20th ANNIVERSARY

NURCHA

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)

2015

ANNUAL REPORT

20th ANNIVERSARY NURCHA

Subsidy Housing

Affordable Housing

Infrastructure and Community Facilities

Contents

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

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

Rocky Park in Stanger/Kwadukuza

Mission: NURCHA initiates programmes and takes considered risks to ensure a sustainable flow of finance for the construction of low-income and Affordable Housing, community facilities and infrastructure. We work in partnership with all roleplayers in these markets to maximise the development of sustainable Human Settlements.

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

"South Africa has committed to promoting structural reforms that are needed to lift growth over the long term. Government's Medium-Term Strategic Framework sets out how we will achieve the goals of faster growth, higher employment and lower inequality in the National Development Plan (NDP)."

Third Commonwealth Stakeholders' Conference on Public Debt management and User Group Meeting by Minister Nhlanhla Nene on 17 June 2015

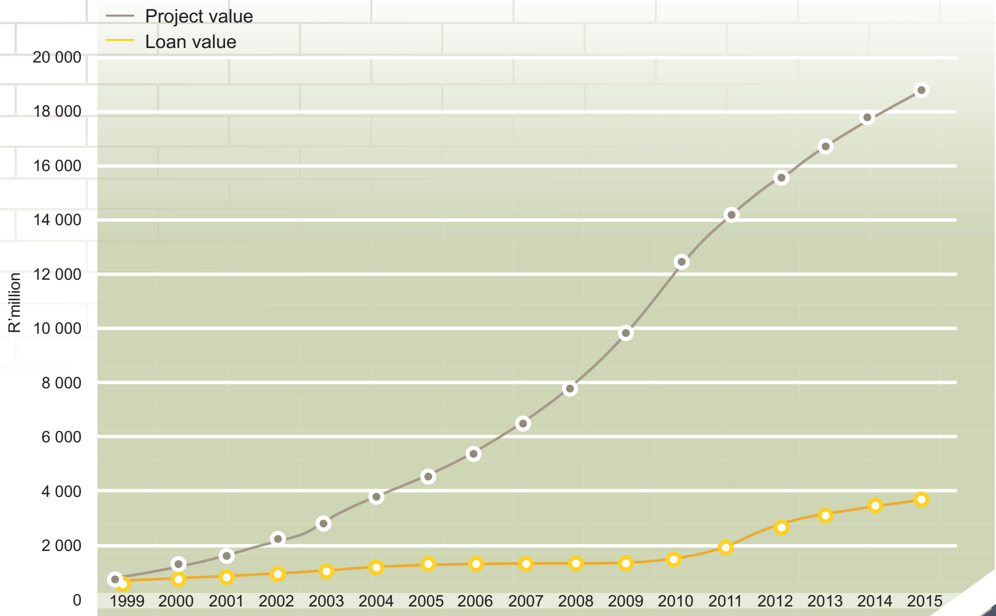
"Our programme is informed and guided by the objectives of the National Development Plan, which are translated into the 14 outcomes of the Medium-Term Strategic Framework."

Address by Deputy President Cyril Ramaphosa on the occasion of the Presidency Budget Vote Debate 26 May 2015

"It remains our responsibility to ensure good governance, eradicating extreme poverty, ensuring access to housing for the poorest of the poor and promoting partnerships for development."

Speech by Minister of Human Settlement Lindiwe Sisulu, Budget Vote 2015/16 on 7 May 2015

Project and Loan Value Timeline



KEY HIGHLIGHTS FOR 2015

Provincial capabilities and offices have been opened in KZN, EC and WC to ensure effective management of business risks and relationships with clients and stakeholders.

These regional offices are giving NURCHA the much-needed insight into the suitability of its products, growth opportunities and unique challenges of the provincial departments and municipalities.

Rocky Park in Stanger/Kwadukuza

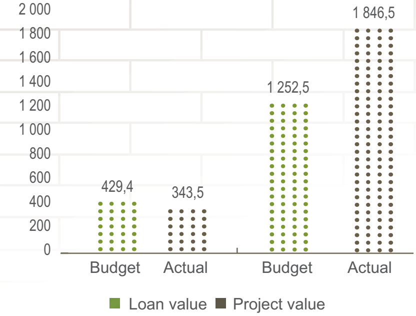
NURCHA OUTPUTS – SINCE INCEPTION TO MARCH 2015

Programme	Subsidy Housing	Affordable Housing	Infrastructure and Community Facilities	Total
Number of loans signed	959	191	283	1 433
Houses in loans signed	353 819	38 326	N/A	392 145
Houses/projects completed	256 095	31 317	184	287 596
Value of loans (Rand)	1,417 billion	1,743 billion	647,4 million	3,807 billion
Value of projects (Rand)	9,776 billion	6,738 billion	3,905 billion	20,419 billion

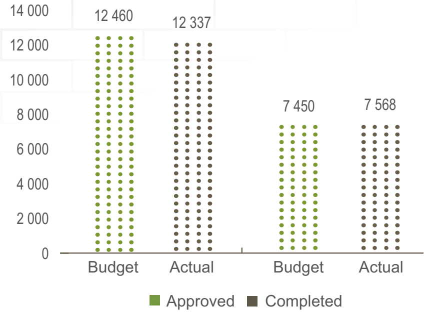
Facts and Figures

for the year ended 31 March 2015

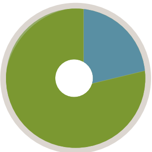
LOAN AND PROJECT VALUES (R'million)



HOUSES IN APPROVED LOANS AND COMPLETED HOUSES



COMPLETED HOUSES/SITES

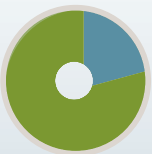


Affordable Housing (including serviced sites)	1 606
Subsidy Housing	5 962
Total	**7 568**
Infrastructure and Community Facilities Number of projects completed	0

VALUE OF PROJECTS FINANCED (R'million)

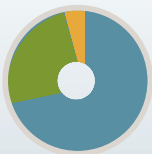
Affordable Housing (including serviced sites)	925,8
Subsidy Housing	864,0
Infrastructure and Community Facilities	56,6
Total	**1 846,5**

NUMBER OF HOUSES/SITES IN APPROVED LOANS



Affordable Housing (including serviced sites)	2 564
Subsidy Housing	9 773
Total	**12 337**
Infrastructure and Community Facilities Number of approved projects	0

VALUE OF LOANS FINANCED (R'million)



Affordable Housing (including serviced sites)	246,6
Subsidy Housing	81,8
Infrastructure and Community Facilities	15,1
Total	**343,5**

Organisational Structure

Department of Human Settlements (Members)

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

SEDF (Members)

LEVERAGED FINANCE
- Capital Markets
- Development Institutions

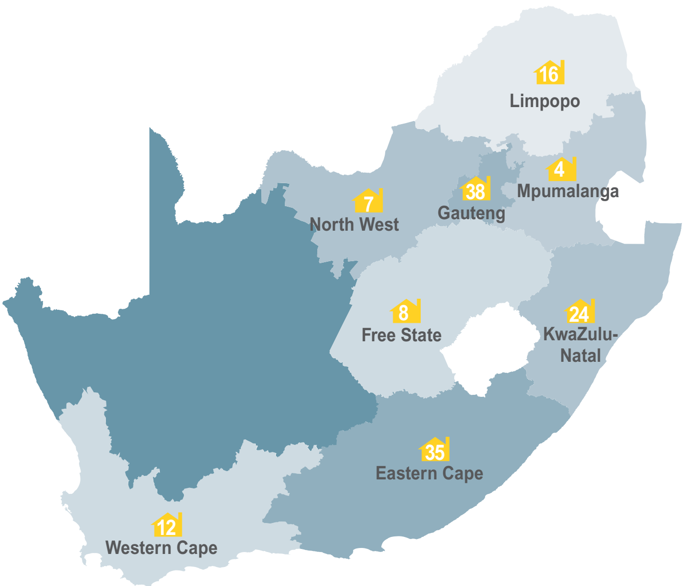
NURCHA 100% OWNED SUBSIDIARIES

- NURCHA Loan Fund (NLF) Affordable Housing (PIC) Developer
- NURCHA Bridging Fund (NBF) Affordable Housing Developer (CADIZ)
- NURCHA Equity Services (Pty) Ltd (NES) Affordable Housing Developer (FNB)
- NURCHA Finance Company (Pty) Ltd (NFC) Subsidy Housing Contractors (NURCHA)
- NURCHA Management Services (Pty) Ltd (NMS) * Fee-based business (NURCHA)
- NURCHA Development Finance (Pty) Ltd (NDF) Infrastructure Contractors (NURCHA)

NURCHA Direct Financing

** Previously Joint Equity Investment in Housing (JEIH)*

NUMBER OF PROJECT LOANS BY PROVINCE (2014/2015)



Members of the Board

Chairman and executive directors

1. Khehla SHUBANE

Board Chairman
Independent non-executive director

BA (Hons), MBA, Social Science

Date of appointment:
16 May 1995

2. Viwe GQWETHA

Managing Director

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

Date of appointment:
22 August 2007

3. Adél STRUWIG

Executive Director: Lending Portfolio

BCom, MBA, Banking Finance and Credit

Date of appointment:
1 October 2013

4. Sindisa NXUSANI

Financial Director

BCom, CTA, CA(SA), Financial Management

Date of appointment:
14 March 2007

"That all people shall have the right to live where they choose, be decently housed, and to bring up their families in comfort and security – Minister Lindiwe Sisulu."

Non-executive directors

1. Zyda RYLANDS

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

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

Date of appointment:
16 August 2006

2. Thulani NZIMAKWE

Audit Committee chairman; Independent non-executive director

BCom, BAcc, CA(SA), Financial Management

Date of appointment:
4 July 2001

3. Webster NDODANA

Independent non-executive director

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

Date of appointment:
16 August 2006

4. Linda SING

Financial Risk Committee chairperson; Independent non-executive director

BCom (Hons), MBA, MPhil, Banking, Finance

Date of appointment:
18 August 2009

5. Knowles OLIVER

Independent non-executive director

BCom, CA(SA), Financial Management

Date of appointment:
26 June 1997

6. Cedric DE BEER

Non-executive director (SEDF nominee)

BA, Strategic Leadership

Date of appointment:
26 June 1997

7. Maleho NKOMO

Independent non-executive director

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

Date of appointment:
16 August 2006

8. Hendrik Petrus PRINSLOO

Independent non-executive director

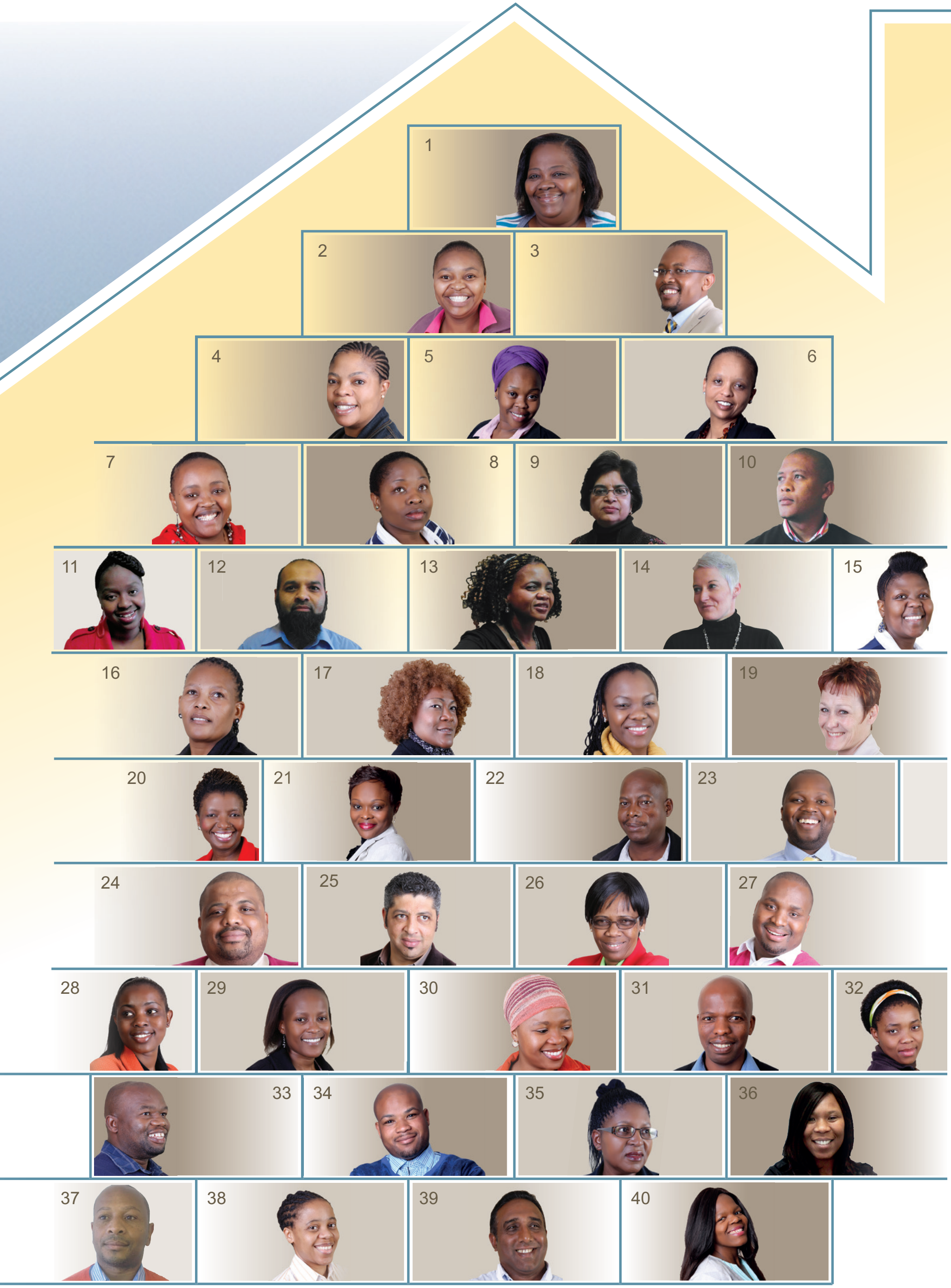
BSc Agricultural Economics, MBA, Diploma in Solvency Law, Certificate of Financial Markets

Date of appointment:
12 March 2014

Our People

1. Bernie; 2. Octavia; 3. Tshepang; 4. Nonti; 5. Keitumetse; 6. Ann-Jeannette; 7. Hlengiwe; 8. Mpho; 9. Sabera; 10. Kgosi; 11. Refiloe; 12. Junaid; 13. Khumo; 14. Roelien; 15. Portia; 16. Sophie; 17. Phangi; 18. Busi; 19. Cheryl; 20. Kgabo; 21. Mina.

22. Tlou; 23. Dini; 24. Eazy; 25. Zack; 26. Thembeka; 27. Qaqambile; 28. Pfunzo; 29. Carol; 30. Mpotsang; 31. Khotso; 32.Thandeka; 33. Jabu; 34. Given; 35. Ntsiki; 36. Nohle; 37. Oscar; 38. Nomvula; 39. Dean; 40. Boitumelo.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Foreword by the Chairman

Khehla SHUBANE

In the financial year under review, NURCHA celebrates 20 years of existence and it is worth celebrating this milestone as well as the many achievements that go with it.

It was 20 years ago when the effort of housing practitioners and activists both in and outside Government produced a business plan that established the National Urban Reconstruction and Housing Agency (NURCHA). The initiative was accorded the status of a Presidential Lead Project and its aim was to plug a financing gap until the "normalisation" of the financial markets had taken place. The envisaged lifespan of NURCHA was five to ten years by which time the financial markets were expected to be inclusive, giving financial access to individuals and enterprises that were lower down in the income pyramid and had historically been excluded.

In the financial year under review, NURCHA celebrates 20 years of existence and it is worth celebrating this milestone as well as the many achievements that go with it. More important is to draw lessons that might be valuable in shaping the future of the development dialogue and asking pertinent questions on how development finance interventions can be made more effective and transformative.

In the 20 years of NURCHA's existence and 21 years of South Africa's democratic dispensation, the ideal of "market normalisation" is far from being realised. The enormity of the

> "NURCHA succeeded in carefully managing its resources, leading the organisation to achieve unqualified audit outcomes for the entire 20 years of its existence."

Rosslyn in Pretoria

Facts about Savings-linked Housing Finance Programme

This started as Incremental Housing Programme initiated in partnership with Ithala Bank.

Ithala provided loans backed by NURCHA Loan Guarantees.

The saving demonstrated household commitment to monthly payments and served as some collateral once the household secured the loan.

The programme was propelled by incorporation in Government housing policy that required a household to save R600 towards housing for subsidy eligibility.

By 2001 had mobilised 27 000 savers.

The programme, however, fizzled out due to change in the saving quantum to R2 479 and inconsistent policy implementation across provinces.

NURCHA terminated the programme in 2004/5 financial year.

challenge is much more pronounced today as efforts by Government and the private sector have not yielded all the outcomes envisaged at the dawn of democracy. In this regard the impact of three Human Settlements sector development finance institutions (DFIs) – NURCHA, NHFC and RHLF – in creating more inclusive financial markets was reviewed. Government took a view that scale and impact could be achieved if the DFIs were consolidated into a single entity.

While the mechanics of this consolidation process seem to be progressing smoothly, there has been a dearth of development dialogue on specific measures and interventions to translate the organisational size and balance sheet into the desired impact. Perhaps it is time for the type of development dialogues that informed many platforms, such as the historic National Housing Forum, which gave rise to some significant policy instruments, development mandates and organisations such as NURCHA at the dawn of democracy. While there is cause to celebrate achievements of NURCHA's past 20 years despite some stubborn hurdles and limited resources, the 20-year milestone is perhaps an opportune time to cast our thinking into the future, and rigorously ponder critical elements that the forthcoming Human Settlements DFI needs to achieve in the next 20 years. In other words, how can lessons from the past 20 years inform the next 20 years for the new DFI?

The two NURCHA eras

NURCHA's business and historical evolution is best captured in two broad eras. The first era (1995 to 2002) was when NURCHA provided guarantees to housing-related loans issued by banks to either households or contractors and developers building housing units. The second era (2003 to date) saw NURCHA acting as a direct lender to contractors and affordable housing developers.

In both eras NURCHA registered notable successes such as collaboration with international DFIs and commercial lenders and successfully leveraging financing facilities that have created the 392 000 housing opportunities since its inception. With vigour and clarity of vision as a DFI, NURCHA pioneered innovative lending products for both the supply and demand side of the market and also showed a keen risk appetite, creating opportunities for access to finance by new markets. These products enabled small and medium contractors to gainfully participate in the construction industry. While responsive to its development mandate, NURCHA also succeeded in carefully managing its resources, leading the organisation to achieve unqualified audit outcomes for the entire 20 years of its existence.

Lessons from the past

However, given the role and expectations of NURCHA as a DFI, this 20-year milestone will be better served by reflecting on important lessons that could be learnt, particularly in relation to impact and the goal of creating inclusive financial markets that serve as a catalyst for economic growth, and inclusion and development of the poor and marginalised. Furthermore, with the consolidation of the three DFIs that is under way, it is important to reflect on lessons from the past and hopefully set new foundations for the new DFI to succeed in its work.

