NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

2019/20 INTEGRATED ANNUAL REPORT

Together, building a brighter future for our communities

PERFORMANCE **HIGHLIGHTS**

OPERATIONAL PERFORMANCE

32 687
INCREMENTAL HOUSING OPPORTUNITIES THROUGH DISBURSEMENTS

R939 MILLION
VALUE OF APPROVED LOANS

2 669
HOUSING UNITS THROUGH DISBURSEMENTS

R724 MILLION
VALUE OF DISBURSED FUNDS

DEVELOPMENTAL IMPACT

R566 MILLION
DISBURSEMENTS TOWARDS EMERGING BEE ENTREPRENEURS INCLUDING WOMEN AND YOUTH

FINANCED LINKED INDIVIDUAL SUBSIDY PROGRAMME

1 167
NUMBER OF SUBSIDIES DISBURSED

R123 MILLION
VALUE OF SUBSIDY APPLICATIONS APPROVED

2 212
NUMBER OF SUBSIDY APPLICATIONS APPROVED

R60 MILLION
VALUE OF SUBSIDIES DISBURSED

FINANCE THAT CEMENTS PEOPLE, BRICKS AND MORTAR, AND HOMES TOGETHER...

A wise person once said, "Home is where the Heart is," and at the NHFC, we know that this adage is true. That's because a home is so much more than the building materials that hold it together. It's the love, and the special memories created within its walls that turn a house, into a home.

Towards this end, we have brought various agencies and companies together, under one proverbial roof. The result? The NHFC has collectively realised the Presidential Mandate to consolidate and form the Human Settlements Development Bank. Now, more than ever, we are perfectly poised to assist more South Africans cement their families together in a house that they own, and that they can call home.

This Integrated Annual Report has been conceptualised in the spirit of togetherness, an apt theme, as the NHFC consolidates itself and moves closer to the realisation of becoming the Human Settlements Development Bank, and for the people of this great land, whom we serve. For, only when we are joined together, are we truly at our strongest.

Dedication:
This Integrated Annual Report is dedicated to the retiring CEO of the NHFC, Mr Samson Moraba. Thank you for your selfless service spanning over two decades, and for the passion, commitment and dedication you have exhibited towards delivering on our mandate. The standards of excellence you have set, will continue to inspire and encourage us to always perform at our very best. The people of our great nation, who need us, depend on it.

ABBREVIATIONS AND **ACRONYMS**

AFD	Agence Française de Developpement
AGM	Annual General Meeting
APP	Annual Performance Plan
B-BBEE	Broad-based Black Economic Empowerment
CEO	Chief Executive Officer
CFDP	Contractor Finance and Development Programme
Companies Act	Companies Act No 71, 2008
CTCHC	Cape Town Community Housing Company (Pty) Limited
CBO	Community Based Organisation
CIDB	Construction Industry Development Board
CoGHSTA	Cooperative Governance, Human Settlements and Traditional Affairs
DFI	Developmental Finance Institution
DHS	Department of Human Settlements
EIB	European Investment Bank
EXCO	Executive Committee
FLISP	Financed Linked Individual Subsidy Programme
Futuregrowth	Futuregrowth Asset Management (Pty) Ltd
GPF	Gauteng Partnership Fund
GRI	Global Reporting Initiative
HIP	Housing Investment Partners (Pty) Limited
HDA	Housing Development Agency
HSDB	Human Settlements Development Bank
IHS	International Housing Solutions (Pty) Limited
ILO	International Labour Organisation
ISA	Instalment Sales Agreement
IT	Information Technology
KING IV	KING IV Code on Corporate Governance
MOI	Memorandum of Incorporation
MTSF	Medium Term Strategic Framework
NDOHS	National Department of Human Settlements
NHFC	National Housing Finance Corporation SOC Limited
NURCHA	National Urban Reconstruction and Housing Agency NPC
OMCH	Old Mutual Capital Holdings (Pty) Limited
PFMA	Public Finance Management Act 1 of 1999
RHLF	Rural Housing Loan Fund NPC
RFI	Retail Finance Intermediary
NMS	NURCHA Management Services (Pty) Ltd
NLF	NURCHA Loan Fund (Pty) Ltd
PIC	Public Investment Corporation SOC Limited
SACCAWU	South African Commercial, Catering, and Allied Workers Union
SASBO	South African Society of Bank Officials
SHI	Social Housing Institutions
SOC	State-owned company
SHRA	Social Housing Regulatory Authority
TUHF	TUHF Holdings Limited

NAVIGATING **THE REPORT**

GENERAL INFORMATION

OUR BUSINESS

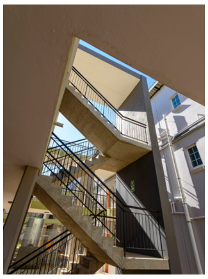
LEADERSHIP REVIEW

GOVERNANCE

OUR CAPITALS

FINANCIAL STATEMENTS






PART A	PART B	PART C	PART D	PART E	PART F
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PART A: **GENERAL INFORMATION**

"IF YOU WANT TO GO QUICKLY, GO ALONE. IF YOU WANT TO GO FAR, GO TOGETHER."

AFRICAN PROVERB

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

ABOUT THIS **REPORT**

This integrated report is a review of our financial, operational, environmental, social and governance performance for the year, from 1 April 2019 to 31 March 2020, and follows on from our 2018/19 integrated report. It examines our use of and the impacts on the six capitals, and our performance in relation to our strategy.

INTRODUCTION

This Integrated Report is the National Housing Finance Corporation's (NHFC) annual communication to the shareholder, stakeholders and other interested parties, in which the financial results, business outlook, strategy, and other relevant information is contained. It seeks to set out, in a concise, comparable (where appropriate), and consistent manner how our strategy and performance for the year under review have materially impacted our stakeholders.

The report content is based on previous performance, as well as information aimed at providing stakeholders with a view of the sustainability of the business, and the impact the NHFC has on the well-being of South Africans. The NHFC is listed as a Schedule 3A Entity in the Public Finance Management Act 1999 (PFMA) and registered in terms of the Companies Act of 2008. Thus, it is obliged to align all reporting to the requirements of the PFMA and the Companies Act, while ensuring compliance with the King IV Report on Corporate Governance in its continued commitment to report and operate ethically and honestly with stakeholders.

REPORT SCOPE, BOUNDARY AND FRAMEWORKS

The information in this report refers to the performance of the company, which includes the business of the National Housing Finance Corporation SOC Ltd, operating in South Africa, and its major operating subsidiaries, unless stated otherwise. For a comprehensive overview of the company's financial performance and position, please refer to the full set of consolidated annual financial statements, which can be found from page 106 of this report.

BASIS OF PREPARATION

This integrated report is based on the principles contained in the King VI Report on Corporate Governance. The King IV codes, principles and practices are linked to desired outcomes, therefore articulating the benefits of good corporate governance.

This report seeks to provide a balanced and transparent account of how we create value through the use of the various capitals, and the resultant impacts of such use.

ASSURANCE APPROACH

The NHFC Integrated Report has been assessed and reviewed by the Board of Directors and the ExCo, who are satisfied that the information contained in this report has followed reasonable assurance for all subject matter, and is, to the Board's best knowledge, accurate and true. All financial statements have been externally assured.

FORWARD-LOOKING STATEMENTS

Certain statements in this report regarding the NHFC's business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans and objectives for future operations. Forward-looking statements constitute our current expectations based on reasonable assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised and, as such, are not intended to be a guarantee of future results. Actual results could differ materially from those projected in any forward-looking statements due to various events, risks, uncertainties and other factors. The NHFC neither intends to nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BOARD STATEMENT OF RESPONSIBILITY

The Board is accountable for the integrity and completeness of the integrated report and any supplementary information, and is assisted by the Audit and Risk Committee and the Social and Ethics Committee.

The Board has applied its collective mind to the preparation and presentation of the integrated report and has concluded that it is presented in accordance with the King IV Corporate Governance Framework, as well the Standards of Generally Recognised Accounting Practice (GRAP) Framework. Considering the completeness of the material items dealt with and the reliability of information presented, the Board approved the 2019/20 integrated annual report, annual financial statements and supplementary information on 26 October 2020.

Change in Accounting Authority
Subsequent to year end, there was a change in CEO due to Mr Samson Moraba's retirement effective from 31 August 2020. Mr Sizwe Tati has been appointed as the acting CEO. Non-executive director Ms Phekane Ramarumo has been appointed as acting chairperson of the NHFC until further notice.

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

NHFC ETHOS

MANDATE

The National Housing Finance Corporation SOC Limited (NHFC's) principal mandate is to broaden and deepen access to the financing and development of sustainable Human Settlements in the low-to-middle income segment of the South African household market. The deepening of access spans across rural areas, which are broadly defined to include communal land and small towns in South Africa.

VISION

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

MISSION

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

VALUES

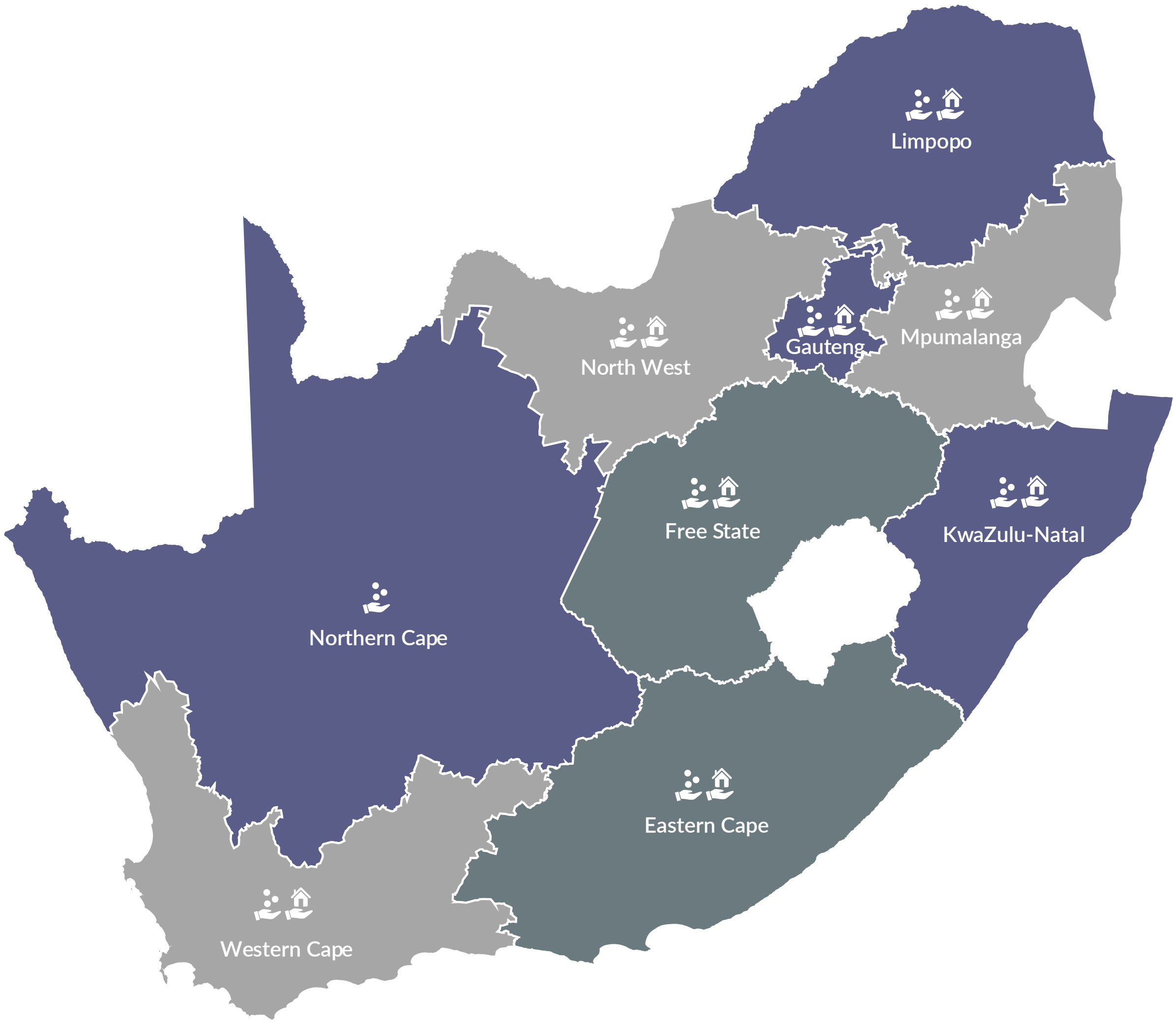
OUR GUIDING VALUES: OPTICA

- Ownership
- Passion and purpose
- Teamwork
- Integrity
- Creativity
- Achievement

WORKING TOGETHER, WE DELIVER TOGETHER.

