NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

STRATEGIC PLAN 2014/15 – 2018/19

STRATEGIC PLAN
2014/15 – 2018/19
(5 years beginning 1 April 2014)

PREPARED FOR SUBMISSION TO THE DEPARTMENT OF HUMAN SETTLEMENTS

FOREWORD

Strategic planning in government is currently guided by the Medium Term Strategic Framework (MTSF) which reflects political outcomes and priorities. In line with changes in Government's approach to planning, monitoring and evaluation, the MTSF will in future, be supplemented or replaced by other short, medium and long term planning initiatives, aimed at translating the governing party's election mandate into reality. Executive authorities should take overall responsibility for developing strategic priorities for the five-year period of their term of office and beyond, developing policy and obtaining approval for the planned outcomes of the department within the political collective – either the national Cabinet or the provincial executive committee.

The executive authority should set out clearly the policy priorities that have guided development of the Strategic Plan.

The executive authority is responsible for ensuring that the policy priorities set out in the plan are in line with the national/provincial priorities, and the foreword should indicate how the plan is aligned to such priorities.

The executive authority should also use this opportunity to endorse the Strategic Plan and indicate his or her commitment to ensuring its implementation.

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

Official Sign-Off

Priorities that guided the development of the Strategic Plan

The target market of the NHFC is the GAP market which typically includes households who earn between R3 500 and R15 000 per month and the NHFC mandate requires the company to make housing and housing finance accessible and affordable.

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 innovativeness in the target market we serve; and

- mobilising funding for the sustainable development of human settlements.

More specifically NHFC's strategic priorities are:

- 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 lasting social and environmental development;

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

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

- Ensuring that the capital structure of the NHFC is enhanced through the raising of debt and equity funding in the short and medium term, thereby ensuring that there is an adequate blend of debt and equity funding;

- 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;

- Further enhancement of the operational structure of the company through implementing the plans of the strategic re-organisation that is currently underway; and

- Growing the loan book and mix of business at a satisfactory rate.

It is hereby certified that this Strategic Plan:

- was developed by the management of the National Housing Finance Corporation SOC Limited under the guidance of Mr. Samson Moraba;

- takes into account all the relevant policies, legislation and other mandates for which the National Housing Finance Corporation SOC Limited is responsible;

- 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 2014 to 31 March 2019. However, it should be noted that the Budgets excludes the Mortgage Default Insurance programme (MDI) until finalisation is reached on the capitalisation and operationalisation of the programme; and

- the Finance Linked Subsidy Programme (FLISP) is under review and is attached as an annexure. The achievement of the FLISP targets is dependent on the successful resolution of the recommendations as proposed.

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

- The process for the approval of borrowings remains outstanding. The approval of borrowings is dependent on the confirmation of shareholder support. In addition, developments regarding the NHFC operating environment and the impact thereof on the outlook for March 2014/15 are currently forecasted to trigger a breach of the financial covenants of an existing facility. Whilst the NHFC is engaging all the necessary stakeholders with the aim at resolving the current position, it is considered prudent that the Plan be completed on the basis that no further debt funding is received, this being the first scenario.

- A second scenario is included on the assumption that the concurrent approval for debt funding from the Minister of Finance is obtained, and that the NHFC successfully raises debt funding at an optimal cost.

Zonia Adams
Chief Financial Officer

Signature: ____________________

Samson Moraba
Accounting Officer

Signature: ____________________

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

pp. **Signature:** ____________________

Approved by:
L N Sisulu **Signature**________________
Minister of Human Settlements, in her capacity as
Executive Authority of the National Housing Finance Corporation SOC Limited

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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 STRATEGIC OVERVIEW

1.1 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.

1.2 Introduction

'Change' has become so constant that any corporation that ignores it will be to its own peril. In its endeavor to continue to thrive as a business over the next ten years and beyond, the NHFC must look ahead, understand the trends and forces that will shape its business in future, and move swiftly to prepare for what's to come.

The South African economy faces a decelerating growth environment with growth forecasts by various agencies ranging between 1.7% and 2.7% for 2014, and with high probability of rising interest rates on the horizon. The South African Reserve Bank's Monetary Policy Committee (MPC) has cautioned that the country is in an interest rate-hiking cycle. The recent spate of credit rating downgrades by rating agencies is unhelpful to the SA economy and will make direct investment inflows difficult and costly for the country borrowings, and in particular to DFI's and SOE's.

The NHFC acknowledges the gravity of the prevailing market conditions as reflected in a weak economy, and the fact that consumers are highly indebted and business confidence being at its lowest, while the leading indicators point to further deterioration in economic activity.

The strategic plan has been developed against the backdrop of the prevailing adverse market conditions. The strategy has been reviewed in appreciation of the extent to which the external environment impacts on the NHFC business and to establish the capacity of the NHFC to respond to these environmental impacts. The review included the re-evaluation of the vision, mission, values, objectives and priorities of the NHFC.

SUMMARY OF NHFC'S CONTRIBUTION TOWARDS MTSF 2018/19

HUMAN SETTLEMENTS – MTSF TARGETS

	5 YEARS NDOHS MTSF TARGETS (2018/19) 1,5 million housing Opportunities (assumptions – split)
Affordable Housing	110,000
Social Housing Rental	27,000
Private Rental	35, 000
Upgrading Services	750,000
Community residential Units	10,000
Subsidy Housing Market	563,000
Total	**1,495,000**

NHFC CONTRIBUTION TO THE ABOVE TARGETS

	Strategic Plan Target	NDOHS MTSF Target	% MTSF *	Medium term targets				
				2014/15	2015/16	2016/17	2017/18	2018/19
Number of Social Housing Units	5 899	27 000	22%	1 297	958	1 145	1 213	1 286
Number of 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**
Number of Affordable Housing Units	9 110			1 985	2 402	1 390	1 655	1 678
Number of 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**

In summary, the NHFC will contribute 22% towards social housing, 62% towards private rental and 24% towards the affordable housing (home ownership and incremental housing) MTSF targets.

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

O	**Ownership**
P	**Passion & Purpose**
T	**Teamwork**
I	**Integrity**
C	**Creativity**
A	**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 is to be 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 GAP 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 'GAP 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.

3 LEGISLATIVE AND OTHER MANDATES

3.1 NHFC's Mandate

The NHFC was established in 1996 by the National Department of Human Settlements (NDoHS) 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.

3.2 Constitutional Mandates

Constitution of RSA Act No 108 of 1996 - Section 26 of the Constitution guarantees the right to have access to housing. The State is mandated to take steps to achieve the progressive realisation of this right.

3.3 Legislative Mandates

REGULATION	PURPOSE
Housing Act, 1997 (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	To ensure the Regulatory Framework for enterprises of all types and sizes promotes growth, employment, innovation, stability, good governance, confidence and international competitiveness
Housing Consumers Protection Measures Act, 1998 (Act. No. 95 of 1998) as amended by Act No. 27 of 1999)	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 (68 of 2008)	To promote a fair, accessible and sustainable market place for consumer products and services.
Public Finance Management Act,1 of 1999 (PFMA) and Treasury Regulations	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, Act 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, 1999 (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 of 2000	The Act promotes fair lending practices by encouraging financial institutions to disclose information and identifies discriminatory lending patterns

3.4 Policy Mandates (current and planned policy initiatives)

As a development financial institution which was established by the National Department of Housing in 1996, 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.

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.

4 SITUATION ANALYSIS

4.1 Performance Environment

Economic Outlook

4.1.1 Credit Trends

The key trends of credit growth according to the National Credit Regulator are as follows:

- The rise in total private sector credit extension growth in April and May was underpinned by a pick-up in the rate of credit extended to corporates to 13.6% y/y, from a prior 12.9% y/y. Growth in household credit extension remained relatively steady in June at 4.3% y/y compared to 4.30% y/y in the prior month. The slowing growth trend in private sector credit extension (PSCE) persisted into July with growth moderating to 7.4%.
- A breakdown of the credit data confirms that households continue to make use of unsecured credit but at a slower rate than last year. Specifically, unsecured credit growth supply is easing. The consumer financial position is still deteriorating as cost push inflation pressures, are curtailing disposable incomes. In addition, employment prospects remain poor, growth in real incomes has stagnated and consumer confidence is subdued.

4.1.2 Economic Performance

The weak underlying performance of the economy produced an increase in unemployment in Q2.14 to 25.5% from 25.2%in Q1.14, as measured by Stats SA Quarterly Labour Force Survey (QLFS). Expanding the definition of unemployment to include the discouraged workers, the unemployment rate rose to 35.6% in Q2.14 from 35.1% in Q1.14. Meaning, unemployed persons increased by 87 000 over the same period, to 5.2 million, the highest level since the inception of the QLFS in 2008. On the inflation front, CPI inflation moderated to 5.8% in November while September and October witnessed an upward climb of 6.9% and 6.7% respectively of PPI. It would seem that moderating agricultural food prices are not feeding through as quickly to the processed level as other high costs, such as labour and state administered prices, are proving significant.

The economy reached a low point in the first quarter of this year as protracted strike action, insufficient electricity supply, a tightening in the provision of credit to households and higher interest rates. Growth slowed in y/y terms to 1.2% from 1.6%. Q/Q growth swung positive to a rate of 0.6% after a contraction of -0.6% in Q1:14. South Africa faces a decelerating economic growth environment and a prospect of interest rate increases.

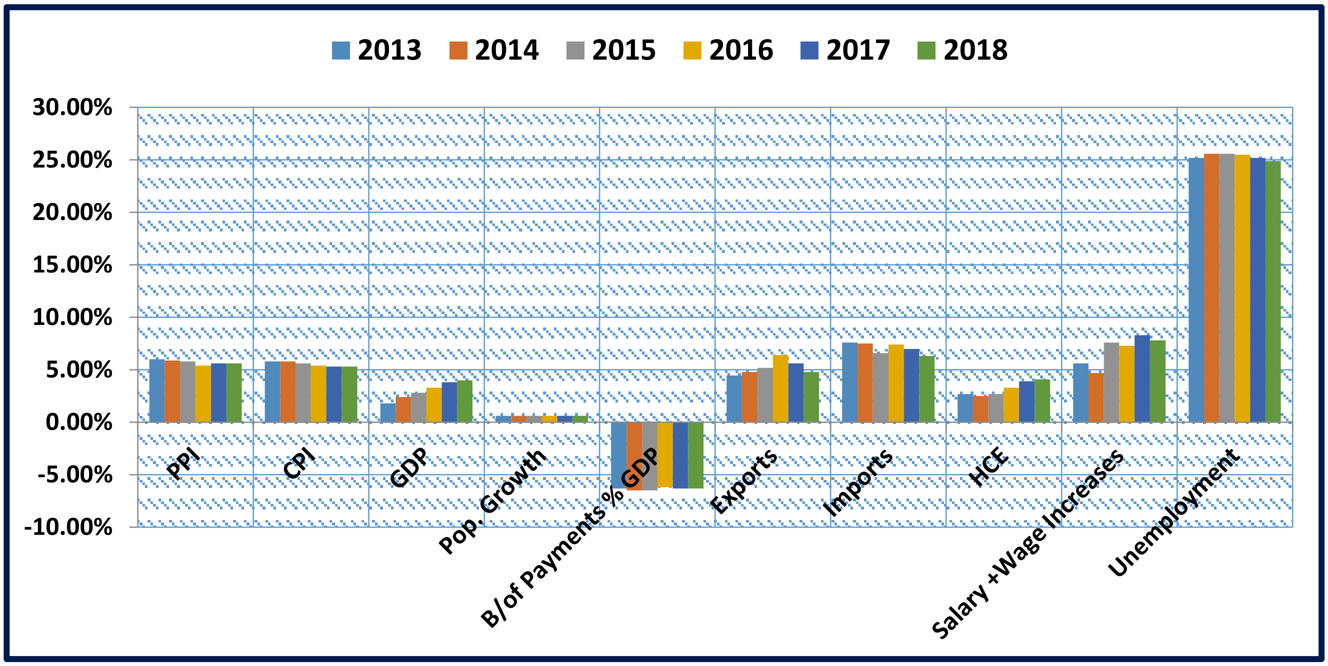
Please refer below on other indicator projections by Investec and National Treasury.

Investec Forecast of Key Variables

Table 1 Investec Forecast of Key Variables: 2013-2018 (See graph below also)

VARIABLE	2013	2014	2015	2016	2017	2018
PPI	6.00%	5.90%	5.80%	5.40%	5.60%	5.60%
CPI	5.80%	5.80%	5.60%	5.40%	5.30%	5.30%
GDP	1.80%	2.40%	2.80%	3.30%	3.80%	4.00%
Pop. Growth	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%
B/of Payments % GDP	-6.30%	-6.50%	-6.50%	-6.20%	-6.30%	-6.30%
Exports	4.45%	4.80%	5.20%	6.40%	5.60%	4.80%
Imports	7.60%	7.50%	6.60%	7.40%	7.00%	6.30%
HCE	2.70%	2.50%	2.70%	3.30%	3.90%	4.10%
Salary Wage Increases	5.60%	4.70%	7.60%	7.30%	8.30%	7.80%
Unemployment	25.20%	25.60%	25.60%	25.50%	25.20%	24.90%

Source: Investec- Table Research Unit



Source: Investec- Graph Research Unit

National Treasury projections of key variables

Table 2 National Treasury Projections of Key Variables: 2013-2016 (See graph below also)

VARIABLE	2013	2014	2015	2016
HCE	2.70%	2.80%	3.20%	3.40%
GDP	1.80%	2.70%	3.20%	3.50%
B/of Payments % GDP	-6.10%	-5.90%	-5.80%	-5.50%
CPI	5.70%	6.20%	5.90%	5.50%
Imports	7.30%	5.30%	6.10%	7.00%
Exports	4.80%	5.60%	6.30%	7.00%
Capital Formation	3.20%	4.20%	5.30%	6.00%

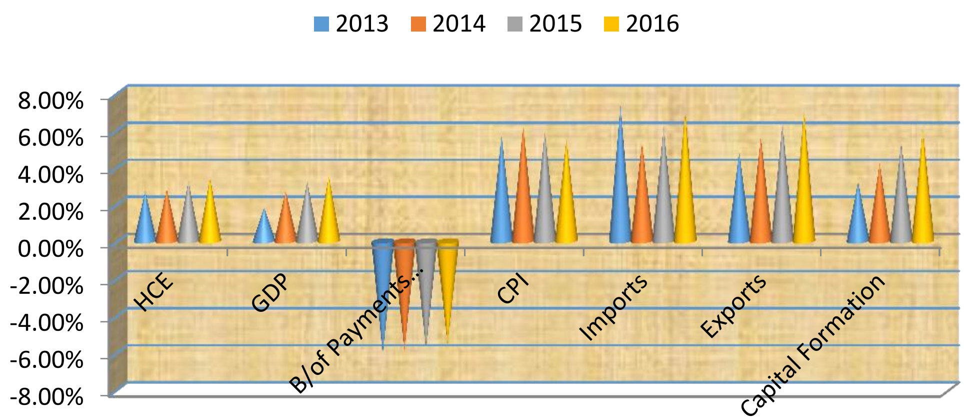
Source: Treasury Graph Research Unit

- Budget deficit of 4.0 per cent of GDP expected for 2013/14 narrowing to 2.8 per cent in 2016/17.
- Government debt as percentage of GDP to stabilise at 44.3 per cent in 2016/17.
- Tax revenue for 2013/14 expected to be R1 billion higher than projected in 2013 Budget.

- Real growth in non-interest spending to average 1.9 per cent over next three years.

- National and provincial government expenditure on travel, catering, consultants and other administrative payments declines as a share of spending.

- Expenditure ceiling commits government to spending limits of R1.03 trillion in 2014/15, R1.11 trillion in 2015/16 and R1.18 trillion in 2016/17.



Source: Treasury- Graph Research Unit

Over the next three years, government will spend:

- R410 billion on social grants.

- R15.2 billion on the economic competitiveness and support package.

- R8.5 billion on the Community Work Programme.

- R8.7 billion on settlement of land restitution claims.

- R7 billion for subsistence and smallholder farmers.

- R78 billion on university subsidies and R19.4 billion for the National Student Financial Aid Scheme.

- R34.3 billion on school infrastructure.

- R22.9 billion to upgrade commuter rail services.

- R143.8 billion to support municipal infrastructure.

