(506 095)
Net increase/(decrease) in cash and cash equivalents		(3 841)	82 999	(19 704)	79 392
Cash and cash equivalents at the beginning of the year		433 918	350 919	422 597	343 205
Cash and cash equivalents at the end of the year	21	430 077	433 918	402 893	422 597

Notes to the Annual Financial Statements

For the year ended 31 March 2015

Accounting Policies

Corporate Information

The consolidated financial statements of the National Housing Finance Corporation SOC Limited (NHFC) for the year ended 31 March 2015 were approved by the Board on 23 July 2015. NHFC is a public company incorporated and domiciled in South Africa, the shares of which are held by the Government of the Republic of South Africa.

1.1 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000), except as otherwise indicated. The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements for the year ended 31 March 2015 comprise the NHFC, its subsidiaries and the Group's interest in associates (referred to as the Group). The financial year-end for Cape Town Community Housing Company Proprietary Limited, Mortgage Default Insurance Company Limited, Gateway Home Loans Proprietary Limited, and Gateway Home Loans 001 Proprietary Limited is 31 March. Similar accounting policies are applied across the Group.

1.2 Statement of compliance

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, as well as the requirements of the Companies Act and the Public Finance Management Act (Act No 1 of 1999), as amended.

1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2015.

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

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

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

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

1.4 Changes in accounting policy and disclosure

The accounting policies adopted are consisted with those of the previous year.

1.5 Summary of significant judgements, estimates and assumptions

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

Bonus provision

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

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

Investment properties

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

The fair value of the Company's investment property is determined using the capitalisation of net income method of valuation based on a capitalisation rate of 13,5%. Such rate is best determined by referring

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

Accounting Policies (continued)

1.5 Summary of significant judgements, estimates and assumptions (continued)

Investment properties (continued)

to market transactions of comparable properties and is determined by dividing the annualised income by the purchase price. This yield is based on information derived from market analysis. Comparable sales in the immediate vicinity reflect a capitalisation rate in the region of 13,5%. For the Group, the valuation is based on open market value for existing use.

Transfers are made to investment properties from properties-developed-for-sale when there is a change in use.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair value. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Refer to note 30 for a comprehensive assessment of financial risk management.

1.6 Summary of significant accounting policies

(a) Business combinations and goodwill

i) Business combinations from 1 January 2010

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled in equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

ii) Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

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

b) Investment in subsidiaries

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

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

(c) Interest in associates

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

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

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

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

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

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

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

Accounting Policies (continued)

1.6 Summary of significant accounting policies (continued)

ii) Business combinations prior to 1 January 2010 (continued)

(d) Property, plant and equipment

i) Measurement

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

ii) Subsequent cost

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

iii) Depreciation

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

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

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

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

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

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

Leasehold improvements relate to operating leases.

iv) De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of financial performance in the year the asset is de-recognised.

The residual value of assets, their useful lives and methods of depreciation are reviewed at each reporting date and adjusted prospectively if appropriate.

(e) Properties developed for sale

Properties developed for on-selling are measured at the lower of cost and net realisable value. The cost of the properties for on-selling comprises the cost of purchase, cost of conversion and other costs incurred in bringing the properties developed for on-selling to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

Development expenditure is included as directly attributable costs incurred in bringing properties developed for on-selling to their present location and condition.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

When properties developed for on-selling are sold, the carrying amount of those properties is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of properties developed for on-selling to net realisable value and all losses on properties developed for on-selling is recognised as an expense in the periods the write-down or loss occurs. The amount of any reversal of any write-down of properties developed for on-selling, arising from an increase in net realisable value, is recognised as a reduction in the amount of properties developed for on-selling recognised as an expense in the period in which the reversals occur.

(f) Intangible assets

i) Recognition and measurement

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

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

ii) De-recognition

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

(g) Financial instruments

i) Financial assets

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

a) Financial instruments at fair value, comprising both derivative and non-derivative financial assets and financial liabilities;

b) Financial instruments at amortised cost comprising only non-derivative financial assets and financial liabilities; or

c) Financial instruments at cost, comprising investments in residual interests where the fair value cannot be reliably determined.

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

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

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

This includes financial assets and liabilities that are:

- Derivatives;
- Combined instruments designated at fair value, i.e. instruments that include a derivative and non-derivative host contract;
- Held-for-trading;
- Non-derivative instruments with fixed or determinable payments that are designated at initial recognition to be measured at fair value;
- Investments in a residual interest for which fair value can be measured reliably; and
- Other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Financial instruments held at amortised cost

These are non-derivative financial assets or financial liabilities that have fixed or determinable payments.

Recognition and measurement

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

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

Equity investments

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

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

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

Accounting Policies (continued)

1.6 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

i) Financial assets (continued)

Held-to-maturity investments

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

Gains and losses are recognised in profit and loss when the investments are de-recognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowances for impairment. Gains and losses are recognised in the statement of financial performance when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Trade and other receivables

Other receivables are classified as loans and receivables. These are initially measured at the fair value. Other receivables are subsequent to initial recognition measured at amortised cost.

Cash and short-term deposits

Cash and short-term deposits on the statement of financial performance comprise cash at banks, cash on hand and short-term deposits with an original maturity of less than three (3) months. Cash and short-term deposits are considered to be loans and receivables.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash equivalents as defined above, net of outstanding bank overdrafts.

Cash and short-term deposits are subsequently measured at amortised cost.

ii) Impairment of financial assets

Assets carried at amortised cost

The financial asset is only impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition date of the asset (a loss event) and that loss (or event) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and advances, and held-to-maturity investments carried at amortised cost, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss in each reporting period.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the client or the borrower;
- A breach of contract, such as delinquency in interest or principal payments;
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- The disappearance of an active market for that financial asset resulting in financial difficulties; and
- Observable data indicating that there is a measurable decrease in the estimated future cash

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

flows from a group of financial assets since the initial recognition of those assets, although the decreases cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of specific impairments raised is the amount needed to reduce the carrying amount of the asset to the present value of the expected ultimate fair value less costs to sell, taking into consideration the financial status of the underlying client and any security in place for the recoverability of the financial asset.

The recoverable amount of the assets is calculated as the present value of the estimated future cash flows, discounted at the effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset).

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

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

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

Instalment sale receivables

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

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

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

(iii) Financial liabilities

Recognition and measurement

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

Accounting Policies (continued)

1.6 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

(iii) Financial liabilities (continued)

Financial liabilities comprise the following:

Other payables

Other payables are recognised at fair value.

Interest-bearing loans and borrowings

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

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

iv) De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

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

(h) Provisions

Provisions are recognised when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

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

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

Provisions are not recognised for future operating losses.

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

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

(i) Borrowing costs

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

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

The capitalisation of borrowing costs commences when:

- Expenditures for the asset have been incurred;
- Borrowing costs have been incurred; and
- Activities that are necessary to prepare the asset for its intended use are in progress.

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

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

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

(j) Leases

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

Finance leases – Group as lessor

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

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

Finance leases – Group as lessee

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

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

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

(k) Contingent liabilities and commitments

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities are not recognised in the statement of financial position but disclosed in notes.

Commitments

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

(l) Revenue recognition

i) Revenue from exchange transactions

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

Accounting Policies (continued)

1.6 Summary of significant accounting policies (continued)

(l) Revenue recognition (continued)

i) Revenue from exchange transactions (continued)

payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of houses

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

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

Rental income

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

Interest income

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

City of Cape Town, institutional and other subsidies

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

Dividends

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

ii) Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where NHFC received revenue from another entity without directly giving approximately equal value in exchange.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

(m) Taxation

i) Current taxation

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

ii) Deferred taxation

Deferred tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax base of assets and liabilities and the carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting surplus nor taxable surplus or deficit; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in other

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

comprehensive income is recognised in equity and not in profit and loss.

(n) Retirement benefits

The Group has a defined contribution plan which requires contributions to be made to a separate administered fund. The contributions made are recognised as an expense in the statement of financial performance.

The Group is not liable for post-retirement benefits of any nature.

(o) Investment property

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

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

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

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

(p) Related party disclosures

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

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

(q) Presentation of budget information in financial statements

An entity should present a comparison of the budget amounts for which it is publicly accountable to actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with standards of GRAP.

The budget information includes the budget for the Company and its subsidiaries. The budget is prepared on an accrual basis and the comparison of actual performance against budget is based on an accrual basis.

(r) Determination of fair values

A number of the Group's accounting policies and disclosures require determination of fair value, for both the financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further, information about assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

Investment property

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

Capitalisation method (investment property)

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

Accounting Policies (continued)

1.6 Summary of significant accounting policies (continued)

(r) Determination of fair values (continued)

Comparative method (investment property)

The method involves the identification of comparable properties sold in the area or in a comparable location within a reasonable time. The selected comparable properties are analysed and compared with the subject properly. Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

Equity investments

The fair values of quoted equity investments in active markets are based on the closing trading price at the reporting date.

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

Non-derivative financial liabilities

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

(s) Employee benefits

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

1.7 New standards and interpretations

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

GRAP 25 Employee Benefits

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

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

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

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

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

GRAP 108 Statutory Receivables

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

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

GRAP 20 Related Parties

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

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

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

GRAP 32 Service Concession Arrangements: Grantor

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

The Minister of Finance prescribed the application of the following standards of GRAP for financial years beginning on or after 1 January 2015. The standards will not be applicable to the group therefore the impact is considered to be immaterial:

GRAP 18 Segment Reporting

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

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

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

GRAP 105: Transfer of Functions between Entities under Common Control

The Standard establishes accounting principles for the acquirer in a transfer between entities under common control. The Standard has been approved, with the effective date for years commencing on or after 1 April 2015.

GRAP 106: Transfer of Functions between Entities not under Common Control

The Standard establishes accounting principles for the acquirer in a transfer of functions between entities not under common control. The Standard has been approved, with the effective date for years commencing on or after 1 April 2015.