OUR **FOOTPRINT**

TOGETHER, BUILDING A BRIGHTER FUTURE FOR OUR COMMUNITIES



The NHFC footprint spans the entire country – the icons on the map are indicative of NHFC's presence in a particular region in terms of client reach and their housing projects. Please refer to page 43 for the spread in numbers of financed housing projects and the number of incremental loans by province.

RISK TAKING

The NHFC is not a particularly risk-averse corporation, however, the organisation does not condone reckless investment behaviour. The risks that are encountered often occur as we bring new opportunities into the affordable housing market. As a developmental finance institution, the NHFC needs to trade-off between its developmental mandate and financial sustainability.

MAKING MARKETS WORK

The NHFC provides funding in areas where commercial lenders find it unfeasible or difficult to operate through investing in risk capital which typically, takes first loss, to encourage private sector investment.

DEFINITIONS

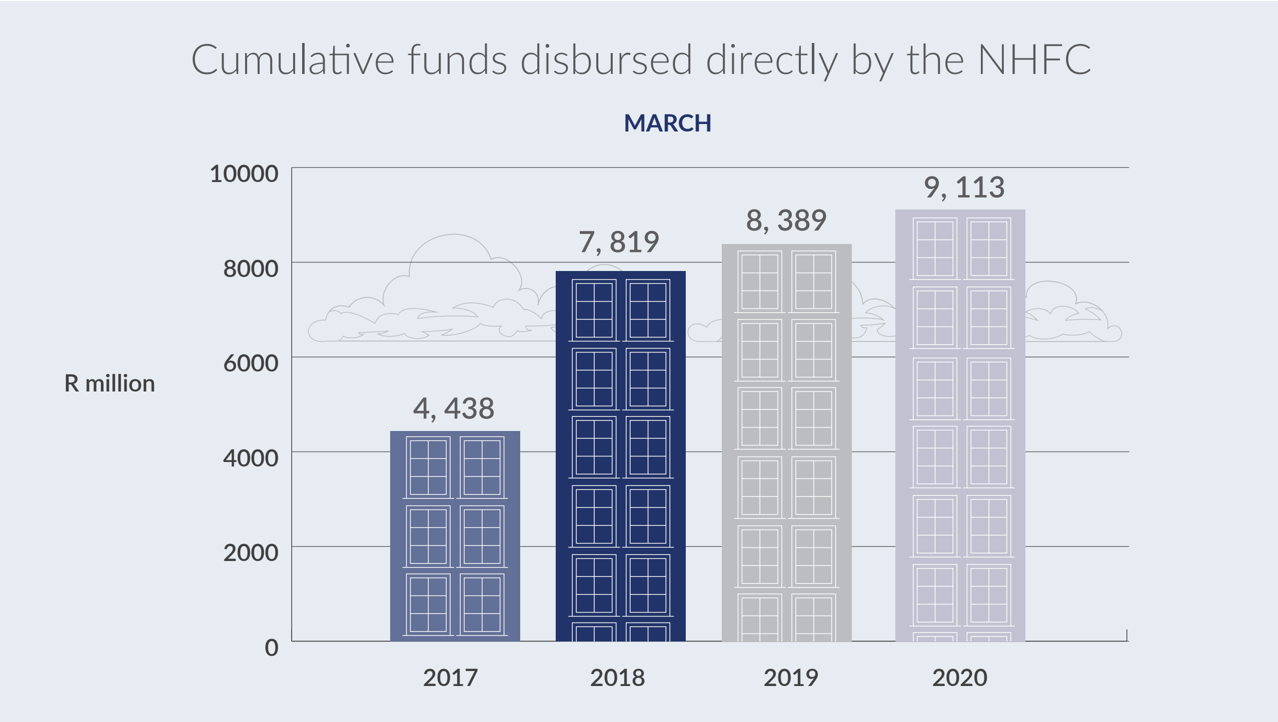
GAP MARKET

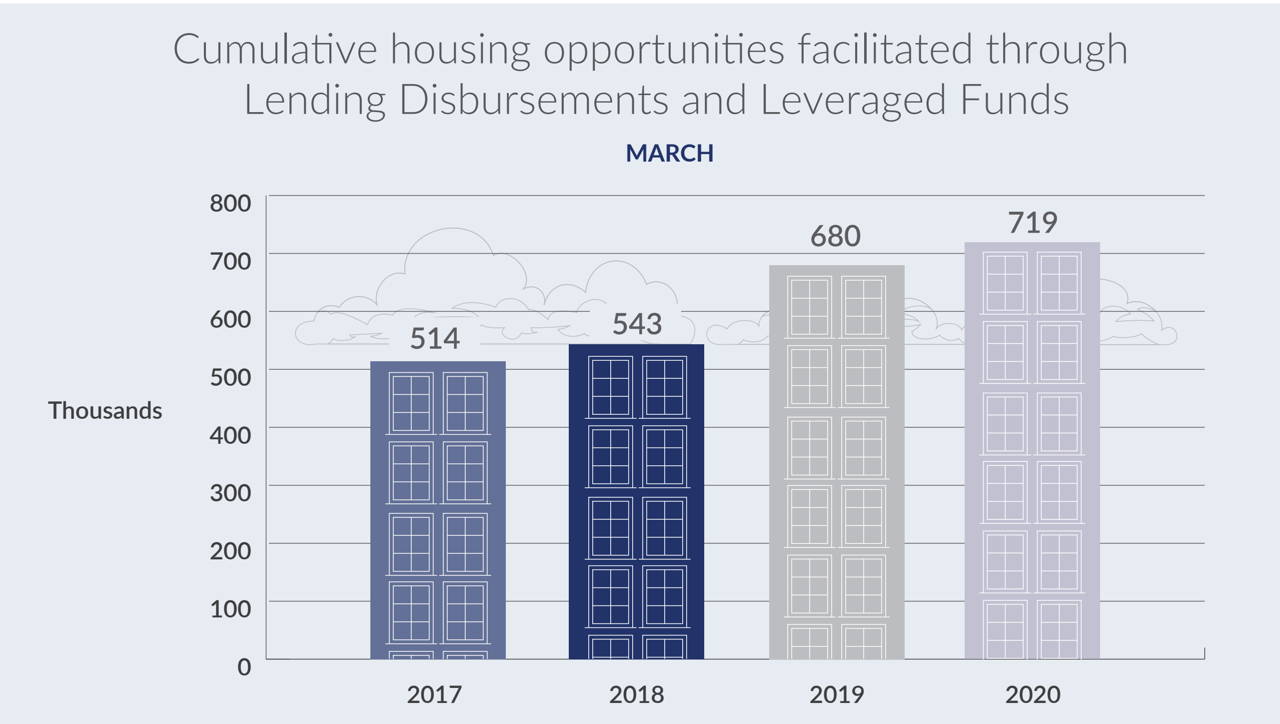
The market that we primarily serve, is referred to as the 'Gap Market'. This is categorised as South African households earning a combined monthly income of between R1 500 and R22 000, respectively. This combined income places these families above the income threshold to receive free housing from the Government, and also places them in an income bracket that often makes it difficult to obtain credit for mortgages from the mainstream financial institutions.

NHFC TARGET MARKET

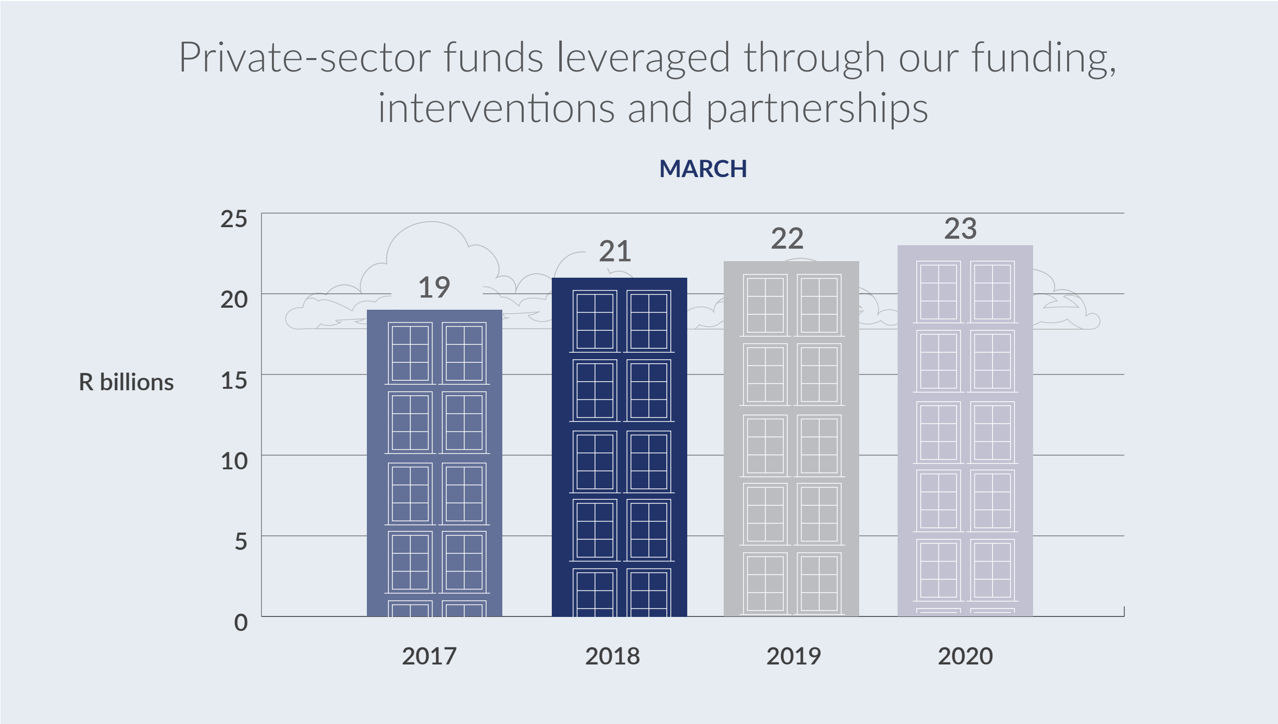
Our product offering targets South African households with a monthly income of between R800 to R22 000.