- R42 billion on the HIV and AIDS conditional grant.

4.2 Business Performance (the provision of instruments)

4.2.1 Operational Overview

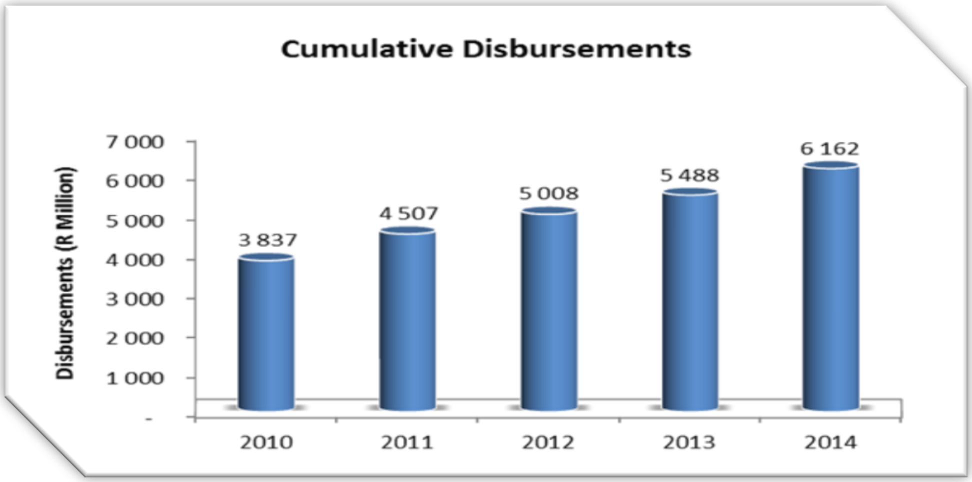
Delivering housing to the GAP housing market segment has been a challenge, even with instruments like the Finance Linked Individual Subsidy programme ("FLISP") which have been developed to encourage private sector investment in the sector.

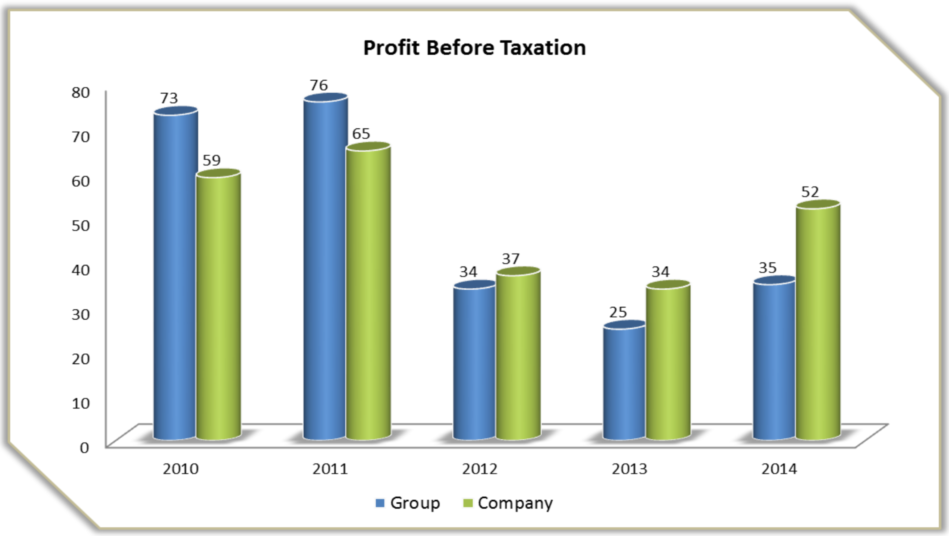
The overall non-satisfactory housing delivery performance can be attributed to:

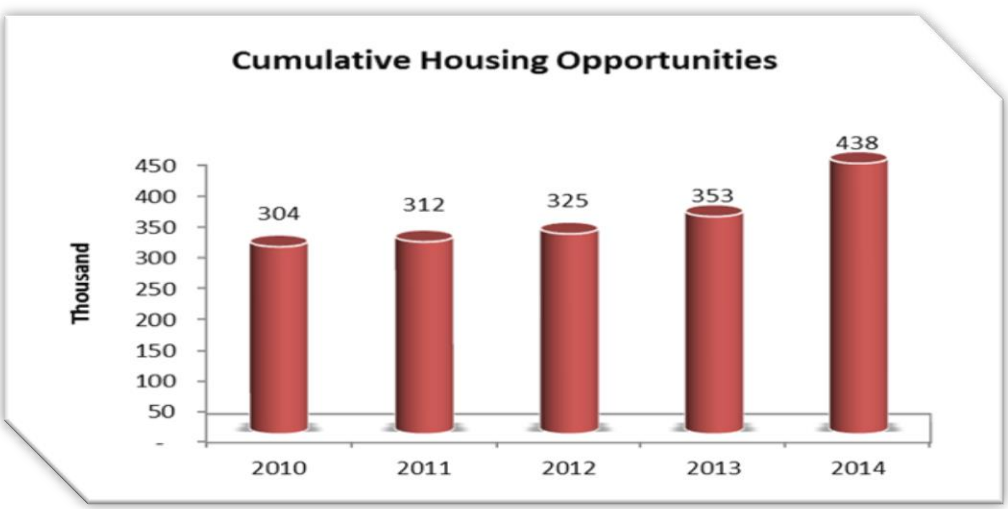
- inadequate supply of suitable and well-located land;
- regulatory pressure (Basel III) which has reduced the appetite of banks in investing in the mortgage lending housing market;
- general high levels of consumer indebtedness has also affected the mortgage lending market;
- slow regulatory processes coupled with bureaucracy;
- 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 2014) the NHFC has proudly made meaningful contribution in the last 18 years through disbursing a cumulative R6,16 billion, while leveraging a further R15,3 billion funding, thus creating 438 000 housing opportunities.

Key Indicators







The twenty year review (1994 to 2014) by Government did not only capture the significant achievements to date, but provided useful lessons that will assist in enhancing economic performance and delivery in the coming years.

4.2.2 Overview – 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 now finds itself in a position whereby recapitalisation is requested to continue to achieve its developmental objectives. The NHFC has been capitalised at inception for R1 billion and has never in the 18 years gone back to the shareholder to request further funding.

The sustainability of the NHFC is core to the financial projections modelled over a five year period, as presented in this document. The projections highlight the anticipated business growth, the capital requirements under each of the scenarios and how the developmental impact will be achieved. The projections are based on research taking economic environment forecasts into account and consider the approved allocation in the form of equity over the MTEF period.

4.3 Organisational Environment

The NHFC, through the re-org 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 (which have been described in more detail in section 7):

- 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 Management;
- Corporate Support; and
- Strategy, Research and Stakeholder relations

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 have been completed and identification and valuation of the relevant and attainable synergies were highlighted. A consulting firm, Learning Strategies, has been appointed to draft the business case. The business case is being drafted in consultation with the three human settlements DFIs (NHFC, NURCHA and RHLF).

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.

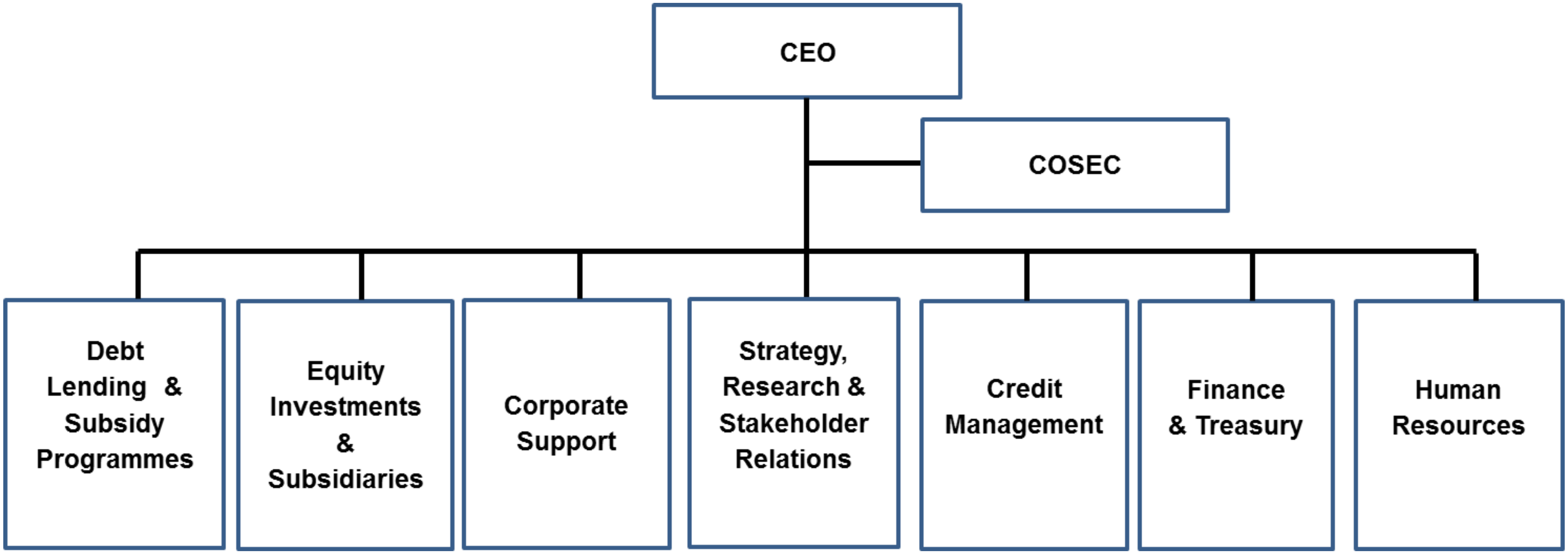
The Minister of Human Settlements is the effective Executive Authority in respect of the institution. The NDoHS will therefore have an important oversight role with regard to the governance of the institution, both from a financial (in terms of the PFMA) and a technical perspective (in terms of the mandate 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.
- Recycled waste generating renewable energy."

Organisational Structure of the NHFC



4.4 Description of Strategic Planning Process Followed

The NHFC undertook a strategic review exercise during the third quarter of the March 2013 financial year which was prompted by the NHFC's nature of business, which overtime has evolved into a more complex and different business, compared to its inception. The alignment of the key strategic imperatives and complexity brought about by these new initiatives were a compelling reason for initiating an organisational redesign aimed at achieving such alignment in all the components of the NHFC.

Due to the resource intensity of the exercise, a service provider well acquainted in innovative strategic themes in finance and risk, especially in the financial services sector and DFI space, was procured to undertake this exercise. The review exercise provided an opportunity to refine existing (or institute new) management frameworks in line with best practice at other developmental institutions to allow for managing the organisation with greater efficacy and to provide for a more appropriate frame of reference in which to discuss performance targets and results with the shareholder.

The strategic review was undertaken over 4 phases with the plan to begin implementation in the new financial year starting April 2014.

The key planning phases that were followed by NHFC in developing its strategic and annual performance plans are:

Phases	Activities	Date/Period
Initiating Phase	▪ Long term strategic review engagement. ▪ Proposal of the strategic re-organisation to Board committee responsible for strategy.	Oct –Dec'12
	▪ Establish project steering committee to oversee the proposed approach as outlined below.	Jan – Mar'13

Phases	Activities	Date/Period
Phase 1: Situational Analysis Purpose: establish a view on the status quo and its implications for the corporation's future development	The purpose of this first phase was to conduct a thorough review of the organisation, its business portfolio, on-going and past initiatives, and their effectiveness as well as of the existing staff complement in terms of number, skills, structuring, etc. as a basis for evaluating potential changes in strategy and/or new strategic options as part of Phase B. **Activities:** • Interview of stakeholders. • An analysis of the NHFC's current positioning and product offering in the context of affordable housing market. • A review of the current strategy and initiatives in place with respect to their current and expected impact, as well as the organisation's ability to fulfil its mandate. • A review of the current funding structure as well as identification of the universe of funding options. • Analysis of current and potential revenue sources as well as analyses to identify the optimal levels of diversification and specialisation.	Nov– Jan'13
Phase 2: Evaluation of strategic options	Review of potential strategic options and analysis of respective attractiveness, advantages and disadvantages. **Activities:** ▪ Detailed evaluation of the pros/cons for each option initiative with respect to implementation costs, projected financial and developmental benefits, implementation challenges and success factors as well as required timelines and the degree to which these would require significant changes in the NHFC's existing staff and skills complement.	Feb- Apr'13

Phases	Activities	Date/Period
	▪ Conduct an in-depth analysis on the potential costs, benefits and contribution towards meeting the NHFC's objectives of each potential strategic option. ▪ Refinement of the analyses of individual strategic options in an iterative manner and in close discussions with the executive management.	
Phase 3: Strategy refinement & development of revised strategic plan	Facilitating convergence on a set of preferred strategic initiatives/options and development of a revised strategic plan. **Activities:** ▪ The short list of options from phase 2 work-shopped in detail with executives and relevant Board members to establish a consensus on the preferred way forward. ▪ Review how the organisation measures and manages itself at a conceptual level (e.g. what constitutes value generation, how development and financial objectives are reconciled, etc.	April 2013
Phase 4: Operational implementation planning	Development of an implementation plan in close cooperation with the relevant executives. **Activities:** ▪ This phase concluded the proposed engagement and readies the organisation for implementation of the strategic review and the execution of the resulting re- organisation. ▪ The phase largely consisted of defining in detail the tasks and sequencing of work that the organisation would have to carry out in the implementation of new strategic initiatives. ▪ The primary output from this phase is a document describing concretely what steps need to be taken in which sequence, what constraints need to be considered and what implementation items still	May-June'13

Phases	Activities	Date/Period
	need to be defined in more detail like policy, process of specific aspects, training required, models/supporting tools that may be needed, etc.	
Implementation Phase	▪ 5 focus areas have been identified as outlined on page 9 of this document. There are 14 work streams categorised under each focus area. 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.	
	▪ To ensure realisations of objectives are at the expected quality level, work streams are timeously presenting their work and concepts developed to senior management.	Ongoing
Strategy re-organisation evaluation	▪ Attended by Board and EXCO. ▪ By invitation – external Economist & Researcher in affordable housing. **Purpose:** ▪ Review impact of re-org in current economic climate; and ▪ Assess/ reconfirm relevance of the strategic objectives.	13-14 May'14
Human Settlements strategic planning workshop	▪ Incorporation and alignment of NHFC objectives to new HS priorities.	28-29 Jul'14

5 REVIEW OF THE STRATEGIC AND ANNUAL PERFORMANCE PLANS

5.1 Review of Annual Performance Plan for 2014/15

The Annual Performance Plan (APP) for 2014/15 was approved by the Board of the NHFC and submitted to the Shareholder in January 2014. The MTSF have since been aligned to coincide with the long term plans of the new administration for the period 2014/15 to 2018/2019. In this regard, entities have been provided with an opportunity to revise and align their APPs.

In addition, the following key emerging economic and business trends that impact the operating environment of the NHFC have informed the review of the APP.

Demand/supply

- Against the backdrop of approximately 700 000 housing back-log in the affordable housing market, supply of new housing stock has averaged 20 000 to 30 000 per annum in the last 3 years, significantly below demand.
- Poor uptake of properties by end-users (constrained availability of mortgages) has resulted in attrition of developers (especially private sector) in affordable housing market.

Borrower

- Remains significantly over-indebted, especially in the affordable housing market.
- Unsecured lending credit bubble in last 12 months an indication of severe pressure of consumers in SA.
- Poor consumer confidence has been affected mainly by: 1) rising costs of living (electricity, transport and food), 2) poor job prospects and 3) poor short term economic prospects.

Lenders Perspective

Appetite for mortgage lending remains constrained due to:

- Regulatory pressure (Basel III);
- Poor balance sheets and income statements of consumers (over indebtedness); and
- Recent poor returns from mortgage lending.

Future prospects

- The short to medium term prospects of affordable housing market will be constrained by poor fundamentals: poor business and consumer confidence, subdued economic growth etc.

- Innovation, deal structuring and product pricing will be critical in securing business in tight market conditions.

Liquidity challenge of the NHFC

Towards the end of the third quarter of the previous financial year, the NHFC faced a critical funding liquidity challenge which necessitated that both Management and the Board take steps to have it addressed. As a consequence of engagements with both the NDoHS and National Treasury, a commitment to avail R230 million to the NHFC was agreed as an interim solution, with a view to ultimately resolving the re-capitalisation of the NHFC for it to deliver on its Strategic Plan.

