NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

ANNUAL PERFORMANCE PLAN 2016/17

PREPARED FOR SUBMISSION TO THE DEPARTMENT OF HUMAN SETTLEMENTS

FOREWORD

The Annual Performance Plan (APP) for the year ending 31 March 2017 has been prepared by the management of the NHFC and reviewed and recommended to the shareholder by the Board. The APP is in line with the current five year Strategic Plan which considers government priorities that are detailed in the Medium Term Strategic Framework, such as the National Development Plan, creation of sustainable human settlements and the National Growth Path. Prevailing and projected market conditions and organisational environment were also taken into account.

The target market of the NHFC is the low-to-middle income housing market which typically includes households who earn between R3 500 and R15 000 per month. The NHFC mandate requires the company to make housing and housing finance accessible and affordable to facilitate this objective.

This is done through:

- providing wholesale funding to housing development projects for ownership, social housing and private rental, including inner cities, and for incremental housing purposes;

- partnering with banks and other non-banking retail financial intermediaries to increase their sustained lending and innovation in the target market served; and

- leveraging private sector funding for the sustainable development of human settlements.

More specifically NHFC's strategic priorities are to:

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

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

- Mobilise funding into the Human Settlements space on a sustainable basis, in partnership with a broad range of institutions;

- Conduct the business activities of the NHFC in an ethical manner that ensures the continued economic sustainability of the NHFC, while promoting sustainable social and environmental development; and

- Stimulate the low-to-middle income housing sector by providing robust, relevant and timely research and market analysis to practitioners and housing customers.

The Annual Performance Plan was prepared on the basis that an additional R305.8 million in grant funding will be transferred by the Department of Human Settlements with R100 million flowing in each of the 2016/17 and 2016/18 fiscal years, and R105.8 million in the 2018/19 fiscal year.

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Signature
L N Sisulu, MP
Minister of Human Settlements, in her capacity as
Executive Authority of the National Housing Finance Corporation SOC Limited

Official Sign-Off

The key steps for the NHFC to ensure realisation of the Annual Performance Plan are:

- Ensuring that the capital structure of the NHFC is enhanced through the raising of equity funding in the short and medium term;

- Further enhancing the pricing model of the company, to ensure it better reflects the true cost of doing business and the risk associated with writing new business. Where there is cross-subsidisation between clients or products in order to achieve the developmental mandate, this will be more explicit or clearer;

- Consistently enhancing the loan monitoring processes and systems to ensure a satisfactory management of investment and credit risk associated with our client base; and

- Growing the loan book and mix of business at a satisfactory rate whilst mindful of the graduation of clients to the formal banking sector.

It is hereby confirmed that this Annual Performance Plan:

- was developed by the management of the National Housing Finance Corporation SOC Limited under the guidance of the CEO, Mr. Samson Moraba;
- was reviewed and recommended by the Board to the shareholder;
- takes into account all the relevant policies, legislation and other mandates that the National Housing Finance Corporation SOC Limited is subject to; and
- accurately reflects the strategic outcome oriented goals and objectives which the National Housing Finance Corporation SOC Limited will endeavor to achieve over the period 1 April 2016 to 31 March 2017. However, it should be noted that the Budgets exclude the Mortgage Default Insurance programme (MDI) until finalisation is reached on the capitalisation and operationalisation of the programme.

The Finance Linked Subsidy Programme (FLISP) is under review as the NHFC mandate for the implementation of the programme remains unfunded and the NHFC has no funds to cover the costs of the programme. Should the National Department of Human Settlements (“NDOHS”) approve the revised implementation model, a plan and a budget will be prepared for approval by the NHFC Board.

Whilst the DFI consolidation process is gaining traction, the APP has been prepared for the NHFC Group and not the consolidated Human Settlements DFI.

It is envisaged that the implementation of the consolidation of the DFIs will commence in the 2016/17 financial year. Key to the consolidated Human Settlements DFI is an enabling legislation and the delivery of a funding model indicating the optimum capitalisation for delivery.

It is anticipated that the processes will at some point overlap, guided by the timelines and confirmation of the required governance and approval processes.

A major threat in the short to medium term, is the vulnerability of the NHFC Group's profitability to volatility in impairments and doubtful revenue which may also adversely impact financial covenants of the existing funders. In this regard, management is pursuing a number of risk mitigating actions which include engagement with funders in consideration of replacing certain covenants.

The Strategic Plan was prepared on the basis of the approved capital allocation of R300 million with no additional debt funding raised to fund the operations. This was in consideration of the current debt capacity of the NHFC, the breach of certain AFD financial covenants and the impact thereof on the approval for borrowings and the ability of the NHFC to raise the required debt funding. This assumption remains applicable for the Annual Performance Plan in that the additional funding requirement of R105.8 million in 2018/19 is in the form of shareholder capital in line with the indicative allocations.

Critical to the achievement of these targets is a commitment of shareholder funding support from the NDOHS.

Zonia Adams
Chief Financial Officer

Signature: ____________________

Samson Moraba
Chief Executive Officer

Signature: ____________________

Michael Katz
(Chairperson of the Board of the NHFC)
on behalf of the Accounting Authority

Signature: ____________________ 2 Feb. 2016

L N Sisulu, MP
Minister of Human Settlements
Executive Authority
Date:

Signature: ____________________

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ACRONYMS

AFD	Agence Française de Développement
BNG	Breaking New Ground
CTCHC	Cape Town Community Housing Company (Pty) Limited
DFI	Development Finance Institutions
EIB	European Investment Bank
FLISP	Finance Linked Individual Subsidy Programme
HDA	Housing Development Agency
HFF	Home Front Finance, a retail loan division of the NHFC
HIP	Housing Investment Partners (Pty) Limited
HSDFI	Human Settlements Development Finance Institution
IHS	International Housing Solutions (Pty) Ltd
LTV	Loan to Value
NCA	National Credit Act 34 of 2005
NDoHS	National Department of Human Settlements
NHFC	National Housing Finance Corporation SOC Limited
NT	National Treasury
PE	Public Entities
PFMA	Public Finance Management Act 1 of 1999
RCG	Restructuring Capital Grant
RE-ORG	Re-organisation
RHLF	Rural Housing Loan Fund NPC
SHI	Social Housing Institutions
SHRA	Social Housing Regulatory Authority
SA	South African
SAWHF	SA Workforce Housing Fund
TUHF	Trust for Urban Housing Finance Holdings (Pty) Ltd

1. UPDATED SITUATIONAL ANALYSIS

1.1. Performance Environment

Economic Outlook

1.1.1. Economic Trend

The deteriorating economic position of South Africa was highlighted in the Monetary Policy Statement of November 2015 with respect to a challenging inflation outlook and the Reserve Bank's bleak assessment of South Africa's growth prospects. The message relayed by the Reserve Bank was similar to the message conveyed in the previous two Monetary Policy Committee meetings. Of particular concern in the most recent Monetary Policy Statement, are the marked depreciation of the Rand, worsening drought conditions and their impact on food prices; and the possibility of additional electricity tariff adjustments. At the same time the economy remains weak especially in the mining and agricultural sectors, which contracted in the third quarter of the year.

After a long pause in hiking interest rates, the Monetary Policy Committee, increased the repo rate by 25 basis points to 6.00% on 23rd July 2015 and a further 25 basis points (to 6.25%) on 19th November 2015. Although the inflation forecast is relatively unchanged since the last Monetary Policy Committee meeting in September, the Committee regards the upside risks to inflation due to the factors mentioned above.

In addition, the quarter was characterised by significant volatility in the currency as a result on the much anticipated hike in the US Federal Reserve's interest rate (for the first time in over nine years) as well as the negative adjustments in sovereign credit ratings by two well established credit rating agencies. Together with the unexpected changes to the Minister of Finance in December 2015, and subdued local economic growth, the South African Rand has been placed under tremendous pressure as foreign investors liquidated their positions in search of more secure, lower risk returns.

The Rand has depreciated further against a basket of currencies, adding to the poor inflation outlook. Since the start of 2015, the Rand has lost approximately 25% against the US dollar largely as a result of sluggish economic growth and the concerns about South Africa's current account and fiscal budget deficits. It was ranked as one of the worst performers amongst a basket of over thirty well traded currencies. Risk aversion (away from emerging markets), the slowing Chinese economy (and its impact on South Africa) and the hiking of the interest rates by the US Federal Reserve are themes that have dominated 2015 and are expected to continue to affect capital markets in 2016.

Capital markets (world over) have since early 2014, displayed high levels of volatility. This is a function of the ending of the US Federal Reserve quantitative easing monetary policy which effectively resulted in a significant amount of capital ("cheap capital") being invested in capital markets in emerging and well developed economies.

This buoyed emerging market stock, bond and currency markets from 2010 to around late 2013. However, the ending of this policy, expected increase in interest rates in US and slowing Chinese growth have created high levels of uncertainty as displayed in the recent Rand exchange rate and capital markets volatility.

The year on year inflation rate as measured by CPI, measured 4.7% in October, following two consecutive months at 4.6%. While these figures appear benign, the real concern for the Reserve Bank is the future outlook of inflation in the next twelve to eighteen months mainly for the reasons noted above. Inflation in 2015 is expected to average 4.6% from 4.7% previously, while in 2016 the average is forecast at 6.0% and 5.8% in 2017. In 2016, the inflation rate is expected to breach the upper end of the target in the first quarter (6.4%) and the last quarter (6.1%) of the year and remain in the upper end of the target range in the other two quarters of the year. These projections from the latest Monetary Policy Statement from the Reserve Bank, face more significant forecasting risk with the continued devaluation of the Rand in the first few weeks of trade in 2016. There is a possibility of a more aggressive hiking of interest rates by the Reserve Bank in order to protect the inflation targets, in an environment of sluggish economic growth. This does not bode well for businesses and consumers in South Africa.

The outlook for the domestic economy remains overshadowed by the electricity supply constraint which is expected to have adverse effect on economic growth and benign economic growth in some of South Africa's key trading partners. The recent key economic data from China indicates a slowing economy which does not bode well for South African exports, especially in the mining sector.

Growth in the first quarter of 2015 measured 1.3%, followed by a contraction of 1.3% in the second quarter. As a result of the performance of the economy in the first half of 2015, the Reserve Bank revised its growth forecast down to 1.4% in 2015 and 1.5% in 2016, but remains unchanged in 2017, at 2.1%. It must be noted that recent projections of growth from other analysts indicate a downward risk to the growth in 2016, with projections between 1% and 1.5%.

It was also noted that the Reserve Bank remains concerned about most key indicators of the economy such as mining, manufacturing output as well as various business confidence and manufacturing indices which mainly point to a weaker economy. Most notable was the FNB/BER consumer index reached a 14 year low in the second quarter of 2015.

In December 2015, the South African Chamber of Commerce and Industry business confidence index fell to its lowest in 23 years. Critically both these indices indicate a poor outlook for fixed capital formation (particularly by private sector), manufacturing output, consumer expenditure and job creation amongst other things.

Fiscal policy is set to continue on the consolidation path in South Africa as was noted in the Budget Speech by the Minister of Finance with the projected budget deficit for both 2014/15 and 2015/16 estimated at 3.9% of GDP despite lower GDP growth forecasts and is expected to narrow to 2.5% in 2017/18. This is expected to be achieved through a combination of lower expenditure and higher tax revenues.

Unsecured Lending and Credit Extension

The unsecured lending market has suffered a major setback. The Reserve Bank's December 2015 quarterly bulletin shows that the overindulgence by consumers on loans not backed by assets, has come down dramatically. Previously, lenders had supplied such loans freely as they profited by charging exorbitant interests rates.

Growth in unsecured loans plummeted since reaching 30.1% a year growth in January 2013. By July 2014, a month before the failure of market leader African Bank, unsecured loans were growing at only 0.2% a year - the "lowest rate of growth since July 2003", the Reserve Bank said. Since then the growth has increased steadily at was at 6.6% over a 12 months period ended October 2015.

Following African Bank being placed in curatorship in August 2014, unsecured lenders have exercised caution and tightened their lending criteria. The financial results of ABIL (for the year ended 30 September 2014), reflects losses of R 9.2 billion for the period indicating the results of poor management decision making and tough trading environment.

The Reserve Bank said the drop in unsecured loans might be due to the fact that customers were wary about the interest rates charged, as well as concerns about job security and weak income growth.

The glory days are behind us as consumers are "full up" with debt. However, Capitec seems to have thrived since African Bank was placed under curatorship in August 2014, as it is gaining market share even as African Bank continues to lend.

While the twelve month growth in lending to households has slowed to below 5% for most of 2014, the credit extension to corporates has recorded robust growth. In October 2015, year-on-year growth in total loans and advances was 8.3% as growth in credit extension to corporates slowed from 15.0% in April to 12.9% in October%, while that to households accelerated marginally from 3.5% in June to 4.5% in October.

The implementation of regulations applicable to individuals, imposing prescribed parameters for credit affordability assessments as part of the revisions to the National Credit Regulations (published in March, but delayed to September 2015), could serve to curtail the extension of credit to the household sector. This could be exacerbated by the proposed lowering of the maximum interest rates which may be charged on unsecured credit. The current high level of consumer debt, rising domestic interest rates, the increase in the maximum personal income tax rate, elevated petrol prices and higher electricity tariffs continued to add pressure on the household finances, consumer confidence and credit demand. Most recently, the marked devaluation in the Rand in the last quarter of 2015 (and first few weeks of 2016) is expected to further negatively affect consumer confidence and credit extension to this sector.

More specifically for the NHFC, mortgage advances made up 54% of total loans and advances in 2010, but this share gradually dwindled to 43% in the first ten months of 2015 as it lost ground to high-growth categories of instalment sale credit (mainly vehicle finance) and general loans.

However, the average monthly increase in mortgage advances outstanding gradually recovered from R40.6 billion in first ten months of 2014 to R61.4 billion (51% growth) during the same period in 2015. The current recovery is skewed towards commercial property (due to significant corporate activity), although growth in mortgage advances on residential property also gained pace, albeit more modestly.

1.1.2. Property Market

The residential property market followed a steady upward trajectory in 2014 and early 2015, with year-on-year rates of increase in house prices across the different barometers ranging between 6 and 8 per cent in February 2015.

House price inflation occurred alongside more balanced housing demand and supply conditions, as the positive impact of lower inflation and fuel cost savings was moderated by increases in the repurchase rate, slow economic growth and sluggish employment.

The affordable housing and former township market has shown better property fundamentals in 2014 in light of the house price growth recorded. Since 2009, properties valued at over R600 000 have increased in value by almost 30%, while properties under R600 000 have grown by 33%, according to the report. Furthermore, properties which are valued at less than R300 000 have posted a 40% increase in value. But supply constraints still weigh heavily on this market. It is also a market that is not well understood by many. The affordable housing market, in this case, the former townships, has outperformed major metros of Cape Town, Johannesburg, Tshwane, Nelson Mandela Bay and eThekwini with growth at 11.6% versus 7.3% for the overall market for the first quarter of 2015.

The FNB household and property sector analyst reflects that former township properties remain affordable, with an estimated average selling price of R304 000 in 2014. He adds that first time buyers in the affordable and former township market are chasing after value.

First time buyers in the affordable housing market were estimated to be 25% of total buyers, as at end of the first quarter 2015 versus a 28% high of the second quarter of 2014 indicating a downward trend which may indicate mounting residential mortgage affordability challenges.

1.1.3. Impact of the Economic and Property Outlook on NHFC in 2016/17

The above economic and property outlook for the rest of 2016 and 2017 have informed the NHFC's Annual Performance Plan and the following considerations have been factored in:

- Continued challenging trading environment for NHFC's core client base in sourcing and securing funding for projects given the tightening lending environment affecting home owners as well as property developers and investors;
- Consumers continue to be under high indebtedness and rising cost of living is exerting more pressure;
- While unsecured lending will always have a place in the market place, the focus on appropriately pricing credit risk will be even more important. In that regard, NHFC does not anticipate a significant growth from its client base of non-banking retail intermediaries;

- Tightening debt capital/financial markets will also have an impact on NHFC's ability to raise well priced funding for its balance sheet to augment its equity capital base;
- An increased level of impairments are forecast by the NHFC in 2015/16 and the credit loss ratio accordingly increased to 4% in 2016/17, which is significantly higher than the average in the previous 5 years of 1.63%; and
- A major threat in the short to medium term is the vulnerability of the NHFC Group profitability to volatility in impairments and doubtful revenue which may also adversely impact financial covenants of the existing funders.

1.2. Business Performance

1.2.1. Operational Overview

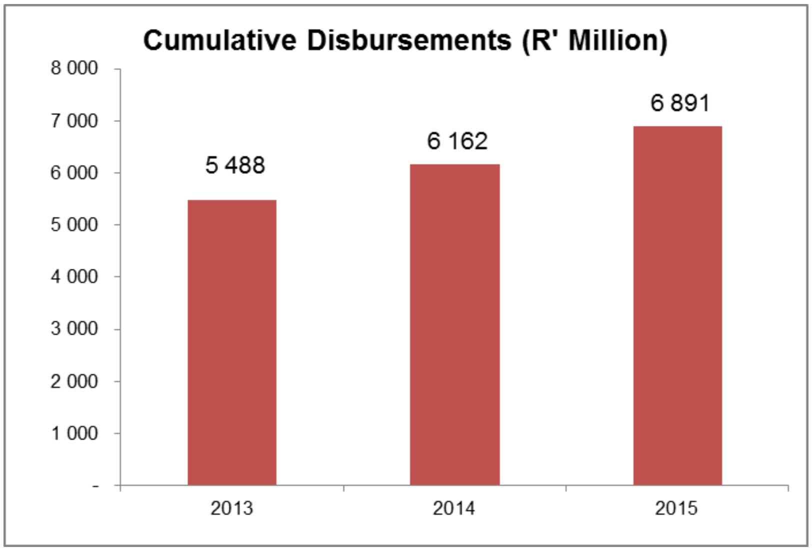
Delivering housing to the low-to-middle income housing market segment has been a challenge, even with instruments like the Finance Linked Individual Subsidy programme ("FLISP") which have been developed to encourage private sector investment in the sector.

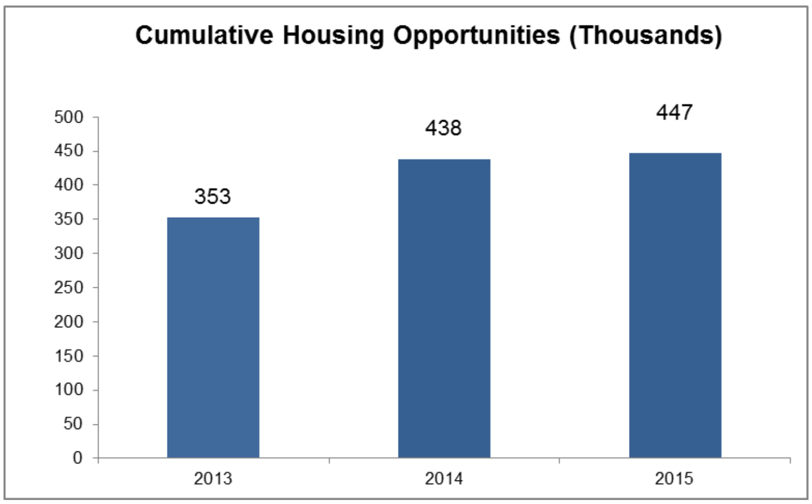
The overall non-satisfactory housing delivery performance can be attributed to:

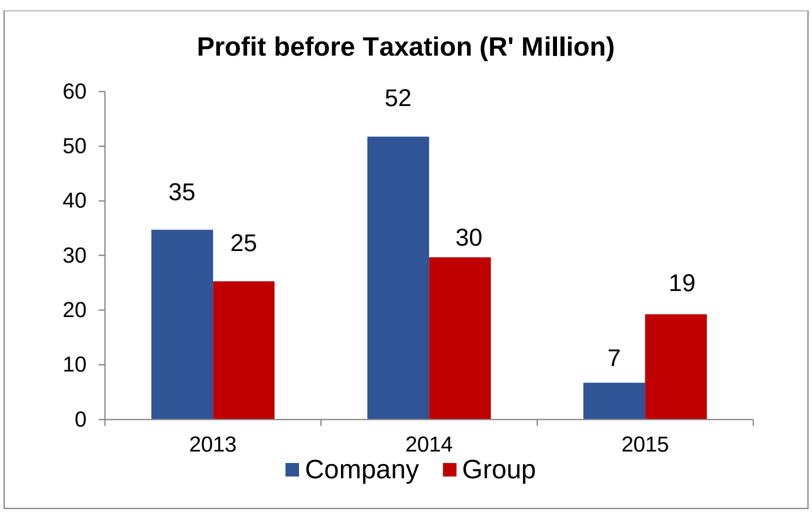
- inadequate supply of suitable and well-located land;
- regulatory pressure (Basel III) which has reduced the appetite of banks in investing in the mortgage lending housing market;
- general high levels of consumer indebtedness has also affected the mortgage lending market and poor consumer confidence;
- slow regulatory processes coupled with bureaucracy at municipal level;
- delays and costs in providing bulk infrastructure and new services;
- a mismatch between available stock, what is provided by developers and household affordability; and
- limited financing options for households to purchase these houses.

Despite the above challenges, over the twenty year review (1994 to 2015), the NHFC has proudly made meaningful contribution in the last 19 years through disbursing a cumulative R6,8 billion, while leveraging a further R16,1 billion private sector funding, thus creating 447 000 housing opportunities.