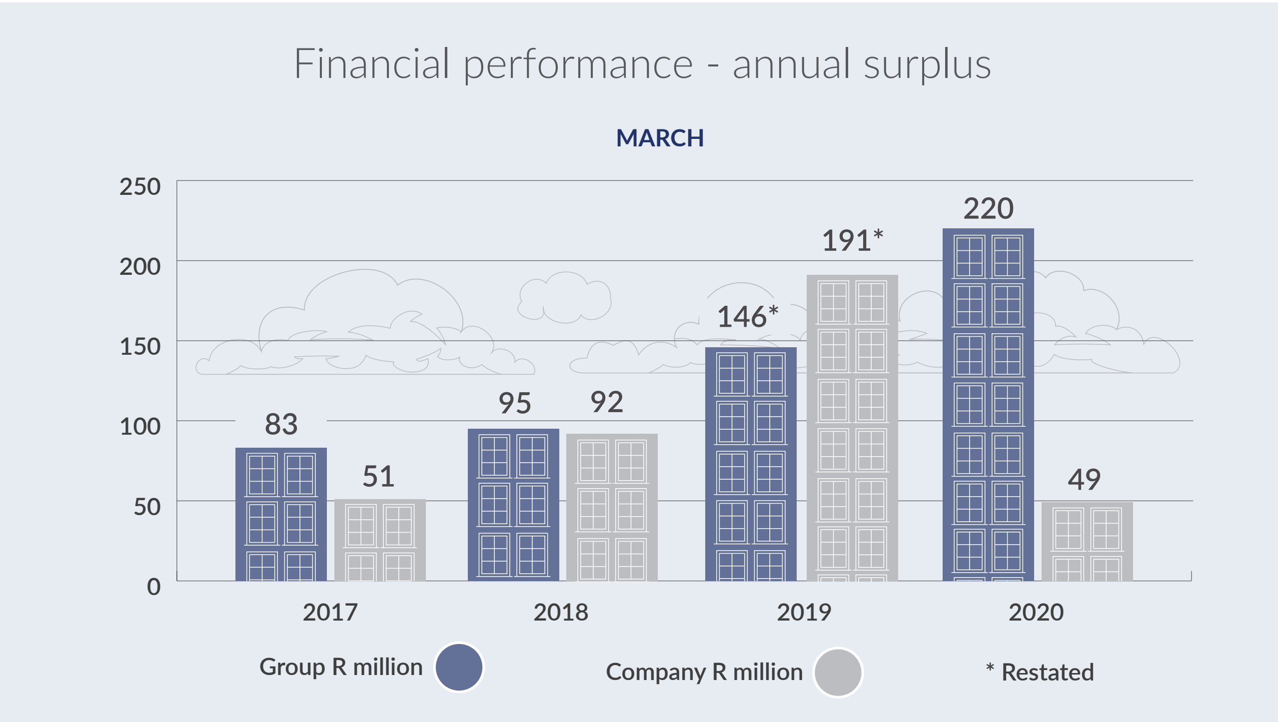
CUMULATIVE **DEVELOPMENT IMPACT**





"JUDGE EACH DAY, NOT BY THE HARVEST, BUT THE SEEDS YOU PLANT."





PART B: **OUR BUSINESS**

"UNITY IS STRENGTH, DIVISION IS WEAKNESS."

SWAHILI PROVERB

TOGETHER, BUILDING A BRIGHTER FUTURE FOR OUR COMMUNITIES

ABOUT THE **NHFC**

WHO WE ARE

The National Housing Finance Corporation, SOC Ltd, (NHFC) is a Schedule 3A Public Entity, supporting housing delivery through the provision of affordable housing finance. The organisation has been in existence since 1996, operating on a national level, providing wholesale funding in the affordable housing market. Our funding focus has primarily been social housing institutions, non-banking retail intermediaries, privately owned property developers, construction companies and investors. The secondary focus had been loan origination and other forms of wholesale funding (equity and quasi-equity) that was made available to intermediaries that operate within the affordable housing market sector. Our mandate has since expanded to include rural housing as well as supplying bridging finance to developers and construction companies.

CREDIT RATINGS ISSUED BY GLOBAL CREDIT RATINGS CO. AS AT NOVEMBER 2019:

NATIONAL SCALE ISSUER RATING: AFFIRMED AT

Long Term: A+ (ZA)
Short Term: A1 (ZA)

INTERNATIONAL SCALE ISSUER RATING: REVISED DOWN (CHANGE IN THE MAPPING METHODOLOGY)

Long-term: BB to BB-

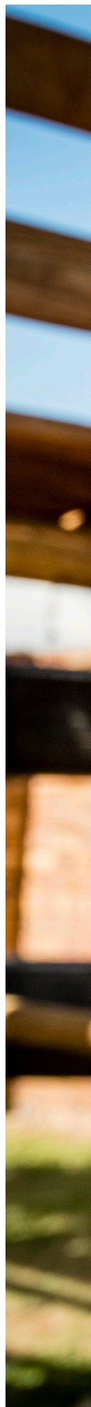
After the above rating actions were confirmed, these were subsequently withdrawn for analytical reasons, the foremost being the amalgamation of the 3 Human Settlements DFIs.

OVERVIEW OF OUR BUSINESS STRUCTURE

The NHFC has four revenue generating divisions or units.
The established retail model of the business is being discontinued, in keeping with our current business strategy.

OUR REVENUE-GENERATING FUNCTIONS DERIVE FROM:

- Debt Lending and Subsidy Programmes
- Equity Investments and Subsidiaries
- Programme and Fund Management
- Incremental Housing Finance (urban and rural unsecured lending)



THE NHFC, IN TRANSITION TO THE HSDB

The 2019/20 fiscal was hallmarked as transitional for the NHFC, primarily because the organisation began to operate as a single entity, over its first year after the merger with RHLF and NURCHA.

As a result of increased diversity and inclusion, we have achieved a higher level of synergies. To leverage these, a strong focus has been placed on the integration of core business functions, including strategy, lending, credit, finance, IT, and human capital – a far more challenging task requiring additional time and effort. However, the process was most rewarding, as it created scale, efficiencies and long-term sustainability advantages, that made the merger truly successful. As part of our adaptive response over year one, we have also moved to a new target operating model.

Critical to the overall transitional period were the proverbial 'quick wins' that were achieved through the NHFC business modernisation journey. This was brought about by digital enablement and the tactical placement of staff into areas of the business where their skill and competencies would make a significant contribution to our strategic objectives being met.

In the near future, the NHFC will change its constitution documents to conform to that of the Human Settlement Development Bank (HSDB). This change will come into force once the enabling legislation has been passed by Parliament and signed into law by the President.

HOW WE ACHIEVE OUR **MANDATE**

The NHFC is tasked with the facilitation and provision of adequate and affordable housing to low-to-middle income South African households by offering various financing options to non-banking intermediaries, property developers and investors (typically institutions), based on specific low-to-middle earning criteria, and affordability. The following sections indicates the sub-categories that fall within the ambit of our mandate:

Rental housing

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

- **Social Housing Rental**

Social Housing, by definition, is subsidised rental accommodation which is driven by Social Housing Institutions (SHI's), Other Delivery Agents (ODA), the Social Housing Regulatory Authority (SHRA), and Provincial Human Settlement Departments in conjunction with Local Municipalities. The NHFC provides top-up funding of about 30-35% as secured debt and the balance of which is provided for by SHRA to accredited SHI's and ODA's that qualify for Consolidated Capital Grants (CCG) to complete the project. Social Housing projects are aimed at providing subsidised rental housing to accommodate the low-to-middle income rental market sector.

- **Private Rental**

Private rental is a project/development finance programme which enables properties owned by landlords to be developed/refurbished for purposes of leasing to tenants. The NHFC provides medium- to long-term debt funding to such property practitioners (developers/landlords) to refurbish existing buildings or for greenfield housing developments.

Incremental Housing

The NHFC offers wholesale funding in and the form of structured loans to Retail Finance Intermediaries (RFIs), who are on-lending to qualifying low- and middle-income homeowners to improve their housing condition on an incremental/gradual basis. Acceptable end-user loan usage includes building a new house, house extension, fixed improvement to a house, connecting to utilities (water, sewerage and electricity), energy efficient retrofits (including solar energy, insulation and other energy innovations), water harvesting, fencing and productive housing. Incremental Housing Finance (IHF) is facilitated to empower both rural and urban low income earners to improve their living conditions. NHFC aspires to see Intermediaries grow to a point where they can access funding from other institutions, thus crowding in the private sector as a funding partner to the NHFC.

Subsidy Housing Programme

Subsidy bridging finance is a project/development finance product that offers a short-term loan revolving facility, typically taken out for a period of 60 days or longer to bridge contractor's cash flows pending payment by the respective employer. The NHFC provides bridging finance to contractors who have been appointed for the construction of subsidised houses either by an organ of Government or the private sector. This bridging finance product is directly linked to the value of approved certificates, known as Invoice or Certificate Discounting. The Certificate Lending Product aims to assist contractors with the necessary cash flow between the issue and payment of the monthly Payment Certificate. The product also offers material supplier undertakings where NHFC undertakes to pay the Material Supplier for the goods delivered on behalf of the contractor once the a certificate of a completed milestone is certified and approved by the employer.

Affordable Housing Programme

The NHFC provides project/development finance to developers involved in the development of affordable housing for sale to low-to-middle income earners. This is a short-term development finance for the purpose of the servicing of sites, construction of top structures – either free standing or sectional titles. Loans are provided to developers who provide affordable housing.

Strategic Investments

We work closely with investors, developers and housing development agencies and funds to leverage private sector and development funders to finance and create affordable housing that caters to the market that we serve.

Finance Linked Individual Subsidy Programme (FLISP)

FLISP was developed by the National Department of Human Settlements (NDoHS) with the view to facilitate sustainable and affordable first-time home-ownership opportunities to South African citizens and legal permanent residents' households who earn between R3 501 and R22 000 per month. FLISP offers qualifying applicants, with approved mortgage loans, a measurable opportunity of reducing the eventual monthly loan repayment instalments to an affordable amount over the loan repayment term.

Partnership with Banks

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

Non-Banking Retail Intermediaries

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

HOW THE MACRO ENVIRONMENT AFFECTS US

POLITICAL ENVIRONMENT

Housing is a highly politicised issue in South Africa. Despite Government efforts to address the housing backlog and the increasing demand for housing, it remains a real challenge as poor communities are unable to access adequate housing.

Housing is defined as a constitutional right, thus the responsibility of providing adequate and affordable housing rests entirely with Government.

The democratically elected South African Government has, since 1994, attempted to address the imbalances of the past by providing affordable housing to the poorest members of the population. However, increasing demand across the lower- to middle-class sectors were unable to be met. Government has enacted many policies to address the matter.

The combination of the increased demand and shortage in supply has become one of the reasons for the burgeoning service delivery protests across South Africa in recent years. As individuals and families attach much of their emotional and economic well-being to the attainment of a bricks-and-mortar house, tensions around housing delivery processes are almost inevitable.

The political climate, since the country's democratic dispensation began, has been stable, due to one political party being at the helm. Constraints in the national fiscus and the subsequent funding allocation to Human Settlements have negatively impacted on housing delivery.

