21st ANNIVERSARY

NURCHA

BUILDING THE NATION, ONE BRICK AT A TIME • ANNUAL REPORT 2016

CONTENTS

MISSION

NURCHA initiates programmes and takes considered risks to ensure a sustainable flow of finance for the construction of low-income and affordable housing, community facilities and infrastructure. NURCHA works in partnership with all role-players in these markets to maximise the development of sustainable human settlements.

VISION

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

DEVELOPMENT PRINCIPLES

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

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

Empangeni Extension 26, Empangeni

"We can confirm that since 1994, 4,3 million houses and subsidies have been delivered, providing shelter to over 20 million South Africans, making us number one in the world. We want to say to all South Africans, we did it, we are a miracle, and our celebrations will also take place in all provinces, despite the work that faces us ahead, which we are ready for, we need to celebrate the miracle we have achieved."

– Speech by Minister of Human Settlements Lindiwe Sisulu, Budget Vote on 3 May 2016

"The merger of our housing DFIs is already in progress."

– Speech by Minister of Finance Pravin Gordhan 24 February 2016

"The tax base expands and allows government to increase the social wage and provide education, health, social grants, housing and free basic services faster and in a more sustainable manner."

– Speech by President Jacob Zuma State of the Nation Address 11 February 2016

BUILDING THE NATION, ONE BRICK AT A TIME

Subsidy Housing Programme	Affordable Housing Programme	Infrastructure Programme	Programme and Fund Management

VALUES

P – Prudent use of resources entrusted to us.

R – Respect and Integrity in our interactions with each other and our clients and partners.

I – Innovation and Willingness to take considered risks in testing the limits of sustainable finance.

D – Development of individuals, communities and the country.

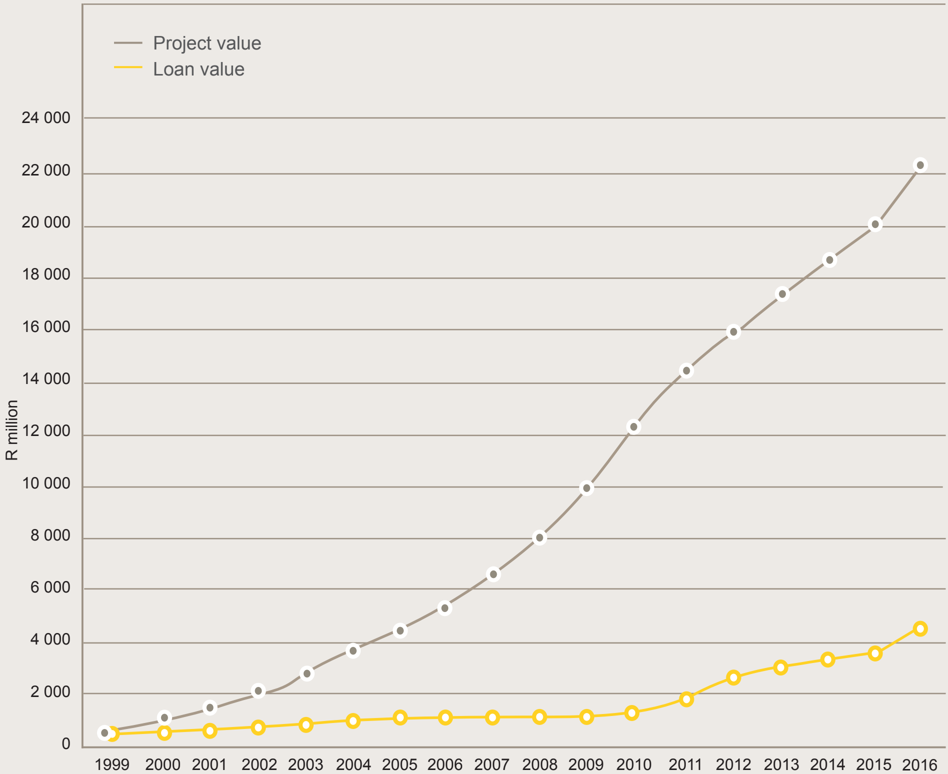
E – Excellence in everything we do.

PROJECT AND LOAN VALUE TIMELINE

Duvha Park, Witbank

KEY HIGHLIGHTS FOR 2016

NURCHA has increased its product offerings to accommodate a broader range of contractors.



NURCHA OUTPUTS – SINCE INCEPTION TO 31 MARCH 2016

Programme	Subsidy housing	Affordable housing	Infrastructure and community facilities	Total
Number of loans signed	991	206	287	1 484
Number of houses in loan signed	365 930	41 190	N/A	407 120
Number of houses/projects completed	260 079	33 578	184	293 841
Value of loans	1,567 billion	2,176 billion	655,9 million	4,399 billion
Value of projects	10,962 billion	7,858 billion	3,929 billion	22,749 billion

ORGANISATIONAL STRUCTURE

Department of Human Settlements (Members) ← **NURCHA (NPC)** PBO exemption No. 18/11/13/1383 → SEDF (Members)

LEVERAGED FINANCE
- Capital Markets
- Development Institutions

NURCHA 100% OWNED SUBSIDIARIES

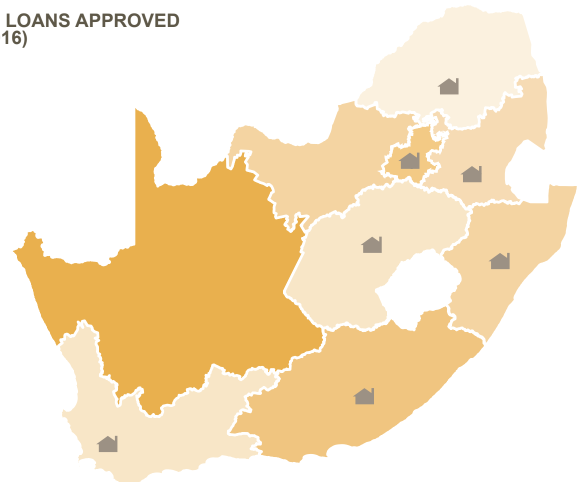
- NURCHA Loan Fund (Pty) Ltd (NLF) Affordable Housing Developer (PIC)
- NURCHA Bridging Fund (Pty) Ltd (NBF) Affordable Housing Developer (CADIZ)
- NURCHA Equity Services (Pty) Ltd (NES) Affordable Housing Developer (NURCHA)
- NURCHA Finance Company (Pty) Ltd (NFC) Subsidy Housing Contractors (NURCHA)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

NURCHA Direct Financing

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

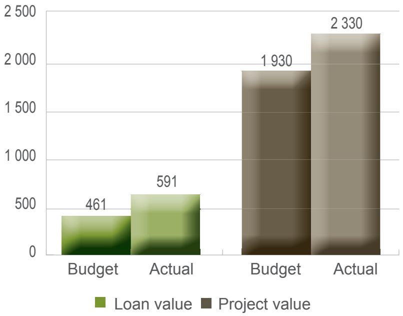
NUMBER OF PROJECT LOANS APPROVED BY PROVINCE (2015/2016)

Eastern Cape	25
Free State	4
Gauteng	26
KwaZulu-Natal	7
Limpopo	3
Mpumalanga	3
Western Cape	3

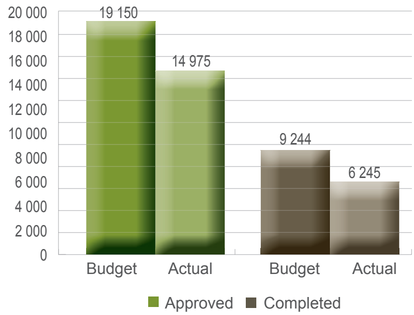


FACTS AND FIGURES
for the year ended 31 March 2016

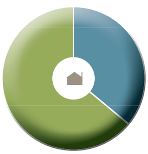
LOAN AND PROJECT VALUES (R' millions)



NUMBER OF HOUSES IN APPROVED LOANS AND COMPLETED HOUSES

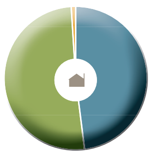


NUMBER OF COMPLETED HOUSES/SITES



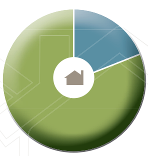
Affordable housing (including serviced sites)	2 261
Subsidy houses	3 984
Total	**6 245**
Infrastructure and community facilities Number of projects completed	0

VALUE OF PROJECTS FINANCED (R' millions)



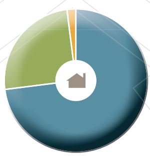
Affordable housing (including serviced sites)	1 120,5
Subsidy houses	1 186,0
Infrastructure and community facilities	24,2
Total	**2 330,7**

NUMBER OF HOUSES/SITES IN APPROVED LOANS



Affordable housing (including serviced sites)	2 864
Subsidy houses	12 111
Total	**14 975**
Infrastructure and community facilities Number of approved projects	4

VALUE OF LOANS FINANCED (R' millions)



Affordable housing (including serviced sites)	432,8
Subsidy houses	149,5
Infrastructure and community facilities	8,4
Total	**590,8**

OUR STORY

1995

- Letter establishing NURCHA by Nelson Mandela, 25 August 1995.
- Negotiations to establish partnership between OSI and SA Government.

1996/1997

- The signing of guarantee agreements with the Big Four South African Banks (First National Bank, Standard Bank, ABSA and Nedbank).
- Start of operations. Guarantees for construction-related and end-user loans.
- Collin Hall appointed NURCHA's first Chairperson.
- **AWARD**: Institute for Housing of Southern Africa.

1998

- Launch of a scheme to link tree-planting to houses in NURCHA's projects in partnership with NGO, Trees for Africa.

2007

- NURCHA appoints Kehla Shubane as third Chairman.

2009

- NURCHA's first Managing Director, Cedric de Beer resigns after 14 years in office.
- February, start of Future-growth relationship (R135-million).
- November, end of FMO relationship (R45-million).

2010

- Arumugum Pillay is appointed NURCHA's Managing Director.
- NURCHA pays tribute to one of the founding members Frederik van Zyl Slabbert who passed away in May 2010.
- **AWARD**: Top Women in Business & Government.
- **AWARD**: Mail & Guardian "Investing in the Future Enterprise Development" awarded to Futuregrowth Asset Management and NURCHA.
- June, start of CADIZ Fund partnership to finance Affordable Housing (R75-million).

2012

- Viwe Gqwetha is appointed as NURCHA's Managing Director.
- NURCHA's relationship with intermediaries ends.
- The introduction of Programme and Fund Management Portfolio.
- NURCHA introduces provincial office in the EC.
- April start of Public Investment Corporation relationship (R100-million).

2013

- NURCHA mourns the death of Nelson Mandela, a national icon who was one of the founding members, 4 December 2013.

2014

- During the 2014 financial year, NURCHA approved over R60-million loans.

1999

- NURCHA financed the construction of the 7th All Africa Games Athlete Village in Alexandra to accommodate athletes from all over Africa. The Presidential Project was aimed at housing residents of Alexandra who had been on the housing list.
- Start of Joint Venture Development Fund (JVDF) which started the Affordable Housing stream.

2000

- **AWARD:** Impumelelo "Top 300 Black Empowered Companies."
- **AWARD:** SABC TV2 Lebone Women on the Move Award.

2002

- The year of reaching MILESTONES NURCHA has financed over 100 000 houses.
- NURCHA had 15 women contractors with a cumulative project value of R76,9-million.
- Transformation of hostels to homes by Sunbird Construction led by a woman contractor Maytle Petersin in Langa, Nyanga and Gugulethu on a project worth R7-million, creating 400 new living units.
- NURCHA finances three women contractors to transform hostels from single-sex to family units in Cape Town.
- NURCHA mobilised 27 000 savers under the National Saving Programme
- **AWARD:** Impumelelo "Top 300 Black Empowered Companies."

2003

- NURCHA stops issuing guarantees.
- January 2003, Start of OPIC/FNB relationship ($20-million).

2005

- Nonhlanhla Mjoli-Mncube becomes NURCHA's first woman Chairperson after resigning form her position as Deputy CEO of NURCHA in 2004.
- NURCHA celebrates 10 years as a financier of construction finance.
- End of National Savings Programme.
- Start of FMO relationship (R45-million).

2006

- NURCHA introduces intermediaries to assist in risk management, Sebra and Tusk.
- January 2006, Start of SEDF relationship ($10-million).

2015

- NURCHA mourns the death of long-serving board member Knowles Oliver after passing away on 24 June 2015.
- Affordable Housing reaches a milestone of financing 191 loans.
- February, end of Futuregrowth (R135-million).
- October, end of CADIZ Fund partnership to finance Affordable Housing (R75-million).

2016

- February 2016, paid settlement amount (R55-million) to SEDF.
- August 2016, AGM took the final exit resolution for SEDF.

George Soros

Lindiwe Sisulu

MEMBERS OF THE BOARD

Chairman and executive directors

1. Khehla SHUBANE
Board Chairman
Independent non-executive director

BA (Hons), MBA, Social Science

Date of appointment: 16 May 1995

2. Viwe GQWETHA
Managing Director

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

Date of appointment: 22 August 2007

3. Adél STRUWIG
Executive Director: Lending Portfolio

BCom, MBA, Banking Finance and Credit

Date of appointment: 1 October 2013

4. Sindisa NXUSANI
Financial Director

BCom, CTA, CA(SA), Financial Management

Date of appointment: 14 March 2007

> *"Department of Human Settlements spent more than R4 billion to ensure full participation of women in the economy.*
> *– Deputy Minister, Zou Kota-Fredericks"*

NURCHA

Non-executive directors

5. Zyda RYLANDS
Human Capital and Transformation Committee chairperson; Independent non-executive director

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

Date of appointment:
16 August 2006

6. Thulani NZIMAKWE
Audit Committee chairman; Independent non-executive director

BCom, BAcc, CA(SA), Financial Management

Date of appointment:
4 July 2001

7. Webster NDODANA
Independent non-executive director

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

Date of appointment:
16 August 2006

8. Linda SING
Non-executive director

BCom (Hons), MBA, MPhil, CAIB

Date of appointment:
18 August 2009

9. Cedric DE BEER
Non-executive director (SEDF nominee)

BA, Strategic Leadership

Date of appointment:
26 June 1997

10. Maleho NKOMO
Independent non-executive director

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

Date of appointment:
16 August 2006

11. Hendrik Petrus PRINSLOO
Independent non-executive director

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

Date of appointment:
12 March 2014

OUR PEOPLE

Front row from left to right:
Lekau Nyama, Khumo Mbongwe, Sophie Mpane, Khanyisile Mashabane, Pricilla Ramotse, Bernie Phinzi, Kgabo Mpyana

Back row from left to right:
Javu Nkuna, Portia Setshedi, Mina Mafoko, Khotso Motsamai, Given Maswanganye, Sindisa Nxusani

Front row from left to right:
Sabera Essop, Mpho Boshielo, Temoho Elephant, Mphotsang Khumalo, Mmatshepo Moabelo, Busi Magagula, Ntsiki Ndzimbomvu, Nonti Ngono

Back row from left to right:
Mbali Mhlongo, Keitumetse Molamu, Boitumelo Selowa, Adél Struwig, Pfunzo Mukheli, Dini Piki, Tlou Mphaka, Zack Adam, Viwe Gqwetha

FOREWORD BY THE CHAIRMAN

Khehla SHUBANE

> "When global finance sources started to dry up, NURCHA nurtured new funding partnerships that gave rise to a second generation of funding facilities."

In the financial year under review, NURCHA celebrates 21 years of existence.

In the previous period, I took the opportunity to highlight its many achievements and milestones. In that review I endeavoured to draw lessons that might be valuable to shaping the future of the development dialogue and the role of development finance in creating more inclusive financial markets. This was also in the context of the consolidation of three Development Finance Institutions (DFIs) in the human settlements sector, with the goal of achieving scale and higher impact with a bigger, more coherent single entity.

Having been personally associated with the company for all the 21 years of its existence, and with its imminent consolidation of DFIs, it is important to share important observations that give insight into NURCHA.

Functionality of the institution

Over the years, I have witnessed first-hand NURCHA going about its business. There were ebbs and flows in the organisation's business. There were long periods of remarkable success in the delivery of its mandate. This success can be summed up in a few numbers and words. In the 21 years of existence, NURCHA has provided loan facilities in the form of bridging finance and bank guarantees to housing saving groups, contractors, affordable housing developers and banks to build 239 841 houses. The outputs include household incremental self-help housing, state-subsidised, affordable housing and bank-financed projects at the back of NURCHA's guarantees. The total cumulative value of properties developed over this period is R22,7 billion. Over and above this, it financed the building of 287 projects in the form of schools, clinics, community water reservoirs, multi-purpose halls, churches, etc. All this was achieved through leveraging on a balance sheet of R708 million as at 31 March 2016.

There were also disruptive episodes of uncertainty, and sometimes crises, that were, thankfully, short-lived. While these disruptive episodes created high levels of uncertainty within the organisation, each time they occurred they also offered NURCHA an opportunity to engage in deep introspection about the fundamentals and direction of the company. We were compelled to ask ourselves some tough questions about how best to conquer the challenging operating environment we found ourselves in, and continue to deliver on our mandate of financing housing for the nation. Ironically, the seeds of company regeneration were planted during these disruptive periods when our courage was tested, when the company's very existence was threatened. Uncertainty gave rise to the company's awe-inspiring agility and its ability to adapt and overcome challenging conditions, enabling it to continue to prosper and deliver on its mandate.

This corporate agility is core to NURCHA's resilience. Two critical reasons were, and still are, responsible for this corporate character. Firstly, the Board sustained a healthy chemistry that promoted good governance and innovation, which led to diversity of thought and critical thinking being held in high regard within the organisation. Secondly, the Board put a high premium on accountability and strategy execution on the part of the executive and management. The outcomes of these well-considered direction changes and good strategy execution certainly helped to keep NURCHA's wheels turning from the first year right down to the 21st, and allowed the company to make a lasting difference in the lives of ordinary South Africans who badly needed shelter after decades of apartheid neglect.

I was truly inspired when the Board, management and staff gathered in 2015 to mark the 20th anniversary, to notice the boldness, high energy and positive spirit as all pondered about the transition and future beyond NURCHA. For this resilient and healthy corporate character I thank all who have served at NURCHA in the past and present, the Board members, management and staff at large. Your hard work is still being felt and seen today.