GRAP 107: Mergers

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
1 Income				
Interest on advances				
Interest on performing advances	**182 303**	163 579	**204 440**	172 769
Interest on impaired advances	**9 105**	1 112	**9 105**	1 112
Interest on instalment sales	**7 089**	1 559	**–**	–
	198 497	166 250	**213 545**	173 881
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	**24 670**	31 396	**24 240**	31 111
Rental income				
Rental income from investment property	**7 827**	3 069	**1 412**	2 615
Dividend received				
Dividend income – TUHF	**753**	–	**2 310**	2 162
Dividend income – Greenstart	**–**	158	**–**	158
	753	158	**2 310**	2 320
Sale of houses				
Subsidiary sale of houses	**198 485**	43 474	**–**	–
2 Cost of sales				
Subsidiary cost of sale of houses	**(183 674)**	(40 089)	**–**	–
3 Other operating income				
Other operating income is made up as follows:				
Management fees	**4 370**	–	**4 370**	–
Levies from instalment sales	**1 663**	996	**–**	–
Recoveries and refund	**3 526**	–	**3 526**	–
Other interest received	**199**	1 049	**520**	1 049
Sundry income	**868**	1 158	**849**	529
Fair value adjustment on investment properties	**6 589**	2 207	**650**	–
	17 215	5 410	**9 915**	1 578

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP 2015 R '000	GROUP 2014 R '000	COMPANY 2015 R '000	COMPANY 2014 R '000
4 Profit before tax				
Administrative expenses				
Staff costs*	**85 090**	49 264	**75 543**	42 207
– Salaries	**78 900**	41 810	**69 353**	34 753
– Medical aid contributions	**2 408**	2 599	**2 408**	2 599
– Provident fund contributions	**3 782**	4 855	**3 782**	4 855
Management costs (refer note 32)*	**22 552**	27 216	**18 123**	22 150
Administration	**5 505**	5 342	**4 659**	4 601
Marketing	**1 363**	1 652	**1 049**	1 202
Consultancy	**7 281**	11 712	**7 248**	11 568
Directors' fees	**2 635**	2 438	**2 517**	2 224
Legal fees	**1 152**	5 608	**950**	5 060
Auditors fees	**2 504**	2 398	**1 881**	1 837
Travel and entertainment	**1 132**	1 446	**808**	1 010
	129 214	107 076	**112 778**	91 859
Other operating expenses				
Communication	**2 058**	2 173	**1 807**	1 618
Training and development	**674**	1 239	**607**	1 239
Office expenses	**2 752**	3 130	**2 281**	2 344
Depreciation and amortisation	**965**	879	**763**	648
Sundry expenses	**818**	1 305	**818**	1 209
Operating lease payments	**8 253**	7 841	**7 299**	7 046
	15 520	16 567	**13 575**	14 104
**Number of employees*	**73**	*116*	**53**	*84*
Fair value changes on investments				
Listed investments				
Blue Financial Services Limited	**–**	(9 225)	**–**	(9 225)
	–	(9 225)	**–**	(9 225)
Unlisted investments				
Cape Town Community Housing Company Proprietary Limited	**–**	–	**(7 991)**	–
Trust for Urban Housing Finance Holdings Proprietary Limited	**–**	–	**3 479**	4 661
Housing Investment Partners Proprietary Limited	**–**	–	**(11 920)**	1 420
	–	–	**(16 432)**	6 081
Total	**–**	(9 225)	**(16 432)**	(3 144)

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
4 Profit before tax (continued)				
Impairments	**35 144**	2 188	**36 360**	2 188
Impairment raised in current year on debentures	**–**	–	**1 156**	–
Impairment raised in current year on preference shares	**2 658**	–	**2 658**	–
Impairment raised in current year on goodwill	**2 714**	–	**–**	–
Impairment raised in current year loans and advances	**29 772**	2 188	**32 546**	2 188
Bad debts written off	**44 032**	30 322	**44 032**	30 322
Bad debts raised in current year other than loans and advances	**1 372**	–	**1 372**	–
Bad debts raised in current year loans and advances	**42 660**	30 322	**42 660**	30 322
5 Finance costs				
Interest on other financial liabilities	**21 840**	22 789	**21 553**	22 497

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP 2015 R '000	GROUP Restated 2014 R '000	COMPANY 2015 R '000	COMPANY 2014 R '000
6 Taxation				
Major components of the tax (income) expense				
Current				
Local income tax – current period	**(8 495)**	19 805	**(8 495)**	19 805
Underprovision of prior year taxes – penalties	**(279)**	–	**(279)**	–
	(8 774)	19 805	**(8 774)**	19 805
Deferred				
Originating and reversing temporary differences	**3 086**	(688)	**6 703**	449
	(5 688)	19 117	**(2 071)**	20 254
Deferred tax asset: Statement of financial position				
Balance at the beginning of the year	**12 448**	11 760	**17 528**	17 977
Recognised through the income statement	**3 086**	688	**6 703**	(449)
Balance at the end of the year	**15 534**	12 448	**24 231**	17 528
Deferred tax asset/liability consists of:				
Provision for leave pay	**4 185**	6 009	**4 185**	6 009
Provision for incentive bonus	**12 000**	6 142	**12 000**	6 142
Operating lease	**1 314**	1 367	**1 314**	1 367
Fair value gain on investment property	**(19 978)**	(19 545)	**(19 978)**	(19 545)
Fair value gain on investment in associates	**–**	–	**(9 529)**	(15 157)
Impairment on Gateway	**–**	–	**33 300**	33 300
General provision for impairment – retail	**38 967**	33 339	**38 967**	33 339
Impairment on debentures	**–**	–	**1 156**	–
Fair value on equity investment – BS	**16 332**	17 144	**22 466**	17 144
Impairment of preference shares – Greenstart	**2 658**	–	**2 658**	–
Total	**55 478**	44 456	**86 539**	62 599
Tax rate of 28%	**15 534**	12 448	**24 231**	17 528

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
6 Taxation (continued)				
Reconciliation of the tax expense				
A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2015 and 2014 is as follows:				
Accounting surplus	**19 257**	29 638	**6 692**	51 767
Tax at the applicable tax rate of 28% (2014: 28%)	**5 392**	8 299	**1 874**	14 495
Tax effect of adjustments on taxable income				
Non-taxable income	**(275)**	(250)	**(814)**	(1 229)
Bad debts previously allowed deduction	**–**	6 433	**–**	6 433
Non-deductible expenses	**1 279**	4 635	**1 719**	555
Underprovision of prior year taxes – penalties	**279**	–	**279**	–
Prior year adjustment – refunds	**(987)**	–	**(987)**	–
Income tax expense reported in the statement of financial performance	**5 688**	19 117	**2 071**	20 254
Income tax receivable: statement of financial position				
Balance at the beginning of the year	**(3 972)**	(7 576)	**(3 972)**	(7 576)
Tax paid	**15 813**	24 559	**15 813**	24 559
Current	**(8 495)**	(19 805)	**(8 495)**	(19 805)
Penalties	**(279)**	(1 150)	**(279)**	(1 150)
Balance at the end of the year	**3 067**	(3 972)	**3 067**	(3 972)

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
7 Loans and receivables – advances				
Gross advances				
Opening balances	**2 314 429**	2 102 949	**2 528 153**	2 201 373
Disbursements	**538 391**	529 556	**729 221**	675 704
Repayments	**(531 292)**	(295 100)	**(649 555)**	(325 947)
Amounts previously impaired, written off	**(41 576)**	(22 976)	**(41 576)**	(22 976)
Amounts never impaired but written off during the year	**(1 084)**	–	**(1 084)**	–
Balance at the end of the year	**2 278 868**	2 314 429	**2 565 159**	2 528 153
Impairments on advances				
Balances at the beginning of the year	**(182 169)**	(184 357)	**(182 169)**	(184 357)
Amounts impaired in previous years and written off during the year	**41 576**	22 976	**41 576**	22 976
Increase in impairments on advances	**(77 793)**	(23 362)	**(80 567)**	(23 362)
Impairments reversed during the year*	**5 361**	2 574	**5 361**	2 574
Amounts never impaired but written off during the year	**1 084**	–	**1 084**	–
Impairments raised	**(29 772)**	2 188	**(32 546)**	2 188
Balance at the end of the year	**(211 941)**	(182 169)	**(214 715)**	(182 169)
Comprising:				
Specific impairments	**(159 985)**	(137 717)	**(162 759)**	(137 717)
General impairments	**(51 956)**	(44 452)	**(51 956)**	(44 452)
Net advances	**2 066 927**	2 132 260	**2 350 444**	2 345 984
Maturity analysis				
Receivable within one year	**171 523**	280 368	**186 421**	282 551
Receivable within one to two years	**331 589**	190 191	**367 411**	201 055
Receivable within two to three years	**376 214**	312 325	**386 295**	323 095
Receivable beyond three years	**1 187 601**	1 349 376	**1 410 317**	1 539 283
Net advances	**2 066 927**	2 132 260	**2 350 444**	2 345 984
Non-current assets	**1 895 404**	1 851 892	**2 164 023**	2 063 433
Current assets	**171 523**	280 368	**186 421**	282 551
	2 066 927	2 132 260	**2 350 444**	2 345 984

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
8 Investment in listed equity investments				
Blue Financial Services Limited				
Shares at cost – ordinary shares				
Investments in shares at cost	**4 258**	13 483	**4 258**	13 483
Fair value adjustment	**–**	(9 225)	**–**	(9 225)
Carrying amount of shares at 31 March 2015	**4 258**	**4 258**	**4 258**	**4 258**

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

9 Investment in subsidiaries

Cape Town Community Housing Company Proprietary Limited

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

Shares at fair value – ordinary shares				
Opening balance	**–**	–	**7 991**	7 991
Fair value adjustment	**–**	–	**(7 991)**	–
Carrying amount of shares at 31 March 2015	**–**	–	**–**	7 991