Key Indicators







1.2.2. Key factors impacting the Annual Performance Plan (APP)

DFI Consolidation

Whilst the DFI consolidation process is progressing well, the APP has been prepared for the NHFC Group and not the consolidated Human Settlements DFI.

It is envisaged that the implementation of the consolidation of the DFIs will commence in the 2016/17 financial year. Key to the consolidated Human Settlements DFI is enabling legislation and the delivery of a funding model indicating the optimum capitalisation for delivery.

It is anticipated that the processes will at some point overlap guided by the timelines and confirmation of the required governance and approval processes.

Business Programmes

A strategic decision was made to reallocate the budgeted resources for the Incremental Housing Loan programme to the Private Rental programme. This is in consideration of the client base of non-banking retail intermediaries being in distress. The importance of this instrument as a financing instrument for the affordable market remains key and to that end the NHFC will collaborate with the Rural Housing Loan Fund (RHLF), whose core business is rural incremental housing, to ensure that the urban market is also catered for in the DFI consolidation.

The NHFC, through an existing facility with a retail intermediary, remains invested in this market and the resultant leveraged impact is expected to contribute to the achievement of the MTSF targets.

The NHFC contribution to the MTSF targets in this Annual Performance Plan shows an increase and therefore the overall commitment to the MTSF targets has not been compromised.

Funding Requirements

The NHFC as a DFI, does have an important role to play in promoting and supporting the national economic development agenda. Ideally, this developmental role should not be executed at the compromise of the DFI's financial sustainability; this though, remains an elusive challenge for DFIs.

The problem with achieving the NHFC's crucial role of mobilising and facilitating funding to addressing market failure within the affordable housing sector at scale, entailed in many instances, compromising on sustainable margins which sacrificed growth to the seed capital it was supposed to preserve to remain sustainable.

The NHFC was capitalised at inception for R1 billion and has never in the following 18 years gone back to the shareholder to request further funding. The NHFC finds itself in a position whereby recapitalisation is required to continue to achieve its developmental objectives. In this regard an amount of R230 million was received in the 2014/15 financial year with a further approved allocation of R300 million over the MTEF and an indicative allocation of R105.8 million in 2018/19.

The original Strategic Plan approved by the Board in September 2014, identified the requirement for recapitalisation amounting to R1.1 billion; this was on the basis of the achievement of financial target towards the financial sustainability of the NHFC. Whilst delivering on its developmental mandate towards achieving broader government imperatives, capital preservation and long term sustainability of the NHFC remains critical. The achievement of the financial objectives are therefore critical to its financial strength required to retain its current credit rating and remain attractive to investors to improve its ability to raise debt funding which will augment the equity funding. The Strategic Plan was subsequently revised in line with the reduced approval capital allocation. The impact, on both the achievement of the developmental as well as financial targets, has been and continues to be communicated to the shareholder.

The Strategic Plan was prepared on the basis of the approved capital allocation with no additional debt funding raised to fund the operations. This was in consideration of the current debt capacity of the NHFC, the breach of the AFD financial covenants (in financial years 2011/12 and 2014/15) and the impact thereof on the approval for borrowings and the ability of the NHFC to raise the required debt funding.

Indications are that certain financial covenants of the AFD and EIB facilities will continue to be under threat. Key drivers of these covenants are the overall quality of the loan book and the profitability of the NHFC. This Annual Performance Plan therefore assumes that the additional funding requirements will be supported by shareholder funding in the form of capital.

Wholly owned subsidiary: Cape Town Community Housing Company (Proprietary) Ltd (CTCHC)

In line with the objective to reduce / dispose of the shareholding in CTCHC, the NHFC Board has recommended the approval of the sale to the shareholder.

However, the APP has been prepared on the basis that CTCHC will continue as a wholly owned subsidiary and considers the strategic re-organisation where new development activities are curtailed.

This treatment will be guided by the progress on the relevant governance and approval processes.

Finance Linked Subsidy Programme (FLISP)

The Finance Linked Subsidy Programme is under review as the NHFC mandate for the implementation of the programme remains unfunded and the Corporation has no funds to cover the costs of the programme. Should the NDOHS approve the revised implementation model, a plan and a budget will be prepared for approval by the NHFC Board.

1.2.3. Key changes to the Key Performance Indicators

1.2.3.1. Summary of key changes

	Approved Strategic Plan MTSF	Impact of APP Jan 2016 submission on MTSF
Funding Assumptions		
Shareholder support (R'm)	530	635.8
Debt funding (R'm)	-	-
Total funding requirements (R'm)	**530**	**635.8**
Funding Impact		
Disbursements (R'm)	2 367	2 376
Leveraged funds (R'm)	3 096	5 132
Total funding impact (R'm)	**5 463**	**7 508**
Developmental Impact		
Number of housing opportunities created	47 897	79 474
Number of beneficiaries benefitting	182 009	302 001
Number of jobs facilitated	28 734	40 057
BEE targeted disbursement (R'm)	474	1 698

Note: the MTSF relates to the 5 year period from financial years 2014/15 to 2018/19

The shareholder support has been aligned to the approved capital allocation as well as the indicative allocation for 2018/19, a breakdown is provided in section 5.2.

Whilst there has not been any significant change in the total disbursements over the MTSF detail of the changes within the years, together with the key drivers and factors impacting these changes are provided below.

The contribution from strategic partnerships has been updated in the latest APP to reflect the bearing of the actual performance in the forecast/budget period, as well as to include the impact of an existing facility with a retail intermediary that was not previously recognised. This has resulted in a significant increase in the leveraged funds as well as most of the developmental impact indicators.

Disbursements

Approved Strategic Plan

	Strategic Plan Target	Medium term targets				
Value of disbursements		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2017/19**
	R'm	**R'm**	**R'm**	**R'm**	**R'm**	**R'm**
Social Affordable Housing	**619**	**136**	**101**	**120**	**127**	**135**
Private Rental Housing*	**784**	**149**	**111**	**149**	**180**	**195**
Total Rental Housing	**1 403**	**285**	**212**	**269**	**307**	**330**
Affordable Housing	**877**	**392**	**174**	**91**	**110**	**110**
Incremental Housing Loans*	**87**	**-**	**20**	**21**	**22**	**24**
Total Affordable Housing	**964**	**392**	**194**	**112**	**132**	**134**
Total value of disbursements	**2 367**	**677**	**406**	**381**	**439**	**464**

Updated per APP 2016/17

	Forecast NHFC MTSF Target	Actual	Forecast	Budget		
Value of disbursements		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2017/18**
		R'm	**R'm**	**R'm**	**R'm**	**R'm**
Social Affordable Housing**	649	234	56	153	101	106
Private Rental Housing***	804	133	80	171	202	219
Total Rental Housing	**1 453**	**367**	**136**	**324**	**303**	325
Affordable Housing****	923	362	162	178	110	110
Incremental Housing Loans***	-	-	-	-	-	-
Total Affordable Housing	**923**	**362**	**162**	**178**	**110**	110
Total value of disbursements*	**2 376**	**729**	**298***	**503***	**413**	435

* The decrease in the disbursements in 2015/16 to R298 million from R729 million is driven by a combination of a reduced business pipeline (due to previous funding constraints), the prevailing subdued economic and market context which negatively affect both the households and clients of NHFC, challenges impacting the social housing space, lack of bankable projects and challenges in meeting of the Conditions Precedent in approved projects. It is envisaged that a number of corrective management interventions will bear some success resulting in the increased levels in 2016/17.

** Social Affordable Housing reduced in line with shareholder support.

*** Disbursements for Incremental Housing have been reallocated to Private Rental. The expected housing opportunity contribution will be achieved from funds leveraged per programme 2, and will therefore not be compromised.

**** Includes expired bridging facilities in 2014/15 not repeated in ensuing years.
The decrease over the MTSF is due to market conditions impacting integrated developments and intermediaries as well as the projected forecast of key significant existing commitments relating to strategic partnerships which is forecasted to be completed and not repeated at the same scale.
Increase in 2016/17 assumes approval of enlargement of a trust relating to a strategic partnership.

NHFC contribution to the NDOHS Medium Term Strategic Framework (MTSF) targets

Approved Strategic Plan

	Strategic Plan Target	NDOHS MTSF Target	% MTSF	Medium term targets				
				2014/15	2015/16	2016/17	2017/18	2018/19
Social Housing Units	5 899	27 000	22%	1 297	958	1 145	1 213	1 286
Private Rental Housing Units	15 390	25 000	62%	2 721	2 998	3 132	3 243	3 296
Total Rental	**21 289**			**4 018**	**3 956**	**4 277**	**4 456**	**4 582**
Affordable Housing Units	9 110			1 985	2 402	1 390	1 655	1 678
Incremental Housing Loans	17 498			-	4 000	4 240	4 494	4 764
Total Affordable Housing	**26 608**	**110 000**	**24%**	**1 985**	**6 402**	**5 630**	**6 149**	**6 442**
Total	**47 897**			**6 003**	**10 358**	**9 907**	**10 605**	**11 024**

Updated Forecast per APP 2016/17

	Forecast NHFC MTSF Target	NDOHS MTSF Target	% MTSF	Actual	Forecast	Medium term targets		
				2014/15	2015/16	2016/17	2017/18	2018/19
Social Housing Units*	6 110	27 000	23%	1 195	500	2 014	1 036	1 365
Private Rental Housing Units**	21 796	25 000	87%	4 706	3 258	4 240	4 575	5 017
Total Rental	**27 906**			**5 901**	**3 758**	**6 254**	**5 611**	**6 381**
Affordable Housing Units***	10 200			3 211	2 014	2 225	1 375	1 375
Incremental Housing Loans****	41 369			-	17 237	13 790	10 342	-
Total Affordable Housing	**51 569**	**110 000**	**47%**	**3 211**	**19 251**	**16 015**	**11 717**	**1 375**
Total	**79 474**			**9 112**	**23 009**	**22 268**	**17 327**	**7 757**

* Approved projects and pipeline outlook from SHRA accredited projects. Decrease in outer years in line with shareholder support.

** Increase mainly due to increased leveraged contribution from strategic partnership, TUHF. In addition the resources (planned disbursements) were reallocated from Incremental Housing to Private Rental.

*** Increase influenced by actual performance in 2014/15 as well as contribution from enlarged trust relating to a strategic partnership.

**** Contribution resulting from the leveraged impact of the existing facilities with retail intermediary.

Of note is that whilst the impact relating to direct disbursements (programme 1 section 5.1) may have decreased, the NHFC's strategic partnerships to leverage private sector funding thereby achieving much needed scale continues to yield success as indicated by the increased contribution (programme 2 section 5.2) thus ensuring that the overall contribution to the MTSF targets are not compromised.

1.3. Restructured Organisational Environment

The NHFC, through its restructure exercise, aligned the organisational structure with the strategic objectives, with the ultimate aim of improving its operational efficiency and effectiveness. The grouping of related functions and skill-sets resulted in a structure that is conducive to the promotion of high quality output and ensuring accountability for decisions at divisional level. The divisional areas have been reduced from 11 to 7 functional areas.

The key revenue generating divisions/units are the following:

- Debt-Lending and Subsidy programmes;
- Equity Investments and subsidiaries; and
- Retail Division (a business unit which has been closed and is currently in the process of being wound down).

The other divisions provide a supportive role to the revenue generating divisions. The support divisions are:

- Human Resources - Human Capital;
- Finance and Treasury;
- Credit Risk Management;
- Corporate Support;
- Strategy, Research and Stakeholder relations; and
- Company Secretarial Services,

The NHFC in its strategic planning and review exercise takes into account the DFI consolidation process and its potential impact.

DFI Consolidation: The legal and operational due diligences as well as the draft business case have been completed and identification and valuation of the relevant and attainable synergies were highlighted.

The DFI consolidation will result in a significantly larger organisation, and consensus has been reached in terms of the proposed corporate form of the new Human Settlements DFI (HSDFI), which will be established through an enabling legislation. It is currently not possible to provide an overview of the provisions of the legislation as it is yet to be developed.

The HSDFI will provide greater leveraging of the balance sheet and improved economies of scale. It also represents an opportunity to diversify revenues, intensify and maximize opportunity to create sustainable market impact, plus leverage skills and resource in order to increase efficiency and optimise the unified business model.

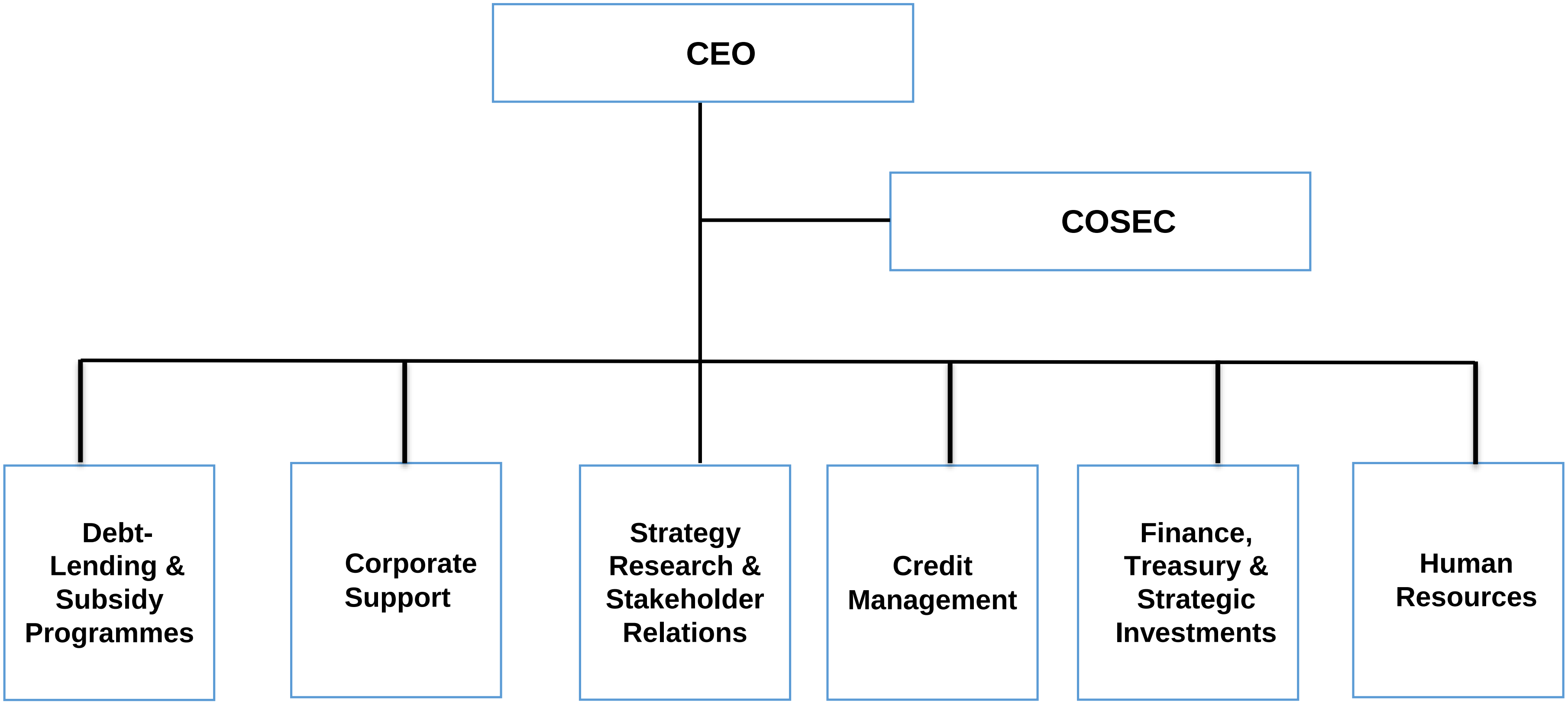
The Minister of Human Settlements is the Executive Authority in respect of the institution. The NDoHS will therefore have an important oversight role with regard to the governance of the institution, both from a financial (in terms of the PFMA) and a technical perspective (in terms of the mandate of the institution). It is envisaged that the HSDFI will be appropriately classified in terms of the PFMA.

Vision 2030 envisages the Human Settlements department to have the following impact in the country: -

"Most South Africans will have access to services and quality environments. New developments will break away from old patterns and significant progress will be made in retrofitting existing settlements. The country will have:-

- Well managed villages, towns and cities;
- There will be tolerance, democracy and respect for the natural environment;
- Citizen centered services;
- Diverse and cleaner energy supplies;
- Mix of housing types and tenures to meet different needs;
- Energy efficient homes;
- Resilient planning systems that can manage risk and uncertainty;
- New technologies used in buildings for Infrastructure; and
- Recycled waste generating renewable energy.

Organisation Structure of the NHFC



2. REVISIONS TO LEGISLATIVE AND OTHER MANDATES

2.1. NHFC's Mandate

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

2.2. Constitutional Mandates

Section 26 of the Constitution of the Republic of South Africa 1996 guarantees the right to have access to housing. The State is mandated to take steps to achieve the progressive realisation of this right.

2.3. Key Legislative Mandates

As a DFI the NHFC is subject to following key legislation:

REGULATION	PURPOSE
Housing Act, No. 107 of 1997	The Act provides for the facilitation of a sustainable housing development process. For this purpose, it lays down general principles applicable to housing development in all spheres of government
Companies Act, 71 of 2008 and the Companies Regulations, 2011	The relevant sections are to ensure the Regulatory Framework for enterprises of all types and sizes promote growth, employment, innovation, stability, good governance, confidence and international competitiveness
Housing Consumers Protection Measures Act, No. 95 of 1998	The Act makes provision for the protection of housing consumers, and to provide for the establishment and functions of the National Home Builders Registration Council
Consumer Protection Act, No 68 of 2008	To promote a fair, accessible and sustainable market place for consumer products and services.
Public Finance Management Act,1 of 1999 and Treasury Regulations (PFMA)	To promote good financial management within the public service in order to maximise service delivery through the effective and efficient use of limited resources
Financial Intelligence Centre Act No 38 of 2001	To establish a Financial Centre and Money Laundering Advisory council to combat money laundering activities
National Credit Act, No 34 of 2005	To promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, to protect consumers.
Housing Development Act, No. 107 of 1997	Principles of development of housing framework for operating in subsidy market

Rental Housing Act, No 50 of 1999	This Act defines the responsibility of government in respect of rental housing property to create mechanisms to promote the provision of rental housing property.
Home Loan and Mortgage Disclosure, Act No 63 of 2000	The Act promotes fair lending practices by encouraging financial institutions to disclose information and identifies discriminatory lending patterns

2.4. Policy Mandates (current and planned policy initiatives)

As a development financial institution NHFC's operations are influenced by a broad range of policies:

- White Paper: A New Housing Policy and Strategy for South Africa, 1994 - which is a broader policy document on the challenges that the country faced around housing and the substantive responses and strategy to the challenge (which include the planned establishment of the National Housing Finance Corporation);

- Government Notice, no.1378 of 17 October 1997, Designation of an institution of which the activities do not fall within the meaning of "The business of a bank" ("The National Housing Finance Corporation Limited");

- National Housing Act, 1997 (Act No.107 of 1997) providing for the facilitation of a sustainable housing development process;

- The National Housing Code, 2000 amended in 2009, which sets the underlying policy principles, guidelines, norms and standards which apply to Governments various housing assistance programmes introduced since 1994; and

- Breaking New Ground (BNG), 2004, A Comprehensive Plan for the new Sustainable Human Settlements. There was a shift in focus from social to financial/wealth creation and from quantitative to qualitative standards; and

- National Development Plan (NDP): The Plan aims to eliminate poverty and reduce inequality by 2030. According to the Plan, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

NHFC typically plays a critical role in informing and influencing policy through commenting on various policy documents that have an impact on the operations of the business.

3. STRATEGIC OUTCOME ORIENTED GOALS OF THE NHFC

In terms of the five corporate strategic goals highlighted in Annexure 1, these have been outlined below in the format prescribed by the National Treasury's Framework for Strategic Plans and Annual Performance Plans which require that each of the strategic outcome oriented goals should be presented with specific strategic priorities, resource considerations and risk management issues outlined. This has been done below for all five of the strategic outcome oriented goals:

3.1. Strategic Outcomes Oriented Goal #1: Expand housing finance activities through effective provision of housing finance opportunities

Expand Housing Finance Activities

Programme purpose

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

Sub Programmes:

- Social Housing Finance
- Private Rental Housing Finance
- Incremental Housing Finance
- Affordable Housing Finance

Resource Considerations

NHFC will be required to raise more capital to invest in housing projects with private sector for rental stock developments, home ownership and incremental housing. Refer strategic objective # 3.

Strategic Priorities

- To facilitate the delivery of 13 283 housing opportunities over the 5 years.
- Targeted value of approvals over 5 years: R2.3 billion with actual disbursements targeted at R2.4 billion.
- Sub-programmes:
  - Social Housing Finance (R649 million)
  - Private Rental Housing Finance (R804 million)
  - Affordable Housing Finance (R923 million)

Risk Management

Risk is managed by balancing the financial sustainability challenges of the NHFC with providing the housing finance solutions to the low to middle income households. This balance is achieved through a clearly defined Risk Appetite statement for the NHFC.

3.2. Strategic Outcome Oriented Goal # 2: Facilitate the increased and sustained lending by financial institutions

Facilitate the Increased and Sustained Lending

Programme purpose

To facilitate increased and sustained lending by financial institutions to the middle to lower income market (more specifically the affordable housing market) through:

- co-financing with private sector;
- investment activities
- FLISP programme.