Access to global development finance

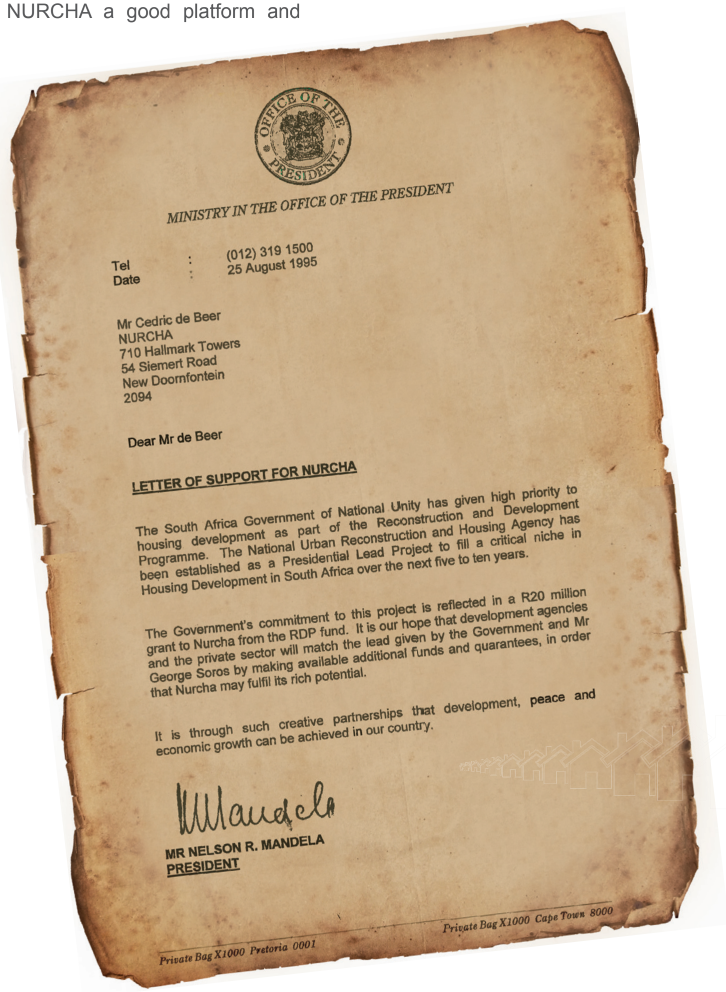
Over time, through the good and bad times, the company evolved with changes in its internal policies, practices and corporate posture to adapt to changing conditions as they presented from time to time. This is best illustrated by how NURCHA, through different periods of its existence, has successfully leveraged external funding to finance the development of houses, community facilities and infrastructure.

Over 21 years of our existence, we have seen a dwindling appetite on the part of the global community in giving both grant funding and concessionary priced funding for investment and support to the national developmental agenda in South Africa. There were many factors behind this change in global appetite, which led to change in financing mandates of donor agencies and international DFIs in the face of growing and competing demands for development finance among developing countries.

The global financial crisis added to the difficulty in attracting global development finance.

However, the abovementioned challenges never deterred NURCHA. Rather, the challenges informed the evolution of funding partnerships that NURCHA established over the years. The first generation of financing partnerships was a mixture of grant funding from international donor agencies and the South African Government and borrowing at concessionary rates from international DFIs. The first-generation lending facilities gave NURCHA a good platform and traction to fulfil its mandate and create a good track record as a DFI.

When global finance sources started to dry up, NURCHA nurtured new funding partnerships that gave rise to a second generation of funding facilities. These funding facilities were largely made up of partnerships with domestic financing institutions and commercial banks to finance contractors and developers in the low-income and affordable housing segment of the market and social infrastructure.



OFFICE OF THE PRESIDENT

MINISTRY IN THE OFFICE OF THE PRESIDENT

Tel : (012) 319 1500
Date : 25 August 1995

Mr Cedric de Beer
NURCHA
710 Hallmark Towers
54 Siemert Road
New Doornfontein
2094

Dear Mr de Beer

LETTER OF SUPPORT FOR NURCHA

The South Africa Government of National Unity has given high priority to housing development as part of the Reconstruction and Development Programme. The National Urban Reconstruction and Housing Agency has been established as a Presidential Lead Project to fill a critical niche in Housing Development in South Africa over the next five to ten years.

The Government's commitment to this project is reflected in a R20 million grant to Nurcha from the RDP fund. It is our hope that development agencies and the private sector will match the lead given by the Government and Mr George Soros by making available additional funds and quarantees, in order that Nurcha may fulfil its rich potential.

It is through such creative partnerships that development, peace and economic growth can be achieved in our country.

NMandela

MR NELSON R. MANDELA
PRESIDENT

Private Bag X1000 Pretoria 0001 *Private Bag X1000 Cape Town 8000*

These facilities were uniquely characterised by high levels of security and a bigger share of risks NURCHA had to bear relative to the partners, who in turn availed a larger proportion of funding. NURCHA took junior lender status with first-loss hurdles enshrined in covenants in exchange for access to lending capacity required to meet the demand. Furthermore, NURCHA established fully owned special-purpose vehicles (subsidiaries) as preferred institutional mechanisms that gave effect to risk mitigation mechanisms and fulfilment of its financing covenants.

All the finance mobilisation mechanisms that NURCHA put in place and higher risks it took were approved by its executive authority and the National Treasury. Impressive strides were made to attract commercial lenders and investors into the lower end and supply side of the housing market. There is still much scope for domestic financial institutions to participate in financing in this segment and to strengthen economic growth and development. It is important that mechanisms to invest in this segment are sustained and are sustainable to the benefit of both shareholders and stakeholders.

The national effort and energy directed at employing pension funds and private sector funds to finance affordable housing, student accommodation and commercial and social infrastructural development is a welcome development. Through this effort our economy can emulate many other economies that have innovated successful instruments to finance development on a commercial and socially sustainable basis.

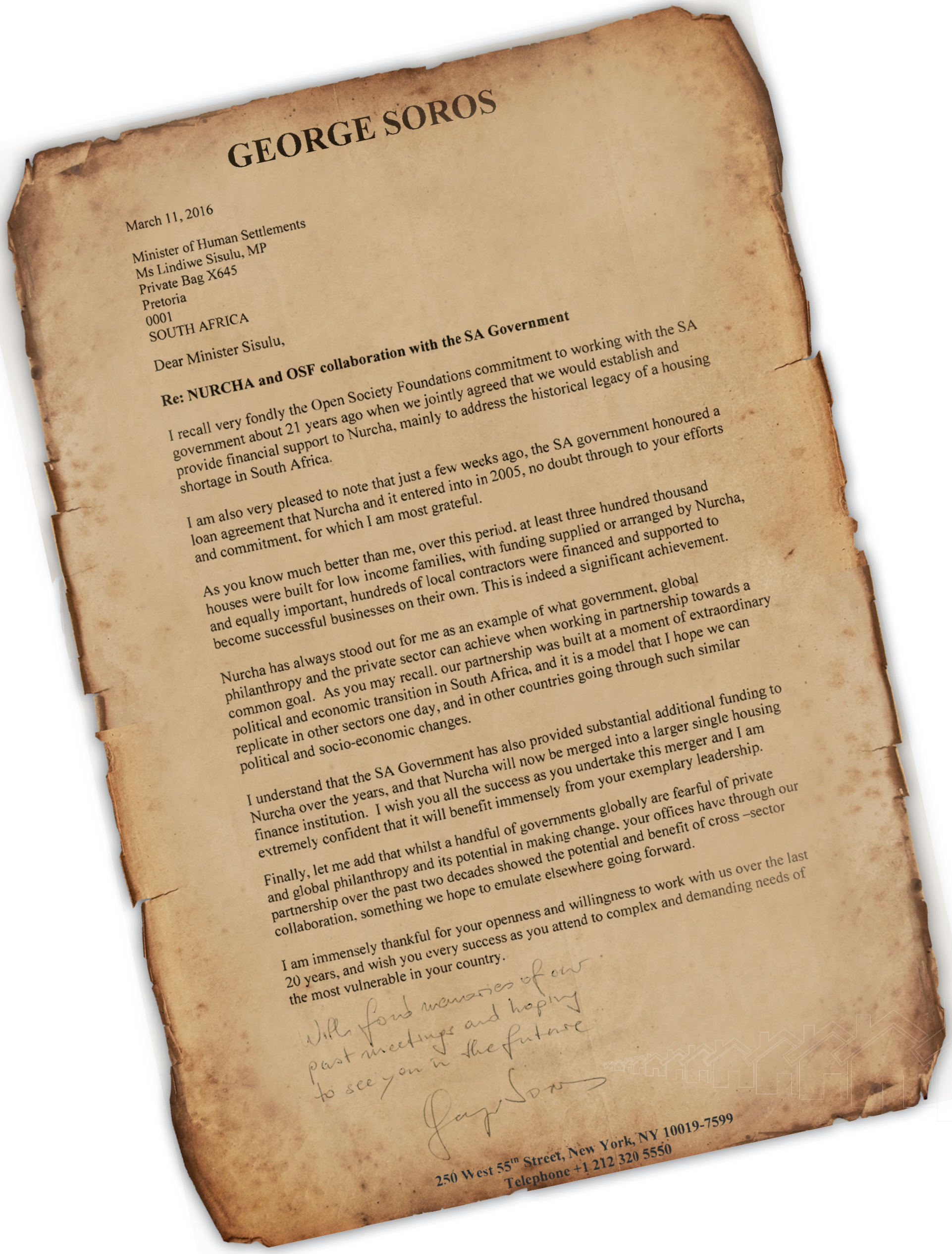
There is also a new opportunity, albeit latent, created by South African corporates' new impetus to investment in enterprise development. This new impetus is in direct response to enterprise development and desired outcomes as envisaged in the new BBBEE codes, which strive to advance economic inclusion and transformation. To tap on this potential requires innovative mechanisms to channel the investment to worthwhile initiatives that achieve the desired outcomes. In this regard, NURCHA is keen to collaborate with the private sector in exploring initiatives that are in line with enterprise development. The Contractor Finance and Development Programme is one example that lends itself as a type of enterprise development model around which NURCHA and the private sector could collaborate and replicate a successful pilot implemented in the Eastern Cape.

In the year under review, NURCHA settled all obligations with the Soros Economic Development Foundation (SEDF), and ended the 21-year-old partnership on a high note. As part of winding down, the honourable Human Settlements Minister Lindiwe Sisulu and Mr George Soros, as founders of NURCHA, had an opportunity to share pleasantries in their correspondence as they marked an end to this very successful partnership. As NURCHA, we also take this opportunity to extend our gratitude to the SEDF for the positive difference its investment and leverage made to the ordinary citizens of this country.

Where to from here?

The envisaged Human Settlements Development Bank, the entity that replaces NURCHA, should gear itself for hard work. While so much has been achieved in the past 21 years, given the enormity of the housing challenge in the country, the road is still long. The new entity will need to be informed by the past while looking squarely into the future. It will have to establish itself as a path-pioneer breaker and innovator that this economy requires. It can achieve this by tapping into the rich institutional memories of the three DFIs involved in the consolidation and become a responsive organisation with inbuilt developmental instinct for opportunity and innovation. It is the dawn of a new era. Just like NURCHA has done in the past 21 years, tenacity, resilience and agility will put the new institution in a good position to make an indelible mark as a catalyst for provision of adequate shelter for all ordinary South Africans.

Khehla Shubane
Chairman



GEORGE SOROS

March 11, 2016

Minister of Human Settlements
Ms Lindiwe Sisulu, MP
Private Bag X645
Pretoria
0001
SOUTH AFRICA

Dear Minister Sisulu,

Re: NURCHA and OSF collaboration with the SA Government

I recall very fondly the Open Society Foundations commitment to working with the SA government about 21 years ago when we jointly agreed that we would establish and provide financial support to Nurcha, mainly to address the historical legacy of a housing shortage in South Africa.

I am also very pleased to note that just a few weeks ago, the SA government honoured a loan agreement that Nurcha and it entered into in 2005, no doubt through to your efforts and commitment, for which I am most grateful.

As you know much better than me, over this period, at least three hundred thousand houses were built for low income families, with funding supplied or arranged by Nurcha, and equally important, hundreds of local contractors were financed and supported to become successful businesses on their own. This is indeed a significant achievement.

Nurcha has always stood out for me as an example of what government, global philanthropy and the private sector can achieve when working in partnership towards a common goal. As you may recall, our partnership was built at a moment of extraordinary political and economic transition in South Africa, and it is a model that I hope we can replicate in other sectors one day, and in other countries going through such similar political and socio-economic changes.

I understand that the SA Government has also provided substantial additional funding to Nurcha over the years, and that Nurcha will now be merged into a larger single housing finance institution. I wish you all the success as you undertake this merger and I am extremely confident that it will benefit immensely from your exemplary leadership.

Finally, let me add that whilst a handful of governments globally are fearful of private and global philanthropy and its potential in making change, your offices have through our partnership over the past two decades showed the potential and benefit of cross –sector collaboration, something we hope to emulate elsewhere going forward.

I am immensely thankful for your openness and willingness to work with us over the last 20 years, and wish you every success as you attend to complex and demanding needs of the most vulnerable in your country.

With fond memories of our past meetings and hoping to see you in the future

George Soros

250 West 55th Street, New York, NY 10019-7599
Telephone +1 212 320 5550

MINISTRY
HUMAN SETTLEMENTS
REPUBLIC OF SOUTH AFRICA

Private Bag X645, PRETORIA, 0001 Tel (012) 421 1309 Fax (012) 341 8513 Private Bag X 9029, CAPE TOWN, 8000 Tel (021) 466 7603 Fax (021) 466 3610

Mr C De Beer
Vice president: Soros economic Development Fund
224 West 57th Street
9th Floor
New York
10019

30 March 2016

Dear Mr De Beer

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY: REPAYMENT OF THE SOROS ECONOMIC FUND LOAN FACILITY

The above matter refers.

This serves to confirm that the Department of Human Settlements will repay the loan facility in the amount of R56 million to the Soros Economic Development Fund at the end of the current financial year. I am advised that the Board of NURCHA has resolved accordingly in this regard and that arrangements are being made to effect the payment.

On behalf of the government of the Republic of South Africa, I would like to extend our appreciation to the Soros Economic Development Fund for the partnership with NURCHA. Through the partnership, we have succeeded in delivering housing to identified beneficiaries throughout the country. I hope that the SEDF will consider a continuation of the partnership with government in future.

Yours sincerely

L N Sisulu, MP
Minister of Human Settlements

Viwe GQWETHA

> "Through the Contractor Finance and Development Programme (CFDP), NURCHA has made a breakthrough in lending to small contractors."

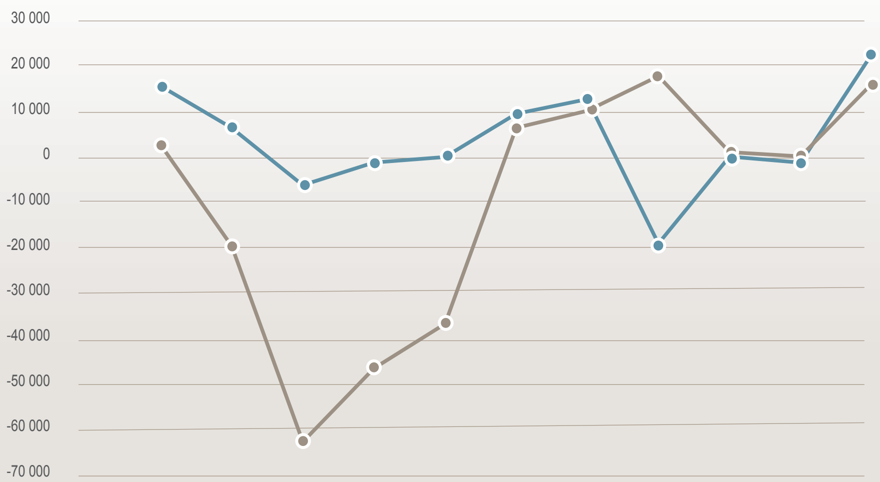
The year under review is the fourth year of NURCHA's turnaround strategy, which is underpinned by two goals of deepening relevance to the developmental mandate and restoration of organisational sustainability.

Year under review

The strategy was a turnaround plan crafted in response to turbulence in the domestic economy, underperformance in the construction industry, and also internal organisational challenges. In the previous three financial years, NURCHA reported positively on the success of the strategy. For three financial years in succession NURCHA has reported positive financial results with surpluses both before and after impairments. This is positive and encouraging progress against the backdrop of the challenges experienced a few years ago.

NURCHA is pleased to report that operations are back on a stable footing as trends in Figure 1 below shows.

FIGURE 1: FINANCIAL PERFORMANCE SINCE 2008/2009 FY



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual audited (R'000)								**Budget (R'000)**		
Surplus/(deficit) before impairments	15 830	6 733	(5 696)	(789)	408	9 788	12 959	**(18 380)**	502	(813)	22 714
Surplus/(deficit) after impairments	3 149	(18 826)	(61 315)	(45 359)	(35 707)	6 831	10 527	**18 049**	1 552	626	16 379

To sustain these results amid a combination of high construction and lending risks, management is vigorously pursuing stronger partnerships with Provincial Departments of Human Settlements and municipalities. Good progress has been made securing a stronger buy-in of stakeholders on NURCHA's lending framework. This buy-in is starting to deepen contractors' access to finance beyond what has been achieved to date. This is so although the envisaged commonly agreed protocols between NURCHA and key roleplayers in the sector have not been signed. When in place, these legal protocols will enable NURCHA to step up its lending volumes and development programmes to achieve higher impact and create more opportunities for small and medium contractors.

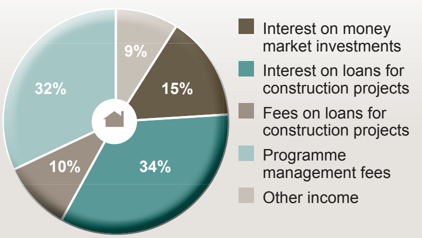
Provincial capabilities and offices have been opened in KwaZulu-Natal, the Eastern Cape and the Western Cape to ensure effective management of business risks and relationships with clients and stakeholders. These provincial capabilities are a critical element of consolidating NURCHA's business model and established direct relationship with clients. The provincial reach gives NURCHA the much-needed insight into the suitability of its products, growth opportunities and appreciation of challenges confronting Provincial Departments and Municipalities it works with.

Financial performance

In the year under review, NURCHA is reporting pleasing results with a surplus of R18 million after administrative costs and impairments. These come on the back of credible strides made in both pillars of the five-year strategy – that is deepening relevance to the developmental mandate and restoration of financial viability.

The company has maintained its diversified core business activities (sources of income) and effectively implemented risk mitigation measures to maintain a healthy loan book. Figure 2 below shows reported gross income as derived from the three major income streams, being interest-based income from the lending portfolio; fees generated through the Programme and Fund Management Portfolio, and money market investments with each contributing 44%, 32% and 15% respectively. An additional 9% is largely made up of bad debt recoveries.

FIGURE 2: SOURCE OF INCOME



Loan book management and risk mitigation has come a long way and has stabilised at sustainable rates for the lending market NURCHA is serving. NURCHA is reporting a 6,5% in overdue debts and 1,2% in impairments against a total exposure of R343 million. Administration overheads were also kept under control and in line with performance on the income side.