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

CTCHC is solvent after the NHFC has subordinated its claims against CTCHC in respect of the debentures in favour of other creditors. The company is however in a turnaround phase. Management has applied a discounted cash flow (DCF) method in arriving at the valuation of CTCHC. Company projections have been reviewed to understand the reasonableness in projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the Company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. A PE valuation multiple method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in CTCHC.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

		GROUP		COMPANY	
		2015	2014	**2015**	2014
		R '000	R '000	**R '000**	R '000
10	**Investment in debentures – Cape Town Community Housing Company Proprietary Limited**				
	Debentures				
	Non-convertible debentures at cost – issued prior to 31 March 2004	**–**	–	**18 000**	18 000
	Non-convertible debentures at cost – issued prior to 31 March 2005	**–**	–	**2 654**	2 654
	Non-convertible debentures at cost – issued prior to 31 March 2006	**–**	–	**543**	543
		–	–	**21 197**	21 197
	Accumulated impairment	**–**	–	**(18 000)**	(18 000)
	Balance	**–**	–	**3 197**	3 197
	Convertible debentures acquired at cost	**–**	–	**3 000**	3 000
	Impairment recognised during current year	**–**	–	**(1 156)**	–
	Carrying amount of debentures at 31 March 2015	**–**	–	**5 041**	6 197

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

		GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
11	**Investment in preference shares**				
	Greenstart Proprietary Limited				
	Opening balance	**2 658**	2 658	**2 658**	2 658
	Dividends accrued	**–**	158	**–**	158
	Dividends received	**–**	(158)	**–**	(158)
	Impairment	**(2 658)**	–	**(2 658)**	–
	Investment in preference shares at fair value	**–**	2 658	**–**	2 658

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

12 Investments in associates

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

The company is involved in the provision of commercial property finance in the form of bridging finance and long-term loans for the regeneration of South African inner city precincts and surrounding suburbs. The NHFC effectively owns 33,48% of the issued share capital consisting of ordinary shares and B ordinary shares. B ordinary shares were acquired as part of the restructuring in which the NHFC converted R40 million of its term loans to B ordinary shares, which carry the same weight and voting rights as existing equity shares. B ordinary shares have an unconditional right to receive dividends at 75% of prime lending rate for five years (2013 to 2017). The conversion amount of R40 million has been allocated as R29 million consideration for the increase in shareholding, while the balance of R11 million has been recognised as loans and receivables representing the fair value of future dividends expected over the five years. The B ordinary shares will automatically be converted to equity shares in 2017.

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

	GROUP	
	2015	2014
	R '000	R '000
Share of the associate's balance sheet		
Total assets	**714 657**	645 350
Total liabilities	**(647 766)**	(593 143)
Retained earnings effect of change in shareholding	**–**	(3 618)
Net asset	**66 891**	48 589
Carrying amount of the investment in company	**48 819**	45 340
GRAP 104 – Fair value reversal	**(12 058)**	(7 397)
Fair value adjustment	**(3 479)**	(4 661)
Investment at cost	**33 282**	33 282
Carrying amount of the investment in company		
Accumulated share of the associate's profit	**18 626**	11 744
Accumulated share of the associate's reserves	**796**	796
Other reserves	**6 503**	–
Less: Equity distribution	**(2 783)**	(2 430)
Current year share of profit	**10 467**	9 311
Current year share of profit of associate	**7 684**	6 881
Carrying amount of the investment	**33 609**	19 421
Less: Goodwill	**–**	(3 428)
Carrying amount of the investment in TUHF	**66 891**	49 275
Share of the associate's revenue	**80 041**	68 001

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP	
	2015	2014
	R '000	R '000
12 Investments in associates (continued)		
12.1 Investment in associate – Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF) (continued)		
Investment in preference shares		
Opening balance	**35 000**	35 000
Acquisition of preference shares	**–**	–
Carrying amount of investment preference shares	**35 000**	35 000
Carrying amount of investment in TUHF Holdings Proprietary Limited	**95 388**	87 703

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

The NHFC has a 33% equity shareholding in HiP, the fund management company that developed the income linked mortgage loan product and arranges and manages the debt funds that provide the mortgage loan funding.

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

	GROUP	
	2015	Restated 2014
	R '000	R '000
Share of the associate's balance sheet		
Current assets	**3 886**	107
Non-current assets	**254**	360
Current liabilities	**(1 041)**	(452)
Non-current liabilities	**(21 665)**	(12 555)
Net asset	**(18 566)**	(12 540)
Carrying amount of the investment in Company	**7 233**	7 233
Accumulated share of the associate's loss	**(7 233)**	(7 233)
Carrying amount of the investment	**–**	–
Share of the associate's revenue	**2 292**	400

The Group's share of losses amounts to R18,566 million in 2015 (R12,118 million in 2014) which have been recognised to Shareholder loan investment.

The Group's share of cumulative losses in the associate HiP have been recognised up to the carrying amount of the investment, being R7 233 million. For this reason no share of losses of HiP has been recognised in Group accounts in the accounts in the current financial year.

The investee has a different reporting date of 31 December. No material impact for the current year as all losses have been written off against the investment at group level. The different reporting date has however been considered when preparing the valuation of the investment.

Total carrying amount of the investment in associates – Group	**95 388**	87 703

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	COMPANY	
	2015	2014
	R '000	R '000
12 Investments in associates (continued)		
12.3 Investment in associate – Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF)		
The following table illustrates the summarised financial information in the company's books:		
Investment in equity shares opening balance		
Original investment in TUHF	**45 340**	40 679
Increase in investment in associate	**–**	–
Fair value adjustment in investment in TUHF	**3 479**	4 661
Carrying amount of the equity	**48 819**	45 340
Investment in preference shares		
Opening balance	**35 000**	35 000
Acquisition of preference shares	**–**	–
Carrying amount of investment in preference shares	**35 000**	35 000
Total investment in associates TUHF	**83 819**	80 340

The investment in TUHF has been valued to its fair value. TUHF has undergone significant growth in recent years and is expected to maintain similar growth in the foreseeable future. Management has applied a discounted cash flow (DCF) method in arriving at the valuation of TUHF. Company projections have been reviewed to understand the reasonableness of projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in TUHF.

Investment in redeemable cumulative preference shares. The investment consists of 35 000 shares at par value of R1 000 per share. The total preference shares in TUHF is R35 million. Dividends in terms of Shareholders' agreement, are set at the prevailing prime lending rate less corporate tax at 28% as at 31 March 2015.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	COMPANY 2015 R '000	2014 R '000
12 Investments in associates (continued)		
12.4 Investment in associate – Housing Investment Partners Proprietary Limited (HiP)		
The following table illustrates the summarised financial information in the company's books:		
Share of the associate's balance sheet		
Investment in shares opening balance	11 920	10 500
Movement in investment in associate	(11 920)	1 420
Fair value adjustment	(11 920)	1 420
Carrying amount of the investment HiP	–	11 920

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

The investee has a different reporting date of 31 December. No material impact for the current year as all losses have been written off against the investment at group level. The different reporting date has however been considered when preparing the valuation of the investment.

	2015 R '000	2014 R '000
Carrying amount of total investment in associates	83 819	92 260

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

13 Property, plant and equipment

	2015			2014		
	Cost / valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / valuation	Accumulated depreciation and accumulated impairment	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Group						
Furniture and fittings	3 137	(3 049)	88	3 128	(3 007)	121
Motor vehicles	396	(365)	31	396	(351)	45
Office equipment	910	(767)	143	916	(697)	219
Computer equipment	8 490	(8 084)	406	8 509	(8 006)	503
Leasehold improvements	1 263	(1 001)	262	1 262	(847)	415
Total	14 196	(13 266)	930	14 211	(12 908)	1 303
Company						
Furniture and fittings	2 891	(2 843)	48	2 891	(2 817)	74
Motor vehicles	195	(195)	–	195	(195)	–
Office equipment	755	(658)	97	755	(583)	172
Computer equipment	8 102	(7 778)	324	8 056	(7 625)	431
Leasehold improvements	846	(718)	128	846	(646)	200
Total	12 789	(12 192)	597	12 743	(11 866)	877

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

13 Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – Group – 2015

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

Reconciliation of property, plant and equipment – Group – 2014

	Opening balance R '000	Additions R '000	Disposals R '000	Depreciation R '000	Total R '000
Furniture and fittings	141	24	–	(44)	121
Motor vehicles	83	–	–	(38)	45
Office equipment	81	217	–	(80)	219
Computer equipment	653	226	(12)	(364)	503
Leasehold improvements	377	188	–	(150)	415
	1 335	655	(12)	(676)	1 303

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

13 Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – Company – 2015

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

Reconciliation of property, plant and equipment – Company – 2014

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

Fully depreciated assets that are still in use amount to R16.38 million (2014: R 16.07 million).
No property, plant and equipment has been pledged as security.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

14 Intangible assets

	2015			2014		
	Cost / valuation R '000	Accumulated amortisation and accumulated impairment R '000	Carrying value R '000	Cost / valuation R '000	Accumulated amortisation and accumulated impairment R '000	Carrying value R '000
Group						
Computer software, other	**7 694**	**(5 906)**	**1 788**	5 948	(5 504)	444
Total	**7 694**	**(5 906)**	**1 788**	5 948	(5 504)	444
Company						
Computer software, other	**7 346**	**(5 587)**	**1 759**	5 606	(5 190)	416
Total	**7 346**	**(5 587)**	**1 759**	5 606	(5 190)	416

Reconciliation of intangible assets – Group – 2015

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

Reconciliation of intangible assets – Group – 2014

	Opening balance R '000	Additions R '000	Amortisation R '000	Total R '000
Computer software, other	390	259	(205)	444

Reconciliation of intangible assets – Company – 2015

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

Reconciliation of intangible assets – Company – 2014

	Opening balance R '000	Additions R '000	Amortisation R '000	Total R '000
Computer software, other	325	243	(152)	416

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
15 Instalment sale receivables				
Gross investment in instalment sale receivable due	**209 601**	75 012	**–**	–
	209 601	75 012	**–**	–
Less: unearned finance revenue	**(107 005)**	(25 980)	**–**	–
	102 596	49 032	**–**	–
Non-current assets	**92 301**	43 303	**–**	–
Current assets	**10 295**	5 729	**–**	–
	102 596	49 032	**–**	–

The average term on the instalment sale receivable is 18,2 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest was 10,1% (2014: 10,9%) per annum. Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.