Resource Considerations

This will typically require the cultivation of relationships and sourcing funding from various institutions typically multi-lateral agencies, development finance institutions, other Government agencies and funds from the capital markets.

Strategic Priorities

- To contribute to the delivery of deliver 66 191 housing opportunities through funds leveraged from the private sector over 5 years.
- NHFC will leverage funds from private sector (through co-funding of transactions) to the value of R5.1 billion over 5 years.
- Sub-programmes:
  - Private Rental Housing (R1.6 million)
  - Affordable Housing (R2.5 billion)
  - Incremental Housing (R1 billion)

Risk Management

Risk is managed through an integrated risk management framework that focuses on robust credit, financial, strategic, and operational as well as compliance risk review mechanisms in cofunding transactions with the private sector.

3.3. Strategic Outcome Oriented Goal #3: Mobilise funding into human settlements space in partnership with broad range of institutions

Mobilise Funding into Human Settlements Space in Partnership with Broad Range of Institutions

Programme purpose

Mobilise funding into human settlement space, on a sustainable basis, in partnership with a broad range of institutions.

Resource Considerations

This will typically require the cultivation of relationships and sourcing funding from various institutions typically multi-lateral agencies, development finance institutions, other Government agencies and funds from the capital markets.

Strategic Priorities

- Raise R405.8 million of equity funding from the shareholder. This includes the approved capital allocation of R300 million over the MTEF as well as an additional R105.8 million required in 2018/19.
- The approved Strategic Plan was prepared on the basis of no external debt funding.

Risk Management

Risk is managed through the continuous monitoring of the targeted debt to equity, return on equity (ROE) and return on assets (ROA) ratios, set in accordance with the NHFC's risk appetite.

3.4. Strategic Outcome Oriented Goal #4: Provide robust, timely, relevant market research

Provide Robust, Timely, Relevant Market Research

Programme purpose

Stimulate the low to middle income housing sector by providing robust, relevant and timely research and market analysis.

Resource Considerations

Strategic Partnership established with research partner who understands and specializes in research within the target market.

Strategic Priorities

- Establish NHFC as the market leader and partner in providing affordable housing and housing finance solutions.
- Undertake research to sharpen market understanding with data, analytics and market intelligence.
  - Bi-annual release of mortgage performance index.
- Develop and implement affordable housing dashboard with key market indicators by 2016/17.
- Promote advocacy.
  - Bi-annual round table with stakeholders on key issues in the housing finance sector.

Risk Management

Risk will be managed through an integrated data warehouse utilisation and process improvement plan, designed to ensure optimal use of resources to achieve the programme purpose. The relationship with the strategic partner will be governed by a partnership agreement and service level agreements,

3.5. Strategic Outcome Oriented Goal #5: Conduct business in an ethical manner to ensure continued sustainability of the NHFC

Ensure Sustainability of the Corporation

Programme purpose

Conduct business activities of the NHFC in an ethical manner to ensure the continued economic sustainability of the NHFC whilst promoting lasting social and environmental development

Resource Considerations

Resource allocation will be undertaken largely through procurement spend and disbursements to targeted social housing projects.

Strategic Priorities

- Maintain financial sustainability:
  - ROE: minimum target of 1.5%, within 5 years
  - ROA (PBT) (target): minimum of 1.9% within 5 years
  - Credit loss ratio: <3.5%
  - Advances Asset growth: Average of 7% over 5 years
  - Collection rate: 95% of the performing book within 5 years
- Improve operational efficiency: total expenditure to total income ratio target of 45% within five years.
- Facilitation of estimated 40 058 jobs over five years. (Formula applied: for every R1 m spent in a project 11.13 jobs created. Outcome of research by NDOHS)
- Empowerment of Women, Youth & Emerging BEE Entrepreneurs: R1.7 billion in loans/professional services will be targeted to over five years.

Risk Management

Risk is managed through ensuring client compliance to environmental laws and the adoption of the Equator principles for environmental sustainability as a guideline for the NHFC when reviewing project appraisals targeted at energy efficient building initiatives. This will be coupled by close monitoring of financial sustainability ratios set in our risk appetite statement as well as a robust operational risk management plan designed to optimise operational efficiencies.

4. SUMMARY OF PROGRAMMES, KEY PERFORMANCE INDICATORS AND ASSUMPTIONS

4.1. Programme: Expand housing activities through effective provision of housing finance opportunities

Programme	Expand housing finance activities through effective provision of housing finance opportunities							
Outcomes	Adequate housing and improved quality of living environments							
Performance indicator	**Audited / Actual**				**Forecast**	**Budget**		
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Estimated number of housing opportunities facilitated through disbursements*				4 012	1 614	3 200	2 036	2 422
Number of beneficiaries benefitting (factor of 3.8 utilised)				15 246	6 133	12 160	7 737	9 204
Value of funds disbursed(R'm**)	664	480	675	729	298	503	413	435
Value of approvals (R'm)***	860	1 375	754	186	539	489	514	540

*There has been a change in the basis of reporting the programmes hence no historic information included. Similarly no historic information has been included for all the sub-programmes.

**The decrease in 2015/16 is driven by a combination of a reduced business pipeline (due to previous funding constraints), the prevailing subdued economic and market context which negatively affect both the households and clients of NHFC, challenges impacting the social housing space, lack of bankable projects and challenges in meeting of the Conditions Precedent in approved projects. It is envisaged that a number of corrective management interventions will bear some success resulting in the increased levels in 2016/17.
The decrease in 2017/18 is due to existing commitments relating to strategic partnership that is forecasted to be completed and not repeated for later periods.

***Significant approvals relating to Strategic Partnerships in 2013/14.
Decrease in 2014/15 due to lack of funding.
Increase in 2015/16 assumes approval of enlargement of a trust relating to a strategic partnership.

Sub- Programmes

Performance indicator	Actual	Forecast	Budget		
Number of housing opportunities facilitated through disbursements	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Number of Social Affordable Housing Units*	1 195	500	2 014	1 036	1 365
Number of Private Rental Housing Units*	656	223	740	725	782
Total Rental	**1 851**	**723**	**2 754**	**1 761**	**2 147**
Number of Affordable Housing Units**	2 161	891	445	275	275
Number of Incremental Housing Loans***	-	-	-	-	-
Total Affordable Housing	**2 161**	**891**	**445**	**275**	**275**
Total	4 012	**1 614**	**3 200**	**2 036**	**2 422**
Number of beneficiaries benefitting (factor of 3.8 utilised)	**15 246**	**6 133**	**12 160**	**7 737**	**9 204**

Housing units include completed, transferred or occupied rental units.

The decrease in 2015/16 is driven by a combination of a reduced business pipeline (due to previous funding constraints), the prevailing subdued economic and market context which negatively affect both the households and clients of NHFC, challenges impacting the social housing space, lack of bankable projects and challenges in meeting of the Conditions Precedent in approved projects. It is envisaged that a number of corrective management interventions will bear some success resulting in the increased levels in 2016/17.

* Social and Private Rental - estimated number of units arising from disbursements.
Social Affordable Housing reduced in outer years in line with shareholder support.

** Affordable Housing – estimated number of mortgage loans originated through Strategic Partnerships such as HIP and IHS, the average loan size being R400 000. Instalment Purchase Agreements originated through intermediaries, units from previously funded integrated developments mainly Space, Mettle and CTCHC.
The decrease over the MTSF is due to market conditions impacting integrated developments and intermediaries as well as the projected forecast of key significant existing commitments relating to strategic partnerships which is completed and not repeated at the same scale.

*** Incremental loans revised, clients in distress and market conditions impacting unsecured lending.
The budgeted disbursements have been reallocated to private rental.
The expected housing opportunity contribution will be achieved through funds leveraged per programme 2. The overall contribution from incremental loans is therefore not compromised.

Performance indicator	Actual	Forecast	Budget		
Value of disbursements	**2014/15** **R'm**	**2015/16*** **R'm**	**2016/17*** **R'm**	**2017/18** **R'm**	**2018/19** **R'm**
Social Affordable Housing**	234	56	153	101	106
Private Rental Housing***	133	80	171	202	219
Total Rental Housing	**367**	**136**	**324**	**303**	**325**
Affordable Housing****	362	162	178	110	110
Incremental Housing Loans***	-	-	-	-	-
Total Affordable Housing	**362**	**162**	**178**	**110**	**110**
Total value of disbursements	**729**	**298***	**503***	**413**	**435**

* The decrease in 2015/16 is driven by a combination of a reduced business pipeline (due to previous funding constraints), the prevailing subdued economic and market context which negatively affect both the households and clients of NHFC, challenges impacting the social housing space, lack of bankable projects and challenges in meeting of the Conditions Precedent in approved projects. It is envisaged that a number of corrective management interventions will bear some success resulting in the increased levels in 2016/17.

** Social Affordable Housing reduced in outer years in line with shareholder support.

*** The budget for incremental housing has been reallocated to private rental. The expected housing opportunity contribution will be achieved from funds leveraged per programme 2, and will therefore not be compromised.

**** The decrease over the MTSF is due to market conditions impacting integrated developments and intermediaries as well as the projected forecast of key significant existing commitments relating to strategic partnerships which is forecasted to be completed and not repeated at the same scale.

Performance indicator	Actual	Forecast	Budget		
Value of approvals*	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Social Affordable Housing**	38	177	220	230	240
Private Rental Housing***	148	237	269	284	300
Total Rental Housing	**186**	**414**	**489**	**514**	**540**
Affordable Housing****	-	125	-	-	-
Incremental Housing Loans***	-	-	-	-	-
Total value of approvals	**186**	**539**	**489**	**514**	**540**

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

** Approvals aligned to shareholder funding

*** The budget for incremental housing has been reallocated to private rental.

****Assumes approval of the HiP Trust II enlargement. No further approvals in line with risk appetite.

4.2. Programme: Facilitate the increased and sustained lending by financial institutions

Programme	Facilitate the increased and sustained lending by financial institutions				
Outcomes	Increased and sustained lending by private sector to human settlement developments				
Performance indicator	**Actual**	**Forecast**	**Budget**		
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Estimated number of housing opportunities facilitated through leveraged funds	5 100	21 394	19 070	15 292	5 335
Number of beneficiaries benefitting (factor of 3.8 utilised)	19 380	81 297	72 466	58 110	20 273
Value of leveraged funds from the Private sector (R'm)	821	1 074	1 380	1 046	812

There has been a change in the basis of reporting the programmes hence no historic information included.

The increase in 2015/16 is mainly due to the contribution from a retail intermediary not previously recognised.

The decrease over the MTSF is due to market conditions impacting integrated developments and intermediaries as well as the projected forecast of key significant existing commitments relating to strategic partnerships and retail intermediaries which is forecasted to be completed and/ or settled and not repeated at the same scale.

Sub- Programmes

Performance indicator	Actual	Forecast	Budget		
Number of housing opportunities facilitated through leveraged funds	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Number of Private Rental Housing Units*	4 050	3 035	3 500	3 850	4 235
Number of Affordable Housing Units**	1 050	1 122	1 780	1 100	1 100
Number of Incremental Housing Loans***	-	17 237	13 790	10 342	-
Total	5 100	21 394	19 070	15 292	5 335
Number of beneficiaries benefitting (factor of 3.8 utilised)	19 380	81 297	72 466	58 110	20 273

Housing units include completed, transferred or occupied rented units.

* Private Rental - estimated number of units arising from Strategic Partnership with TUHF.

** Affordable Housing – estimated number of mortgage loans arising through funds leveraged through Strategic Partnerships such as HIP and IHS, the average loan size being R400 000.

The decrease over the MTSF is due to market conditions impacting integrated developments and intermediaries as well as the projected forecast of key significant existing commitments relating to strategic partnerships which is forecasted to be completed and not repeated at the same scale.

*** Incremental - estimated number of loans arising from funds leveraged by Intermediaries, the average loan size being R15 000. The facility is repaid in 2018/19 hence no impact in that year.

Performance indicator	Actual	Forecast	Budget		
Value of leveraged funds from the Private sector*	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	R'm	R'm	R'm	R'm	R'm
Rental Housing	321	222	330	353	372
Affordable Housing**	500	430	712	440	440
Incremental Housing***	-	422	338	253	-
Value of total funds leveraged	**821**	**1 074**	**1 380**	**1 046**	**812**

* Formula applied based on historical observation: Rental Housing 1:0,3; Affordable Housing 1:4. Integrated developments and Instalments Purchase Agreements: existing commitments and projects funded previously and contribution from strategic partnership with TUHF.

** The decrease over the MTSF is due to market conditions impacting integrated developments and intermediaries as well as the projected forecast of key significant existing commitments relating to strategic partnerships to be completed and not repeated at the same scale.

***Funds leveraged through existing facility with retail intermediary. Facility is fully repaid in 2019 hence no impact in that year.

Other developmental impact

Performance indicator	Actual	Forecast	Budget		
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Estimated number of jobs facilitated*	11 887	5 844	7 282	7 290	7 754
Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs (R'm)	144	273	376	438	467

The drivers for both indicators are the level of disbursements, and the contribution from the strategic partnership with TUHF.

* Formula applied: for every R1 m spent in a project 11.13 jobs created based on outcome of research by NDOHS.
The decrease 2015/16 is mainly due to the decrease in disbursements details of which are included in section 4.1.

**The original APP forecast assumed 20% of funding going to BEE, but per the current position, in terms of the disbursements, 80% of the Private Rental disbursements go to BEE. The APP has been aligned accordingly going forward.

4.3. Quarterly targets for 2016/17

Programme: Expand housing activities through effective provision of housing finance opportunities

Programme	Expand housing finance activities through effective provision of housing finance opportunities				
Outcomes	Adequate housing and improved quality of living environments				
Performance indicator	**Annual Target**	**Q1**	**Q2**	**Q3**	**Q4**
	2016/17	**Budget**	**Budget**	**Budget**	**Budget**
Estimated number of housing opportunities facilitated through disbursements	3 200	768	818	783	831
Value of funds disbursed(R'm)	503	80	113	149	161
Value of approvals (R'm)	489	122	122	122	123

Sub-Programmes

Performance indicator	Annual Target	Q1	Q2	Q3	Q4
Number of housing opportunities facilitated through disbursements	**2016/17**	**Budget**	**Budget**	**Budget**	**Budget**
Number of Social Affordable Housing Units*	2 014	504	504	504	502
Number of Private Rental Housing Units*	740	197	189	187	167
Total Rental	**2 754**	**701**	**693**	**691**	**669**
Number of Affordable Housing Units**	446	67	125	92	162
Total	**3 200**	**768**	**818**	**783**	**831**

Performance indicator	Annual Target	Q1	Q2	Q3	Q4
Value of disbursements	**2016/17** **R'm**	**Budget** **R'm**	**Budget** **R'm**	**Budget** **R'm**	**Budget** **R'm**
Social Affordable Housing	153	9	21	68	56
Private Rental Housing	171	44	41	45	41
Total Rental Housing	**325**	**53**	**63**	**112**	**96**
Affordable Housing	178	27	50	37	65
Total value of disbursements	**503**	**80**	**113**	**149**	**161**

Performance indicator	Annual Target	Q1	Q2	Q3	Q4
Value of approvals*	**2016/17**	**Budget**	**Budget**	**Budget**	**Budget**
Social Affordable Housing	**220**	55	55	55	55
Private Rental Housing	**269**	67	67	67	68
Total value of approvals	**489**	**122**	**122**	**122**	**123**

Programme: Facilitate the increased and sustained lending by financial institutions

Programme	Facilitate the increased and sustained lending by financial institutions				
Outcomes	Increased and sustained lending by private sector to human settlement developments				
Performance indicator	**Annual Target**	**Q1**	**Q2**	**Q3**	**Q4**
	2016/17	**Budget**	**Budget**	**Budget**	**Budget**
Estimated number of housing opportunities facilitated through leveraged funds	19 070	4 589	4 821	4 691	4 968
Value of leveraged funds from the Private sector (R'm)	1 379	274	366	315	425

Sub-Programmes

Performance indicator	**Annual Target**	**Q1**	**Q2**	**Q3**	**Q4**
Number of housing opportunities facilitated through leveraged funds	**2016/17**	**Budget**	**Budget**	**Budget**	**Budget**
Number of Private Rental Housing Units	3 500	875	875	875	875
Number of Affordable Housing Units	1 780	266	499	369	646
Number of Incremental Housing Loans	13 790	3 447	3 447	3 448	3 448
Total	**19 070**	**4 589**	**4 821**	**4 691**	**4 968**

Performance indicator	**Annual Target**	**Q1**	**Q2**	**Q3**	**Q4**
Value of leveraged funds from the Private sector	**2016/17** R'm	**Budget** R'm	**Budget** R'm	**Budget** R'm	**Budget** R'm
Rental Housing	330	83	82	83	82
Affordable Housing	712	106	200	148	258
Incremental Housing	338	84	84	84	84
Value of total funds leveraged	**1 379**	**274**	**366**	**315**	**425**

Other developmental impact

Performance indicator	**Annual Target 2016/17**	**Q1 Budget**	**Q2 Budget**	**Q3 Budget**	**Q4 Budget**
Estimated number of jobs facilitated*	7 282	1 514	1 609	2 174	1 985
Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs (R'm)	376	94	94	94	94

5. OVERVIEW OF 2016/17 BUDGET AND MTEF ESTIMATES

5.1. Overview and Relating Expenditure Trends to Strategic Outcome Oriented Goals

The budget that follows, together with the MTEF capital allocation detailed in section 5.2, will contribute to the realisation of the NHFC's strategic outcome oriented goals (refer section 3).

The NHFC generates revenue from the interest earned on its advances and money market investment portfolios, income from the development activities of its subsidiary, rental income and dividends on its equity investments.

The prevailing subdued economic and market conditions continue to negatively affect the households and clients of the NHFC impacting both the growth rate as well as quality of the advances book. A major threat in the short to medium term, is the vulnerability of the NHFC Group profitability to significant impairments and doubtful revenue which may also adversely impact financial covenants of the existing funders.

The credit loss ratio for the 2016/17 financial year has been assumed at 4%, this is in line with the forecast for the 2015/16 financial year. The NHFC is therefore budgeting for a profit before tax of R6 million at Group level and R11 million at Company level for the 2016/17 financial year. In addition to the increased level of impairments, the change in the budget and medium term forecast for 2016/17 to 2018/19 reflects also the impact of the interest rates, level of disbursements and the contribution from strategic investments.

The main difference between NHFC Group and NHFC Company results is the inclusion of the CTCHC results in the Group accounts primarily through the Sales and the Cost of Sales associated with development units by CTCHC. In addition, any intra-group revenue is excluded in the Group accounts, which would include interest income generated by NHFC from loans advanced to CTCHC.

- CTCHC is a wholly owned subsidiary and is fully consolidated into the budget numbers. The NHFC investment over the years has had a significant impact in providing affordable housing solutions in the Western Cape. However, from a financial perspective, CTCHC has experienced a history of losses. During the 2014/15 financial year the Board approved a restructuring plan was implemented which proved to be successful with the company reporting a R17 million profit before tax.

The average decrease in the sale of houses (cost of sales) of 29% over the MTEF is in line with the strategic decision to exit the business of CTCHC being a developer after completion of the existing projects. It is intended that the subsidiary will be exited as a going concern to ensure that the current profitable projects are successfully completed with the objective of servicing the commitments of the NHFC.

- The budget takes into account 33.5% of the share of profit for TUHF.

- The current shareholding in HIP is 33%. HIP however, has been incurring operational losses to date as a result of its incubation stage. No share of profits for HIP has therefore been included.

- The budgets have been prepared on the basis that the approved capital allocation over the MTEF as well as the indicative allocation for 2018/19 is received.

Key events that impact the budget for the planning period are the following:

- Projected average increase in interest on advances of 20% over the MTEF in line with the growth in projected disbursements. In addition a gradual increase in the prime lending rate over the planning period is assumed.

  The interest on advances also considers the doubtful revenue following the move of key clients into the non-performing portfolio and the revised contribution from Strategic Investments following delays in the respective fund raising programmes.

  The decrease in the disbursements in 2015/16 to R298 million from R729 million is driven by a combination of a reduced business pipeline (due to previous funding constraints), the prevailing subdued economic and market context which negatively affect both the households and clients of NHFC, challenges impacting the social housing space, lack of bankable projects and challenges in meeting of the Conditions Precedent in approved projects. It is envisaged that a number of corrective management interventions will bear some success resulting in the increased level of disbursements of R503 million in 2016/17.

- The NHFC is participating in particular in two key strategic partnerships where, due to the investment structure, the returns are flowing in the later years and are expected to contribute to the increased profitability of the

NHFC and Group at that stage. These key investments are an investment in a private equity fund (R300 million to be invested over 4 years) and an investment of R270 million in an innovative affordable housing fund.

- Impairments are driven by the growth in the advances portfolio and are assumed at 4% of the gross loan book, reducing to 3.5% over the forecasting period. The prevailing economic and trading environment has affected the NHFC's client base. This is more so with respect to our non-banking retail intermediary clients (in the unsecured landing space) and select clients in the Projects division who launched mega integrated projects around 2010/11.

  Impairments that are currently being considered at various governance structures are likely to result in an impairments charge in excess of the budget in the current year (2015/16). In addition a significant amount of write offs of the non-performing loan book is forecasted in instances where there are low prospects for recovery and/ or not generating value, as well as settlements reached. The forecast for the 2015/16 for impairments as well as bad debts written off have accordingly been updated.

- There is an average decrease in finance costs of 7% over the MTEF on the assumption that no additional external debt funding will be sourced. This is also reflected in the movement in the gearing ratio.