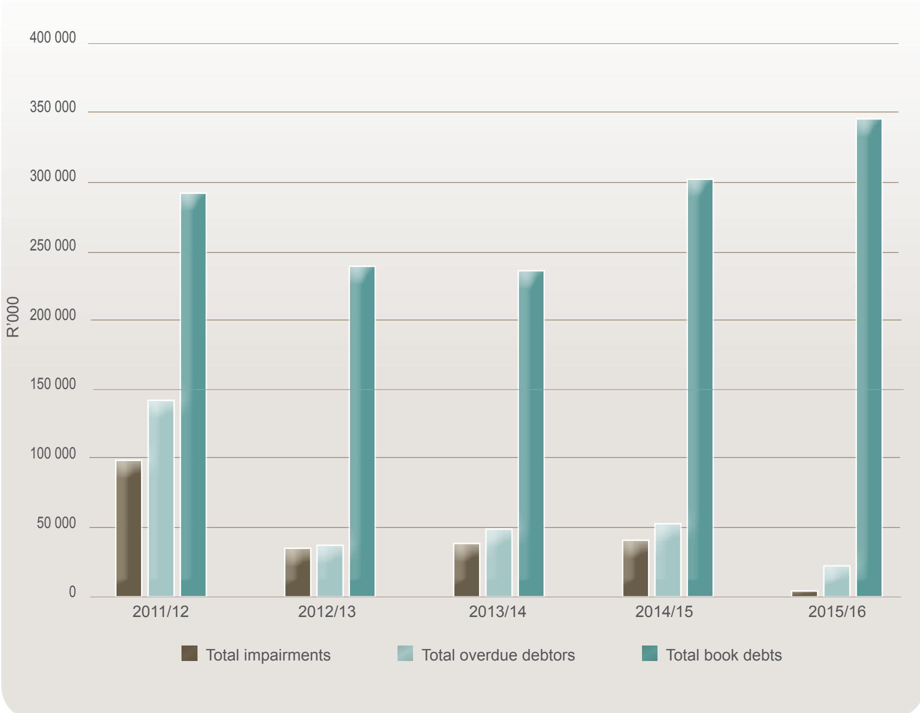
Surplus of R18 million

Lending Business Portfolio

The business processes of the new lending model are now established and automated. The lending team has set a solid foundation and is positively responding to shareholder expectations such as improvement in geographical spread of lending activities across provinces, focusing on mining and fast-growing towns, and easing lending rules and setting up special programmes to serve small contractors owned by women, the youth and people with disabilities. Through the Contractor Finance and Development Programme (CFDP), NURCHA has made a breakthrough in lending to small contractors. This programme is testimony to the fact that healthy collaboration among institutions can open more financing avenues for small enterprises.

The loan book has total loan commitments of R856 million, and at the time of reporting exposure is R343 million. The loan commitments are to 72 active projects across eight provinces. 51 of the project loans were signed in the year under review. After five years of focused energy and incremental improvements, the company is reporting a healthy loan book with only 1,2% in impairments as Figure 3 on page 23 shows.

FIGURE 3: LOAN BOOK – MULTI-YEAR TRENDS



Programme and Fund Management Portfolio

The decision made three years ago to enter the programme management arena has yielded results and achieved the desired business. This is evident in the 32% contribution to the company's gross income and undertaking collaborative flagship programmes across provinces. Over the past three years, NURCHA has supported various initiatives across the provinces. The collaboration includes Vulindlela EPHP in KwaZulu-Natal as an Account Administrator. The project yielded 12 638 units in the last three years to date to house poor families, also creating employment and restoring a healthy social fabric in the community. Another collaboration as Programme Manager, NURCHA is managing the implementation of the Ceilings Retrofit Programme on behalf of the City of Cape Town. This programme has improved the thermal quality of houses for 4 550 low-income households in the City of Cape Town.

Credit risk and control environment

Moderate to high-risk lending defines NURCHA's business and the environment in which it operates. With stringent in-house controls and new credit rules, NURCHA has arrested the rise in provisions for losses and reports a healthy

Ephraim Mogale Heights, Witbank

*“In the year under review, there are **44 active** Affordable Housing projects among 22 developers.”*

loan book. The rise in provisions for losses has reduced from a R61 million peak five years ago to R4,1 million in the year under review. This achievement is laudable given the changing profile of developers, with an increasing number of emerging developers NURCHA has taken on.

Concentration risks in affordable housing have reduced as new clients taking up loans have diversified the loan book. In the year under review, there are 44 active affordable housing projects among 22 developers. Furthermore, 44% of new affordable housing loans signed were in favour of new clients. NURCHA adopts co-financing arrangements to mitigate exposure risk and facilitate private-sector lending.

In the previous financial year, NURCHA also undertook to improve controls in supply chain management. Significant improvements have been made in systems and capacity; however, audit results are lagging behind in demonstrating significant strides made in this area.

Management has also made significant strides in revising and implementing policies in line with the new BBBEE codes to ensure compliance and the transformative impact these will have on the industry.

The year ahead

In the year ahead dual attention will be given by management and staff to pursue of development targets as set out in the Annual Performance Plan. In order to stretch the lending capacity to achieve the most targets and closing out programmes that are at the tail end before migration of NURCHA’s business into NHFC in this regard, management

*"Significant **improvements** have been made in systems and capacity."*

will maintain its focus to explore and secure appropriate funding sources during the DFI transition process.

The second area of attention is the DFI consolidation process which is taking effect during the 2016/2017 financial year. Plans are afoot at all levels in preparing for business migration. Management and staff are in readiness mode and look forward to making the new Human Settlements Development Bank a reality. Engagements with the Executive Authority and key stakeholders have intensified to ensure effective management of associated risks and expectations. At a management level, change readiness interventions have been initiated and are unfolding. These interventions seek to ensure that vibrancy of the organisation, as well as the wellbeing of staff, is sustained through the transitional phase.

It is envisaged that NURCHA's next and the very last corporate report will be a close-out report for the financial year 2016/2017. Management wishes to thank clients, stakeholders, including funding partners, the Board, Executive Authority and staff at large for the support and contributions towards attainment of the 2015/2016 financial year results and achievements of the last 21 years.

Viwe Gqwetha
Managing Director

REVIEW OF OPERATIONS
Lending Portfolio: Overview

Rocky Park, Stanger/KwaDukuza

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

Introduction

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

The Portfolio is managed by a multi-disciplinary team of professionals under the leadership of an Executive Director and the team is supported by the Credit and Risk, Finance, Information Technology and Marketing Departments.

Lending portfolio 2015/2016 in perspective

The Affordable Housing Programme makes up 81% of NURCHA's total loan book and demonstrates the successful balancing of investments to largely support the delivery of various types of housing. The exposure on this programme increased with 18% from R233 million in the previous financial year to R275 million in this financial year. The increase in the exposure of the affordable housing loan book is primarily due to the increased number of sectional title projects financed in order to meet the demand for urban densification. The drive for client and geographic diversification remains a priority together with other sector objectives.

In the year under review, efforts were directed to support the objectives of the National Development Plan, specifically:

Economic empowerment of women and youth contractors

- Eighteen loans with a total loan value of R79,9 million were approved to women-owned contractors during the current financial year. These projects will deliver a total of 3 567 subsidy housing units and 27 sectional title units across five provinces.

Housing delivery in mining towns and labour sending areas

- NURCHA is actively engaging with stakeholders in mining towns, the National Department of Human Settlements and the Housing Department Agency to explore lending opportunities on strategic infrastructure projects.
- To date, NURCHA has funded and completed six affordable housing projects and two subsidy housing projects with total loan values of R79,9 million that delivered 841 affordable houses and serviced sites in the mining town eMalahleni and 795 subsidy housing units in Matlosane and eMalahleni.
- Included in the current loan book is a further two active affordable housing loans in the mining towns Evander and Hendrina Ext 4, with total loan values of R44,2 million for the construction of 324 affordable housing units and 51 serviced sites, as well as 19 active subsidy housing loans with total loan values of

R103,6 million for the construction of 9 627 subsidy housing units in Rustenburg, Matlosane, Matjhabeng, eMalahleni and the labour producing areas OR Tambo District Municipality and Alfred Nzo.

Delivery of rental housing stock

- A rental housing project with a total loan value of R29,9 million has been completed in the Affordable Housing Programme, and 175 rental units were released to the market.

GAP housing

- There are four active project loans with total loan values of R133,4 million in the Affordable Housing Programme for the servicing of 1 241 sites for GAP housing projects in Tshwane. The stands are currently being serviced and the housing units are expected to be completed by March 2017.

Emerging developers

- There are seven active project loans in the Affordable Housing Portfolio with total loan values of R88,8 million under the Emerging Developer Programme. These projects are expected to deliver 1 220 housing units and serviced sites.

Employment creation

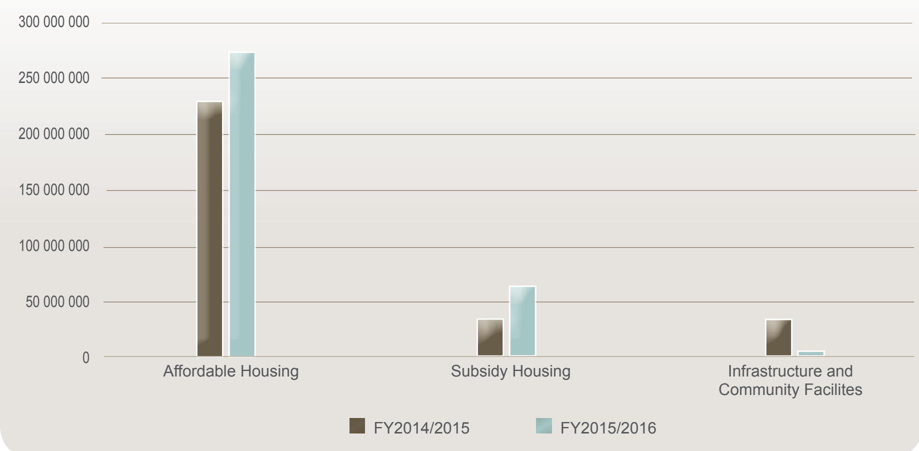
- NURCHA tracks labour statistics on all active projects financed. In the 2015/2016 financial year, the total number of labour employed on affordable and subsidy housing projects financed by NURCHA was 5 540 skilled and semi-skilled individuals.

Military veterans

- One subsidy housing loan with a loan value of R4,5 million was approved in January 2015 for the delivery of 200 subsidy housing units for military veterans in Lukhanji in the Eastern Cape. Altogether 74 have been completed to date.

The figure below shows loan exposures and distribution of debts across the three lending programmes from the previous reporting period illustrating the NURCHA strategy.

DISTRIBUTION OF DEBTS ACROSS LENDING PORTFOLIOS



- NURCHA, through its wholly owned subsidiaries, has established funding capacity through facilities from funding partners such as OPIC, SEDF, FutureGrowth, PIC and CADIZ to finance the supply side of the housing market. The OPIC, FutureGrowth and CADIZ facilities since matured and were repaid in the 2013/2014, 2014/2015 and 2015/2016 financial years respectively. A R300 million grant transferred by the National Department of Human Settlements to NURCHA in three equal tranches from the financial year 2011/2012 strengthened NURCHA's balance sheet and financial position, which enabled it to leverage private-sector partnerships. Securing replacement funding sought for the matured funding arrangements has proven to be a challenge in light of the imminent DFI consolidation and the inability of NURCHA to meet the funders' due-diligence requirements, specifically pertaining to the new DFI's consolidated financial position. Future funding requests to the National Treasury will be subject to the completion of the DFI consolidation and, until such time, NURCHA's funding capacity will remain under pressure.
- Due to high project losses suffered on the Subsidy Housing and Infrastructure and Community Facilities Programmes, NURCHA terminated the Intermediary Lending Model in 2012 and amended its business processes and credit rules to support a direct lending for contractors in these programmes. These changes in products and delivery channels required intensive marketing and direct interaction with contractors across provinces. NURCHA, however, prevails in all provinces and plans to re-establish the provincial capabilities that are evident in the growth in the Subsidy Housing Programme.
- The focus of the Lending Portfolio team is to apply all risk management instruments at its disposal to ensure healthy growth of the loan book and keeping overdue accounts and defaults within the NURCHA risk appetite.

REVIEW OF OPERATIONS
Lending Portfolio: Overview (continued)

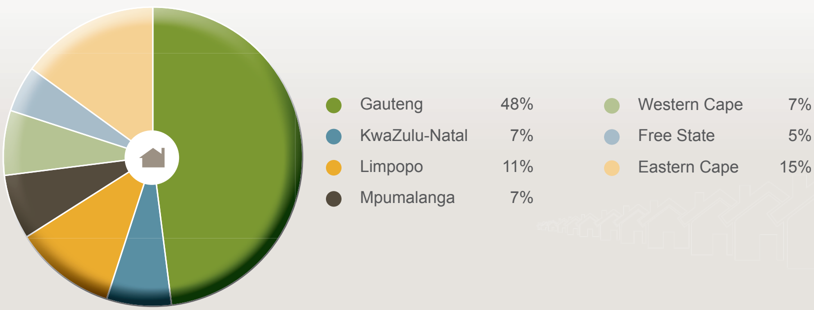
The table below provides a summary of the ageing of the loan book. There are R22,2 million worth of overdue debts of which R3,6 million is a residual from the historical delinquent book before June 2011. Legal proceedings have been instituted against these debtors. The balance of the overdue debts is primarily due to late payments by public entities towards the end of the financial year.

Summary of loan ageing as at 31 March 2016

R'million	Not yet due	Total overdue	Total debtors outstanding	Impairments
Affordable housing	R274 805 548 100%	R624 336 0%	R275 429 884 80%	R1 0%
Subsidy housing	R45 231 314 72%	R17 995 939 28%	R63 227 241 19%	R506 014 12%
Infrastructure	R863 095 19%	R3 574 712 81%	R4 437 806 1%	R3 666 698 88%
Total NURCHA debtors	**R320 899 956** **94%**	**R22 194 986** **6%**	**R343 094 943** **100%**	**R4 172 712** **1%**

In the year under review, NURCHA embarked on more national roadshows and advertising in local and national newspapers to market NURCHA's lending programmes to developers and contractors. A total of four workshops were held in Limpopo, KwaZulu-Natal and the Eastern Cape. Altogether 300 contractors and developers attended the workshops. There was a continued focus on the Nelson Mandela Bay Metropolitan Municipality, where the agreement between the Minister of Human Settlements, the Member of the Executive Council and the Mayor is now being implemented.

PROVINCIAL SPREAD OF PROJECTS FINANCED BY NURCHA



Growth of the Lending Portfolio in 2015/2016

The focus of the next reporting period 2016/2017 is to maintain momentum during the DFI transition process by growing the Lending Portfolio with a focus on the following aspects:

- Finalising the DFI consolidation in order to source replacement funding for the expired OPIC, FutureGrowth and CADIZ facilities to fund the Subsidy and Affordable Housing Programmes which lends to small and medium developers, and to grow the Affordable Housing Programme.
- Close monitoring of the capacity utilisation of available lending facilities in the Lending Portfolio in general and Affordable Housing Programme in particular.
- Improving the geographical spread of projects across provinces, especially in the Affordable Housing Programme.
- Supporting national priority programmes announced by Government, specifically in mining towns, and supply of rental housing stock.
- Enhancing NURCHA's relationships with other project-level participants working with contractors, such as professional teams, employers and suppliers.
- Improving conversion rate from application to loans-signed stage on the Affordable Housing Programme.
- Improving product development of new lending instruments in response to development priorities and market requirements.
- Exploring innovative ways to assist developers and contractors to improve access to complementary financing instruments such as the Finance Linked Individual Subsidy Programme (FLISP) and the Mortgage Default Insurance (MDI), employer-supported housing schemes and public sector-led release of well-located land to stimulate the affordable housing market, housing delivery and urban densification.

Conclusion

While both the Subsidy Housing and Infrastructure and Community Facilities Programmes have achieved the targeted number of deals signed in the year under review, the Affordable Housing Programme experienced lower than expected levels of growth in terms of number of deals signed. Poor market performance and the absence of regional offices continue to hamper growth. The strategic drive aimed at maintaining a healthy loan book and the restructuring of the business model and changes in lending criteria are showing results, with only 1,2% of total debts outstanding impaired. Matured funding arrangements may place pressure on NURCHA's funding capacity and ability to grow the lending book during the DFI transition process. Despite this, the Lending Portfolio remains committed to grow the business of NURCHA and objectives of Government's Outcome 8 delivery targets. Commercial banks show improved appetite to provide end-user finance in the affordable housing market and Government priorities with regard to Mining Town Developments. Student and Rental Accommodation will further stimulate the growth of the Affordable Housing Portfolio in the next financial year.

REVIEW OF OPERATIONS
Affordable Housing

Duvha Park, Witbank

Introduction

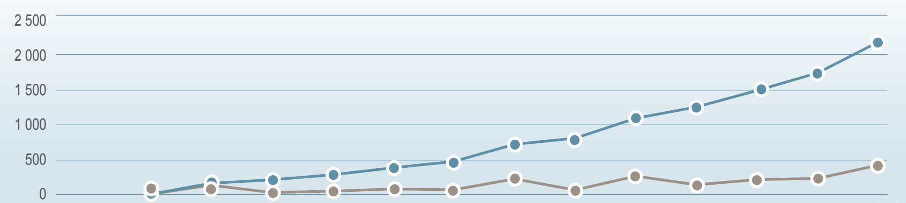
NURCHA introduced the Affordable Housing Programme in 2003 and has since approved 206 project loans with total loan values of R2,2 billion that enabled the delivery of 33 578 houses to new homeowners. This programme forms a key component of NURCHA's business operation and acts as a major catalyst to stimulate housing delivery in South Africa as it advances the Outcome 8 and MTSF development targets set by the National Department of Human Settlements.

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

Over the past 13 years of its operation, the programme has seen significant fluctuations with some years performing above average in terms of loans signed. The year under review has shown sustained growth from the previous year and performance was well above the 12-year average (R143,58 million) with loans to the value of R432,9 million signed.

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

GROWTH OF AFFORDABLE HOUSING LOAN BOOK SINCE INCEPTION



	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Cumulative	26,6	178,9	227,9	296,9	395,9	483,9	723,9	808,8	1 087,8	1 245,6	1 476,3	1 722,9	2155,8
Loan signed	26,6	152,3	49	69	99	88	240	84,9	279	157,8	230,7	246,6	432,9

Spread of the affordable housing loan book

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

	Number of projects FY2015/2016	Number of units in projects FY2015/2016	Category spread of loan book FY2014/2015	Category spread of loan book FY2015/2016
Sectional Title Units	17	1 307	41%	37%
GAP Housing	4	1 241	9%	10%
Affordable Housing	23	5 405	50%	53%
Total	**44**	**7 953**	**100%**	**100%**

Affordable Housing (continued)

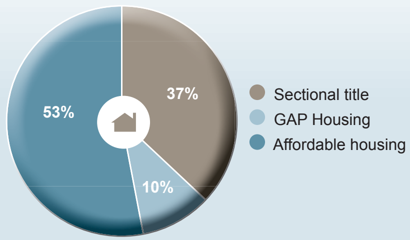
Sectional title units are defined as medium-density bonded housing stock, offering sectional title ownership within a complex or a development with an undivided share of the common property. NURCHA's investment in this category reduced from 41% in the previous year to 37% in the year under review. This sustained investment is in line with the National Department of Human Settlements' strategic objective to achieve higher densification in the residential market. There are currently 1 307 units in projects under development.

GAP Housing is a category of bonded housing stock falling within the R3 500 to R10 000 income category and housing packages between R105 000 to R399 000 ranges. NURCHA's impact on the GAP housing market increased from 9% in the previous financial year to 10% in this financial year as developers find it difficult to deliver a good value product within the GAP range unless the project is delivered at scale. There are 1 241 units in projects under development.