Although the virement request of R230 million was approved by both NDOHS and National Treasury, the approval was subject to the President signing the 2014 Appropriations Bill which therefore impacted the timing of the flow of the funds. The funds were received in September 2014.

Management and the Board of the NHFC, mindful of its fiduciary duties and current commitments of R975 million, have managed the risks associated with the liquidity crises critically, through rigorous cash management processes and the reprioritisation of disbursements and approvals.

Re-organisation of NHFC and CTCHC

The implementation of the strategic re-organisation of the NHFC is currently underway and it is expected that there will be a reduction in human capital upon completion of all the consultation processes.

Similarly, as reported under section 7.8, the restructuring of the CTCHC is continuing.

The projected cost of the re-organisation of both NHFC and CTCHC has been included in the 2014/15 year budget.

5.2 Review of the second draft of the Strategic Plan for 2014/15 to 2018/19

We have been advised by NDOHS that the approved allocation for the NHFC in the form of equity is R100 million in each of the next three years (2015/16, 2016/17 and 2017/18), that is, R300 million over the MTEF period.

The allocation is significantly lower than the equity funding assumptions in the recently Board approved Strategic Plan (R930 million versus R300 million) and therefore, impacts the achievement of the set targets. The Strategic Plan has been revised accordingly. 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.

In preparing the Strategic Plan, the NHFC has considered the following scenarios:

- Scenario #1: Approved capital allocation with no additional debt funding raised. This is in consideration of the forecasted 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. In addition the disbursements have been reviewed in line with the reduced level of shareholder support.

- Scenario #2: Assumes a blend of debt and equity funding is raised. The concurrent approval for debt funding from the Minister of Finance is obtained, and the NHFC is successful in raising debt funding at an optimal cost. The disbursements have however been reviewed in line with the reduced level of shareholder support. The detail of this scenario is included on page 98 of this Plan.

- Scenario #3: Assumes that in addition to the approved shareholder capital injection of R300 million over the MTEF, debt funding will be raised to fund the operations to achieve the outcomes as indicated in the second submission of the Strategic Plan. The detail of this scenario is included on page 110 of this Plan.

5.2.1 Scenario #1: Approved capital allocation with NO additional debt funding raised

The process for the approval of borrowings remains outstanding. The approval of borrowings is dependent on the confirmation of shareholder support. In addition, developments regarding the NHFC operating environment and the impact thereof on the outlook for March 2014/15 are currently forecasted to trigger a breach of some of the financial covenants of the existing facility with AFD, details of which is included in Annexure G, page 84 of this Plan.

Summary of the existing facilities

Lender	Facility R'm	Balance Outstanding R'm	Date Agreement signed	Final Payment date
AFD	205	158	Nov 2009	Nov 2024
EIB	216	182	Jan 2011	Dec 2025
Total	**421**	**340**		

Implications of the breach:

- Constitutes an event of default which gives the AFD the right to declare part or all of the credit facility immediately due and payable.
- The reclassification of the entire loan to current liabilities which may then impact the liquidity and going concern of the NHFC.
- Trigger a breach of the EIB liquidity covenant.
- The borrowing programme of the NHFC and approval for borrowings may be adversely impacted.
- The broader impact on other State Owned Companies' credit facilities in terms of "cross default clause" and "Pari Passu" principles.

Engagement with both funders is currently underway and in both instances they have indicated their commitment as strategic partners in working with the NHFC at resolving the current position.

The NHFC is also in discussions with both EIB and AFD towards a second facility.

Whilst the NHFC is engaging all the necessary stakeholders with the aim at resolving the current position, it is considered prudent that the Plan be completed on the basis that no further debt funding is received.

Key considerations in this scenario included the current commitments, shareholder imperatives as well as overall impact of the portfolio on profitability of the NHFC.

5.2.2 Scenario #2: Mix of debt and equity funding. NHFC obtains approval for borrowings and is successful in raising debt at an optimal cost

In reviewing the Strategic Plan in line with the reduced capital allocation, whilst mindful of the shareholder imperatives, management also considered the borrowing capacity of the NHFC, compliance with financial covenants, market conditions and appetite of lenders as well as expected market returns as demonstrated by the table that follows.

Impact of reduced capitalisation - Developmental impact forgone over MTSF

	Disbursements R'm	Leveraged Funds R'm	Developmental Impact Housing opportunities	Beneficiaries benefitting	
Social Rental	296	-	2 819	10 712	• Shareholder imperative. • Overall investment of R847 million over MTSF at sacrifice of other programmes in particular affordable housing. • No leverage opportunity - Significant level of subsidies • Low margin - impact on profitability • Appetite of lenders vs cost of borrowings
Private Rental	57	-	204	777	• Shareholder imperative • Appetite of lenders • Higher margin • Appetite of lenders vs cost of borrowings
Affordable	492	500	4 061	15 430	• Home ownership curtailed. • Would normally on average require higher capital contribution per unit (25%-35% on property R400k as part of NHFC contribution). • Reduced leveraging opportunities through Strategic Partnerships • Reduced contribution to profitability. • Funded through own capital due to lack of appetite from lenders.
Incremental	21	42	4 248	16 141	• Reduced leveraging opportunities through intermediaries. • Greater impact lost due to smaller average value of loan size.
Total	**867**	**542**	**11 332**	**43 060**	

Financial impact	Financial Target within 5 years	Strategic Plan MTSF Board Approved KPI within 5 years	Strategic Plan MTSF Increased borrowings KPI within 5 years
ROE	5%	5%	3%
ROA (PBT)	2.5%	5.6%	3.4%
Cost to income ratio	40%	29%	39%
Debt to equity ratio	35%	22%	23%
Average advances growth	14%	14%	8%

In summary, the impact of the reduced shareholder support as demonstrated above is as follow:

- The impact of the current Shareholder prioritization of Social Housing:
  - Influences the capital allocation across the sub-programmes;
  - Reduces overall sustainability; and
  - Reduces facilitation of private sector funding.

- Overall reduced financial and developmental impact.
- Reduced contribution to MTSF impacting the lives of 43 060 beneficiaries.
- Borrowing capacity limited by support from shareholder funding.
- Long term financial sustainability threatened. Capital injection of R1 billion would have created a platform towards the sustainability of the NHFC over a 10 year period. Further capital injection would be required in the medium term.
- Subdued growth, overall market conditions.

5.2.3 Scenario #3: Increased borrowings to achieve original level of outcomes indicated in the second submission of the Strategic Plan

To achieve the outcomes as indicated in the second submission of the Strategic Plan, in addition to the approved shareholder capital injection of R300 million, debt funding totaling R1.7 billion will have to be raised over the MTSF to fund the current commitments as well as new business.

	Board Approved	Approved Shareholder Support	Difference
Shareholder support (R'm)	1 160	530	-630
Debt funding (R'm)	714	1 660	946
Total funding requirements	**1 874**	**2 190**	

The level of borrowings, which is equivalent to 50% of the NHFC balance sheet, is however not supported by the level of shareholder funding support, and thus not conducive for the NHFC's capacity to borrow. It is therefore unlikely that the NHFC will be in a position to successfully raise the required debt funding at an optimal cost and obtain the approval for the debt funding.

Financial impact	Financial Target within 5 years	Strategic Plan MTSF Board Approved KPI within 5 years	Strategic Plan MTSF Increased borrowings KPI within 5 years e
ROE	5%	5%	2.6%
ROA (PBT)	2.5%	5.6%	2.4% Breach in 2016
Cost to income ratio	40%	29%	39%
Debt to equity ratio	35%	22%	53%

Financial impact	Financial Target within 5 years	Strategic Plan MTSF Board Approved KPI within 5 years	Strategic Plan MTSF Increased borrowings KPI within 5 years e
Average advances growth	14%	14%	14%

Whilst achieving an average growth rate of 14% over the five years, a summary of the financial impact as a result of increased level of borrowing costs is as follow:

- Reduced profitability mainly as a result of excessive borrowing cost;
- The financial objectives are not achievable; medium term financial sustainability threatened;
- Breach of financial covenants of existing loan facilities; and
- Strained debt capacity, unattractive to investors.

As demonstrated this scenario has serious implications for the NHFC and is therefore not desirable.

6 STRATEGIC OUTCOME ORIENTED GOALS OF THE NHFC

In terms of the five corporate strategic goals highlighted on page 11, 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:

6.1 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 18 668 housing opportunities over the next 5 years.
- Targeted value of approvals over next 5 years: R2.4 billion with actual disbursements targeted at R2.4 billion.
- Sub-programmes:
  - Social Housing Finance (R619 million)
  - Private Rental Housing Finance (R784 million)
  - Incremental Housing Finance (R87 million)
  - Affordable Housing Finance (R877 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.

6.2 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 29 230 housing opportunities through funds leveraged from the private sector over next 5 years.
- NHFC will leverage funds from private sector (through co-funding of transactions) to the value of R3 billion over next 5 years.
- Sub-programmes:
  - Private Rental Housing (R340 million)
  - Affordable Housing (R2.5 billion)
  - Incremental Housing (R175 million)

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 cofounding transactions with the private sector.

6.3 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

- Diversify sources of funding to include as broad a range of sources as possible.
- Raise R570 million primarily through debt funding (local and offshore), subsidies over next 5 years.
- Raise R530 million of equity funding from the shareholder
- Lower the weighted average cost of capital to be favourable to end user but aligned to the risk and reward profile

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.

6.4 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

This will require the enhancement of our research capabilities through either insource / outsource or partnership arrangements.

Strategic Priorities

- Establish NHFC as the market leader and partner in providing affordable housing and housing finance solutions.
- Improve our market analysis capability.
- Implement research models/tools.
- Develop an affordable housing data warehouse.
- Promote advocacy.

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.

6.5 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.

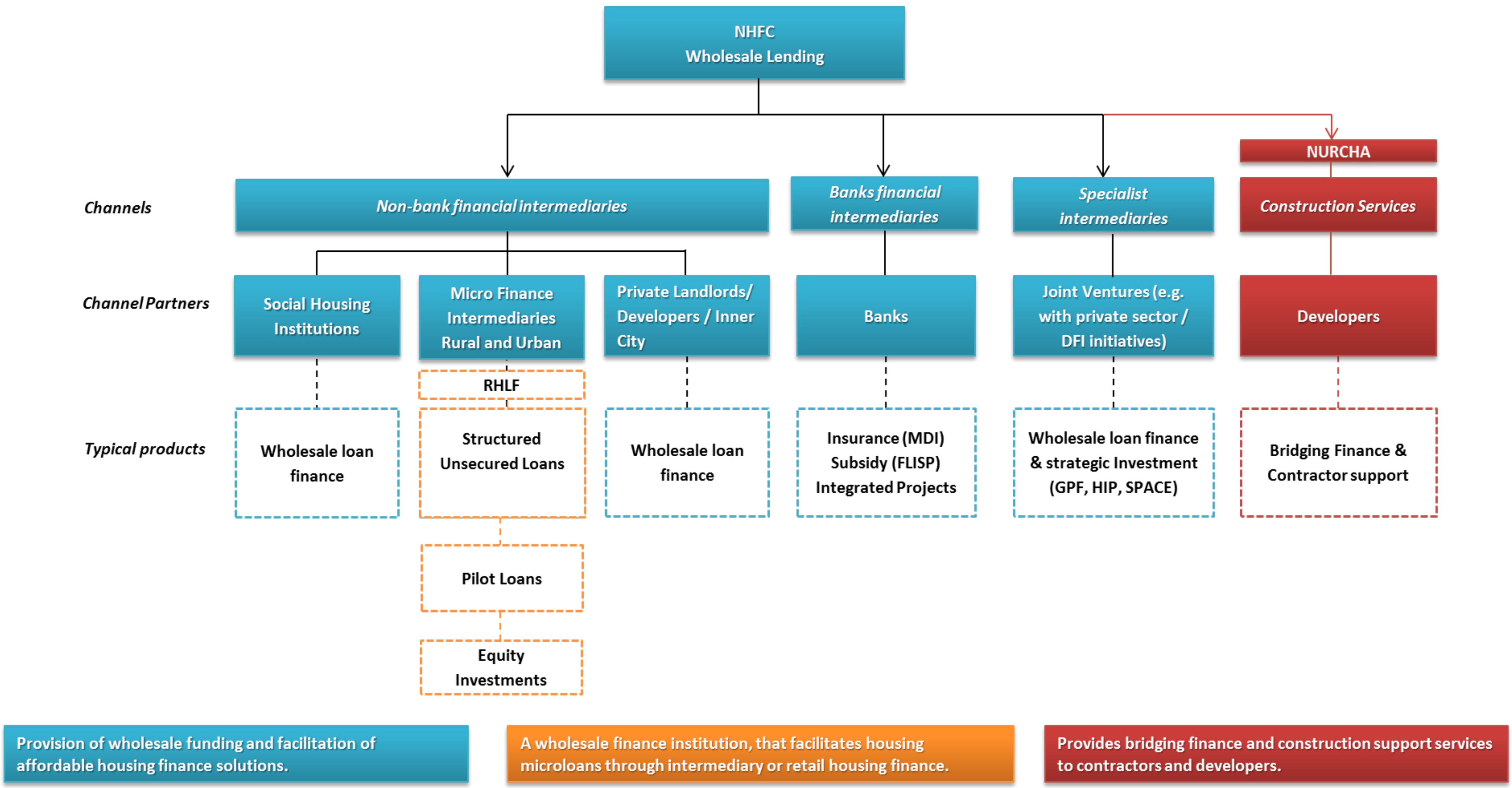
Strategic Priorities

- Maintain financial sustainability:
  - ROE: minimum target of 2.8%, within 5 years
  - ROA (PBT) (target): minimum of 2.5% within 5 years
  - Credit loss ratio: <3%
  - Advances Asset growth: Average of 5% over 5 years
  - Collection rate: 95% of the performing book within 5 years
- Improve operational efficiency: total expenditure to total income ratio target of 40% within five years.
- Facilitation of estimated 28 734 jobs over next 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: R474 million in loans/professional services will be targeted to over next five years.

Risk Management

Risk is managed through 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.

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



7 STRATEGIC OBJECTIVES OF THE VARIOUS DIVISIONS

7.1 Overview of Business Structure and Strategic Objectives (at business unit level) of NHFC

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).

7.2 Debt Lending and Subsidy Programmes: Overview of business

The NHFC make housing and housing finance accessible to the GAP 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.

7.3 Delivery Channels

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

7.4 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.

7.5 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.

7.6 Collaboration/Partnership with other Housing Institutions

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

Under the auspices of 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 Social/Rental Housing on state-owned land.

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.

International Housing Solutions ("IHS")

The NHFC seeks to invest R300 million into the International Housing Solutions Fund II (" the Fund") as a junior debt funder. International Housing Solutions (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 ('SAWHF"), 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.

7.7 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 though housing developers, mortgage originators and mortgage lenders.

7.8 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 lackluster 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 is underway which will entail the review of the Board and staff. 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.

The NHFC is currently in the process of obtaining an extension of the approval from the shareholder to retain its current equity investment in CTCHC which the NHFC has been unable to reduce/sell as required by its shareholder given the financial position of CTCHC.

Associate Company: Housing Investment Partnership (“HiP”)

The NHFC at 33.33% and 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 Old Mutual Capital Holdings Ltd (“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 debt funding advisor is presently issuing the information memorandum to prospective debt providers for Lending Trust 3 towards an additional R1 billion.

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.

8 SUMMARY OF PROGRAMMES, KEY PERFORMANCE INDICATORS AND ASSUMPTIONS

8.1 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	**Strategic Plan Target**	**Medium term targets**				
		2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Estimated number of housing opportunities facilitated through disbursements	18 668	3 151	3 885	3 575	3 909	4 148
Number of beneficiaries benefitting (factor of 3.8 utilised)	70 938	11 973	14 763	13 585	14 854	15 762
Value of funds disbursed R'm)	2 367	677	406	381	439	464
Value of approvals (R'm)	2 380	309	464	498	535	574

Sub- Programmes

Performance indicator	Strategic Plan Target	Medium term targets				
Number of housing opportunities facilitated through disbursements		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Number of Social Affordable Housing Units*	5 899	1 297	958	1 145	1 213	1 286
Number of Private Rental Housing Units*	2 800	531	398	532	643	696
Total Rental	8 699	1 828	1 356	1 677	1 856	1 982
Number of Affordable Housing Units**	4 137	1 323	1 196	485	555	578
Number of Incremental Housing Loans***	5 832	-	1 333	1 413	1 498	1 588
Total Affordable Housing	9 969	1 323	2 529	1 898	2 053	2 166
Total	**18 668**	**3 151**	**3 885**	**3 575**	**3 909**	**4 148**
Number of beneficiaries benefitting (factor of 3.8 utilised)	70 938	11 973	14 763	13 585	14 854	15 762

Housing units include completed, transferred or occupied rented units.