- The overhead structure has improved with the recently concluded re-organisation process as displayed in the decreasing trend of the cost to income ratio, there is an average increase of 5% in total operating expenses over the MTEF.

- As is evident from the key performance indicators, the performance for 2015/16 will be adversely impacted by the increased level of impairments as well as the reduced revenue as mentioned above.

- As the implementing agent of the FLISP programme the NHFC budget does not include the related costs. It is expected that the programme will be operated on a cost recovery basis.

- The budget has been prepared for the NHFC Group and excludes any costs relating to the DFI consolidation.

5.2. Funding assumptions

The Strategic Plan was prepared on the basis of the approved capital allocation with no additional debt funding raised to fund the operations. This was in consideration of the current debt capacity of the NHFC, breach of the AFD financial covenants and the impact thereof on the approval for borrowings and the ability of the NHFC to raise the required debt funding.

The revenue and therefore related cash flows has been impacted by the following:

- Decreased lending income:
  - Doubtful revenue following the move of key clients into the non-performing portfolio as reported under 5.4; and
  - Revised contribution from Strategic Investments following delays in the respective fund raising programmes.

In addition to the R230 million shareholder support received in 2014/15, NHFC has been advised that an additional allocation of R100 million in each of the next three years (2015/16, 2016/17 and 2017/18), that is, R300 million over the MTEF period, in the form of equity has been approved by National Treasury. NHFC has also recently been advised of a draft allocation of R105.8 million in 2018/19 The Annual Performance Plan has been updated accordingly with the resultant impact of reduced disbursements.

Year	Disbursements Total (Rm)	Debt funding (Rm)	Recapitalisation from Shareholder (Rm)
2014/15*	729	Nil	230
2015/16	298	Nil	**100
2016/17	503	Nil	**100
2017/18	413	Nil	**100
2018/19	435	Nil	***105.8
Total	**2 378**	**Nil**	**635.8**

*Actual
** Approved allocation
***Indicative allocation

5.3. Other assumptions

	Forecast 2015/16	2016/17
Prime lending	9.75%	10%
Disbursement	R298 million	R503 million
CPI	5.6%	6.2%
Credit loss ratio (including bad debts)	4%	4%

The average growth rate of advances is assumed at 7% over the next four years, with collections increasing to 95% of the performing book over the same period.

5.4. Quality of the loan book

During the previous financial years (2014/15 and 2015/16), there was a marked increase in impairments largely due to two large project clients and also non-banking retail intermediaries in the unsecured lending environment. The non-performing loan book as a percentage of the loans and advances increased from 16% in the 2013/14 financial year to 24% in the 2014/15 financial year.

Space & Mettle Property Solutions

In 2011 the NHFC invested R150 million in Space and R30 million in Mettle which were in the form of senior debt, mezzanine and junior debt. These special purpose vehicles were for a total of R900 million (Space) and R750 million (Mettle) with the principal investor being Old Mutual Investment Group South Africa via a fund known as the Housing Impact Fund of South Africa ("HIFSA").

The projects, by any stretch of imagination, were significant and ground breaking. Large parcels of land were purchased across the country and were to be developed into affordable housing units, initially at 25 000 units for Space and 17 500 for Mettle, respectively. The projects were largely developments for immediate sale of the units and therefore, proceeds from sale of units would be used as working capital to fund subsequent development of other units. The primary rationale for the transactions for the NHFC was to leverage private sector investment in that the R180 million investment in both would catalyse private sector investment to build over 42 000 housing units.

Challenges on implementation of projects

While fully aware of the risk inherent in these equity and quasi equity investments, the marked increase of impairments incurred in these investment vehicles largely reflects the poor economic fundamentals and in some cases, poor project execution by our clients.

However, since conceptualisation, the projects have been affected by a multitude of challenges:

- A tightening mortgage lending environment where banks increased their lending criteria and curbed their investment in mortgage lending due to affordability challenges of end users and changing regulation (Basel III);
- Increased competition from better located projects affecting uptake;
- Slow statutory approvals by municipalities;
- Ever increasing accrued interest which has made certain projects unviable. The accumulated interest in Space was approximately R370 million on the capital invested of R900 million while for Mettle it was approximately R243 million at end of March 2015; and
- Poor project execution by the project manager who was appointed by Space.

As a result of the above, both project SPV's face significant going concern risks as audited financial statements for the last two financial years have not been signed off.

Corrective Action and Points to Note:

- Termination of the management contract of the property development manager with respect to Space. This was effective from 1 December 2014 and Old Mutual Alternative Investments (OMAI) are now the project development managers;
- OMAI has invested a substantial amount of time and resources in undertaking a thorough review of the deal and underlying projects in Space;
- A detailed assessment of the viability of individual projects of both Space and Mettle, as well as the up-dating of the projections has been undertaken. This has assisted with determining/mapping the way forward with projects including capital requirements, and for example, which projects to sell, and which to scale down;

- Some of the projects (unviable) will be sold "as is", with minimal infrastructure investment other than the purchase of the land;
- A recapitalisation exercise is under way for both vehicles. Capital requirements are estimated at R300 million in Mettle and R500-R800 million in Space;
- As part of the recapitalisation of Space, separate legal entities will be established to house each project. Currently the projects are housed in one legal entity. The legal, commercial, tax and financial implications of this restructuring are being investigated by OMAI, following which they will revert to investors with details in due course;
- This funding will be provided in the form of "super" senior debt meaning it will rank over and above all forms of current funding (including senior debt). The cost of this funding is estimated at JIBAR plus 450 basis points. This will clearly have a negative impact on the returns of the current, existing investors in Space and Mettle;
- While projections are being updated indications are that there will be a need for additional impairments, especially for Space; and
- The NHFC has received and accepted an offer from HIFSA for the NHFC to divest in full from Mettle.

Key Lessons Learned:

- Junior debt and mezzanine debt instruments, where there are significant losses, display a risk/return profile similar to equities. This is driven by mainly the lack of security in the investment vehicle.

- Development risk in South Africa has been heightened in the last 5 years due to significant regulatory delays (building plan approvals, Environmental Impact Assessments etc.) as well as the current energy crisis in South Africa.

- Furthermore, certain rights have to be negotiated and agreed up-front and should then be worked into the agreements in order to strengthen the NHFC step-in rights timeously and to have more decision-making capacity.

- In most instances this would however depend on the form of funding to be provided by the NHFC, i.e. junior, mezzanine or senior, as well as how much funding is being contributed. It is in the nature of these types of deals that senior lenders get most of the rights and junior lenders carry the most risk.

The Way Forward for NHFC with respect to Equity and Quasi Investments

While the NHFC's experience with respect to equity and quasi-equity investments has been painful, we believe there remains a role for such investments for purposes of the NHFC playing a catalytic role in stimulating private sector investment. In that regard, the NHFC has committed to two other investments through strategic partnerships. As a result the credit loss ratio has been projected at 4% reducing to 3.5% over the planning horizon versus the 1.63% in the previous 4 years (FY 2011 to FY 2014) reflective of the increased risk.

5.5. Financial Covenants

During the previous financial year NHFC breached two of the three financial covenants relating to the AFD loan facility with key contributors to the breach being the once off cost of restructuring and the level of impairments in particular relating to non-performance of key integrated projects. AFD had agreed to waiver their rights and not to accelerate the repayment of the Credit Facility. All stakeholders were engaged in this regard.

Indications are that two of the three financial covenants of the AFD facility and one financial covenant of the EIB facility will continue to be under threat. Key drivers of these covenants are the overall quality of the loan book and the profitability of the NHFC.

The NHFC takes a breach of financial covenants as a serious matter, not only to itself, but to the Fiscus and to other State Owned Entities with borrowing capacity.

To this end management is pursuing a number of risk mitigating actions. These include:

- Concerted effort to rehabilitate certain key accounts that have a material effect on the non-performing loan book. These include financial re-engineering, recapitalisation of projects with other funders and unlocking sales through our strategic partners;
- Write off of non-performing loan books for which there are low prospects for recovery;
- Alignment between funders of certain financial covenants especially those focused on the Advances book;

- Consideration to replace and or renegotiate the level of certain covenants;
- Review of related credit and investment policies;
- Both financial and legal considerations in view of the imminent DFI Consolidation; and
- Engagement with the funders.

	Required	31-Mar-15	31 Mar 16	31 Mar 17
		Actual	Forecast	
EIB				
Equity to assets	> 35%	87%	89%	90%
Impaired asset ratio	< 25%	24%	20%	17%
Provision for non performing debt	> 25%	35%	41%	56%
Credit outstanding	< 20%	6.9%	5.4%	4.7%
Liquidity ratio	> 100%	254%	359%	197%
AFD				
Return on assets	> 1.5%	0.2%	0.2%	0.4%
Capital adequacy	> 20%	117%	132%	120%
Ratio of impaired loans to equity	< 10%	13%	10%	8%

5.6. Engagement with Funders

The NHFC has secured a second facility of R250 million from EIB to finance projects for the development of affordable and social housing in South Africa through the project activity of the NHFC. The AFD has indicated its willingness to advance a further facility to the NHFC and undertook a due diligence exercise in November 2014. The initial feedback of which was positive. The current processes relating to borrowings are however impacted by the approval for borrowings by National Treasury and the imminent DFI consolidation.

Engagement with both funders, who have indicated their commitment as strategic partners in working with the NHFC, continues.

5.7. Sustainability of the NHFC

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

- Ensuring that the capital structure of the NHFC is enhanced through the raising of debt and equity funding in the medium to long term whilst mindful of the impact of borrowings. The reduced capital allocation impacts the achievement of the financial targets; a further capital injection would be required in the medium term.

- Asset growth supported by quality of revenue through a portfolio mix that promotes sustainability. The growth is however impacted by both the subdued growth in the economy and the overall market conditions as well as the limited shareholder support.

  Capital allocation decisions and risk management have been brought to the fore. Focus remains on the core business that is secured through mortgages, personal suretyships and guarantees, and active monitoring (and limiting) of exposure to equity and quasi equity investments.

  In addition the current Shareholder prioritisation of Social Housing influences the capital allocation across the sub-programmes. This in turn impacts the overall sustainability of the NHFC and reduces the facilitation of private sector funding.

- Continuous enhancement of the pricing model of the company, to ensure it better reflects the true cost of doing business and the risk associated with writing new business. Where there is cross subsidisation between clients or products in order to achieve the developmental mandate, this will be more explicit or clearer. In addition, whilst acknowledging that there are limitations considering that the NHFC is a price taker in its lending activities. The contribution from its strategic investment portfolio is also key towards improved returns and therefore long term sustainability.

- The enhancement of the operational structure of the company through the implementation of the strategic re-organisation that has been completed by the NHFC.

- Ongoing effort to rehabilitate certain key accounts that have a material effect on the non-performing loan book through financial engineering, recapitalisation of projects (with other funders), and un-locking sales through our strategic partners. Credit loss ratio is budgeted at 4% reflective of risk appetite. Portfolio risk is enhanced through security arrangements from borrowers.

5.8. Summary of the Budget

	GROUP							
	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Actual R' 000	Mar-16 Budget R' 000	Mar-16 Forecast R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Lending income	140 162	166 250	198 497	190 527	141 427	173 489	209 749	244 515
Interest on investments	45 597	31 396	24 670	14 131	40 108	22 327	22 646	14 543
Rental Income	6 983	3 069	7 827	3 721	1 483	1 629	1 792	1 971
Dividends received	158	158	753	2 320	2 310	2 310	2 310	2 310
Sale of houses	19 465	43 474	198 485	98 648	112 650	46 110	70 192	13 965
Revenue	**212 365**	**244 347**	**430 232**	**309 348**	**297 978**	**245 865**	**306 689**	**277 304**
Cost of sales	(16 489)	(40 089)	(183 674)	(91 302)	(97 477)	(43 246)	(64 302)	(13 266)
Net Impairments and bad debts	(20 605)	(28 134)	(79 176)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Gross profit	**175 271**	**176 124**	**167 382**	**156 560**	**113 048**	**121 051**	**166 669**	**185 322**
Other operating income	7 886	5 410	17 215	19 168	22 550	20 220	18 480	17 882
Operating expenses	(123 749)	(123 643)	(144 734)	(113 686)	(98 265)	(114 938)	(121 597)	(112 591)
Operating profit/ (loss)	**59 408**	**57 891**	**39 863**	**62 043**	**37 333**	**26 333**	**63 552**	**90 612**
Fair value adjustments	(16 517)	(9 225)	-	-	(4 258)	-	-	-
Finance costs	(24 594)	(22 789)	(21 840)	(21 633)	(21 617)	(20 601)	(19 294)	(17 341)
Share of profit of associates	6 955	3 761	1 234	7 695	2 738	-	-	-
Profit/ (Loss before tax)	**25 252**	**29 638**	**19 257**	**48 105**	**14 196**	**5 732**	**44 258**	**73 271**
Taxation	(16 463)	(19 117)	(5 688)	(14 148)	9 543	(3 216)	(13 564)	(18 024)
Surplus after tax	**8 789**	**10 521**	**13 569**	**33 957**	**23 739**	**2 516**	**30 693**	**55 246**

	Company							
	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Actual R' 000	Mar-16 Budget R' 000	Mar-16 Forecast R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Lending income	141 927	173 881	213 545	210 178	162 406	190 695	226 197	257 444
Interest on investments	45 536	31 111	24 240	14 131	37 440	22 327	22 646	14 543
Rental Income	3 632	2 615	1 412	3 721	1 481	1 629	1 792	1 971
Dividends received	1 872	2 320	2 310	2 320	2 310	2 310	2 310	2 310
Revenue	**192 967**	**209 927**	**241 507**	**230 351**	**203 637**	**216 961**	**252 945**	**276 269**
Net Impairments and bad debts	(20 605)	(28 134)	(80 392)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Gross profit	**172 362**	**181 793**	**161 115**	**168 864**	**116 184**	**135 393**	**177 227**	**197 552**
Other operating income	983	1 578	9 915	-	1 629	-	-	-
Operating expenses	(109 128)	(105 963)	(126 353)	(96 882)	(84 671)	(103 486)	(109 489)	(115 839)
Operating profit/ (Loss)	**64 217**	**77 408**	**44 677**	**71 982**	**33 142**	**31 907**	**67 739**	**81 714**
Fair value adjustments	(5 313)	(3 144)	(16 432)	-	(4 258)	-	-	-
Finance costs	(24 196)	(22 497)	(21 553)	(21 453)	(21 463)	(20 421)	(19 294)	(17 341)
Profit/ (Loss before tax)	**34 708**	**51 767**	**6 692**	**50 529**	**7 421**	**11 486**	**48 444**	**64 373**
Taxation	(9 229)	(20 254)	(2 071)	(14 148)	9 542	(3 216)	(13 564)	(18 024)
Surplus after tax	**25 479**	**31 513**	**4 621**	**36 381**	**16 963**	**8 270**	**34 880**	**46 348**

5.9. Key Financial Indicators

		Strategic Plan Target	APP Target	Actual Mar-13	Actual Mar-14	Actual Mar-15	Budget Mar-16	Forecast Mar-16	Budget Mar-17	Budget Mar-18	Budget Mar-19
Profit before tax (R'000)	Company			34 708	51 767	6 692	50 529	7 421	11 486	48 444	64 373
	Group			25 252	29 638	19 257	48 105	14 197	5 732	44 258	73 271
Return on equity	Company	2.8%	1.5%	1.1%	1.3%	0.2%	1.3%	0.6%	0.3%	1.2%	1.5%
	Group			0.4%	0.4%	0.5%	1.2%	0.9%	0.1%	1.0%	1.7%
Return on assets (%)	Company	2.5%	1.9%	1.2%	1.8%	0.2%	1.6%	0.2%	0.4%	1.5%	1.9%
	Group			0.9%	1.0%	0.6%	1.5%	0.5%	0.2%	1.3%	2.1%
Cost to income ratio (%)	Company	40%	45%	64%	58%	55%	46%	46%	53%	47%	45%
	Group			69%	66%	60%	53%	49%	57%	50%	43%
Credit Loss Ratio (%)	Company	< 3.5%	< 3%	1.0%	1.2%	3.3%	2.5%	3.6%	4.0%	3.5%	3.5%
(including bad debts)	Group			1.1%	1.3%	3.7%	2.5%	4.0%	4.0%	3.5%	3.5%
Debt:Equity	Company	35%	35%	17%	16%	13%	11%	11%	10%	9%	7%
	Group			18%	16%	13%	12%	11%	10%	9%	7%

The key factors impacting movement in key performance indicators:

- NHFC profitability remains vulnerable to volatility in impairments linked to increased non-performing book, in particular in past year and continues in the current year.
- Revenue also considers the doubtful revenue following the move of key clients into the non-performing portfolio and the revised contribution from Strategic Investments following delays in the respective fund raising programmes.
- Credit loss ratio (including bad debts) increased from 2.5% to 4% in line with the risk appetite. Credit loss ratio for 2016 impacted by the significant amount of write offs of the non-performing loan book forecasted where there are low prospects for recovery and/ or not generating value as well as settlements reached.
- The overhead structure has improved with the recently concluded re-organisation process as displayed in the decreasing trend of the cost to income ratio.
- Gearing ratio reflective of the assumption that no additional external debt funding will be sourced.
- Whilst the trend of the financial targets is positive the achievement of these targets over the MTSF remains a challenge. Refer to section 5.7 for detail as well as challenges in meeting these financial targets key being required level of capitalisation.

5.10. FINANCIALS

Consolidated Statement of Financial Performance

	Mar-13 Actual R'000	Mar-14 Actual R'000	Mar-15 Actual R'000	Mar-16 Budget R'000	Mar-16 Fcst R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Interest on advances	140 162	166 250	198 497	190 527	141 427	173 489	209 749	244 515
Interest on investments	45 597	31 396	24 670	14 131	40 108	22 327	22 646	14 543
Rental income	6 983	3 069	7 827	3 721	1 483	1 629	1 792	1 971
Dividends received	158	158	753	2 320	2 310	2 310	2 310	2 310
Sale of houses	19 465	43 474	198 485	98 648	112 650	46 110	70 192	13 965
Revenue	**212 365**	**244 347**	**430 232**	**309 348**	**297 978**	**245 865**	**306 689**	**277 304**
Cost of sales	(16 489)	(40 089)	(183 674)	(91 302)	(97 477)	(43 246)	(64 302)	(13 266)
Net impairments and bad debts	(20 605)	(28 134)	(79 176)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Gross profit	**175 271**	**176 124**	**167 382**	**156 560**	**113 048**	**121 051**	**166 669**	**185 322**
Other operating income	7 886	5 410	17 215	19 168	22 550	20 220	18 480	17 882
Operating expenses - Direct	**(103 142)**	**(101 734)**	**(123 709)**	**(88 781)**	**(79 885)**	**(93 807)**	**(99 281)**	**(90 506)**
Employee	(80 845)	(76 480)	(107 642)	(65 721)	(57 345)	(69 770)	(73 881)	(66 051)
Marketing	(1 981)	(1 652)	(1 363)	(2 014)	(1 735)	(1 413)	(1 463)	(1 494)
Outsourced Services	(10 627)	(11 712)	(7 281)	(10 458)	(10 065)	(10 734)	(11 356)	(11 907)
Professional Fees	(8 544)	(10 444)	(6 291)	(9 309)	(9 203)	(10 286)	(10 883)	(9 902)
Travel & Entertainment	(1 145)	(1 446)	(1 132)	(1 279)	(1 537)	(1 605)	(1 698)	(1 152)
Operating expenses - Indirect	**(20 607)**	**(21 909)**	**(21 025)**	**(24 905)**	**(18 380)**	**(21 131)**	**(22 316)**	**(22 085)**
Administration	(1 975)	(2 032)	(2 037)	(2 419)	(2 134)	(2 404)	(2 498)	(2 215)
Communication	(2 196)	(2 173)	(2 058)	(2 520)	(1 933)	(2 376)	(2 514)	(2 523)
Computer	(3 703)	(4 189)	(4 433)	(4 470)	(2 791)	(2 976)	(3 140)	(3 172)
Office Expenses	(2 796)	(3 130)	(2 752)	(2 537)	(1 584)	(2 024)	(2 141)	(2 099)
Premises	(8 856)	(7 841)	(8 253)	(9 897)	(9 103)	(10 278)	(10 887)	(10 935)
Training & Development	(1 008)	(1 239)	(674)	(1 475)	(729)	(887)	(939)	(993)
Sundry Expenses	(73)	(1 305)	(818)	(1 586)	(107)	(185)	(196)	(148)
Total operating expenses	**(123 749)**	**(123 643)**	**(144 734)**	**(113 686)**	**(98 265)**	**(114 938)**	**(121 597)**	**(112 591)**
Operating profit	**59 408**	**57 891**	**39 863**	**67 740**	**37 334**	**26 333**	**63 552**	**90 612**
Fair value adjustment on listed inve	(16 517)	(9 225)	-	-	(4 258)	-	-	-
Finance costs	(24 594)	(22 789)	(21 840)	(21 633)	(21 617)	(20 601)	(19 294)	(17 341)
Share of profit of an associate	6 955	3 761	1 234	7 695	2 738	-	-	-
Surplus before tax	**25 252**	**29 638**	**19 257**	**48 105**	**14 197**	**5 732**	**44 258**	**73 271**
Income tax expense	(16 463)	(19 117)	(5 688)	(14 148)	9 543	(3 216)	(13 564)	(18 024)
Surplus for the year	**8 789**	**10 520**	**13 568**	**33 957**	**23 740**	**2 516**	**30 693**	**55 246**