A look at the past 20 years shows that there was scope in the collaborations for commercial banks to do more to open channels for financial inclusion than was done. In its first seven years, NURCHA offered guarantees to underwrite bank loans that facilitated financial inclusion and risk sharing. The targeted areas were incremental housing, rental and bridging finance for contractors and developers. NURCHA's loan underwriting products attracted banks and micro-lenders to the low-income sector and, accordingly, moderated risks to acceptable levels for commercial banks.

Facts about NURCHA's Women Contractors' Empowerment

Women contractors make up 60% of both loan value and number of contracts of the Subsidy Housing loan book.

NURCHA approved 14 bridging finance loans amounting to R78 million to women contractors in 2014 to 2015.

The approved loans will enable the construction and completion of 7 328 housing units and serviced stands in 2015 to 2016.

Preferential pricing is offered to women contractors.

NURCHA was instrumental in the establishment of Khuthaza (Women in Construction) and housed them for a period of two years in its offices.

Financed three women contractors, Myrtle Petersen, Nosipho Patricia Msibi, Grace Kgomongwe, that were instrumental in hostel upgrading in Gugulethu and Langa in Cape Town and in the LONMIN mines in Rustenburg.

First contractor to be financed by NURCHA was in SOWETO owned by Ms Frances Alberts, affectionately known as "Charm".

The lending on the back of guarantees was well received across the board, although participation was uneven and the appetite of the banks was quick to diminish. There may well be justifiable reasons related to the ability to scale-up, as well as administrative processes that perhaps did not fit well with established operating systems and so on.

In spite of all the reasons, there is a strong argument to be made that commercial lenders did not use the window of guaranteed loans to earnestly innovate on products that would develop viable low-income market lending products in order to promote financial inclusion. In an economy burdened by high levels of unemployment, inequality and poverty, our development dialogue should seek ways to get key private sector participants, such as banks, to do more in search of solutions to accelerate transformation and financial inclusion. The new DFI is expected to continue to build new collaborations to energise innovations on financing products and help mainstream those into viable and commercial products for wider adoption by the market.

On the other hand, some smaller banks and micro-lenders embraced the enablers and risk-sharing mechanisms provided by NURCHA. The African Bank, Ithala Bank, the now-defunct King Finance and other micro-lenders reengineered and mainstreamed new products for their niche low-income markets and registered growth in their markets and loan portfolios. However, the successes were short-lived, lasting only between three to five years. While these pioneering financial institutions gave the sector a glimpse of what was possible and viable in their niche markets, they later suffered significant defaults. Both lenders and contractors were largely affected by weak contract and payment management processes of Housing Boards. Lenders in incremental housing were largely affected by the era of high interest rates in the economy. Invariably, NURCHA experienced high payouts on claims against guarantees.

The experiences alluded to above point to challenges in the operating environment that escalated risks and created hurdles to the achievement of the desired impact. Contract administration and payment flow weaknesses have remained a major feature of risks in the operating environment and got worse at particular points, varying from province to province. NURCHA suffered a second episode of defaults between 2007 and 2010 due to the global financial crisis. These subsequently led to significant write-offs and adoption of stringent lending rules to restore NURCHA's sustainability. Worth noting is that these two events of major defaults triggered significant changes in product offerings and financing models. In 2002, NURCHA switched from issuing guarantees to commercial lenders to direct lending to developers and contractors. Similarly, in 2012, NURCHA undertook a major restructuring process and terminated the use of intermediaries in its lending model.

The common thread during points of critical strategic deliberations about the operating environmental risks, strategic direction or product changes was about the role of NURCHA as a DFI and its duty to take considered risks with products that advanced fulfilment of its mandate. Evident in these deliberations were different views about how much risk NURCHA could take to satisfactorily meet shareholder and stakeholder expectations. The outcomes of such strategic discussions always reflected delicate trade-offs between risks associated with stretching market boundaries and the issues of financial sustainability and avoiding erosion of capital.

What also featured prominently in these discussions and decision-making processes were constraints imposed by factors beyond NURCHA's control that related to the environment in which the organisation operated. These were largely in the realm of shareholders and key stakeholders and requiring stronger collaboration in mitigating some of the risks that made the flow of finance to contractors suboptimal. Therefore, a case can be made that at certain points in NURCHA's evolution, strategic decisions about the direction of the organisation reflected a need for self-preservation and sustainability in light of a risky operating environment rather than progression in economic inclusion.

At the same time, there was an absence of focused constructive engagements among some key stakeholders in order to achieve a convergence of opinion about the importance of access finance for contractors to enhance their chances of gainful economic participation and, overall, help transform the sector. For success to be registered in the drive for rapid economic transformation these frame conditions have to occupy centre stage of collaborations and removal of barriers.

To this end, the new institution should demonstrate leadership that facilitates collaborations, investments and human energies towards the achievement of desired development outcomes.

Such a bold step by the new DFI will go a long way towards the achievement of the following:

- Collaborative implementation of Human Settlements policies, programmes and financial instruments to achieve efficient, inclusive and integrated cities.
- Providing financial instruments that accelerate the supply of a wide choice of affordable housing solutions.
- Providing financial instruments that facilitate gainful participation of contractors and developers and easing inclusion of the marginalised groups such as women, the youth and people with disabilities.
- Participatory and empowering programmes for the indigent households to develop adequate shelter.

In conclusion, the celebration of NURCHA's 20-year milestone renders an opportunity to reflect on the current socio-economic context and how the Human Settlements sector defines the new frontier for the achievement of economic inclusion. The country is still facing daunting historical developmental challenges of high levels of unemployment, inequality and poverty, which require concerted and collaborative efforts by all sectors of society for lasting change to the current socio-economic conditions.

As we celebrate 20 years of NURCHA's existence, we also remember former President Nelson Mandela who invested his energy to rally participation and investment by eminent persons in South Africa and abroad to establish NURCHA. On the establishment of NURCHA in August 1995, Mandela wrote: *"The South African Government of National Unity has given high priority to housing development as part of the Reconstruction and Development Programme. The National Urban Reconstruction and Housing Agency (NURCHA) has been established as a Presidential Lead Project to fill a critical niche in housing development in South Africa over the next 5 to 10 years."* He further emphasised that: *"It is our hope that development agencies and the private sector will match the lead given by government and Mr George Soros by making available additional funds and guarantees in order that NURCHA may fulfil its rich potential."* He viewed collaboration as important and his words were: *"It is through such creative partnerships that development, peace and economic growth can be achieved in our country."* NURCHA is proud to have worked with enthusiastic shareholders, stakeholders, clients and beneficiaries to deliver on this noble development finance mandate.

Khehla Shubane
Chairman

"The South African Government of National Unity has given high priority to housing development as part of the Reconstruction and Development Programme. The National Urban Reconstruction and Housing Agency (NURCHA) has been established as a Presidential Lead Project to fill a critical niche in housing development in South Africa over the next 5 to 10 years –"
The late former President Nelson Mandela

Managing Director's Report

Viwe GQWETHA

An annual average of 2 600 households get to own a home, title to an asset and, a better, comfortable and a more secure life for families.

A year of change

As NURCHA celebrates 20 years, it is proud to have played a significant role in the Human Settlements sector. As a Development Finance Institution (DFI), NURCHA has been a significant catalyst in housing provision for the low-income categories of the population. The 20 years of its existence is marked by innovations and continuous organisational evolution driven by the sole purpose of ensuring sustainable flow of developmental finance to contractors and developers in the Human Settlements sector. Out of these efforts, NURCHA has financed R20,4 billion worth of projects within its mandate.

In the Subsidy Housing segment, lending activities to contractors since inception have translated into 256 000 housing units borne out of 956 project bridging finance loans issued. NURCHA's bridging finance has been a significant catalyst to the subsidy category of the residential market and has financed approximately 10% of all units constructed since 1994. More so, it has facilitated gainful participation of a large number of contractors in the industry.

> The Affordable Housing Programme has grown to be the most prominent pillar of the current loan book.

Witbank/Ephraim Mogale Heights

Facts about Affordable Housing

NURCHA ventured into Affordable Housing financing on the strength of funding provided by the then National Department of Housing. The fund was called the Joint Venture Development Fund (JVDF).

Twelve years later NURCHA boasts a series of successful partnerships with various commercial funders and international DFIs and issues R1,7 billion worth of loans to Affordable Housing developers.

To date the programme has financed 191 projects valued at R6,74 billion and yielding 38 326 affordable mortgage housing units across provinces.

Drive to finance higher density projects is yielding results with 41% (R573,3 million) of the Affordable Housing loan book made up of sectional title three-storey ‘walk-up’ developments by March 2015. It has to date active loan commitments of R607,2 million to 33 projects, including GAP housing across the country.

Affordable Housing is highly undersupplied and caters for the lower middle-income group employed in the civil service and private sector.

The programme finances development of 10% of new Affordable Housing units in the SA market per annum.

The Affordable Housing Lending Programme is in its 12th year of existence. It has grown to contribute approximately 10% of the new Affordable Housing units in the South African market. To date, the programme has financed 38 326 units and completed 31 317 by March 2015 in 191 projects valued at R6,74 billion. An annual average of 2 600 households get to own a home, title to an asset and, a better, comfortable and a more secure life for families. These houses are in areas that give better access to places of employment, education, shopping and other amenities. In the year under review, NURCHA's portfolio of medium-density sectional title developments has grown, giving weight to issues on location, access to amenities and improvement in urban densities.

The above achievements were made possible by Government grants, starting with the establishment grant of R61 million in 1995 and a further re-capitalisation of R300 million in the last three financial years. The long-standing and founding partnership with Soros Economic Development Fund (SEDF) also leveraged significant resources in support of the SA Government's development goals and NURCHA's mandate in particular. A Rand-denominated interest-free loan equivalent to the establishment grant by Government was contributed towards NURCHA's initial equity. In addition, a guarantee from the Overseas Private Investment Corporation (OPIC) secured a R180 million lending facility for emerging contractors and R85 million for Affordable Housing developers over a period of 10 years. This partnership has enabled NURCHA to achieve notable development impact in the 20 years of mandate pursuit.

In the year under review, NURCHA is reporting successful implementation of its turnaround strategy that was initiated three years ago primarily to deal with the high levels of defaults that threatened the going-concern status of the organisation and its ability to continue with the pioneering work of the past 20 years.

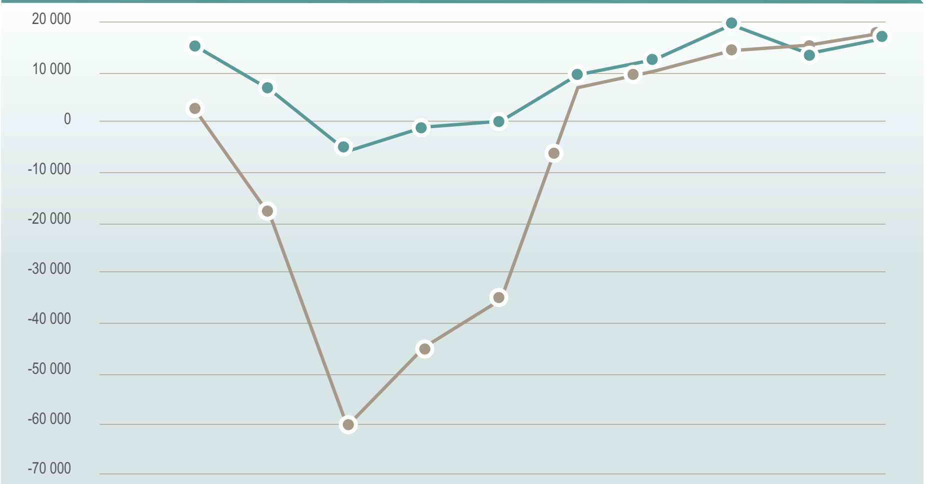
Year under review

The year under review is the third year of NURCHA's five-year strategic plan, which is underpinned by two goals of deepening relevance to the developmental mandate and restoration of organisational sustainability. The strategy was a turnaround plan crafted in response to turbulence in the domestic economy, underperformance in the construction industry and also internal organisational challenges. In the previous financial years (2012 to 2014), NURCHA reported positively on the success of the strategy. For three financial years in succession NURCHA has reported positive financial results with surpluses both before and after impairments. This is positive and encouraging progress against the backdrop of the challenges experienced a few years ago. NURCHA is pleased to report that operations are back on a stable footing as trends show in the graph on page 19.

To sustain these results amidst a combination of high construction and lending risks, management is vigorously pursuing stronger partnerships with Provincial Departments of Human Settlements and Municipalities. This process intensified in this reporting year to secure buy-in around NURCHA's lending framework and deepen access to finance beyond what has been achieved to date. Unfortunately, the envisaged commonly agreed protocols between NURCHA and key roleplayers in the sector have not yet been signed. When in place, these legal protocols will enable NURCHA to step up its lending volumes and development programmes to achieve higher impact and create more opportunities for small and medium contractors.

Provincial capabilities and offices have been opened in KwaZulu-Natal, Eastern Cape and Western Cape to ensure effective management of business risks and relationships with clients and stakeholders. The capabilities are a critical element of consolidating the new business model and the newly established direct relationship with clients. These regional offices are giving NURCHA the much-needed insight into the suitability of

FINANCIAL PERFORMANCE



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual audited (R'000)							Budget (R'000)		
— Surplus/(deficit) before impairments	15 380	6 733	(5 696)	(798)	408	9 788	12 878	19 896	14 074	17 195
— Surplus/(deficit) after impairments	3 149	(18 826)	(61 315)	(45 359)	(35 707)	7 178	10 526	14 666	15 765	18 332

its products, growth opportunities and unique challenges of the provincial departments and municipalities.

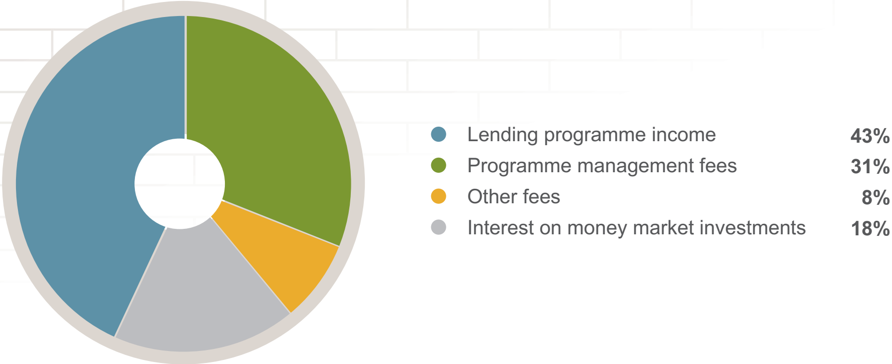
Financial performance

In the year under review, and in line with targets set forth in the previous annual report, NURCHA is pleased to report a surplus of R10,53 million after administrative costs and impairments. NURCHA has made credible strides in both pillars of the five-year strategy – that is deepening relevance to the developmental mandate and restoration of financial viability.

The strategy has been driven by diversification of core business activities (sources of income) and effective implementation of risk mitigation measures to maintain the loan book healthy. In the year under review, income was derived from the three major income streams, being interest-based income from the lending portfolio; fees generated through the Programme and Fund Management Portfolio, and money market investments contributing gross revenues of 43%, 31% and 18% respectively. An additional 8% is largely made up of bad debt recoveries in the figure shown on page 20.

Loan book management and risk mitigation have stabilised and, in the year under review, NURCHA reports an increase of only R2,4 million, ending the year with 16% in provisions for losses against a four-year peak of 35%. Also worth noting is that the bigger portion of current impairments date back to 2011 when the business turnaround was

SOURCES OF INCOME



initiated. Administration overheads were also kept under control and in line with performance on the income side.

Lending business portfolio

The business processes of the new lending portfolio are now established and automation is at advanced stages of commissioning. The lending team has set a solid foundation and is responding to shareholder expectations such as improvement in geographical spread of lending activities across provinces, focusing on mining and fast-growing towns, and easing lending rules and setting up special programmes to reach marginalised groups such as women, the youth and people with disabilities.

Affordable Housing Lending Programme

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

Over the past three years, NURCHA also changed the distribution of its lending capacity to demonstrate focus on the Affordable Housing segment. In this reporting period, 75% of lending capacity is invested in Affordable Housing to address the acute undersupply of new housing units. In this regard, NURCHA is challenged but encouraged by the MTSF targets set by the NDHS for the sector and the Ministerial commitment to mobilise all key roleplayers to rally around achievement of these targets. To achieve the desired outcomes will take collaboration of key stakeholders and integration of various critical initiatives, as well as removal of hurdles hampering optimal performance of the housing delivery value chain.

Strategic initiatives, such as focus on mining towns, employer-assisted housing and financial instruments, such as FLISP and MDI, could stimulate vibrancy of both the supply and demand side of the Affordable Housing market. NURCHA also has ongoing engagements with residential developers to find ways of stimulating the flow of project finance to well-located, higher-density developments in sectional titles and rental housing (including student accommodation) and infill opportunities. In the same vein, there are continuing discussions with financing partners to review and/ or restructure financing facilities to be responsive to market requirements, thereby widening the Affordable Housing segments financed. These discussions have been slow in yielding results due to market anticipation of the DFI consolidation. In this regard it is in order to acknowledge financing partners such PIC, FNB, Futuregrowth and CADIZ who have made it possible for NURCHA to fulfil its mandate.

Subsidy Housing and Infrastructure Lending Programme

This programme is largely directed at financing working capital requirements of contractors who are delivering subsidised housing projects undertaken by Provincial Departments and municipalities across all provinces. Bridging finance remains the key part of the construction industry as it oils the delivery machinery of all contractors in the industry regardless of size. However, the strength of the balance sheet distinguishes contractors and almost predetermines access to finance or lack thereof. The South African construction industry is, also, confronted by transformation challenges where only a small fraction of contractors has access to financing channels from commercial lenders on a consistent basis.

It is the excluded category of contractors that NURCHA is seeking to uplift. Their distinguishing feature is the non-existence of tangible collateral to secure the loans issued. Further to the unsecured nature of the loans are construction risks that arise from contractors or their employers. These relate to many aspects, such as quality of work, contract terminations and delayed payments, which have a negative impact on the project cash flows, project viability and ability of some contractors to complete their project and repay the loan.

In the previous financial year, NURCHA initiated a pilot programme in the Nelson Mandela Bay Metropolitan Municipality (NMBMM), called the Contractor Finance and Development Programme (CFDP) with 13 contractors of which 80% are women, providing them with intensive mentoring support. To increase the impact of this initiative, NURCHA is establishing close collaboration with all the key stakeholders to overcome various hurdles confronting contractors and denying them access to finance. The partnership brings together complementary services such as contract management, training, support, mentoring and finance.

The Subsidy Housing Lending Programme lost significant lending capacity after a funding partnership spanning 10 years came to an end in 2013/2014. The financing facility leveraged a lending facility from FNB on the back of a R180 million guarantee from the Overseas Private Investment Corporation (OPIC). The financing in this stream of the market remains a high risk. It is important for lenders and Provincial Departments to work together to alleviate these risks to ease the flow of finance from commercial banks. In spite of the highlighted risks, NURCHA has financed 1 143 projects since inception, including infrastructure projects, to a sum of R13,8 billion in project values. In addition to the SEDF/OPIC/FNB partnership, the Netherlands Development Finance Institution (FMO) and Futuregrowth partnered with NURCHA to create lending facilities for contractors.