* Social and Private Rental - estimated number of units arising from disbursements.

** Affordable Housing – estimated number of mortgage loans originated through Strategic Partnerships such as HIP and IHS, the average loan size being R400 000. Instalments 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 in one instance is completed and not repeated at the same scale and in another instance forecasted for later periods.

*** Incremental - Average loan size of R15 000.
Incremental loans for 2015 revised and reallocated to secured lending; clients in distress and market conditions impacting unsecured lending.

Performance indicator **Value of disbursements**	Strategic Plan Target	Medium term targets R'million				
		2014/15 R'm	2015/16 R'm	2016/17 R'm	2017/18 R'm	2018/19 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

The reduction from 2015/16 is in line with the assumption that no debt funding is sourced.
* Includes commitments relating to Strategic partnerships, in one instance the majority of the flows are projected in the outer years. The 2014/15 year is inflated by bridging finance that is not repeated in subsequent years.

Performance indicator **Value of approvals***	Strategic Plan Target	Medium term targets R'million				
		2014/15	2015/16	2016/17	2017/18	2018/19
Social Affordable Housing	1 275	148	250	270	292	315
Private Rental Housing	945	161	174	188	203	219
Total Rental Housing	2 220	309	424	458	495	534
Affordable Housing	-	-	-	-	-	-
Incremental Housing Loans	160	-	40	40	40	40
Total Affordable Housing	160	-	40	40	40	40
Total value of approvals	2 380	309	464	498	535	574

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

8.2 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	**Strategic Plan Target**	**Medium term targets**				
		2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Estimated number of housing opportunities facilitated through leveraged funds	29 230	2 853	6 473	6 332	6 696	6 876
Number of beneficiaries benefitting (factor of 3.8 utilised)	111 075	10 842	24 598	24 060	25 446	26 129
Value of leveraged funds from the Private sector (R'm)	3 096	522	650	568	669	687

Sub- Programmes

Performance indicator **Number of housing opportunities facilitated through leveraged funds**	Strategic Plan Target	Medium term targets				
		2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Number of Private Rental Housing Units*	12 590	2 190	2 600	2 600	2 600	2 600
Number of Affordable Housing Units**	4 974	663	1 206	905	1 100	1 100
Number of Incremental Housing Loans**	11 666	-	2 667	2 827	2 996	3 176
Total	29 230	2 853	6 473	6 332	6 696	6 876
Number of beneficiaries benefitting (factor of 3.8 utilised)	111 075	10 842	24 598	24 060	25 446	26 129

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 the projected forecast of key significant existing commitments relating to strategic partnerships which in one instance is completed and not repeated at the same scale and in another instance forecasted for later periods.

*** Incremental - estimated number of loans arising from funds leveraged by Intermediaries, the average loan size being R15 000. Incremental loans for 2015 revised and reallocated to secured lending; clients in distress and market conditions impacting unsecured lending.

Performance indicator **Value of leveraged funds from the Private sector***	Strategic Plan Target R'm	Medium term targets				
		2014/15 R'm	**2015/16** R'm	**2016/17** R'm	**2017/18** R'm	**2018/19** R'm
Rental Housing	340	85	45	60	72	78
Affordable Housing	2 581	437	565	466	552	561
Incremental Housing	175	-	40	42	45	48
Value of total funds leveraged	3 096	522	650	568	669	687

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

8.2.1 Other developmental impact

Performance indicator	**Strategic Plan Target**	**Medium term targets**				
		2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Estimated number of jobs facilitated*	28 734	8 224	4 339	4 812	5 469	5 888
Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs (R'm)	474	127	90	76	88	93

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

9 LINKS TO OTHER PLANS

9.1 Links to the long term infrastructure and other capital plans

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.

9.2 Conditional grants

Not applicable to NHFC.

9.3 Public entities

Not applicable to NHFC

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

ANNEXURE 1: OVERVIEW OF BUSINESS SUPPORT UNITS (RESTRUCTURE TO REFLECT NEW STRUCTURE)

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 ▪ Position the Corporation and its products ▪ 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

BUSINESS

SUPPORT SERVICES

	CORPORATE SERVICES	FINANCE & TREASURY	HUMAN RESOURCES	CREDIT MANAGEMENT	CORPORATE STRATEGY, RESEARCH & STAKEHOLDER MANAGEMENT
Focus for the Planning Year	▪ Corporate identity manual ▪ Set up MIS ▪ Upgrade Physical Infrastructure ▪ Develop Intranet Portal ▪ Strategic Operational Risk Framework ▪ Business contingency management ▪ Compliance Risk Management Plans ▪ Enhance security management processes and compliances to policies and statutory regulations	▪ Implement medium to long-term funding strategy which includes raising of debt funding as well as securing shareholder support. ▪ Establish and implement a iterative business unit level budgeting process as a means of effectively allocating resources and promoting ownership and accountability.	▪ Implement benchmarked HR Value Chain which will ensure delivery of HR end services ▪ Implement Staff Retention Strategies	▪ Structure Credit Risk Framework ▪ Develop pricing methodology ▪ Secure and implement Credit Sanctioning authorities resolutions	▪ Conduct Corporate Impact Study ▪ Profile the Corporations research findings ▪ Promote innovation in the affordable housing sector space

ANNEXURE 2: MATERIALITY FRAMEWORK 2015

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 2014 – R3.1 billion

For the purposes of section 54(2) (b) (c) and (f) 1% of total assets = R31 million

For the purposes of section 54(2) (d) 5% of total assets = R156 million.

ANNEXURE 3: NHFC STRATEGIC RISK REGISTER

The risk register will be submitted on completion of the review currently underway.

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

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 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, the Accounting Officer, 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

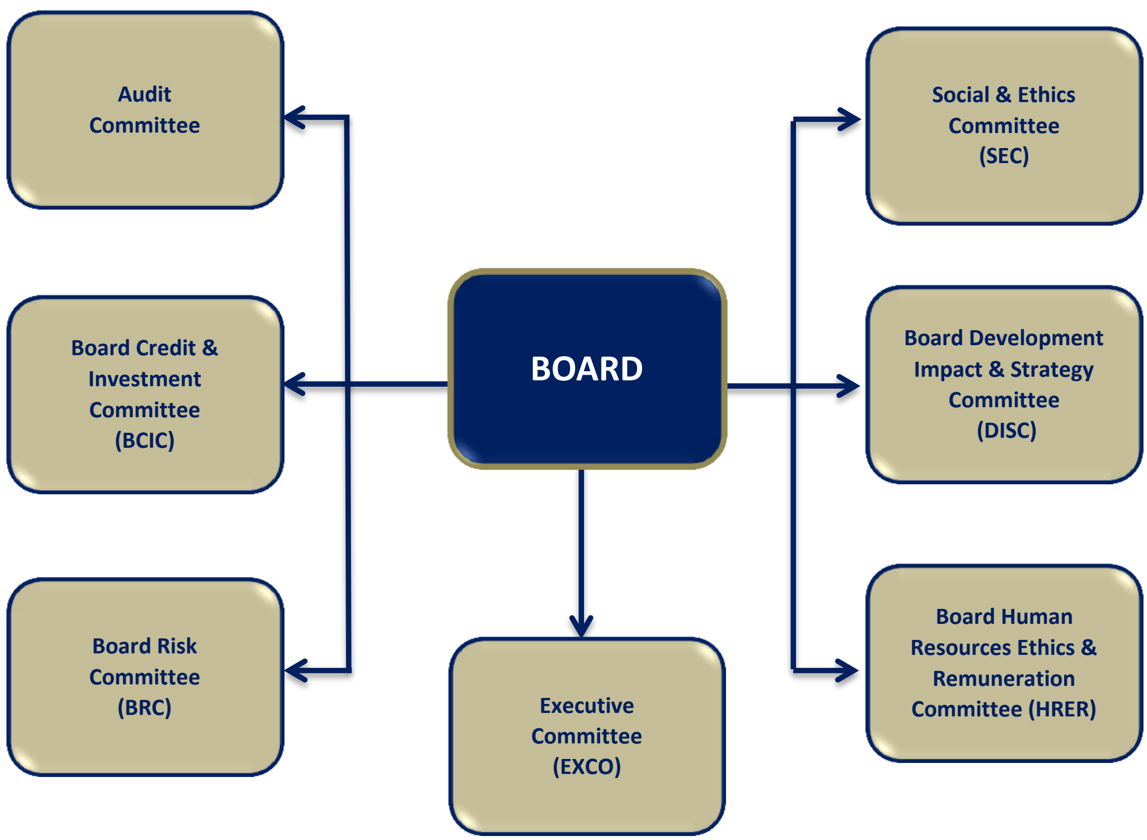
The NHFC's Board Charter is reviewed annually and has been aligned with the Department of Human Settlements' framework and King III. It gives a concise overview of the demarcation of roles, functions, responsibilities and powers of the CEO, the Board and the Shareholder. The Board retains full and effective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

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 Messrs Ntsaluba (Chairperson), Tati and Phili were, in line with the Companies Act provisions, duly appointed. 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. The Committee members are Mss Swanepoel (Chairperson) and Houston and Messrs Ntsaluba and Moraba. 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. The members are Messrs Coetzee (Chairperson), Tati, Phili and Moraba (CEO).

BCIC meetings are attended by the Executive Manager: Credit, the CFO, and General Manager: Legal Services, Acting Executive Manager: Enterprise Wide Risk, Executive Manager: Projects and the Managing Executive: Strategic Investments.

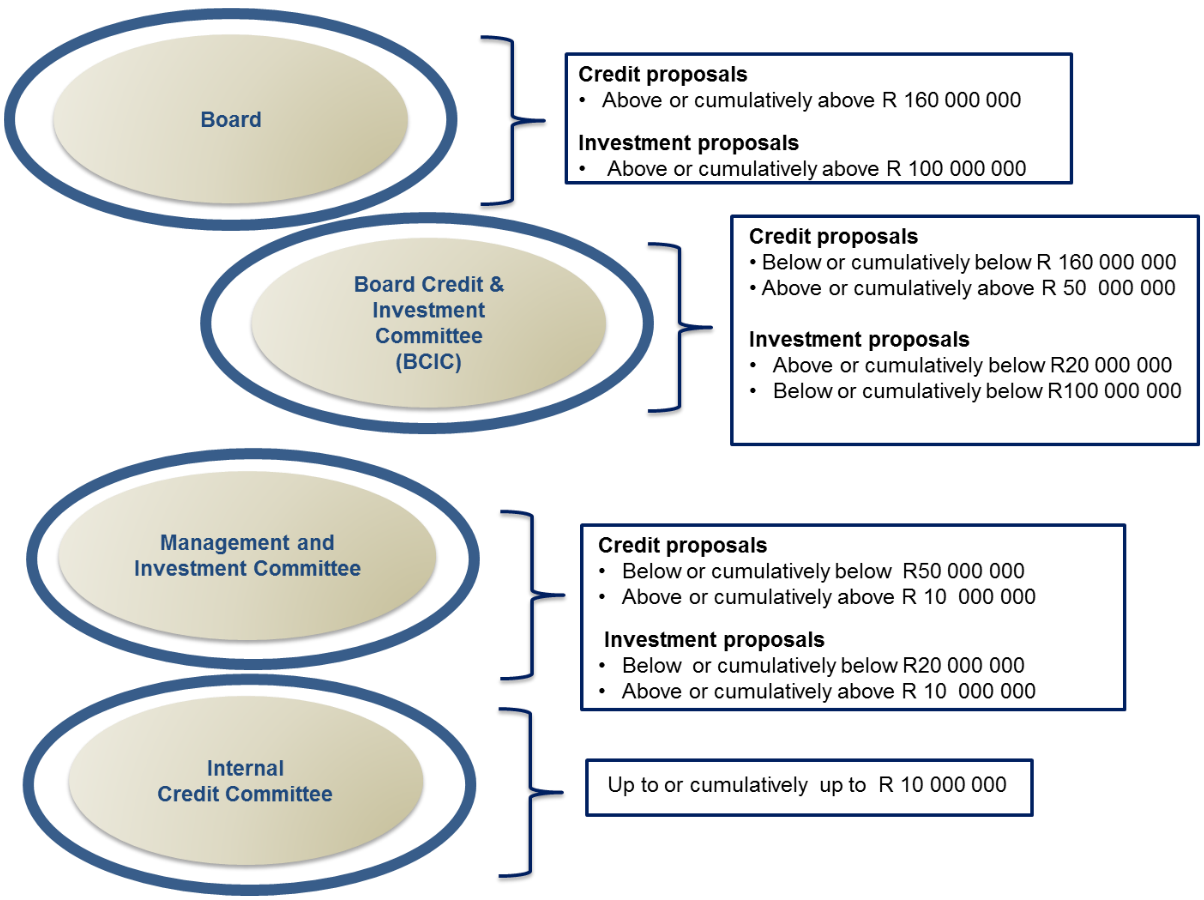
The Committee meets at least four times a year, or more frequently, if circumstances so require.

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 Chief Executive. The members are Messrs. Phili (Chairperson), Tati, Coetzee, Ntsaluba, Moraba and Ms. Swanepoel.

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 members are Messrs. Tati (Chairperson), Coetzee, Phili, Mss. Houston, Msomi and Ramarumo and Mr. Moraba (CEO). The Committee meets at least four times a year. The committee meetings are attended by the Executive Manager: Strategy, Chief Financial Officer, and Executive Manager: Projects, General Manager: Corporate Communications and Marketing, and the Acting Executive Manager: Enterprise Wide Risk management.

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, Mss Swanepoel and Msomi and the CEO, Mr S Moraba as well as members and attendees such as subject matter experts on each of the disciplines or areas falling within the mandate of the Committee. The Committee meets quarterly 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;

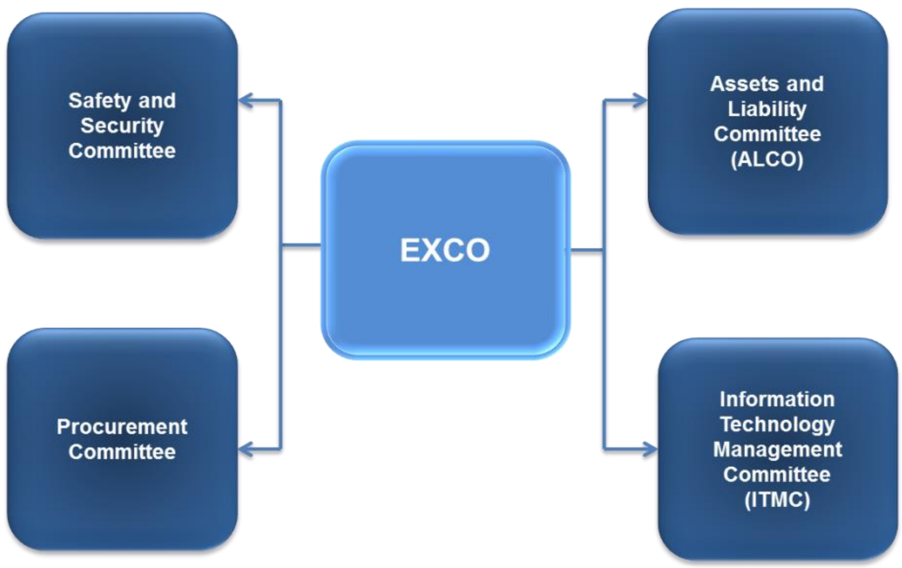
- Board Credit and Investment Committee – provides assurance that environmental, health and public safety issues are considered when credit is granted to NHFC's clients and the NHFC's BBBEE Policy are adhered to;

- 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, Acting 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, Data & Information Manager, Acting Executive Manager: Enterprise Wide Risk, Executive Manager: Credit and General Manager: Projects.