Affordable housing is defined as bonded free-standing houses with prices ranging between R400 000 and R650 000 and for income earners between R10 000 and R20 000 per month. The affordable housing category contribution increased from 50% in the previous financial year to 53% in this financial year. There are currently 5 405 units in projects under development.

Detailed below is an illustration of the loan book split over the last two years:

CATEGORY SPREAD OF THE AFFORDABLE HOUSING LOAN BOOK FY2015/2016



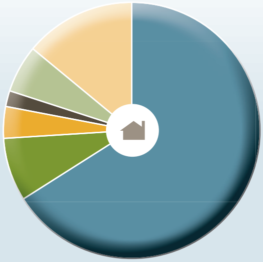
Performance against annual targets

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

Description	Financial year 2015/2016 Budget	Financial year 2015/2016 Actual	Financial year 2014/2015 Actual
Number of loans signed	21	15	16
Number of houses and sites in loans signed	3 150	2 864	2 564
Value of loans signed (Rand)	315 000 000	432 895 130	246 625 590
Value of projects (Rand)	630 000 000	1 120 520 758	925 805 198
Number of houses and sites completed	2 200	2 261	1 606

The Affordable Housing Portfolio experienced stable business activity in this financial year even though only 71% of the targeted number of loans were signed. Loans with a total value of R432,9 million were signed against the budgeted value of loans signed of R315 million, which is 137% of budget. The value of projects is 178% of budget. The higher value of loans signed is largely due to the higher value of and working capital requirements on sectional title developments.

GEOGRAPHICAL SPREAD OF AFFORDABLE HOUSING LOANS AMONG PROVINCES



Gauteng	65,82%	Free State	2,35%
Mpumalanga	8,46%	Western Cape	5,99%
KwaZulu-Natal	3,82%	Limpopo	13,55%

The number of houses in loans signed is 2 864 units against a budget of 3 150, which is 91% of the year target. The number of houses built and sites serviced during the year under review is 2 261 against a budget of 2 200, which is 103% of budget.

The provincial spread of investments in the programme shows predominance of projects in Gauteng province, with more than 60% in loans approved in this province. While Gauteng will most likely remain dominant going into the future, NURCHA has increased its investment in affordable housing projects in the Western Cape, Free State, North West, Limpopo, Mpumalanga and KwaZulu-Natal provinces.

Gauteng province will deliver the highest number of houses and serviced sites with loans to the value of R546,7 million and 5 235 houses and serviced sites in projects under development. This is followed by Limpopo province with loans to the value of R113,7 million and 1 078 houses and serviced sites, and the Western Cape with loans to the value of R99,6 million and 476 sectional title units under development. Mpumalanga, KwaZulu-Natal and the Free State make up the balance of the houses and serviced sites with 673, 304 and 187 respectively.

Conclusion

In the financial year under review, the Affordable Housing Programme did not meet the targeted number of loans signed; however, the overall results compare favourably with the past 12-year trends and averages. Over the last five years, this programme has constantly delivered houses and sites to the affordable housing market which broadly equates to approximately 3 150 units per year. This is a significant contribution to the Outcome 8 targets set by the National Department of Human Settlements. NURCHA has made progress in seeking new clients, expanding its reach to other provinces and forging relationships with Provincial and National Departments of Human Settlements. The growth in the sectional title category is in line with Government's requisite in the National Development Plan for increased densification in preparation of the increased rate of urbanisation in South Africa. In support of Black Economic Empowerment in South Africa, NURCHA's exposure to the Emerging Developer Programme has doubled in volume from the previous year with seven new loans to the value of R88,8 million signed.

REVIEW OF OPERATIONS
Subsidy Housing

Queenstown

Introduction

The Subsidy Housing Programme has largely been affected by NURCHA's operational and organisational restructuring and borrower compliance. With the discontinuation of the intermediary lending model in 2012 and subsequent introduction of certificate-based lending, it was anticipated that there would be a decline in the quantity of loan applications received and approved. While there has been a decline in the volume of applications, there has been a corresponding increase in the quality of applications received.

A total of 49 loan applications were received on the Subsidy Housing Portfolio in this financial year, of which only 32 loan agreements were signed. The explanation for the number of applications received and loans signed in this financial year is as follows:

Description	Number of applications	Value
Number of applications received	49	R234 813 000
Unable to assess due to lack of information	14	R63 000 000
Number of loans approved	35	R171 813 000
Number of loans signed	32	R149 513 000
Approved but not taken up	1	R7 600 000
Number of applications declined	0	R0
Approved and to be signed in the next financial year	2	R14 700 000

NURCHA was unable to assess 14 loan applications due to the inability of emerging and small contractors to provide NURCHA with financial statements. In response, NURCHA has designed new loan types to improve access to credit, whereby NURCHA will assist emerging contractors, with the support of service providers, to produce financial statements and comply with other statutory requirements for borrowing purposes.

The Subsidy Housing Programme was previously financed from direct finance from NURCHA or through ringfenced fully owned Special Purpose Vehicles in partnership with OPIC, SEDF and FNB. In the last 12 years, the programme has provided access to finance for small and medium contractors in excess of R1,57 billion in loans and on 991 projects financed. This quantum of achievement was made possible by the OPIC/SAFE guarantee of R180 million that provided loan default guarantees to an equivalent FNB facility for the category of contractors.

After 11 years of collaboration, this OPIC, SEDF and FNB partnership has come to an end, and NURCHA is currently seeking a replacement fund either from a private-sector funder or National Treasury to establish a similar facility that will ensure that contractors continue to have access to bridging finance.

Performance against annual targets

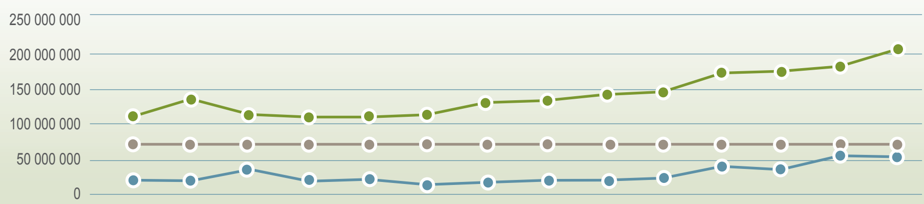
The table below shows the actual outputs achieved against budgeted targets:

	Financial year 2015/2016		Financial year 2014/2015
	Budget	Actual	Actual
Number of loans signed	32	32	15
Number of houses and sites in signed loans	16 000	12 111	9 773
Value of loans signed (Rand)	128 000 000	149 513 000	81 791 461
Value of projects (Rand)	1 200 000 000	1 185 964 012	864 035 302
Number of houses built and sites serviced	7 044	3 984	5 962

Performance against output targets shows that the programme achieved 100% of the number of loans signed, 76% of the houses and sites in signed contracts and 117% of the value of loans. The value of projects fell 1% short of the annual budget. Houses built and sites and services achieved 57% of the annual budget due to projects still under construction at financial year-end.

The shortfall in the value of loans signed and the number of houses and sites in signed contracts are largely due to smaller contracts awarded to contractors participating in the Contractor Finance and Development Programme (CFDP). This lending product is aimed at micro enterprises and focuses on contractor support and development, augmented by lending.

GROWTH IN THE LOAN BOOK

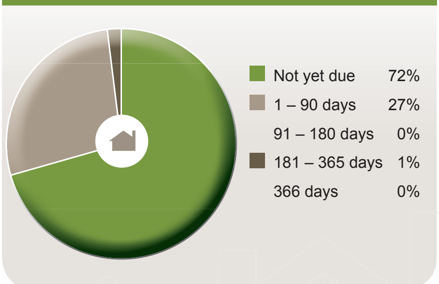


	February	March	April	May	June	July	August	September	October	November	December	January	February	March
Utilisation	32 002 418	31 211 132	46 398 287	30 621 058	33 090 809	26 037 591	29 082 416	31 822 406	31 978 929	34 746 007	50 487 038	46 165 903	64 696 468	63 227 230
Funding capacity allocated	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000	80 000 000
Total loan values	116 801 285	140 661 285	119 899 285	116 455 837	116 455 837	119 576 607	135 876 607	138 455 837	146 448 837	150 248 837	175 427 160	177 838 536	184 302 282	207 973 052

The value of loans signed has grown with 48% and utilisation of funding capacity has grown 103% from the previous financial year. Utilisation on loan facilities is on average 40% of the loan values.

Regular loan book performance

SUBSIDY HOUSING: REGULAR LOAN BOOK PERFORMANCE



The total overdue debts equated to 28% of the total regular loan book. The debts in the 1 to 90 days category are primarily overdue due to the employers exhausting their annual budgets. This results in delayed payments to contractors, which are soon remedied once new budget allocations have been finalised. The overdue debts in the 81 to 366 days category are remnants of impaired project loans signed prior to the certificate-based lending model.

Conclusion

The Subsidy Housing Programme has performed in line with expectations despite the change in lending criteria and the loss of NURCHA's regional presence upon termination of the Intermediary Lending Model. Further growth of the Subsidy Housing Programme may, however, be hampered by funding capacity constraints in the coming financial year. It is imperative that the DFI consolidation is finalised in order for NURCHA to secure suitable funding, to ensure affordable funding to contractors on this programme.

REVIEW OF OPERATIONS
Infrastructure and Community facilities

Vulindlela Project, Pietermaritzburg

Introduction

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

Performance against annual targets

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

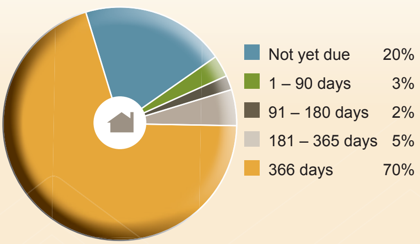
	Financial year 2015/2016		Financial year 2014/2015
	Budget	Actual	Actual
Number of loans signed	4	4	2
Value of loans signed (Rand)	18 000 000	8 445 763	15 109 078
Value of projects (Rand)	100 000 000	24 224 332	56 647 370
Number of projects completed	2	0	0

The performance of this portfolio was in line with expectations with four contracts signed. The value of loans signed, however, fell short with R8,4 million of loans signed against the budgeted total loan value of R18 million. Despite a certificate lending model being introduced, the portfolio remains a high risk, with 81% of debts overdue as shown in the graph.

Conclusion

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

INFRASTRUCTURE AND COMMUNITY FACILITIES: REGULAR LOAN BOOK PERFORMANCE



OPERATIONAL OVERVIEW

Programme and Fund Management Portfolio

Courtesy of City of Cape Town

"The Programme and Fund Management Portfolio at NURCHA was established in 2012 with a strategic intent to support the development of project and programme management capacity and enhance service delivery in the human settlements sector."

The Programme and Fund Management Portfolio at NURCHA was established in 2012 with a strategic intent to support the development of project and programme management capacity and enhance service delivery in the human settlements sector. This portfolio is run on a full cost recovery basis, and over the past four years has seen good growth and impact in the sector. NURCHA has been engaged to run several development programmes across all spheres of government and has successfully delivered several flagship programmes, including the Contractor Finance and Development Programme (CFDP), Free State Programme Management Support, Eastern Cape Bucket Eradication Programme and City of Cape Town Ceilings Retrofit Programme.

The performance of the portfolio has given extra delivery capacity and value and advanced the achievement of sector development objectives. In the year under review, this portfolio has slowed down due to several factors, mainly as a result of the transitional arrangements under way to consolidate NURCHA, NHFC and RHLF to form a Human Settlements Development Bank. As a result, a number of multi-year programmes are at closure stages.

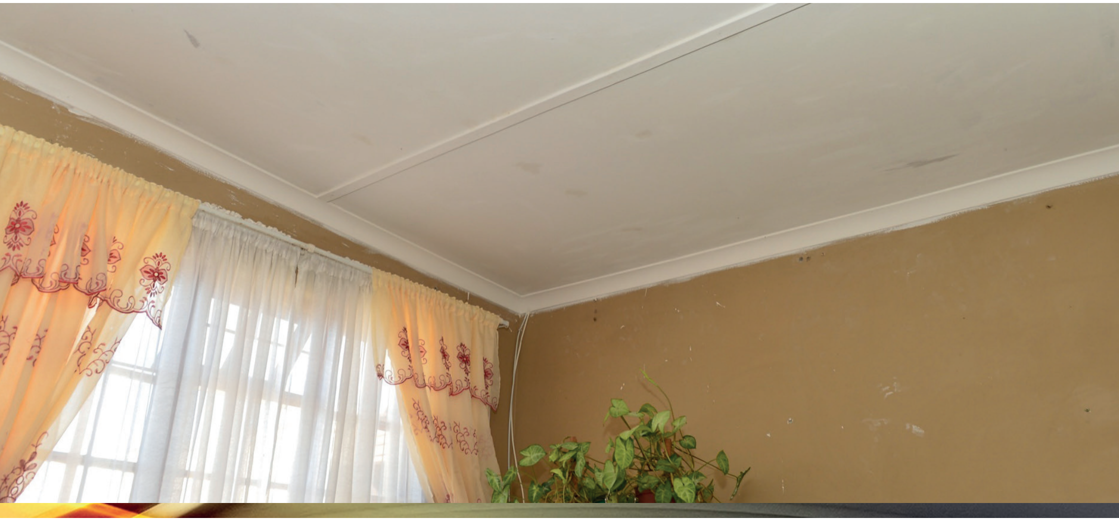
The Free State Programme Management Support commenced in April 2011 and concluded in

*"The performance of the portfolio has given extra **delivery capacity** and **value** and advanced the achievement of sector development objectives."*

September 2015. The programme strengthened the management of existing programmes, alignment of programme plans to annual budgets and built internal human and systems capacity. The Geographical Information System is up and running within the department, and is supporting delivery of the programme, as well as monitoring and reporting the programme.

The Eastern Cape Rural Development Programme (ECRDP) is an innovative pilot programme with the objective to test innovative approaches and creative solutions and recommend best practices for construction of housing units in a rural environment utilising technology, i.e. the Card/Voucher system, and through engaging and training local village builders. The programme has four focus areas: contract administration and preplanning, social facilitation, subsidy and construction management, and training of village builders. Valuable lessons were learnt throughout the pilot process, and the report on the pilot process was finalised and submitted to the Department to inform future rural development programmes.

Mentioned below, are three programmes that are still under implementation and will form part of programmes that will continue within the portfolio under the soon to be established Human Settlements Development Bank. They also have scope for evolution into new sector development products and will introduce development management practices in the sector.



Contractor Finance and Development Programme (CFDP)

The CFDP supports small contractors and develops them to reach sustainable maturity as enterprises in the sector. It assists small and medium home builders with bridging finance, training and mentoring to enable them to gainfully participate in the construction sector. The programme focuses especially on women- and youth-owned construction companies.

A partnership between the Department of Human Settlements and NURCHA has provided a platform to register new contractors on the programme. A total of 58 contractors have been awarded projects by the Nelson Mandela Bay Metropolitan Municipality. NURCHA has financed the first four contractors and has allocated 20 units each, which are at various levels of completion. NURCHA has established a partnership with SEDA Construction Incubator and has been appointed them to structure the mentorship aspects for an envisaged 150 candidates at the peak of CFDP implementation. The benchmarking for these entities is taking place to identify gaps and to create various mentorship streams in line with the skills gap identified.

Retrofit Ceilings Programme

The City of Cape Town had a total of 40 000 RDP housing units without ceilings and electricity built prior to 2005. The City committed R155 million to retrofit 8 001 units with electricity and rhinoboard ceilings. NURCHA was appointed in May 2015 as programme managers for Phase 1 comprising 4 550 units in Wesbank (1 000), Vrygrond (1 600), Broadlands (1 000), Kalkfontein (300), Lwandle (400) and Eureka (250). To date Phase 1 of the programme is 92% complete with 4 150 units delivered and handed back to beneficiaries. In terms of the contracts awarded 25% is disbursed in local SMMEs and 5% is disbursed in local labour. Nurcha is now involved in planning Phase 2 of the programme comprising 3 451 units in Heinz Park (1 142), Silver City (363), Sir Lowry's Pass Village (640), Wesbank (837), Phumlani (209), Macassar (100), Gordon's Bay (60), and Chris Nissen Park (100). The contract for Phase 2 will last 18 months with R68 million to be disbursed.

VULINDLELA Enhanced Peoples Housing Programme (EPHP)

NURCHA is involved in the Vulindlela Enhanced Peoples Housing Programme (EPHP) in KwaZulu-Natal as the Community Resource Organisation responsible for fund administration. Vulindlela Project is a pilot programme that seeks to deliver 25 000 housing units through the Enhanced Peoples Housing approach. The main function of NURCHA is to act as fund administrator. The total funds disbursements towards the project to date is R1,378 billion, which has enabled the programme to achieve completion milestones of approximately 11 636 housing units since the inception of the programme.

NURCHA fund management systems and timely disbursements of payments assists to achieve optimal production levels. Governance arrangements between the Department of Human Settlements, Vulindlela Development Association (VDA), NURCHA and Dezzo (the Technical Community Resource Organisation) continue to be a strategic area of attention in this programme. This contract will expire on 30 June 2016 and negotiations are under way to renew the contracts.


Vulindlela Project, Pietermaritzburg

NURCHA is committed to promoting a learning culture which enables employees to develop and grow to reach their full potential.

Skills development

INTERNSHIP: Four students were provided with an opportunity to gain work experience for a six- to 12-month period. These students benefit from being exposed to the world of work and the construction and property development environment more specifically. When the students complete the internship they are better prepared to get work in their chosen field.

LEADERSHIP DEVELOPMENT: Executive and management took part in a leadership development programme. The purpose of the programme is to promote open dialogue and feedback and raise levels of accountability as well as understand behaviours, leadership styles and create awareness around team and business engagement.

PROGRAMME FOR LIFELONG LEARNING: NURCHA has invested R679 387 to assist employees to further their education during the year and also made good progress in the achievement of skills development targets in terms of BBBEE score of 14,42%.

Employee engagement

Change Readiness Survey

As part of preparation for the DFI consolidation, change management readiness training was successfully undertaken across the company. In this period the annual working environment climate survey was replaced with an Annual

"NURCHA ***intensified*** *awareness campaigns of the Employee* ***Wellness*** *Programme."*

Change Readiness Survey. This was conducted to establish the readiness of the organisation for change as well as to highlight concerns and identify priority areas for further interventions. Insights gained from this survey were used to guide and prioritise employee engagements and ongoing human resource initiatives.

Communicating with employees

Communication takes place regularly at NURCHA. Two staff meetings are held every month; one meeting focuses on issues identified by management and the other on issues put on the agenda by staff. There were also structured and ongoing bilateral engagements between the Managing Director and individual staff members.

Employee wellness

During the year under review, NURCHA intensified awareness campaigns as part of the Employee Wellness Programme. The main purpose is to encourage employees to choose healthier, more balanced lifestyles. A variety of programmes were conducted during this period based on the issues presented by employees, which include stress management, work life balance, mental health and enhancing personal and work relationships.

The Employee Wellness Programme is for all employees and their immediate family members, and includes confidential services relating to legal advice, stress, relationships, trauma, family matters, work, substance abuse and health.