The amount of R102 596 million (2014: R49 032 million) is the maximum exposure to credit risk.

16 Investment property

	2015			2014		
	Cost / valuation	**Accumulated impairment**	**Carrying value**	Cost / valuation	Accumulated impairment	Carrying value
	R '000	**R '000**	**R '000**	R '000	R '000	R '000
Group						
Investment property	**80 868**	**–**	**80 868**	74 279	–	74 279
Company						
Investment property	**51 650**	**–**	**51 650**	51 000	–	51 000

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

16 Investment property (continued)

Reconciliation of investment property – Group 2015

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

Reconciliation of investment property – Group 2014

	Opening balance R '000	Fair value adjustments R '000	Total R '000
Investment property	**72 072**	**2 207**	**74 279**

Reconciliation of investment property – Company 2015

	Opening balance R '000	Fair value adjustments R '000	Total R '000
Investment property	**51 000**	**650**	**51 650**

Reconciliation of investment property – Company 2014

	Opening balance R '000	Fair value adjustments R '000	Total R '000
Investment property	51 000	–	51 000

Investment property for the Company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, G Wampach (registered professional valuer at Meldane Property and Valuation Services CC) on 9 March 2015. Mr Wampach is not connected to the Company and has experience in property valuation. The capitalisation of net income method of valuation was used, based on a capitalisation rate of 13,0%. The capitalisation rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised income by the purchase price. This yield is based on information derived from market analysis. The capitalisation rate for the subject area is in the region of between 13,0% and 15,0%. The yield has been reduced from last year.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP 2015 R '000	GROUP 2014 R '000	COMPANY 2015 R '000	COMPANY 2014 R '000
16 Investment property (continued)				
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	**6 589**	2 207	**650**	–
Rental income	**7 827**	3 069	**1 412**	2 615
	14 416	5 276	**2 062**	2 615
Details of property				
President Place and Housing stock				
Terms and conditions				
– Purchase price	**44 932**	42 726	**21 654**	21 654
– Additions since purchase or valuation	**35 936**	31 553	**29 996**	29 346
	80 868	74 279	**51 650**	51 000

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

In addition, for the Group, a percentage of the housing stock held by CTCHC was reclassified as investment property due to the directors' assessment of the allocation of houses held for investment purposes.

The houses were valued by an independent valuator, Siyakulu Property Valuers. The effective date of the revaluation was 31 March 2015. Revaluations were done by Mr GB Adams, of Siyakulu Property Valuers. Mr Adams is not connected to the Company and has recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

17 Goodwill

	2015			2014		
	Cost / valuation R '000	Accumulated impairment R '000	Carrying value R '000	Cost / valuation R '000	Accumulated impairment R '000	Carrying value R '000
Group						
Goodwill	**2 714**	**(2 714)**	**–**	2 714	–	2 714

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

17 Goodwill (continued)

Reconciliation of goodwill – Group – 2015

	Opening balance R '000	Impairment loss R '000	Total R '000
Goodwill	**2 714**	**(2 714)**	**–**

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

	GROUP		COMPANY	
	2015 R '000	2014 R '000	**2015 R '000**	2014 R '000
18 Properties developed for sale				
Properties developed for sale	**94 330**	125 652	**–**	–
Carrying value of repossessed properties	**96 108**	42 914	**–**	–
	190 438	168 566		

Included in housing stock is 756 units previously held under instalment sale, that were transferred into the name of CTCHC, upon the cancellation of the instalment sales, at the remaining balance of the instalment sale.

19 Other receivables and prepayments

	GROUP 2015 R '000	GROUP 2014 R '000	COMPANY 2015 R '000	COMPANY 2014 R '000
Deposits and prepayments	**562**	2 624	**2**	2
Staff debtors	**2 583**	1 313	**2 583**	1 303
Inter company loans	**–**	–	**8 024**	3 098
Other debtors receivables	**4 227**	8 945	**4 562**	5 224
Dividends receivable	**–**	157	**1 557**	1 446
	7 372	13 039	**16 728**	11 073

Deposits and prepayments mainly relate to office rental deposits.

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

Other staff debtors are charged interest at prime.

Other receivables consist mainly of interest receivable and rental income for Group.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
20 Held-to-maturity investments				
ABSA Bank Limited	**20 000**	–	**20 000**	–
Investec Bank Limited	**20 000**	–	**20 000**	–
Standard Bank of South Africa Limited	**20 000**	–	**20 000**	–
Rand Merchant Bank, a division of FirstRand Bank Limited	**20 000**	–	**20 000**	–
Nedbank Limited	**20 000**	–	**20 000**	–
Land and Agricultural Bank of South Africa Limited	**58 477**	19 438	**58 477**	19 438
Eskom Limited	**58 406**	19 650	**58 406**	19 650
Trans-Caledon Tunnel Authority (TCTA)	**58 115**	–	**58 115**	–
Interest receivable	**–**	758	**–**	758
Transnet SOC Ltd	**54 175**	–	**54 175**	–
Held-to-maturity money market investments – NHFC	**329 173**	39 846	**329 173**	39 846
Nedbank Limited	**–**	20 000	**–**	20 000
Land and Agricultural Bank of South Africa Limited	**–**	19 438	**–**	19 438
Eskom Limited	**–**	58 375	**–**	58 375
Interest receivable	**–**	1 754	**–**	1 754
Held-to-maturity money market investments – institutional subsidies*	**–**	99 567	**–**	99 567
Total held-to-maturity money market investments	**329 173**	139 413	**329 173**	139 413

* Funds under management – refer note 24

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
21 Cash and short term deposits				
Short-term deposits – NHFC				
ABSA Bank Limited	**44 072**	55 543	**44 072**	55 543
Investec Bank Limited	**16 129**	66 282	**16 129**	66 282
Nedbank Limited	**13 117**	50 542	**13 117**	50 542
Standard Bank of South Africa Limited	**13 729**	51 377	**13 729**	51 377
Rand Merchant Bank, a division of First Rand Bank Limited	**15 365**	28 313	**15 365**	28 313
Stanlib Limited	**36 247**	29 476	**36 247**	29 476
Trans-Caledon Tunnel Authority (TCTA)	**10 042**	10 044	**10 042**	10 044
South African Reserve Bank	**49 831**	–	**49 831**	–
	198 532	291 577	**198 532**	291 577
Short-term deposits – Institutional subsidies*				
ABSA Bank Limited	**7 512**	1 594	**7 512**	1 594
Investec Bank Limited	**10 375**	5 987	**10 375**	5 987
Nedbank Limited	**9 195**	914	**9 195**	914
Rand Merchant Bank	**11 084**	4 144	**11 084**	4 144
Stanlib Limited	**11 386**	2 980	**11 386**	2 980
South African Reserve Bank	**66 783**	–	**66 783**	–
	116 335	15 620	**116 335**	15 620
Short-term deposits – Abahlali*				
ABSA Bank Limited	**1 172**	1 113	**1 172**	1 113
Short-term deposits – FLISP*				
Reserve Bank (Flisp – Gauteng)	**62 078**	91 535	**62 078**	91 535
Reserve Bank (Flisp – Eastern Cape)	**1 995**	5 474	**1 995**	5 474
Reserve Bank (Flisp – Free State)	**2 504**	2 951	**2 504**	2 951
Reserve Bank (Flisp – Northern Cape)	**6 978**	6 580	**6 978**	6 580
Reserve Bank (Flisp – North West Prov)	**792**	823	**792**	823
Reserve Bank (Flisp – Mpumalanga)	**181**	479	**181**	479
	74 528	107 842	**74 528**	107 842

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
21 Cash and short term deposits (continued)				
Cash at bank and in hand				
Cash on hand	**12**	7	**3**	3
Standard Bank of South Africa Limited	**38 313**	16 808	**11 138**	5 490
FLISP – Standard Bank of South Africa limited	**1 185**	953	**1 185**	953
	39 510	17 767	**12 326**	6 446
Total cash and short-term deposits	**430 077**	433 918	**402 893**	422 597
NHFC				
Short-term deposits	**198 532**	291 577	**198 532**	291 577
Cash at Bank	**38 325**	16 814	**11 141**	5 493
	236 857	308 391	**209 673**	297 069
Institutional Subsidies*				
Short-term deposits	**116 335**	15 620	**116 335**	15 620
Abahlali*				
Short-term deposits	**1 172**	1 113	**1 172**	1 113
FLISP*				
Short-term deposits	**75 713**	108 795	**75 713**	108 795
	430 077	433 918	**402 893**	422 597

*Funds under management refer to note 24.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP 2015 R '000	GROUP 2014 R '000	COMPANY 2015 R '000	COMPANY 2014 R '000
22 Issued capital and share premium				
Capital				
Ordinary shares				
Authorised				
100 000 000 Ordinary shares of R0,01 each	**1 000**	1 000	**1 000**	1 000
Issued and fully paid				
84 187 332 ordinary shares of R0,01 each	**842**	842	**842**	842
Share premium	**879 158**	879 158	**879 158**	879 158
23 Grant Capital				
Grant capital	**200 000**	200 000	**200 000**	200 000
Movement	**230 000**	–	**230 000**	–
	430 000	200 000	**430 000**	200 000

The grants arose as the result of the merger of the Housing Equity Fund and the Housing Institutions Development Fund in the 2002 financial year. They are considered to be permanent and are therefore included in Shareholder's equity. There are no conditions attached to these grants. During the current financial year grant capital amounting to R230 million was received from the Shareholder.