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: FLISP BUDGET AND EXPECTED IMPACT

The FLISP programme is under review and the achievement of the FLISP targets is dependent on the successful resolution of the recommendations as proposed.

Assumptions:

Capital Grant (once off)

The once off capitalisation grant R10.5 million will be funded by the NDOHS, the capitalisation is made as follows:

Type of Capital	
Once off capex requirements (IT) Consultancy (legal, IT etc Business development costs	R10.0m R0.20m R0.30m
Total initial set-up cost (excl opex)	R10.5m

Operational Expenditure

- FLISP on-going operational expenditure will be funded by the NDOHS through an annual operational grant in the MTEF. The indicative annual operational budget is as follows:

	2014 (Actual)	2015	2016	2017	2018	2019	Total
Cost to Fiscus (Rm)	5.9	5.2	5.5	5.8	6.1	6.5	**29.1**

FLISP Disbursements

- An allocation from the Housing grant directly to the NHFC and not through provinces for the FLISP programme is envisaged over a 5 year period to ensure scale of delivery as follows:

	2015	2016	2017	2018	2019	Total
DORA Allocation (Rm)	34	72	144	174	208	**632**

- Long term FLISP commitments should be in place to ensure commitments by lenders;

- The allocation per province will be as per formula for the distribution of the human settlements grant and will be availed to NHFC for disbursement through the Banks; and

- Funds will be managed by the Banks and all interest earned will to the credit of the ring fenced Government account;

Assumptions on-going Business

Subsidy Assumptions		Operating Assumptions	
Subsidy on R3,501 (max)	R100 000	Staffing: a Senior Manager, Relationship Consultant, Admin Supervisor and PA/Admin assistant. Ratio of staff costs to total opex costs not to exceed = 50% Remainder of Opex for, Marketing, Shared services (IT, Facilities, Telecomms etc)	4
Subsidy on R15,000 (min)	R20 000		
Average Subsidy	R40 000 (2015)	All programme related to capital requirements will be funded by grants. Provision for marketing expenses Subsidies will be invested at a minimum of the Call rate. Macroeconomic Assumptions.	
FLISP Income Levels	R3,501 – R15, 000	Inflation rate	5.5% to 6.0%
Mortgage Interest Rate	Prime + 2%	Call interest rate	6.4% to 8.5%
Average loan size	260 000		

Summary of Forecasted Impact

	2014 Actual Baseline	2015	2016	2017	2018	2019	Total
Approved Applications	1 696	852	1 704	3 408	4 090	4 907	14 961
Beneficiaries	5 766	2 897	4 794	11 587	13 906	16 684	49 868
% of MTSF Target (70 000)							21%
Private Sector Investment (leveraging) Rm	202	221	443	886	1 063	1 276	3 889

Expected FLISP Outcomes

- Reduction of the cost of funding to the beneficiary.
- Reduction of the cost of on-going home ownership by making loan instalments affordable.
- Increasing the supply of affordable housing finance.
- Mitigating future losses by lenders through reducing LTV of the approved loan amount.
- Increasing the supply of affordable housing units by developers;
- Leveraging increased investment by the Private sector into the property market, every R1 contributed by Government attracts a further R2.50 by Private sector.
- Other indirect benefits such as: Improving the rates base of municipalities as beneficiaries of the programme are income earning and not indigent and will contribute towards much needed revenues of municipalities.

ANNEXURE 6: BUDGET 2014/15 – 2018/19

BUDGET

2014/15– 2018/19

1 BUDGET FOR THE PERIOD 2014/15 – 2018/19

1.1 Overview

The NHFC is budgeting for profit before tax of R2 million at Group level and R6 million at Company level for the 2014/15 financial year. The change in the budget and medium term forecast for 2014/15 to 2018/19 reflects mainly the impact of the interest rates, borrowing cost, increased level of disbursements and 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. CTCHC has been incurring losses and the focus is on the implementation of the Board approved restructuring plan, to make the subsidiary profitable.

  The decrease in the sale of houses (cost of sales) is in line with the strategic decision 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 is underway which entails the review of the Board and staff. 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. The cost of restructuring has been included in 2014/15 with the resultant savings observed in the decrease in the operational expenses from 2015/16.

- 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 given its incubation stage. No share of profits for HIP has therefore been included.

Scenario forecasting

The budgets have been prepared on the basis of the following scenarios:

- Scenario #1: Base case, approved capital allocation with no additional debt funding raised. This is in consideration of the forecasted 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. In addition the disbursements have been reviewed in line with the reduced level of shareholder support.

- Scenario #2: Assumes a blend of debt and equity funding is raised. The concurrent approval for debt funding from the Minister of Finance is obtained, and the NHFC is successful in raising debt funding at an optimal cost. The disbursements have however been reviewed in line with the reduced level of shareholder support. This scenario is elaborated on page 98 of this Plan; and

- Scenario #3: Worst case, which assumes that in addition to the approved shareholder capital injection of R300 million over the MTEF, debt funding will be raised to fund the operations to achieve the outcomes as indicated in the second submission of the Strategic Plan. This scenario is elaborated on page 110 of this Plan.

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

- Projected increase in interest on advances 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 NHFC is participating in particular in two key strategic partnerships where, due to investment structure, the returns are flowing in the later years and is expected to contribute to the increased profitability of the NHFC and group. These key investments are an investment in a private equity fund (R300 million to be invested over 4 years) and an investment of R200 million in an innovative affordable housing fund.

- Decrease in investment income in the 2014/15 and 2015/16 financial years in line with reduced net NHFC cash holdings pending capitalisation. The net cash position improves thereafter in line with the assumption of an equity injection.

- Impairments are driven by the growth in the advances portfolio and is assumed at 2.5% of the gross loan book 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. As a result, an increased level of impairments is forecasted in the 2014/15 financial year; the budget has therefore been increased accordingly.

- There is a decrease in finance costs on the assumption that no external debt funding will be sourced. This is also reflected in the decrease in the gearing ratio.

- The implementation of the strategic re-organisation of the NHFC is currently underway. It is expected that there will be a reduction in human capital upon completion of all the consultation processes. The cost of restructuring has been included in the 2014/15 financial year with the resultant savings observed in the decrease in the operational expenses at 2015/16.

- As is evident from the key performance indicators, the ROA for 2014/15 is under threat as a result of the inclusion of these additional costs.

- As 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 requirements are attached as annexure 5.

1.2 Funding assumptions: Scenario #1: Base case

The key assumption for this scenario is that no additional debt funding is raised to fund the operations.

In addition to the R230 million shareholder support for 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.

Year	Disbursements Total (Rm)	Debt funding (Rm)	Recapitalisation from Shareholder (Rm)
2014/15	677	Nil	230
2015/16	406	Nil	100
2016/17	381	Nil	100
2017/18	439	Nil	100
2018/19	464	Nil	-
Total	**2 367**		**530**

1.3 Other assumptions

	Budget 2015	2016
Prime lending	9.25%	9.50%
Disbursement	R677 million	R406 million
CPI	6%	5.6%
Credit loss ratio	2.5%	2.5%

The average growth rate of advances is assumed at 5% over the next five years, with collections increasing to 95% of the performing book over the same period.

1.4 Financial covenants

1.4.1 Outlook for March 2014/15 year end

As indicated in the budget included in section 1.5, the profitability for the March 2014/15 will be under pressure mainly due to the following:

- Increased level on impairments, forecasted at R60 million. Whilst the NHFC has over the last years six years on average reported a relatively low credit loss ratio (0.7%), a rate of 2.5% is forecasted for March 2014/15. Detail of the key projects currently experiencing challenges is included below.

- The once off cost of restructuring estimated at R30 million to be incurred in the current year; the benefits are however evident in the subsequent years.

- With the funding constraints, management have rationalised some disbursements and therefore reducing the growth of the advances book, leading to a compromised revenue base with the eroded asset growth.

Indications are therefore that two of the three financial covenants of the AFD facility will be in breach. Key driver of these covenants being the overall quality of the loan book and the profitability of the NHFC.

Company	Required	Fcst Mar-15	Budget Mar-16	Budget Mar-17	Budget Mar-18	Budget Mar-19
EIB						
Equity to assets	> 35%	87.7%	89.1%	90.5%	91.8%	92.8%
Liquidity ratio	> 100%	214%	187%	180%	224%	130%
Impaired asset ratio	< 25%	23.5%	14%	17%	19%	19%
Provision for non performing book	> 25%	38.6%	39.6%	41.9%	47.8%	52.8%
Credit outstanding	< 20%	7.3%	5.9%	5.2%	4.5%	4.5%
AFD						
Return on assets (%)	> 1.5%	**0.2%**	1.6%	2.4%	3.1%	3.6%
Capital adequacy	> 20%	122%	118%	118%	122%	115%
Ratio of impaired loans to equity	< 10%	**13.0%**	8.7%	8.1%	7.6%	7.3%

1.4.2 Background on investment in structures

The NHFC is primarily funded through equity funding, with a low debt equity ratio of 15%. The borrowing of funds however introduced a unique financial risk to the NHFC as it could no longer only consider development impact in the pricing of the loans it granted but also consider the overall cost of doing business. Capital grants in excess of R 1 billion were granted at the inception of the NHFC with debt funding in the excess of R 400 million in 2011, thus allowing for a blended capital structure.

The blended structure with the reserves generated over its life, has enabled the NHFC to disburse about R 7 billion through different instruments primarily consisting of term loans. To achieve the much needed scale in the affordable housing sector, product innovation became a priority for the NHFC in which it had to strategically position itself by enabling private sector funds to flow into the market served in line with its strategic objective. To achieve this, multilevel structured loans were written to special purpose entity vehicles which then allowed leveraging multiples of 5 to 10 times to be achieved. These loans were written at the bottom of the recession with an expectation of a turnaround in the overall economy. The impact of slower economic growth during the 2008/9 recession led to substantial increase in impairments in 2010 where clients affected were mainly in the micro-finance market and integrated housing market.

Subdued economic growth has however remained a challenge in the recent years with an ever increasing cost of living and considerable over indebtedness. In the current year two significant clients with mega projects are experiencing a funding challenge, salient details of the projects are included below:

Space Securitisation

- A special purpose vehicle formed by Old Mutual and funded through the Housing Impact Fund of South Africa (HIFSA);
- The Fund is a R900 million fund with exposure to projects across the country;
- Plan was for the development for sale of approximately 20 000 housing units;
- The Fund has been affected by poor take-up of units (affordability issues associated with end users), subdued economic growth and job prospects, statutory approval delays, location and overall funding challenges in the SPV;
- The SPV has appointed a new development manager to turn-around the projects and enhance the strategic direction of the venture; and
- HIFSA (the newly appointed development manager) has set aside 3 months to re-assess the various projects and the vehicle as a whole, from a strategic and operational basis. Thereafter, they will feedback to investors the way forward for the projects as well as provide financial projections which will assist with impairment testing.

Mettle Property Solutions

- Similar to Space, this is a special purpose vehicle which is currently funded mainly by Old Mutual;
- The Fund is pursuing approximately 16 500 housing opportunities across the country;
- The SPV has faced similar challenges as Space; and
- NHFC is currently reviewing in detail the project prospects, and cash

projections in order to determine possible impairment charges and strategic options for the vehicle.

1.4.3 Sustainability of the NHFC

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

- Ensuring that the capital structure of the NHFC is enhanced through the raising of debt and equity funding in the medium to long term whilst mindful of the impact of borrowings. The capital injection of R1 billion as included in the Strategic Plan in October 2014 would have created a platform towards the sustainability of the NHFC over a 10 year period. With the reduced capital allocation the financial targets are therefore not achievable; a further capital injection would be required in the medium term.

- Asset growth supported by quality of revenue through a portfolio mix that promotes sustainability. The growth is however impacted by both the subdued growth in the economy and the overall market conditions as well as the limited shareholder support. An average net growth of 5% is forecasted in the revised Strategic Plan.

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

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

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

- The enhancement of the operational structure of the company through the implementation of the strategic re-organisation 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 2.5% reflective of risk appetite. Portfolio risk is enhanced through security arrangements from borrowers.

1.4.4 Engagement with Funders

Engagement with both funders is currently underway and in both instances they have indicated their commitment as strategic partners in working with the NHFC at resolving the current position.

The NHFC is also in discussions with both EIB and AFD towards a second facility.

1.5 Summary of the Budget: Scenario #1: Base case

	GROUP							
	Mar-12 Actual R' 000	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Revised Budget R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Lending income	146 229	140 162	166 250	181 505	190 527	223 111	255 041	285 452
Investment on investments	35 076	45 597	31 396	17 716	14 131	17 457	22 051	17 510
Rental Income	5 961	6 983	3 069	2 746	3 721	4 087	4 507	4 958
Dividends received	158	158	158	2 320	2 320	2 320	2 320	2 320
Sale of houses	20 914	19 465	43 474	195 321	98 648	87 073	68 702	25 063
Revenue	**208 338**	**212 365**	**244 347**	**399 608**	**309 348**	**334 049**	**352 622**	**335 302**
Cost of sales	(17 282)	(16 489)	(40 089)	(186 970)	(91 302)	(80 079)	(63 598)	(23 893)
Impairments	(31 575)	(15 457)	2 188	(60 460)	(55 790)	(57 065)	(56 134)	(57 380)
Gross profit	**159 481**	**180 419**	**206 446**	**152 178**	**162 257**	**196 904**	**232 890**	**254 029**
Other operating income	5 758	7 886	5 410	18 251	19 168	18 108	16 786	16 188
Operating expenses	(112 273)	(123 749)	(123 643)	(147 940)	(113 686)	(116 628)	(122 345)	(128 456)
Operating profit/ (Loss)	**52 966**	**64 556**	**88 213**	**22 489**	**67 740**	**98 383**	**127 331**	**141 761**
Fair value adjustments		(16 517)	(9 225)	-	-	-	-	-
Bad Debts	(5 717)	(5 148)	(30 322)	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(14 234)	(24 594)	(22 789)	(22 978)	(21 633)	(20 292)	(18 972)	(16 834)
Share of profit of associates	1 205	6 955	9 311	8 009	7 695	8 465	9 311	10 242
Profit/ (Loss before tax)	**34 220**	**25 252**	**35 188**	**2 341**	**48 105**	**80 290**	**110 776**	**127 586**
Taxation	(13 052)	(16 463)	(19 117)	(1 603)	(14 148)	(21 722)	(29 784)	(34 975)
Surplus after tax	**21 168**	**8 789**	**16 071**	**738**	**33 957**	**58 568**	**80 992**	**92 612**

The key movements/variations in 2014/15 and 2015/16 are the following:

- Significant growth in the sales of units by CTCHC in 2014/15 (over the previous year) as result of completion of certain key building projects yielding revenue to the entity. There is also a concurrent increase in the cost of sales line;
- Increase in the impairments line from a credit of R2 million (2014) to R60 million (2015) due to potential impairments relating to key client on the watchlist. In 2016 the credit loss ratio is budgeted at 2.5%; and
- The operational costs increase from R123 million (2014) to R148 million (2015) due to inflationary increases as well as once off restructuring costs relating to both NHFC and CTCHC with the resultant savings evident in 2016 with reduced operational costs of R114 million .