Programme and Fund Management Portfolio

The decision made three years ago to enter the programme management arena was largely spearheaded by the need to complement programme and project management capabilities in the sector in addition to diversifying NURCHA's income base. NURCHA engages with the provinces or municipality to jointly find resolution to developmental challenges. The Programme and Fund Management Portfolio was born out of pro-active interventions of this nature.

In the past three years, NURCHA has supported various initiatives across the provinces. In the Free State province, NURCHA has supported the Human Settlements Department with programme and project management capabilities and processes. In KwaZulu-Natal, NURCHA continues to serve a Community Resource Organisation (CRO) responsible for account administration in the Vulindlela PHP project. While complex in structure, the project is an innovative housing delivery process that seeks to deliver at scale, yet participatory in nature. NURCHA also participated in the national effort to eradicate the bucket sanitation system in underserviced areas in the Eastern Cape. It co-ordinated collaborations among many stakeholders across spheres of Government and made a notable impact in the reduction of backlogs in eight municipalities, including Makana, Ndlambe, Steynsburg and Indwe.

The Programme and Fund Management Portfolio has contributed to the diversification of income sources. In the year under review, the gross income contribution of the portfolio to total revenue is 31%.

Credit risk and control environment

Moderate to high-risk lending defines NURCHA's business and the environment in which it operates. With stringent in-house controls and new credit rules, NURCHA has arrested the rise in provisions for losses seen in four to five years. The rise in provisions for losses has reduced from a R61 million peak four years ago to R2,3 million in the year under review.

Concentration risks in Affordable Housing have reduced as new clients taking up loans have diversified the loan book. In the year under review, there are 32 active Affordable Housing projects among 18 developers. Furthermore, 44% of new Affordable Housing loans signed were in favour of new clients. In instances where the size of the projects or concentration risks become a challenge, NURCHA adopts co-financing arrangements to mitigate exposure risk.

In the previous report, NURCHA also undertook to improve controls in supply chain management. NURCHA is pleased to report significant improvements. Management is looking forward with enthusiasm to revise its policies in this area to be in line with the new BBBEE codes to ensure compliance and the transformative impact these will have to the industry and economy.

The year ahead

The focus of the financial year 2015/2016 will be on the pursuit of development targets as set out in the APP and sector's MTSF targets. At an operational level, plans are afoot preparing for the DFI amalgamation. The energies will be directed at ensuring that business does not suffer from risks associated with the transition. Engagements with the Executive Authority and key stakeholders will be intensified to ensure effective management of associated risks and expectations. At a management level, change management measures have to be put in place to ensure that the viability and vibrancy of the organisation is kept alive and well through the transitional phase.

From NURCHA's perspective there are three critical issues that will also permeate the development strategies in the Human Settlements sector in the coming years:

1. The socio-economic challenges of unemployment, inequality and poverty are still bedevilling the domestic economy and the sector. The development institutions have to devise strategies that enhance inclusive development and economic growth with employment. It is hoped that the current dialogues around development and how far the young SA democracy has come have awakened the corporate and public sector alike to the slow and complex nature of transformation and greater need for collaboration.
2. The energy challenges experienced in the last few years should force energy saving and environmental issues in general into a cross-cutting issue in all sector development strategies.
3. The socio-economic challenges find expression in the development of our cities. The Human Settlements sector, in collaboration with other sectors, has to use policy instruments at its disposal to pursue the desired outcomes of efficient, inclusive and productive cities.

It is comforting that all these ideals have been articulated in the NDP, and the challenge for organisations such as NURCHA is to translate these into development strategies and milestones that measure progression towards the desired future.

Management wishes to thank the clients, stakeholders, including funding partners, the Board and the Executive Authority and staff at large for the support and contributions towards attainment of the 2014/2015 financial year results and achievements of the last 20 years.

NURCHA also mourns the passing of its long-serving Board member, Mr Knowles Oliver, who passed away on 24 June 2015.

Viwe Gqwetha
Managing Director

"It is comforting that all these ideals have been articulated in the NDP, and the challenge for organisations such as NURCHA is to translate these into development strategies and milestones that measure progression towards the desired future."

Review of Operations
Lending Portfolio: Overview

Introduction

The portfolio earns its income from interest and fees charged to clients for access and utilisation of approved loan facilities. All facilities are of a short-term nature, typically not exceeding 24 months. In the event of Rental Housing projects, NURCHA will provide the short-term funding required during construction, and will approve projects where the client has secured takeout finance from a long-term financier. Long-term finance is usually obtained from commercial banks, fund managers or other financiers such as the NHFC.

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

Lending Portfolio 2014/2015 in perspective

- The Affordable Housing Programme constitutes 78% of NURCHA's total loan book and is testimony to the successful balancing of investments to largely support the delivery of various types of housing. The exposure on this programme increased with 30% from R178 million in the previous financial year to R233 million in this financial year. The increase in the exposure of the Affordable Housing loan book is primarily due to the increased number of sectional title projects financed in order to meet the demand for urban densification. The drive for client and geographic diversification remains a priority, together with other sector objectives.
- In the year under review, efforts were dedicated to support the objectives of the National Development Plan, specifically:
  - **Housing delivery in mining towns and labour sending areas:**
    - > NURCHA is actively engaging with stakeholders in mining towns, the NDHS and the HDA to explore lending opportunities on priority projects as per SIP.
    - > To date, NURCHA has funded and completed six Affordable Housing projects and two Subsidy Housing projects with total loan values of

Lilyfield in Midrand

> *"The Lending Portfolio includes all lending activities directed at financing the delivery of new housing opportunities by developers and contractors in the low- and middle-income residential market."*

R79,9 million, delivering 841 affordable houses and serviced sites in the mining town Malahleni, Mpumalanga, and 845 Subsidy Housing units in Matlosana and Emalahleni.

> Included in the current loan book is a further two active Affordable Housing loans in the mining towns of Evander and Hendrina in Mpumalanga with total loan values of R41,9 million for the construction of 324 Affordable Housing units and 51 serviced sites and four active Subsidy Housing loans with total loan values of R23,8 million for the construction of 3 500 Subsidy Housing units and rectification of 201 Subsidy Housing units in Rustenburg, Matjhabeng, OR Tambo DM and Alfred Nzo.

– **Delivery of Rental Housing stock:**

> Included in the Affordable Housing loan book are two active Rental Housing projects with total loan values of R29,9 million, which will deliver 175 rental units.

– **Economic empowerment of women and youth contractors:**

> Fourteen loans with a total loan value of R78,54 million were approved for women-owned and women-empowered contractors during the current financial year. These projects will deliver a total of 6 548 housing units across five provinces.

– **Employment creation:**

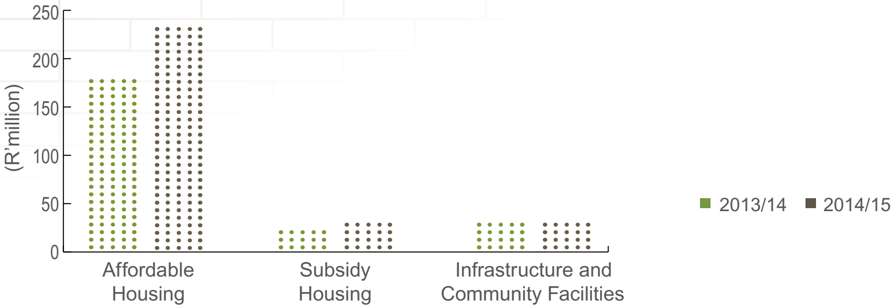
> NURCHA tracks labour statistics on all active projects financed. In the 2014/2015 financial year, the total number of labour employed on Affordable and Subsidy Housing projects financed by NURCHA was 32 052 skilled and unskilled individuals.

– **Military Veterans:**

> One Subsidy Housing loan with a loan value of R4,5 million was approved for the delivery of 200 Subsidy Housing units for military veterans in Lukhanji in the Eastern Cape.

- The graph below shows loan exposures and distribution of debts across the three lending programmes from the previous reporting period as a result of deliberate intervention to drive desired organisational outcomes.

DISTRIBUTION OF DEBTS ACROSS LENDING PORTFOLIOS



- NURCHA, through its wholly owned subsidiaries, has established funding capacity through facilities from funding partners such as OPIC, SEDF, Futuregrowth, PIC and CADIZ to finance the supply side of the housing market. The OPIC facility matured and was repaid in 2013/2014. The Futuregrowth facility also matured and was repaid in the financial year under review. A R300 million grant transferred to NURCHA in three equal tranches as from the financial year 2011/2012, strengthened NURCHA's balance sheet and financial position to leverage private sector partnerships. Replacement funding is sought for the OPIC and Futuregrowth facilities, but has proven to be a challenge in light of the imminent DFI consolidation and the uncertainty of the new DFI's consolidated financial position. NURCHA has since submitted a request for additional grant funding of R500 million to the National Treasury, of which R200 million will be earmarked for the funding of Subsidy Housing projects, to reinforce NURCHA's funding capacity.
- Due to lending risks and the need to tighten controls, as well as responsiveness in contractor financing streams, NURCHA terminated the intermediary lending model in 2012 and amended its business processes and credit rules to support direct lending to applicants in these programmes. These changes in products and delivery channels required intensive marketing and direct interaction with contractors across provinces. NURCHA, however, prevails in all provinces and plans are afoot to re-establish the provincial capabilities afresh and restore growth in the Subsidy Housing Programme.
- The focus of the Lending Portfolio team is to apply all risk management instruments at its disposal to ensure healthy growth of the loan book and keeping overdue accounts and defaults to a minimum. Development of the new NURCHA Loan Management System (LMS) for the Affordable Housing Programme has been finalised and the system is at commissioning stage pending the completion audit.

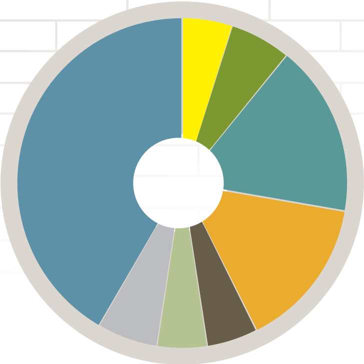
- The table below provides a summary of the ageing of the loan book. There are R52 million worth of overdue debts of which R23,5 million is a residual from the historical delinquent book before June 2011. The balance of the overdue debts is primarily due to a single debtor in the Affordable Housing Portfolio that was placed in liquidation by a third party and two Infrastructure and Community Facilities projects where one debtor was placed in liquidation and the other fraudulently diverted funds. Legal proceedings have been instituted against the debtors.

Summary of loan ageing as at 31 March 2015

R'million	Not yet due	Total overdue	Total debtors outstanding	Impairments
Affordable Housing	R218 918 849 94%	R14 314 682 6%	R233 233 531 78%	R7 348 055 18%
Subsidy Housing	R24 954 922 74%	R8 766 683 26%	R33 721 605 11%	R3 694 346 9%
Infrastructure and Community Facilities	R3 521 612 11%	R29 343 115 89%	R32 864 727 11%	R29 588 054 73%
Total NURCHA debtors	R247 395 383 83%	R52 424 481 18%	R299 819 863 100%	R40 630 455 14%

- The Lending Portfolio still has a satisfactory presence across provinces, as shown by the figure on page 28. In the year under review, NURCHA further embarked on an extensive national roadshow to market NURCHA's lending programmes to developers and contractors. A total of seven workshops were held in Cape Town, Durban, Port Elizabeth, East London, Mthatha, Johannesburg and Mangaung. Through these workshops, almost 700 contractors and developers interfaced with NURCHA staff directly.

PROVINCIAL SPREAD OF PROJECTS FINANCED BY NURCHA



Gauteng	**42%**
Limpopo	**5%**
Western Cape	**6%**
Eastern Cape	**17%**
Northern Cape	**0%**
KwaZulu-Natal	**15%**
Free State	**5%**
North West	**5%**
Mpumalanga	**6%**

Growth of the Lending Portfolio in 2015/2016

The focus in the next reporting period 2015/2016 is to grow the Lending Portfolio with a focus on the following aspects:

- Deepen market knowledge of NURCHA products through innovative marketing channels.
- Improve the customer satisfaction levels to enhance repeat business and referrals.
- Improve the geographical spread of projects across provinces.
- Support national priority programmes announced by Government, specifically in mining towns and supply of Rental Housing stock.
- Enhance NURCHA's relationships with other project level participants working with contractors, such as professional teams, employers and suppliers.
- Improve conversion rate from application to loans signed stage.
- Increase the cost-effectiveness of the Lending Portfolio.
- Improve the capacity utilisation of available lending facilities in the Lending Portfolio in general and Affordable Housing in particular.
- Improve product development of new lending instruments in response to development priorities and market requirements.
- Source replacement funds for the expired OPIC and Futuregrowth facilities to fund the Subsidy Housing Programme which lends to small and medium contractors.
- Explore ways to assist developers and contractors to improve access to complementary financing instruments such as the Finance Linked Individual Subsidy Programme (FLISP), employer-supported housing schemes and public sector-led release of well-located and ennobled land to stimulate the Affordable Housing market, delivery and urban densification.

Empangeni Extension 26

Conclusion

The Lending Portfolio experienced lower than expected levels of growth due to the strategic drive aimed at maintaining a healthy loan book such as restructuring of the business model and changes in lending criteria. Poor market performance and the absence of regional offices added to the slow growth. Despite this, the Lending Portfolio has taken up the challenge to grow the business of NURCHA and of Government's Outcome 8 delivery targets to meet the objectives. Commercial banks' improved appetite to provide end-user finance in the Affordable Housing market, and focus to support Mining Town Developments and Student and Rental Accommodation strengthen potential for growth of the Affordable Housing Portfolio in the next financial year.

Affordable Housing

This programme forms a key component of NURCHA's business operation and acts as a major catalyst to stimulate housing delivery in South Africa.

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

The programme provides development finance loans to private sector developers who undertake Affordable Housing projects with loan durations not exceeding 24 months and the majority of the units' selling prices not exceeding R650 000.

Over the last 12 years of its operation, the programme has seen significant fluctuations with some years performing above average in terms of loans signed. The year under review has shown sustained growth from the previous year and performance was well above the 11-year average (R134 million) with a R246,64 million value of loans signed.

The graph on page 31 shows the annual values and cumulative values of loans signed since inception of the programme. Factors that influence performance differ from year to year, but the banks' appetite for end-user finance, end-user creditworthiness and the capacity of developers to raise debt funding, feature largely as major influences.

Spread of the Affordable Housing loan book

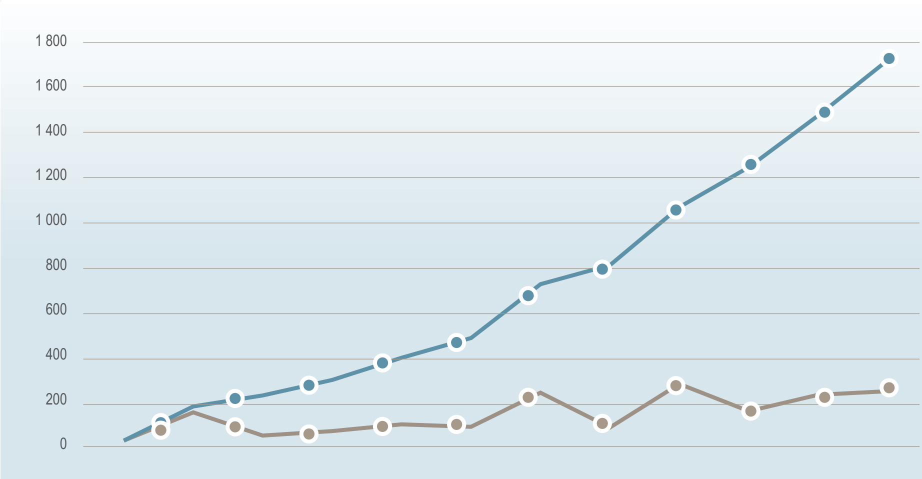
The Affordable Housing loan book for the period under review has been categorised into three categories, namely:

Housing category	Number of projects 2014/2015	Number of units in projects 2014/2015	Category spread of loan book 2013/2014	Category spread of loan book 2014/2015
Sectional Title Units	13	944	9%	41%
GAP Housing	3	884	28%	9%
Affordable Housing	16	4 307	63%	50%
Total	**32**	**6 135**	**100%**	**100%**

NURCHA introduced the financing programme for Affordable Housing projects in 2003 and has since approved 191 project loans with total loan values of R1,73 billion that enabled the delivery of 31 317 houses.

Duvha Park, Witbank

GROWTH OF AFFORDABLE HOUSING LOAN VOLUMES



	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
— Value of loans signed	26,6	152,3	49	69	99	88	240	84,9	279	157,8	230,73	246,63
— Cumulative value of loans signed	26,6	178,9	227,9	296,9	395,9	483,9	723,9	808,8	1 087,8	1 245,6	1 476,3	1 722,96

Affordable Housing (continued)

Sectional Title Units are medium density developments, offering sectional title within a complex or a development and an undivided share of the common property. NURCHA's investment in this category increased from 9% in the previous year to 41% in this year under review. This increased investment is in line with the National Department of Human Settlements' strategic objective to achieve higher densification in the residential market. There are currently 944 units in current projects under development.

GAP Housing is a category of bonded housing stock falling within the R3 500 to R10 000 income and housing packages between R105 000 to R391 000 ranges. NURCHA's impact on the GAP Housing market decreased from 28% in the previous financial year to 9% in this financial year as developers find it difficult to deliver a good value product within the GAP range unless the project is delivered at scale. There are 884 units in projects under development.

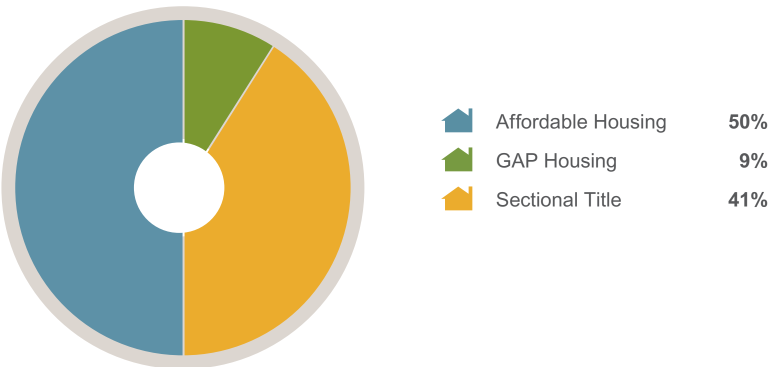
Affordable Housing is a category for bonded, free-standing houses with prices between R400 000 to R650 000 and for income earners between R10 000 to R20 000 per month. The Affordable Housing category decreased from 63% in the previous financial year to 50% in this financial year. There are 4 307 units in projects under current development.