Additionally, there is a great deal of uncertainty around land expropriation without compensation, and the envisioned role that it could play in the human settlements sector. This benefit is largely attributed to the proposed increase in available land, on which the Government could build houses.

With the onset of the COVID-19 pandemic, the NDoHS and its entities have been negatively impacted, where housing delivery is concerned. In line with the post COVID-19 economic recovery plan, each agency will need to realign and reassess their forecasted plans in relation to housing production processes (the construction industry has been severely impacted), their use of existing supply-driven subsidy, incentive and risk sharing programmes instruments (catalytic projects; Social/Rental and Affordable Housing), so that there is an unbroken chain of linked service providers in the housing production delivery sequence.

The impact of COVID-19 on an already subdued economy, requires a public private intervention to reinvigorate the property sector. This can be achieved by leveraging the banking and long-term investment institutions into reigniting the housing market across income streams, by scaling up the most workable products, programmes and instruments to increase supply, and improve the quality of life in settlements. The Department of Human Settlements has developed a recovery plan focused on securing basic infrastructure as the base for both social protection and economic recovery.

MACROECONOMIC ENVIRONMENT

The year under review presented difficult economic conditions for the country, the GDP growth rate had declined from the previous year, and the fiscal deficit remained high as the country continued to face revenue shortfalls due to slow economic growth. Household spending growth decreased due to subdued wage and employment growth, and the country's investment grade was relegated to sub-investment grade by the last of the rating agencies.

Towards the end of this financial year, a global pandemic was declared and countries across the world, including South Africa, instituted lockdown measures. These lockdown measures restricted economic activities for all sectors except for essential services. South Africa had weak economic growth prior to the impact of COVID-19. The impact of the pandemic and the lockdown measures are not yet fully known, but it has widened the economic inequality gap, unemployment rates and increased social needs which will continue to have an impact, well beyond 2020.

Although the interest cuts in 2020 will be expected to encourage consumer spending, their impact on the economy will be marginal given the dire state of the economy. Moreover, given the very dismal outlook, especially with the world in the grip of the COVID-19 pandemic, many people have seen their financial ability to buy property reduce considerably.

With record low confidence levels prevailing in the world of business, the chances of the NHFC securing new business and making significant disbursements to already existing clients are very slim. This is further compounded by the construction industry being severely constricted and experiencing little activity. NHFC clients have approached the organisation for relief considerations, as they have been adversely impacted by the current economic environment.

SOCIAL ENVIRONMENT

The legacy of Apartheid spatial planning has resulted in rapid urbanisation as masses of previously disadvantaged people, who were forced to live on the periphery of major cities, migrate to be closer to economic activities. Major provinces such as Gauteng and the Western Cape have seen their population grow, which is a direct result of the need for people to migrate for work - primarily from more rural provinces such as the Eastern Cape - which has seen a subsequent population decrease since 2002.

The influx of people into these provinces has increased the demand for affordable houses in these areas, and, in addition, the subsequent increase in demand for basic public services. Affordable rental housing solutions are gaining popularity in the modern-day context as consumer's attitudes are shifting from ownership to rentals, so that they can live closer to the economic hubs where they are employed.

Currently, the housing that Government provides is primarily for households earning a monthly income below R3 500. Households earning a monthly income more than the stipulated threshold but below the minimum amount of R22 000 typically needed a home loan from a bank, fall into the Gap Market. This market has suffered severe supply shortages due to limited resources and funding. However, households within the Gap Market who want to access their first homes are deriving great benefit from the FLISP programme.

TECHNOLOGICAL ADVANCEMENTS

As the world moves and evolves within the Digital Age, technological advancement will continue to affect the way in which the financial services industry operates. Being cognisant of this and ensuring that the organisation is at the leading edge of such advancement is critical to delivering on our mandate.

An area of particular interest, is the rise of the digital economy, which brings with it the opportunity to innovate and to extend our geographic reach. However, technological advancement is somewhat countered by the equal rise in cyber-crime, that if unmitigated, poses a serious threat to the operations of all players within the financial sector.

The NHFC has perceived the possibility of this threat materialising and has initiated a Business Modernisation Strategy that is underpinned by a robust ICT platform. Future-proofing the organisation in this way will ensure that we continue to enable staff to provide an uninterrupted service that meets our client's expectations.

> "As the world moves and evolves within the Digital Age, technological advancement will continue to affect the way in which the financial services industry operates."

PROGRAMME PERFORMANCE **OVERVIEW**

LENDING PROGRAMME

THE AGGREGATED PERFORMANCE OF ALL PROGRAMMES, YEAR-TO-DATE IS AS FOLLOWS:

LOAN APPROVALS:

R939 MILLION

(74% OF THE TARGET WAS APPROVED)

DISBURSEMENTS:

R724 MILLION

(62% OF TARGET WAS DISBURSED)

BEE FUNDING AND DISBURSEMENTS:

R566 MILLION

(97% OF THE TARGET) WAS DISBURSED TO BEE CLIENTS WITH R83 MILLION BEING FOR FOR WOMEN AND YOUTH-OWNED COMPANIES

IMPACT (HOUSING UNITS AND LOANS FACILITATED):

35 356

(52% OF TARGET) HOUSING OPPORTUNITIES DELIVERED MADE UP OF 2 669 HOUSING UNITS AND 32 687 INCREMENTAL HOUSING LOANS

FUNDS LEVERAGED:

R1 135 MILLION

(88% OF TARGET) WAS ACHIEVED

"The NHFC provides loans to developers and property investors who provide unsubsidised rental housing for households earning a combined income not exceeding R22 000,00 a month."

PRIVATE RENTAL

The sluggish economic climate that seemed to grip the market over the year, continued in a downward trend, brought on by the COVID-19 pandemic over the last quarter.

The resulting high rental vacancies and low rental escalations has a direct and negative effect on profitability figures, which has made developers reluctant to invest until market improvement is seen. A balancing act between vacancies, escalations, market strength and rent collection trends remains key to the feasibility of private rental transactions.

During the year under review, a total of R215 million in loans was approved against a target of R138 million, an excess of 155% of the targeted figure. The loan disbursement figure was R109 million against a target of R115 million, a 95% achievement rate. Housing opportunities that were facilitated from these disbursements resulted in a total of 247 units being built, against a target of 403 units, indicating a 61% target achievement rate.

"The NHFC provides loans to developers and property investors who provide unsubsidised rental housing for households earning a combined income not exceeding R22 000 a month."

SOCIAL RENTAL

"The NHFC provides funding to qualifying, accredited Social Housing Institutions (SHI) and Other delivery Agents (ODA) for the development of social housing, subsidised by Government for households earning from R1500 to R15 000."

Social Housing Performance is very significant as it is one of the biggest portfolios of the NHFC, and a priority housing programme of the Department of Human Settlements.

The year 2020 saw a marked drop in NHFC loan approvals – the lowest it's been in several years. To a large extent, the harsh economic climate that continues to prevail has been, in part, the reason for the decline. However, compounding this poor performance has been several other external factors, including criminal acts of organised rental boycotts and hijacking of developments under construction.

Additionally, a strained social housing financing model, poor commercial viability, and weak regulatory oversight exacerbated an already grave situation. The result of these circumstances has led to the deterioration of the loan book that saw close to 50% of the social housing book sitting in the non-performing loan category.

Loans approved made up R35 million against a planned target of R207 million, which is a meagre 17% achievement rate. This prevailing situation initiated a cycle that saw a tightening of the lending criteria, which further impacted the loan book, resulting in fewer loans being approved. Disbursement performance was similarly low with R36 million achieved against a target of R78 million, an achievement of 46%. This was a result of delays in construction progress, therefore, facilities were not drawn as planned. A total of 485 Social Housing units were facilitated against a target of 734 units, an achievement of 66%.

Independent research on the challenges that are currently being faced was commissioned, so that a more established and definitive methodology can be developed when serving this sector in future. Currently, the research findings have been shared with stakeholders, namely, the Social Housing Regulatory Authority, the Department of Human Settlements and the National Association of Social Housing Organisations (NASHO), who are involved in regulating and funding the sector. Solutions to these challenges are currently being devised.

One of the multiple social housing institutions that the NHFC has funded, that is based in the Eastern Cape Province:


Milkwood Gardens project, 'Own Haven', located in the Eastern Cape.

The Milkwood Gardens project is based in Walmer, Port Elizabeth, in the Nelson Mandela Bay Municipality. It has 630 one-, two- and three-bed social housing rental units – divided into 290 primary and 340 secondary units respectively. The project was funded through Consolidated Capital Grants from the Social Housing Regulatory Authority and the Eastern Cape Provincial Department of Human Settlements.

'Own Haven' has been a client of the NHFC since 2002, and in this time has grown significantly with several projects completed and funded by the NHFC. Currently the SHI manages over 1 000 social housing rental units within their portfolio. The SHI is an exemplary client, managed by a skilled board and management.

Construction of the units commenced in January 2018, and the first 145 units of Phase 1 were delivered in December 2018, that is in the 2019 financial year. Phases 2, 3 and 4, with units totalling 485, were delivered during this financial year-ended 31 March 2020.

The target market for these units are families with combined household income of below R5 500 per month for primary units and families with combined household income of R5 501 to R15 000 per month for secondary units. Final project completion was reached in December 2019.

AFFORDABLE HOUSING PROGRAMME

"The NHFC's Affordable Housing Programme provides bridging finance to developers who build housing units that sell on average around R650 000. The target market served are households with a combined monthly income of R22 000."

During the fiscal under review, and, considering the harsh economic operating climate, the loan approvals were lower than projected. The approvals granted totalled R215 million against a target of R359 million, while disbursements reached were R68 million against target of R359 million.

A total of 92 housing opportunities were reported, excluding completed serviced stands which are an output of the portfolio. The reason for this exclusion results from an information forecasting error that occurred at the planning stage when the definitions of performance indicators were finalised. Unfortunately, serviced stands were excluded as a planned outcome.

Apart from the difficult economic conditions that prevailed, the overall Affordable Housing Programme under-delivered on all key performance indicators, as a result of the following contributors:

- A high staff turnover rate that saw the NURCHA Executive Management and the Programme Manager resigning.
- The unmitigated impact of the COVID-19 pandemic affecting performance figures over the last quarter of the financial year.

POSITIVE OUTLOOK FOR 2021

Although the Programme performed poorly over the year under review, all is not lost. Business development had collectively been increased over the last two quarters, with the primary objective being seeking out and acquiring new business opportunities. We are pleased to report that this effort has yielded a leads pipeline that resulted in applications that were processed at year-end, totalling close to R1 billion. These leads will form the backbone of our performance efforts and an effective springboard to launch operations in the coming year.

This is one of the multiple affordable housing projects that was financed by the NHFC, based in the Gauteng Province:

Development Name: Toekomsrus Ext 2 **Developer: Munbak Developments**

Munbak has been operating in the affordable housing market for more than 21 years. To date they have developed over 8 000 stands, delivering over 2 000 stands per year. Munbak is one of the NHFC's most prestigious clients who service the Affordable Housing Programme, based in terms of housing output and the total number of loans granted. The NHFC and Munbak Developments have built a successful relationship spanning eleven years. It is a three-phase project that consists of servicing 184 stands in Toekomsrus, Randfontein Gauteng. Phase 1 was successfully completed and stands transferred to end-users.