Consolidated Statement of Financial Position

	Mar-13 Actual R'000	Mar-14 Actual R'000	Mar-15 Actual R'000	Mar-16 Budget R'000	Mar-16 Forecast R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Assets								
Non Current Assets	**2 143 572**	**2 361 370**	**2 357 994**	**2 680 874**	**2 397 497**	**2 740 547**	**2 958 878**	**3 168 269**
Loans and receivables - advances	1 929 232	2 132 260	2 066 927	2 426 073	2 091 599	2 444 439	2 665 098	2 882 954
Investment in listed equity instruments	13 483	4 258	4 258	4 258	-	-	-	-
Investment in preference shares	2 658	2 658	-	2 658	-	-	-	-
Investment in associates	80 822	87 703	95 388	103 407	98 126	98 126	98 126	98 126
Property, plant and equipment	1 336	1 303	930	912	744	744	597	597
Intangible assets	390	444	1 788	4 350	3 250	4 350	3 058	483
Instalment sale receivables	29 105	43 303	92 301	73 054	115 947	115 057	114 167	113 277
Investment property	72 072	74 279	80 868	51 000	72 298	62 298	62 298	57 298
Goodwill	2714	2714	-	2714	-	-	-	-
Deferred taxation	11 760	12 448	15 534	12 448	15 534	15 534	15 534	15 534
Current Assets	**1 473 035**	**760 665**	**970 422**	**691 890**	**936 371**	**678 790**	**567 048**	**502 923**
Properties developed for sale	78 099	168 566	190 438	135 967	114 927	71 681	33 637	13 742
Instalment sale receivables	6 500	5 729	10 295	10 295	14 331	14 221	14 111	14 001
Other receivables and prepayments	11 134	13 039	7 372	7 139	8 649	7 549	8 840	11 415
Held to maturity investments	1 026 383	139 413	329 173	139 413	295 373	295 373	295 373	295 373
Cash and short-term deposits	350 919	433 918	430 077	399 076	503 092	289 967	215 087	168 392
Income tax receivable	-	-	3 067	-	-	-	-	-
Total Assets	**3 616 607**	**3 122 035**	**3 328 417**	**3 372 764**	**3 333 868**	**3 419 337**	**3 525 926**	**3 671 192**
Net assets and liabilities								
Net assets	**2 401 711**	**2 405 664**	**2 649 233**	**2 782 478**	**2 772 973**	**2 875 488**	**3 006 182**	**3 167 228**
Issued Capital	842	842	842	842	842	842	842	842
Share Premium	879 158	879 158	879 158	879 158	879 158	879 158	879 158	879 158
Grant capital	200 000	200 000	430 000	530 000	530 000	630 000	730 000	835 800
Distributable reserves	1 312 922	1 315 144	1 325 665	1 338 521	1 339 233	1 362 973	1 365 488	1 396 182
Distributable reserves - current year	8 789	10 520	13 568	33 957	23 740	2 516	30 693	55 246
Non Current Liabilities	**913 490**	**561 303**	**488 974**	**526 156**	**468 865**	**451 818**	**435 389**	**429 334**
Funds under management	698 980	225 765	193 220	225 765	203 847	215 059	226 887	239 366
Other financial liabilities	214 510	335 538	295 754	300 391	265 018	236 760	208 502	189 968
Current Liabilities	**301 406**	**155 068**	**190 210**	**64 129**	**92 030**	**92 030**	**84 356**	**74 631**
Income tax payable	7 576	3 972	-	3 972	-	-	-	-
Other Financial Liabilities	215 107	55 901	58 686	30 970	53 370	53 370	53 370	43 646
Provisions	63 227	58 291	62 422	16 074	16 382	16 074	15 748	15 402
Trade and other payables	15 496	36 904	69 102	13 113	22 278	22 586	15 238	15 583
Total net assets and liabilities	**3 616 607**	**3 122 035**	**3 328 417**	**3 372 764**	**3 333 868**	**3 419 337**	**3 525 926**	**3 671 192**

Consolidated Statement of Cash Flows

	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Actual R' 000	Mar-16 Budget R' 000	Mar-16 Forecast R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Operating activities	214 421	247 551	447 447	309 348	297 978	245 865	306 689	277 304
Interest, rental and dividend income	214 421	247 551	447 447	309 348	297 978	245 865	306 689	277 304
Payments								
Employee costs	(80 845)	(76 480)	(107 668)	(65 721)	(57 345)	(69 770)	(73 881)	(66 051)
Suppliers	(123 707)	(201 883)	(310 110)	(139 266)	(132 222)	(142 646)	(90 962)	(110 843)
Finance costs	(67 487)	(22 789)	(21 840)	(21 633)	(21 617)	(20 601)	(19 294)	(17 341)
Net cash payment to customers	(24 594)	(213 539)	35 402	(209 283)	(61 264)	(294 500)	(255 609)	(189 283)
Taxation paid	(11 400)	(24 559)	(15 813)	(14 148)	9 542	(3 216)	(13 564)	(18 024)
Net cas flow used in operating activities	(308 033)	(539 250)	(420 029)	(450 051)	(262 905)	(530 732)	(453 311)	(401 542)
Investing activities								
Additions to property, plant and equipment	(603)	(877)	(1 955)	-	-	-	-	-
Movement in investments	(96 003)	-	-	-	-	-	-	-
Decrease/ (Increase) in held to maturity investments	108 372	886 970	(189 760)	-	(33 800)	-	-	-
Net cash from investing activities	11 766	886 093	(191 715)	-	(33 800)	-	-	-
Financing activities								
Grant Capital	-	-	230 000	100 000	100 000	100 000	100 000	105 800
Movement in funds under management	159 464	(473 216)	(32 545)	-	-	-	-	-
Repayment of borrowings	(8 699)	(38 179)	(36 999)	(32 438)	(28 258)	(28 258)	(28 258)	(28 258)
Net cash flows from financing activities	150 765	(511 395)	160 456	67 562	71 742	71 742	71 742	77 542
Net (decrease)/ Increase in cash and cash equivalents	68 919	82 999	(3 841)	(73 141)	73 015	(213 125)	-74 880	-46 696
Cash and cash equivalents - opening balance	282 000	350 919	433 918	472 217	430 077	503 092	289 967	215 087
Cash and cash equivalents - closing balance	350 919	433 918	430 077	399 076	503 092	289 967	215 087	168 392
Cash flow from operating activities								
Net profit before tax	25 252	29 638	19 257	48 105	14 197	5 732	44 258	73 271
Non - cash and separately presented items	(61 445)	(19 856)	(86 015)	63 485	(90 191)	(81 568)	(75 718)	(78 716)
Working capital changes	(82 081)	(302 868)	2 119	(189 348)	(63 845)	(300 356)	(183 443)	(192 398)
Tax paid	(11 400)	(24 559)	(15 813)	(14 148)	9 542	(3 216)	(13 564)	(18 024)
Net cash flows used in operaring	**(129 674)**	**(317 645)**	**(80 452)**	**(91 906)**	**(130 297)**	**(379 408)**	**(228 468)**	**(215 868)**
Non - cash and separately presented items	**(61 445)**	**(19 856)**	**(86 015)**	**(69 181)**	**(90 191)**	**(81 568)**	**(75 718)**	**(78 716)**
Depreciation	950	879	964	-	-	-	-	-
Impairments	(20 605)	(28 134)	(79 176)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Other	(34 835)	11 160	(6 569)	-	-	-	-	-
Share of loss (profit) of an associate	(6 955)	(3 761)	(1 234)	(7 695)	(2 738)	-	-	-
Working Capital changes	**(82 081)**	**(302 868)**	**2 119**	**(189 348)**	**(63 845)**	**(300 356)**	**(183 443)**	**(192 398)**
Increase in advances	(123 707)	(213 539)	35 560	(270 672)	(24 672)	(352 840)	(220 659)	(217 856)
Decrease/(Increase) in properties developed for sale	(14 347)	(90 467)	(21 872)	86 389	75 511	43 246	38 044	19 895
Decrease/(Increase) in instalment sale receivable	2 674	(13 427)	(53 564)	(6 165)	(27 682)	1 000	1 000	1 000
Decrease/(Increase) in accounts receivable	(520)	(1 906)	5 667	4 882	(1 277)	1 100	(1 292)	(2 575)
(Decrease)/Increase in accounts payable	7 716	21 407	32 198	(3 474)	(46 824)	308	(7 348)	346
(Decrease)/Increase in provisions	46 103	(4 936)	4 130	(308)	(38 902)	6 830	6 812	6 792

Consolidated Quarterly Statement of Financial Performance

	Quarter 1 Budget R'000	Quarter 2 Budget R'000	Quarter 3 Budget R'000	Quarter 4 Budget R'000	Mar-17 Budget R'000
Interest on advances	45 704	42 912	42 685	42 188	173 489
Interest on investments	5 955	6 305	5 737	4 329	22 327
Rental income	407	407	407	407	1 629
Dividends received	-	770	770	770	2 310
Sale of houses	11 528	11 528	11 528	11 528	46 110
Revenue	**63 594**	**61 922**	**61 127**	**59 222**	**245 865**
Cost of sales	(10 765)	(10 765)	(10 765)	(10 951)	(43 246)
Net impairment and bad debts	-	(27 189)	(27 189)	(27 189)	(81 568)
Gross profit	**52 829**	**23 968**	**23 173**	**21 081**	**121 051**
Other operating income	5 055	5 055	5 055	5 055	20 220
Operating expenses - Direct	**(23 563)**	**(23 409)**	**(23 613)**	**(23 223)**	**(93 807)**
Employee	(17 493)	(17 392)	(17 543)	(17 342)	(69 770)
Marketing	(424)	(325)	(397)	(267)	(1 413)
Outsourced Services	(2 756)	(2 705)	(2 733)	(2 541)	(10 734)
Professional Fees	(2 487)	(2 603)	(2 537)	(2 658)	(10 286)
Travel & Entertainment	(403)	(384)	(403)	(415)	(1 605)
Operating expenses - Indirect	**(5 369)**	**(5 322)**	**(5 307)**	**(5 133)**	**(21 131)**
Administration	(601)	(601)	(601)	(601)	(2 404)
Communication	(594)	(594)	(594)	(594)	(2 376)
Computer	(808)	(711)	(775)	(683)	(2 976)
Office Expenses	(486)	(513)	(509)	(517)	(2 024)
Premises	(2 570)	(2 570)	(2 570)	(2 570)	(10 278)
Training & Development	(265)	(288)	(213)	(123)	(887)
Sundry Expenses	(46)	(46)	(46)	(46)	(185)
Total operating expenses	**(28 932)**	**(28 731)**	**(28 921)**	**(28 356)**	**(114 938)**
Operating profit	**28 952**	**291**	**(693)**	**(2 219)**	**26 333**
Finance costs	(5 326)	(5 209)	(5 091)	(4 974)	(20 601)
Surplus before tax	**23 625**	**(4 917)**	**(5 784)**	**(7 193)**	**5 732**
Income tax expense	(6 010)	1 139	931	723	(3 216)
Surplus for the year	**17 616**	**(3 778)**	**(4 853)**	**(6 469)**	**2 516**

Company Statement of Financial Performance

	Mar-13 Actual R'000	Mar-14 Actual R'000	Mar-15 Actual R'000	Mar-16 Budget R'000	Mar-16 Forecast R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Interest on advances	141 927	173 881	213 545	210 178	162 406	190 695	226 197	257 444
Interest on investments	45 536	31 111	24 240	14 131	37 440	22 327	22 646	14 543
Rental income	3 632	2 615	1 412	3 721	1 481	1 629	1 792	1 971
Dividends received	1 872	2 320	2 310	2 320	2 310	2 310	2 310	2 310
Revenue	**192 967**	**209 927**	**241 507**	**230 351**	**203 637**	**216 961**	**252 945**	**276 269**
Cost of sales								
Net Impairment and bad debts	(20 605)	(28 134)	(80 392)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Gross profit	**172 362**	**181 793**	**161 115**	**168 864**	**116 184**	**135 393**	**177 227**	**197 552**
Other operating income	983	1 578	9 915	-	1 629	-	-	-
Operating expenses - Direct	**(91 342)**	**(87 258)**	**(108 119)**	**(76 035)**	**(69 424)**	**(85 747)**	**(90 721)**	**(95 982)**
Employee	(70 717)	(64 357)	(93 666)	(56 264)	(49 016)	(63 090)	(66 749)	(70 620)
Marketing	(1 683)	(1 202)	(1 049)	(1 514)	(1 274)	(1 353)	(1 432)	(1 515)
Outsourced Services	(10 585)	(11 568)	(7 248)	(8 550)	(9 979)	(10 674)	(11 293)	(11 948)
Professional Fees	(7 474)	(9 121)	(5 348)	(8 745)	(7 983)	(9 386)	(9 931)	(10 507)
Travel & Entertainment	(883)	(1 010)	(808)	(961)	(1 172)	(1 245)	(1 317)	(1 393)
Operating expenses - Indirect	**(17 786)**	**(18 705)**	**(18 234)**	**(20 848)**	**(15 248)**	**(17 739)**	**(18 768)**	**(19 856)**
Administration	(1 269)	(1 327)	(1 186)	(1 745)	(1 201)	(1 468)	(1 553)	(1 643)
Communication	(1 690)	(1 618)	(1 807)	(2 227)	(1 725)	(2 071)	(2 191)	(2 318)
Computer	(3 520)	(3 922)	(4 236)	(4 152)	(2 486)	(2 640)	(2 794)	(2 956)
Office Expenses	(2 260)	(2 344)	(2 281)	(1 907)	(1 258)	(1 652)	(1 748)	(1 849)
Premises	(7 968)	(7 046)	(7 299)	(8 925)	(7 836)	(8 967)	(9 487)	(10 037)
Training & Development	(1 008)	(1 239)	(607)	(1 221)	(729)	(887)	(939)	(993)
Sundry Expenses	(71)	(1 209)	(818)	(670)	(12)	(53)	(56)	(60)
Total operating expenses	**(109 128)**	**(105 963)**	**(126 353)**	**(96 882)**	**(84 671)**	**(103 486)**	**(109 489)**	**(115 839)**
Operating profit	**64 217**	**77 408**	**44 677**	**77 679**	**33 142**	**31 907**	**67 739**	**81 714**
Fair Value Adjustments	**(5 313)**	**(3 144)**	**(16 432)**	**-**	**(4 258)**	**-**	**-**	**-**
Finance costs	(24 196)	(22 497)	(21 553)	(21 453)	(21 463)	(20 421)	(19 294)	(17 341)
Surplus before tax	**34 708**	**51 767**	**6 692**	**50 529**	**7 421**	**11 486**	**48 444**	**64 373**
Income tax expense	(9 229)	(20 254)	(2 071)	(14 148)	9 542	(3 216)	(13 564)	(18 024)
Surplus for the year	**25 479**	**31 513**	**4 621**	**36 381**	**16 965**	**8 270**	**34 880**	**46 348**

Company Statement of Financial Position

	Mar-13 Actual R'000	Mar-14 Actual R'000	Mar-15 Actual R'000	Mar-16 Budget R'000	Mar-16 Forecast R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Assets								
Non Current Assets	**2 203 716**	**2 529 169**	**2 521 800**	**2 831 061**	**2 518 193**	**2 823 644**	**3 003 485**	**3 194 525**
Loans and receivables - advances	2 017 016	2 345 984	2 350 445	2 643 942	2 349 605	2 653 956	2 835 089	3 028 704
Investment in listed equity instruments	13 483	4 258	4 258	4 258	-	-	-	-
Investment in subsidiaries	7 991	7 991		7 991	-	-	-	-
Investment in debentures	6 197	6 197	5 041	6 197	5 041	5 041	5 041	5 041
Investment in preference shares	2 658	2 658	-	2 658	-	-	-	-
Investment in associates	86 179	92 260	83 819	92 260	83 819	83 819	83 819	83 819
Property, plant and equipment	890	877	597	877	597	597	597	597
Intangible assets	325	416	1 759	4 350	3 250	4 350	3 058	483
Investment property	51 000	51 000	51 650	51 000	51 650	51 650	51 650	51 650
Deferred taxation	17 977	17 528	24 231	17 528	24 231	24 231	24 231	24 231
Current Assets	**1 382 076**	**573 083**	**751 860**	**538 727**	**807 374**	**593 149**	**531 757**	**477 087**
Held to maturity investments	1 026 383	139 413	329 173	139 413	295 373	295 373	295 373	295 373
Cash and short-term deposits	343 205	422 597	402 893	392 175	503 762	290 637	227 953	170 708
Other receivables and prepayments	12 488	11 073	16 727	7 139	8 239	7 139	8 431	11 006
Income tax receivable	-	-	3 067	-	-	-	-	-
Total Assets	**3 585 792**	**3 102 252**	**3 273 660**	**3 369 789**	**3 325 568**	**3 416 793**	**3 535 242**	**3 671 612**
Net assets and liabilities								
Net assets	**2 399 029**	**2 430 542**	**2 665 163**	**2 801 045**	**2 782 128**	**2 890 398**	**3 025 278**	**3 177 426**
Issued Capital	842	842	842	842	842	842	842	842
Share Premium	879 158	879 158	879 158	879 158	879 158	879 158	879 158	879 158
Grant capital	200 000	200 000	430 000	530 000	530 000	630 000	730 000	835 800
Distributable reserves	1 293 550	1 319 029	1 350 542	1 354 664	1 355 163	1 372 128	1 380 398	1 415 278
Distributable reserves - current year	25 479	31 513	4 621	36 381	16 965	8 270	34 880	46 348
Non Current Liabilities	**898 374**	**554 450**	**486 496**	**512 595**	**468 865**	**451 818**	**435 389**	**429 334**
Funds under management	698 980	225 765	193 220	225 765	203 847	215 059	226 887	239 366
Other financial liabilities	199 394	328 685	293 276	286 830	265 018	236 760	208 502	189 968
Current Liabilities	**288 389**	**117 260**	**122 001**	**56 149**	**74 576**	**74 576**	**74 576**	**64 852**
Income tax payable	7 576	3 972	-	3 972	-	-	-	-
Other financial liabilities	213 225	51 054	53 370	30 970	53 370	53 370	53 370	43 646
Provisions	62 458	57 384	61 666	15 769	16 076	15 769	15 442	15 096
Trade and other payables	5 130	4 850	6 965	5 438	5 130	5 438	5 764	6 110
Total net assets and liabilities	**3 585 792**	**3 102 252**	**3 273 660**	**3 369 789**	**3 325 568**	**3 416 793**	**3 535 242**	**3 671 612**

Company Statement of Cash Flows

	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Actual R' 000	Mar-16 Budget R' 000	Mar-16 Forecast R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Operating activities	193 725	211 505	251 423	230 351	203 637	216 961	252 945	276 269
Interest, rental and dividend income	193 725	211 505	251 423	230 351	203 637	216 961	252 945	276 269
Payments								
Employee costs	(70 717)	(64 358)	(93 666)	(56 264)	(49 016)	(63 090)	(66 749)	(70 620)
Suppliers	(138 085)	(73 509)	(75 675)	(40 618)	(35 655)	(40 397)	(42 740)	(45 219)
Finance costs	(37 629)	(22 497)	(21 553)	(21 453)	(21 463)	(20 421)	(19 294)	(17 341)
Net cash payment to customers	(24 196)	(327 330)	(37 164)	(243 705)	(44 118)	(374 705)	(245 024)	(259 851)
Taxation paid	(11 400)	(24 559)	(15 813)	(14 148)	9 542	(3 216)	(13 564)	(18 024)
Net cas flow used in operating activities	(282 027)	(512 253)	(243 871)	(376 188)	(140 710)	(501 828)	(387 371)	(411 055)
Investing activities								
Additions to property, plant and equipment	(568)	(735)	(1 858)	-	-	-	-	-
Movement in investements	(97 720)	-	-	-	-	-	-	-
Decrease/ (Increase) in held to maturity investments	108 372	886 970	(189 760)	-	(33 800)	-	-	-
Net cash from investing activities	10 084	886 235	(191 618)	-	(33 800)	-	-	-
Financing activities								
Grant capital	-	-	230 000	100 000	100 000	100 000	100 000	105 800
Repayment of borrowings	(15 306)	(32 880)	(33 093)	(30 970)	(28 258)	(28 258)	(28 258)	(28 258)
Movement in funds under management	159 464	(473 215)	(32 545)	-	-	-	-	-
Net cash flows from financing activities	**144 158**	**(506 095)**	**164 362**	**69 030**	**71 742**	**71 742**	**71 742**	**77 542**
Net (decrease)/ Increase in cash and cash equivalents	65 940	79 392	(19 704)	(76 807)	100 869	(213 125)	(62 684)	(57 245)
Cash and cash equivalents - opening balance	277 265	343 205	422 597	468 982	402 893	503 762	290 637	227 953
Cash and cash equivalents - closing balance	343 205	422 597	402 893	392 175	503 762	290 637	227 953	170 708
Cash flow from operating activities								
Net profit before tax	34 708	51 767	6 692	50 529	7 421	11 486	48 444	64 373
Non - cash and separately presented items	(60 294)	(22 633)	(63 817)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Working capital changes	(87 378)	(331 269)	(36 262)	(162 568)	(30 959)	(296 113)	(175 287)	(189 052)
Tax paid	(11 400)	(24 559)	(15 813)	(14 148)	9 542	(3 216)	(13 564)	(18 024)
Net cash flows used in operaring	**(124 364)**	**(326 694)**	**(109 200)**	**(187 674)**	**(101 449)**	**(369 411)**	**(216 125)**	**(221 420)**
Non - cash and separately presented items	(60 294)	(22 633)	(63 817)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Depreciation	704	645	761	-	-	-	-	-
Net Impairments and bad debts	(20 605)	(28 134)	(80 392)	(61 486)	(87 453)	(81 568)	(75 718)	(78 716)
Other	(40 393)	4 856	15 814	-	-	-	-	-
Working Capital changes	(87 378)	(331 269)	(36 262)	(162 568)	(30 959)	(296 113)	(175 287)	(189 052)
Increase in advances	(138 085)	(327 330)	(37 004)	(182 220)	840	(304 351)	(181 133)	(193 615)
Decrease/(Increase) in accounts receivable	(3 018)	1 415	(5 654)	19 652	8 488	1 100	(1 292)	(2 575)
(Decrease)/Increase in accounts payable	7 766	(280)	2 114	308	(1 835)	308	326	346
(Decrease)/Increase in provisions	45 959	(5 074)	4 282	(308)	(38 452)	6 830	6 812	6 792