Performance against annual targets

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

Description	Budget	Actual	Previous Year Actual
Contracts Signed	20	16	14
No of Houses and Sites	2 800	2 564	1 983
Value of Loans (Rand)	300 000 000	246 625 590	230 729 433
Value of Projects (Rand)	440 000 000	925 805 198	873 072 445
Houses Completed	1 950	1 606	1 619

CATEGORY SPREAD OF THE AFFORDABLE HOUSING LOAN BOOK 2014/2015



The Affordable Housing Portfolio experienced firm business activity in this financial year even though only 80% of the targeted number of loans were signed. During the financial year under review, 23 new loan applications, out of the budgeted 20 applications, were approved by NURCHA's Credit Committee. Sixteen of these loans were accepted and signed. Four loans were not taken up by the clients for reasons ranging from more favourable offers from other financial institutions to the terms and conditions not being a suitable fit to the long-term takeout finance structures. The remaining three loans approved will be signed early in the next financial year.

The rate of new applications from existing clients have increased from 36% to 50% in this financial year as previous projects' exposures were settled allowing new borrowings within NURCHA's internal concentration limits. There was a reduction in the rate of new loan applications signed with new clients from 64% in the previous financial year to 50% in the year under review.

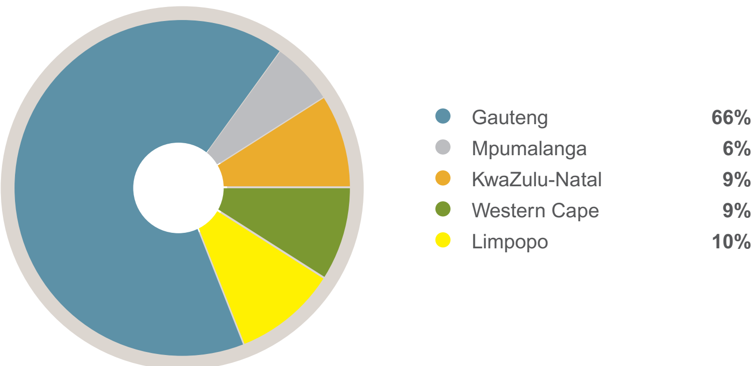
A total of 1 606 houses were built and transferred to beneficiaries, which is 72% of the targeted budget. The delay is primarily due to the backlog in transfers caused by the terminations of the Development Facilitation Act (DFA) approval process, which was replaced by the Town Planning Ordinance in 2012.

The provincial spread of investments in the programme shows predominance of projects in Gauteng province with more than 66% in loans approved. While Gauteng will most likely remain dominant going into the future, NURCHA has increased its investment in Affordable Housing projects in the Western Cape, Free State, North West, Limpopo, Mpumalanga and KwaZulu-Natal. NURCHA will continue its marketing efforts to expand investment in all provinces.

Conclusion

In the financial year under review, the Affordable Housing Portfolio did not meet targeted outputs; however, the overall results compare favourably with the past 11 years' trends and averages. Over the last five years, this programme has constantly delivered houses and sites to the Affordable Housing market, which broadly equates to approximately 2 600 units per year. This is a significant contribution to the Outcome 8 targets set by the National Department of Human Settlements. NURCHA has made progress in seeking new clients, expanding its reach to other provinces and forging relationships with Provincial and National Departments of Human Settlements. The growth in the Sectional Title category is in line with Governments' requisite in the National Development Plan to curb urban sprawl and improve city efficiencies.

GEOGRAPHICAL SPREAD OF AFFORDABLE HOUSING LOANS AMONG PROVINCES



Subsidy Housing

With the discontinuation of the intermediary lending model in 2012 and introduction of certificate-based lending, it was anticipated that there would be a decline in the quantity of loan applications received and Board approved. While there has been a decline in the volume of applications, there has been a corresponding increase in the quality of applications received.

A total of 46 loan applications were received on the Subsidy Housing Portfolio in this financial year, but only 15 loan agreements were signed. The difference in the number of applications received and loans signed in this financial year can be explained as follows:

Applications received	R231,2 million	(46 loans)
Unable to assess due to lack of information	R91,9 million	(21 loans)
Loans approved	R131,5 million	(23 loans)
Loans signed	R81,8 million	(15 loans)
Approved but not taken up	R49,7 million	(8 loans)
Applications declined	R7,8 million	(2 loans)

NURCHA were unable to assess 21 loan applications due to the inability of emerging and small contractors to provide NURCHA with financial statements. In response, NURCHA has designed new loan types to improve access to credit, whereby NURCHA will assist emerging contractors, with the support of service providers, to produce financial statements and comply with other statutory requirements for borrowing purposes.


Rocky Park in Stanger/Kwadukuza

> ***"The Subsidy Housing Programme has largely been affected by NURCHA's operational and organisational restructuring and borrower compliance."***

In the last 11 years, the programme has provided access to finance for small and medium contractors in excess of R1,42 billion in loans and on 959 projects financed. This quantum of achievement was largely made possible by the OPIC/SAFE guarantee of R180 million that provided loan default guarantees to an equivalent FNB facility for this category of contractors.

After 11 years of collaboration, this OPIC, SEDF and FNB partnership has come to an end and NURCHA has applied for replacement funds from National Treasury to establish a similar facility that will ensure that contractors continue to have access to bridging finance.

Performance against annual targets

The table below shows the actual outputs achieved against budgeted targets.

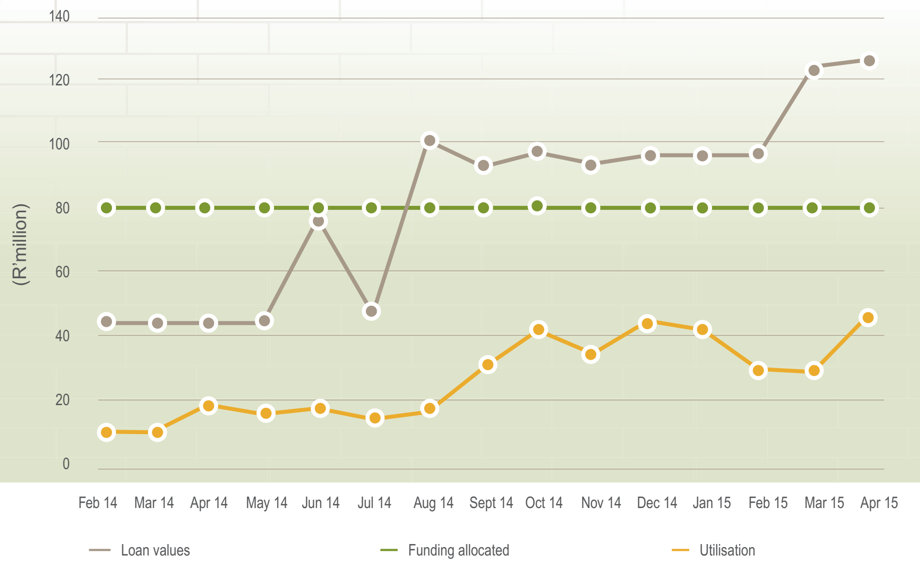
	Budget	Actual	Previous Year Actual
Contracts Signed	28	15	11
Houses in Signed Contracts	9 660	9 773	4 428
Value of Loans (Rand)	112 000 000	81 791 461	55 481 861
Value of Projects (Rand)	724 500 000	864 035 302	349 911 460
Houses Built	5 500	5 962	3 108

Performance against output targets show that the programme achieved 54% of the number of loans signed, 101% of the houses and sites in signed contracts, 73% of the value of loans. The value of projects exceeded the set budget by 19% of the annual budget. Houses built and sites and services achieved 108% of the annual budget.

Subsidy Housing (continued)

Growth in the loan book

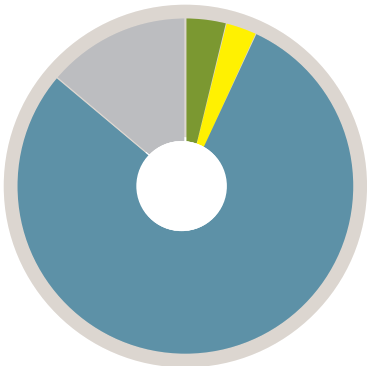
SUBSIDY HOUSING: LOAN BOOK



The value of loans signed has grown significantly from the previous financial year. Utilisation of loan facilities is on average 40% of the loan values.

Regular loan book performance

SUBSIDY HOUSING: REGULAR LOAN BOOK PERFORMANCE



Not yet due	**80%**
1 – 90 days	**13%**
91 – 180 days	**4%**
181 – 365 days	**0%**
366+ days	**3%**

Atteridgeville in Pretoria

The total overdue debts equated to 20% of the total regular loan book. The debts in the 1 to 90 days category are primarily overdue, due to Government entities exhausting their annual budgets. This results in delayed payments to contractors, which are soon to be remedied once new budget allocations have been finalised. The overdue debts in the 91 to 366 days category are remnants of project loans signed prior to the certificate-based lending model.

Conclusion

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

Review of Operations (continued)
Infrastructure and Community Facilities

Performance against annual targets

The table below shows the actual outputs achieved against budgeted targets.

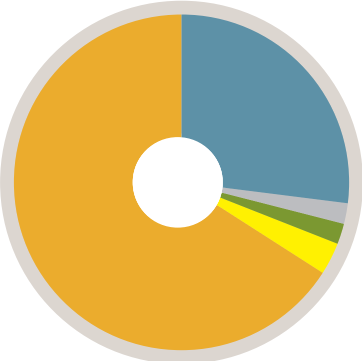
	Budget	Actual
Contracts Signed	4	2
Value of Loans	17 380 000	15 109 078
Value of Projects	88 000 000	56 647 370
Projects Completed	8	–

The performance of this portfolio falls short of the targets with only two contracts signed with a total loan value of R15 million. A certificate lending model was introduced but, despite this change, the portfolio remains high risk, with 73% of debts overdue as shown in the figure on page 39.

Rocky Park in Stanger

> *This programme has historically suffered significant losses resulting in NURCHA adopting a certificate-based lending approach as part of its credit criteria. It was prudent for NURCHA to implement the business model changes in an attempt to mitigate loan default risks arising from a range of construction risks including contract management weaknesses on the part of departments and municipalities that employ the services of contractors.*

INFRASTRUCTURE AND COMMUNITY FACILITIES: REGULAR LOAN BOOK PERFORMANCE



Not yet due	27%
1 – 90 days	2%
91 – 180 days	2%
181 – 365 days	3%
366+ days	66%

Conclusion

Due to the risk associated with this lending programme, NURCHA's Board continuously appraises continued lending to contractors undertaking Infrastructure and Community Facilities projects.

Review of Operations (continued)
Programme and Fund Management Portfolio: Overview

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

During the 2014/2015 financial year, NURCHA managed five programmes, namely: the Free State Programme Management Support, Vulindlela Housing Programme, Eastern Cape Rural Development Programme, Eastern Cape Bucket Eradication Programme, and Contractor Finance and Development Programme. Although these programmes are multi-year in nature, the Free State Programme Management Support and Eastern Cape Bucket Eradication Programme came to an end at the end of March 2015, while the remainder of the programmes straddled into the next financial year.

The portfolio had an annual gross revenue target of R44 million and achieved R24 million. This represents a 17% decline in revenue year-on-year and is indicative of the challenging environment that the portfolio has had to contend with in this financial year.

The portfolio's operating model revolves around a small core team of full-time staff that is augmented by appropriate skills and expertise as new business is secured. Presently, the portfolio's main service offerings are programme management services, fund management and the Contractor Finance and Development Programme. The programmes under execution can be categorised under the main service offerings outlined below.

Free State Support Programme

This intervention was a combination of change management processes and programme management in support of the Free State Department of Human Settlements. The initial scope was set to end on 30 March 2014, but was extended until 31 March 2015.

During this period, the department strengthened its capacity at head office and district levels by deploying competent built environment professionals. Professional resource teams were also contracted to provide design and construction monitoring services at a district level. These initiatives have greatly improved the

"The Programme and Fund Management Portfolio continues to undertake complex programmes that test its agility and versatility. Despite reasonable levels of success for programmes undertaken during the period under review, revenue is under pressure and the portfolio is pursuing several business opportunities to improve the revenue outlook."

Bucket Eradication in Port Alfred

oversight capabilities of the department and were informed by the diagnostic exercise that NURCHA performed at the inception of the programme.

Through NURCHA's interventions, the department is implementing a Geographic Information System to improve its data gathering, data analysis reporting and decision-making processes. The systems are at the stage of commissioning.

It is important to note that the department's financial and non-financial performance has improved significantly when compared to previous financial years. The department is better positioned to perform quality assurance activities, technical verifications and manage its service providers to deliver value.

Eastern Cape Rural Development Programme

The Eastern Cape Rural Development Programme aimed at the construction of Subsidy Housing units across three rural municipal areas, namely Umzimvubu, Mhlontlo and Intsika Yethu has shown improvement when compared to the previous financial year. The change in the implementation model from the voucher scheme pilot to conventional contracting is bearing fruit. Lessons learnt during the implementation of the programme have necessitated the upward adjustment of the subsidy, thus enhancing the attractiveness of the programme to local contractors. The programme will deliver 250 houses on completion.

Although the implementation model has deviated from what was originally envisaged, some of the original objectives of the programme have been met (such as training of local labour and utilisation of local enterprises). The lessons that have emerged from the programme have been valuable and will go a long way in enhancing the portfolio's programme management processes and procedures. More importantly, the programme will provide the ideal platform for the department to participate meaningfully in policy discussions relating to the development of low-cost housing in rural settings where infrastructure and topography is poor and access to water is challenging.

Contractor Finance and Development Programme

The Contractor Finance and Development Programme (CFDP) was created to support and promote small- and medium-size emerging contractors to develop into successful, sustainable construction enterprises, through training, mentoring and provision of bridging finance. The project sizes in this category are smaller than projects in NURCHA's conventional lending market. These contractors have on average 40 housing units allocated per contract and require loans of less than R1,5 million.

Unfortunately, this programme has not gained momentum in the year under review; this can largely be attributed to NURCHA's failure to secure an implementing partner (i.e. provincial department or municipality) that can guarantee a steady flow of projects to small contractors who participate in the programme. Given the recent pronouncements from the department about the prioritisation of small enterprises owned by the youth, women and the disabled over the MTSF period, there is an opportunity for collaboration around incubation programmes with various implementing partners at provincial and municipal levels. Besides incubation programmes, NURCHA is pursuing opportunities to offer this service in the context of EPHP programmes.

Given the MTSF priorities, there is a definite need for the services that the CFDP offers. The portfolio will forge working relationships that bring the benefits of the programme into fruition.

Vulindlela Programme 25 000 houses

NURCHA is involved in the Vulindlela Enhanced Peoples Housing Programme (EPHP) in KwaZulu-Natal as the Fund Administrator for the Community Resource Organisation (i.e. Vulindlela Development Association (VDA)). The Vulindlela project is a programme that targets the delivery of 25 000 housing units through the EPHP approach.

To date, NURCHA has facilitated the delivery of 8 622 housing units and 11 493 platforms. A total of R1,058 billion has been disbursed on programme and construction-related activities. Currently, NURCHA is achieving payment turnaround times of five days for payment to suppliers.

The financial and non-financial deliverables outlined above are testament to NURCHA's sound fund management systems that ensure the timely disbursement of funds to suppliers. The provincial department is providing leadership in the coordination of inputs from the VDA, the two Community Resource Organisations (CROs), NURCHA and Dezzo.

The programme shows good development outcomes:

- Placement of 37 technical students from the Durban University of Technology for a period of six months.
- 15 cooperatives established and active in projects.
- Employment of 2 100 people and 60% being youth.

While NURCHA is not directly responsible for operational inputs, its turnaround time on payments facilitates unhindered operations on site.

Eastern Cape Bucket Eradication Programme

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

As the implementing agents in the Eastern Cape, NURCHA consulted extensively with the Provincial Department of Human Settlements, and District and Local Municipalities. These consultations culminated in the identification and initiation of nine projects spread across eight municipalities. Seven of the projects have achieved the Works Completion milestone, while the remainder will be taken over by the Department of Water and Sanitation (DWS); this is due to funding and time constraints and the subsequent migration of the sanitation function to the DWS. The table below provides an overview of the number of buckets eradicated per municipality:

Bucket Eradication Programme progress summary – March 2015

Project code	Municipality	Project description	Number of buckets eradicated
1A	Makana	737 VIPs, Ext 6, Phase 2, Stages 2 & 3 (Makana)	663
1B	Makana	Eradication of 288 buckets in Makana	Designs completed, project to be implemented by the DWS
2A	Sunday River	Testing of water and sewer network in Paterson	Investigation completed
3A	Baviaans	Bucket eradication at 14 sites in Golden Valley (Baviaans)	14
4A	Joe Gqabi	Bucket eradication at 985 sites in Steynsburg	985
5A	Chris Hani	Bucket eradication at 89 sites at Indwe	89
6A		Bucket eradication at 29 sites in Jansenville	29
7A	Blue Crane Route	Bucket eradication at four sites in Somerset East	4
8A	Ndlambe	Sewer reticulation upgrade at 980 sites in Nemato, Ndlambe	896
		Total	**2 672**

From the 3 118 buckets that NURCHA contracted to deliver on the revised scope, 2 672 buckets have been eradicated; this represents an 85,70% success rate. Designs have been completed for all the projects that have been handed over to the DWS; this will ensure that construction commences within a reasonable period of time.

NURCHA's involvement in this programme has provided an ideal opportunity to fully assimilate the infrastructure challenges that are prevalent at District and Local Municipality level. The programme also enabled NURCHA to interact with diverse stakeholders, thus providing the organisation with a platform to showcase its different product offerings.

Conclusion

The early termination of the Eastern Cape Bucket Eradication Programme, slow uptake of the CFDP and restructuring of the implementation model in the Eastern Cape Rural Development Programme, affected the revenue yields significantly. The inability of the programme and Fund Management Portfolio to meet its financial targets indicates the urgency for the portfolio to secure new business. As a result, the portfolio is focusing its efforts on EPHP and CFDP as these programmes are congruent with sector priorities over the MTSF period. To ensure that the portfolio continues to provide value to its clients, processes and procedures related to planning, execution and monitoring are constantly reviewed. In the next financial year, the portfolio's operational strategy will revolve around improving revenue streams, retaining core staff and improving processes and procedures.

Human Resources

Employee Wellness

Employees took part in the annual Wellness Day on 5 March 2015. This encourages, maintenance of a healthy lifestyle. The Wellness Day has become very popular in the organisation and staff keep the momentum with spontaneous wellness-related initiatives and practices.

A Financial Wellness Workshop was conducted to empower employees with information to make good financial decisions and encourage them to think creatively and innovatively about their finances. This was followed by an eight-week support journey which offered weekly email and sms advice to employees.

Organisational Development

An employee engagement survey was conducted in the previous financial year to give employees an opportunity to raise issues of concern and give management an opportunity to address these, as well as to determine solutions together as a team.

Facilitated conversations with staff addressed issues that were highlighted in the engagement survey. The programme involved all employees taking part in critical conversations about the organisation and how employees will behave differently going forward. This was a successful occasion highlighting the importance and value of working together collectively as a team and organisation.

There are a number of activities and creative interventions that arose from the conversations about the working environment and they dovetail well with the change management processes. One of these was an empowering session with a motivational speaker. At the centre of his method was strengthening the individual capabilities to become change agents and thrive in uncertainty. Coupled with the motivational intervention employees each received a book called *Mind Power into the 21st Century (Techniques to Harness the Astounding Powers of Thought)* by John Kehoe. The book continues to animate discussion and create positive energy as people endeavour to adopt new positive practices in their personal professional lives.