CORPORATE GOVERNANCE


Rosslyn, Pretoria

"We are satisfied that during the 2015/2016 financial year we performed the company's activities and discharged our responsibilities in accordance with the above principles."

Corporate governance statement

The Board of Directors of NURCHA and its management are pleased to present the corporate governance statement for the 2015/2016 financial year.

We perceive our role as not only to ensure that NURCHA survives and succeeds through tough economic times, but that it does so through an open and transparent governance process. We are committed to:

- maintaining the highest standards of corporate governance by embracing the recommendations of the King Code on Corporate Governance; and
- providing effective leadership based on an ethical foundation by ensuring that all deliberations, decisions and actions are based on responsibility, accountability, fairness and transparency.

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

We are satisfied that during the 2015/2016 financial year we performed the company's activities and discharged our responsibilities in accordance with the above principles. Any non-compliance with the principles of King III is explained accordingly in this report.

Stakeholder relationships

NURCHA stakeholders are entities and individuals that are significantly affected by its activities and those which have the ability to impact the strategies and objectives of NURCHA. Stakeholders include National, Provincial and Local Government; regulators; funders; contractors; developers; suppliers; employees and communities that NURCHA operates within.

NURCHA is registered as a non-profit company with the Department of Social Development. The company is funded by the South African Government ("the Government") in partnership with the Soros Economic Development Fund (SEDF), and other commercial lenders. NURCHA is governed by the PFMA and the accompanying National Treasury Regulations and is classified as a Schedule 3(a) public entity under this Act. The Minister of Human Settlements as the Executive Authority has oversight powers in terms of the PFMA.

The financial year 2015/2016 was the final year for SEDF to fund NURCHA. The balance of their loan was repaid towards the end of the current financial year as SEDF planned to exit the relationship with NURCHA. The consolidation of NURCHA, Rural Housing Loan Finance (RHLF) and National Housing Finance Corporation (NHFC) is going ahead as announced by the Minister of Human Settlements in her speech to the National Council of Provinces on 19 May 2016.

In its reporting, the Board presents a balanced and understandable assessment of the company's position. During the financial year, complete, accurate, relevant and reliable reports were delivered timeously to major stakeholders. Other information is accessible on request to stakeholders in terms of the Promotion of Access to Information Act, 2000 (PAIA).

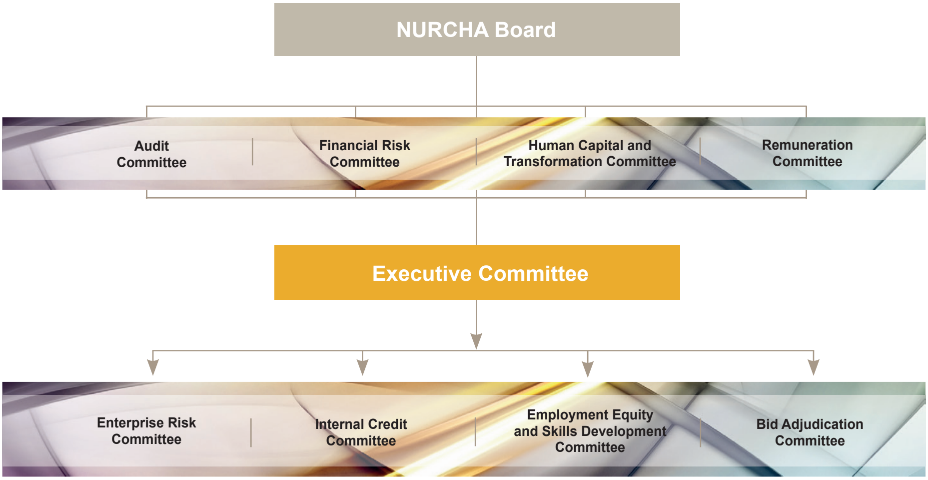
Corporate Code of Conduct and Ethics

The directors have a fiduciary duty to act in good faith and with due care and diligence in the best interest of the company and all its stakeholders. The Board has developed a code of ethics that governs the conduct of directors and staff to ensure that at all times they act with utmost integrity, objectivity and in compliance with the organisational policies and the laws of the country.

The Board is satisfied that the company is demonstrating commitment to its code as:

- all directors and personnel declare their interests in order to manage any conflict of interest. They further declare their interests in matters that are discussed at meetings;
- the procurement policy contains measures to combat abuse, fraud, and corruption;
- there is an established gift register that is signed by staff when receiving gifts with a value over a certain amount; and
- there is a fraud prevention policy in compliance with the Protected Disclosures Act, No 26 of 2000. The policy has procedures for reporting incidents of fraud and dishonesty, and cases of unethical behaviour in line with NURCHA's code of ethics and the value system. This involves a whistle-blowing hotline whereby employees and members of the public have access to a facility to report unethical behaviour anonymously.

Governance structures



The Board

The Board takes overall responsibility for the performance of NURCHA and its role is to provide leadership and exercise sound judgement in directing the company to achieve continued sustainability and to act in the best interest of stakeholders. As the Accounting Authority, the Board is responsible for determining the company's strategic direction. It has ultimate responsibility to stakeholders for the development and successful implementation of the business strategy and NURCHA's performance. It guides and monitors management to execute strategic decisions effectively and in accordance with laws and the legitimate interests and expectations of the various stakeholders.

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

Non-executive directors met at different occasions to discuss issues without the executive directors. The Board has unrestricted access to information of the company. The Board is able to solicit independent professional advice, at the expense of the company, where necessary.

The Board meets at least three times in a year in accordance with the Board charter. The decision to have three meetings was agreed to by the Board due to NURCHA's size.

The Board is satisfied that, during the year, it carried out its responsibilities according to its charter. Among other things, the Board has approved and monitored annual performance plans and budgets; monitored strategy implementation; reviewed its charter and those of its committees; assessed the performance of the whole Board, the committees and individual directors; reviewed committee membership; and reappointed Board members by rotation.

The Board continued to ensure that the funds received from stakeholders are used efficiently and effectively, and in terms of their covenants.

Board charter

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

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

Board composition

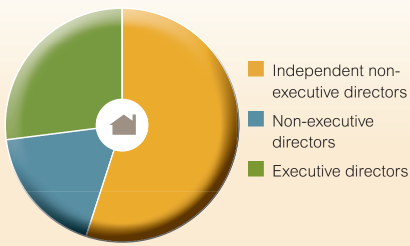
Board members
Mr K Shubane[1] (Board Chairperson)
Mr C de Beer[3, 4]
Mr V Gqwetha[2]
Mr W Ndodana[1]
Ms M Nkomo[1]
Mr S Nxusani[2]
Mr T Nzimakwe[1]
Mr H Prinsloo[3]
Ms Z Rylands[1]
Ms L Sing[1]
Ms A Struwig[2]

1. *Independent non-executive director*
2. *Executive director*
3. *Non-executive director*
4. *SEDF representative*

The Board lost a valuable and long-standing member, Mr Knowles Oliver, who passed on in June 2015.

NURCHA has a unitary Board structure that comprises a majority of independent non-executive directors. This is to ensure independence and objectivity in decision-making. The Board charter allows for a maximum of 16 directors. As at 31 March 2016, there were 11 Board members of which eight were non-executive directors. Six of the eight non-executive directors were independent of management and free from any relationship that could materially interfere with the execution of their independent judgement. Two non-executive directors were considered not to be independent and three directors were executive directors who were involved in the day-to-day running of the business.

BOARD COMPOSITION



The Board Chairperson

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

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

Independence

The majority of directors are independent non-executive directors. The Board and each of its committees are chaired by an independent non-executive director. The policy of disclosure of interests and recusal from discussions in which a director has an interest, is followed to mitigate any conflict of interests and preserve independence.

The independence of Board members who have served on the Board for more than three (3) terms is evaluated by the Board each year. Independence is determined against the criteria set out in King III ("the King Code"). Messrs Nzimakwe and Shubane have served on the Board for more than three terms. After due consideration of their individual circumstances and contributions, the Board concluded that these directors are able to act independently and fulfil their duties irrespective of their tenure. Messrs De Beer and Prinsloo are not considered to be independent. Mr De Beer represented SEDF's interests on the Board of NURCHA. Mr Prinsloo served as an adviser to FINCOM for eight months before being appointed to the Board.

The Board is still satisfied that all the Board members are capable of using their independent judgement in discussions and on taking decisions.

Knowledge, skill and expertise

The Board considers diversity of views and experience to be an essential part of ensuring that all aspects of strategy and plans are considered. The members bring to the Board an appropriate mix of financial, technical and other expertise to strategically guide NURCHA. They bring independent perspectives and judgement on corporate governance and overall strategy. They challenge the views of executive directors and management in a constructive manner.

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

Appointment, retirement and rotation of directors

NURCHA has a formal policy detailing the procedures for the recruitment, appointment and retirement of non-executive directors. The policy includes renewal of Board and committee members' terms of office. Knowledge, skill, expertise, independence, as well as demographic representation, are considerations in the appointment of directors. Non-executive Board members are appointed in such a manner that they enhance each other's skills in different fields.

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

Non-executive directors are appointed for a three-year period, and are eligible for reappointment depending on their past contribution and future availability to serve on the Board. During the year, one non-executive director was due for rotation and was subjected to the evaluation of performance and independence before being reappointed.

Board and director evaluation

The performance of the Board, its supporting committees and individual directors is evaluated each year. The aim of these evaluations is to assist the Board and its committees to improve their effectiveness. The Board assessment includes the evaluation of the Board Chairperson and the Managing Director.

The Board, its committees and individual director performance were evaluated this financial year and no major areas of concern were raised.

Succession planning

Succession planning is the responsibility of the Human Capital and Transformation Committee (HCTC). On an ongoing basis, the HCTC considers the composition of the Board and its committees to ensure continued effectiveness. The Board appoints an acting chairperson of the Board or its committees in the absence of any of the chairpersons.

Management succession planning is an ongoing consideration to ensure that effective management is in place to implement NURCHA's strategy.

Delegation of authority

NURCHA has a delegation of authority policy that is reviewed continuously to ensure that it remains relevant. In terms of the delegation of authority, the ultimate responsibility for NURCHA rests with the Board. The Board retains effective control through a well-developed governance structure of Board committees which specialise in certain areas of the business.

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

Strategic objectives, business planning and performance management

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

During the current financial year, the annual performance plan, strategic plan and budget were submitted to the Department of Human Settlements and National Treasury as required by the PFMA. The plans include measures and targets against which NURCHA and its performance is assessed.

The Board continued to monitor NURCHA's performance against budgets through quarterly reporting. The company performance for the period under review is reflected on page 7.

Board committees

The Board delegated some of its duties to the following specialist committees:

Audit Committee

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

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

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

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

The committee is satisfied that there is consultation and co-ordination between internal and external audit. The internal and external audit functions are carried out by separate audit firms. The external and internal auditors attend the Audit Committee meetings. The Audit Committee and the Financial Risk Committee ensure that between them all the major business risks of the company are reviewed.

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

The committee met four times during the year and is satisfied that its activities for the year were in compliance with its terms of reference.

Financial Risk Committee (FINCOM)

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

FINCOM has been established to assist the Board to discharge its fiduciary duties as regards the credit and investment functions in NURCHA, and to advise with regard to the funding and capital structure of the company. The committee has been charged with the responsibility of overseeing the programme and Fund Management Portfolio.

The committee assists management by providing advice and assistance within the credit and investment policy arena, especially with regard to setting limits of authority and monitoring exposure. The committee monitors returns on NURCHA's money market investments and is satisfied that the returns are in line with industry performance.

During the year under review, the committee ensured that credit was granted by NURCHA in accordance with NURCHA's mandate, the undertakings and covenants in the various financing agreements, and that the provision of credit meets the primary aims of promoting sustainable human settlements and entrepreneurial development. The committee met seven times during the year.

Human Capital and Transformation Committee (HCTC)

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

The HCTC carries out the responsibilities of the Nominations Committee, and ensures that NURCHA's human resources, procurement and business practices reflect a commitment to the creation of an equitable, non-racial, non-sexist society. This committee reports on compliance with the Employment Equity Act, No 55 of 1998, and on other transformation issues.

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

The Chairperson of the Board is a member of this committee as the Board felt that he brings valuable contribution to the committee.

The committee met three times during the year in accordance with its charter.

Remuneration Committee

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

The purpose of the Remuneration Committee is to ensure that remuneration policies and approach, as determined by the HCTC, are fairly applied. It also decides on the remuneration of staff, and makes recommendations to the Board and shareholders about the remuneration of non-executive directors.

The committee comprises the chairpersons of the various committees of the Board and is Chaired by the Chairperson of the Board. The decision to have the Chairperson of the Board also chairing the remuneration committee was agreed to by the Board as they felt he is the best person to perform this duty.

Board members are paid on the basis of their attendance at meetings. The Board Chairperson and the committee chairpersons are paid a monthly retainer in addition to the attendance fees. The remuneration of each director is disclosed on page 109 of the annual financial statements.

The committee met twice during the year in accordance with its charter.

Attendance at meetings held during the financial year

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

Column A is the number of meetings attended by the director.

Column B is the number of meetings held during the year.

** Deceased 23 June 2015.*

Company Secretary

NURCHA has a company secretary who is empowered to properly fulfil her duties. The functions of the Company Secretary are in line with the requirements of the Companies Act. She is a source of guidance and advice to the Board, and within the company, on matters of ethics and good governance. She oversees the induction of new directors and the ongoing education of directors.

The Company Secretary ensures that the directors and prescribed officers receive training as and when required. NURCHA has submitted all returns as required of public entities in terms of the PFMA, Treasury Regulations, the Companies Act and other relevant legislation. The Company Secretary ensured that all such returns were accurate, correct and up to date.

Prescribed officers

The Board is satisfied that the prescribed officers are adequately skilled for their responsibilities. The designated prescribed officers are expected to perform their functions and exercise their duties to the standard of conduct as it applies to directors. They are subject to the same liability provisions as applicable to directors.

Enterprise risk management

The NURCHA Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. Due to the inherent nature and complexity of NURCHA's risks, stringent risk-management structures and processes are in place.

The Board, through the Audit Committee, receives regular reports from management and other assurance providers, such as the external and internal auditors. These reports show that there are systems that are implemented to identify, assess, manage, monitor, control and report on material risks throughout the organisation.

The Enterprise Risk Committee is responsible for ensuring that risks are identified, managed and controlled, and reported to the Audit Committee. Adequate systems of internal control are in place to mitigate significant risks that have been identified to an acceptable level. However, it is always a challenge to balance the desire to achieve the company's strategic objectives against the level of risk the company is willing to tolerate in the process. The management of risk remains a responsibility of every staff member. A risk management culture is promoted across all business units and incorporated in the day-to-day activities.

The annual strategic risk assessment was done and the strategic risk register was reviewed during the financial year.

The top-10 risks that were identified during the 2015/2016 financial year were:

- **DFI consolidation** – The DFI consolidation can result in the duplication of roles in the new DFI structure. This may cause uncertainty among employees and difficulty to retain and/or recruit new employees. The consolidation process is taking too long to materialise and this hampers long-term funding commitments and plans.
- **Fraud** – This is wrongful or criminal deception intended to result in financial or personal gain.
- **Funding** – This refers to the inability to attract and retain funding with external parties, and the resulting inability to meet targets.
- **Performance or output target** – This refers to the inability to meet output targets for the current financial year.
- **Credit risk** – This refers to the borrower defaults on loan repayment.
- **Collection process (delinquent book)** – Ineffective collection of overdue debt and poor collection process on the delinquent book.
- **Skills and capacity** – Critical leadership gaps at executive level and senior management (proactivity, problem solving and decision-making).
- **Reputation** – Negative organisational reputation.
- **ICT infrastructure and systems** – Non-availability and inadequate ICT services (substandard systems and services).

These risks are monitored on a monthly basis and reported to the Audit Committee on a quarterly basis. Control measures have been identified where there are gaps to reduce or mitigate the risks. Each risk has been assigned a risk owner and a responsible person who are most suitable to respond to the risks. A wide variety of risk mitigation strategies are used to address risks, including standardised processes, policies, delegations of authority, pricing models and strategic planning reviews.

Internal controls

The authority to manage internal controls has been delegated to the Managing Director by the Board in terms of the PFMA. In turn, the Managing Director has delegated some responsibilities to executive directors and unit managers. The foundations for internal control processes lie in NURCHA's governance principles that incorporate and emphasise ethical behaviour, legislative compliance and sound accounting practice.

Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets and adherence to policies, processes and guidelines. The Board believes that the system of internal control provides reasonable, but not absolute, assurance on the effectiveness and efficacy of controls.

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

Internal controls are regularly reviewed by internal auditors to provide assurance to the Board on the effectiveness of control systems and compliance with agreed policies, procedures and legislation. The relationship between the internal and external auditors is mutually supportive and facilitates proper coverage of financial, operational and compliance controls.

The Board is satisfied that management is attuned to the major aspects of business risk, and believes that NURCHA is operating an adequate system of internal control to identify and manage operational and financial risks. During the year, these controls have assisted in uncovering the fraud that took place. Management will continue implementing improvements.

Internal audit

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

The internal auditors use a risk-based approach. They continuously give assurance to the Audit Committee by providing written assessments of the effectiveness of NURCHA's systems of internal control and risk management.

Reviews that were conducted by the internal auditors during the year were the financial discipline, IT follow-up, corporate governance, Vulindlela Programme and fund management, Eastern Cape rural development, audit of predetermined objectives, bucket eradication, supply chain management and Eastern Cape Rural Development Programme physical verification. Action plans were put in place to address any areas of concern.

Information technology (IT) governance

NURCHA views technology as a critical part of its day-to-day business operations. The Board is responsible for ensuring that prudent steps are taken with regard to IT governance, including aligning the IT strategy with NURCHA's strategic objectives and performance targets. The Audit Committee assists the Board in carrying out its IT responsibilities.

The implementation of an information technology framework is management's responsibility. NURCHA management is committed to developing an IT governance framework and putting proper processes in place to measure and understand the company's overall exposure to IT risks and manage these risks.

ICT governance policies, processes and procedures were reviewed and controls are in place to prevent any system failures and ensure continuity. Systems uptime has been on average above 99,8% for the year, and all critical systems are stable. This is largely attributed to ongoing preventive maintenance on all the systems.

The server, network and backup infrastructure is in line with latest technological trends and, as such, is stable and cost-efficient. The ICT service to business has thus improved overall for the longer term without significant variance on cost impact to the business.

The company Website was upgraded. Caseware was introduced for annual financial reporting. The Pastel Evolution Financial system, which included supply chain management and asset management, was successfully introduced to the environment. The ICT environment is adequately redundant and so ensures minimum downtime, with data being backed up successfully on- and off-site for business continuity and disaster recovery assurance. The ICT environment is adequately secure and geared for response to any malicious threats.

The Board is satisfied that NURCHA is on the right path in improving its ICT governance in line with best practice.

Regulatory environment and statutory compliance

The Board recognises that NURCHA is governed by statute and required to comply with applicable legislation, regulations and codes of business practice. NURCHA is a non-profit company in terms of the Companies Act. The company is registered as a non-profit organisation (NPO) with the Department of Social Development and a Public Benefit Organisation (PBO) with the South African Revenue Service (SARS). NURCHA is governed by the PFMA and the accompanying Treasury Regulations and is classified as a schedule 3(a) public entity under this Act.