Company Quarterly Statement of Financial Performance

	Quarter 1 Budget R'000	Quarter 2 Budget R'000	Quarter 3 Budget R'000	Quarter 4 Budget R'000	Mar-17 Budget R'000
Interest on advances	46 450	46 670	48 052	49 523	190 695
Interest on investments	5 955	6 305	5 737	4 329	22 327
Rental income	407	407	407	407	1 629
Dividends received	-	770	770	770	2 310
Revenue	**52 812**	**54 152**	**54 967**	**55 030**	**216 961**
Net impairments and bad debts	-	(27 189)	(27 189)	(27 189)	(81 568)
Gross profit	**52 812**	**26 963**	**27 777**	**27 840**	**135 393**
Other operating income	-	-	-	-	-
Operating expenses - Direct	**(21 547)**	**(21 394)**	**(21 598)**	**(21 208)**	**(85 746)**
Employee	(15 823)	(15 722)	(15 873)	(15 672)	(63 090)
Marketing	(409)	(310)	(382)	(252)	(1 352)
Outsourced Services	(2 741)	(2 690)	(2 718)	(2 526)	(10 674)
Professional Fees	(2 262)	(2 378)	(2 312)	(2 433)	(9 386)
Travel & Entertainment	(313)	(294)	(313)	(325)	(1 245)
Operating expenses - Indirect	**(4 521)**	**(4 474)**	**(4 459)**	**(4 284)**	**(17 739)**
Administration	(367)	(367)	(367)	(367)	(1 468)
Communication	(518)	(518)	(518)	(518)	(2 071)
Computer	(724)	(627)	(691)	(599)	(2 640)
Office Expenses	(393)	(420)	(416)	(424)	(1 652)
Premises	(2 242)	(2 242)	(2 242)	(2 242)	(8 967)
Training & Development	(265)	(288)	(213)	(123)	(887)
Sundry Expenses	(13)	(13)	(13)	(13)	(53)
Total operating expenses	**(26 068)**	**(25 868)**	**(26 057)**	**(25 492)**	**(103 485)**
Operating profit	**26 744**	**1 095**	**1 720**	**2 347**	**31 907**
Finance costs	**(5 281)**	**(5 164)**	**(5 046)**	**(4 929)**	**(20 421)**
Surplus before tax	**21 463**	**(4 069)**	**(3 326)**	**(2 582)**	**11 486**
Income tax expense	(6 010)	1 139	931	723	(3 216)
Surplus for the year	**15 453**	**(2 930)**	**(2 395)**	**(1 859)**	**8 270**

Budget Programme Structure - Performance and Expenditure Trends

Expenditure is related to the following:

- Lending portfolio:

  Provision of wholesale financing for various housing tenure for households, depending on their affordability, being:
    - Social and Private Rental Housing;
    - Home Ownership through mortgage loan finance (partnerships with banks and non- banking retail intermediaries); and
    - Incremental Housing.

- Strategic Investments

  The NHFC develops strategic alliances and partnerships, and through investment in equities, mezzanine and junior debt capital structures of companies that operate within the affordable housing market. The rationale for such an intervention is to leverage private sector funding into the affordable housing market.

- Retail

  The Retail operation is being wound down and focus is on the maintenance and collections of the existing portfolio.

The expected outcomes and summary of the programmes and key performance indicators are included in section 4. Key considerations impacting these outcomes include the following:

- Level of Shareholder support in the form of capitalisation;
- Shareholder imperative, MTSF;
- Economic and operating environment;
- Impact on profitability; and
- Leverage opportunity.

The overhead structure has improved with the recently concluded re-organisation process which resulted in the rationalisation of staff. Whilst the once off cost of restructuring has increased the expenses in the 2014/15 financial year, the resultant savings is evident in the reduced costs in the ensuing years. Operating expenses increases on average by 5% over the MTEF.

The budget programme structure remains work in progress. Direct costs relate to costs incurred by the respective unites. No absorption costing has been applied for the appropriation of fixed costs incurred to service business units. Support refers to divisions that do not independently derive revenue but rather contribute to the resources incurred in both the credit and investment value chain, these include Finance, IT, Human Resources, Legal and Credit etc

Administration	2012/13	2013/14	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19
Rand thousand	Audited Outcome	Audited Outcome	Audited Outcome	Budget Estimate	Fcst Estimate	Budget Estimate	Budget Estimate	Budget Estimate
Current payments	**104 156**	**108 576**	**117 080**	**86 178**	**75 266**	**87 434**	**92 509**	**86 188**
Compensation of employees	64 781	62 504	81 216	45 874	40 028	47 980	50 763	44 568
Goods and services	**39 375**	**46 072**	**35 864**	**40 304**	**35 239**	**39 454**	**41 746**	**41 620**
Communication	1 735	1 847	1 528	1 845	1 416	1 758	1 860	1 968
Computer services	3 716	4 189	4 475	4 470	2 791	2 976	3 140	3 172
Consultants, contractors and special service	16 613	21 829	13 550	17 161	16 735	18 532	19 607	19 454
Operating leases	8 856	7 841	8 253	9 897	9 103	10 278	10 887	10 935
Travel and subsistence	900	1 257	985	632	760	861	911	480
Marketing	1 926	1 642	1 161	1 517	1 307	1 348	1 426	1 469
Training and development	1 008	1 239	674	1 475	729	887	939	993
Admininistration	1 962	2 032	1 992	1 631	1 436	1 468	1 553	1 643
Office expenses	2 586	2 891	2 428	1 525	952	1 292	1 366	1 446
Other (Sundry expenses)	73	1 305	818	151	10	53	56	60
Interest and rent on land	-	-	-	-	-	-	-	-
Total Expenditure	**104 156**	**108 576**	**117 080**	**86 178**	**75 266**	**87 434**	**92 509**	**86 188**

Operations	2012/13	2013/14	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19
	Audited	Audited	Audited	Budget	Fcst	Budget	Budget	Budget
Rand thousand	Outcom	Outcom	Outcom	Estimate	Estimate	Estimate	Estimate	Estimate
Current payments	**44 187**	**37 856**	**49 493**	**49 141**	**44 614**	**48 105**	**48 382**	**43 744**
Compensation of employees	16 064	13 976	26 426	19 847	17 317	21 790	23 119	21 483
Goods and services	**28 123**	**23 880**	**23 067**	**29 294**	**27 297**	**26 316**	**25 263**	**22 262**
Communication	461	326	530	675	517	617	653	554
Computer services	-	-	-	-	-	-	-	-
Consultants, contractors and special service	2 558	327	24	2 606	2 533	2 488	2 632	2 355
Operating leases	-	-	-	-	-	-	-	-
Travel and subsistence	245	189	147	647	777	744	787	672
Marketing	55	11	202	497	428	65	37	25
Training and development	-	-	-	-	-	-	-	-
Admininistration	-	-	-	789	696	936	945	572
Office expenses	210	239	324	1 012	632	732	775	653
Other (Sundry expenses)	-	-	-	1 435	97	132	140	89
Interest and rent on land	24 594	22 789	21 840	21 633	21 617	20 601	19 294	17 341
Total Expenditure	44 187	37 856	49 493	49 141	44 614	48 105	48 382	43 744

Budget Programme - Quarterly

Administration	2016/17	2016/17	2016/17	2016/17	2016/17
	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate
Rand thousand	Q1	Q2	Q3	Q4	Year
Current payments	**22 045**	**21 871**	**22 007**	**21 512**	**87 434**
Compensation of employees	12 030	11 960	12 064	11 926	47 980
Goods and services	**10 015**	**9 911**	**9 943**	**9 586**	**39 454**
Communication	440	440	440	440	1 758
Computer services	808	711	775	683	2 976
Consultants, contractors and special services	4 622	4 680	4 646	4 584	18 532
Operating leases	2 569	2 569	2 569	2 569	10 278
Travel and subsistence	216	206	216	223	861
Marketing	405	310	379	255	1 348
Training and development	265	288	213	123	887
Admininistration	367	367	367	367	1 468
Office expenses	310	327	325	330	1 292
Other (Sundry expenses)	13	13	13	13	53
Total Expenditure	**22 045**	**21 871**	**22 007**	**21 512**	**87 434**

Operations Rand thousand	2016/17 Budget Estimate Q1	2016/17 Budget Estimate Q2	2016/17 Budget Estimate Q3	2016/17 Budget Estimate Q4	2016/17 Budget Estimate Year
Current payments	**12 214**	**12 069**	**12 005**	**11 818**	**48 105**
Compensation of employees	5 463	5 432	5 479	5 416	21 790
Goods and services	**6 751**	**6 637**	**6 526**	**6 402**	**26 316**
Communication	154	154	154	154	617
Consultants, contractors and special services	621	628	624	615	2 488
Travel and subsistence	187	178	187	192	744
Marketing	19	15	18	12	65
Admininistration	234	234	234	234	936
Office expenses	176	186	184	187	732
Other (Sundry expenses)	33	33	33	33	132
Interest and rent on land	5 326	5 209	5 091	4 974	20 601
Total Expenditure	12 214	12 069	12 005	11 818	48 105

6. LINKS TO OTHER PLANS

Links to the long term infrastructure and other capital plans

The NHFC typically prepares budgets for time periods up to five years, and as an entity in financial services, its investment plans will typically focus on ensuring it has adequate funding and liquidity to grow its loan book. The NHFC programmes are linked to the Broader Human Settlements programmes and the delivery of housing includes investments in infrastructure. NHFC funding into projects includes infrastructure funding in respect of those specific projects.

Conditional grants

Not applicable to NHFC.

Public entities

Not applicable to NHFC

Public-private partnerships

In the delivery of affordable housing the NHFC collaborates with Private Sector and Public Sector institutions on a project-by-project basis in line with its strategy to leverage private sector funding.

A further initiative is the inner-city wholesale finance institution, TUHF, set up by the NHFC and other non-profit organisations, to provide finance for the acquisition and improvement of inner-city residential rental accommodation. In addition private sector financiers provide loan funding to this entity.

ANNEXURE 1: STRATEGIC OVERVIEW

1. Purpose of the NHFC

The National Housing Finance Corporation SOC Limited (NHFC's) principal mandate is to broaden and deepen access to the financing and development of sustainable Human Settlements in the low to middle income South African households.

The key role for the NHFC remains the need to address market failure – 'crowd in' the private sector and not necessarily displace or compete with the existing banks and non - bank financial intermediaries.

Given the size of the target market, the supply and demand needs are enormous compared to the NHFC's capitalisation. As a consequence, the NHFC has adopted a strategy to leverage its resources in order to have meaningful and significant developmental impact.

2. The Vision, Mission and Corporate Strategic Objectives:

Vision

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

Mission

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

Our guiding values: OPTICA

Ownership

Passion & Purpose

Teamwork

Integrity

Creativity

Achievement

Strategic Objectives

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

- Facilitate increased and sustained lending by financial institutions to the lower end of the housing market;

- Mobilise funding into the Human Settlements space on a sustainable basis, in partnership with the broadest range of institutions;

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

- Stimulate the low-to-middle income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing customers.

The vision of the NHFC as the leader in development finance for the low-to-middle income housing market, served as a guide to the strategy review. The review of the status quo indicated that the NHFC plays a valuable role in the market and its business model is universally recognised as being relevant to the developmental needs of South Africa. However, it also became apparent that there is scope for the NHFC to increase its operating efficiency and thereby increase its developmental reach and establish itself as a partner and catalyst of private investment.

The organisational change focus areas have been selected on the basis that management efforts within these areas would most likely yield the most positive results for the organisation, both from a short, medium and longer term view. Five focus areas have been identified and each of these focus areas have been addressed with a view to demonstrating their potential impact on the NHFC's operations within the short, medium and long term of implementation.

It is important to note that the organisational change focus areas are not necessarily the priority functions of the organisation, but rather they are areas and functions where incremental enhancements are likely to yield the greatest developmental and financial benefits.

The following key strategic focus areas have been identified to gear the NHFC for the future. The focus areas aim to improve performance, strengthen the balance sheet and deliver better results. The key focus areas are:

- ✓ **Increase Utilisation of Private Sector Capacity**

  - The mandate directs sustained and growing mobilisation of funds into the housing process within the target market, on a financially and economically sustainable basis.

- ✓ **Optimise the Balance Sheet.**

  - Optimise capital structure - the NHFC balance sheet on its own is insufficient to meet the demands sustainably. Given the size of the mandate-defined target market relative to the NHFC equity base, the NHFC will have to leverage its resources in order to have meaningful developmental impact.

  - Develop optimum fundraising strategies.

- ✓ **Promote Ownership and Accountability within the Organisation**

  - Empowering managers to take ownership of the cost of delivery of their business units' service to the organisation through the allocation of greater responsibilities and accountability, and the tracking of results via a business unit level budgeting process towards a more efficient organisation.

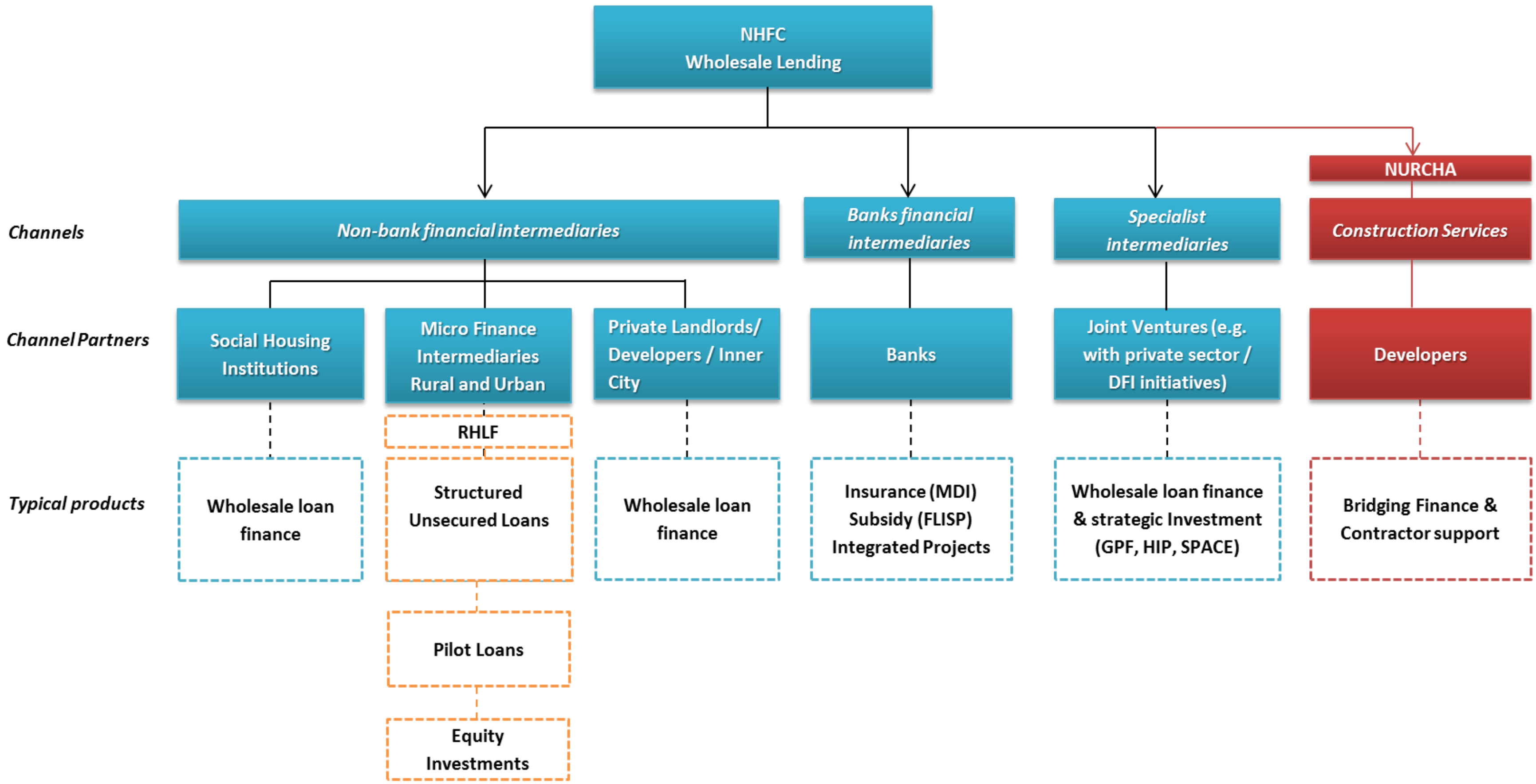
- ✓ **Capacitate and Elevate the Research and Advocacy Function**

  - As the knowledge leader on the low-to-middle income housing market the NHFC is well positioned to play an advocacy role to Government and thereby influence policy decisions. There is a great need for reliable and accurate source of information on the low-to-middle income housing market'. The NHFC is well placed to fulfil this function which will provide direction to both its own initiatives as well as those of other stakeholders.

- ✓ **Drive the Development Finance Institution Consolidation Process**

  - The NHFC is well positioned to take a leadership role in this process and should proactively engage with all stakeholders as well as provide thought and process leadership on the most effective manner in which to bring the envisaged outcome efficiently.

NHFC Wholesale Business Model
[Illustrating a Consolidated Human Settlements DF Framework Model– NURCHA & RHLF]



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

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

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

3. Overview of Business Structure

The NHFC has two revenue generating divisions/units, with one business model being discontinued for strategic reasons (Retail model).

The strategic business units/divisions are:

- Debt Lending and Subsidy programmes ;
- Equity Investments and subsidiaries; and
- Retail Division (a business unit which is currently in the process of being wound down).

3.1 Debt Lending and Subsidy Programmes

The NHFC make housing and housing finance accessible to the low-to-middle income housing and affordable housing market.

The debt lending division make housing and housing finance available through the facilitation and provision of wholesale financing for various housing tenure for households, depending on their affordability, being:

- Rental Housing;
- Home Ownership through mortgage loan finance; and
- Incremental Housing.

Rental Housing

Rental housing entails the provision of loans to institutions that offer rental accommodation. The types of rental accommodation offered are:

- **Social Rental**

  This is subsidised rental housing that is more affordable than private/commercial rentals and is provided by Social Housing Institutions which are Section 10 Companies (not for profit).

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

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

- **Private Rental**

  This type of rental accommodation is provided by private landlords, who do not receive any subsidies or grants. It caters for the affordable rental market, including inner city rental developments. NHFC provides long term funding for the development/refurbishment of inner city buildings into rental accommodation.

Home Ownership

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

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

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

Incremental Housing

Funding is made available via approved or selected intermediaries to end-users with monthly household incomes in the R3 500 to R15 000, and for loans between R1 000 and R20 000. The end-user may use these loans to:

- Purchase building material;
- Buy land on which to build;
- Service land;
- Lay foundations;
- Pay for building works;
- Improve existing structures; and
- Top up subsidy amounts from Government.

3.2 Delivery Channels

- Social Housing Institutions;
- Private Landlords;
- Developers; and
- Financial Institutions.

3.3 Scope of Funding

Project funding is considered in all instances where the proposal addresses the NHFC core mandate, i.e. the provision of housing in the low-to-middle income market.

The funding of projects is preferred whereby it's in partnership in the form of syndication or co-financing with others, mainly to effectively leverage NHFC's capital and scale up housing opportunities.

All housing developments must begin with the identification and availability of land. This land must have access to or have been designated to receive bulk services. The NHFC will not fund the implementation of bulk services.

3.4 Technical Assistance and Facilitation

Technical assistance to fast track implementation of housing projects may be provided. This may entail providing technical assistance either through the staff of the NHFC or through funding appropriate interventions. The assistance is aimed at public institutions such as Provincial Housing Departments, Municipalities and Social Housing Institutions, who lack capacity to bring projects to the point of implementation.

3.5 Collaboration/Partnership with other Housing Institutions

National Urban and Reconstruction Housing Agency ("Nurcha") and Rural Home Loan Fund ("RHLF")

Under the auspices of the NDOHS, the DFI's continue to collaborate in exploring a new /appropriate funding and delivery model for Human Settlements.

Housing Development Agency ("HDA")

Plans are in place to collaborate with HDA in respect of the implementation of the mining town's strategy, the aim of which is to deliver a variety of options for communities of designated mining towns working together mining houses and all spheres of government.