This is Phase 2 of the development which has been sold out, while Phase 3 is well underway, being developed.

Toekomsrus Ext 2, Randfontein in Gauteng.

SUBSIDY HOUSING

"The NHFC grants bridging loans to Subsidy Housing contractors that are awarded housing tenders from Municipalities and Provincial Housing Departments, but lack sufficient liquidity to finance these contracts."

Under the programme, loans to the value of R64 million were approved against a target of R207 million. Performance of Subsidy Housing for the FY2019/20 was relatively low due to a low deal pipeline throughout the financial year and fewer new contracts being issued by the Department of Human Settlements. Subsidy Housing has seen the lowest achievement in terms of the approvals and housing opportunities created through disbursements. In addition, some of the new applications approved were not taken up due to several reasons, namely, failure to meet loan conditions and some clients unable to start on site because they required upfront funding.

Loan disbursements on the other hand were impressive at R236 million against a target of R207 million and this was largely due to past approved facilities. In terms of impact, only 1 845 units were completed against a target of 10 350 which could be attributable to forecasting errors in the planning phase at the beginning of the year resulting in overstating expected delivery. The programme remains a major contributor to economic empowerment as most of the contractors funded under the programme are mainly B-BBEE complaint and Level 1 Contributors.

Subsidy housing project that the NHFC has granted bridging finance to, it is based in the Eastern Cape:

Contractor: MMS Developments (Pty) Ltd

MMS Developments provides a full turnkey range of services to its clients, from a needs assessment analysis phase, through to project identification and justification phases, the design of the project, its implementation through procurement and construction, project management, maintenance, operation and management. The project started in 2018 and was completed in March 2020. The project falls under the Subsidy Housing programme, namely, the construction of BGN'S/RDP's for beneficiaries who applied for State Subsidies. Beneficiaries who qualified, benefitted from State-funded Ownership Housing Units. The Programme targets low-income individuals and households who earn below R3 500 a month, and who, as a result, subsequently cannot enter the formal private rental and social housing market.

MMS Developments was appointed by the Eastern Cape Department of Human Settlements (Amathole Region) for the construction of 1 300 units in Indakana, under the jurisdiction of the Amahlathi Local Municipality.

INCREMENTAL HOUSING

"Loans are advanced to retail finance intermediaries under the programme who on-lend to end-users to build their housing on an incremental basis."

A total of R409 million in loan facilities were approved under the sub-programme representing 113% of target (R361 million). R184 million (51%) was disbursed against a target of R361 million. A total of 32 687 incremental number of loans against a target of 54 539 were facilitated from disbursements – a 60.2% performance against target.

The slow economic growth and tough economic conditions, especially the high unemployment rate, partly contributed to some incremental housing finance intermediaries not drawing on their approved facilities. In the last two quarters of the financial year ending 2019/20, the economy contracted, landing the domestic economy into a recession. The business environment that prevailed towards the end of the financial year-end adversely affected our intermediaries which led to lower disbursements as clients held back disbursements in Quarter 4, due to COVID-19 risks.

One of the beneficiaries of the Incremental Housing programme, creating impact through its various national retail partners – Thuthukani Housing Finance (THF):

Beneficiary: Ms. Elizabeth Mazibuko
Loan Purpose: Roofing

Miss Mazibuko is employed in the public sector and earns an income that places her in the R9 800 and R15 000 per month income bracket. Ms Mazibuko stated that she is currently living at her parent's house with her two children who are still attending school. Ms Mazibuko is currently building her house using her own savings and a loan she has received from the NHFC incremental housing finance intermediary, Thuthukani Housing Finance. She stated that she did not have enough money for the roofing of her house, which is why she choose to apply for a R40 000 loan, so that she could install a new roof. She happily moved into her home, along with her children in July 2019. She has stated that she is very pleased with the services that she has received from Thuthukani Housing Finance.

Roofing renovation, Ledig Area in Bojanala District Municipality, North West.

FLISP

Following the human settlements MINMEC decision in July 2018, the NHFC was appointed by the National Government as a National Implementing Agent for FLISP with effect from 1 April 2019. To enable the NHFC to effectively execute this role, the National Department of Human Settlements makes FLISP allocation directly to the NHFC, which is disbursed to qualifying beneficiaries who are accessing home loans from various financial institutions, mainly banks.

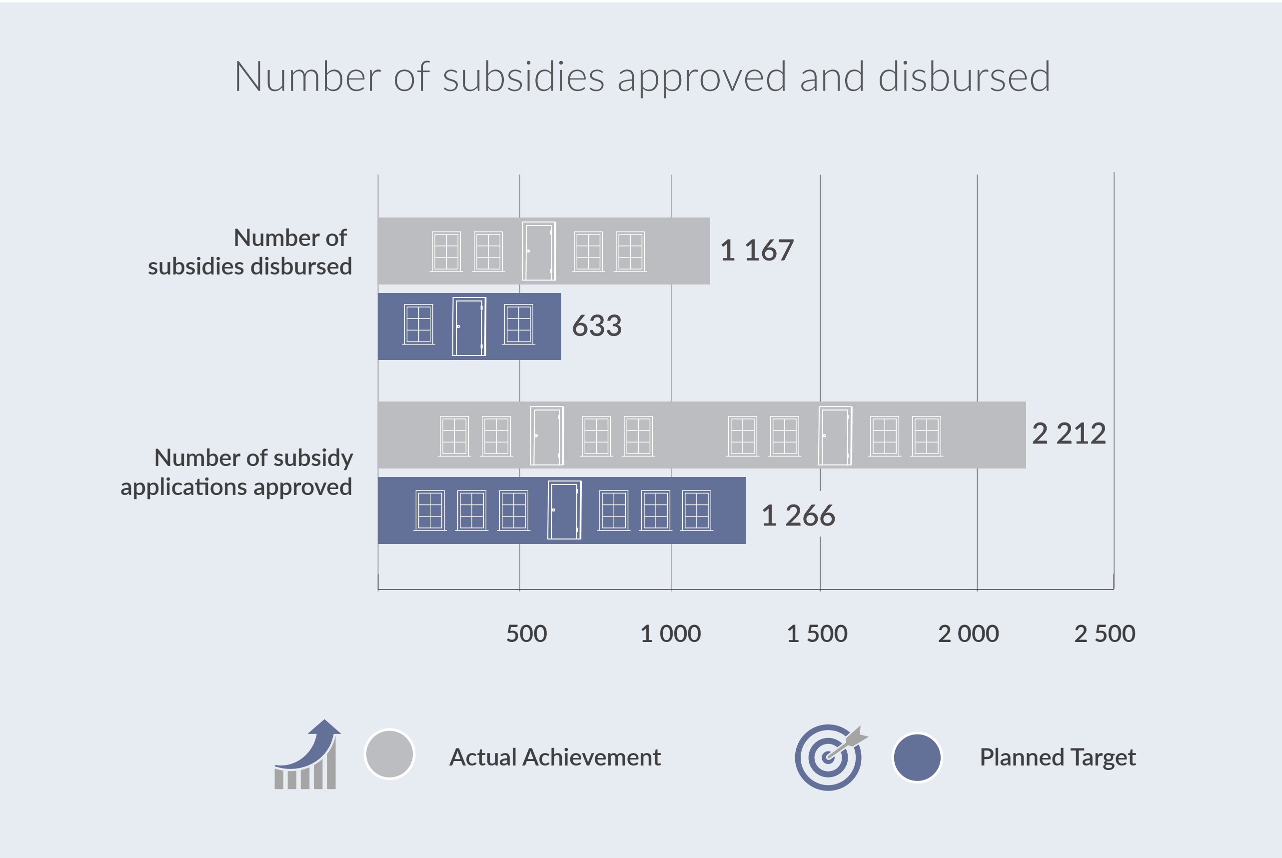
For the year under review, the NHFC received a FLISP allocation of R95 million. However, the value of FLISP applications approved totalled R123 million – exceeding the allocation by 29%. Based on the allocation, we had set the target of the number of approvals at 1 266, but by the end of the year we had approved 2 212 – indicating a huge uptake for the Programme.

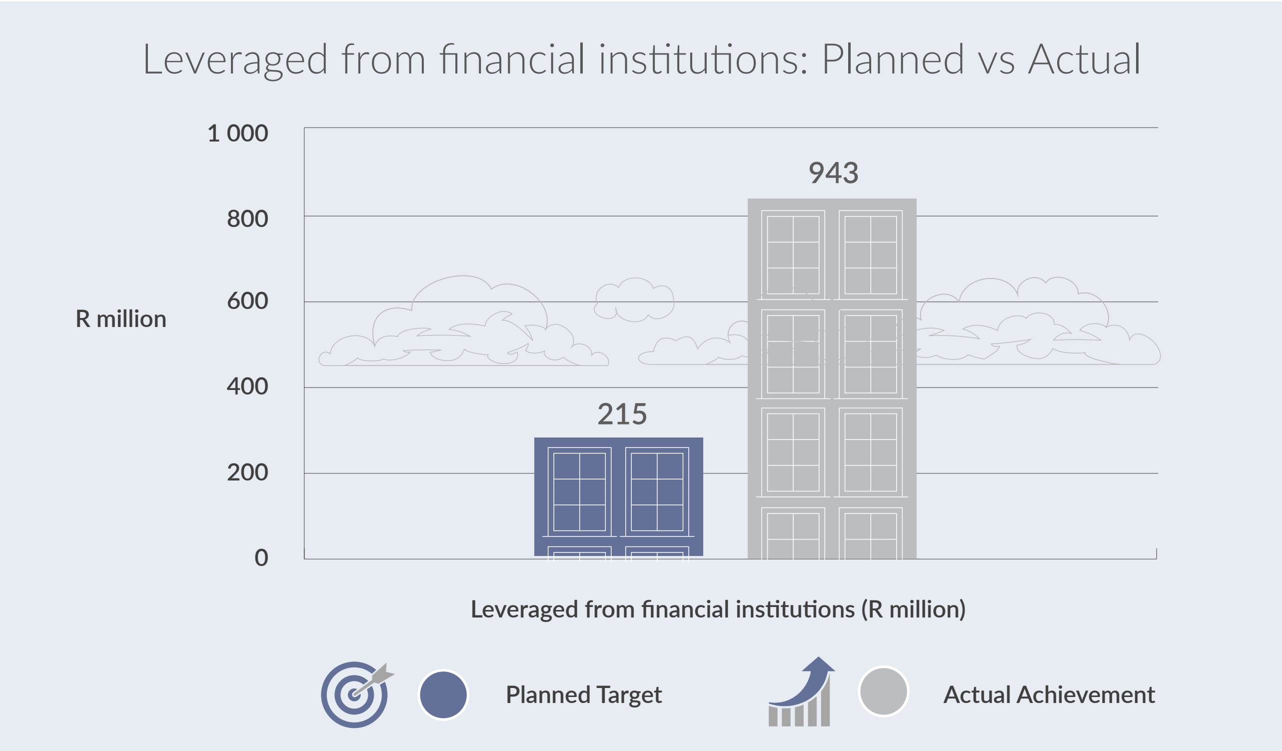
The value of FLISP disbursements set for the year was R47 million – set below value of approvals as not all approved subsidies are disbursed in the same year. The actual disbursements achieved for the year was R60 million, 28% higher than the target. The number of disbursements set for the year was 633, but this target was exceeded as the actual number of subsidies disbursed was 1 167.