The other programme critical to managing the period of organisation and high levels of staff uncertainty is to heighten management's attentiveness to people-related issues. In this regard management has intensified communication and interactions with staff through a variety of channels. The staff members have an opportunity to have one-to-one meetings with the Managing Director. This gives each individual staff member an opportunity to share his/her view on what works and does not work in the company and share his/her ideas about what could be changed. Some of the ideas are shared

Atteridgeville in Pretoria

The wellbeing of employees is important at NURCHA. A variety of wellness programmes were conducted during this period. On 26 February 2015 executives and senior management were provided with conflict resolution skills through the conflict management programme, as well as referral guidelines for employees that require professional services.

in confidence and the MD has to treat them as such as he explores the feasibility of certain proposals. These conversations are made as informal as possible to give staff members the opportunity to raise issues in a non-threatening manner and have turned out to be very fruitful and highly appreciated by staff members.

Change Champions

The Change Champions Committee is a cross-section of the NURCHA staff complement. It is mandated to deal with some change management-related activities that are oriented towards staff well-being. Due to NURCHA's size the committee also fulfils some of the statutory matters such as Employment Equity and, Occupational Health and Safety. The committee meets monthly or as and when required to access progress on initiatives and their impact on energies, productivity, health and collaborative work.

Members of the committee have received training in terms of the Employment Equity Act; this was to make members aware of the roles and responsibilities regarding Employment Equity. A Change Management Workshop was held to empower committee members to understand change and impact on individual behaviours as people make sense and cope with uncertainty and insecurity.

Corporate Social Responsibility

Over the years, NURCHA has contributed to the Department of Human Settlements programme for students pursuing housing and construction studies. NURCHA has also assisted a total of 10 students to get placement and experiential training with some of the developers it finances. The students who have received assistance are: Robert Mokgosi, Abner Khunou, Lerato Mokgosi, Arthur Nngidi, Barbara Molefe, Maite Molokomme, Mduduzi Mashaba, Unathi Makalima, Fanele Mafuna and Alitha Madyibi.

Of the 10 students that received in-service training assistance from NURCHA, 60% were able to acquire a qualification in their respective studies, 70% have since secured permanent employment, and one now has his own company. The purpose of the programme is to contribute towards the creation and acquisition of scarce and critical skills in South Africa.

Training and Development

The development of employees' skills is vital for any organisation to grow and realise its strategic objectives. Employees have attended several courses on personal development to assist them in the fulfilment of their functions and for the company to benefit from their increased efficiency and value creation.

Corporate Governance

Corporate governance statement

In addition to the Companies Act, No 71 of 2008 (Companies Act), corporate governance is applied through the precepts of the Public Finance Management Act, No 1 of 1999 (PFMA), and run in tandem with the principles of the King Code on Corporate Governance.

We are satisfied with our stewardship during the 2014/2015 financial year as we have ensured that the company's affairs and our responsibilities were discharged in accordance with the above principles. Any non-compliance with the principles of King III is explained accordingly in this report.

Stakeholder relationships

NURCHA is a non-profit company in terms of the Companies Act and registered as a non-profit organisation with the Department of Social Development. It is funded by the South African Government (the Government) in partnership with the Soros Economic Development Fund (SEDF), and other commercial lenders. NURCHA is governed by the Public Finance Management Act and the accompanying Treasury Regulations and is classified as a schedule 3(a) public entity under this Act. The relationship with the Department of Human Settlements is further governed by the Agreement between NURCHA's Board of Directors and the Executive Authority (Shareholder Agreement).

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

The Board takes account of and responds to the legitimate interests and expectations of stakeholders linked to NURCHA in its decision-making. Stakeholders that could materially

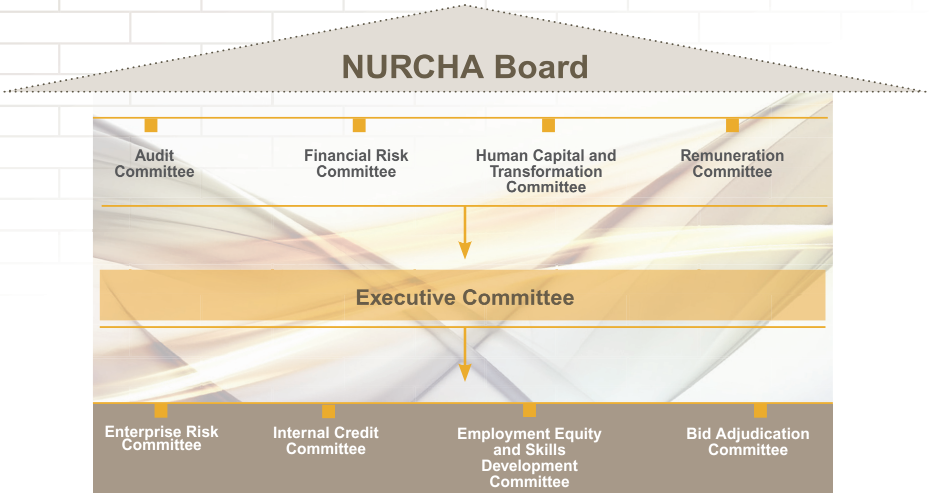
"Good corporate governance remains an integral part of the way NURCHA carries out its business. Corporate governance embodies processes and systems by which NURCHA is directed, controlled and held to account. Our leadership is based on ethical foundations and all decisions and actions are based on responsibility, accountability, fairness and transparency."

affect the operations of the company have been identified and assessed as part of the risk management process. Stakeholders include National, Provincial and Local Government; regulators; funders; contractors; developers; suppliers; employees and communities that NURCHA operates within. In its reporting to stakeholders, the Board presents a balanced and understandable assessment of the company's position.

The Board chairperson signed, on behalf of the Board, the Shareholder Agreement between NURCHA's Board of Directors and the Executive Authority of the Department of Human Settlements for the 2014/2015 financial year. The purpose of the Shareholder Agreement is to agree on performance expectations and parameters to ensure that the relationship, roles and responsibilities between the parties are clearly defined and that there are no actual or perceived conflicts of interest which would impede the achievement of Government's broad policy objectives and the efficient management of NURCHA.

The Minister of Human Settlements announced that three Development Finance Institutions (DFIs) falling under the Department of Human Settlements will be merged. Planning had already commenced as at the end of the 2014/2015 financial year.

Governance structures



The Board of Directors

The role of the Board

As the Accounting Authority, the Board is responsible for determining the company's strategic direction. It exercises leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. It has ultimate responsibility to stakeholders for the development and successful implementation of the business strategy and NURCHA's performance. It guides and monitors management to execute strategic decisions effectively and in accordance with laws and the legitimate interests and expectations of the various stakeholders.

The Board has unrestricted access to information of the company. During the year, the Board has continued with its responsibility of guiding and reviewing strategy, corporate governance and risk policy. The Board and its committees monitored business plans, key performance indicators and risk areas, while overseeing any other matters that it has defined as material, and ensuring that strategy results in sustainable outcomes. It ensured that the funds received from stakeholders were used efficiently and effectively, and in terms of the conditions of loan, conditions of grant and the statutory or other authorities governing the use of the funds.

Non-executive directors occasionally meet and discuss issues without the executive directors. The Board is able to solicit independent professional advice, at the expense of the company, where necessary.

Board charter

The Board and all its committees are governed by their charters. According to the Board charter, the Board's responsibility is to ensure that the company fulfils its mission; honours its legal and contractual obligations to its stakeholders; operates within the parameters of the PFMA and other applicable laws, regulations and codes of business practices; achieves its business and developmental objectives; operates within appropriate risk-management parameters; and that it does so efficiently, effectively, ethically and equitably.

During the current financial year, the Board met three times in accordance with its charter, and is satisfied that it has carried out its duties in accordance with its mandate.

Board composition

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

1. *Independent non-executive director*
2. *Executive director*
3. *Non-executive director*
4. *SEDF representative*
5. *Resigned 19 November 2014*
6. *United States resident*

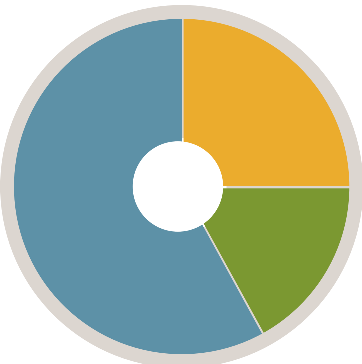
NURCHA has a unitary board structure with executive and non-executive directors. The majority of the members are non-executive directors. This is to ensure independence and objectivity in decision-making. The Board charter allows for a maximum of 16 directors. As at 31 March 2015, there were 12 Board members of which:

- 7 (58%) were non-executive directors who are independent of management and free from any relationship that could materially interfere with the execution of their independent judgement;
- 2 (17%) were non-executive directors who were considered not to be independent; and
- 3 (25%) were executive directors who were involved in the day-to-day running of the business.

The Board chairperson

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

BOARD COMPOSITION



- Independent non-executive directors **58%**
- Executive directors **25%**
- Non-executive directors **17%**

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

Independence

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

The independence of Board members who have served on the Board for more than three terms is evaluated by the Board each year. Independence is determined against the criteria set out in King III (the King Code). Messrs Oliver, Nzimakwe and Shubane have served on the Board for more than three terms. After due consideration of their individual circumstances and contributions, the Board concluded that these directors are able to act independently and fulfil their duties irrespective of their tenure. Messrs De Beer and Paperin are not considered to be independent as they represent SEDF's interests on the Board of NURCHA. Mr Prinsloo is also not considered independent as he served as an adviser to FINCOM for eight months before being appointed to the Board. He will be considered independent after completing his three-year term.

The Board took a decision that it will not make drastic changes to its composition in view of the impending DFI consolidation. The Board is still satisfied that all the Board members are capable of using their independent judgement in discussions and on taking decisions.

Knowledge, skill and expertise

Non-executive Board members are appointed in such a manner that they enhance and complement each other's skills in different fields. The members bring to the Board an appropriate mix of financial, technical and other expertise to strategically guide NURCHA. They bring independent perspectives and judgement on corporate governance and overall strategy. Board members' business experience enables them to evaluate strategy and act in the company's best interest.

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

Appointment, retirement and rotation of directors

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

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

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

During the year under review, three non-executive directors were reappointed for another three years in accordance with the rules of director rotation.

Board and director evaluation

The performance of the Board, its supporting committees and individual directors is evaluated each year. Directors complete an annual evaluation questionnaire with regard to the performance of the Board, its committees and individual directors. The aim of these evaluations is to assist the Board and its committees to improve their effectiveness continuously. The Board assessment includes the evaluation of the Board chairperson and the Managing Director. The Board, its committees, and individual director performance was evaluated this financial year and no major areas of concern were raised.

Succession planning

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

Management succession planning is an ongoing consideration to ensure that effective management is in place to implement NURCHA's strategy. The Board is satisfied that the management succession plan is adequate in the short term as the key back-up plan is in place.

Delegation of authority

NURCHA has delegation of authority guidelines that get reviewed once a year to ensure that they remain relevant. In terms of the delegation of authority, the ultimate responsibility for NURCHA rests with the Board. The Board retains effective control through a well-developed governance structure of Board committees which specialise in certain areas of the business.

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

Strategic objectives and business planning

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

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

Board committees

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

Audit Committee

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

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

All the committee members are independent non-executive directors and are financially literate. Membership of the committee is for one year and may be renewed. The committee meets four times a year on average. The Managing Director and Financial Director attend the Audit Committee meetings. The chairperson of the Audit Committee attends the annual general meeting.

The Audit Committee has been established to assist the Board to discharge its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reports and statements in compliance with all applicable statutory requirements and accounting standards. It provides a forum for discussing business risk and control issues and for developing relevant recommendations for consideration by the Board.

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

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

The committee reviewed and recommended the quarterly reports and annual financial statements to the Board. It ensured that these reports were produced in terms of Generally Recognised Accounting Practice (GRAP) and the Companies Act.

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

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

Financial Risk Committee (FINCOM)

Members
Ms L Sing *(Chairperson)*
Mr T Nzimakwe *(Independent non-executive director)*
Mr W Ndodana *(Independent non-executive director)*
Mr H Prinsloo *(Non-executive director)*
Mr C de Beer *(Non-executive director)*
Mr V Gqwetha *(Executive director)*
Mr S Nxusani *(Executive director)*
Ms A Struwig *(Executive director)*

The FINCOM has been established to assist the Board to discharge its fiduciary duties as regards the credit and investment functions of NURCHA, and to advise with regard to the funding and capital structure of the company. The returns on NURCHA's investments are in line with industry performance.

The committee assists management by providing advice and assistance within the credit and investment policy arena, especially with regard to setting limits of authority and monitoring exposure. It ensures that credit is granted by NURCHA in accordance with NURCHA's mandate, the undertakings and covenants in the various financing agreements, and that the provision of credit meets the primary aims of promoting sustainable human settlements and entrepreneurial development.

During the year, the committee continued to provide advice and assistance regarding credit and risk management, and took responsibility for the approval of certain construction finance loans and new lending programmes on behalf of the Board. The committee has given advice and guidance on the programme and fund management. Members met six times during this financial year.

Human Capital and Transformation Committee (HCTC)

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

The Board has decided that the chairperson of the Board should be a member of this committee as he makes a valuable contribution to the committee.

The purpose of the committee is to ensure that NURCHA maximises the effectiveness, energy and commitment of staff, management and directors with respect to NURCHA's mission. The committee further ensures that NURCHA's human resources, procurement and business practices reflect a commitment to the creation of an equitable, non-racial, non-sexist society. This committee also carries out the responsibilities of the Nominations Committee.

This committee reports on compliance with the Employment Equity (EE) Act, No 55 of 1998, and on other transformation issues. It meets, on average, three times a year.

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

Remuneration Committee

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

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

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

Board members are paid on the basis of their attendance at meetings. The Board chairman and the committee chairpersons are paid a monthly retainer in addition to the attendance fees. The remuneration of each director and prescribed officers is disclosed on pages 104 to 105 of the annual financial statements.

Attendance at meetings held during the financial year

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

Column A is the number of meetings attended by the director.
Column B is the number of meetings held during the year.
Mr Paperin resigned on 19 November 2014.

Enterprise risk management

NURCHA promotes a risk management culture across the organisation by interacting with units at different levels and by implementing a proper risk management process. The Enterprise Risk Committee is a management committee chaired by the Chief Financial Officer and convenes four times a year. Line management throughout NURCHA is responsible for managing risk. They are guided and assisted by the risk and compliance officer.

The Board ensures that the key strategic and business risks of the company are identified, and that management has adequate policies and procedures in place to manage the major risks, faced by the company. The Board receives regular reports from management and other assurance providers such as the external and internal auditors. These reports show that there are systems that are implemented to identify, assess, manage, monitor, control and report on material risks throughout the organisation.

During the review process, NURCHA identified 10 strategic risks, namely:

- Credit risk – Where the borrower defaults on loan repayment and is unable to make repayments.
- Collection process (delinquent book) – Ineffective collection of overdue debt and poor collection process on the delinquent book.
- Skills and capacity – Critical leadership gaps at executive and senior management levels where, proactivity, problem-solving and decision-making are of importance.

- IT governance compliance – Inability to direct, coordinate and measure application of internal and external resources.
- ICT infrastructure and systems – Non-availability and inadequate ICT services (substandard systems and services).
- Reputation – Negative organisational reputation.
- Compliance – Inadequate compliance with applicable legislation, regulations and codes.
- Funding – Inability to attract and retain funding with external parties.
- Pricing structure – Where pricing of products and offerings is insufficient to support business sustainability.
- Products and markets – Poor business pipeline.

Towards the end of the financial year, two major risks became part of crucial conversations in determining the future of NURCHA. The risk categories are:

- Funding – Lack of funding to finance the business. This type of event may arise where counterparties who provide NURCHA with funding withdraw or do not roll over that funding in view of the DFI merger.
- Merger – Uncertainties of the merging of the three DFIs has caused discomfort within NURCHA, with current funders and with potential funders.

NURCHA has managed to develop strategies to address the risk faced by the company despite the challenging conditions. Time and resources have been dedicated to address the two major risks facing the organisation. Control measures have been put in place and are being monitored on an ongoing basis.

Internal controls

The Audit Committee reviews the effectiveness of systems of internal, operational and financial control on an ongoing basis and uses external and internal audit findings to improve the system. The foundations for internal control processes lie in NURCHA's governance principles that incorporate and emphasise ethical behaviour, legislative compliance and sound accounting practice.

Internal auditors conduct periodic reviews across all functions to provide assurance to the Board on the effectiveness of control systems and compliance with agreed policies, procedures and legislation. The relationship between the internal and external auditors is mutually supportive and facilitates proper coverage of financial, operational and compliance controls.

Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets and adherence to policies, processes and guidelines. Executive management is responsible and accountable for determining the adequacy, extent and operation of these systems.

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

Internal audit

NURCHA has an effective risk-based internal audit function. The internal audit function is outsourced to an outside company that provides an independent assurance to the Audit Committee. The internal audit work is governed by the internal audit charter and informed by NURCHA's strategy.

The internal auditors continuously give assurance to the Audit Committee by providing written assessments of the effectiveness of NURCHA's systems of internal control and risk management. The following reviews and follow-up reviews were conducted during the financial year:

- Credit and collections review.
- Vulindlela fund management programme review.
- Audit of predetermined objectives review.
- Financial discipline review.
- Funding, product and market review.
- IT general controls, vendors, loan management system implementation and post-implementation project review.
- Supply chain management follow-up review.
- Human resources follow-up review.
- Contractor finance and development project follow-up review.

The Audit Committee reviewed all the internal audit findings, raised weaknesses with management and monitored any areas of concern for improvements.

Information technology (IT) governance

IT governance policies, procedures and processes were reviewed and updated during the year to ensure that controls are in place to prevent failures and ensure continuity. There is ongoing preventative maintenance of all the systems.

The server environment was converted to a fully virtual server environment and, as such, all-systems are now fully redundant. This upgrade allows for cost savings, as well as faster systems recovery in the event of any failures. Data within the environment also grew significantly, as is the worldwide norm, and as a result a Network Attached Storage (NAS) environment was created.

NURCHA witnessed the completion of the implementation of the Loan Management System, which serves the Affordable Housing Department's systems requirements. New systems introduced into the environment included the Payroll System such that Payroll becomes a fully in-house service, and the Employee Self-service (ESS) systems to automate leave management.

Corporate code of conduct and ethics

The Board has developed organisational standards of ethical behaviour, and is satisfied that the company is demonstrating commitment to its code. The code of conduct specifies actions to be taken if the ethical standards are not met.

All directors and personnel are obliged to declare their interests in order to manage any conflict of interest. The procurement policy contains measures to combat abuse, fraud and corruption. There is an established gift register to be signed by staff when receiving gifts with a value over a certain amount. Interests are declared by Board members and staff in matters that are discussed at meetings.

The anti-corruption strategy and fraud prevention policy, together with the fraud register, was reviewed during the year. The plan articulates the procedures for reporting incidents of fraud and dishonesty, and cases of unethical behaviour in line with NURCHA's code of ethics and the value system. A whistle-blowing hotline facility is available whereby employees have access to a hotline to report cases of suspected fraud anonymously. The hotline is also accessible to contractors, developers, intermediaries and the public who would like to anonymously report unethical behaviour. Suspected cases of fraud reported to the hotline are forwarded to the chairman of the Audit Committee anonymously by the whistle-blowing company.