NURCHA has a decentralised compliance structure, and the compliance function reports to the Audit Committee through the Company Secretary. Progress is made each year to improve the company's legislative compliance in terms of NURCHA's regulatory universe. The regulatory universe consists of the top 30 Acts that govern NURCHA. The Acts are prioritised according to the likelihood of an event occurring and impact that non-compliance will have to the organisation. The regulatory universe is reviewed regularly and new Acts are added as required.

All reports and returns were submitted to stakeholders on time during the financial year. A new procurement system was implemented during the current financial year. The new system addresses segregation of duties and enhances controls in the procurement of goods and services. Training was provided to all NURCHA employees on the procurement system. Refresher training was provided on the Broad-Based Black Economic Empowerment Act, No 53 of 2003, and on the new BBBEE codes.

Going concern

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

The Board believes the solvency and liquidity requirements are in line with the provisions of the Companies Act.

Sustainability

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

Black economic empowerment

NURCHA policies are in line with the Broad-Based Black Economic Empowerment Act, No 53 of 2003. The policy guides NURCHA activities in the area of social transformation. The company was assessed on the new BEE codes and plans were put in place to improve the rating.

Procurement of goods and services

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

The overall objectives of the procurement policy are to:

- optimise NURCHA's utilisation of its financial and administrative resources and to avoid fruitless and wasteful expenditure;
- ensure that NURCHA's strategic objectives are achieved and its service delivery mandate fulfilled;
- ensure the efficient, effective procurement of all goods and/or services, required for the proper functioning of NURCHA, that conforms to constitutional and legislative requirements;

- promote, develop and support historically disadvantaged individuals, black economic empowerment, small, medium and micro enterprises, and preferential procurement goals; and
- ensure good governance through its procurement processes.

Employment equity

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

Skills development

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

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

Corporate social responsibility

NURCHA gets involved in various social responsibility programmes. During the year, NURCHA contributed to the Govan Mbeki Awards and the Department of Human Settlements' Women's build. A student was placed in the company during winter holidays and provided with experiential training and financial support by means of a monthly stipend. Three students were appointed on learnership programmes for a period of six months and, in addition, contributions were made to the Nelson Mandela Day.

Nontsikelelo Ndzimbomvu
Company Secretary
18 August 2016

ANNUAL FINANCIAL STATEMENTS

Empangeni Extension 11, Empangeni

Contents

CERTIFICATE BY COMPANY SECRETARY

It is hereby certified, in terms of the Companies Act, that for the year ended 31 March 2016 the company has lodged with the Registrar of Companies all such returns as are required of a company incorporated as a Non-Profit organisation, in terms of this Act, and that all such returns are true, correct and up to date. All other returns as required by legislation under NURCHA's regulatory universe have been submitted and all such returns are, true, correct and up to date.

Ntsiki Ndzimbomvu
Company Secretary

18 August 2016

AUDIT COMMITTEE REPORT

The Audit Committee hereby presents the report for the financial year ended 31 March 2016 in accordance with the Treasury Regulations and the PFMA.

Audit Committee's responsibility

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

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

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

I. Effective, efficient and transparent systems of financial and risk management and internal controls;
II. A system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77;
III. An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective; and
IV. A system for properly evaluating all major capital projects prior to a financial decision on the project.

The Audit Committee reports that it has performed its duties as delegated by the Board and has all of the independent non-executive directors who are suitably qualified as recommended by King 3. The committee met four times during the financial year, evaluated its performance, and addressed matters of conflict of interest within the company. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities as contained therein. The committee's chairperson attended the annual general meeting during the year.

1. Appointment and oversight of the external auditors

The committee maintains a professional relationship with the external auditors and co-ordinates activities between the external and internal auditors.

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

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

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

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

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

The committee approved the internal audit plan for the year.

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

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

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

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

The committee is aware of, and has monitored, the risks that affect the organisation. The ongoing internal audit process provides the audit committee with the assurance that all major issues regarding the appropriateness and effectiveness of internal controls are reported. It is through the efficiency of the systems that the fraud that took place during the year was uncovered.

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

During the year, the committee examined and reviewed the quarterly reports on the operational and financial performance of the company. The committee has reviewed the annual financial statements for the year ended 31 March 2016.

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

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

Thulani Nzimakwe
Chairperson – Audit Committee

18 August 2016

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY AND ITS SUBSIDIARIES

Introduction

We have audited the consolidated and separate financial statements of National Urban Reconstruction and Housing Agency, as set out on pages 74 to 114, which comprise the consolidated and separate statement of financial position as at 31 March 2016, and the consolidated and separate statement of comprehensive income, the statement of changes in net assets, the consolidated statement of cash flows and the statement of comparison of budget information with actual information for the year then ended, and the consolidated notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the National Urban Reconstruction and Housing Agency and its subsidiaries as at 31 March 2016 and their financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practice, the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY AND ITS SUBSIDIARIES (continued)

Emphasis of matter

We draw attention to the matter below. Our opinion is not modified in respect of these matters:

Proposed DFIs merger

As disclosed in note 36 of the financial statements, there is a proposed merger of the entity with two other DFIs.

Going concern – merger

Without qualifying our opinion, we draw attention to note 35 to the financial statements which indicates that the company will be merged with the other DFI's planned to be finalised towards the end of the next financial reporting period. This condition indicates the existence of a material uncertainty that may cast significant doubt on the entity to continue to operate as a going concern.

Other matters

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

Material losses

As disclosed in note 24 to the financial statements, material project losses to the amount of R36 216 220 (2015: R193 099) were incurred as a result of a write-off of irrecoverable debtors.

Other reports

As part of our audit of the financial statements for the year ended 31 March 2016, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between the reports and the audited financials. We have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation and internal control. The objective of our tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Strategic planning and performance management

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2016:

- Objective 1: Affordable Housing on pages 32 to 35
- Objective 2: Subsidy Housing on pages 36 to 39
- Objective 3: Infrastructure and Community Facilities on pages 40 to 41
- Objective 4: Programme and Fund Management on pages 42 to 45

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

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

The material findings in respect of the selected objectives are as follows:

Objective 1: Affordable Housing

Usefulness of reported performance information

Measurability of indicators

Performance Indicators not well defined.

Basis for qualified conclusion

The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 38 % of the indicators were not well defined.

Objective 2: Subsidy Housing

Usefulness of reported performance information

Measurability of indicators

Performance indicators not well defined.

Basis for qualified conclusion

The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 50 % of the indicators were not well defined.

Objective 4: Programme and Fund Management

Usefulness of Reported Performance Information

Measurability of indicators

Performance targets not well defined.

The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets should be specific in clearly identifying the nature and required level of performance or specify the period or deadline for delivery. A total of 100% targets were not time bound.

Reliability of Reported Performance Information

I did not identify any material findings on the reliability of the reported performance information.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY AND ITS SUBSIDIARIES (continued)

Additional matters

I draw attention to the following matters:

Achievement of planned targets

Refer to the annual performance report on pages 32 to 45 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected programmes reported in paragraphs above of this report.

Compliance with laws and regulations

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

Financial statements, performance and annual reports

a) The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the Public Finance Management Act. Material misstatements of non-current assets and current assets loans for construction projects not correctly classified and the deficiencies in the policy notes identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

b) The accounting authority did not submit the financial statements for auditing within two months after the end of financial year, as required by section 55(1) (c) (i) of the Public Finance Management Act. Financial Statements were submitted on 1 June 2016.

Expenditure management

c) Effective steps were not taken to prevent irregular expenditure, amounting to R39,2 million (2015: R2 million) as disclosed in note 38 of the Financial Statements, as required by section 38(1) (c) (ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.

Procurement and contract management

d) Invitations for competitive bidding for some contracts were not advertised in at least the government tender bulletin and/or CIDB website, as required by Treasury Regulation 16A6.3(c) and CIDB Reg 24 and National Treasury Instruction No.1 of 2015/2016.

e) Some contracts awarded through competitive bidding were not published in at least the government tender bulletin as required by the National Treasury Instruction No.1 of 2015/2016 and Treasury Regulation 16A6.3(d).

f) Certain invitations for competitive bidding were not advertised for a required minimum period, as required by Treasury Regulations 16A6.3(c) and the National Treasury Instruction No.1 of 2015/2016.

g) Some contracts were awarded to bidders based on criteria that was not stipulated and differed from those stipulated in the original invitation for, in contravention of Treasury Regulations 16A6.2(a).

h) Procurement of certain goods and services by means other than through the invitation of competitive bids was not reported to the National Treasury and the Auditor General within 10 working days of being identified as required by the National Treasury Practice Note 6 of 2007/2008. Communication was only made to Treasury.

i) Certain construction contracts and quotations awarded were not registered with the Construction Industry Development Board (CIDB) as required by Section 22(3) of the Construction Industry Development Board Act and the CIDB Regulation 18(1A).

Internal control

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

Leadership

Limited effective leadership was provided to ensure that the financial information reported was accurate.

Limited oversight over the financial reporting, compliance with laws and regulations and the related internal controls.

Financial and performance management

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

Ngubane and Co. (Jhb) Incorporated
Registered Auditors

Director: Thomas Nkomozephi
Registered Auditor

28 July 2016

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2016

The directors hereby present their report for the year ended 31 March 2016.

Nature of business

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

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

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

The Programme and Fund Management Support Services Portfolio, which was established in April 2012, has continued to exist during the year under review. Details of programmes conducted during the year are provided fully from pages 42 to 45.

Subsidiary companies

NURCHA has established subsidiary companies which are established to ringfence funds provided by various funders. These companies are 100% owned by NURCHA. Details of these companies are provided on page 6.

Directors, prescribed officers and company secretary

The names of the directors, prescribed officers and company secretary are stated on pages 109 and 110.

Material resolutions

During the year, the board of directors resolved that the membership of SEDF expires effective from 1 April 2016.

Directors' responsibility for financial statements

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

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

The financial statements were approved by the directors on 18 August 2016.

Internal controls

An effective internal control environment is the responsibility of the Board. NURCHA management is committed to build a controls-based environment which is conducive to accurate, complete and valid financial reporting. There were no significant weaknesses in controls that were identified during the current financial year except for control weaknesses identified in the area of Supply Chain Management. Management has developed an implementation plan in order to improve controls in this area.

Directors' statement on going-concern assumption

The going-concern assumption has been adopted in preparing the financial statements. The directors have no reason to believe that the company will not be a going concern in the foreseeable future based on the 2016/2017 budget, cash flow forecasts and available cash resources.

NURCHA is currently negotiating with the Department of Human Settlements and National Treasury for additional funding during the transition to the new Human Settlements Development Bank. A formal proposal has been submitted to the Minister of Human Settlements and the response is awaited. New loan applications for both the Subsidy Housing and Infrastructure and Community Facilities Programmes are financed out of NURCHA's own funds.

NURCHA has continued financing new loan applications under the Affordable Housing Programme using own funds and the Public Investment Corporation (PIC) loan facility. The availability of the PIC loan facility came to an end in April 2016, but the final repayment date of the loan is July 2023.

During the year, the R62 million SEDF loan was repaid. Government injected R61 million, which was made available to repay the SEDF loan. CADIZ was also repaid the R8 million owed during the year under review.

The directors are satisfied that NURCHA has access to adequate resources to continue in operational existence for the foreseeable future. The accumulated reserves of the company are reported at R479 million (2015: R400 million) for the financial year. This is after accounting for reversal in impairments in loans amounting to R36 million.

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

Consolidation of the three Development Finance Institutions (DFIs)

A decision has been taken by the main stakeholders of NURCHA that it will consolidate with two other DFIs (NHFC and RHLF) to form a bigger Human Settlements Development Bank. The effective date of this consolidation is expected to be 31 March 2017. The donation agreement of the assets and liabilities is expected to be signed by the three entities in November 2016. This decision has not been taken into account in coming to the going-concern assumption above as NURCHA is taken over as a going concern in the next 12 months. The assets and liabilities/obligations of NURCHA will be transferred to NHFC at carrying value.

Property, plant and equipment

Furniture and equipment were acquired at a cost of R298 613 (2015: R260 480). There were no changes in the nature of property, plant and equipment nor in the policy regarding their use during the year under review. The Loan Management System (LMS) is fully developed and is used to manage loans under the Affordable Housing Programme.

Group construction finance facilities

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

	2016 R'000	2015 R'000
Construction finance capital received in the form of cash deposits	**479 132**	400 265
SEDF loan for construction finance	**–**	61 660
CADIZ Asset Management loan for construction finance	**–**	75 000
Public Investment Corporation (PIC) loan for construction finance	**67 975**	100 000
Total capacity before contingent liabilities	**547 107**	636 925
Commitments relating to loans signed and issued by NURCHA	**645 918**	623 831

Project losses

Project losses of R36 million (2014: R193 099) were incurred during the year under review as a result of defaults on loans to construction projects. NURCHA will pursue legal action on some of these contractors or employers. A portion of this amount may be recovered from contractors' assets and/or claims that are considered valid.

Allowance for impairment of loans

During the year under review, the allowance for impairment of loans decreased by R36 million (2015: R2,4 million – increase). The decrease is mainly due to project loans that were provided for as they were considered irrecoverable. These project loans were written-off in full during the year under review as stated above.

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

Loans to subsidiary companies

During the year under review, the Board took a decision that part of loans made by NURCHA to the two subsidiary companies in prior years must be written off. The decision was informed by the fact that the financial position of the two companies is very weak following the major impairment of their loan books in prior years. These companies are now dormant and chances are limited that their business growth will be significant in future. The total amount written off during the financial year is R25 million (2015: R70 million). The write-off, however, does not affect the Group's results.

Subsidy Housing Programme

NURCHA continued its role as primary lender of the contractors under the Subsidy Housing Programme. Loans signed are now financed out of NURCHA's own funds.

The loan value committed under the Subsidy Housing Programme as at the end of the financial year, using the direct lending method, is R208 million (2015: R141 million). The use of the direct lending method is in line with the decision of the Board in the 2012 financial year regarding the termination of its relationship with the intermediaries to manage aspects of the loan book on its behalf.

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

Auditors

The auditors of NURCHA and its subsidiary companies are Ngubane and Company (Jhb) Incorporated. They have carried out an independent audit of the financial statements in accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA), the General Notice issued in terms thereof and with International Standards on Auditing, and have reported their findings in the audit report on pages 65 to 69.

Post-balance sheet events

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

Development outputs

The following table provides development outputs for the year ended 31 March 2016:

	Contracts signed		Houses/sites in contracts		Houses/sites completed		Loans signed (R'million)		Project values (R'million)	
	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**
Subsidy Housing	32	**32**	16 000	**12 111**	7 044	**3 984**	128,0	**149,5**	1 200,0	**1 186,0**
Affordable Housing	21	**15**	3 150	**2 864**	2 200	**2 261**	315,0	**432,9**	630,0	**1 120,5**
Infrastructure and Community Facilities	4	**4**	n/a	**n/a**	2	**0**	18,0	**8,4**	100,0	**24,2**

The annual financial statements as set out on pages 61 to 114 have been approved by the directors and are signed on their behalf by Mr K Shubane and Mr V Gqwetha.

Khehla Shubane
Chairperson – Board

Viwe Gqwetha
Managing Director

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

		Group		Company	
		2016	2015	**2016**	2015
	Notes	**R'000**	R'000	**R'000**	R'000
Assets					
Current assets		**621 116**	481 286	**345 400**	278 646
Loans for construction projects	3	**252 958**	162 996	**185 598**	41 559
Receivables from exchange transactions	4	**10 866**	7 152	**634**	9
Non-current assets held for sale		**3 138**	–	**3 400**	–
Cash and cash equivalents	6	**354 154**	311 138	**155 768**	237 078
Non-current assets		**87 704**	100 717	**252 756**	291 505
Property, plant and equipment	7	**496**	588	**496**	588
Intangible assets	8	**1 257**	1 675	**1 257**	1 675
Investments in controlled entities	9	**–**	–	**1**	1
Investments in associates	10	**–**	3 138	**–**	3 400
Loans to economic entities	11	**–**	–	**183 922**	225 468
Loans for construction projects	3	**85 951**	95 316	**67 080**	60 373
Total assets		**708 820**	582 003	**598 156**	570 151
Liabilities					
Current liabilities		**121 414**	135 618	**4 830**	61 931
SEDF loan	12	**–**	57 221	**–**	57 221
Payables from exchange transactions	13	**24 905**	17 945	**2 636**	2 901
Managed funds	14	**94 315**	58 643	**–**	–
Provisions	15	**2 194**	1 809	**2 194**	1 809
Non-current liabilities		**69 975**	8 000	**–**	–
CADIZ loan	16	**–**	8 000	**–**	–
PIC loan	17	**69 975**	–	**–**	–
Total liabilities		**191 389**	143 618	**4 830**	61 931
Net assets		**517 431**	438 384	**593 326**	508 221
Net assets					
Capital contribution	18	**361 000**	300 000	**361 000**	300 000
Other reserves		**199 284**	199 284	**199 284**	199 284
Formation grants		**38 300**	38 300	**38 300**	38 300
Accumulated deficit		**(81 153)**	(99 200)	**(5 258)**	(29 363)
Total net assets		**517 431**	438 384	**593 326**	508 221

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Revenue					
Revenue from exchange transactions					
Fees on loans for construction projects		**10 922**	8 410	**6 957**	5 001
Fees charged to controlled entities		**–**	–	**16 670**	13 610
Interest on loans for construction projects		**38 880**	30 925	**23 490**	14 230
Other income		**9 167**	5 623	**6 750**	4 355
Programme management fees	20	**35 950**	24 294	**–**	–
Interest received from investments	21	**17 846**	14 670	**16 670**	13 726
Interest on loans to controlled entities	21	**–**	–	**8 772**	9 517
Total revenue from exchange transactions		**112 765**	83 922	**79 309**	60 439
Expenditure					
Employee related costs	22	**(34 660)**	(35 063)	**(34 660)**	(35 063)
Depreciation and amortisation		**(1 102)**	(1 168)	**(1 102)**	(1 168)
Finance costs	23	**(8 186)**	(5 427)	**(4 439)**	(4 907)
Lease rentals on operating lease		**(2 717)**	(2 320)	**(2 347)**	(2 025)
Bad debt written off	24	**(36 216)**	(193)	**(52 333)**	(69 772)
Repairs and maintenance		**(418)**	(307)	**(418)**	(307)
Other operating expenses	25	**(47 846)**	(26 485)	**(14 122)**	(11 907)
Total expenditure		**(131 145)**	(70 963)	**(109 421)**	(125 149)
Operating (deficit)/surplus		**(18 380)**	12 959	**(30 112)**	(64 710)
Loss on disposal of property, plant and equipment		**(29)**	–	**(29)**	–
Movements in impairments – loans		**36 458**	(2 353)	**54 246**	(59 450)
Income from equity accounted investments		**–**	(79)	**–**	–
		36 429	(2 432)	**54 217**	(59 450)
Surplus/(deficit) for the year		**18 049**	10 527	**24 105**	(124 160)