FLISP is a key financing instrument for Government to leverage private sector finance to scale up delivery of housing in the affordable market. Based on FLISP subsidies approved, we were able to leverage an amount of R943 million from private financial institutions who granted home loans on the back of FLISP subsidies approved. This amount was significantly higher than the set target of R215 million. The ratio of the amount leveraged to the value of subsidies approved is 7:1 showing the significant leveraging effect of the Programme.

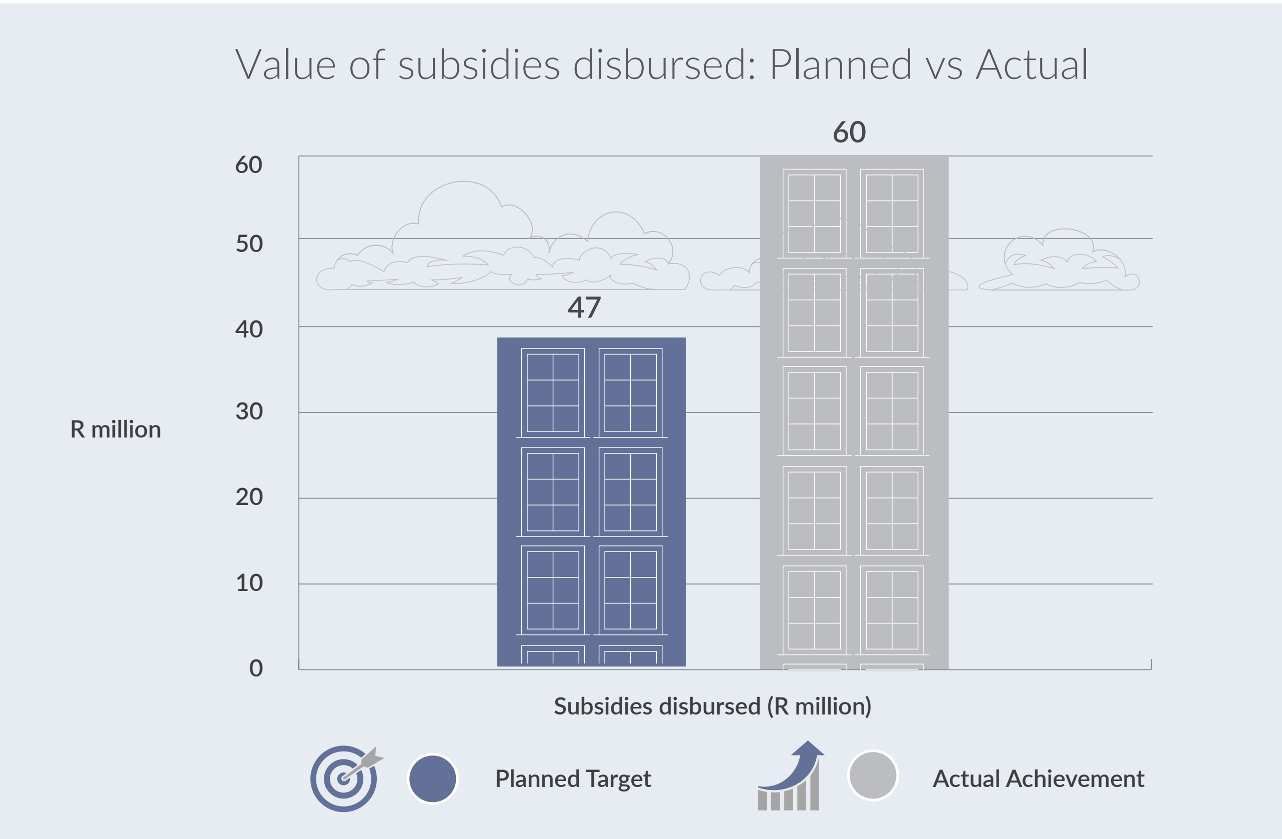
Although the Programme exceeded all targets in the year, it must be noted that this performance is from a very low base in the context of a huge market that FLISP is intended to serve. Therefore, the NHFC will be gearing up for the FLISP growth in the year ahead and in subsequent years. However, a note must be made that the year ended with the domestic economy in recession and under lockdown because of the COVID-19 pandemic – factors that will pose a challenge in the markets in the short to medium term.

The graphs below show a graphical representation of the performance of FLISP during the year under review:





Leveraged from financial institutions: Planned vs Actual
R million
1 000
800
600
400
200
0
943
215
Leveraged from financial institutions (R million)
Planned Target
Actual Achievement



Value of subsidies disbursed: Planned vs Actual
R million
60
50
40
30
20
10
0
60
47
Subsidies disbursed (R million)
Planned Target
Actual Achievement

FLISP PROGRAMME

One of the beneficiaries that qualified for FLISP funding, who is based in the Gauteng Province:

Name of Beneficiary: Samuel Pule Mofokeng
Location: Vanderbijlpark, Vereeniging, Emfuleni Municipality, Gauteng

Mr Mofokeng is employed in the public sector and has a wife and three children. The family had been renting a place in Sharpeville, prior to his loan approval for a mortgage that he applied for, through an agent. The house that Mr Mofokeng purchased was priced for R660 000 and was approved for R550 000.

He qualified for a FLISP subsidy of R44 000 that was advanced as a deposit for the house. Mr Mofokeng confirmed that the agent he was working with had applied for the FLISP subsidy, on his behalf in September 2019 and by November 2019, the subsidy application had been processed, approved and paid out. The family moved into their new home in March 2020. The house has three bedrooms, a kitchen, lounge, and a laundry room. Mr Mofokeng stated that he is very happy with the service he received from the NHFC FLISP team, saying that they were efficient and helpful and that his children are also happy with the freedom they now have in the spacious new home.

First time home buyer, Vanderbijlpark in the Vaal area, Gauteng.

PROGRAMME AND FUND MANAGEMENT PORTFOLIO

The Programme Management portfolio was established with the strategic intent to strengthen State delivery capacity in the human settlements sector. This portfolio aims to provide programme management services under two distinct areas, namely Enhanced People's Housing Programme/Zenzeleni, and built environment enterprise development related programmes in the human settlements sector. All these programmes involve a grant management component on funds that get transferred to NHFC to be administered on behalf of client departments.

The thread that runs through all programmes that the NHFC gets involved in, is a strong endeavour to strengthen localisation of development benefits arising from each programme. This requires innovative ways to optimise community participation, buy-in and optimal participation of small and medium contractors and other spin-offs. This portfolio of developmental endeavours recognises the dire socio-economic conditions where these programmes are implemented, and seeks to optimise economic benefits derived by the community beyond the physical asset that is scheduled to be delivered.

The performance of the portfolio, during the year under review, however, has slowed down. This can be attributed to several factors, including organisational transitional arrangements, delays in existing projects, fewer projects being secured and slow contracting arrangements with clients.

The portfolio is currently being revised within the NHFC, following Board approval of this business stream to fall within the ambit of the HSDB. Work that is currently underway is the development of a portfolio business plan under a fully-owned subsidiary, and mapping of its systems and procedures that need to be aligned to project management good practice and good corporate governance.

Briefly outlined below are six programmes that are at different stages of implementation. They also have the scope for evolution into new sectoral flagship development programmes and platforms for innovation in development management praxis in this sector.

"The Programme Management portfolio was established with the strategic intent to strengthen State delivery capacity in the human settlements sector."

PROJECT 1: KUYASA RETROFIT PROJECT

The NHFC was appointed by the Western Cape Department of Human Settlements to be programme managers for the retrofitting of ceiling, electricity and roof seals, following a ceiling retrofit. The programme spans 3 years for a total of 2 373 units in Kuyasa, Khayelitsha.

Phase 1A was awarded to four contractors for 390 units in total and all four contractors had completed the retrofitting of all 390 units. The contract was further expanded by 20%, which totals 48 units, in line with Contractor Industry Development Board (CIDB) protocols.

Phase 1B which consists of 258 units is in final stages of contractor procurement.

Planning for further packages of the project consisting of 420 units are complete and set to go to procurement. This programme emphasises community engagement and is developmental in that it optimises participation of small enterprises and mechanisms to support them in the profitable completion of work.

Khayelitsha Township, Cape Flats in the City of Cape Town Municipality.

PROJECT 2: WALMER EPHP

Umzi waseGqebera Housing Development Association (UGHDA) is a Community Based Organisation (CBO) in Walmer Gqebera located in Port Elizabeth. It was established in 2012 as a Section 21 company. UGHDA applied for funding in terms of the Enhanced People's Housing Project (EPHP), which was then approved by the Eastern Cape Department of Human Settlements and a Funding Agreement was signed by the Department and Umzi waseGqebera for construction of 2 209 units over a period of 5 years. The programme is designed along the lines of the Zenzeleni programme (PHP) which the NHFC has prior experience in managing.

Umzi waseGqebera then approached the NHFC to be the Fund Managers on the project since the CBO, as a non-Government entity in terms of the PFMA, cannot hold Government funds in advance. A Service Level Agreement was concluded and signed between UGHDA, ECDHS and the NHFC in October 2018.

To date, the NHFC has disbursed a total of R10 million and delivered 66 complete units. The programme started slow and had its fair share of challenges. The NHFC is facilitating engagements with key stakeholders to devise a plan to speed-up delivery.

PROJECT 3: DRAKENSTEIN RETROFIT PROJECT

The NHFC was appointed by the Western Cape Department of Human Settlements for the removal of asbestos rooves, where required, the retrofitting of ceilings and the connection of electricity to 477 units in Phola Park, Thembani Square and Silvertown in Mbekweni, Paarl. These units were built by People's Housing Process (PHP) and are now experiencing various problems. During the year under review, 30 units were completed and R0.5 million income earned. The balance of the units will be completed in the next financial year subject to budget availability as funds have been redirected due to the pandemic.

PROJECT 4: CONTRACTOR FINANCE DEVELOPMENT PROGRAMME (CFDP)

The CFDP was a pilot programme in the Nelson Mandela Bay Metro which is currently going through a closure phase and a draft report is in place and is receiving attention from various stakeholders that collaborated in the programme. Over the three-year programme implementation period, 30 SMMEs were supported with loan, management and technical support. Based on lessons learned, the programme could not be discontinued in its current format but was rather repackaged and enhanced to become the Enterprise Development Programme.

PROJECT 5: GAUTENG INCUBATOR

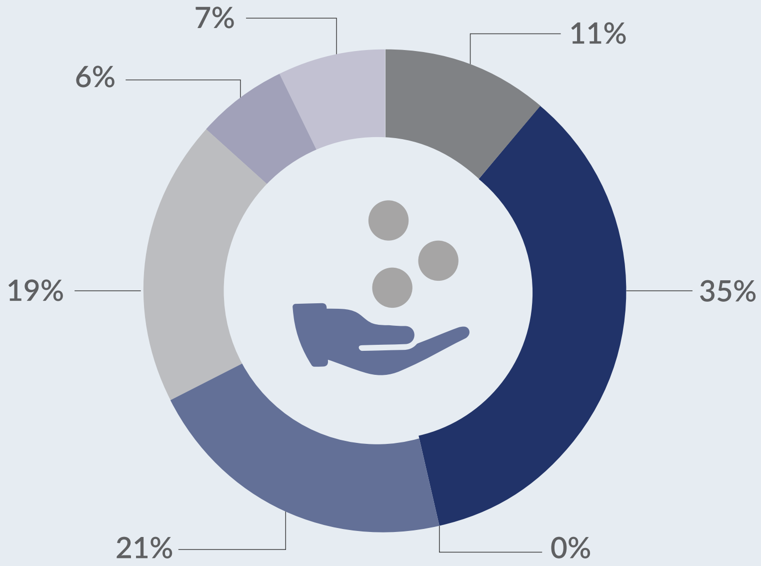
In 2019, the NHFC entered into a tripartite Service Level Agreement as the implementing agent for the Incubator Contractor Programme with the Gauteng Department of Human Settlements and the National Construction Incubator – previously referred to as the Seda Construction Incubator. The incubator programme was initiated with a view to initialise the economic empowerment of designated groups of emerging contractors within the value chain of human settlements. The programme has been delayed due to contracting reviews and budget shortfalls.