Regulatory and statutory compliance

The compliance function's primary responsibility is to ensure that the Board, Chief Executive Officer and all NURCHA managers comply with all identified laws, regulations and relevant codes. NURCHA's compliance function is guided by a regulatory universe and this is a central element of the company's compliance system. Regulations are given priority according to the risk impact on the organisation. The Board is updated through the Audit Committee of progress made to improve the company's legislative compliance in terms of NURCHA's regulatory universe.

NURCHA's focus areas during the financial year 2014/2015

- NURCHA made progress during the past year and took initiatives to improve the supply chain management function. Measures were put in place in order to comply with supply chain regulations and National Treasury instruction notes. NURCHA continues with its efforts to ensure proper implementation and monitoring of the supply chain system.
- There has been proper implementation of the compliance risk management plans to monitor and report on compliance matters. NURCHA has participated in industry compliance training and workshops for continuous improvement.
- Compliance with the PFMA has been the focus and highlight for the year ended 31 March 2015. Monitoring of this legislation was conducted and is also aligned to the Auditor General's quarterly dashboard reporting.
- NURCHA complied with the Occupational Health and Safety Act, No 85 of 1993, by having a health and safety representative. First-aid representatives and firefighters have been trained in their roles and responsibilities.
- Training was provided on fraud prevention, the Employment Equity Act, the Financial Intelligence Centre Act, money laundering and supply chain management.
- NURCHA has complied with the reporting requirements of the Department of Social Development and in terms of section 32 of PAIA by reporting to the South African Human Rights Commission.

Focus areas for the coming year will be compliance with the Protection of Personal Information Act, No 4 of 2013, and the implementation of the new BEE codes.

Company Secretary

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

Going concern

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

The Board is satisfied with the plans in place to access more cash resources and to meet its commitments for the next financial year.

Sustainability

The Board views both sustainable growth and sustainable development as important elements of NURCHA's existence, and is committed to adopting business practices that bring about positive change to the economy, the environment and the social conditions that the company operates within.

Black economic empowerment

NURCHA has a black economic empowerment (BEE) strategy in line with the Broad-based Black Economic Empowerment Act, No 53 of 2003.

The policy guides NURCHA activities in the area of social transformation. The company continuously assesses itself in terms of the BEE codes.

Procurement of goods and services

Compliance with the procurement policy and BEE strategy allows for meaningful black economic empowerment when approving service providers and ensures fairness and transparency in the selection of business suppliers. This is done in line with the Broad-based Black Economic Empowerment Act, No 53 of 2003 (BBBEE Act), and the Preferential Procurement Policy Framework Act, No 5 of 2000.

Employment equity

NURCHA is committed to maximising the potential and performance of all staff members, and makes a special effort to maximise the role and contribution of historically disadvantaged people. The company complies with the relevant provisions of the Employment Equity Act and it continuously strives to achieve a diverse workforce that is broadly representative of all South Africans. The Employment Equity Committee ensures that NURCHA supports the concept of equal opportunity without regard to race, colour, religion, gender, sexual orientation, national origin, or disability.

Skills development

The company complies with the relevant provisions of the Skills Development Act, No 97 of 1998, and continuously seeks to develop and improve skills within the organisation. NURCHA submits a workplace skills plan to the Department of Labour, reports on actual training conducted, and claims back on the skills development levy. Staff training and development requirements are addressed in each staff member's performance contract, and are reviewed twice a year.

NURCHA is committed to black economic empowerment by supporting entrepreneurial development and the promotion of small- and medium-sized businesses as set out in the BBBEE Act.

Corporate social responsibility

NURCHA gets involved in various social responsibility programmes. During the year, NURCHA made contributions to the Nelson Mandela day, SAWIC gala dinner, Youth build, Youth brigade, Military veterans, ANC veterans' birthday celebrations, among others.

Annual Financial Statements

Contents

Certificate by Company Secretary

It is hereby certified, in terms of the Companies Act, that for the year ended 31 March 2015 the company has lodged with the Registrar of Companies all such returns as are required of a company incorporated as a non-profit organisation, in terms of this Act, and that all such returns are true, correct and up to date.

Ntsiki Ndzimbomvu
Company Secretary

12 August 2015

Audit Committee Report

The Audit Committee hereby presents the report for the financial year ended 31 March 2015 in accordance with the Treasury Regulations and the PFMA.

Audit Committee's responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1(a) of the PFMA and section 3.1.13; section 27.1.7; and section 27.1.10(b) and (c) of Treasury Regulations.

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

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

I. Effective, efficient and transparent systems of financial and risk management and internal controls;

II. A system of internal audit under the control and direction of an Audit Committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77;

III. An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective; and

IV. A system for properly evaluating all major capital projects prior to a financial decision on the project.

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

1. Appointment and oversight of the external auditors

The committee maintains a professional relationship with the external auditors and coordinates activities between external and internal auditors.

We have reviewed the engagement letter and agreed on the terms, the fee, the nature and scope of the audit function, and are satisfied that the auditors have conducted the audit in accordance with the agreed terms. We are satisfied with the auditors' independence and objectivity.

We have reviewed the public entity's implementation plan for audit issues raised in the prior year and we are satisfied that the matters have been adequately resolved.

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

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

Audit Committee Report (continued)

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

   The committee approved the internal audit plan for the year.

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

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

   We have reviewed the findings of the internal audit work, which was based on the risk assessments conducted in the organisation and have noted all weaknesses reported in internal controls. Areas of concern have been raised with management and are monitored for improvements.

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

   The committee is aware of, and has monitored, the risks that affect the organisation. The ongoing internal audit process provides the Audit Committee with the assurance that all major issues regarding the appropriateness and effectiveness of internal controls are reported.

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

   During the year, the committee examined and reviewed the quarterly reports on the operational and financial performance of the company. The committee has reviewed the annual financial statements for the year ended 31 March 2015.

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

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

Thulani Nzimakwe

Chairperson – Audit Committee

12 August 2015

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

Report on the consolidated and separate financial statements

Introduction

We have audited the consolidated and separate financial statements of the National Urban Reconstruction Housing Agency set out on pages 70 to 109, which comprise the consolidated statement of financial position as at 31 March 2015, the consolidated statement of financial performance, the consolidated statement of changes in net assets and the consolidated cash flow statement for the year then ended, and as well as the consolidated notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

The Board of Directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

We have audited the consolidated and separate financial statements of the National Urban Reconstruction Housing Agency set out on pages 70 to 109, which comprise the statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

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 my unqualified audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the National Urban Reconstruction and Housing Agency and its subsidiaries as at 31 March 2015 and their 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 of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries (continued)

Emphasis of matter

We draw attention to the matter below. My opinion is not modified in respect of this matter:

Proposed DFIs merger

As disclosed in note 33 of the financial statements, there is a proposed merger of the entity with two other DFIs.

Additional matter

We draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

The National Urban Reconstruction and Housing Agency and its subsidiaries provided supplementary information in the financial statements on whether resources were obtained and used according to the legally adopted budget, in accordance with GRAP 1, Presentation of financial statements. The supplementary budget information set out on pages 74 to 76 and note 40 do not form part of the financial statements and are presented as additional information. Accordingly, we do not express an opinion thereon.

Other reports

As part of our audit of the financial statements for the year ended 31 March 2015, We have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are 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 the reports and the audited financials we have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) 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 and internal control. The objective of our tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2015:

- Objective 1: Affordable Housing on pages 30 to 33.
- Objective 2: Subsidy Housing on pages 34 to 37.
- Objective 3: Infrastructure and Community Facilities on pages 38 to 39.

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 development priorities. 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 identify any material findings on the usefulness and reliability of the reported performance information for the selected Key Performance Indicators.

Compliance with laws and regulations

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

Treasury Regulations

In one instance, the entity contravened Paragraph 4.19 of the National Treasury Instruction 01 of 2013/2014 with respect to the category of the car hired for business travel.

There was a contravention of paragraph 16A6.1 of the Treasury Regulations on failure to obtain three quotations for services received for R140 000 and also not recording the deviation thereof.

Internal control

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

Leadership

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

Financial and performance management

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

Ngubane & Co Inc

Thomas Nkomozephi
Director
Ngubane & Co (Jhb) Inc.

Registered Auditor
12 August 2015

Directors' Report

for the year ended 31 March 2015

The directors hereby present their report for the year ended 31 March 2015.

Nature of business

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

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

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

The Programme and Fund Management Support Services Portfolio, which was established in April 2012, has continued to exist during the year under review. Details of programmes conducted during the year are provided fully from pages 40 to 43.

Subsidiary companies

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

Directors, prescribed officers and company secretary

The names of the directors, prescribed officers and Company Secretary are stated on pages 104 to 105.

Material resolutions

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

Directors' responsibility for financial statements

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

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

The financial statements were approved by the directors on 12 August 2015.

Internal controls

An effective internal control environment is the responsibility of the Board. NURCHA management is committed to build a controls-based environment which is conducive to accurate, complete and valid financial reporting. There were no significant weaknesses in controls that were identified during the current financial year.

Directors' statement on going concern assumption

The going concern assumption has been adopted in preparing the financial statements. The directors have no reason to believe that the company will not be a going concern in the foreseeable future based on the 2016 budget, cash flow forecasts and available cash resources.

NURCHA is currently negotiating with the Department of Human Settlements, National Treasury and other private funders for the loan facility that will be used to finance the Subsidy Housing Programme. Futuregrowth Asset Management has indicated that they will consider this proposal. The necessary PFMA application has been submitted to the relevant authority for approval. The response is still awaited. New applications for the Subsidy Housing Programme are financed out of NURCHA's own funds.

NURCHA has continued financing new loan applications under the Affordable Housing Programme using own funds, Cadiz Asset Management (CADIZ) and Public Investment Corporation (PIC) loan facilities. The availability of the CADIZ loan came to an end in July 2015, but the loan is repayable in July 2017.

The directors are satisfied that NURCHA has access to adequate resources to continue in operational existence for the foreseeable future. The accumulated reserves of the company are reported at R400 million (2014: R390 million) for the financial year. This is after accounting for impairments in loans amounting to R2,5 million.

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

Merger of the three Development Finance Institutions (DFIs)

A decision has been taken by the major stakeholders of NURCHA that it will merge with two other DFIs (NHFC and RHLF) to form a bigger DFI for the Human Settlements sector. The implementation of this merger is expected to occur in phases with the full implementation happening after the 2016/2017 financial year. The buy and sell agreement of the assets and liabilities is expected to be signed by the three entities before the end of 2015/16 financial year. This decision has not been taken into account in coming to the going concern assumption above as the takeover of these assets will not happen in the next 12 months and the takeover of assets and liabilities by NHFC will be done at fair value as part of phase 1.

Property, plant and equipment

Furniture and equipment were acquired at a cost of R260 480 (2014: R379 056). There were no changes in the nature of property, plant and equipment nor in the policy regarding their use during the year under review. The Loan Management System (LMS) is now fully developed and is used to manage loans.

Group construction finance facilities

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

	2015 R'000	2014 R'000
Construction finance capital received in the form of cash deposits	**400 265**	222 409
SEDF loan for construction finance	**61 660**	61 660
Futuregrowth loan for construction finance	**–**	135 000
Cadiz Asset Management loan for construction finance	**75 000**	75 000
Public Investment Corporation (PIC) loan for construction finance	**100 000**	100 000
Total capacity before contingent liabilities	**636 925**	594 069
Commitments relating to loans signed and issued by NURCHA	**623 831**	428 450

Project losses

Project losses of R193 099 (2014: R1,3 million) were incurred during the year under review as a result of defaults on loans to construction projects. NURCHA will pursue legal action against some of these contractors or employers and a portion of this amount may be recovered as the contractors have assets in the background and/or the claims are considered valid.

Allowance for impairment of loans

During the year under review, the allowance for impairment of loans increased by R2,4 million (2014: R3,4 million). The increase is mainly due to diversion of funds on projects under the Infrastructure and Community Facilities Programme and the devaluation of collateral held on an Affordable Housing project in liquidation.

Delays in payment of contractor claims by other organs of state are still being experienced. These contributors to the state of NURCHA's loan book have been brought to the attention of the Department of Human Settlements and National Treasury for their intervention.

Subsidy Housing Programme

NURCHA continued its role as primary lender of the contractors under the Subsidy Housing Programme. Loans signed after the expiry of the FNB/OPIC loan facility are now financed out of NURCHA's own funds.

The loan value committed under the Subsidy Housing Programme as at the end of the financial year, using the direct lending method, is R140,7 million. The use of the direct lending method is in line with the decision of the Board in the 2012 financial year regarding the termination of relationship with the intermediaries to manage aspects of the loan book on its behalf.

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

Auditors

The auditors of NURCHA and its subsidiary companies are Ngubane and Company. They have carried out an independent examination of the financial statements in accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA), the General Notice issued in terms thereof, and with International Standards on Auditing and have reported their findings in the audit report on pages 63 to 65.

Post-balance sheet events

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

Development outputs

The following table provides development outputs for the year ended 31 March 2015:

	Contracts signed		Houses/sites in contracts		Houses/sites completed		Loans signed (R'million)		Project values (R'million)	
	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**
Subsidy Housing	28	**15**	9 660	**9 773**	5 500	**5 962**	112,0	**81,8**	724,5	**864,0**
Affordable Housing	20	**16**	2 800	**2 564**	1 950	**1 606**	300,0	**246,6**	440,0	**925,8**
Infrastructure and Community Facilities	4	**2**	N/A	**N/A**	8	**0**	17,4	**15,1**	88,0	**56,6**

The annual financial statements as set out on pages 59 to 109 have been approved by the directors and are signed on their behalf by Mr K Shubane and Mr V Gqwetha.

Khehla Shubane
Chairperson – Board

Viwe Gqwetha
Managing Director

Statement of Financial Position

as at 31 March 2015

	Notes	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Assets					
Current assets		**481 286**	646 300	**278 646**	349 882
Loans for construction projects	10	**162 996**	175 028	**41 559**	80 236
Receivables from exchange transactions	4	**7 152**	13 761	**9**	546
Cash and cash equivalents	5	**311 138**	457 511	**237 078**	269 100
Non-current assets		**100 717**	26 552	**291 505**	345 120
Property, plant and equipment	6	**588**	686	**588**	686
Intangible assets	7	**1 675**	1 790	**1 675**	1 790
Investments in controlled entities	8	**–**	–	**1**	1
Investments in associates	9	**3 138**	3 217	**3 400**	3 400
Loans to economic entities	3	**–**	–	**225 468**	326 278
Loans for construction projects	10	**95 316**	20 859	**60 373**	12 965
Total assets		**582 003**	672 852	**570 151**	695 002
Liabilities					
Current liabilities		**135 619**	184 681	**61 930**	10 307
SEDF loan	11	**57 221**	–	**57 221**	–
Payables from exchange transactions	12	**17 946**	25 228	**2 900**	8 118
Managed funds	13	**58 643**	157 064	**–**	–
Provisions	14	**1 809**	2 189	**1 809**	2 189
Bank loans to finance projects		**–**	200	–	**–**
Non-current liabilities		**8 000**	60 313	**–**	52 313
SEDF loan	11	**–**	52 313	**–**	52 313
CADIZ loan	15	**8 000**	8 000	**–**	–
Net assets		**438 384**	427 858	**508 221**	632 382
Formation grants	17	**38 300**	38 300	**38 300**	38 300
Capital contributions	16	**300 000**	300 000	**300 000**	300 000
Other reserves		**199 284**	199 284	**199 284**	199 284
Accumulated surplus/(deficit)		**(99 200)**	(109 726)	**(29 363)**	94 798
Total net assets and liabilities		**582 003**	672 852	**570 157**	695 002

Statement of Financial Performance

for the year ended 31 March 2015

	Notes	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Revenue					
Revenue from exchange transactions					
Fees on loans for construction projects		**8 409**	6 082	**18 610**	23 594
Interest on loans for construction projects		**30 925**	25 311	**14 230**	14 371
Interest received – controlled entities		**–**	–	**9 517**	15 948
Other income		**5 623**	3 439	**4 355**	2 774
Programme management fees		**24 294**	33 803	**–**	–
Interest received – investments	18	**14 670**	13 210	**13 726**	11 493
Total revenue	19	**83 921**	81 845	**60 438**	68 180
Expenditure					
Personnel costs	20	**(29 232)**	(27 438)	**(29 232)**	(27 186)
Depreciation and amortisation		**(1 168)**	(1 611)	**(1 168)**	(1 611)
Finance costs	21	**(5 427)**	(6 741)	**(4 907)**	(4 489)
Bad debts written off	22	**(193)**	(1 319)	**(69 772)**	(875)
Repairs and maintenance		**(307)**	(360)	**(307)**	(360)
Other operating expenses	23	**(34 636)**	(35 902)	**(19 763)**	(20 300)
Total expenditure		**(70 963)**	(73 371)	**(125 149)**	(54 821)
Operating surplus/(deficit)	24	**12 958**	8 474	**(64 711)**	13 359
Loss on disposal of assets		**–**	(5)	**–**	(5)
Movements in impairments – other		**–**	1 788	**–**	2 052
Movements in impairments – loans	10	**(2 353)**	(3 426)	**(59 450)**	(5 019)
Income from equity accounted investments		**(79)**	347	**–**	–
		(2 432)	(1 296)	**(59 450)**	(2 972)
Surplus/(deficit) for the year		**10 526**	7 178	**(124 161)**	10 387

Statement of Changes in Net Assets

for the year ended 31 March 2015

	Contributed capital R'000	Other reserves R'000	Formation grants R'000	Total reserves R'000	Accumulated surplus/ (deficit) R'000	Total net assets R'000
Group						
Balance at 1 April 2013	200 000	199 284	38 300	237 584	(116 904)	320 680
Changes in net assets						
Surplus for the year	–	–	–	–	7 178	7 178
Capital grant received	100 000	–	–	–	–	100 000
Total changes	100 000	–	–	–	7 178	107 178
Balance at 1 April 2014	300 000	199 284	38 300	237 584	(109 726)	427 858
Changes in net assets						
Surplus for the year	**–**	**–**	**–**	**–**	**10 526**	**10 526**
Total changes	**–**	**–**	**–**	**–**	**10 526**	**10 526**
Balance at 31 March 2015	**300 000**	**199 284**	**38 300**	**237 584**	**(99 200)**	**438 384**
Company						
Balance at 1 April 2013	200 000	199 284	38 300	237 584	84 410	521 994
Changes in net assets						
Surplus for the year	–	–	–	–	10 387	10 387
Capital grant received	100 000	–	–	–	–	100 000
Total changes	100 000	–	–	–	10 387	110 387
Balance at 1 April 2014	300 000	199 284	38 300	237 584	94 797	632 381
Changes in net assets						
Deficit for the year	**–**	**–**	**–**	**–**	**(124 161)**	**(124 161)**
Total changes	**–**	**–**	**–**	**–**	**(124 161)**	**(124 161)**
Balance at 31 March 2015	**300 000**	**199 284**	**38 300**	**237 584**	**(29 363)**	**508 221**
Notes	16					