24 Funds under management

	GROUP 2015 R '000	GROUP 2014 R '000	COMPANY 2015 R '000	COMPANY 2014 R '000
Institutional Subsidies[(a)]	**116 335**	115 857	**116 335**	115 857
Abahlali[(b)]	**1 172**	1 113	**1 172**	1 113
FLISP[(c)]	**75 713**	108 795	**75 713**	108 795
	193 220	225 765	193 220	225 765

(a) The NHFC is managing funds on behalf of the KwaZulu-Natal province relating to social housing rental units.

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

(c) The NHFC is managing funds on behalf of the various provincial government human settlements departments relating to Finance Link Individual Subsidy Programme. All uncommitted budgetary allocations were returned to the provinces.

The net income on these funds is capitalised.

Funds under management are invested in held-to-maturity investments (note 20) and short-term deposits (note 21).

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
25 Other financial liabilities				
At amortised cost				
Dutch International Guarantees for Housing (DIGH) – loan 1	**742**	1 080	**–**	–
The loan bears interest at a fixed rate of 8.84% per annum and is repayable in annual instalments of R377 306 (2014: R1 080 172). The final instalment is payable on 9 July 2016.				
Dutch International Guarantees for Housing (DIGH) – Loan 2	**2 506**	3 264	**–**	–
The loan bears interest at a fixed rate of 6.98% per annum and is repayable in annual instalments of R2 463 258 (2014: R753 894). The final instalment is payable on 17 January 2016.				
Agence Française de Développement (AfD)	**160 948**	177 048	**160 948**	177 048
This loan bears interest at a fixed rate of 6,078% per annum and is repayable in semi-annual capital instalments of R7 888 692 (2014: R7 888 692) exclusive of interest. Interest and capital is paid bi-annually on 31 May and 30 November of each year. The final instalment is payable on 24 November 2024. During the current year, the NHFC breached certain financial covenants relating to the AfD loan facility. The breached financial covenants are return on assets ratio (actual of 0.20% versus 1.50% required ratio) and the impaired loans to equity ratio (actual of 13.0% versus a required maximum ratio of 10%). AfD have agreed to waiver their rights and not to accelerate the repayment of the Credit Facility and as such the current portion of the loan reflects the capital amount repayable in line with the terms of the facility.				

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP 2015 R '000	GROUP 2014 R '000	COMPANY 2015 R '000	COMPANY 2014 R '000
25 Other financial liabilities (continued)				
European Investment Bank (EIB)	**185 698**	202 691	**185 698**	202 691
This loan bears interest at a variable rate of 3M Jibar with a maximum margin of 0,40% per annum and is repayable in semi-annual capital instalments of R8 308 077 (2014: R8 308 077) exclusive of interest. Interest and capital is paid bi-annually on 15 June and 15 December of each year. The final instalment is payable on 15 December 2025.				
Xhara Hais Municipality – College Site	**–**	264	**–**	–
This facility is an advance from the municipality on their infrastructure contribution and is interest free.				
City of Cape Town – Wescape Villas	**4 046**	6 592	**–**	–
This facility is interest free and repayable when individual units transfer to end users .				
City of Cape Town	**500**	500	**–**	–
The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town. The loan is payable as and when the company becomes profitable.				
	354 440	391 439	**346 646**	379 739
Total other financial liabilities	**354 440**	391 439	**346 646**	379 739
Non-current liabilities				
At amortised cost	**295 754**	335 538	**293 276**	328 685
Current liabilities				
At amortised cost	**58 686**	55 901	**53 370**	51 054

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015 R '000	2014 R '000	**2015 R '000**	2014 R '000
26 Provisions				
Provisions	**62 421**	58 291	**61 666**	57 384
Total provisions	**62 421**	58 291	**61 666**	57 384
Provision for leave pay				
Opening balance as at 1 April	**6 363**	5 995	**5 761**	5 531
Provision utilised for the year	**(2 313)**	(175)	**(1 865)**	(175)
Additional provision raised	**585**	543	**289**	405
Closing balance as at 31 March	**4 635**	6 363	**4 185**	5 761
Provision for incentive bonus				
Opening balance as at 1 April	**6 142**	11 446	**6 142**	11 446
Provision utilised for the year	**(4 019)**	(11 446)	**(4 019)**	(11 446)
Additional provision raised	**12 000**	6 142	**12 000**	6 142
Reversed during the year	**(2 123)**	–	**(2 123)**	–
Closing balance as at 31 March	**12 000**	6 142	**12 000**	6 142
Provision for tax				
Opening balance as at 1 April	**45 481**	45 481	**45 481**	45 481
Provision utilised for the year	**–**	–	**–**	–
Additional provision raised	**–**	–	**–**	–
Closing balance as at 31 March	**45 481**	45 481	**45 481**	45 481
Provision for municipal rates				
Opening balance as at 1 April	**305**	305	**–**	–
Closing balance as at 31 March	**305**	305	**–**	–

Leave pay provision is realised when employees take leave or terminate employment.

Provision for incentive bonus is expected to be realised when bonuses are paid in the 2016 financial year. Provision for incentive bonus includes the three year rolling incentive scheme for executives.

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015 R '000	2014 R '000	**2015 R '000**	2014 R '000
27 Trade and other payables				
Trade payables	**40 396**	16 589	**5 651**	52
Payments received in advanced – contract in process	**23 480**	11 198	**–**	–
Accrued expenses	**3 243**	7 750	**–**	3 431
Accrued audit fees	**669**	–	**–**	–
Accrual for lease payments	**1 314**	1 367	**1 314**	1 367
	69 102	36 904	**6 965**	4 850

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

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

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
28 Cash flows from operating activities				
Net profit before tax	**19 257**	29 638	**6 692**	51 767
Non-cash and separately presented items	**21 855**	6 090	**52 935**	3 313
Working capital changes	**(33 441)**	(89 329)	**742**	(3 939)
Tax paid	**(15 813)**	(24 559)	**(15 813)**	(24 559)
Increase in advances	**35 560**	(213 539)	**(37 004)**	(327 330)
Net cash flows generated from/(used in) operations	**27 418**	(291 699)	**7 552**	(300 748)
Non-cash and separately presented items				
Depreciation and amortisation	**964**	879	**761**	645
Loss/(profit) on sale of property, plant and equipment	**(12)**	12	**–**	12
Share of profit of an associate	**(7 684)**	(3 761)	**–**	–
Fair value loss on listed equity investments	**–**	9 225	**16 432**	9 225
Fair value adjustment on equity investments	**–**	–	**–**	(6 081)
Fair value adjustment on property investment	**(6 589)**	(2 207)	**(650)**	–
Dividends received from preference shares	**–**	2 430	**–**	–
Impairment on advances	**29 772**	(2 188)	**32 546**	(2 188)
Impairment on Greenstart	**2 658**	–	**2 658**	–
Impairment on goodwill	**2 714**	–	**–**	–
Impairment of debentures	**–**	–	**1 156**	–
Property, plant and equipment write off	**71**	–	**71**	–
Premium paid	**–**	1 700	**–**	1 700
Movement on property, plant and equipment	**(39)**	–	**(39)**	–
Total non-cash items	**21 855**	6 090	**52 935**	3 313
Working capital changes				
(Increase) properties developed for sale	**(21 872)**	(90 467)	**–**	–
(Increase) in instalment sale receivable	**(53 564)**	(13 427)	**–**	–
(Increase)/decrease in accounts receivable	**5 667**	(1 906)	**(5 654)**	1 415
Increase/(decrease) in accounts payables	**32 198**	21 407	**2 114**	(280)
(Decrease)/increase in provisions	**4 130**	(4 936)	**4 282**	(5 074)
Net increase in working capital	**(33 441)**	(89 329)	**742**	(3 939)

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
28 Cash flows from operating activities (continued)				
Tax paid				
Balance at beginning of the year	**(3 972)**	(7 576)	**(3 972)**	(7 576)
Current tax for the year recognised in surplus or deficit	**(8 495)**	(19 805)	**(8 495)**	(19 805)
Penalties	**(279)**	(1 150)	**(279)**	(1 150)
Balance at end of the year – current tax	**(3 067)**	3 972	**(3 067)**	3 972
	(15 813)	(24 559)	**(15 813)**	(24 559)
Cash and cash equivalents				
Cash and cash equivalents consist of cash on hand and investment in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:				
Cash on hand and balances with banks	**39 510**	17 767	**12 326**	6 446
Short-term deposits	**390 567**	416 151	**390 567**	416 151
	430 077	433 918	**402 893**	422 597

Property, plant and equipment and intangible assets

During the period, the Group acquired property, plant and equipment and intangible assets with an aggregated cost of R1 876 000 (2014: R 915 000). None of the additions were acquired by means of government grants.