	COMPANY							
	Mar-12 Actual R' 000	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Revised Budget R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Lending income	144 121	141 927	173 881	195 772	210 178	239 549	266 814	294 606
Investment on investments	34 897	45 536	31 111	17 716	14 131	17 457	22 051	17 510
Rental Income	3 554	3 632	2 615	2 746	3 721	4 087	4 507	4 958
Dividends received	158	1 872	2 320	2 320	2 320	2 320	2 320	2 320
Revenue	**182 730**	**192 967**	**209 927**	**218 554**	**230 351**	**263 413**	**295 692**	**319 393**
Impairments	(31 575)	(15 457)	2 188	(60 460)	(55 790)	(57 065)	(56 134)	(57 380)
Gross profit	**151 155**	**177 510**	**212 115**	**158 094**	**174 561**	**206 347**	**239 559**	**262 013**
Other operating income	1 318	983	1 578	1 736	-	-	-	-
Operating expenses	(99 272)	(109 128)	(105 963)	(126 147)	(96 882)	(102 211)	(107 322)	(112 688)
Operating profit/ (Loss)	**53 201**	**69 365**	**107 730**	**33 683**	**77 679**	**104 136**	**132 237**	**149 326**
Fair value adjustments	5 452	(5 313)	(3 143)	-	-	-	-	-
Bad Debts	(5 717)	(5 148)	(30 322)	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(15 694)	(24 196)	(22 497)	(22 778)	(21 453)	(20 292)	(18 972)	(16 834)
Profit/ (Loss before tax)	**37 242**	**34 708**	**51 768**	**5 726**	**50 529**	**77 578**	**106 371**	**124 909**
Taxation	(10 192)	(9 229)	(20 255)	(1 603)	(14 148)	(21 722)	(29 784)	(34 975)
Surplus after tax	**27 050**	**25 479**	**31 513**	**4 123**	**36 381**	**55 856**	**76 587**	**89 934**

1.6 Key Financial Indicators: Scenario #1 Base case

		TARGET	Actual Mar-12	Actual Mar-13	Actual Mar-14	Revised Budget Mar-15	Budget Mar-16	Budget Mar-17	Budget Mar-18	Budget Mar-19
Profit before tax (R'000)	Company		37 242	34 708	51 767	5 726	50 529	77 578	106 371	124 909
	Group		34 220	25 252	35 188	2 342	48 105	80 290	110 776	127 586
Return on equity	Company	2.8%	1.2%	1.1%	1.3%	0.2%	1.3%	1.9%	2.4%	2.8%
	Group		0.9%	0.40%	0.7%	0.0%	1.2%	2.0%	2.6%	2.9%
Return on assets (%)	Company	2.5%	1.4%	1.2%	1.8%	**0.2%**	1.6%	2.4%	3.1%	3.6%
	Group		1.2%	0.9%	1.2%	**0.1%**	1.5%	2.5%	3.2%	3.7%
Return on assets (%)	Company	2.5%				**1.5%**				
[Without retrenchment costs]	Group					**1.5%**				
Cost to income ratio (%)	Company	40%	62%	64%	56%	64%	46%	42%	39%	37%
	Group		65%	69%	66%	71%	53%	46%	43%	41%
Credit Loss Ratio (%)	Company	< 3%	1.5%	0.7%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
	Group		1.5%	0.7%	0.0%	2.8%	2.5%	2.5%	2.5%	2.5%
Debt:Equity	Company	35%	19%	16%	15%	13%	11%	10%	8%	7%
	Group		19%	19%	16%	14%	12%	10%	9%	7%

1.7 FINANCIALS: Scenario #1: Base case

Consolidated Statement of Financial Performance

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Interest on advances	181 505	190 527	223 111	255 041	285 452
Interest on investments	17 716	14 131	17 457	22 051	17 510
Rental income	2 746	3 721	4 087	4 507	4 958
Dividends received	2 320	2 320	2 320	2 320	2 320
Sale of houses	195 321	98 648	87 073	68 702	25 063
Revenue	**399 608**	**309 348**	**334 049**	**352 622**	**335 302**
Cost of sales	(186 970)	(91 302)	(80 079)	(63 598)	(23 893)
Net impairments	(60 460)	(55 790)	(57 065)	(56 134)	(57 380)
Gross profit	**152 178**	**162 257**	**196 904**	**232 890**	**254 029**
Other operating income	18 251	19 168	18 108	16 786	16 188
Operating expenses - Direct	**(124 671)**	**(88 781)**	**(90 329)**	**(94 700)**	**(99 395)**
Employee	(103 190)	(65 721)	(66 156)	(69 463)	(72 936)
Marketing	(1 986)	(2 014)	(1 997)	(1 977)	(2 061)
Outsourced Services	(9 330)	(10 458)	(11 033)	(11 585)	(12 164)
Professional Fees	(8 970)	(9 309)	(9 793)	(10 258)	(10 746)
Travel & Entertainment	(1 194)	(1 279)	(1 350)	(1 417)	(1 488)
Operating expenses - Indirect	**(23 269)**	**(24 905)**	**(26 300)**	**(27 645)**	**(29 061)**
Administration	(2 324)	(2 419)	(2 552)	(2 680)	(2 814)
Communication	(2 358)	(2 520)	(2 659)	(2 792)	(2 931)
Computer	(4 205)	(4 470)	(4 716)	(4 952)	(5 200)
Office Expenses	(2 321)	(2 537)	(2 677)	(2 810)	(2 951)
Premises	(9 350)	(9 897)	(10 465)	(11 020)	(11 605)
Training & Development	(1 338)	(1 475)	(1 556)	(1 634)	(1 716)
Sundry Expenses	(1 373)	(1 586)	(1 674)	(1 757)	(1 844)
Total operating expenses	**(147 940)**	**(113 686)**	**(116 628)**	**(122 345)**	**(128 456)**
Operating profit	**22 490**	**67 740**	**98 383**	**127 331**	**141 761**
Bad debts	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(22 978)	(21 633)	(20 292)	(18 972)	(16 834)
Share of profit of an associate	8 009	7 695	8 465	9 311	10 242
Surplus before tax	**2 342**	**48 105**	**80 290**	**110 776**	**127 586**
Income tax expense	(1 603)	(14 148)	(21 722)	(29 784)	(34 975)
Surplus for the year	**739**	**33 957**	**58 568**	**80 992**	**92 612**

Consolidated Statement of Financial Position: Scenario #1: Base case

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Assets					
Non Current Assets	**2 429 019**	**2 691 169**	**2 848 494**	**2 937 825**	**3 207 538**
Loans and receivables - advances	2 155 401	2 426 073	2 579 703	2 665 742	2 928 658
Investment in listed equity instruments	4 258	4 258	4 258	4 258	4 258
Investment in preference shares	2 658	2 658	2 658	2 658	2 658
Investment in associates	95 712	103 407	111 872	121 183	131 425
Property, plant and equipment	1 114	912	877	877	877
Intangible assets	3 251	4 350	3 058	483	483
Instalment sale receivables	77 184	83 349	79 905	76 461	73 017
Investment property	74 278	51 000	51 000	51 000	51 000
Goodwill	2 714	2 714	2 714	2 714	2 714
Deferred taxation	12 448	12 448	12 448	12 448	12 448
Current Assets	**846 007**	**681 595**	**642 631**	**702 288**	**492 877**
Properties developed for sale	222 356	135 967	93 552	39 971	1 246
Other receivables and prepayments	12 021	7 139	8 431	11 006	11 006
Held to maturity investments	139 413	139 413	139 413	139 413	139 413
Cash and short-term deposits	472 217	399 076	401 235	511 898	341 211
Total Assets	**3 275 026**	**3 372 763**	**3 491 125**	**3 640 112**	**3 700 415**
Net assets and liabilities					
Net assets	**2 648 521**	**2 782 478**	**2 941 046**	**3 122 038**	**3 214 650**
Issued Capital	842	842	842	842	842
Share Premium	879 158	879 158	879 158	879 158	879 158
Grant capital	430 000	530 000	630 000	730 000	730 000
Distributable reserves	1 337 782	1 338 521	1 372 478	1 431 046	1 512 038
Distributable reserves - current year	739	33 957	58 568	80 992	92 612
Non Current Liabilities	**558 594**	**526 156**	**493 625**	**461 620**	**429 616**
Funds under management	225 765	225 765	225 765	225 765	225 765
Other financial liabilities	332 829	300 391	267 860	235 855	203 851
Current Liabilities	**67 910**	**64 129**	**56 454**	**56 454**	**56 148**
Income tax payable	3 972	3 972	3 972	3 972	3 972
Other Financial Liabilities	30 970	30 970	30 970	30 970	30 970
Provisions	16 382	16 074	15 748	15 402	14 730
Trade and other payables	16 586	13 113	5 764	6 110	6 477
Total net assets and liabilities	**3 275 026**	**3 372 763**	**3 491 125**	**3 640 112**	**3 700 415**

Consolidated Statement of Cash Flow: Scenario #1: Base case

	Mar-15 Revised Budget R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Operating activities	399 608	309 348	334 049	352 622	335 302
Interest, rental and dividend income	399 608	309 348	334 049	352 622	335 302
Payments					
Employee costs	(103 190)	(65 721)	(66 156)	(69 463)	(72 936)
Suppliers	(231 720)	(139 266)	(130 552)	(116 480)	(79 413)
Finance costs	(22 978)	(21 633)	(20 292)	(18 972)	(16 834)
Net cash payment to customers	(107 379)	(209 283)	(160 637)	(75 255)	(269 827)
Taxation paid	(93 603)	(14 148)	(21 722)	(29 784)	(34 975)
Net cas flow used in operating activities	(558 871)	(450 052)	(399 358)	(309 955)	(473 985)
Investing activities					
Decrease/ (Increase) in held to maturity investments	-	-	-	-	-
Net cash from investing activities	-	-	-	-	-
Financing activities					
Grant Capital	230 000	100 000	100 000	100 000	-
Repayment of borrowings	(32 438)	(32 438)	(32 531)	(32 004)	(32 004)
Net cash flows from financing activities	197 562	67 562	67 469	67 996	(32 004)
Net (decrease)/ Increase in cash and cash equivalents	38 299	(73 141)	2 160	110 663	-170 687
Cash and cash equivalents - opening balance	433 918	472 217	399 076	401 235	511 897
Cash and cash equivalents - closing balance	472 217	399 076	401 235	511 897	341 210
Cash flow from operating activities					
Net profit before tax	2 342	48 105	80 290	110 776	127 586
Non - cash and separately presented items	68 469	63 485	65 530	65 445	67 622
Working capital changes	(154 172)	(189 348)	(116 738)	(31 588)	(221 053)
Tax paid	(93 603)	(14 148)	(21 722)	(29 784)	(34 975)
Net cash flows used in operaring	**(176 964)**	**(91 906)**	**7 360**	**114 848**	**(60 819)**
Non - cash and separately presented items	68 469	63 485	65 530	65 445	67 622
Depreciation					
Impairments	60 460	55 790	57 065	56 134	57 380
Share of loss (profit) of an associate	8 009	7 695	8 465	9 311	10 242
Working Capital changes	**(154 172)**	**(189 348)**	**(116 738)**	**(31 588)**	**(221 053)**
Increase in advances	(11 022)	(270 672)	(153 631)	(86 039)	(262 915)
Decrease/(Increase) in properties developed for sale	(53 790)	86 389	42 415	53 582	38 724
Decrease/(Increase) in instalment sale receivable	(28 152)	(6 165)	3 444	3 444	3 444
Decrease/(Increase) in accounts receivable	1 018	4 882	(1 292)	(2 575)	(0)
(Decrease)/Increase in accounts payable	(20 318)	(3 474)	(7 348)	346	367
(Decrease)/Increase in provisions	(41 909)	(308)	(326)	(346)	(672)

Company Statement of Financial Performance: Scenario #1 Base case

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Interest on advances	195 772	210 178	239 549	266 814	294 606
Interest on investments	17 716	14 131	17 457	22 051	17 510
Rental income	2 746	3 721	4 087	4 507	4 958
Dividends received	2 320	2 320	2 320	2 320	2 320
Revenue	**218 554**	**230 351**	**263 413**	**295 692**	**319 393**
Net impairments	(60 460)	(55 790)	(57 065)	(56 134)	(57 380)
Gross profit	**158 094**	**174 561**	**206 347**	**239 559**	**262 013**
Other operating income	1 736	-	-	-	-
Operating expenses - Direct	**(106 405)**	**(76 035)**	**(80 216)**	**(84 227)**	**(88 439)**
Employee	(87 683)	(56 264)	(59 359)	(62 327)	(65 443)
Marketing	(1 434)	(1 514)	(1 597)	(1 677)	(1 761)
Outsourced Services	(8 096)	(8 550)	(9 020)	(9 471)	(9 945)
Professional Fees	(8 281)	(8 745)	(9 226)	(9 688)	(10 172)
Travel & Entertainment	(911)	(961)	(1 014)	(1 065)	(1 118)
Operating expenses - Indirect	**(19 742)**	**(20 848)**	**(21 994)**	**(23 094)**	**(24 249)**
Administration	(1 653)	(1 745)	(1 841)	(1 933)	(2 030)
Communication	(2 109)	(2 227)	(2 350)	(2 467)	(2 591)
Computer	(3 932)	(4 152)	(4 381)	(4 600)	(4 830)
Office Expenses	(1 806)	(1 907)	(2 012)	(2 113)	(2 219)
Premises	(8 451)	(8 925)	(9 416)	(9 886)	(10 381)
Training & Development	(1 156)	(1 221)	(1 288)	(1 353)	(1 420)
Sundry Expenses	(634)	(670)	(707)	(742)	(779)
Total operating expenses	**(126 147)**	**(96 882)**	**(102 211)**	**(107 322)**	**(112 688)**
Operating profit	**33 683**	**77 679**	**104 136**	**132 237**	**149 326**
Bad debts	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(22 778)	(21 453)	(20 292)	(18 972)	(16 834)
Surplus before tax	**5 726**	**50 529**	**77 578**	**106 371**	**124 909**
Income tax expense	(1 603)	(14 148)	(21 722)	(29 784)	(34 975)
Surplus for the year	**4 123**	**36 381**	**55 856**	**76 587**	**89 934**

Company Statement of Financial Position: Scenario #1: Base case

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Assets					
Non Current Assets	**2 647 741**	**2 831 061**	**2 930 390**	**2 969 828**	**3 194 428**
Loans and receivables - advances	2 461 722	2 643 942	2 744 562	2 786 576	3 011 176
Investment in listed equity instruments	4 258	4 258	4 258	4 258	4 258
Investment in subsidiaries	7 991	7 991	7 991	7 991	7 991
Investment in debentures	6 197	6 197	6 197	6 197	6 197
Investment in preference shares	2 658	2 658	2 658	2 658	2 658
Investment in associates	92 260	92 260	92 260	92 260	92 260
Property, plant and equipment	877	877	877	877	877
Intangible assets	3 250	4 350	3 058	483	483
Investment property	51 000	51 000	51 000	51 000	51 000
Deferred taxation	17 528	17 528	17 528	17 528	17 528
Current Assets	**616 634**	**538 727**	**564 286**	**670 464**	**504 830**
Held to maturity investments	139 413	139 413	139 413	139 413	139 413
Cash and short-term deposits	468 982	392 175	416 442	520 046	354 411
Other receivables and prepayments	8 239	7 139	8 431	11 006	11 006
Total Assets	**3 264 376**	**3 369 788**	**3 494 675**	**3 640 293**	**3 699 258**
Net assets and liabilities					
Net assets	**2 664 665**	**2 801 046**	**2 956 902**	**3 133 489**	**3 223 424**
Issued Capital	842	842	842	842	842
Share Premium	879 158	879 158	879 158	879 158	879 158
Grant capital	430 000	530 000	630 000	730 000	730 000
Distributable reserves	1 350 542	1 354 665	1 391 046	1 446 902	1 523 489
Distributable reserves - current year	4 123	36 381	55 856	76 587	89 934
Non Current Liabilities	**543 564**	**512 595**	**481 625**	**450 656**	**419 686**
Funds under management	225 765	225 765	225 765	225 765	225 765
Other financial liabilities	317 799	286 830	255 860	224 891	193 921
Current Liabilities	**56 148**	**56 148**	**56 148**	**56 148**	**56 148**
Income tax payable	3 972	3 972	3 972	3 972	3 972
Other financial liabilities	30 970	30 970	30 970	30 970	30 970
Provisions	16 076	15 769	15 442	15 096	14 730
Trade and other payables	5 130	5 438	5 764	6 110	6 477
Total net assets and liabilities	**3 264 376**	**3 369 788**	**3 494 675**	**3 640 293**	**3 699 258**