Statement of Cash Flows

for the year ended 31 March 2015

	Notes	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Cash flows from operating activities					
Receipts					
Sale of goods and services		**56 983**	84 571	**27 624**	44 422
Interest income		**14 670**	13 210	**23 243**	27 440
Other receipts		**5 623**	3 440	**4 355**	2 774
		77 276	101 221	**55 222**	74 636
Payments					
Employee costs		**(29 232)**	(27 438)	**(29 232)**	(27 186)
Suppliers		**(127 964)**	(7 885)	**(89 684)**	(22 633)
Finance costs		**(5 427)**	(6 741)	**(4 907)**	(4 489)
		(162 623)	(42 064)	**(123 823)**	(54 308)
Net cash flows from operating activities	27	**(85 347)**	59 157	**(68 601)**	20 328
Cash flows from investing activities					
Purchase of property, plant and equipment	6	**(260)**	(378)	**(260)**	(378)
Proceeds from sale of property, plant and equipment	6	**–**	90	**–**	90
Purchase of other intangible assets	7	**(695)**	(652)	**(695)**	(652)
Loans advanced to economic entities		**–**	–	**–**	(63 431)
Movements of loans from economic entities		**–**	–	**100 808**	–
Proceeds from sale of financial assets		**(62 425)**	7 059	**(8 731)**	41 265
Movements in impairments – loans		**(2 353)**	(3 426)	**(59 450)**	(5 019)
Net cash flows from investing activities		**(65 733)**	2 693	**31 672**	(28 125)
Cash flows from financing activities					
Capital grants received	16	**–**	100 000	**–**	100 000
Repayment of SEDF loan		**4 907**	4 486	**4 907**	4 486
Decrease of CADIZ loan		**–**	(2 000)	**–**	–
Decrease in overdraft facilities		**(200)**	(25 351)	**–**	–
Net cash flows from financing activities		**4 707**	77 135	**4 907**	104 486
Net increase/(decrease) in cash and cash equivalents		**(146 373)**	138 985	**(32 022)**	96 689
Cash and cash equivalents at the beginning of the year		**457 511**	318 526	**269 100**	172 411
Cash and cash equivalents at the end of the year	5	**311 138**	457 511	**237 078**	269 100

Statement of Comparison of Budget and Actual Amounts

for the year ended 31 March 2015

Group	Reference	Approved budget R'000	Adjust-ments R'000	FInal budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Fees on loans for construction projects	(a)	7 108	–	7 108	**8 409**	1 301
Interest on loans for construction projects	(a)	19 246	–	19 246	**30 925**	11 679
Other income	(b)	14 900	–	14 900	**5 623**	(9 277)
Programme management fees	(c)	44 138	–	44 138	**24 294**	(19 844)
Interest received – investments	(d)	17 063	–	17 063	**14 670**	(2 393)
Total revenue from exchange transactions		**102 455**	**–**	**102 455**	**83 921**	**(18 534)**
Expenditure						
Personnel	(e)	(34 669)	–	(34 669)	**(29 232)**	5 437
Depreciation and amortisation	(f)	(1 504)	–	(1 504)	**(1 168)**	336
Finance costs	(g)	(8 092)	–	(8 092)	**(5 427)**	2 665
Bad debt written off	(h)	–	–	–	**(193)**	(193)
Repairs and maintenance	(i)	(608)	–	(608)	**(307)**	301
General expenses	(c)	(60 075)	–	(60 075)	**(34 636)**	25 441
Total expenditure		**(104 948)**	**–**	**(104 948)**	**(70 963)**	**33 987**
Operating surplus		**(2 493)**	**–**	**(2 493)**	**12 959**	**15 452**
Movements in impairments – loans	(j)	4 402	–	4 402	**(2 353)**	(6 755)
Loss from equity accounted investments		–	–	–	**(79)**	(79)
		4 402	**–**	**4 402**	**(2 432)**	**(6 834)**
Surplus/(deficit) for the year		**1 909**	**–**	**1 909**	**10 526**	**8 617**

Group	Reference	Approved budget R'000	Adjust-ments R'000	FInal budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000
Assets						
Current assets		**600 990**	**–**	**600 990**	**481 286**	**(119 704)**
Loans for construction projects	(d)	178 864	–	178 864	**162 996**	(15 868)
Receivables from exchange transactions		9 015	–	9 015	**7 152**	(1 863)
Cash and cash equivalents	(d)	413 111	–	413 111	**311 138**	(101 973)
Non-current assets		**13 182**	**–**	**13 182**	**100 717**	**87 535**
Property, plant and equipment		540	–	540	**588**	48
Intangible assets		1 753	–	1 753	**1 675**	(78)
Investments in associates		1 435	–	1 435	**3 138**	1 703
Loans for construction projects	(d)	9 454	–	9 454	**95 316**	85 862
Total assets		**614 172**	**–**	**614 172**	**582 003**	**(32 169)**
Liabilities						
Current liabilities		**154 944**	**–**	**154 944**	**135 619**	**(19 325)**
SEDF loan		57 221	–	57 221	**57 221**	–
Payables from exchange transactions	(o)	67 300	–	67 300	**17 946**	(49 354)
Managed funds	(l)	20 603	–	20 603	**58 643**	38 040
Provisions		2 500	–	2 500	**1 809**	(691)
Bank loans to finance projects	(m)	7 320	–	7 320	**–**	(7 320)
Non-current liabilities		**32 824**	**–**	**32 824**	**8 000**	**(24 824)**
Futuregrowth loan	(n)	2 292	–	2 292	**–**	(2 292)
CADIZ loan	(n)	5 313	–	5 313	**8 000**	2 687
PIC loan	(n)	25 219	–	25 219	**–**	(25 219)
Total liabilities		**187 768**	**–**	**187 768**	**143 619**	**(44 149)**
Net assets		**426 404**	**–**	**426 404**	**438 384**	**11 980**
Net assets attributable to owners of controlling entity						
Capital contributions		300 000	–	300 000	**300 000**	–
Reserves						
Other reserves		199 284	–	199 284	**199 284**	–
Formation grants		38 300	–	38 300	**38 300**	–
Accumulated surplus/ (deficit)	(k)	(111 180)	–	(111 180)	**(99 200)**	11 980
Total net assets and liabilities		**426 404**	**–**	**426 404**	**438 384**	**11 980**

Statement of Comparison of Budget and Actual Amounts (continued)

for the year ended 31 March 2015

Material differences between budget and actual amounts

(a) The positive performance in the lending business stream is due to the growth mainly in the affordable loan book. The favourable variance on interest expense is due to use of NURCHA's own funds.

(b) Bad debts recovered were budgeted as part of the other income and collection targets were not met.

(c) No new programme management programmes were implemented during the financial year as had been planned during the budgeting period. This impacted both the income and expenditure.

(d) Growth in the affordable housing loan book resulted in reduced cash equivalents balances.

(e) Not all the vacancies in the approved structure were filled.

(f) Not all the assets that were under development were capitalised during the year.

(g) Borrowing facilities were underutilised and some of them expired during the year, and this resulted in lower interest expense and lower borrowing balances.

(h) The entity does not budget for losses of this nature.

(i) Maintenance requirements were fewer than anticipated in the budget.

(j) Increase in impairment of loans relates mainly to increase in impairments in the infrastructure programme. Financed contractors continue to divert progress payments into their bank accounts and thereby failing to service their loans.

(k) The favourable variance emanates from the surplus made by NURCHA in the year under review.

(l) The variance relates to funds managed by NURCHA on behalf of Provincial Departments of Human Settlements. Cash flow projections for these funds are done at provincial level.

(m) The facility came to an end during the year and was not renewed or replaced by a new facility as it had been anticipated.

(n) The variance relates to underutilisation on all funding facilities.

(o) The payables from exchange were overstated in the budget.

Notes to the Annual Financial Statements

for the year ended 31 March 2015

1. Accounting policies

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

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

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

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1 Presentation currency

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

1.2 Consolidation

Basis of consolidation

Consolidated financial statements are the financial statements of the group presented as those of a single entity.

The consolidated financial statements incorporate the financial statements of the company and all controlled entities, including special purpose entities, which are controlled by the company.

Control exists when the company has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities are included in the consolidated financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognised in net assets in accordance with the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates, is recognised in the consolidated statement of financial performance as the surplus or deficit on the disposal of the controlled entity.

An investment in an entity is accounted for in accordance with the Standards of GRAP on Financial Instruments from the date that it ceases to be a controlled entity, unless it becomes an associate or a jointly controlled entity, in which case it is accounted for as such. The carrying amount of the investment at the date that the entity ceases to be a controlled entity is regarded as the fair value on initial recognition of a financial asset in accordance with the Standards of GRAP on Financial Instruments.

1. Accounting policies (continued)

1.2 Consolidation (continued)

Basis of consolidation (continued)

The financial statements of the company and its controlled entities used in the preparation of the consolidated financial statements are prepared as of the same reporting date.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Investment in associates

An associate is an entity over which the company has significant influence and which is neither a controlled entity nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with Standard of GRAP on Non-current Assets Held-For-Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the group's share of net assets of the associate, less any impairment losses.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the investee. The surplus or deficit of the group includes the group's share of the surplus or deficit of the investee.

The group's share of the surplus or deficit of the investee is recognised in surplus or deficit.

Distributions received from an investee reduce the carrying amount of the investment.

The most recent available financial statements of the associate are used by the group in applying the equity method. When the reporting dates of the group and the associate are different, the associate prepares, for the use of the group, financial statements as of the same date as the financial statements of the group unless it is impractical to do so.

The group's financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances.

Deficits in an associate in excess of the group's interest in that associate are recognised only to the extent that the group has incurred a legal or constructive obligation to make payments on behalf of the associate. If the associate subsequently reports surpluses, the group resumes recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Surpluses and deficits on transactions between the group and an associate are eliminated to the extent of the group's interest therein.

The company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment in accordance with the Standards of GRAP on Financial Instruments from that date, unless the associate becomes a controlled entity or a joint venture, in which case it is accounted for as such. The carrying amount of the investment at the date that it ceases to be an associate is regarded as the fair value on initial recognition as a financial asset in accordance with the Standards of GRAP on Financial Instruments.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Leasehold improvements	Lease period
Furniture and fixtures	5 years
Office equipment	5 years
Computer equipment	3 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

1. Accounting policies (continued)

1.3 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the group or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that is attributable to the asset will flow to the group; and
- the cost or fair value of the asset can be measured reliably.

The group assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;

- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer software, internally generated	3 years
Computer software, other	3 years
Intangible assets under development	n/a

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential is expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Investments in controlled entities

Company financial statements

In the entity's separate financial statements, investments in investments in controlled entities are carried at cost less any accumulated impairment.

1.6 Investments in associates

Company financial statements

An investment in an associate is carried at fair value and classified as fair value through surplus or deficit.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

1. Accounting policies (continued)

1.7 Financial instruments (continued)

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options), but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under prespecified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held-for-trading.

1. Accounting policies (continued)

1.7 Financial instruments (continued)

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held-for-trading. A financial instrument is held-for-trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.8 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

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

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Capital contributions

An equity instrument is any contract that evidences a residual interest in the assets of a group after deducting all of its liabilities.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for services rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and, as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1. Accounting policies (continued)

1.12 Provisions and contingencies

Provisions are recognised when:

- the group has a present obligation 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 present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the group settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the group.
- The stage of completion of the transaction at the reporting date can be measured reliably.
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified timeframe, revenue is recognised on a straight-line basis over the specified timeframe unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest method.

1. Accounting policies (continued)

1.14 Investment income

Investment income is recognised on a time proportion basis using the effective interest method.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and could have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and, where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:

(a) this Act; or

(b) the State Tender Board Act, 1968 (Act No 86 of 1968), or any regulations made in terms of the Act; or

(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note No 4 of 2008/2009, which was issued in terms of sections 76(1) to 76(4) of the PFMA, requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year-end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year-end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.17 Related parties

The group operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the group, including those charged with the governance of the group in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the group.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.18 Budget information

The group is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which are given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the group shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by programmes linked to performance outcome objectives.

The approved budget covers the fiscal period from 1 April 2014 to 31 March 2015.

The budget for the economic entity includes all the entities' approved budgets under its control.

The financial statements and the budget are on the same basis of accounting, therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

The statement of comparison of budget and actual amounts has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The financial statements and the budget are not on the same basis of accounting, therefore a reconciliation between the statement of financial performance and the budget has been included in the financial statements. Refer to notes 17 and 18.

1. Accounting policies (continued)

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Non-distributable reserves

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

1.21 Construction finance capacity

Construction finance capacity includes undertakings and cash received from sponsors.

1.22 Going concern assumption

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

1.23 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables/held-to-maturity investments and/or loans and receivables

The group assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 – Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtor’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 1 April 2015 or later periods:

Standard/Interpretation	Effective date	Impact
GRAP 105: Transfers of functions between entities under common control	No effective date has been determined	No impact
GRAP 106: Transfers of functions between entities not under common control	No effective date has been determined	No impact
GRAP 107: Mergers	No effective date has been determined	No impact
GRAP 20: Related parties	No effective date has been determined	No impact
GRAP 32: Standard of GRAP on Service Concession Arrangements: Grantor	No effective date has been determined	No impact
GRAP 108: Statutory Receivables	No effective date has been determined	No impact

	Group		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
3. Loans to economic entities				
Controlled entities				
NURCHA Management Services (Proprietary) Limited	–	–	38 132	44 071
NURCHA Finance Company (Proprietary) Limited	–	–	–	115 728
NURCHA Equity Services (Proprietary) Limited	–	–	–	38 765
NURCHA Development Finance (Proprietary) Limited	–	–	35 935	36 247
NURCHA Bridging Finance (Proprietary) Limited	–	–	48 842	27 123
NURCHA Loan Fund (Proprietary) Limited	–	–	102 559	64 344
	–	–	225 468	326 278

The loans to subsidiary companies are unsecured and have no fixed term. Interest on the interest-bearing portion of the loan is charged between 0% and prime less 1,5%.

During the year the Board approved to write-off loans to controlled entities of R69,7 million as uncollectable and provided for an impairment of R57,7 million.

		Group		Company	
		2015 R'000	2014 R'000	2015 R'000	2014 R'000
3.	**Loans to economic entities (continued)**				
	Reconciliation of loans to economic entities				
	Gross loans to economic entities	–	–	352 960	326 278
	Loans to economic entities written off	–	–	(69 772)	–
	Provision for impairment of loans to economic entities	–	–	(57 720)	–
	Net loans to economic entities	–	–	225 468	326 278
	Reconciliation of provision for impairment of loans to economic entities				
	Opening balance	–	–	–	–
	Provision for impairment	–	–	(57 720)	–
		–	–	(57 720)	–
4.	**Receivables from exchange transactions**				
	Employee costs in advance	7	11	7	11
	Other receivables	54	10 924	–	–
	Intermediary share of losses	–	535	–	535
	Programme management receivables	6 831	2 243	–	–
	Prepaid expenses	100	–	2	–
	VAT receivables	160	48	–	–
		7 152	13 761	9	546
5.	**Cash and cash equivalents**				
	Cash and cash equivalents consist of:				
	Cash on hand	3	3	3	3
	Bank balances	4 858	8 699	2 951	4 056
	Short-term deposits held for lending purpose	234 318	275 713	234 124	265 041
	Managed funds	71 959	173 096	–	–
		311 138	457 511	237 078	269 100

Included in the cash and cash equivalent balance, is a balance of R10 million in the Nedgroup Investments Core Income ABIL Retention Fund. In August 2014, the Registrar of Collective Investments issued Guidance Note 6 on the "Creation of side pockets for the African Bank Investments Limited (ABIL) debt paper." This effectively allowed financial institutions to create a separate fund to house the ABIL debt until liquidity returns to the market. Consequently, Nedbank Investments created a new Nedgroup Investments Core Income ABIL Retention Fund to house the ABIL exposure separately.

There is a lease demand guarantee in place issued by First National Bank as a guarantor in favour of NURCHA to the landlord for an amount of R480 000. The expiry date of the lease demand guarantee is 31 January 2016.

	2015 Cost/ valuation R'000	2015 Accumulated depreciation and impairment R'000	2015 Carrying value R'000	2014 Cost/ valuation R'000	2014 Accumulated depreciation and impairment R'000	2014 Carrying value R'000
6. Property, plant and equipment						
Group						
Leasehold property	940	(899)	41	940	(882)	58
Furniture and fixtures	1 234	(1 164)	70	1 222	(1 131)	91
Computer equipment	2 137	(1 736)	401	1 889	(1 457)	432
Other equipment	143	(67)	76	143	(38)	105
Total	4 454	(3 866)	588	4 194	(3 508)	686
Company						
Leasehold property	940	(899)	41	940	(882)	58
Furniture and fixtures	1 234	(1 164)	70	1 222	(1 131)	91
Computer equipment	2 137	(1 736)	401	1 889	(1 457)	432
Other equipment	143	(67)	76	143	(38)	105
Total	4 454	(3 866)	588	4 194	(3 508)	686

Group 2015	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Reconciliation of property, plant and equipment					
Leasehold property	58	–	–	(17)	41
Furniture and fixtures	91	13	–	(34)	70
Computer equipment	432	247	–	(278)	401
Other equipment	105	–	–	(29)	76
	686	260	–	(358)	588

Group 2014	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Reconciliation of property, plant and equipment					
Leasehold property	75	–	–	(17)	58
Furniture and fixtures	102	33	(3)	(41)	91
Computer equipment	353	345	(28)	(238)	432
Other equipment	200	–	(64)	(31)	105
	730	378	(95)	(327)	686

Company 2015	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
6. Property, plant and equipment (continued)					
Reconciliation of property, plant and equipment					
Leasehold property	58	–	–	(17)	41
Furniture and fixtures	91	13	–	(34)	70
Computer equipment	432	247	–	(278)	401
Other equipment	105	–	–	(29)	76
	686	260	–	(358)	588

Company 2014	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Reconciliation of property, plant and equipment					
Leasehold property	75	–	–	(17)	58
Furniture and fixtures	102	33	(3)	(41)	91
Computer equipment	353	345	(28)	(238)	432
Other equipment	200	–	(64)	(31)	105
	730	378	(95)	(327)	686

	2015			2014		
	Cost/ valuation R'000	Accumulated depreciation and impairment R'000	Carrying value R'000	Cost/ valuation R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
7. Intangible assets						
Group						
Computer software, internally generated	3 061	(2 895)	166	3 061	(2 267)	794
Computer software, other	2 713	(2 239)	474	2 387	(2 057)	330
Intangible assets under development	1 035	–	1 035	666	–	666
Total	6 809	(5 134)	1 675	6 114	(4 324)	1 790
Company						
Computer software, internally generated	3 061	(2 895)	166	3 061	(2 267)	794
Computer software, other	2 713	(2 239)	474	2 387	(2 057)	330
Intangible assets under development	1 035	–	1 035	666	–	666
Total	6 809	(5 134)	1 675	6 114	(4 324)	1 790

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Group 2015				
Reconciliation of intangible assets				
Computer software, internally generated	**794**	**–**	**(628)**	**166**
Computer software, other	**330**	**326**	**(182)**	**474**
Intangible assets under development	**666**	**369**	**–**	**1 035**
	1 790	**695**	**(810)**	**1 675**
Group 2014				
Reconciliation of intangible assets				
Computer software, internally generated	1 428	–	(634)	794
Computer software, other	817	162	649	330
Intangible assets under development	176	490	–	666
	2 421	652	(1 283)	1 790
Company 2015				
Reconciliation of intangible assets				
Computer software, internally generated	**794**	**–**	**(628)**	**166**
Computer software, other	**330**	**326**	**(182)**	**474**
Intangible assets under development	**666**	**369**	**–**	**1 035**
	1 790	**695**	**(810)**	**1 675**
Company 2014				
Reconciliation of intangible assets				
Computer software, internally generated	1 428	–	(634)	794
Computer software, other	817	162	(649)	330
Intangible assets under development	176	490	–	666
	2 421	652	(1 283)	1 790

	% holding 2015	% holding 2014	Carrying amount 2015	Carrying amount 2014
8. Investments in controlled entities				
Name of company				
NURCHA Finance Company (Proprietary) Limited	100%	100%	–	–
NURCHA Equity Services (Proprietary) Limited	100%	100%	1	1
NURCHA Development Finance (Proprietary) Limited	100%	100%	–	–
NURCHA Management Services (Proprietary) Limited	100%	100%	–	–
NURCHA Bridging Finance (Proprietary) Limited	100%	100%		
NURCHA Loan Fund (Proprietary) Limited	100%	100%	–	–
			1	1
The investments in controlled entities are shown at cost.				
9. Investments in associates				
Name of entity				
TUSK Construction Support Services Proprietary Limited	30%	30%	3 400	3 400
SEBRA Proprietary Limited	30%	30%	1 044	1 044
			4 444	4 444
Impairment of investments in associates			(1 044)	(1 044)
			3 400	3 400
The carrying amounts of associates are shown net of impairment losses.				