During the period, the Company acquired property, plant and equipment and intangible assets with an aggregated cost of R1 858 000 (2014: R 735 000). None of the additions were acquired by means of government grants.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
29 Contingent liabilities and commitments				
Contingencies				
At 31 March 2015 the Group had a contingent liability in respect of bank guarantees amounting to R2 626 800 (2014: R14 701 000), arising in the ordinary course of business from which it is anticipated that no material liability will arise.				
Operating lease commitment – Group as lessee The Group entered into a commercial lease on the property from which it operates. The lease is effective from 1 April 2014 to 31 March 2017. The lease has an escalation clause of 8% per annum. A deposit guarantee to the lessor of R533 500 (2014: R533 500).				
Future minimum rentals payable under current operating lease as at 31 March 2015:				
National Housing Finance Corporation SOC Limited	**5 604**	5 220	**5 604**	5 220
Cape Town Community Housing Company Proprietary Limited	**902**	917	**–**	–
Within one year	**6 506**	6 137	**5 604**	5 220
National Housing Finance Corporation SOC Limited	**6 043**	11 648	**6 043**	11 648
Cape Town Community Housing Company Proprietary Limited	**–**	902	**–**	–
After one year but not more than five years	**6 043**	12 550	**6 043**	11 648
Total office operating lease commitments – office buildings	**12 549**	18 687	**11 647**	16 868
Operating lease commitments – Office photocopiers				
The Group entered into operating leases for photocopiers. The leases are currently on a month to month basis.				
Future minimum rentals payable under the lease as at 31 March 2015:				
Within one year	**16**	21	**16**	21
	16	21	**16**	21
Total Group commitments	**12 565**	18 708	**11 663**	16 889

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management

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

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

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

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

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

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

Credit risk

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

Loans and receivables – advances

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

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

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

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

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management (continued)

Financial instruments and cash deposits

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

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

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

	GROUP		COMPANY	
	2015 R '000	Restated 2014 R '000	2015 R '000	2014 R '000
Maximum exposure to credit risk				
Loans and receivables – advances	**2 066 927**	2 132 260	**2 350 444**	2 345 984
Instalment sale receivables	**102 596**	49 032	**–**	–
Held-to-maturity investments	**329 173**	139 413	**329 173**	139 413
Cash and short-term deposits	**430 077**	433 918	**402 893**	422 597
Other receivables and prepayments	**7 372**	13 039	**16 728**	11 073
Investment in preference shares	**35 000**	37 658	**35 000**	37 658

Collateral and other credit enhancements – loans and receivables advances

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

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

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

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
30 Financial risk management (continued)				
Credit quality of loans and receivables				
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.				
Neither past due nor impaired	**1 663 583**	1 921 737	**1 949 874**	2 131 196
Past due but not impaired*	**53 598**	35 555	**53 598**	35 555
Impaired**	**561 687**	357 137	**561 687**	361 402
	2 278 868	2 314 429	**2 565 159**	2 528 153
Less: Specific impairments	**(159 985)**	(137 717)	**(162 759)**	(137 717)
General impairments	**(51 956)**	(44 452)	**(51 956)**	(44 452)
Net advances	**2 066 927**	2 132 260	**2 350 444**	2 345 984

* Past due but not impaired balance is the full outstanding capital as at the date on which the client defaulted.

** Impaired balance is not equal to specific impairments as some advances are not fully impaired considering the value of security.

				Ageing of amounts			
		Total balance	Capital instalment	30 days	30 to 60 days	60 to 90 days	90 to 120 days
		R '000	R '000	R '000	R '000	R '000	R '000
Group							
Ageing analysis of advances that are past due, but not impaired:	**2015**	**53 598**	**40 959**	**545**	**520**	**537**	**11 037**
	2014	35 555	25 073	385	419	424	9 253
Company							
Ageing analysis of advances that are past due, but not impaired:	**2015**	**53 598**	**40 959**	**545**	**520**	**537**	**11 037**
	2014	35 555	25 073	385	419	424	9 253

The Group's credit process considers the following to be key indicators of default:

- Evidence of financial distress when it is considered that the borrower is unlikely to pay its credit obligation in full; and
- The debt is more than 90 days in arrears.

The fair value of collateral that the Group holds relating to past due or impaired loans and receivables at 31 March 2015 amounts to R614 million (2014: R429 million).

During the current and previous year the Group did not take possession of any guarantees and debtors books.

The carrying amounts of advances that would otherwise be past due whose terms have been renegotiated amounts to Nil (2014: R 9 million).

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R '000	R '000	**R '000**	R '000
30 Financial risk management (continued)				
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least F1				
– Held-to-maturity investments – money market	**329 173**	139 413	**329 173**	139 413
– Cash and short term deposits	**430 077**	433 918	**402 893**	422 597
Counterparties assessed by reference to historical information about counterparty default rates				
– Instalment sale receivables	**102 596**	49 032	**–**	–

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

The investment in preference shares is not considered impaired.

Concentration risk of loans and receivables by operation.

Strategic investment	5%
Incremental	6%
Home ownership	33%
Rental housing	56%

Interest rate risk

Interest rate risk is the exposure of the Group to increased financing cost and reduced revenue due to adverse changes in interest rates.

The objectives of managing interest rate risk are to:

- Identify and quantify interest rate risk and to structure assets and liabilities to reduce the impact of changes in interest rates;
- Minimise the negative impact of adverse interest rate movement on the Group's returns within an acceptable risk profile;
- Reduce the cost of capital and minimise the effect of interest rate volatility on funding cost;
- Manage exposures by ensuring an appropriate ratio of floating rate exposures to fixed rate exposures; and
- Take advantage of interest rate cycles.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	Strategy	GROUP 2015		GROUP RESTATED 2014	
		Fixed rate	Linked rate	Fixed rate	Linked rate
	R '000	R '000	R '000	R '000	R '000
30 Financial risk management (continued)					
The Group is exposed to interest rate risk on the following assets and liabilities:					
Assets					
Loans and receivables – advances rates vary between 5% and 14% p.a.	1	197 475	1 869 452	57 795	2 074 465
Instalment sale receivables average interest rate of 10.1% p.a.	1	102 596	–	49 032	–
Held-to-maturity investment rates vary between 5.82% and 6.85% p.a.	2	–	329 173	–	139 413
Cash and short-term deposits rates vary between 4.50% and 6.79% p.a.	2	–	430 077	–	433 918
Liabilities					
Funds under management – rates are linked to short-term investment rates		–	193 220	–	225 765
AfD loan – the rate is fixed at 6.078%		160 948	–	177 048	–
EIB loan– the rate varies between 6.2% and 6.533%		–	185 698	–	202 691
Other financial liabilities – the rate varies between 7% – 13%		3 248	–	4 344	–

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

		COMPANY 2015		COMPANY RESTATED 2014	
	Strategy R '000	Fixed rate R '000	Linked rate R '000	Fixed rate R '000	Linked rate R '000
30 Financial risk management (continued)					
Assets					
Loan and receivables – advances rates vary between 5% and 14% p.a.	1	197 475	2 152 969	57 795	2 288 189
Held-to-maturity investments rates vary between 5.82% and 6.85% p.a.	2	–	329 173	–	139 413
Cash and short-term deposits rates vary between 4.50% and 6.79% p.a.	2	–	402 893	–	422 597
Liabilities					
Funds under management – rates are linked to short-term investment rates		–	193 220	–	225 765
AFD loan – the rate is fixed at 6.078%		160 948	–	177 048	–
EIB loan – the rate varies between 6.2% and 6.533%		–	185 698	–	202 691

Interest rate risk management strategy is as follows:

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

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

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

	Increase/ decrease %	GROUP Effect on profit before tax 2015 R '000	GROUP Effect on profit before tax Restated 2014 R '000	COMPANY Effect on profit before tax 2015 R '000	COMPANY Effect on profit before tax Restated 2014 R '000
30 Financial risk management (continued)					
Interest rate sensitivity					
The impact of 1% move in interest rates, which is deemed reasonable based on the interest rate forecasts, with all other variables held constant is reflected below.					
Loans and receivables – advances	1	**18 695**	20 745	**21 530**	22 882
	(1)	**(18 695)**	(20 745)	**(21 530)**	(22 882)
Held-to-maturity investments	1	**3 292**	1 394	**3 292**	1 394
	(1)	**(3 292)**	(1 394)	**(3 292)**	(1 394)
Cash and short-term deposits	1	**4 301**	4 339	**4 029**	4 226
	(1)	**(4 301)**	(4 339)	**(4 029)**	(4 226)
Other financial liabilities	1	**(1 857)**	(2 027)	**(1 857)**	(2 027)
	(1)	**1 857**	2 027	**1 857**	2 027
The Group earns interest as follows:					
Interest on advances		**198 497**	166 250	**213 545**	173 881
Interest on cash and cash equivalents		**24 670**	31 396	**24 240**	31 111
		223 167	197 646	**237 785**	204 992
The Group's interest obligations are as follows:					
Interest on other financial liabilities		**21 840**	22 789	**21 553**	22 497

Liquidity risk

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

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

- Short- and long-term cash flow management;
- Diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- At least 60% of money market portfolio to mature within six months;
- Limiting capital market investments to 30% of the portfolio; and
- The Group is in the process of mobilising funding. Discussions are underway with local as well as international DFI's. The process to obtain the necessary approvals is underway.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 March based on contractual undiscounted payments.

	Less than 3 months R '000	3 to 12 months R '000	>1 year R '000	Total R '000
As at 31 March 2015				
Trade and other payables	**8 198**	**60 904**	**–**	**69 102**
Funds under management	**–**	**–**	**193 220**	**193 220**
Other financial liabilities	**–**	**58 686**	**295 754**	**354 440**
	8 198	**119 590**	**488 974**	**616 762**
As at 31 March 2014				
Trade and other payables	24 339	1 367	11 198	36 904
Funds under management	–	–	225 765	225 765
Other financial liabilities	–	55 901	335 538	391 439
	24 339	57 268	572 501	654 108

Fair value of financial instruments

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

Capital management

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

The Group monitors capital using the debt to equity ratio, which is the interest-bearing debt divided by the equity. The Group's policy is to keep the ratio at 35%.