Company Statement of Cash Flows: Scenario #1: Base case

	Mar-15 Forecast R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Operating activities	218 554	230 351	263 413	295 692	319 393
Interest, rental and dividend income	218 554	230 351	263 413	295 692	319 393
Payments					
Employee costs	(87 683)	(56 264)	(59 359)	(62 327)	(65 443)
Suppliers	(38 464)	(40 618)	(42 852)	(44 995)	(47 244)
Finance costs	(22 778)	(21 453)	(20 292)	(18 972)	(16 834)
Net cash payment to customers	(128 672)	(243 704)	(163 951)	(105 042)	(289 561)
Taxation paid	(93 603)	(14 148)	(21 722)	(29 784)	(34 975)
Net cas flow used in operating activities	(371 200)	(376 188)	(308 176)	(261 120)	(454 058)
Investing activities					
Decrease/ (Increase) in held to maturity investments	-	-	-	-	-
Net cash from investing activities	-	-	-	-	-
Financing activities					
Grant capital	230 000	100 000	100 000	100 000	-
Repayment of borrowings	(30 970)	(30 970)	(30 970)	(30 970)	(30 970)
Net cash flows from financing activities	**199 030**	**69 030**	**69 030**	**69 030**	**(30 970)**
Net (decrease)/ Increase in cash and cash equivalents	46 385	(76 806)	24 267	103 603	(165 634)
Cash and cash equivalents - opening balance	422 597	468 982	392 175	416 442	520 046
Cash and cash equivalents - closing balance	468 982	392 175	416 442	520 046	354 411
Cash flow from operating activities					
Net profit before tax	5 726	50 529	77 578	106 371	124 909
Non - cash and separately presented items	60 460	55 790	57 065	56 134	57 380
Working capital changes	(153 932)	(162 568)	(107 010)	(44 781)	(228 467)
Tax paid	(93 603)	(14 148)	(21 722)	(29 784)	(34 975)
Net cash flows used in operaring	**(181 349)**	**(70 398)**	**5 912**	**87 941**	**(81 152)**
Non - cash and separately presented items	60 460	55 790	57 065	56 134	57 380
Impairments	60 460	55 790	57 065	56 134	57 380
Working Capital changes	**(153 932)**	**(162 568)**	**(107 010)**	**(44 781)**	**(228 467)**
Increase in advances	(115 738)	(182 220)	(100 620)	(42 014)	(224 600)
Decrease/(Increase) in accounts receivable	2 834	19 652	(6 390)	(2 767)	(3 867)
(Decrease)/Increase in accounts payable	280	308	326	346	367
(Decrease)/Increase in provisions	(41 308)	(308)	(326)	(346)	(367)

1.8 Scenario #2: Blend of debt and equity funding

1.8.1 NHFC contribution to MTSF targets

	Strategic Plan Target	NDOHS MTSF Target	% MTSF *	Medium term targets				
				2014/15	2015/16	2016/17	2017/18	2018/19
Number of Social Housing Units	8 068	27 000	30%	1 521	1 566	1 610	1 657	1 714
Number of Private Rental Housing Units	16 244	25 000	65%	2 750	3 248	3 354	3 414	3 479
Total Rental	**24 312**			**4 271**	**4 814**	**4 963**	**5 071**	**5 193**
Number of Affordable Housing Units	9 110			1 704	2 684	1 390	1 655	1 678
Number of Incremental Housing Loans	22 000			-	5 000	5 400	5 600	6 000
Total Affordable Housing	**31 110**	**110 000**	**28%**	**1 704**	**7 684**	**6 790**	**7 255**	**7 678**
Total	**55 422**			**5 975**	**12 498**	**11 754**	**12 326**	**12 870**

1.8.2 Funding assumptions

Capital will be required in each of the next five years to support the increased lending and investment activities driven by the levels of disbursements.

It must be noted that the key assumption around funding included in this scenario is that the NHFC will obtain a combination of debt and shareholder funding support over the planning period as noted below.

Year	Disbursements Total (Rm)	Debt funding (Rm)	Recapitalisation from Shareholder (Rm)
2014/15	677	-	230
2015/16	567	136	100
2016/17	497	124	100
2017/18	540	7	100
2018/19	566	302	-
Total	**2 847**	**569**	**530**

In addition to the R230 million shareholder support for 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.

The total debt capital that will be raised over the period from 2014/15 to 2018/2019 would be R569 million while the total shareholder funding support would be R530 million. Under this scenario the debt to equity would peak at a maximum of 23% over the 5 year period. The approval for raising further borrowings at a balance sheet level remains outstanding.

The blend of shareholder funding support and debt is required in order to ensure that the NHFC plays a developmental role in the affordable housing market through providing well priced financial solutions in a sector of the market that continues to be under-serviced by the private sector.

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. This is subject to approval of borrowings by National Treasury.

The AFD has indicated its willingness to advance a further facility to the NHFC. A delegation from AFD spent a week with the NHFC and other stakeholders in October 2014 to evaluate the outcome of the first facility and explore how best to structure and apply the second facility whilst achieving the strategic imperatives of both institutions. A second team commenced a due diligence exercise in November 2014, the final outcome is expected in the fourth quarter of the 2014/15 financial year.

1.8.3 Other assumptions

	Budget 2015	**2016**
Prime lending	9.25%	9.50%
Disbursement	R677 million	R567 million
CPI	6%	5.6%
Credit loss ratio	2.5%	2.5%

The average growth rate of advances is assumed at 8% over the next five years, with collections increasing to 95% of the performing book over the same period.

1.8.4 Summary of budget: Scenario #2

	GROUP							
	Mar-12 Actual R' 000	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Revised Budget R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Lending income	146 229	140 162	166 250	181 706	211 636	253 707	301 212	341 851
Investment on investments	35 076	45 597	31 396	17 899	8 481	11 933	14 125	10 974
Rental Income	5 961	6 983	3 069	2 746	2 746	3 721	4 087	4 507
Dividends received	158	158	158	2 320	2 320	2 320	2 320	2 320
Sale of houses	20 914	19 465	43 474	195 321	98 648	87 073	68 702	25 063
Revenue	**208 338**	**212 365**	**244 347**	**399 991**	**323 831**	**358 755**	**390 446**	**384 716**
Cost of sales	(17 282)	(16 489)	(40 089)	(186 970)	(91 302)	(80 079)	(63 598)	(23 893)
Impairments	(31 575)	(15 457)	2 188	(60 460)	(61 157)	(64 240)	(65 613)	(68 725)
Gross profit	**159 481**	**180 419**	**206 446**	**152 561**	**171 372**	**214 437**	**261 236**	**292 098**
Other operating income	5 758	7 886	5 410	18 251	19 168	18 108	16 786	16 188
Operating expenses	(112 273)	(123 749)	(123 643)	(147 940)	(113 686)	(116 628)	(122 345)	(128 456)
Operating profit/ (Loss)	**52 966**	**64 556**	**88 213**	**22 874**	**76 855**	**115 916**	**155 676**	**179 829**
Fair value adjustments	-	(16 517)	(9 225)	-	-	-	-	-
Bad Debts	(5 717)	(5 148)	(30 322)	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(14 234)	(24 594)	(22 789)	(22 978)	(26 997)	(35 250)	(39 134)	(48 988)
Share of profit of associates	1 205	6 955	9 311	8 009	7 695	8 465	9 311	10 242
Profit/ (Loss before tax)	**34 220**	**25 252**	**35 188**	**2 725**	**51 856**	**82 864**	**118 960**	**133 500**
Taxation	(13 052)	(16 463)	(19 117)	(2 008)	(15 472)	(22 545)	(32 193)	(36 757)
Surplus after tax	**21 168**	**8 789**	**16 071**	**717**	**36 385**	**60 319**	**86 767**	**96 744**

	COMPANY							
	Mar-12 Actual R' 000	Mar-13 Actual R' 000	Mar-14 Actual R' 000	Mar-15 Revised Budget R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Lending income	144 121	141 927	173 881	197 036	231 287	270 145	312 985	351 005
Investment on investments	34 897	45 536	31 111	17 899	8 481	11 933	14 125	10 974
Rental Income	3 554	3 632	2 615	2 746	3 721	4 087	4 507	4 958
Dividends received	158	1 872	2 320	2 320	2 320	2 320	2 320	2 320
Revenue	**182 730**	**192 967**	**209 927**	**220 000**	**245 809**	**288 486**	**333 937**	**369 257**
Impairments	(31 575)	(15 457)	2 188	(60 460)	(61 157)	(64 240)	(65 613)	(68 725)
Gross profit	**151 155**	**177 510**	**212 115**	**159 540**	**184 652**	**224 246**	**268 324**	**300 532**
Other operating income	1 318	983	1 578	1 736	-	-	-	-
Operating expenses	(99 272)	(109 128)	(105 963)	(126 147)	(96 882)	(102 211)	(107 322)	(112 688)
Operating profit/ (Loss)	**53 201**	**69 365**	**107 730**	**35 129**	**87 770**	**122 035**	**161 003**	**187 845**
Fair value adjustments	5 452	(5 313)	(3 143)	-	-	-	-	-
Bad Debts	(5 717)	(5 148)	(30 322)	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(15 694)	(24 196)	(22 497)	(22 778)	(26 817)	(35 250)	(39 134)	(48 988)
Profit/ (Loss before tax)	**37 242**	**34 708**	**51 768**	**7 172**	**55 255**	**80 518**	**114 975**	**131 274**
Taxation	(10 192)	(9 229)	(20 255)	(2 008)	(15 472)	(22 545)	(32 193)	(36 757)
Surplus after tax	**27 050**	**25 479**	**31 513**	**5 164**	**39 784**	**57 973**	**82 782**	**94 517**

The key movements/variations in 2014/15 and 2015/16 are the following:

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

- Decrease in investment income in the 2014/15 and 2015/16 financial years in line with reduced net NHFC cash holdings pending capitalisation. The net cash position improves thereafter in line with the assumption of an equity injection.

- Significant growth in the sales of units by CTCHC in 2014/15 (over the previous year) as result of completion of certain key building projects yielding revenue to the entity. There is also a concurrent increase in the cost of sales line;

- Impairments are driven by the growth in the advances portfolio and is assumed at 2.5% of the gross loan book over the forecasting period. Increase in the impairments from a credit of R2 million (2014) to R60 million (2015) due to potential impairments relating to key clients on the watchlist 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 Projects division who launched mega integrated projects around 2010/11.

- The implementation of the strategic re-organisation of the NHFC is currently underway. It is expected that there will be a reduction in human capital upon completion of all the consultation processes. The operational costs increase from R123 million (2014) to R148 million (2015) due to inflationary increases as well as once off restructuring costs relating to both NHFC and CTCHC with the resultant savings evident in 2016 with reduced operational costs of R114 million.

- There is an increase in finance costs on the assumption that external debt funding will be sourced from 2015/2016 to 2018/19. This is also reflected in the increase in the gearing ratio to 23%.

- As is evident from the key performance indicators, the ROA for 2014/15 is under threat as a result of the inclusion of these additional costs and key focus remains on the other drivers of performance.

- As 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 requirements are attached as annexure 5.

1.8.5 Key Financial Indicators: Scenario #2

		TARGET	Actual Mar-12	Actual Mar-13	Actual Mar-14	Revised Budget Mar-15	Budget Mar-16	Budget Mar-17	Budget Mar-18	Budget Mar-19
Profit before tax (R'000)	Company		37 242	34 708	51 767	7 172	55 255	80 518	114 975	131 274
	Group		34 220	25 252	35 188	2 725	51 856	82 864	118 960	133 500
Return on equity	Company	2.9%	1.2%	1.1%	1.3%	0.2%	1.4%	2.0%	2.6%	2.9%
	Group		0.9%	0.4%	0.7%	0.0%	1.3%	2.0%	2.8%	3.0%
Return on assets (%)	Company	2.5%	1.4%	1.2%	1.8%	**0.2%**	1.7%	2.3%	3.1%	3.3%
	Group		1.2%	0.9%	1.2%	**0.1%**	1.6%	2.4%	3.3%	3.4%
Return on assets (%) [Without retrenchment costs and increased impairments	Company	2.5%				1.6%				
	Group					1.5%				
Cost to income ratio (%)	Company	40.0%	62%	64%	56%	63%	44%	40%	36%	35%
	Group		65%	69%	66%	71%	51%	45%	40%	39%
Credit Loss Ratio (%)	Company	< 3%	1.5%	0.7%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
	Group		1.5%	0.7%	0.0%	2.7%	2.5%	2.5%	2.5%	2.5%
Debt:Equity	Company	35%	19%	16%	15%	13%	16%	18%	15%	22%
	Group		19%	19%	16%	14%	17%	18%	16%	23%

1.8.6 Financial Covenants: Scenario #2

Company	Required	Fcst Mar-15	Budget Mar-16	Budget Mar-17	Budget Mar-18	Budget Mar-19
EIB						
Equity to assets	> 35%	87.7%	85.6%	84.3%	86.1%	81.3%
Liquidity ratio	> 100%	176%	119%	118%	116%	116%
Impaired asset ratio	< 25%	23.5%	13%	16%	17%	18%
Provision for non performing book	> 25%	38.6%	39.6%	42.7%	49.3%	54.8%
Credit outstanding	< 20%	7.3%	9.9%	12.3%	11.4%	11.4%
AFD						
Return on assets (%)	> 1.5%	**0.2%**	1.7%	2.3%	3.1%	3.3%
Capital adequacy	> 20%	119%	113%	113%	113%	113%
Ratio of impaired loans to equity	< 10%	13.0%	8.7%	8.1%	7.6%	7.3%

1.8.7 Financials: Scenario #2

Consolidated Statement of Financial Performance

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Interest on advances	181 706	211 636	253 707	301 212	341 851
Interest on investments	17 899	8 481	11 933	14 125	10 974
Rental income	2 746	2 746	3 721	4 087	4 507
Dividends received	2 320	2 320	2 320	2 320	2 320
Sale of houses	195 321	98 648	87 073	68 702	25 063
Revenue	**399 991**	**323 831**	**358 755**	**390 446**	**384 716**
Cost of sales	(186 970)	(91 302)	(80 079)	(63 598)	(23 893)
Net impairments	(60 460)	(61 157)	(64 240)	(65 613)	(68 725)
Gross profit	**152 561**	**171 372**	**214 437**	**261 236**	**292 098**
Other operating income	18 251	19 168	18 108	16 786	16 188
Operating expenses - Direct	**(124 671)**	**(88 781)**	**(90 329)**	**(94 700)**	**(99 395)**
Employee	(103 190)	(65 721)	(66 156)	(69 463)	(72 936)
Marketing	(1 986)	(2 014)	(1 997)	(1 977)	(2 061)
Outsourced Services	(9 330)	(10 458)	(11 033)	(11 585)	(12 164)
Professional Fees	(8 970)	(9 309)	(9 793)	(10 258)	(10 746)
Travel & Entertainment	(1 194)	(1 279)	(1 350)	(1 417)	(1 488)
Operating expenses - Indirect	**(23 269)**	**(24 905)**	**(26 300)**	**(27 645)**	**(29 061)**
Administration	(2 324)	(2 419)	(2 552)	(2 680)	(2 814)
Communication	(2 358)	(2 520)	(2 659)	(2 792)	(2 931)
Computer	(4 205)	(4 470)	(4 716)	(4 952)	(5 200)
Office Expenses	(2 321)	(2 537)	(2 677)	(2 810)	(2 951)
Premises	(9 350)	(9 897)	(10 465)	(11 020)	(11 605)
Training & Development	(1 338)	(1 475)	(1 556)	(1 634)	(1 716)
Sundry Expenses	(1 373)	(1 586)	(1 674)	(1 757)	(1 844)
Total operating expenses	**(147 940)**	**(113 686)**	**(116 628)**	**(122 345)**	**(128 456)**
Operating profit	**22 874**	**76 855**	**115 916**	**155 676**	**179 829**
Bad debts	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(22 978)	(26 997)	(35 250)	(39 134)	(48 988)
Share of profit of an associate	8 009	7 695	8 465	9 311	10 242
Surplus before tax	**2 725**	**51 856**	**82 864**	**118 960**	**133 500**
Income tax expense	(2 008)	(15 472)	(22 545)	(32 193)	(36 757)
Surplus for the year	**717**	**36 385**	**60 319**	**86 767**	**96 744**