	Group		Company	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Movements in carrying value				
Opening balance	**3 217**	1 435	**3 400**	3 400
Share of surplus/deficit	**(79)**	347	**–**	–
Other movements	**–**	1 435	**–**	–
	3 138	3 217	**3 400**	3 400
Summary of controlled entity's interest in associate				
Non-current assets			**969**	925
Current assets			**3 061**	3 093
Non-current liabilities			**(768)**	(1 067)
Current liabilities			**(1 643)**	(1 146)
Attributable net asset value			**(1 620)**	1 804

10. Loans for construction projects

	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Designated at fair value				
Loans for construction projects	**298 942**	234 165	**130 678**	120 087
Allowance for impairments of loans	**(40 630)**	(38 278)	**(28 746)**	(26 886)
	258 312	195 887	**101 932**	93 201
Non-current assets				
Loans for construction projects	**95 316**	20 859	**60 373**	12 965
Current assets				
Loans for construction projects	**162 996**	175 028	**41 559**	80 236
Repayment schedule: The above loans bear interest at rates ranging between 9,25% and 15,0% per annum, are secured and are repayable on completion of the projects or by:				
31 March 2015	**–**	175 028	**41 510**	80 236
31 March 2016	**162 996**	12 471	**49**	12 471
31 March 2017	**94 902**	7 953	**59 959**	59
31 March 2018	**61**	64	**61**	64
31 March 2019	**68**	71	**68**	71
31 March 2020	**75**	79	**75**	79
31 March 2021	**84**	88	**84**	88
31 March 2022	**93**	98	**93**	98
31 March 2023	**33**	35	**33**	35
	258 312	195 887	**101 932**	93 201

10. Loans for construction projects (continued)

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

Allowance for impairments of loans

	Group		Company	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
Reconciliation of changes in allowance for impairments of loans				
Opening balance	**38 278**	34 852	**26 886**	21 867
Contributions	**6 093**	6 229	**2 750**	5 032
Reversals	**(3 740)**	(2 803)	**(889)**	(13)
Closing balance	**40 631**	38 278	**28 747**	26 886

11. SEDF loan

	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
SEDF loan carrying value	**57 221**	52 313	**57 221**	52 313
The loan from SEDF is Rand-denominated, interest free, unsecured and the repayment date is 6 February 2016.				
Non-current liabilities				
Carrying value	**–**	52 313	**–**	52 313
Current liabilities				
Carrying value	**57 221**	–	**57 221**	–

12. Payables from exchange transactions

	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Trade payables	**1 963**	2 665	**878**	482
CFDP grant	**13 219**	14 317	**–**	–
Other payables	**281**	6 516	**80**	6 066
VAT payables	**430**	–	**–**	–
Payroll-related payables	**1 420**	1 122	**1 420**	1 123
Other accrued expenses	**633**	608	**522**	447
	17 946	25 228	**2 900**	8 118

13. Managed funds

	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
Managed funds comprises:				
Vulindlela rural housing project	**27 265**	26 278	**–**	–
Eastern Cape bucket eradication programme	**12 712**	102 867	**–**	–
Eastern Cape rural housing pilot	**18 666**	27 919	**–**	–
	58 643	157 064	**–**	–

Reconciliation of provisions	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
14. Provisions				
Leave provision				
Opening balance	**2 189**	1 932	**2 189**	1 932
Additions	**255**	612	**255**	612
Utilised during the year	**(635)**	(355)	**(635)**	(355)
Total	**1 809**	2 189	**1 809**	2 189
15. CADIZ loan				
CADIZ loan carrying value	**8 000**	8 000	**–**	–
The loan bears interest at prime interest rate plus 1% and interest is payable monthly. Final capital repayment date is 6 July 2017. The loan is secured by subordination of shareholders' loan account; pledge and cession of bank account, shares and book debts; and cession of contractor securities.				
16. Capital contributions				
Capital grant received from SA Government – Department of Human Settlements	**300 000**	300 000	**300 000**	300 000
17. Formation grants				
Open Society Institute of New York	**18 300**	18 300	**18 300**	18 300
SA Government – Department of Human Settlements	**20 000**	20 000	**20 000**	20 000
	38 300	38 300	**38 300**	38 300
18. Interest received – investments				
Money markets	**13 823**	11 608	**13 525**	11 153
Current accounts	**847**	1 602	**201**	340
	14 670	13 210	**13 726**	11 493

		Group		Company	
		2015 R'000	2014 R'000	2015 R'000	2014 R'000
19.	**Revenue**				
	Fees on loans for construction projects	8 409	6 082	18 610	23 594
	Interest on loans for construction projects	30 925	25 311	14 230	14 371
	Interest received – controlled entities	–	–	9 517	15 948
	Interest received – investments	14 670	13 210	13 726	11 493
	Other income	5 623	3 439	4 355	2 774
	Programme management fees	24 294	33 803	–	–
		83 921	81 845	60 438	68 180
20.	**Employee-related costs**				
	Basic	26 232	24 780	26 232	24 780
	Bonus	1 451	60	1 451	60
	UIF	82	283	82	283
	WCA	3	13	3	13
	SDL	326	238	326	238
	Leave pay provision charge	254	612	254	612
	Travel, motor car, accommodation, subsistence and other allowances	430	1 048	430	796
	Group life	454	404	454	404
		29 232	27 438	29 232	27 186
21.	**Finance costs**				
	Non-current borrowings	814	766	–	–
	Bank	(294)	1 332	–	3
	Fair value adjustments: notional interest	4 907	4 488	4 907	4 486
	Other interest paid	–	155	–	–
		5 427	6 741	4 907	4 489
22.	**Bad debts written off**				
	Loans for construction projects written off	193	1 319	–	875
	Loans to economic entities written off	–	–	69 772	–
		193	1 319	69 772	875

	Group		Company	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
23. Other operating expenses				
Assets expensed	**8**	25	**8**	25
Auditors' remuneration	**1 885**	1 909	**1 189**	1 387
Bank charges	**102**	103	**41**	47
Cleaning	**173**	191	**173**	191
Consulting and professional fees	**12 105**	12 481	**3 744**	3 815
Consumables	**55**	60	**40**	60
Debt collection	**2 920**	1 218	**1 641**	921
Electricity	**880**	705	**880**	705
Entertainment	**11**	60	**11**	60
General expenses	**248**	435	**241**	373
Fixed-term contract salaries	**5 831**	7 054	**5 831**	7 054
Fines and penalties	**1**	1	**–**	–
Insurance	**440**	241	**268**	241
Lease rentals on operating lease	**2 320**	2 019	**2 025**	1 994
Annual report	**125**	122	**125**	122
Marketing	**1 020**	505	**781**	475
Other expenses	**2 154**	3 562	**–**	–
Placement fees	**153**	307	**153**	291
Postage and courier	**108**	81	**108**	81
Printing and stationery	**354**	349	**354**	349
Promotions	**50**	126	**50**	126
Secretarial fees	**8**	8	**3**	5
Software expenses	**261**	532	**124**	277
Staff welfare	**28**	18	**28**	18
Subscriptions and membership fees	**123**	92	**123**	92
Telephone and fax	**443**	350	**443**	350
Training	**420**	338	**420**	327
Travel – local	**2 410**	2 961	**959**	884
Travel – overseas	**–**	49	**–**	30
	34 636	35 902	**19 763**	20 300

		Group		Company	
		2015	2014	**2015**	2014
		R'000	R'000	**R'000**	R'000
24.	**Operating surplus/(deficit)**				
	Operating surplus (deficit) for the year is stated after accounting for the following:				
	Operating lease charges				
	Premises				
	Contractual amounts	**2 320**	2 019	**2 025**	1 994
	Loss on sale of property, plant and equipment	**–**	(5)	**–**	(5)
	Movements in impairments of loans	**2 353**	3 426	**59 450**	5 019
	Amortisation on intangible assets	**810**	1 283	**810**	1 283
	Depreciation on property, plant and equipment	**358**	328	**358**	328
	Employee costs	**29 232**	27 438	**29 232**	27 186
25.	**Auditors' remuneration**				
	Fees	**1 821**	1 904	**1 148**	1 382
	Consulting	**–**	5	**–**	5
	Expenses	**64**	–	**42**	–
		1 885	1 909	**1 190**	1 387
26.	**Taxation**				
	The company is exempted from the income tax in terms of section 10(1)(cN) of the Income Tax Act, 1962. There were no provisions made for the tax payable by subsidiary as there were assessed losses coming from the previous years.				
27.	**Cash (used in)/generated from operations**				
	Surplus/(deficit)	**10 526**	7 177	**(124 160)**	10 388
	Adjustments for:				
	Depreciation and amortisation	**1 168**	1 611	**1 168**	1 611
	Movements in impairments – loans	**2 353**	3 431	**59 450**	5 024
	Income from equity accounted investments	**79**	(347)	**–**	–
	Movements in impairments – other	**–**	(1 788)	**–**	(2 052)
	Movements in provisions	**(380)**	256	**(380)**	256
	Changes in working capital:				
	Receivables from exchange transactions	**6 608**	(2 846)	**537**	6 085
	Payables from exchange transactions	**(7 280)**	(4 647)	**(5 216)**	(984)
	Managed funds	**(98 421)**	56 310	**–**	–
		(85 347)	59 157	**(68 601)**	20 328

	Group		Company	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
28. Cumulative support by South African Government through NDOHS since inception				
Formation grant	**20 000**	20 000	**20 000**	20 000
Specialised lending grant	**61 660**	61 660	**61 660**	61 660
Recapitalisation grant	**300 000**	300 000	**300 000**	300 000
Interest on loan grant	**3 500**	3 500	**3 500**	3 500
Contractor Finance and Development Programme grant	**20 000**	20 000	**20 000**	20 000
	405 160	405 160	**405 160**	405 160
29. Cumulative support by various Soros Foundations since inception				
Formation grant	**18 300**	18 300	**18 300**	18 300
Project losses recovered	**8 801**	8 801	**8 801**	8 801
Savings grants received	**5 155**	5 155	**5 155**	5 155
Administration expenses grants	**11 672**	11 672	**11 672**	11 672
Grants received – OSI	**13 369**	13 369	**13 369**	13 369
	57 297	57 297	**57 297**	57 297
Guarantees supplied – SAFE	**–**	203 307	**–**	–
$10 million as a 10-year loan facility – SEDF	**61 660**	61 660	**61 660**	61 660
	61 660	264 967	**61 660**	61 660
	118 957	322 264	**118 957**	118 957

	Group		Company	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
30. Amounts available for construction finance				
Accumulated surplus	**400 265**	222 409	**353 189**	209 605
SEDF loan available for construction finance	**61 660**	61 660	**61 660**	61 660
Futuregrowth facility available for construction finance	**–**	135 000	**–**	–
CADIZ facility available for construction finance	**75 000**	75 000	**–**	–
PIC facility available for construction finance	**100 000**	100 000	**–**	–
	636 925	594 069	**414 849**	271 265
Less: Construction finance capacity committed				
Loans granted and committed	**(623 831)**	(428 450)	**(401 755)**	(205 460)
Consolidated committed capacity	**(623 831)**	(428 450)	**(401 755)**	(205 460)
	13 094	165 619	**13 094**	65 805

	Salary	Bonus	Provident	Total
31. Directors' and prescribed officers' emoluments				
Executive				
2015				
Mr V Gqwetha (Managing Director)	**1 711**	**115**	**338**	**2 164**
Mr S Nxusani (Financial Director)	**1 351**	**91**	**267**	**1 709**
Ms A Struwig (Executive Director: Lending Portfolio)	**1 360**	**85**	**151**	**1 596**
	4 422	**291**	**756**	**5 469**
2014				
Mr V Gqwetha (Managing Director)	1 608	–	318	1 926
Mr S Nxusani (Financial Director)	1 270	–	251	1 521
Ms A Struwig* (Executive Director: Lending Portfolio)	639	–	71	710
	3 517	–	640	4 157

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

	Directors' fees	Total
Non-executive		
2015		
Mr K Shubane (Chairman)	**259**	**259**
Mr W Ndodana	**29**	**29**
Ms M Nkomo	**65**	**65**
Mr T Nzimakwe	**173**	**173**
Mr K Oliver	**36**	**36**
Mr H Prinsloo	**65**	**65**
Ms Z Rylands	**128**	**128**
Ms L Sing	**175**	**175**
	930	**930**
2014		
Mr K Shubane (Chairman)	243	243
Mr C de Beer	27	27
Mr W Ndodana	34	34
Ms M Nkomo	70	70
Mr T Nzimakwe	129	129
Mr K Oliver	48	48
Mr S Paperin (USA)	21	21
Ms Z Rylands	91	91
Ms L Sing	104	104
Mr A Canter	57	57
	824	824

	Salary	Bonus	Provident	Total
Prescribed officers				
2015				
Mr N Cleaver**	**419**	**–**	**47**	**466**
Mr T Mosia**	**574**	**58**	**64**	**696**
Ms N Ndzimbomvu	**862**	**54**	**96**	**1 012**
	1 855	**112**	**207**	**2 174**
2014				
Mr N Cleaver	945	–	105	1 050
Mr T Mosia	868	–	96	964
Ms N Ndzimbomvu	810	–	90	900
Ms A Struwig	500	–	56	556
	3 123	–	347	3 470

** *Resigned during the financial year.*

32. Events after the reporting date

There are no events after the reporting date to report.

33. Proposed DFI merger

A decision has been taken by the South African Government, represented by the Department of Human Settlements, that it will merge NURCHA with two other Developmental Finance Institutions (NHFC and RHLF) to form a bigger DFI for the Human Settlements sector. The implementation of this merger is expected to occur in phases with the full implementation happening before the end of the financial year. The buy-and-sell agreement is likely to be signed before the end of the 2015/16 financial year, whereby assets and liabilities will be transferred at fair value to NHFC. Management cannot reliably estimate any possible impact on the financial statements as a result of the merger at the date of this report.

34. Going concern

The directors have reviewed the cash flows of the entity and are satisfied that the entity will still be able to operate in the near future and also be able to settle its current commitments. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

	Group		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
35. Commitments				
Operating leases expense – as lessee				
Minimum lease payments due				
– within one year	**2 027**	1 994	**2 027**	1 994
– in second to fifth year inclusive	**5 236**	1 163	**5 236**	1 163
	7 263	3 157	**7 263**	3 157

Operating lease payments represent rentals payable by the group for its office properties.

36. Contingencies

There are no significant contingent liabilities at the reporting date.

37. Related parties

Relationships

Members	Refer to directors' report
Controlled entities	Refer to note 8
Associates	Refer to note 9
Shareholder with significant influence	Refer to notes 17, 28 and 29

	Group		Company	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
Related party transactions				
Summary of FNB/OPIC arrangement for facility based on guarantees received from sponsors:				
SAFE guarantee of $20 million – converted at R10,7277 per dollar	–	214 554	–	–
NURCHA cash	–	10 378	–	–
Actual facility granted – 95% of sureties available				
First loss reserve: R10 million	–	10 378	–	–
SAFE	–	203 307	–	–
Actual amounts drawn down				
Balance at the beginning of the year	**200**	15 455	–	–
Amounts repaid during the year	**(221)**	(16 130)	–	–
Interest	**20**	1 049	–	–
Project losses	–	(174)	–	–
South African Government through NDOHS				
Recapitalisation grant	–	300 000	–	–

	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
38. Irregular expenditure				
Opening balance	–	–	–	–
Add: Irregular expenditure – current year	1 994	4 367	–	4 367
Less: Amounts condoned	(1 994)	(4 367)	–	(4 367)
	–	–	–	–

Details of current year irregular expenditure

Deviation	Status/outcome	Amount
Extension of contract by three months was not done on time for social facilitation services	Contract was extended and ratified by the procurement committee.	527
Supply chain processes were not followed when appointing programme management consultants	Implementation of the Eradication of Bucket System Programme and establishment of a programme management unit were urgent.	1 450
The quotation process was not followed on procuring architectural services	The architect that had drawn up the plans initially was requested to do minor amendments on the plans.	17
		1 994

No financial losses were incurred by the entity because of the above non-compliances. The entity has put in place corrective measures and plans to ensure that incidents of this nature do not recur.

39. Risk management

Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The entity only deposits cash with major banks with high-quality credit standing and limits exposure to any one counterparty.

Capital risk management

The entity's objective when managing capital is to safeguard the entity's ability to continue as a going concern in order to provide returns for owner and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings, cash and cash equivalents and equity as disclosed in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Interest rate risk

The group is exposed to interest rate risk through its cash, financial assets, long-term investments and interest-bearing borrowings. The entity does not hedge its long-term interest exposure. Cash reserves/unutilised funds are monitored and managed in terms of the investment policy and mandate.

40. Key performance indicators for the 2014/2015 financial year

	Budget	Actual
Value of loans signed (R'million)		
Subsidy Housing	112,0	**81,8**
Affordable Housing (including serviced sites)	300,0	**246,6**
Infrastructure and Community Facilities	17,4	**15,1**
Houses/sites and infrastructure project completed		
Subsidy Housing	5 500	**5 962**
Affordable Housing (including serviced sites)	1 950	**1 606**
Infrastructure and Community Facilities	8	**–**
Loan defaults (R'000)		
Impairment of loans for construction projects	33 944	**40 630**

Acronyms

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

Notes

Notes

Administration

Registration Number

1995/004248/08

Registered Office

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

Auditors

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

Treasury Managers

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

Directors

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

Company Secretary

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