PROJECT 6: NORTHERN CAPE SMME INCUBATOR

The NHFC has been appointed by the Department of Co-operative Governance, Human Settlements & Traditional Affairs of Northern Cape (COGHSTA) for programme management services in enterprise development, which includes grant management, implementing agent, business and technical trainings and support. Through enterprise development, the programme will assist in the delivery of 7 500 housing units to serviced sites in different project areas in the Northern Cape Province over a period of 5 years. The project will deliver top structures using SMME-only contractors who require both financial and mentorship support. The programme will support contractors with CIDB 1-5 grades and priority will be given to youth and women-owned enterprises. A Service Level Agreement has been concluded and signed between the two parties in February 2020, prior to the outbreak of the COVID-19 pandemic.

> "The NHFC has been appointed by the Department of Co-operative Governance, Human Settlements & Traditional Affairs of Northern Cape (COGHSTA) for programme management services in enterprise development, which includes grant management, implementing agent, business and technical trainings and support."

How we have allocated capital



11% Incremental housing loans

35% Home ownership (incl. Retail & Other)

21% Private rental housing

19% Social rental housing

6% Affordable housing

7% Strategic investment

0% Subsidy housing

> “WHEN DEEDS SPEAK,
> WORDS ARE NOTHING.”

AFRICAN PROVERB

STRATEGIC PARTNERSHIPS

OVERVIEW

Forging effective and stable partnerships towards the realisation of our strategy is an important aspect of the NHFC approach going forward. Such partnerships are critical drivers to the future success of the NHFC as it positions itself to become a Human Settlements apex financier.

This function is not solely about the financing dimension, it is about alliances that advance mandate reach, scale, and developmental impact. Therefore, collaboration around technological platforms, organisational infrastructure, and expertise for mutual benefit of our partners are entirely within the realms of possibility for this vital function.

In the year under review, the NHFC has covered good ground in initiating critical engagements with stakeholders to align expectations, with a view to source potential investors in establishing financing platforms for priority housing segments in the human settlements sector.

Management and the Board are aligned on the scope of the Strategic Partnerships function, which brings two areas into sharp focus. The first is expanding and leveraging private sector capital into priority mixed income housing projects – and making provisions for the related infrastructure to get this successfully off the ground. Consultations with key stakeholders have also highlighted the importance of effective collaboration between the public and private sectors in initiating and completing large, complex multi-year housing projects.

The second area of focus is within the sphere of self-help housing solutions. The sector is developing and implementing strategies to mainstream, and up-scale household-led housing solutions with appropriate support mechanisms from the State. Through partnerships with community-based organisations and collaborations within all spheres of Government, the NHFC/HSDB has a significant role to play in supporting and financing self-help housing solutions.

STRATEGIC INVESTMENTS

OUR PARTNERSHIPS, DURING THE YEAR UNDER REVIEW

Our strategic partners continued to deliver increased scale through leveraging much-needed private sector funding in the delivery of houses, as well as home improvements.

TUHF Holdings Limited

The NHFC owns 32.6% of the ordinary shares in TUHF which is a well established intermediary in the affordable housing market. The organisation provides loans to property investors and entrepreneurs investing in affordable housing stock in mainly the inner-city areas of the metropolitan areas of South Africa.

TUHF is currently the NHFC's single largest client, with an exposure of R582 million in the form of equity, preference share and debt capital exposure.

The client has experienced financial distress in the quarter that ended March 2020, which has necessitated a plan to restructure its debt profile as an interim solution.

This has resulted in the client being granted a six month capital moratorium on its debt facilities with the NHFC, in line with the NHFC company policy for its clients facing the COVID-19 pandemic.

In addition to the debt restructuring, TUHF Holdings is in the process of raising R65 million in shareholders loan in order to bolster its balance sheet (post year-end). Two key shareholders (including the NHFC) have agreed to support this capital raise. The next phase of the capital raise will be executed in the next six months which will include a more significant equity capital raise.

TUHF's performance was negatively affected by the challenging trading environment in the inner-city areas which has seen a marked increase in rental delinquencies and vacancies. This has necessitated the NHFC adjusting its carrying value of the equity investment by R23 million (from R130 million to R107 million in the company accounts).

Housing Investment Partners (Pty) Limited (HIP)

The NHFC is invested in HIP as a 33.3% ordinary shareholder and also being a significant investor in two of the three trusts under the management of HIP, through an investment in junior debt instruments. The housing trusts have cumulatively provided over 3 300 housing loans in the affordable housing market.

The fund manager, Housing Investment Partners (Pty) Ltd has developed policies and systems that have allowed it to maintain a high-quality housing loan book in spite of the recession that South Africa is experiencing. The fund management company is running at slightly above break-even and needs to substantially grow its current loan book of about R1.35 billion to achieve a sufficient return on equity. The process of attracting mortgage loan assets has been an ongoing challenge which management are addressing through targeting a broad range of potential investors such as multi-lateral agencies and other institutional investors who need to provide much needed risk capital to HIP. Capital is a serious growth constraint, which we have noted affects a number of our other investee companies and has been exacerbated by the current recession and poor business confidence.

The NHFC's capital investment of R270 million has further attracted an additional R1.1 billion from various institutional investors.

International Housing Solutions (Pty) Limited (IHS)

IHS is an established private equity investor which has earned a reputation as an investment destination for institutional investors in the affordable housing market.

With a commitment of R300 million in the second fund of IHS, the NHFC has invested R247 million of this equity at year end. This capital has been matched by an additional R1.8 billion in equity and quasi-equity capital from other institutional investors. The fund has adopted a dual strategy of focusing on the rental market (held for the life of the fund) as well units that are being developed for selling once completed. The fund is expected to deliver about 11 000 housing units over its ten-year lifespan (2014 to 2024). If the model of expanding into social housing gains traction, the housing delivery is expected to increase to approximately 16 000 housing units.

Most importantly, the R2.1 billion in equity and quasi-equity funding, will, over the life of the fund, attract R3.5 billion to R4.0 billion of debt funding from various debt financiers being a much-needed catalyst to investment in the affordable housing market.

Cape Town Community Housing Company (Pty) Limited (CTCHC)

CTCHC is a wholly-owned subsidiary of the NHFC that has undergone a major restructuring of its operations in order to ensure it achieves a turn-around in financial performance. It has over the last four years, curtailed its property development unit to mainly focus on the collection of its Instalment Sale Agreement loan book and sale of its Development Portfolio. The ISA is a structured instalment sale agreement which entitles homeowners to purchase a home from the CTCHC through a term loan.

During the year, a significant capital restructure was completed which has resulted in R200 million in debt due to the NHFC being converted into equity in the books of CTCHC in order to ensure that the capital structure better matches the underlying operating cash flows of the company. This has been done to allow the company to adequately service its remaining debt. This has resulted in the net asset value of CTCHC being transformed from a negative R108 million to a positive R62 million, thereby significantly improving its going concern.

Lendcor (Pty) Limited

The NHFC is a 20% equity investor in Lendcor, a provider of incremental housing loans to low-income borrowers via its network of builder's merchants who have a national reach.

During the year, the NHFC reduced the value of its equity investment in Lendcor to nil (from R2 million) to reflect the recent turn in operational performance and profitability of Lendcor, much like other lenders in the micro-lending environment.

> "The NHFC is a 20% equity investor in Lendcor, a provider of incremental housing loans to low income borrowers via its network of building merchants who have a national reach."

OUR BUSINESS MODEL

THE NHFC BUSINESS MODEL (FRAMEWORK MODEL ILLUSTRATION)

CHANNELS	Non-bank Financial Intermediaries			Banks Financial Intermediaries	Specialist Intermediaries	Developers
CHANNEL PARTNERS	Social Housing Institution	Housing Microfinance	Private Landlords Developers Inner-city	NHFC Wholesale Lending	Banks	Constructon Services
TYPICAL PRODUCTS	Wholesale Lending	Structured Unsecured Loan Pilot Loans Equity Investments	Wholesale Loan Finance	Insurance Subsidy FLISP Integrated Projects	Wholesale Loan Finance & Strategic	Wholesale Lending

Provision of wholesale funding and facilitation of affordable finance solutions

A wholesale finance institution, that facilitates housing micro loans through intermediary or retail housing finance

Provides bridging finance and construction support services to contractors and developers

OUR RESOURCES

CAPITAL	HOW OUR RESOURCES ARE USED TO SUPPORT OUR BUSINESS MODEL
FINANCIAL CAPITAL	
• Shareholder equity • Dividends from investments • Interest income, fees and capital repayments from loans provided • Debt funding	• Making new equity investments • Disbursing new loans • Operational expenditure • Repaying borrowings
HUMAN CAPITAL	
• Our employees	• Appraising funding applications • Monitoring and evaluation of portfolio • Managing all other operational business areas
SOCIAL CAPITAL	
• Government • Public and Private Sector partnerships • Other funders and development partners • Clients and project co-funders	• Advocacy in policy formulation • Private sector leveraging • Business development investing in projects
INTELLECTUAL CAPITAL	
• Industry-specific knowledge and experience • Knowledge gained from project development • Credit-granting and post-monitoring investment	• Managing risk in the business • Strategies developed for project funding, and; • Programme planning and execution
NATURAL CAPITAL	
• Land under development/building space converted to housing m²	• Built environment compliance standards • NHBRC technical requirements • Environmental Impact Assessment regulation

OUTPUTS AND OUTCOMES

FINANCIAL CAPITAL	• Disbursements and leveraged financing • FLISP disbursement • Project packaging support
MANUFACTURED CAPITAL	• Adequate housing and improved living conditions • Social housing units • Private rental housing units • Affordable housing units • Jobs created • Historically disadvantaged property entrepreneurs supported

The business model caters to both the demand and the supply of housing in the South African affordable housing market. The demand side depicts the instruments used to address the household housing finance needs while the supply side delivers the means through which the household's needs are adequately met.