Social Housing Regulatory Authority ("SHRA")

The NHFC has availed its services to the SHRA to assist with the grant investment function in order to speed up social housing delivery. The parties have an existing MOU and will continue to implement its objectives of avoiding duplication in the assessments of social housing institutions in order to reduce turn-around times when processing loan and grant applications.

Gauteng Partnership Fund ("GPF")

The Emerging Entrepreneur Empowerment Property Fund programme (EEEPFP) is a co-funding arrangement between the NHFC and the Gauteng Partnership Fund (GPF) aimed at 100% Historically Disadvantaged Individuals (HDI) owned companies. The programme is designed to promote participation of HDI companies in the affordable rental property market. An amount of R332 million has been set aside with the NHFC portion being R233 million as senior debt funder and GPF R100 million. R130 million of the senior facility has since been taken up with 18 HDI's having benefitted from the programme, translating into 698 housing opportunities.

Catalytic and Mining Towns Projects

NHFC is a member of the Catalytic and Mining Towns assessment team and will continue its participation throughout the implementation of the projects. Our participation in the Catalytic and Mining towns aims to achieve the following;

- Understanding of the conceptual and implementation process to inform strategic investment decisions going forward as a financier and part of the Human Settlements Department.
- Look for opportunities to either risk enhance or invest in the projects that meet the NHFC funding objectives.
- Establish private sector partnerships for the financing of approved projects.
- Mobilise funding into the identified projects.

NHFC has invested in Catalytic and Mining towns projects. Through its retail pilot approximately 1 300 houses in the Rustenburg area were financed in partnership with Impala Platinum and the Northwest Department of Human Settlement who provided FLISP subsidies.

There are also projects that are being implemented in some of the mining towns and recommended catalytic projects in which NHFC has provided funding to private developers. NHFC will continue to finance bankable projects, in partnership with government and the private sector.

3.6 Other Programmes

Finance Linked Individual Subsidy Programme (“FLISP”)

NHFC administers and facilitates delivery of and access to the Government housing subsidy, FLISP.

FLISP was developed to facilitate sustainable and affordable first time home-ownership opportunities to South African citizens and permanent residents that earn between R3 501 and R15 000 per month.

FLISP subsidy is a grant that is provided to first time homeowners by the provincial governments. NHFC administer the FLISP programme on behalf of the provincial governments. Applicants for the FLISP subsidy submit applications through housing developers, mortgage originators and mortgage lenders.

3.7 Strategic Partnerships

The NHFC develops strategic alliances and partnerships, and through investment in equities, mezzanine and junior debt capital structures of companies that operate within the affordable housing market.

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

Subsidiary Company: Cape Town Community Housing Company (“CTCHC”)

CTCHC is currently a wholly owned subsidiary of the NHFC and its focus is mainly in the development of residential houses either for rental, outright sale or sale via a long term instalment sale agreement in the affordable housing market. It currently holds residential housing stock mainly in and around Cape Town.

The NHFC investment over the years has had a significant impact in providing affordable housing solutions in the Western Cape. However, from a financial perspective, CTCHC has been incurring losses and the investment has therefore not provided the desired returns for the NHFC. A primary reason for this is the reduced appetite for mortgage lending by banks as a result affordability challenges in the target market, subdued economic growth and legislative changes (Basel III more specifically). This has all affected the take up of the units being developed by CTCHC, thereby affecting the holding costs and overall profitability of the projects.

A strategic decision has been made to exit the business of CTCHC being a developer after completion of the existing projects. The subsidiary will be exited as a going concern to ensure that the current profitable projects are successfully completed with the objective of servicing the commitments of the NHFC.

A re-organisation was completed in the prior financial year which resulted in staff rationalisation and the reconstitution of the Board. The skeletal staff retained is key to ensure the successful completion of the current projects. All outsourced services will be eliminated in order to streamline costs and achieve efficiencies.

Associate Company: Housing Investment Partnership ("HiP")

The NHFC at 33.33% and Old Mutual Capital Holdings Ltd ("OMCH") 66.67% entered into a joint venture to establish a fund management company to design develop and implement an income-linked mortgage product in the affordable housing market. The joint venture was successful in disbursing R100 million by February 2014. The pilot was funded by the HiP Lending Trust 1 ("HLT1"), with NHFC providing R20 million and the remaining R80 million provided by OMCH. This disbursement was a very important milestone for the NHFC and its relevant strategic partners; it provided the proof of concept. The loan portfolio performance is meeting expectations.

The NHFC's catalytic junior debt funding of R125 million into HiP Lending Trust 2 has managed to leverage R500 million of private sector funding. Mortgage loan transactions of R400 million has already been approved. The funding into HiP Lending Trust 2 is in a process of being increased by an additional R625 million increasing the NHFC investment to R250 million to leverage R1 billion from OMCH and Futuregrowth to benefit 3 375 homeowners in the affordable housing space. HiP's success lies in their ability to raise capital needed to continue to lend to the target market.

Associate Company: Trust for Urban Housing Finance ("TUHF")

TUHF provides loans to property investors and entrepreneurs wishing to build a business based on the provision of rental housing in the affordable housing market. Based on its specialised understanding of inner city residential market, TUHF is able to provide expert advice and a wide range of competitive products tailored to the diverse financial needs of its client base. It finances projects from R100 000 to R30 million providing loans that are flexible and tailored to the requirements of applicants up to a 15 year term, with interest and raising fees at market related rates.

The NHFC played a pivotal role in establishing TUHF in 2003 through an interest free R10 million loan facility. Since then, the NHFC has acquired an equity investment in TUHF and currently owns 33.5% of the company. In addition, the NHFC had provided debt funding primarily in the form of secured mortgage loans. TUHF has grown its loan and advances book to a value of R1.95 billion from funding from NHFC and a range of established institutional investors.

Like many mid-tier, high growth companies, the sourcing of funding is a priority focus in this current dynamic trading environment. TUHF is currently in the process of raising R1 billion in the debt markets after being given impetus through securing R200 million from the Job Funds grant from the South African Government.

The NHFC investment in TUHF have to date leveraged R1,5 billion of private sector funds and delivered an impact of 20,442 housing opportunities.

International Housing Solutions ("IHS")

The NHFC seeks to invest R300 million into the IHS Fund II (" the Fund") as a junior debt funder. IHS is an international investment management company which raises funds predominantly from socially responsible overseas funders for investment in South Africa. IHS acts as both fund manager and advisor to the Fund.

Investing in this Fund is an optimal way of leveraging the NHFC's balance sheet, as a DFI in the Human Settlements space, the NHFC remains a strategic conduit to bridge the gaps in the supply of financial services, by channelling the resources and funds in the financial system to development projects which have significant long-term benefits to the overall economic development of the country.

The investment in Fund II is targeted to generate R3 billion in equity value and is being raised on the projected success of the SA Workforce Housing Fund, IHS first fund. The second Fund will be used to provide 43 000 housing opportunities to 163 000 beneficiaries within the affordable housing market within a 6 year investment period. This will be achieved by leveraging an additional R2.7 billion and R10 billion worth of equity and debt funding respectively. Participation is aligned to the attainment of the shareholders prescribed objectives that are stipulated in the shareholder compact. It is also in line with the New Growth Path, since it is envisioned to create 158 000 additional jobs.

3.8 Overview of Business Support Units

BUSINESS

SUPPORT SERVICES

	CORPORATE SERVICES	FINANCE & TREASURY	HUMAN RESOURCES	CREDIT MANAGEMENT	CORPORATE STRATEGY, RESEARCH & STAKEHOLDER MANAGEMENT
Support Provided	▪ Manage EWR ▪ Develop and implement EWR policies and compliance processes ▪ Upgrade Physical Infrastructure ▪ Set up Management Information Infrastructure ▪ Source and implement optimum Business Solutions	▪ Develop and execute finance strategy to ensure solvency & sustainability ▪ Budgeting & Managing financial performance	▪ Provide skilled resources to the organisation ▪ Training and development of staff ▪ HR administration	• Assess credit applications • Ensure compliance to credit policies, procedures and legislation • Enhance credit culture	▪ Drive strategy formulation & implementation ▪ Ensure business performance is aligned to strategic objectives ▪ Stakeholder management ▪ Stimulate innovation and market development ▪ Provide research output to sharpen market analysis to enable business ▪ Position the Corporation and its products

ANNEXURE 2: MATERIALITY FRAMEWORK 2016

FOR THE PURPOSE OF THE INTERPRETATION OF AND COMPLIANCE WITH THE PUBLIC FINANCE MANAGEMENT ACT, ACT 1 OF 1999 (“PFMA”)

Disclosure of Material Losses – Section 55(2) (b) of the PFMA

This section of the framework seeks to provide guidance on the quantum of losses that should be disclosed in the Annual Financial Statements of the NHFC. Section 55(2) (b) of the PFMA classifies these losses under three categories as follows:

Material Losses	Proposed Framework	Resulting Figures for 2015/16*	Recommended Disclosure Practice	Preventative Measures
▪ Criminal conduct losses ▪ Irregular expenditure ▪ Fruitless and wasteful expenditure	**<u>Quantitative:</u>** 0.5% of Revenue	R1.2 million	Each loss due to criminal conduct, irregular expenditure or fruitless and wasteful expenditure, as identified, will be evaluated in context of the expense category to which it relates to determine whether it qualifies for disclosure in the Annual Financial Statements.	NHFC’s systems and processes are designed and are continually reviewed to ensure the prevention and detection of all such expenditure, irrespective of the size thereof.

* Based on latest audited financial statements

Significance - Section 54(2) of the PFMA

Section 54(2) of the PFMA requires that before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing, inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction:

PFMA	TERMS AS SET OUT IN THE SECTION	APPLICATION OF SECTION 54(2) OF PFMA TO THE NHFC
Section 54(2)(a)	Establishment or participation in the establishment of a company	All transactions of this nature that require the Corporation to take up equity or equity related loans in a company to be established will require an application. Where the Corporation will not have an interest (equity or loans) in the company to be established, for example where it is only facilitating the formation on behalf of or with other parties in pursuance of a social objective, an application need not be made.
Section 54(2)(b)	Participant in a <u>significant</u> partnership, trust, joint venture or similar arrangement.	**The following will require that an application be made in terms of this Section:** • Any participation that entails incorporation under the Companies Act (or similar foreign legislation). • Any transaction not entailing incorporation of monetary value of more than 1% of total assets, <u>other than project funding given in the normal course of business.</u> • A participation in any partnership, trust, joint venture or similar arrangement that is located outside the republic of South Africa**.**
Section 54(2)(c)	Acquisition or disposal of a significant shareholding in a company	**The following will require that an application be made in terms of this section:** • Ownership control is affected. • The NHFC's right to pass or block a special resolution will be affected

PFMA	TERMS AS SET OUT IN THE SECTION	APPLICATION OF SECTION 54(2) OF PFMA TO THE NHFC
		• There is a change of ownership of at least 20% • For an acquisition, any transaction that results in a shareholding of at least 20% in a company. • Regardless of the percentage holding, any direct equity investment exceeding 1% of total assets of the NHFC.
Section 54(2)(d)	Acquisition or disposal of a significant asset.	**The following will require an application in terms of this section:** • Any asset with a value of more than 5% of the total assets of the NHFC, excluding financial instruments. • Disposal of the major part of the assets of the NHFC. • Assets classified as current assets according to generally accepted accounting practice need not be regarded as falling under this subsection.
Section 54(2) (e)	Commencement or cessation of a significant business activity.	Any business activity outside the NHFC's core business will require an application in terms of this section.
Section 54(2) (f)	A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.	**The NHFC should make an application in terms of this Section if:** • Any change in interest in the rand value of which exceeds 1% of the total assets; • Where the nature of the NHFC's interest changes between any of the vehicles (that

PFMA	TERMS AS SET OUT IN THE SECTION	APPLICATION OF SECTION 54(2) OF PFMA TO THE NHFC
		is, between a partnership, trust, unincorporated joint venture or similar arrangement); • Any transaction that results in a cumulative interest of at least 20% in the vehicle (partnership, trust, unincorporated joint venture or similar arrangement); or • Any subsequent transaction that results in an increase of the cumulative interest by at least 10% in the vehicle (partnership, trust, unincorporated joint venture or similar arrangement).

The Corporation's total assets as at 31 March 2015 – R3.3 billion

For the purposes of section 54(2) (b) (c) and (f) 1% of total assets = R33 million

For the purposes of section 54(2) (d) 5% of total assets = R164 million.

ANNEXURE 3: NHFC STRATEGIC RISK REGISTER

STRATEGIC OBJECTIVE	RISK ID №.	RISK TYPE	RISK/THREAT IN ACHIEVING OBJECTIVE	RISK RATING (INHERENT)	MITIGATION PLANS	RESIDUAL RISK
1. Expand housing finance activities, through the effective provision of housing finance solutions, enabling low-to-middle income households to have choice of renting, owning or incrementally building to meet their housing needs 2. **Stimulate the low-to-middle income housing sector by providing robust, relevant and timely research and market analysis to practitioners and housing customers**	**1**	**Mandate breach Risk** Operating Outside of the mandate (Strategic / Operational)	• Funding the market that is not aligned to the mandate. • Failure of the NHFC to deliver on the shareholder's (DoHS) mandate.	**MEDIUM**	• Submission of the Annual Performance Plan (APP) to the shareholder for approval. • Strict Credit criteria and control to ensure that funding approval is aligned to mandate. • Engage shareholder (DoHS) to influence funding requirements and execution of mandate. • Enhance relationships with Provinces to provide reach in delivery mechanisms and impact. • Compliance to NHFC Corporate Governance requirements	**LOW**
	2	**Market relevance risk** Strategic	Limited ability to provide thought leadership in the low-middle income housing market (advocacy, insights and foresights, innovation).	**MEDIUM**	• Partner with reputable affordable housing research company to provide market insight and foresight. . • Use market insights and foresight to develop innovative products for the target market.	**LOW**
	3	**Financial Sustainability Risk** (Strategic)	Challenge in balancing developmental mandate with financial sustainability, leading to APP targets not being met.	**HIGH**	• Build capability for privileged insights into affordable housing market to inform strategic decisions on funding. • Continuous evaluation of strategy to ensure alignment to market conditions. • Continuous review of NHFC risk appetite to ensure alignment with changing financial markets. • Tracking of financial sustainability	**MEDIUM**

STRATEGIC OBJECTIVE	RISK ID №.	RISK TYPE	RISK/THREAT IN ACHIEVING OBJECTIVE	RISK RATING (INHERENT)	MITIGATION PLANS	RESIDUAL RISK
					ratios ○ Return on equity ○ Return on assets ○ Credit loss ratio • Develop and implement business performance objectives that are aligned to the corporate strategy. • Develop and implement a Business Performance Management Strategy.	
	4	**Credit Risk** (Strategic)	Challenge in granting quality loans resulting in unsuccessful collections or credit risk in excess of risk tolerance	HIGH	• Enforce the credit policy from the origination/initiation period of facilities. • Strengthen post investment process. • Implement tighter collection process in line with the credit policy.	HIGH
	5	**Investment Risk** Strategic	Inability to attract suitable funding partners (Attrition of partners, emerging partners) and not realising expected returns from strategic investments	HIGH	• Develop appropriate value proposition which will incentivize new funders. (Attraction) • Develop and offer attractive Risk sharing strategies. • Ensure that Investments are aligned to NHFC Investment Policy and Risk appetite statement. • Appointment of external equity investments expert to Management Credit and Investment Committee to enrich the skills base in evaluating equity investments.	MEDIUM

STRATEGIC OBJECTIVE	RISK ID №.	RISK TYPE	RISK/THREAT IN ACHIEVING OBJECTIVE	RISK RATING (INHERENT)	MITIGATION PLANS	RESIDUAL RISK
Mobilise funding into the human settlement space on a sustainable basis, in partnership with a broad range of institutions	**6**	**Funding Risk** Strategic	Challenge to mobilise sustainable funding, raise debt at the appropriate price and equity.	**EXTREME**	• Optimal Shareholder Funding in support of debt capacity to enable blended funding model. • Continuous review of NHFC risk appetite statement to ensure alignment with changing financial markets and sustainability. • Implementation of the Funding Model.	**HIGH**
Conduct the business activities of the NHFC in an ethical manner that ensures the continued economic sustainability of the NHFC, whilst promoting lasting social and environmental development	**7**	**Operational Risk**	• Misalignment of IT strategy and • In-appropriate IT Platform • Business Strategy • Inadequate or failed Internal Processes.	**MEDIUM**	• IT Governance structure and IT policies in place. • Adequate risk management and compliance policies in place. • Have robust Internal Controls that are reviewed. • Tried and tested IT platform and business applications implemented. • Have robust internal controls that are reviewed annually.	**LOW**
	8	**HR Risk** Strategic	Challenge in attracting and retaining talent.	**MEDIUM**	• Approved Retention Strategy being implemented and continuously monitored. • Implementation and monitoring of Board approved Succession Plan. • HR policies implemented and continuously monitored to ensure that skilled and talented employees are identified and provided with opportunities to grow. • Monitor adherence to Code of Ethics (Culture and Values) to ensure improvement in culture management.	**LOW**

STRATEGIC OBJECTIVE	RISK ID №.	RISK TYPE	RISK/THREAT IN ACHIEVING OBJECTIVE	RISK RATING (INHERENT)	MITIGATION PLANS	RESIDUAL RISK
	9	**Reputational Risk** Strategic	Loss of reputation	**MEDIUM**	• Effectively implement a Code of Ethics. • Implement and monitor Stakeholder Engagement Strategy and Plan. • Adhere to good corporate governance practices. • Adoption of a customer centric approach.	**LOW**
	10	**Compliance risk**	Non-compliance to legislation, regulations and policies	**HIGH**	• Implement and monitor adherence to Code of ethics and values • Adhere to good corporate governance practices.	**MEDIUM**

RISKS INDEPENDENT OF STRATEGIC OBJECTIVES

RISK/THREAT IN ACHIEVING OBJECTIVE	RISK TYPE	RISK RATING (INHERENT)	MITIGATION PLANS	RESIDUAL RISK
DFI consolidation	Strategic (Business)	**HIGH**	• Decisive leadership and programme management. • Processes in place to safeguard all assets of NHFC. • Obtain firm endorsement and capacitation from Human Settlement Minister to co-lead the DFI consolidation	**HIGH**

ANNEXURE 4: CORPORATE GOVERNANCE

The NHFC fulfills its mandate in a manner that is consistent with best practices and with continuous regard to the principles of integrity, fairness, transparency and accountability, as set out in the King Report on Corporate Governance (“King III”). The Board of Directors (“the Board”) of the NHFC remains committed to, as far as possible applying the principles of King III.

The NHFC developed a governance framework for its wholly owned subsidiary (Cape Town Community Housing Company) that sets out guiding corporate governance principles, to ensure that the business of the subsidiary is conducted in an ethical and responsible manner and set key performance areas for monitoring.

The NHFC also plays a supportive role by promoting and encouraging sound corporate governance principles in its investee companies.

The Board NHFC Board and Board Committees

Accountability to the Shareholder/Executive Authority

The NHFC is a State Owned Entity, and through its Board, is accountable to its sole Shareholder, the Government of the Republic of South Africa. The Minister of Human Settlements (“the Minister”) duly represents the Shareholder’s interest, determines the NHFC’s mandate and holds its Board of Directors accountable for managing its operations within that mandate.

Strategic Objectives and Performance Management

As provided for in Section 52 of the Public Finance Management Act, Act 1 of 1999 ("PFMA"), a Shareholder Compact (“the Compact”) was entered into with the National Department of Human Settlements ("NDoHS") during the period under review.

The Annual Performance Plan is annexed to the Compact and serves as an agreement between the NHFC and its Shareholder and documents the key performance measures against which organisational performance is assessed. The Board sets out the NHFC’s strategic objectives in the Plan and has adopted the Balanced Scorecard methodology to implement the Strategy and measure itself against the Key Performance measures.

The Board reports to the Shareholder through quarterly reports as well as the Annual Report. The Chief Executive Officer ("CEO"), who is charged with the day to day management of the NHFC's operations, meets regularly and consults with the Department of Human Settlements and the Minister.

Board Governance, Structures and Framework

The Board, as the Accounting Authority provides leadership, vision and strategic direction to the NHFC in order to enhance shareholder value and ensure long term sustainability and growth of the NHFC. The Board is responsible for developing and overseeing the execution of strategy and monitoring the NHFC's performance against the Corporate Plan.

It discharges this responsibility within the powers set out in the NHFC's Memorandum of Incorporation and the Board Committee structure depicted in the diagram below. While the Board has the authority to delegate powers to Executive Management and Board Committees, it remains accountable to the Shareholder.

Specific powers and authority have been delegated to the Board Committees, each of which has a clearly defined mandate in its written Terms of Reference. The management of day-to-day operations is delegated by the Board to the CEO, who is assisted by the Executive Management Committee (EXCO) and its subcommittees, which operate within the mandate set out in their respective written Terms of References.

Board Composition, Meetings and Proceedings

Board Composition

The Board is appointed by the Minister, in her capacity as Shareholder representative, and comprises ten (10) members.

The Directors are, with the exception of the CEO all Non-Executive. Their extensive experience and specialist skills across the industry enable them to provide balanced, independent advice and judgment in the decision-making process.