Consolidated Statement of Financial Position: Scenario #2

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Assets					
Non Current Assets	**2 492 067**	**2 920 753**	**3 183 002**	**3 349 981**	**3 689 120**
Loans and receivables - advances	2 218 449	2 655 657	2 914 212	3 077 899	3 410 239
Investment in listed equity instruments	4 258	4 258	4 258	4 258	4 258
Investment in preference shares	2 658	2 658	2 658	2 658	2 658
Investment in associates	95 712	103 407	111 872	121 183	131 425
Property, plant and equipment	1 114	912	877	877	877
Intangible assets	3 251	4 350	3 058	483	483
Instalment sale receivables	77 184	83 349	79 905	76 461	73 017
Investment property	74 278	51 000	51 000	51 000	51 000
Goodwill	2 714	2 714	2 714	2 714	2 714
Deferred taxation	12 448	12 448	12 448	12 448	12 448
Current Assets	**782 937**	**584 970**	**552 339**	**526 654**	**521 059**
Properties developed for sale	222 356	135 967	93 552	39 971	1 246
Other receivables and prepayments	12 021	7 139	8 431	11 006	11 006
Held to maturity investments	139 413	139 413	139 413	139 413	139 413
Cash and short-term deposits	409 147	302 451	310 943	336 264	369 394
Total Assets	**3 275 004**	**3 505 723**	**3 735 342**	**3 876 635**	**4 210 179**
Net assets and liabilities					
Net assets	**2 648 499**	**2 784 884**	**2 945 203**	**3 131 969**	**3 228 713**
Issued Capital	842	842	842	842	842
Share Premium	879 158	879 158	879 158	879 158	879 158
Grant capital	430 000	530 000	630 000	730 000	730 000
Distributable reserves	1 337 782	1 338 499	1 374 884	1 435 203	1 521 969
Distributable reserves - current year	717	36 385	60 319	86 767	96 744
Non Current Liabilities	**554 110**	**642 661**	**713 482**	**657 223**	**878 032**
Funds under management	225 765	225 765	225 765	225 765	225 765
Other financial liabilities	328 345	416 896	487 717	431 458	652 267
Current Liabilities	**72 394**	**78 179**	**76 657**	**87 444**	**103 434**
Income tax payable	3 972	3 972	3 972	3 972	3 972
Other Financial Liabilities	35 453	45 020	51 173	61 960	78 255
Provisions	16 382	16 074	15 748	15 402	14 730
Trade and other payables	16 586	13 113	5 764	6 110	6 477
Total net assets and liabilities	**3 275 004**	**3 505 723**	**3 735 342**	**3 876 635**	**4 210 179**

Consolidated Statement of Cash Flow: Scenario #2

	Mar-15 Revised Budget R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Operating activities	399 991	323 831	358 755	390 446	384 716
Interest, rental and dividend income	399 991	323 831	358 755	390 446	384 716
Payments					
Employee costs	(103 190)	(65 721)	(66 156)	(69 463)	(72 936)
Suppliers	(231 720)	(139 266)	(130 552)	(116 480)	(79 413)
Finance costs	(22 978)	(26 997)	(35 250)	(39 134)	(48 988)
Net cash payment to customers	(170 427)	(381 188)	(272 735)	(162 383)	(350 596)
Taxation paid	(94 008)	(15 472)	(22 545)	(32 193)	(36 757)
Net cas flow used in operating activities	(622 323)	(628 644)	(527 237)	(419 654)	(588 690)
Investing activities					
Additions to property, plant and equipment					
Decrease/ (Increase) in held to maturity investments	-	-	-	-	-
Net cash from investing activities	-	-	-	-	-
Financing activities					
Grant Capital	230 000	100 000	100 000	100 000	-
Proceeds from borrowings	-	135 876	124 386	6 786	302 323
Repayment of borrowings	(32 438)	(37 759)	(47 412)	(52 257)	(65 219)
Net cash flows from financing activities	197 562	198 117	176 974	54 529	237 104
Net (decrease)/ Increase in cash and cash equivalents	(24 770)	(106 696)	8 492	25 321	33 130
Cash and cash equivalents - opening balance	433 918	409 147	302 451	310 943	336 264
Cash and cash equivalents - closing balance	409 147	302 451	310 943	336 264	369 394
Cash flow from operating activities					
Net profit before tax	2 725	51 856	82 864	118 960	133 500
Non - cash and separately presented items	68 469	68 852	72 705	74 924	78 967
Working capital changes	(217 221)	(355 884)	(221 662)	(109 236)	(290 478)
Tax paid	(94 008)	(15 472)	(22 545)	(32 193)	(36 757)
Net cash flows used in operating activities	**(240 034)**	**(250 647)**	**(88 639)**	**52 454**	**(114 767)**
Non - cash and separately presented items	68 469	68 852	72 705	74 924	78 967
Impairments	60 460	61 157	64 240	65 613	68 725
Share of loss (profit) of an associate	8 009	7 695	8 465	9 311	10 242
Working Capital changes	**(217 221)**	**(355 884)**	**(221 662)**	**(109 236)**	**(290 478)**
Increase in advances	(74 070)	(437 208)	(258 555)	(163 687)	(332 340)
Decrease/(Increase) in properties developed for sale	(53 790)	86 389	42 415	53 582	38 724
Decrease/(Increase) in instalment sale receivable	(28 152)	(6 165)	3 444	3 444	3 444
Decrease/(Increase) in accounts receivable	1 018	4 882	(1 292)	(2 575)	-
(Decrease)/Increase in accounts payable	(20 318)	(3 474)	(7 348)	346	367
(Decrease)/Increase in provisions	(41 909)	(308)	(326)	(346)	(672)

Company Statement of Financial Performance: Scenario #2

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Interest on advances	197 036	231 287	270 145	312 985	351 005
Interest on investments	17 899	8 481	11 933	14 125	10 974
Rental income	2 746	3 721	4 087	4 507	4 958
Dividends received	2 320	2 320	2 320	2 320	2 320
Revenue	**220 000**	**245 809**	**288 486**	**333 937**	**369 257**
Net impairments	(60 460)	(61 157)	(64 240)	(65 613)	(68 725)
Gross profit	**159 540**	**184 652**	**224 246**	**268 324**	**300 532**
Other operating income	1 736	-	-	-	-
Operating expenses - Direct	**(106 405)**	**(76 035)**	**(80 216)**	**(84 227)**	**(88 439)**
Employee	(87 683)	(56 264)	(59 359)	(62 327)	(65 443)
Marketing	(1 434)	(1 514)	(1 597)	(1 677)	(1 761)
Outsourced Services	(8 096)	(8 550)	(9 020)	(9 471)	(9 945)
Professional Fees	(8 281)	(8 745)	(9 226)	(9 688)	(10 172)
Travel & Entertainment	(911)	(961)	(1 014)	(1 065)	(1 118)
Operating expenses - Indirect	**(19 742)**	**(20 848)**	**(21 994)**	**(23 094)**	**(24 249)**
Administration	(1 653)	(1 745)	(1 841)	(1 933)	(2 030)
Communication	(2 109)	(2 227)	(2 350)	(2 467)	(2 591)
Computer	(3 932)	(4 152)	(4 381)	(4 600)	(4 830)
Office Expenses	(1 806)	(1 907)	(2 012)	(2 113)	(2 219)
Premises	(8 451)	(8 925)	(9 416)	(9 886)	(10 381)
Training & Development	(1 156)	(1 221)	(1 288)	(1 353)	(1 420)
Sundry Expenses	(634)	(670)	(707)	(742)	(779)
Total operating expenses	**(126 147)**	**(96 882)**	**(102 211)**	**(107 322)**	**(112 688)**
Operating profit	**35 129**	**87 770**	**122 035**	**161 003**	**187 845**
Bad debts	(5 179)	(5 697)	(6 267)	(6 893)	(7 583)
Finance costs	(22 778)	(26 817)	(35 250)	(39 134)	(48 988)
Surplus before tax	**7 172**	**55 255**	**80 518**	**114 975**	**131 274**
Income tax expense	(2 008)	(15 472)	(22 545)	(32 193)	(36 757)
Surplus for the year	**5 164**	**39 784**	**57 973**	**82 782**	**94 517**

Company Statement of Financial Position: Scenario #2

	Mar-15 Revised Budget R'000	Mar-16 Budget R'000	Mar-17 Budget R'000	Mar-18 Budget R'000	Mar-19 Budget R'000
Assets					
Non Current Assets	**2 711 852**	**3 062 685**	**3 267 302**	**3 384 811**	**3 679 285**
Loans and receivables - advances	2 525 833	2 875 566	3 081 475	3 201 559	3 496 032
Investment in listed equity instruments	4 258	4 258	4 258	4 258	4 258
Investment in subsidiaries	7 991	7 991	7 991	7 991	7 991
Investment in debentures	6 197	6 197	6 197	6 197	6 197
Investment in preference shares	2 658	2 658	2 658	2 658	2 658
Investment in associates	92 260	92 260	92 260	92 260	92 260
Property, plant and equipment	877	877	877	877	877
Intangible assets	3 250	4 350	3 058	483	483
Investment property	51 000	51 000	51 000	51 000	51 000
Deferred taxation	17 528	17 528	17 528	17 528	17 528
Current Assets	**553 564**	**442 103**	**473 994**	**494 831**	**533 013**
Held to maturity investments	139 413	139 413	139 413	139 413	139 413
Cash and short-term deposits	405 912	295 551	326 150	344 412	382 594
Other receivables and prepayments	8 239	7 139	8 431	11 006	11 006
Total Assets	**3 265 417**	**3 504 788**	**3 741 296**	**3 879 642**	**4 212 298**
Net assets and liabilities					
Net assets	**2 665 706**	**2 805 490**	**2 963 463**	**3 146 245**	**3 240 762**
Issued Capital	842	842	842	842	842
Share Premium	879 158	879 158	879 158	879 158	879 158
Grant capital	430 000	530 000	630 000	730 000	730 000
Distributable reserves	1 350 542	1 355 706	1 395 490	1 453 463	1 536 245
Distributable reserves - current year	5 164	39 784	57 973	82 782	94 517
Non Current Liabilities	**539 081**	**629 100**	**701 482**	**646 258**	**868 102**
Funds under management	225 765	225 765	225 765	225 765	225 765
Other financial liabilities	313 316	403 335	475 717	420 493	642 337
Current Liabilities	**60 631**	**70 198**	**76 351**	**87 139**	**103 434**
Income tax payable	3 972	3 972	3 972	3 972	3 972
Other financial liabilities	35 453	45 020	51 173	61 960	78 255
Provisions	16 076	15 769	15 442	15 096	14 730
Trade and other payables	5 130	5 438	5 764	6 110	6 477
Total net assets and liabilities	**3 265 417**	**3 504 788**	**3 741 296**	**3 879 642**	**4 212 298**

Company Statement of Cash Flows: Scenario #2

	Mar-15 Revised Budget R' 000	Mar-16 Budget R' 000	Mar-17 Budget R' 000	Mar-18 Budget R' 000	Mar-19 Budget R' 000
Operating activities	220 000	245 809	288 486	333 937	369 257
Interest, rental and dividend income	220 000	245 809	288 486	333 937	369 257
Payments					
Employee costs	(87 683)	(56 264)	(59 359)	(62 327)	(65 443)
Suppliers	(38 464)	(40 618)	(42 852)	(44 995)	(47 244)
Finance costs	(22 778)	(26 817)	(35 250)	(39 134)	(48 988)
Net cash payment to customers	(192 782)	(416 584)	(276 416)	(192 589)	(370 782)
Taxation paid	(94 008)	(15 472)	(22 545)	(32 193)	(36 757)
Net cas flow used in operating activities	(435 715)	(555 755)	(436 423)	(371 238)	(569 214)
Investing activities					
Additions to property, plant and equipment					
Decrease/ (Increase) in held to maturity investments	-	-	-	-	-
Net cash from investing activities	-	-	-	-	-
Financing activities					
Grant capital	230 000	100 000	100 000	100 000	-
Proceeds from borrowings	-	135 876	124 386	6 786	302 323
Repayment of borrowings	(30 970)	(36 290)	(45 850)	(51 222)	(64 184)
Net cash flows from financing activities	**199 030**	**199 585**	**178 536**	**55 563**	**238 139**
Net (decrease)/ Increase in cash and cash equivalents	(16 685)	(110 361)	30 599	18 262	38 182
Cash and cash equivalents - opening balance	422 597	405 912	295 551	326 150	344 412
Cash and cash equivalents - closing balance	405 912	295 551	326 150	344 412	382 594
Cash flow from operating activities					
Net profit before tax	7 172	55 255	80 518	114 975	131 274
Non - cash and separately presented items	60 460	61 157	64 240	65 613	68 725
Working capital changes	(218 043)	(330 081)	(212 299)	(122 850)	(298 340)
Tax paid	(94 008)	(15 472)	(22 545)	(32 193)	(36 757)
Net cash flows used in operating activities	**(244 419)**	**(229 140)**	**(90 086)**	**25 544**	**(135 098)**
Non - cash and separately presented items	60 460	61 157	64 240	65 613	68 725
Impairments	60 460	61 157	64 240	65 613	68 725
Working Capital changes	**(218 043)**	**(330 081)**	**(212 299)**	**(122 850)**	**(298 340)**
Increase in advances	(179 849)	(349 733)	(205 909)	(120 084)	(294 474)
Decrease/(Increase) in accounts receivable	2 834	19 652	(6 390)	(2 767)	(3 867)
(Decrease)/Increase in accounts payable	280	308	326	346	367
(Decrease)/Increase in provisions	(41 308)	(308)	(326)	(346)	(367)

1.9 Worst Case scenario (Scenario #3) – Increased borrowings to achieve original level outcomes indicated in second submission of the Strategic Plan.

This scenario assumes that in addition to the approved shareholder capital injection of R300 million over the MTEF, debt funding will be raised to fund the current commitments as well as new business to achieve the outcomes as indicated in the second submission of the Strategic Plan.

- The level of borrowings the NHFC will have to raise over the five year period is R1,7 billion, which is equivalent to 50% of the NHFC balance sheet size. The required borrowings are however not supported by the level of shareholder funding support, and thus not conducive for the NHFC's capacity to borrow. It is therefore unlikely that the NHFC will be in a position to successfully raise the required debt funding at an optimal cost and obtain the approval for the debt funding.

- A key consideration is the compliance with the financial covenants of the existing loan facilities which under this scenario will be under threat of breach.

- The financial objectives are not achievable; medium term financial sustainability of the NHFC is threatened.

As demonstrated this scenario has serious implications for the NHFC and is therefore not desirable.

Year	Disbursements Total (Rm)	Debt funding (Rm)	Recapitalisation from Shareholder (Rm)
2014/15	677	-	230
2015/16	747	373	100
2016/17	729	402	100
2017/18	765	303	100
2018/19	795	582	-
Total	**3 713**	**1 660**	**530**

Key Financial Indicators: Scenario #3 Worst case

		TARGET	Actual Mar-12	Actual Mar-13	Actual Mar-14	Revised Budget Mar-15	Budget Mar-16	Budget Mar-17	Budget Mar-18	Budget Mar-19
Profit before tax (R'000)	Company		37 242	34 708	51 767	7 161	53 550	66 911	94 133	113 071
	Group		34 220	25 252	35 188	2 714	50 151	69 257	98 117	115 297
Return on equity	Company	3.0%	1.2%	1.1%	1.3%	0.2%	1.4%	1.6%	2.2%	2.5%
	Group		0.9%	0.4%	0.7%	0.0%	1.3%	1.7%	2.3%	2.6%
Return on assets (%)	Company	2.5%	1.4%	1.2%	1.8%	0.2%	1.5%	1.7%	2.2%	2.3%
	Group		1.2%	0.9%	1.2%	0.1%	1.4%	1.7%	2.3%	2.4%
Cost to income ratio (%)	Company	40%	62%	64%	56%	63%	44%	42%	38%	35%
	Group		65%	69%	66%	71%	51%	46%	42%	39%
Credit Loss Ratio (%)	Company	< 3%	1.5%	0.7%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
	Group		1.5%	0.7%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Debt:Equity (%)	Company	35%	19%	16%	15%	13%	24%	34%	39%	52%
	Group		19%	19%	16%	14%	25%	35%	40%	53%

Financial covenants: Scenario #3 Worst case

Company	Required	Fcst Mar-15	Budget Mar-16	Budget Mar-17	Budget Mar-18	Budget Mar-19
EIB						
Equity to assets	> 35%	87.7%	85.6%	84.3%	86.1%	81.3%
Liquidity ratio	> 100%	176%	119%	118%	116%	116%
Impaired asset ratio	< 25%	23.5%	13%	16%	17%	18%
Provision for non performing book	> 25%	38.6%	39.6%	42.7%	49.3%	54.8%
Credit outstanding	< 20%	7.3%	9.9%	12.3%	11.4%	11.4%
AFD						
Return on assets (%)	> 1.5%	**0.2%**	1.7%	2.3%	3.1%	3.3%
Capital adequacy	> 20%	119%	113%	113%	113%	113%
Ratio of impaired loans to equity	< 10%	13.0%	8.7%	8.1%	7.6%	7.3%