Total interest-bearing debt	354 440	391 439
Total equity	2 649 233	2 405 664
Debt to equity ratio	13%	16%

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management (continued)

Credit rating

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

National

Long term	AA-
Short term	A1+
International	BBB

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- **Level 1:** Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.
- **Level 2:** Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the financial position date. The valuation techniques or models are periodically reviewed and the outputs validated.
- **Level 3:** Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management (continued)

	GROUP			
	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
2015				
Listed equity investments	**4 258**	**–**	**–**	**4 258**
Unlisted equity investments	**–**	**60 388**	**–**	**60 388**
Total	**4 258**	**60 388**	**–**	**64 646**
2014 – Restated				
Listed equity investments	4 258	–	–	4 258
Unlisted equity investments	–	52 703	–	52 703
Total	4 258	52 703	–	56 961

	COMPANY			
	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
2015				
Listed equity investments	**4 258**	**–**	**–**	**4 258**
Unlisted equity investments	**–**	**48 819**	**–**	**48 819**
Total	**4 258**	**48 819**	**–**	**54 077**
2014				
Listed equity investments	4 258	–	–	4 258
Unlisted equity investments	–	65 251	–	65 251
Total	4 258	65 251	–	69 509

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management (continued)

Financial assets by category

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

	Fair value through profit and loss R '000	Loans and receivables R '000	Held to maturity investments R '000	Total R '000
Group 2015				
Investment in listed equity investments	4 258	–	–	4 258
Investment in unlisted equity investment	60 388	–	–	60 388
Loans and receivables – advances	–	2 066 927	–	2 066 927
Instalment sale receivables	–	–	102 596	102 596
Held-to-maturity investments	–	–	329 173	329 173
Cash and short-term deposits	–	430 077	–	430 077
Other receivables	–	7 372	–	7 372
Investment in preference shares	–	–	35 000	35 000
	64 646	2 504 376	466 769	3 035 791
Group Restated 2014				
Investment in listed equity investments	4 258	–	–	4 258
Investment in unlisted equity investment	52 703	–	–	52 703
Loans and receivables – advances	–	2 132 260	–	2 132 260
Instalment sale receivables	–	49 032	–	49 032
Held-to-maturity investments	–	–	139 413	139 413
Cash and short-term deposits	–	433 918	–	433 918
Other receivables	–	13 039	–	13 039
Investment in preference shares	–	–	37 658	37 658
	56 961	2 628 249	177 071	2 862 281

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management (continued)

	Fair value through profit and loss R '000	Loans and receivables R '000	Held to maturity investments R '000	Total R '000
Company 2015				
Investment in listed equity investments	**4 258**	**–**	**–**	**4 258**
Investment in unlisted equity investment	**48 819**			**48 819**
Loans and receivables – advances	**–**	**2 350 444**	**–**	**2 350 444**
Held-to-maturity investments	**–**	**–**	**329 173**	**329 173**
Cash and short-term deposits	**–**	**402 893**	**–**	**402 893**
Other receivables	**–**	**16 728**	**–**	**16 728**
Investment in preference shares	**–**	**–**	**35 000**	**35 000**
	53 077	**2 770 065**	**364 173**	**3 187 315**
Company 2014				
Investment in listed equity investments	4 258	–	–	4 258
Investment in unlisted equity investments	65 251	–	–	65 251
Loans and receivables – advances	–	2 345 984	–	2 345 984
Held-to-maturity investments	–	–	139 413	139 413
Cash and short-term deposits	–	422 597	–	422 597
Other receivables	–	11 073	–	11 073
Investment in preference shares	–	–	37 658	37 658
	69 509	2 779 654	177 071	3 026 234

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

30 Financial risk management (continued)

Financial liabilities by category

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

	Financial liabilities at amortised cost R '000
Group 2015	
Other financial liabilities	**354 440**
Trade and other payables	**69 102**
Funds under management	**193 220**
	616 762
Group 2014	
Other financial liabilities	391 439
Trade and other payables	36 904
Funds under management	225 765
	654 108
Company 2015	
Other financial liabilities	**346 646**
Trade and other payables	**6 965**
Funds under management	**193 220**
	546 831
Company 2014	
Other financial liabilities	379 739
Trade and other payables	4 850
Funds under management	225 765
	610 354

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

31 Related parties

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

	Country of incorporation	**2015** **% equity interest**	2014 % equity interest
Gateway Homeloans Proprietary Limited	RSA	**100**	100
Gateway Homeloans 001 Proprietary Limited	RSA	**100**	100
Cape Town Community Housing Company Proprietary Limited	RSA	**100**	100
Trust for Urban Housing Finance Holdings Proprietary Limited	RSA	**34**	34
Housing Investment Partners Proprietary Limited	RSA	**33**	33
Mortgage Default Insurance Company Proprietary Limited	RSA	**100**	100

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

31 Related parties (continued)

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

	COMPANY 2015		COMPANY 2014	
	Amounts owed by/ to related parties 2015 R '000	Transactions with related parties 2015 R '000	Amounts owed by/ to related parties 2014 R '000	Transactions with related parties 2014 R '000
Cape Town Community Housing Company Proprietary Limited				
– Debentures	5 041	–	6 197	–
– Advances	267 455	–	194 002	–
– Disbursements	–	190 831	–	146 148
– Interest received	–	22 119	–	8 458
– Working capital loan	3 266	3 266	6 363	6 363
– Accounts receivable	–	8 024	–	3 098
Housing Investment Partners Proprietary Limited				
– Working capital loan	21 450	–	12 210	12 210
– Disbursements	–	200 555	–	133 039
– Interest received	–	–	–	890
– Advances	95 843	–	–	24 489
– Equity investment	–	–	–	11 920
Trust for Urban Housing Finance Holdings Proprietary Limited				
– Disbursement	45 991	45 991	6 533	6 533
– Advances	325 950	–	285 689	–
– Interest received	–	25 354	–	21 706
– Dividend income	–	2 310	–	2 162
– Equity investment	–	83 819	–	80 340

Terms and conditions with related parties

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

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

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

Transactions with key management personnel are disclosed under note 32.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

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

National Housing Finance Corporation SOC Limited

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

	Fees R'000	Salaries R'000	Bonuses R'000	Post–employment pension and medical benefits R'000	Other R'000	Total 2015 R'000	Total 2014 R'000
Non-executive Chairman							
Prof. M Katz[1]	–	–	–	–	–	**–**	–
Directors – Independent Non-Executives							
Mr J Coetzee	582	–	–	–	–	**582**	383
Ms AW Houston	267	–	–	–	–	**267**	357
Mr SS Ntsaluba	390	–	–	–	–	**390**	451
Ms PV Ramarumo	295	–	–	–	–	**295**	382
Ms S Swanepoel	287	–	–	–	–	**287**	221
Mr SA Tati	405	–	–	–	–	**405**	430
Mr PT Phili[2]	182	–	–	–	–	**182**	–
Ms D Msomi[3]	109	–	–	–	–	**109**	–
Directors' fees	**2 517**	**–**	**–**	**–**	**–**	**2 517**	**2 224**
Chief Executive Officer and Executive Director							
Mr SS Moraba[4]		3 442	1 447	389	–	**5 278**	6 440
Executive Managers/ and Prescribed Officers							
Mr Z Lupondwana		1 046	140	174	–	**1 360**	1 388
Ms N Ntshingila		1 096	344	261	–	**1 701**	1 922
Mr S Mutepe[5]		–	–	–	255	**255**	–
Mr A Chimpondah[6]		827	614	98	212	**1 751**	2 488
Mr L Lehabe		1 438	469	247	–	**2 154**	2 443
Mr S Mogane		1 185	–	261	–	**1 446**	1 593
Ms M Mamatela		1 328	538	182	–	**2 048**	2 343
Ms Z Adams		1 343	467	320	–	**2 130**	2 417
Ms T Sihlaba[7]		–	–	–	–	**–**	1 116
Management costs		**11 705**	**4 019**	**1 932**	**467**	**18 123**	**22 150**

1 Prof Katz agreed not to charge fees.
2 P Phili is a new non-executive director from the 25 September 2014.
3 D Msomi is a new non-executive director from the 25 September 2014.
4 The CEO is the only director with a service contract with NHFC. The notice period does not exceed 1 year.
5 S Mutepe resigned from the NHFC effective from 12 October 2012, an additional bonus payment was made in 2014/15.
6 A Chimpondah resigned from the NHFC effective from 30 September 2014.
7 Employee resigned in the 2014 year.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

32 Directors' and prescribed officers'/executive managers' emoluments (continued)

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

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

	Fees R'000	Salaries R'000	Bonuses R'000	Post–employment pension and medical benefits R'000	Other R'000	Total 2015 R'000	Total 2014 R'000
Chairman							
SS Moraba	–	–	–	–	–	**–**	–
Directors – Non-Executives							
AD Egbers**	15	–	–	–	–	**15**	34
R Fisher**	24	–	–	–	–	**24**	32
P Taylor**	29	–	–	–	–	**29**	78
DTV Msibi**	35	–	–	–	–	**35**	49
A Viljoen**	16	–	–	–	–	**16**	21
Directors' fees	119	–	–	–	–	**119**	214
Chief Executive Officer and Executive Director							
F Mudimu**		1 016	–	142	–	**1 158**	1 631
Key members of management							
P Jones		997	–	140	72	**1 209**	1 232
W Jurgens		917	–	119	60	**1 096**	1 053
S Stofile		314	–	44	63	**421**	574
F Moos		478	–	67	–	**545**	575
Management costs		3 722	–	512	195	**4 429**	5 065

Mr SS Moraba and Ms N Ntshingila are executives of the holding company and currently serve on the subsidiary's board; however receive no remuneration as board members.

* Other benefits comprise travel allowance.

** Resigned during the year.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

33 Events after the statement of financial position date

Trust for Urban Housing Finance Holdings Proprietary Limited (TUHF)

Discussion with management of TUHF are underway with regard to the conversion of an equity loan to "C" ordinary shares which may influence the NHFC shareholding of 33.5%.

DFI Consolidation

Human Settlement is currently supported by three DFIs, the National Housing Finance Corporation SOC Limited (NHFC), the Rural Housing Loan Fund (RHLF) and the National Urban Reconstruction and Housing Agency (NURCHA).

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

It is envisaged that the implementation of the consolidation of the DFIs will commence in the 2015/2016 financial year, with the timeframe for the final integration likely to extend over the next eighteen months, due to the requirements for enabling legislation and its enactment process.