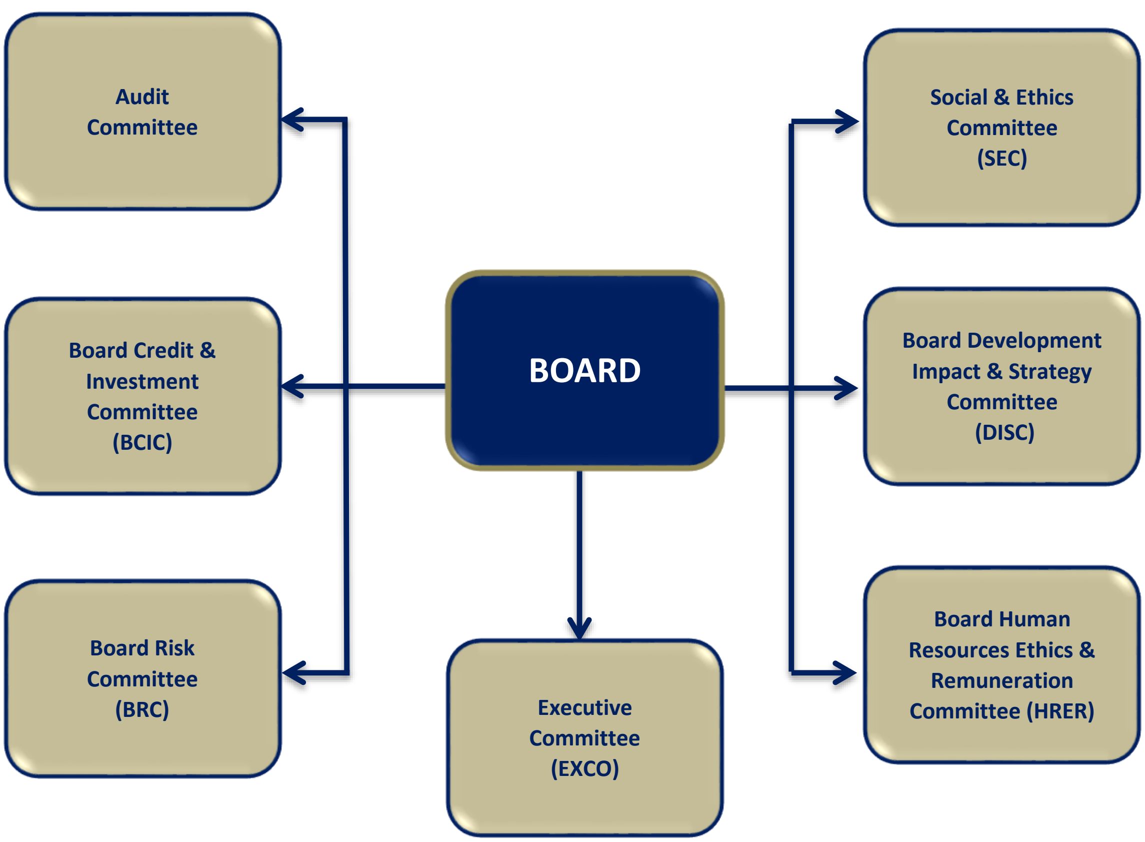
In accordance with King III recommendations, the roles of the Chairperson and the CEO are separate, with clear division of roles and responsibilities defined in the Board Charter.

Board Charter

The NHFC's Board Charter is reviewed annually and has been aligned with the Department of Human Settlements' framework and King III. It gives a concise overview of the demarcation of roles, functions, responsibilities and powers of the CEO, the Board and the Shareholder. The Board retains full and effective control over the NHFC by:

- approving the Strategy, Corporate Plan and Budget, and monitoring Management closely in the implementation thereof;
- monitoring operational and financial performance against the Corporate Balanced Scorecard; and
- reviewing the Delegated Authority document which sets out the powers that it delegates to Management.

The NHFC's Board governance structure is as follow



Ethics and managing conflicts of interest

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

Potential conflicts of interest are effectively managed in that the Board and Executive Management are required to disclose any potential conflicts to the Company Secretary at regular meetings. The "Declaration of an Interest" is a standing item on the agenda of all Board and Board Committee meetings; and the Board, Board Committee and Executive Committee members are reminded annually to submit a declaration in terms of Section 75(4) of the Companies Act, Act 71 of 2008, should a director or Executive Manager wish to rely on a general declaration.

Access to information and professional advice

All Directors have unrestricted access to Management should they require any information in discharging their duties.

Directors may seek independent professional advice concerning the affairs of the NHFC.

Board and Statutory Committees

All Board Committees have clearly defined Terms of References, which set out the specific responsibilities delegated to them by the Board. Terms of Reference are reviewed annually in order to ensure alignment with governance standards, applicable legislation and the business of the NHFC. All Board Committees are chaired by non-executive directors and management attends committee meetings by invitation.

The committees are:

Audit Committee

This Committee comprises of three Independent Non-Executive Directors. The members are appointed in line with the Companies Act provisions. The CEO is not a member, but attends. The Committee meets at least five times annually. The primary objective of the Committee, in terms of its Terms of Reference, is to assist the Board in discharging its duties relating to the following:

- oversight of financial reporting, conforming with all applicable legal requirements and accounting standards;
- the operation of adequate systems of internal control and internal audit processes;
- the external audit process;
- corporate governance; and
- quarterly reports to the Shareholder.

Board Human Resources, Ethics & Remuneration Committee ("HRER")

HRER comprises of three Independent Non-Executive Directors and the CEO. Committee meetings are attended by the Executive Manager: Human Resources.

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

- review the Code of Ethics and monitor compliance;
- review Human Resources Policy and Strategy annually;
- consider the Remuneration Policy as well as broad framework and costs of Executive Managers remuneration and recommend it to the Board;
- review top HR Risks;
- consider HR audit findings and monitor implementation of recommendations; and
- review Provident Fund ("the Fund") reports to ensure good stewardship of employee retirement savings by the Trustees of the Fund.
- In discharging its duties, the Committee gives due cognizance to the NHFC's remuneration philosophy. Such philosophy guides the Corporation in the

implementation of remuneration practices which attract, retain and motivate appropriately skilled personnel necessary for NHFC to achieve its strategic objectives.

Board Credit and Investment Committee ("BCIC")

BCIC comprises of three Independent Non-Executive Directors and the CEO.

BCIC meetings are attended by the Executive Manager: Credit, the Executive Manager: Lending, the CFO, the General Manager: Legal Services, Executive Manager: Enterprise Wide Risk.

The Committee meets at least four times a year, or more frequently, if circumstances so require.

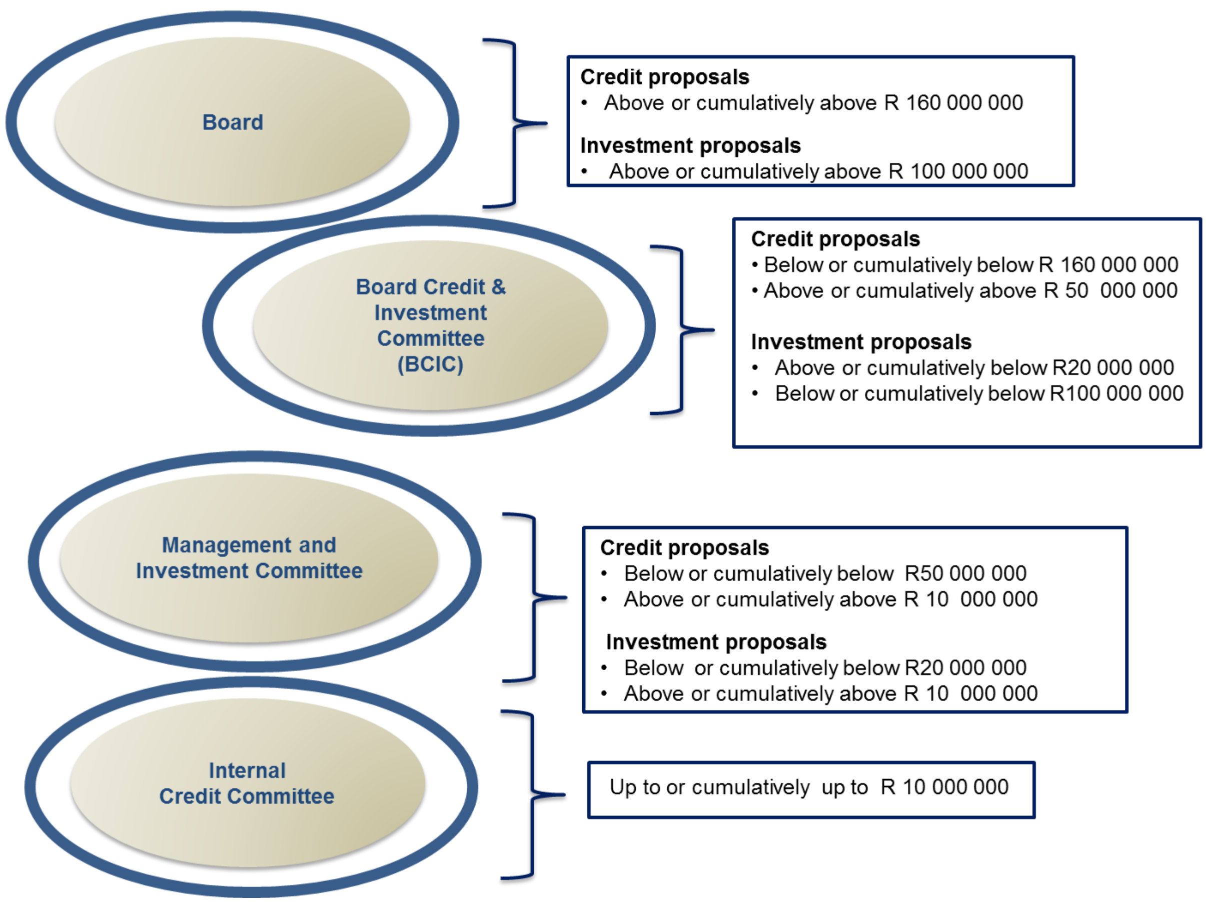
As defined in its Terms of Reference, the primary objective of BCIC is to assist the Board in fulfilling its Credit and Investment responsibilities. BCIC therefore:

- recommends the Credit Philosophy, Strategy and Policies to the Board;
- approves all loan applications for facilities that exceed or cumulatively exceed R50 million up to R160 million, upon recommendation by the Management Credit and Investment Committee ("MCIC"). BCIC performs its assessment of the inherent risks in a proposed facility within the framework of an approved Credit Policy;
- recommends loan facilities that exceed or cumulatively exceed R160 million per client to the Board;
- recommends the long-term Investments Strategy and Policy to the Board;
- approves all long term investments that exceed or cumulatively exceed R20 million up to R100 million, upon recommendation by the Management Credit and Investment Committee ("MCIC"). BCIC performs its assessment of the risks inherent in an investment within the framework of an approved Equity Investment Policy;
- recommends the Treasury Management Policy to the Board for approval, and discharges the functions as set out in the Policy; and

- recommends all long term investments that exceed R100 million to the Board.

Members of MCIC, BCIC and the Board who have an interest in a loan application must inform the relevant Credit and Investment Committee of a conflict or potential conflict of interest in relation to a particular item on the agenda, and recuse themselves from the discussion of that item, unless the Committee decides that the declared interest is trivial or immaterial.

The delegation of credit and investment approval at a Board, Board Committee and Management Committee level is as follows.



Board Risk Committee ("BRC")

BRC comprises of five Independent Non-Executive Directors and the CEO.

Committee meetings are attended by the Executive Manager: Enterprise Wide Risk Management, the CFO and the Internal Auditors.

BRC meets at least four times annually and its primary objective is to assist the Board in executing its responsibilities with respect to risk management. In fulfilling its mandate, the Committee:

- recommends the Enterprise Wide Risk Management Strategy and Framework as well as the Fraud Prevention Plan to the Board and monitors Management in the implementation thereof;
- evaluates the effectiveness of risk management systems, processes and controls;
- annually reviews and recommends all Risk Management policies to the Board for approval;
- approves Financial Risk Management Strategies as recommended by BCIC;
- reviews and reports on the control of financial risks (including credit and market) to the Board;
- reviews a Funding Plan and recommend it to the Board for approval;
- approves funding strategies;
- reviews the assets and liabilities matching profile; and
- ensures that the IT Governance Control Framework and policies are in place and the Information Technology Management Committee is overseeing the implementation thereof.

Board Development Impact and Strategy Committee ("DISC")

DISC comprises of six Independent Non-Executive Directors and the CEO. The Committee meets twice a year. The committee meetings are attended by the the Executive Management as well as the General Manager: Corporate Communications and Marketing

DISC's main objectives are to:

- review and recommend the NHFC's Strategy to the Board and to ensure that it is both relevant and responsive to the affordable housing market;

- give the Board assurance that NHFC's strategic objectives are aligned to the Human Settlement Strategy and Policies, and deal adequately with developmental impact;

- recommend amendments to the NHFC's strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved;

- monitor the NHFC's performance against the objectives set for developmental impact; and

- monitor the impact of developmental activities on the NHFC's financial strategy.

Social and Ethics Committee ("SEC")

SEC executes its duties in terms of the Companies Act, Act 71 of 2008 ("the Act") and the Regulations thereto, as well as any additional duties assigned to it by the Board. SEC is also guided by the King Report on Corporate Governance in South Africa published in 2009 ("King III"). The Act references specific pieces of South African legislation and various principles and standards of the Organisation for Economic Cooperation and Development ("OECD"), the International Labour Organisation ("ILO") and the United Nations Global Compact ("UNGC").

SEC comprises two Independent Non-Executive Directors and the CEO, and is also attended by Executive Management. The Committee meets three times per annum to discharge its duties.

A formal Terms of Reference has, in line with the above legislation, principles, guidelines and standards, been approved by the Board and guides SEC in performing its monitoring role relating to social and ethics matters, to ensure that the NHFC conducts its business activities in an ethical and socially responsible manner. In fulfilling its duties, SEC obtains the following assurances from the following Board Committees:

- Board Human Resources and Ethics Committee – provides assurance that the NHFC respects human rights and maintains good employee relationships;

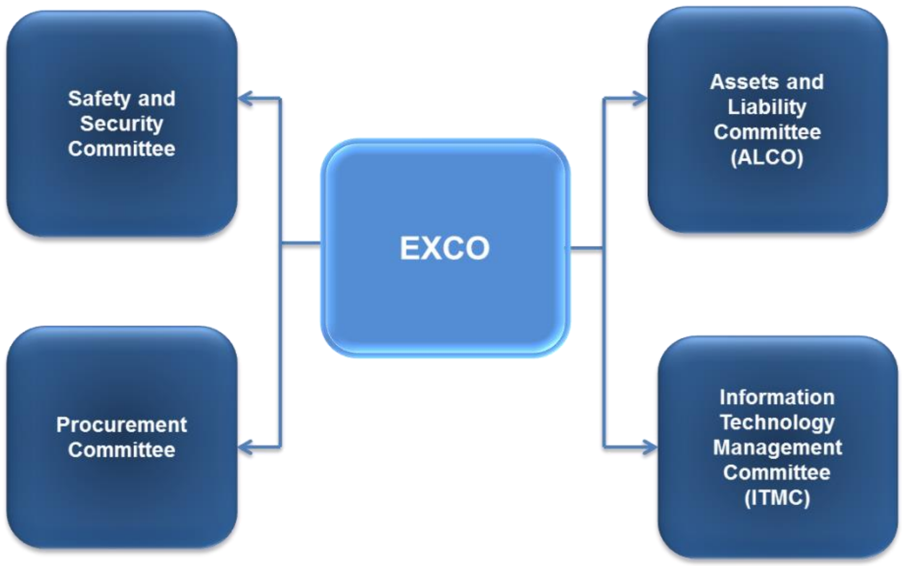
- Board Credit and Investment Committee – provides assurance that environmental, health and public safety issues are considered when credit is granted to NHFC's clients and the NHFC's BBBEE Policy are adhered to;

- Social Ethics Committee also receives assurance from the Executive Committee that it monitors internal environmental, health and safety matters;

- Board Risk Committee - provides assurance that an enterprise wide risk management programme is in place that deals with all risks inherent to the social and economic aspects of the NHFC's business and ethical matters. It also provides assurance that the NHFC is complying with all legislation, principles, guidelines and standards relating to all matters falling within SEC's ambit of duties; and

- Board Developmental Impact and Strategy Committee – provides assurance that the NHFC plays the developmental role required from it, and is sustainable from a social perspective. DISC also reports on corporate social responsibility and stakeholder relationships to SEC.

Management Committees



Executive Management Committee ("EXCO")

EXCO comprises of Executive Management who assist the CEO in managing the day-to-day business of the NHFC within the powers delegated by the Board. EXCO is also responsible for formulating the NHFC's Strategy and implementing it once approved by the Board.

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

Management Assets and Liabilities Committee ("ALCO")

ALCO is chaired by the CEO and comprises of two external specialists, the CFO, the Executive Manager: Enterprise Wide Risk, Executive Manager: Credit, Treasury Manager and Money Market Dealer. ALCO's overall objectives are to:

- manage financial risk emanating from NHFC's operations and borrowing programmes, including liquidity, counterparty and market risk (in turn including interest rate and currency risk);
- oversee the management of treasury risk in order to protect the capital of the NHFC, by proactively managing all assets and liabilities; and

- support the strategic direction of the NHFC through the appropriate analysis and composition of NHFC assets and liabilities.

Information Technology Management Committee ("ITMC")

ITMC is chaired by the CEO and comprises of the General Manager: IT, the Executive Manager: Enterprise Wide Risk and the General Manager: Finance.

ITMC's main objectives are to:

- develop an IT Governance Framework and oversee the implementation thereof once it is reviewed by EXCO and approved by the Board Risk Committee;

- ensure that the IT strategy is aligned to the Corporate Plan, in reviewing and recommending it to EXCO;

- develop an IT Governance Framework and IT Policies, and oversee the implementation thereof once approved by BRC;

- obtain independent assurance that the IT Internal Framework is effective and submit it to EXCO, which in turn must submit it to the Audit Committee;

- monitor all IT risks and controls to determine whether they are addressed effectively, and relevant plans and controls are in place and submit them to EXCO, which in turn recommends them to the BRC; and

- review all IT proposals before submission thereof to EXCO.

Procurement Committee

The Procurement Committee is chaired by the CFO and comprises of representatives from Finance, Legal, Risk, Business and the Procurement Manager.

The Committee's main objectives are to:

- monitor and oversee the implementation of the Procurement Policy ("the Policy"), Procedures and Procurement Code of Conduct ("the Code");

- monitor adherence to the policy, procedures and the Code and receive reports on non-compliance;

- deals with matters concerning the adjudication and the appointment of service providers of the Corporation to ensure that the procurement system is fair, equitable, transparent and cost effective;

- take all reasonable steps to prevent abuse of the Supply Chain Management system; and

- ensure compliance with the laws of South Africa.

Safety and Security Committee ("SASC")

SASC comprises of the Executive Manager: Human Resources (Chairperson) as well as Legal, IT and Health and Safety representatives.

- SASC is a subcommittee of EXCO and its main objective is to monitor, evaluate, advise and make decisions in respect of matters concerning health, safety, environment and security in the NHFC.

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

ANNEXURE 5: TECHNICAL INDICATOR DESCIPTION

Indicator title	Housing opportunities
Short definition	Estimated number of housing opportunities facilitated through disbursements and leveraged funds.
Purpose/importance	Mandate
Method of calculation	Completed, transferred or occupied units. Monthly submissions from clients, verified on test basis by NHFC. Affordable Housing: estimated number of mortgage loans originated the average loan size being R400 000.
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Adequate housing and improved quality of living environments.
Indicator responsibility	Chief Executive Officer

Indicator title	Value of funds disbursed
Short definition	Provision of wholesale funding to housing development projects for ownership, social housing and private rental, including inner cities and for incremental housing purposes.
Purpose/importance	Mandate
Method of calculation	Funds disbursed to clients
Data limitation	Nil

Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Broaden and deepens access to housing finance thus enabling the low to middle income households to have choices of renting, owning or incrementally building to meet their needs.
Indicator responsibility	Chief Executive Officer

Indicator title	Value of approvals
Short definition	Value of facilities approved for the provision of wholesale funding to housing development projects for ownership, social housing and private rental, including inner cities and for incremental housing purposes.
Purpose/importance	Mandate
Method of calculation	Facilities approved by the relevant governance structures in line with the delegated authority. Facilities may be withdrawn and/or not taken up by the client.
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Robust pipeline towards the provision of affordable housing finance solutions to the low-to middle income housing market.
Indicator responsibility	Chief Executive Officer

Indicator title	Value of leveraged funds
Short definition	Value of leveraged funds from the private sector for the sustainable development of human settlements.
Purpose/importance	Mandate
Method of calculation	Monthly submissions from clients, verified on test basis by NHFC. Formula applied based on historical observation: Affordable Housing 1:4.
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Increased and sustained lending by private sector to human settlement developments.
Indicator responsibility	Chief Executive Officer

Indicator title	Estimated number of jobs facilitated
Short definition	Estimated number of jobs facilitated through disbursements and strategic partnerships.
Purpose/importance	Mandate
Method of calculation	Monthly submissions from clients, verified on test basis by NHFC. Formula applied 11.13 jobs created for every R1 million spent in a project.
Data limitation	Nil

Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Facilitation of increased job opportunities
Indicator responsibility	Chief Executive Officer

Indicator title	Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs
Short definition	Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs
Purpose/importance	Mandate
Method of calculation	Monthly submissions from clients, verified on test basis by NHFC.
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Promotes participation of women, youth & emerging BEE entrepreneurs in the affordable property market.
Indicator responsibility	Chief Executive Officer