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2016

	Contributed capital R'000	Other reserves R'000	Formation grants R'000	Total reserves R'000	Accumulated surplus/ (deficit) R'000	Total net assets R'000
Group						
Balance at 1 April 2014	300 000	199 284	38 300	237 584	(109 726)	427 858
Changes in net assets						
Surplus for the year	–	–	–	–	10 526	10 526
Total changes	–	–	–	–	10 526	10 526
Balance at 1 April 2015	300 000	199 284	38 300	237 584	(99 200)	438 384
Changes in net assets						
Surplus for the year	**–**	**–**	**–**	**–**	**18 049**	**18 049**
Capital grant received	**61 000**	**–**	**–**	**–**	**–**	**61 000**
Total changes	**61 000**	**–**	**–**	**–**	**18 049**	**79 049**
Balance at 31 March 2016	**361 000**	**199 284**	**38 300**	**237 584**	**(81 151)**	**517 431**
Company						
Balance at 1 April 2014	300 000	199 284	38 300	237 584	94 797	632 381
Changes in net assets						
Deficit for the year	–	–	–	–	(124 160)	(124 160)
Total changes	–	–	–	–	(124 160)	(124 160)
Balance at 1 April 2015	300 000	199 284	38 300	237 584	(29 363)	508 221
Changes in net assets						
Surplus for the year	**–**	**–**	**–**	**–**	**24 105**	**24 105**
Capital grant received	**61 000**	**–**	**–**	**–**	**–**	**61 000**
Total changes	**61 000**	**–**	**–**	**–**	**24 105**	**85 105**
Balance at 31 March 2016	**361 000**	**199 284**	**38 300**	**237 584**	**(5 258)**	**593 326**
Notes	18					

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

		Group		Company	
		2016	2015	**2016**	2015
	Notes	**R'000**	R'000	**R'000**	R'000
Cash flows from operating activities					
Receipts					
Loan repayments and services rendered		**46 872**	56 983	**23 627**	27 624
Interest income		**56 679**	14 669	**24 298**	23 243
Other receipts		**9 167**	5 623	**5 520**	4 355
		112 718	77 275	**53 445**	55 222
Payments					
Employee costs		**(34 659)**	(35 063)	**(34 659)**	(35 063)
Suppliers		**(49 531)**	(117 225)	**(45 541)**	(78 947)
Finance costs		**(8 186)**	(5 427)	**(4 439)**	(4 907)
		(92 376)	(157 715)	**(84 639)**	(118 917)
Net cash flows from operating activities	27	**20 342**	(80 440)	**(31 194)**	(63 695)
Cash flows from investing activities					
Purchase of property, plant and equipment	7	**(299)**	(260)	**(299)**	(260)
Proceeds from sale of property, plant and equipment	7	**9**	–	**9**	–
Purchase of intangible assets	8	**(405)**	(695)	**(405)**	(695)
Proceeds from sale of intangible assets	8	**74**	–	**74**	–
Loans advanced to economic entities		**–**	–	**67 585**	100 810
Loan disbursements for construction projects		**(44 139)**	(64 778)	**(122 539)**	(68 182)
Net cash flows from investing activities		**(44 760)**	(65 733)	**(55 575)**	31 673
Cash flows from financing activities					
Capital grants received	18	**61 000**	–	**61 000**	–
Repayment of SEDF loan		**(55 541)**	–	**(55 541)**	–
Repayment of CADIZ loan		**(8 000)**	–	**–**	–
Increase in PIC loan		**69 975**	–	**–**	–
Decrease in overdraft facility	5	**–**	(200)	**–**	–
Net cash flows from financing activities		**67 434**	(200)	**5 459**	–
Net increase/(decrease) in cash and cash equivalents		**43 016**	(146 373)	**(81 310)**	(32 022)
Cash and cash equivalents at the beginning of the year		**311 138**	457 511	**237 078**	269 100
Cash and cash equivalents at the end of the year	6	**354 154**	311 138	**155 768**	237 078

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2016

Group	Reference	Approved budget R'000	Adjust-ments R'000	Final budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Fees on loans for construction projects	(a)	7 150	–	**7 150**	10 922	**3 772**
Interest on loans for construction projects	(a)	48 034	–	**48 034**	38 880	**(9 154)**
Other income	(b)	3 741	–	**3 741**	9 167	**5 426**
Programme management fees	(c)	54 603	–	**54 603**	35 950	**(18 653)**
Interest received – investments and controlled entities	(a)	9 198	–	**9 198**	17 846	**8 648**
Total revenue from exchange transactions		122 726	–	**122 726**	112 765	**(9 961)**
Expenditure						
Personnel costs	(d)	(38 053)	–	**(38 053)**	(34 660)	**3 393**
Depreciation and amortisation		(1 107)	–	**(1 107)**	(1 102)	**5**
Finance costs	(e)	(6 987)	–	**(6 987)**	(8 186)	**(1 199)**
Lease rental on operating lease		(2 694)		**(2 694)**	(2 717)	**(23)**
Bad debt written off	(f)	–	–	**–**	(36 216)	**(36 216)**
Repairs and maintenance	(g)	(234)	–	**(234)**	(418)	**(184)**
General expenses	(c)	(53 757)	–	**(53 757)**	(47 846)	**5 911**
Total expenditure		(102 832)	–	**(102 832)**	(131 145)	**(28 315)**
Operating deficit		19 894	–	**19 894**	(18 380)	**(38 274)**
Loss on disposal of assets and liabilities		–	–	**–**	(29)	**(29)**
Movements in impairments – loans	(f)	(5 230)	–	**(5 230)**	36 458	**41 688**
Surplus for the year		14 664	–	**14 664**	18 049	**3 385**

Group	Reference	Approved budget R'000	Adjustments R'000	Final budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000
Statement of Financial Position						
Assets						
Current assets		602 828	–	**602 828**	621 116	**18 288**
Loans for construction projects	(a)	386 279	–	**386 279**	252 958	**(133 321)**
Receivables from exchange transactions	(k)	7 139	–	**7 139**	10 866	**3 727**
Non-current assets held for sale		3 217	–	**3 217**	3 138	**(79)**
Cash and cash equivalents	(a)	206 193	–	**206 193**	354 154	**147 961**
Non-current assets		2 435	–	**2 435**	87 704	**85 269**
Property, plant and equipment		456	–	**456**	496	**40**
Intangible assets		1 979	–	**1 979**	1 257	**(722)**
Loans for construction projects	(a)	–	–	**–**	85 951	**85 951**
Total assets		605 263	–	**605 263**	708 820	**103 557**
Liabilities						
Current liabilities		50 600	–	**50 600**	121 414	**70 814**
Payables from exchange transactions	(o)	17 105	–	**17 105**	24 905	**7 796**
Managed funds	(l)	31 044	–	**31 044**	94 315	**63 271**
Provisions		2 451	–	**2 451**	2 194	**(257)**
Non-current liabilities		44 144	–	**44 144**	69 975	**25 831**
CADIZ loan	(n)	17 484	–	**17 484**	–	**(17 484)**
PIC loan	(n)	26 660	–	**26 660**	69 975	**43 315**
Total liabilities		94 744	–	**94 744**	191 389	**96 645**
Net assets		510 519	–	**510 519**	517 435	**6 912**
Net assets attributable to owners of controlling entity						
Capital contribution		361 000	–	**361 000**	361 000	**–**
Other reserves		199 284	–	**199 284**	199 284	**–**
Formation grants		38 300	–	**38 300**	38 300	**–**
Accumulated deficit	(k)	(88 065)	–	**(88 065)**	(81 153)	**6 912**
Total net assets		510 519	–	**510 519**	517 435	**6 912**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (continued)

FOR THE YEAR ENDED 31 MARCH 2016

Material differences between budget and actual amounts

(a) The underperformance in income relates to the lending business, even though new loans were signed during the year, the loan uptake during the year was slow. The unfavorable performance in the loan book resulted in a favorable variance in the cash balances and interest earned from those cash balances.

(b) Bad debts recovered were budgeted as part of the other income and collection targets were exceeded.

(c) The variance reflects the nature of this business stream, programme management. The start-up phases are generally long and difficult to predict and the majority of the current programmes are in their winding-down phase.

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

(e) The finance costs budget was based on a lower prime lending interest rate.

(f) The entity does not budget for losses. These bad debts had been provided for in full.

g) The repairs and maintenance budget was understated.

(h) The payables' budget was understated, the biggest contributor to this being the accrued expenses which exceeded the budget.

(i) The variance relates to managed funds, which are funds that NURCHA is managing on behalf of Provincial Departments of Human Settlements. Cash flow projections for these funds are done at Provincial level, and not at entity level.

(j) The CADIZ facility came to an end during the year at the request of CADIZ and the PIC facility is fully utilised.

(k) The receivables relate to programme management, VAT and deposits were understated when forecasting.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

ACCOUNTING POLICIES

1. Presentation of financial statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the group will continue to operate as a going concern in the foreseeable future.

1.3 Consolidation

Basis of consolidation

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

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

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

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

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

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

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

1. Accounting policies (continued)

1.3 Consolidation (continued)

Investment in associates

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

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

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

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

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

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

When the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's financial statements. In any case, the difference between the reporting date of the associate and that of the group is more than three months. The length of the reporting periods and any difference in the reporting dates is the same from period to period.

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

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

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in surplus or deficit.

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

The company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment in accordance with the

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

1.4 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and/or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

1.5 Significant judgements and sources of estimation uncertainty

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

Trade receivables/Held to maturity investments and/or loans and receivables

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 – *Provisions.*

Allowance for doubtful debts

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

1.6 Property, plant and equipment

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

1. Accounting policies (continued)

1.6 Property, plant and equipment (continued)

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

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

Property, plant and equipment are initially measured at cost.

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

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

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

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

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

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	5 years
Office equipment	Straight line	5 years
Computer equipment	Straight line	3 years

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

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

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

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

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

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

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost of fair value of the asset can be measured reliably.

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

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

Internally generated goodwill is not recognised as an intangible asset.

1. Accounting policies (continued)

1.7 Intangible assets (continued)

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

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

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential is expected from its use or disposal.

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

1.8 Investments in controlled entities

Group financial statements

The group financial statements include those of the company and its controlled entities. The revenue and expenses of the controlled entities are included from the effective date of acquisition.

On acquisition the group recognises the controlled entity's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less costs to sell.

Company financial statements

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

1.9 Investments in associates

Group financial statements

An investment in an associate is accounted for using the equity method, except when the asset is classified as held-for-sale. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the group's share of the surpluses or deficits of the investee after acquisition date. The use of the equity method is discontinued from the date the group ceases to have significant influence over an associate.

Any impairment losses are deducted from the carrying amount of the investment in associate.

Distributions received from the associate reduce the carrying amount of the investment.

Surpluses and deficits resulting from transactions with associates are recognised only to the extent of unrelated investors' interests in the associate.

On acquisition the excess of the group's interest of the net fair value of an associate's identifiable assets, liabilities and contingent liabilities over the cost is accounted for as goodwill, and is included in the carrying amount of the associate.

The excess of the group's share of the net fair value of an associate's identifiable assets, liabilities and contingent liabilities over the cost is excluded from the carrying amount of the investment and is instead included as revenue in the period in which the investment is acquired.

The most recent available financial statements of the associate is used to apply the equity method. If the reporting dates of the group and associates are different, the associate prepares, financial statements as of the same date as of the reporting date of the group unless it is impractical to do so.

The recognition of the group's share of deficits is discontinued once the group's share of deficits of an associate equals or exceeds its interest in the associate.

Company financial statements

An investment in an associate is carried at cost less any accumulated impairment

1.10 Non-current assets held for sale

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current Assets classified as held-for-sale, are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

1.11 Financial instruments

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

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

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

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

1. Accounting policies (continued)

1.11 Financial instruments (continued)

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Accounting policies (continued)

1.12 Tax

Holding company

The holding company is exempted from income tax in terms of section 10(1)(c11) of the Income Tax Act 1962.

Controlled entities

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities

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

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

Tax expenses

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

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

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

1.13 Leases

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

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

Operating leases – lessee

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

1.14 Capital contributed by Government

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

1.15 Employee benefits

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

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

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

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

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

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

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

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

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

1.16 Provisions and contingencies

Provisions are recognised when:

- the group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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

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

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

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

1. Accounting policies (continued)

1.16 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

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

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

Measurement

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

Rendering of services

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

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

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

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

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

Interest and dividends

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

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

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

1.19 Investment income

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

1.20 Fruitless and wasteful expenditure

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

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

1. Accounting policies (continued)

1.21 Irregular expenditure

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

(a) this Act; or

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

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

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

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

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

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

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

1.22 Budget information

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

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

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

The approved budget covers the fiscal period from 1 April 2015 to 31 March 2016.

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

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

1.23 Related parties

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

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

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

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

1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The group will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The group will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 1 April 2016 or later periods:

Standard/Interpretation	Effective date	Impact
GRAP 20: *Related parties*	No effective date has been determined.	No impact
GRAP 32: *Service Concession Arrangements: Grantor*	No effective date has been determined.	No impact
GRAP 108: *Statutory Receivables*	No effective date has been determined.	No impact
GRAP 109: *Accounting by Principals and Agents*	No effective date has been determined.	No impact

	Group		Company	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
3. Loans for construction projects				
Designated at fair value				
Loans for construction projects	**343 082**	298 942	**253 217**	130 678
Impairments of loans	**(4 173)**	(40 630)	**(539)**	(28 746)
	338 909	258 312	**252 678**	101 932
Non-current assets				
Loans for construction projects	**85 951**	95 316	**67 080**	60 373
Current assets				
Loans for construction projects	**252 958**	162 996	**185 598**	41 559
Repayment schedule:				
The above loans bear interest at rates ranging between 10,5% and 16,25% per annum, are secured and are repayable on completion of the projects or by:				
31 March 2016	**–**	203 627	**–**	70 305
31 March 2017	**257 132**	94 901	**186 137**	59 958
31 March 2018	**66 717**	61	**66 717**	61
31 March 2019	**18 938**	68	**68**	68
31 March 2020	**77**	75	**77**	75
31 March 2021	**86**	84	**86**	84
31 March 2022	**97**	93	**97**	93
31 March 2023	**35**	33	**35**	34
	343 082	298 942	**253 217**	130 678

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

Allowance for impairment of loans

Reconciliation of changes in allowance for impairment of loans

2016	Opening balance R'000	Additional impairments raised R'000	Used to write off loans R'000	Reversed during the year R'000	Closing balance
Group					
Impairments of loans	**40 630**	**481**	**(31 113)**	**(5 825)**	**4 173**
Company					
Impairments of loans	**28 746**	**481**	**(28 474)**	**(214)**	**539**

Reconciliation of changes in allowance for impairment of loans

2015	Opening balance R'000	Additional impairments raised R'000	Reversed during the year R'000	Closing balance
Group				
Impairments of loans	38 278	6 093	(3 740)	40 631
Company				
Impairments of loans	26 886	2 750	(889)	28 747

	Group		Company	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000

4. Receivables from exchange transactions

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Employee costs in advance	**14**	7	**14**	7
Prepayments	**69**	100	**–**	2
Deposits	**570**	–	**570**	–
Other receivables	**1 114**	54	**50**	–
Programme management receivables	**6 769**	6 831	**–**	–
VAT receivable	**2 330**	160	**–**	–
	10 866	7 152	**634**	9

5. Non-current assets held-for-sale

The entity agreed in a directors' meeting to sell an investment in associate, and have identified a buyer for the investment. The sale agreement has been signed by the two parties but other legal documents have not been signed yet between the buyer and other shareholders. This decision was taken in line with NURCHA's strategy of focusing on its core business. The price of the investment has been fixed at R1,3 million which is based on valuation by an independent valuator.

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
6. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Cash on hand	**3**	3	**3**	3
Bank balances	**116 401**	18 056	**12 558**	2 951
Short-term deposits held for lending purpose	**143 306**	234 318	**143 207**	234 124
Managed funds	**94 444**	58 761	**–**	–
	354 154	311 138	**155 768**	237 078

	2016 Cost/ valuation R'000	2016 Accumulated depreciation and accumulated impairment R'000	2016 Carrying value R'000	2015 Cost/ valuation R'000	2015 Accumulated depreciation and accumulated impairment R'000	2015 Carrying value R'000
7. Property, plant and equipment						
Group						
Leasehold property	**856**	**(856)**	**–**	940	(899)	41
Furniture and fixtures	**1 272**	**(1 193)**	**79**	1 234	(1 164)	70
Computer equipment	**2 388**	**(2 019)**	**369**	2 137	(1 736)	401
Other equipment	**143**	**(95)**	**48**	143	(67)	76
Total	**4 659**	**(4 163)**	**496**	4 454	(3 866)	588
Company						
Leasehold property	**856**	**(856)**	**–**	940	(899)	41
Furniture and fixtures	**1 272**	**(1 193)**	**79**	1 234	(1 164)	70
Computer equipment	**2 388**	**(2 019)**	**369**	2 137	(1 736)	401
Other equipment	**143**	**(95)**	**48**	143	(67)	76
Total	**4 659**	**(4 163)**	**496**	4 454	(3 866)	588

Group 2016	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Reconciliation of property, plant and equipment					
Leasehold property	**41**	**–**	**(38)**	**(3)**	**–**
Furniture and fixtures	**70**	**37**	**–**	**(28)**	**79**
Computer equipment	**401**	**262**	**–**	**(293)**	**370**
Other equipment	**76**	**–**	**–**	**(28)**	**48**
	588	**299**	**(38)**	**(352)**	**497**

Group 2015					
Reconciliation of property, plant and equipment					
Leasehold property	58	–	–	(17)	41
Furniture and fixtures	91	13	–	(34)	70
Computer equipment	432	248	–	(279)	401
Other equipment	105	–	–	(29)	76
	686	261	–	(359)	588

Company 2016	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Reconciliation of property, plant and equipment					
Leasehold property	**41**	**–**	**(38)**	**(3)**	**–**
Furniture and fixtures	**70**	**37**	**–**	**(28)**	**79**
Computer equipment	**401**	**262**	**–**	**(293)**	**370**
Other equipment	**76**	**–**	**–**	**(28)**	**48**
	588	**299**	**(38)**	**(352)**	**497**

Company 2015					
Reconciliation of property, plant and equipment					
Leasehold property	58	–	–	(17)	41
Furniture and fixtures	91	13	–	(34)	70
Computer equipment	432	248	–	(279)	401
Other equipment	105	–	–	(29)	76
	686	261	–	(359)	588

8. Intangible assets

	2016 Cost/ valuation R'000	2016 Accumulated depreciation and accumulated impairment R'000	2016 Carrying value R'000	2015 Cost/ valuation R'000	2015 Accumulated depreciation and accumulated impairment R'000	2015 Carrying value R'000
Group						
Computer software, internally generated	**4 022**	**(3 381)**	**641**	4 096	(2 895)	1 201
Computer software, other	**3 118**	**(2 502)**	**616**	2 713	(2 239)	474
Total	**7 140**	**(5 883)**	**1 257**	6 809	(5 134)	1 675
Company						
Computer software, internally generated	**4 022**	**(3 381)**	**641**	4 096	(2 895)	1 201
Computer software, other	**3 118**	**(2 502)**	**616**	2 713	(2 239)	474
Total	**7 140**	**(5 883)**	**1 257**	6 809	(5 134)	1 675

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Group 2016					
Reconciliation of intangible assets					
Computer software, internally generated	**1 201**	**–**	**(75)**	**(486)**	**640**
Computer software, other	**474**	**405**	**–**	**(263)**	**616**
	1 675	**405**	**(75)**	**(749)**	**1 256**
Group 2015					
Reconciliation of intangible assets					
Computer software, internally generated	1 460	369	–	(628)	1 201
Computer software, other	330	326	–	(182)	474
	1 790	695	–	(810)	1 675

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Company 2016					
Reconciliation of intangible assets					
Computer software, internally generated	**1 201**	**–**	**(75)**	**(486)**	**640**
Computer software, other	**474**	**405**	**–**	**(263)**	**616**
	1 675	**405**	**(75)**	**(749)**	**1 256**
Company 2015					
Reconciliation of intangible assets					
Computer software, internally generated	1 460	369	–	(628)	1 201
Computer software, other	330	326	–	(182)	474
	1 790	695	–	(810)	1 675

9. Investments in controlled entities

Name of company	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
NURCHA Finance Company (Proprietary) Limited	**100%**	100%	**–**	–
NURCHA Equity Services (Proprietary) Limited	**100%**	100%	**1**	1
NURCHA Development Finance (Proprietary) Limited	**100%**	100%	**–**	–
NURCHA Management Services (Proprietary) Limited	**100%**	100%	**–**	–
NURCHA Bridging Finance (Proprietary) Limited	**100%**	100%		
NURCHA Loan Fund (Proprietary) Limited	**100%**	100%	**–**	–
			1	1

The investments in controlled entities are shown at cost.