34 Restatement of prior year comparatives

Housing Investment Partners Proprietary Limited (HiP)

Comparative figures have been restated due to changes arising from the subordinated Shareholder loans granted to investments in associates. All share of losses in associate had previously been limited to the investment in the share capital of the associate by the Group. The Group share of post acquisition losses are now recognised up to the value of the investment and subordinated loans where the Group has subordinated its loans to the investee company.

Notes to the Annual Financial Statements (continued)

For the year ended 31 March 2015

34 Restatement of prior year comparatives (continued)

	31 MARCH 2014		
	Previously reported R '000	Adjustment R '000	Restated R '000
Group Statement of Financial Position			
Non-current assets			
Loans and advances	1 864 010	(12 118)	1 851 892
Equity			
Retained earnings	1 337 782	(12 118)	1 325 664
Group Statement of Financial Performance			
Operating income	88 213	–	88 213
Fair value changes on investment	(9 225)	–	(9 225)
Bad debts	(30 322)	–	(30 322)
Finance costs	(22 789)	–	(22 789)
Share of profit of associates	9 311	(5 550)	3 761
Surplus before tax	35 188	(5 550)	29 638
Income tax expense	(19 117)	–	19 117
Surplus for the year	16 071	(5 550)	(10 521)

Performance Report for the Year Ended 31 March 2015 in terms of Section 55(2) of the PFMA

For the year ended 31 March 2015

	GROUP	
	Actual R '000	Budget R '000
Income		
Sale of goods	**198 485**	195 321
Rental of facilities and equipment	**7 827**	2 746
Interest on advances	**198 497**	181 505
Interest on investments	**24 670**	17 716
Dividends received	**753**	2 320
Other income	**17 215**	18 251
	447 447	417 859
Impairments	**(35 144)**	(60 460)
Cost of sales	**(183 674)**	(186 970)
Expenses	**(144 734)**	(147 940)
	83 895	22 489
Debt impairment	**(44 032)**	(5 179)
Finance costs	**(21 840)**	(22 978)
Share of profit of an associate	**1 234**	8 009
	19 257	2 341
Taxation	**(5 688)**	(1 603)
Surplus after tax	**13 569**	738

Performance Report for the Year Ended 31 March 2015 in terms of Section 55(2) of the PFMA (continued)

For the year ended 31 March 2015

The results of the Cape Town Community Housing Company Proprietary Limited (CTCHC) and the Mortgage Default Insurance Limited are consolidated into the financial statements. The approved budget includes the operations of the CTCHC.

The financial performance of the NHFC was impacted by the following:

- Pleasing upward trend in lending income as a result of asset growth. In spite of the liquidity constraints the year to date disbursements of R729 million exceeded the budget by 8%.
- The project activity, and in particular the Harmony Village project delivering in excess of R133 million to revenue in the financial year, contributed to the gross profit margin contribution from CTCHC of R14.8 million from sale of houses. Projects are at various stages of completion.
- Increased level on impairments. Whilst the NHFC has over the last years reported a relatively low credit loss ratio, the overall economic vulnerability of the underlying market served by the NHFC have resulted in significant impairments, relating in particular to non-banking intermediary clients and select clients involved in integrated projects.
- Group operating expenses was impacted by the once off restructuring costs of R29 million incurred during the year. The implementation of the strategic re-organisation programme is expected to lead to enhanced operational efficiencies in the medium-to-long-term amongst other objectives.
- No observable activity has been noted for the equity investment in Blue Financial Services, management still regards the R4 million to be reflective of the approximate underlying value in the equity investment. This may change as and when financial information is made available to all lenders. The unlisted investments are valued on an annual basis unless there are significant changes requiring an impairment test. The fair value of the investment in CTCHC has been impaired by an amount of R9 million together with the related goodwill of R3 million.
- TUHF continue to generate consistent profits with the NHFC Group sharing R8 million for the period, while HiP remains in a loss making position given its incubation phase.
- Investment income exceeding budget by R7 million as a result of excess cash held from settlements and sound cash management and investment policies.
- Interest paid was fairly in line with the amount budgeted.

Performance Report for the Year Ended 31 March 2015 in terms of Section 55(2) of the PFMA (continued)

For the year ended 31 March 2015

Programme 1 Summary	Expand housing finance activities through effective provision of housing finance opportunities			
Outcomes	Adequate housing and improved quality of living environments			
Performance indicator	**Actual 2014/2015**	**Budget 2014/15**	**Variance**	**Comments**
Estimated number of housing opportunities facilitated through disbursements	4 012	3 151	861	Target exceeded
Number of beneficiaries benefitting (factor of 3.8 applied)	15 246	11 974	3 272	Target exceeded
Value of funds disbursed (R'm)	729	677	52	Target exceeded
Value of approvals (R'm)	186	309	(123)	Delayed accreditation of applicants

Sub-Programme 1	Expand housing finance activities through effective provision of housing finance opportunities			
Outcomes	Adequate housing and improved quality of living environments			
Performance indicator **Estimated number of housing opportunities facilitated through disbursements**	**Actual 2014/2015**	**Budget 2014/15**	**Variance**	**Comments**
Number of Social Affordable Housing Units*	1 195	1 297	(102)	Good performance, achievement of 92%
Number of Private Rental Housing Units*	656	531	125	Target exceeded
Total Rental	**1 851**	**1 828**	**23**	
Number of Affordable Housing Units**	2 161	1 323	838	Target exceeded
Total estimated number of housing opportunities facilitated through disbursements	**4 012**	**3 151**	**861**	

Housing units include completed, transferred or occupied units.

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

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

Performance Report for the Year Ended 31 March 2015 in terms of Section 55(2) of the PFMA (continued)

For the year ended 31 March 2015

Sub-Programme 1	Expand housing finance activities through effective provision of housing finance opportunities			
Outcomes	Adequate housing and improved quality of living environments			
Performance indicator Value of disbursements (R'm)	**Actual 2014/2015**	**Budget 2014/15**	**Variance**	**Comments**
Social Affordable Housing (R'm)	234	136	98	Target exceeded
Private Rental Housing (R'm)	133	149	(16)	Delays in meeting suspensive conditions i.e. co-funded empowerment clients, otherwise satisfactory performance
Total Rental Housing (R'm)	**367**	**285**	**82**	
Affordable Housing (R'm)	362	392	(30)	Good performance, achievement of 92%
Total value of disbursements (R'm)	**729**	**677**	**52**	

Sub-Programme 1	Expand housing finance activities through effective provision of housing finance opportunities			
Outcomes	Adequate housing and improved quality of living environments			
Performance indicator Value of approvals (R'm)*	**Actual 2014/2015**	**Budget 2014/15**	**Variance**	**Comments**
Social Affordable Housing (R'm)	38	148	(110)	Delayed accreditation of applicants
Private Rental Housing (R'm)	148	161	(13)	Good performance, achievement of 92%
Total value of approvals (R'm)	**186**	**309**	**(123)**	

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

Performance Report for the Year Ended 31 March 2015 in terms of Section 55(2) of the PFMA (continued)

For the year ended 31 March 2015

Programme 2 Summary	Facilitate the increased and sustained lending by financial institutions			
Outcomes	Increased and sustained lending by private sector to human settlement developments			
Performance indicator	**Actual 2014/2015**	**Budget 2014/15**	**Variance**	**Comments**
Estimated number of housing opportunities facilitated through leveraged funds	5 100	2 853	2 247	Target exceeded
Number of beneficiaries benefitting (factor of 3.8 applied)	19 380	10 841	8 539	Target exceeded
Value of leveraged funds from the Private sector (R'm)	821	522	299	Target exceeded

Sub-Programme 2	Facilitate the increased and sustained lending by financial institutions			
Outcomes	Increased and sustained lending by private sector to human settlement developments			
Performance indicator Estimated number of housing opportunities facilitated through leveraged funds	**Actual 2014/2015**	**Budget 2014/15**	**Variance**	**Comments**
Number of Private Rental Housing Units*	4 050	2 190	1 860	Target exceeded
Number of Affordable Housing Units**	1 050	663	387	Target exceeded
Total estimated number of housing opportunities facilitated through leveraged funds	**5 100**	**2 853**	**2 247**	

Housing units include completed, transferred or occupied units.

* *Private Rental – estimated number of units arising from strategic partnership with TUHF.*

** *Affordable Housing – estimated number of mortgage loans arising from funds leveraged through strategic partnerships such as HIP, the average loan size being R400 000. Units from previously funded integrated developments mainly Space and Mettle.*

Performance Report for the Year Ended 31 March 2015 in terms of Section 55(2) of the PFMA (continued)

For the year ended 31 March 2015

Sub-Programme 2	Facilitate the increased and sustained lending by financial institutions			
Outcomes	Increased and sustained lending by private sector to human settlement developments			
Performance indicator **Value of leveraged funds from the Private Sector (R'm)**	**Actual 2014/2015**	**Budget 2014/15**	**Variance**	**Comments**
Private Rental Housing (R'm) *	321	85	236	Target exceeded
Affordable Housing (R'm) **	500	437	63	Target exceeded
Total value of leveraged funds from the Private Sector (R'm)	**821**	**522**	**299**	

* *Private Rental – mainly funds leveraged through strategic partnership with TUHF.*

** *Affordable Housing – formula applied based on historical observation of 1:4. Integrated developments and Instalment Purchase Agreements from existing commitments and projects funded previously.*

Other developmental impact				
Performance indicator	**Actual 2014/2015**	**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.*

National Housing Finance Corporation SOC Limited

Company registration number	1996/005577/30
Country of incorporation and domicile	South Africa
Board of Directors	Prof. M Katz (Chairman) Mr J Coetzee Ms AW Houston Ms D Msomi Mr SS Ntsaluba Mr PT Phili Ms PV Ramarumo Ms S Swanepoel Mr SA Tati Mr SS Moraba
Postal address	PO Box 31376 Braamfontein 2017
Bankers	Standard Bank of South Africa Limited
Auditors	SizweNtsalubaGobodo Inc Registered Auditors

Design: Creative Vision – 082 338 3742

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