	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
10. Investments in associates				
Name of entity				
TUSK Construction Support Services (Proprietary) Limited	–	30%	–	3 400
SEBRA (Proprietary) Limited	–	30%	**1 044**	1 044
			1 044	4 444
Transfer to non-current assets held for sale/ Impairments	–	30%	**(1 044)**	(1 044)
			–	3 400
The carrying amounts of associates are shown net of impairment losses.				

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
Movements in carrying value				
Opening balance	**3 138**	3 217	**3 400**	4 444
Share of surplus/(deficit)	–	(79)	–	–
Impairment of investments in associates	–	–	–	(1 044)
Transfer to non-current assets held for sale	**(3 138)**	–	**(3 400)**	–
	–	3 138	–	3 400
11. Loans to/(from) economic entities				
Controlled entities				
NURCHA Management Services (Proprietary) Limited*	–	–	**48 354**	38 132
NURCHA Finance Company (Proprietary) Limited*	–	–	**20**	–
NURCHA Equity Services (Proprietary) Limited*	–	–	**20**	–
NURCHA Development Finance (Proprietary) Limited*	–	–	**39 961**	35 935
NURCHA Bridging Finance (Proprietary) Limited*	–	–	**47 238**	48 842
NURCHA Loan Fund (Proprietary) Limited*	–	–	**48 330**	102 559
	–	–	**183 923**	225 468

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

During the year the Board approved to write off loans to controlled entities of R24,8 million as uncollectable and provided for an impairment of R31,6 million.

	Group		Company	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000

12. SEDF loan

SEDF loan	**–**	57 221	**–**	57 221

The loan from SEDF was Rand denominated, interest free, unsecured and was repaid on 6 February 2016.

Current liabilities				
Carrying value	**–**	57 221	**–**	57 221

13. Payables from exchange transactions

Trade payables	**4 386**	1 963	**602**	881
CFDP grant	**13 272**	13 219	**–**	–
Other payables	**678**	277	**217**	78
VAT payables	**21**	430	**–**	–
Payroll-related payables	**1 398**	1 420	**1 398**	1 420
Other accrued expenses	**5 150**	633	**419**	522
	24 905	17 945	**2 636**	2 901

14. Managed funds

Managed funds comprises of:				
Vulindlela rural housing project	**80 752**	27 265	**–**	–
Eastern Cape bucket eradication programme	**2 214**	12 712	**–**	–
Eastern Cape rural housing pilot	**11 349**	18 666	**–**	–
	94 315	58 643	**–**	–

15. Provisions

Leave provision				
Opening balance	**1 809**	2 189	**1 809**	2 189
Additions	**595**	255	**595**	255
Utilised during the year	**(210)**	(635)	**(210)**	(635)
Total	**2 194**	1 809	**2 194**	1 809

16. CADIZ loan

CADIZ loan carrying value	**–**	8 000	**–**	–

The loan bears interest at prime interest rate plus 1% and interest was payable monthly. The loan was secured by subordination of shareholder's loan account; pledge and cession of bank account, shares and book debts; and cession of contractor securities. The loan was repaid on 23 October 2015.

		Group		Company	
		2016	2015	**2016**	2015
		R'000	R'000	**R'000**	R'000
17.	**PIC LOAN**				
	PIC loan carrying value	**69 974**	–	**–**	–
	The loan bears interest at prime interest rate and interest is serviced monthly. The capital is repayable in 8 equal quarterly payments commencing in 1 July 2021. The loan is secured by subordination of shareholder's loan account; pledge and cession of bank account, shares and book debts; and cession of developer securities.				
18.	**Contributed capital**				
	Capital grant received	**361 000**	300 000	**361 000**	300 000
19.	**Formation grants**				
	Open Society Institute of New York	**18 300**	18 300	**18 300**	18 300
	SA Government – Department of Human Settlements	**20 000**	20 000	**20 000**	20 000
		38 300	38 300	**38 300**	38 300
20.	**Programme management fees**				
	Programme management fees	**35 950**	24 294	**–**	–
21.	**Interest revenue**				
	Controlled entities	**–**	–	**8 772**	9 517
	Money markets	**16 408**	13 823	**16 396**	13 525
	Current accounts	**1 438**	847	**274**	201
		17 846	14 670	**16 670**	13 726
		17 846	14 670	**25 442**	23 243

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
22. Employee-related costs				
Basic pay	**28 176**	26 232	**28 176**	26 232
Performance bonus	**1 838**	1 451	**1 838**	1 451
Unemployment insurance fund	**81**	82	**81**	82
Workmen's compensation fund	**37**	3	**37**	3
Skills development levy	**306**	326	**306**	326
Leave pay provision charge	**595**	255	**595**	255
Travel, motor car, accommodation, subsistence and other allowances	**199**	430	**199**	430
Group life insurance	**495**	454	**495**	454
Temporary staff	**2 934**	5 831	**2 934**	5 831
	34 661	35 064	**34 661**	35 064
23. Finance costs				
Bank	**–**	(294)	**–**	–
Fair value adjustments: notional interest	**4 439**	4 907	**4 439**	4 907
Interest paid from borrowings	**3 747**	814	**–**	–
	8 186	5 427	**4 439**	4 907
24. Bad debts written off				
Bad debts written off – controlled entities	**–**	–	**24 751**	69 772
Bad debts written off – other loans	**36 216**	193	**27 582**	–
	36 216	193	**52 333**	69 772

These bad debts written off were part of the provisions that were raised in the previous financial years which were reversed in the current financial year.

	Group		Company	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
25. Other operating expenses				
Auditors' remuneration	**1 689**	1 885	**991**	1 189
Bank charges	**115**	103	**49**	41
Cleaning	**158**	173	**158**	173
Consulting and professional fees	**5 498**	12 105	**3 167**	3 744
Consumables	**82**	55	**54**	40
Debt collection	**3 163**	2 920	**2 981**	1 641
Entertainment	**2**	11	**2**	11
Fines and penalties	**29**	1	**–**	–
Insurance	**466**	440	**270**	268
Marketing	**763**	924	**725**	685
Annual report	**178**	125	**178**	125
Placement fees	**457**	153	**457**	153
Postage and courier	**154**	108	**154**	108
Printing and stationery	**297**	354	**297**	354
Promotions	**–**	50	**–**	50
Secretarial fees	**8**	8	**3**	3
Software expenses	**673**	261	**643**	124
Staff welfare	**9**	28	**9**	28
Subscriptions and membership fees	**133**	123	**128**	123
Telephone and fax	**354**	443	**354**	443
Training	**770**	420	**756**	420
Travel – local	**1 697**	2 148	**889**	700
Assets expensed	**49**	8	**49**	8
Electricity	**769**	880	**769**	880
General expenses	**1 016**	510	**1 039**	503
Programme implementation expenses	**29 317**	2 249	**–**	93
	47 846	26 485	**14 122**	11 907
26. Auditors' remuneration				
Fees	**1 601**	1 822	**903**	1 148
Expenses	**88**	63	**88**	42
	1 689	1 885	**991**	1 190

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
27. Cash generated from/(used in) operations				
Surplus/(deficit)	**18 048**	10 526	**24 104**	(124 161)
Adjustments for non cash flow items:				
Depreciation and amortisation	**1 102**	1 168	**1 102**	1 168
Movements in impairments of loans	**(36 458)**	2 353	**(54 217)**	59 450
Loss on disposal of property, plant and equipment	**29**	–	**–**	–
Interest on SEDF loan	**4 439**	4 907	**4 439**	4 907
SEDF debt recovery	**(6 119)**	–	**(6 119)**	–
Income from equity accounted investments	**–**	79	**–**	–
Changes in working capital:	**39 301**	(99 473)	**(503)**	(5 059)
Receivables from exchange transactions	**(3 714)**	6 608	**(625)**	537
Payables from exchange transactions	**6 957**	(7 280)	**(263)**	(5 216)
Provisions	**385**	(380)	**385**	(380)
Managed funds	**35 673**	(98 421)	**–**	–
	20 342	(80 440)	**(31 194)**	(68 695)
28. Commitments				
Operating leases expense – as lessee (expense)				
Minimum lease payments due				
– within one year	**2 346**	2 027	**2 346**	2 027
– in second to fifth year inclusive	**4 033**	5 236	**4 033**	5 236
	6 379	7 263	**6 379**	7 263

Operating lease payments represent rentals payable by the group for its office space. Leases are negotiated for an average term of three years and rentals are fixed for an average of one year. No contingent rent is payable.

29. Contingencies

There are no significant contingent liabilities at the reporting date.

30. Related parties

Relationships

Members	Refer to directors' report
Controlled entities	Refer to note 9
Associates	Refer to note 10
Shareholder with significant influence	Refer to note 39 and 40
Members and prescribed officers renumeration	Refer to note 31
Loans to economic entities	Refer to note 11

	Group		Company	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Related party transactions				
South African Government through NDOHS				
Recapatilisation grant	–	–	**61 000**	–
Controlled entities				
NURCHA Management Services (Proprietary) Limited*	–	–	**(10 222)**	5 939
NURCHA Finance Company (Proprietary) Limited*	–	–	**(20)**	115 728
NURCHA Equity Services (Proprietary) Limited*	–	–	**(20)**	38 765
NURCHA Development Finance (Proprietary) Limited*	–	–	**(4 026)**	312
NURCHA Bridging Finance (Proprietary) Limited*	–	–	**1 604**	(21 719)
NURCHA Loan Fund (Proprietary) Limited*	–	–	**54 229**	(38 215)
	–	–	**41 545**	100 810

31. Members' and prescribed officers' emoluments

	Salary	Bonus	Provident	Total
Executive				
2016				
Mr V Gqwetha (Managing Director)	**1 858**	**205**	**367**	**2 430**
Mr S Nxusani (Financial Director)	**1 440**	**113**	**285**	**1 838**
Ms A Struwig (Executive Director: Lending Portfolio)	**1 450**	**106**	**161**	**1 717**
	4 748	**424**	**813**	**5 985**
2015				
Mr V Gqwetha (Managing Director)	1 711	116	338	2 165
Mr S Nxusani (Financial Director)	1 351	91	267	1 709
Ms A Struwig (Executive Director: Lending Portfolio)	1 360	85	151	1 596
	4 422	292	756	5 470

	Members' fees	Total
Non-executive		
2016		
Mr K Shubane (Chairman)	**285**	**285**
Mr W Ndodana	**31**	**31**
Ms M Nkomo	**69**	**69**
Mr T Nzimakwe	**207**	**207**
Mr H Prinsloo	**84**	**84**
Ms Z Rylands	**113**	**113**
Ms L Sing	**214**	**214**
	1 003	**1 003**
2015		
Mr K Shubane (Chairman)	259	259
Mr W Ndodana	29	29
Ms M Nkomo	65	65
Mr T Nzimakwe	173	173
Mr K Oliver	36	36
Mr H Prinsloo	65	65
Ms Z Rylands	128	128
Ms L Sing	175	175
	930	930

31. Members' and prescribed officers' emoluments (continued)

	Salary	Bonus	Provident	Total
Prescribed officers				
2016				
Mr T Jali (appointed on 1 August 2015)	**691**	**65**	**69**	**825**
Ms N Ndzimbomvu	**919**	**67**	**102**	**1 088**
	1 610	**132**	**171**	**1 913**
2015				
Mr N Cleaver	419	–	47	466
Mr T Mosia	574	58	64	696
Ms N Ndzimbomvu	862	54	96	1 012
	1 855	112	207	2 174

32. Comparative figures

There are comparative figures that have been reclassified in the current financial period. The purpose of the reclassifications is to enhance fair presentation and disclosure in the financial statements. In the comparative year temporary staff costs of R6 million and operating lease cost of R2 million were classified as other operating expenses. Temporary costs are now classified under personnel costs and operating lease costs are now a line item on the face of the statement on financial performance.

33. Risk management

Financial risk management

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

Liquidity risk

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

Credit risk

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

Market risk

Capital risk management

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

Interest rate risk

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

33. Risk management (continued)

Cash flow Interest rate risk

Financial instruments	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables – normal credit terms	266 962	66 717	18 938	77	219
Cash in current banking institutions	354 154	–	–	–	–
Trade and other payables – extended credit terms	(121 413)	–	–	–	–
PIC loan	–	–	–	–	(69 975)

34. Events after the reporting date

There are no events after reporting date to report.

35. Going concern

The directors have reviewed the cash flows of the entity and are satisfied that the entity will still be able to operate in the near future and also be able to settle its current commitments. Attention is drawn to note 36 of the annual financial statements which refers to the planned merger of the three DFIs that is to take place. This condition indicates the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

36. Merger of three Development Finance Institutions

A decision was taken by the Minister of Human Settlements that it will merge NURCHA with two other DFIs, NHFC and RHLF to form a Human Settlements Development Bank. The effective date of this merger is expected to be 31 March 2017. The buy and sell agreement of the assets and liabilities is expected to be signed by the three entities in November 2016.

	Group		Company	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
37. Fruitless and wasteful expenditure				
Tax Penalties	**29**	–	**–**	–

The penalty relates to a VAT penalty imposed by SARS for late submission of a VAT return. Disciplinary proceedings were not followed as this was an error by a staff member who was new to the entity. Preventative measures have been introduced to ensure that this does not reoccur.

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
38. Irregular expenditure				
Opening balance	**–**	–	**–**	–
Add: Irregular expenditure – current year	**39 200**	1 994	**–**	–
Less: Amounts condoned	**(39 200)**	(1 994)	**–**	–
	–	–	**–**	–

Details of current year irregular expenditure – current year

Deviation	Amount
Invitation for competitive bidding was not advertised in at least the government tender bulletin and the CIDB website per the applicable regulations. However the competitive bids were advertised on newspapers (Cape Times and Sowetan) and NURCHA website for the minimum required period. The award results for these competitive bids were also advertised on the NURCHA website.	**28 014**
Invitation for competitive bidding for construction contract was not advertised for a required minimum period. Advertisement for the bid had different requirements to the tender document and the subsequent award. The error on the advertisement was communicated during the briefing sessions.	**9 806**
A request for quotations process was followed instead of a competitive bid process. Initial estimates had indicated that the work in progress that had to be completed would not exceed the threshold of R500 000. This transaction related to work in progress of seven houses that had to be completed so that the entire project could be handed over to the client. When the term for this project came to and end, only R264 811 worth of work had been done by the contractor and their term was not extended. Therefore the expenditure for this transaction was only limited to R264 811.	**509**
A request for quotations was not followed per the required regulation policy.	**871**
	39 200

No financial losses were incurred by the entity because of this non-compliance. The entity has put in place corrective measures and plans to ensure that the entity's procurement policies are adhered to at all times.

	Group 2016 R'000	Group 2015 R'000	Company 2016 R'000	Company 2015 R'000
39. Cumulative support by South African Government through NDOHS since inception				
Formation grant	**20 000**	20 000	**20 000**	20 000
Specialised lending grant	**61 660**	61 660	**61 660**	61 660
Recapitalisation grant	**361 000**	300 000	**361 000**	300 000
Interest on loan grant	**3 500**	3 500	**3 500**	3 500
Contractor Finance and Development Programme grant	**20 000**	20 000	**20 000**	20 000
	466 160	405 160	**466 160**	405 160
40. Cumulative support by various Soros Foundations since inception				
Formation grant	**18 300**	18 300	**18 300**	18 300
Project losses recovered	**8 801**	8 801	**8 801**	8 801
Savings grants received	**5 155**	5 155	**5 155**	5 155
Administration expenses grants	**11 672**	11 672	**11 672**	11 672
Grants received – OSI	**13 369**	13 369	**13 369**	13 369
	57 297	57 297	**57 297**	57 297
Guarantees supplied – SAFE	**–**	203 307	**–**	–
$10 million as a 10 year loan facility – SEDF	**–**	61 660	**61 660**	61 660
	–	264 967	**61 660**	61 660
	57 297	322 264	**118 957**	118 957

41. Key performance indicators

	Budget	Actual
Value of loans signed (R'million)		
Subsidy Housing	128,0	**149,5**
Affordable Housing (including serviced sites)	315,0	**432,9**
Infrastructure and Community Facilities	18,0	**8,4**
Houses/sites and infrastructure project completed		
Subsidy Housing	7 044	**3 984**
Affordable Housing (including serviced sites)	2 200	**2 261**
Loan defaults (R'000)		
Impairment of loans for construction projects	47 568	**36 216**

42. Amount available for construction finance

	Group		Company	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
Accumulated surplus	**479 132**	400 084	**206 725**	353 008
SEDF loan available for construction finance	**–**	61 660	**–**	61 660
Cadiz facility available for construction finance	**–**	75 000	**–**	–
PIC facility available for construction finance	**70 000**	100 000	**–**	–
	549 132	636 744	**206 725**	414 668
***Less*: construction finance capacity committed**				
Loans granted and committed	**(645 919)**	(623 831)	**(451 596)**	(401 755)
Consolidated committed capacity	**(645 919)**	(623 831)	**(451 596)**	(401 755)
	(96 787)	12 913	**(244 871)**	12 913

ACRONYMS

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

NOTES

ADMINISTRATION

Registration Number

1995/004248/08

Registered Office

3rd Floor
54 on Bath Offices
Rosebank, 2196
PO Box 2452
Saxonwold, 2132

Auditors

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

Treasury Managers

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

Directors

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

Company Secretary

Ms Ntsiki Ndzimbomvu

Contact Details

Johannesburg
Tel: 011 214 8700

E-mail:
info@nurcha.co.za

Website:
www.nurcha.co.za

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NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)

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