DEMAND SIDE:

Promoting Private Sector Provision of End-User Finance to the Target Market

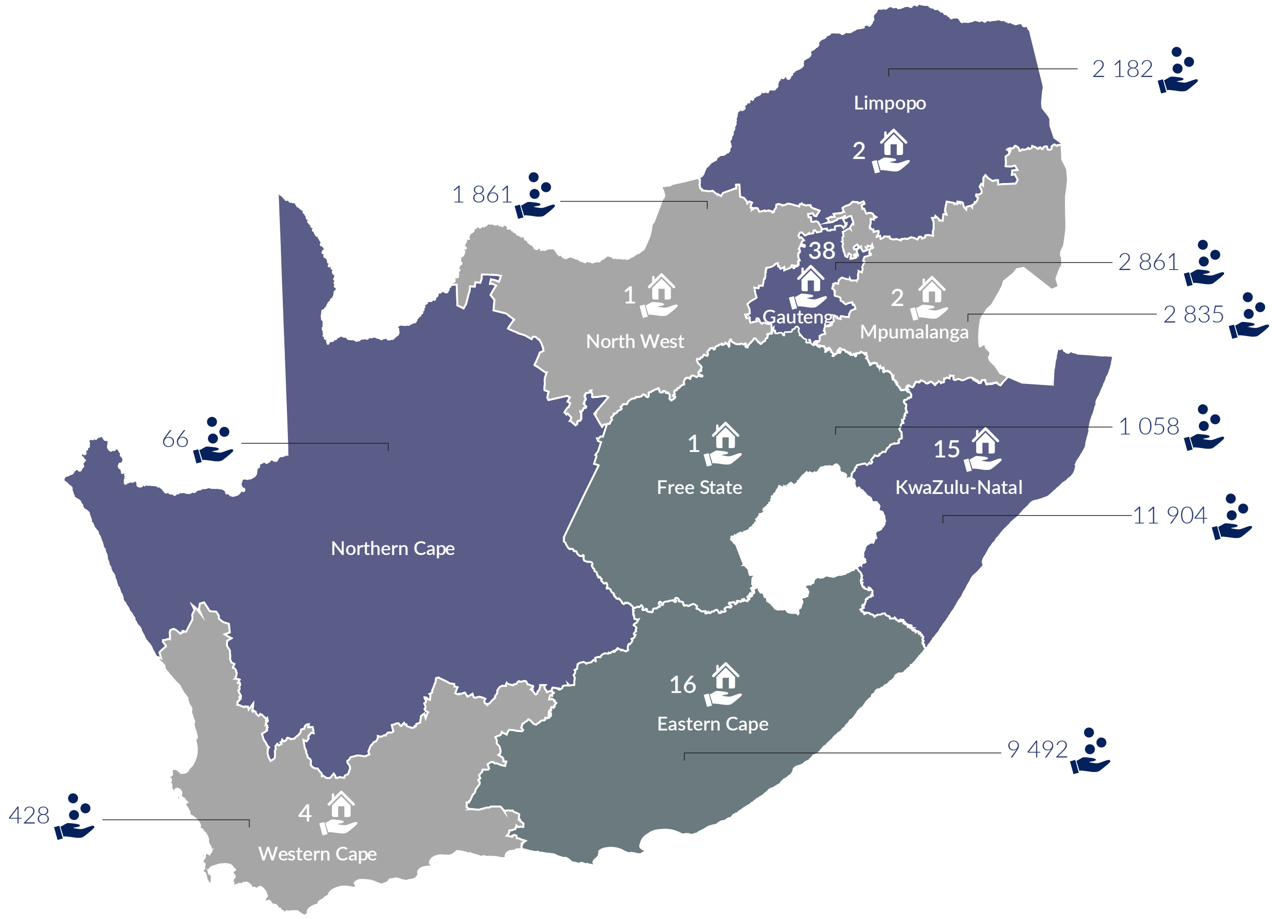
- **Wholesale Funding To RFI's**
  - Income-Linked Mortgages
    - e.g.: Equity and Debt Investment
- Innovative Solutions
  - Instalment Sales
    - e.g.: Wholesale Funding to RFI's
- Facilitating Government Subsidies
  - FLISP
    - Providing Incremental Loans for Housing

SUPPLY SIDE:

- **Financing Residential Developments**
  - Social Projects
    - Integrated Projects
      - Multiple Rental Projects
- **Financing Rental Stock**
  - Wholesale Funding to RFI's
    - Private Rental Projects

FOOTPRINT OF FINANCED HOUSING PROJECTS AND INCREMENTAL HOUSING LOANS DURING THE REPORTING YEAR

As a national entity, our mandate is to lend in all provinces. We achieve this national footprint through our intermediary and direct partners who have developed loan distribution channels in all provinces. The NHFC's reach in South Africa is depicted below and represents our dedication to all South Africans.



PROVINCE	NUMBER OF FINANCED HOUSING PROJECTS	NUMBER OF INCREMENTAL HOUSING LOANS
Gauteng	38	2 861
Eastern Cape	16	9 492
Western Cape	4	428
Free State	1	1 058
Northern Cape	0	66
KwaZulu-Natal	15	11 904
Limpopo	2	2 182
North West	1	1 861
Mpumalanga	2	2 835
TOTAL	**79**	**32 687**

OUR STRATEGY

The strategy for the year under review, has been strongly centred around the progressive moving of the NHFC towards the HSDB, especially since the three entities have now amalgamated into one. Such a consolidation is wrought with challenges of integration, assessing and addressing the issues of talent acquisition, diversity and other HR and operational aspects. The transitional phase has been hallmarked with a fair amount of unease and, perhaps, uncertainty, which is common for such an undertaking. However, with the attitude that there is work to be done – management assessed the complexities and the impacts it had on staff, and took the necessary action.

The immediate response was to initiate robust internal engagements to review the strategic objectives and align each goal to specific outcomes and targets, and to give due consideration to resources and to be keenly aware of managing the associated risks.

Core to our strategy implementation will be our ability to unlock our full potential as a consolidated entity and reinforce the holistic transformation of the business to meet our mandated objectives sustainably.

THE FOLLOWING STRATEGIC OBJECTIVES WERE DETERMINED AS CRITICAL:

Expanding housing finance activities, through the effective provision of housing finance solutions to enable Gap Market households to have a choice in meeting their housing needs.

Facilitating increased and sustained lending by financial institutions to the lower end of the housing market. Conduct the business activities of the NHFC in an exemplary manner to ensure continued financial sustainability and greater developmental impact.

Facilitating a transformative change within the affordable housing sector.

Continuously stimulating and enabling the low- to middle-income housing sector by providing robust, relevant, and timely research and market analysis.

Driving the process of changing the strategy of the NHFC to that of an entity ready to assume the role of the HSDB.

THE NHFC PURSUED THE FOLLOWING PRIORITIES DURING THE REPORTING YEAR

- Definition and implementation of an NHFC Business Modernisation Strategy (NHFC ICT Strategy) aimed at enabling the organisation to achieve its strategic and operational objectives
- Working on establishing a sustainable funding model for the NHFC to support the Human Settlement development expansion
- Conducting a skills audit to determine employee competency levels post consolidation
- Deployment of fast, agile, cross-functional teams working on a common set of objectives that can be tracked and measured
- Operationalising the modified Finance Linked Individual Subsidy Programme (FLISP)

Response to the operating environment

- During the last month of the financial year, the President of South Africa invokes emergency powers and declares a National State of Disaster in terms of the Disaster Management Act

- The NHFC prioritised the health and safety of its employees, and resolved that at level 5 and 4, all employees are able to work remotely, and to continue doing so

- The NHFC Business Continuity Plan is finalised and implemented

- The NHFC develops relief interventions for its clients during the lockdown period which is an unknown phenomenon

"Definition and implementation of an NHFC Business Modernisation Strategy (NHFC ICT Strategy) aimed at enabling the organisation to achieve its strategic and operational objectives."

PART C: **LEADERSHIP REVIEW**

TOGETHER, BUILDING A BRIGHTER FUTURE FOR OUR COMMUNITIES

CHAIRMAN'S **OVERVIEW**

SIZWE TATI

It is a great honour and a privilege to present this year's Integrated Annual Report to both our stakeholders and the public at large.

Many businesses, including that of the NHFC, were feeling the effects of the economic slowdown and technical recession in 2019. Added to this, the average South African was already under a lot of pressure from an income/affordability and livelihood point of view, which is a reflection of the country's economic situation.

On the current situation, while it is too early to speculate on what the full impact of the COVID-19 pandemic will be, we can say that, firstly, the human settlements sector, like all other sectors, has been significantly affected by these events. And secondly, where we go from here and what recovery in the market, and the country, will look like and timeframes for this will be events driven.

COVID-19: THE PANDEMIC THAT CHANGED OUR WORLD

With regards to the NHFC, two fundamental impacts became evident. These were changes in our way of working and in our interactions with the clients of the NHFC.

The first impact relates to our operational background where, a large percentage of our staff had to now work predominantly from home. At the onset, the effects of the pandemic locally, was mitigated by shifting our focus to two immediate priorities: that of gearing up and implementing a remote/work-from-home strategy to ensure that we could continue to run our business optimally, and linked to adopting a strategy of remaining focused on navigating these unprecedented times by working closely with each individual existing client of the NHFC, and continuing to managing our loan, equity and quasi-equity portfolio well.

In addition, this also changed the way in which we interact and interface as an organisation. Safety measures were put in place to ensure compliance with Government regulations regarding the containment and spread of the virus.

The most critical impact with regard to our clients, is the adverse impact, due to the pandemic, on their earning potential, thus impacting negatively on their ability to honour their obligations to the NHFC. The shortfall in our client's earnings will have a negative impact on our total revenue and collections, the results of which may be severely felt in the 2021 financial year. Consequently, while we have put in place some Board-approved client relief measures, our revenue forecasts are showing significant declines, while the pandemic lasts, and with no change in the sight in the macro-economic environment.

However, in the face of such difficulty, it was not all doom and gloom.

FULFILLING OUR MANDATE

Our priority initiative after the consolidation was the enhancement of the Business Case and the acceleration of the process of taking the draft Bill to becoming an enabling HSDB Act. The greatest achievement however, in this financial year was the tailoring of the NHFC's Operating Model to that of the HSDB.

While there is a lot of work ahead of us, when it comes to fulfilling our human settlements mandate, I am confident that we are already taking these challenges well in our stride.

We are actively considering the economy of scale in handling large projects, managing them during the development phase, all the way through to the tenanting of the units. And, to give strategic drive and enabling support to events and actualities that go beyond the post-investment phase. Consequently, management has already begun talks with international funders, syndicating together with local development agencies and trying to focus all of these resources on scale, towards human settlements. We know that we have to be at the central point of these initiatives, and this is the primary area of focus of how the 2020/21 year will need to be shaped.

Our confidence lies in the fact that there is greater skill and competence synergies, more diversity and inclusion from a varied staff compliment that will all contribute to new and exciting ways to deliver solutions.

FLISP remained our evergreen program, where all 2019-2020 targets were exceeded, and remained a great platform to scale the leveraging of the private sector to promote home ownership, in the under-served affordable housing market.

LIQUIDITY LEVELS AND FINANCIAL HEALTH

Even though we had increased funding, given the difficult economic environment that our clients have been facing, a great many did not drawdown on their facilities as envisaged, while a few elected to repay their loan facilities, before maturation. While this means that the organisation will forfeit the lending interest income, early settlement positively enhanced our liquidity position. Therefore, as the year drew to a close, our liquidity levels were exceptionally healthy. This allowed us to embark on new prioritised investment options in line with strategic objectives.

> "It is a great honour and a privilege to present this year's Integrated Annual Report to both our stakeholders and the public at large."

STRATEGIC OBJECTIVES

Therefore, the sourcing of funding to make sure that the balance sheet is well-geared to leveraging third party funding and acting as fund manager are all key priority strategic objectives, and the foundations have already been laid over the current year.

The NHFC is collectively changing the human settlements space in South Africa. In order to continue to be effective in this, the funding and deal side requires scaling up. This is of particular importance, in terms of partnership transactions, which may include, among others, underwriting, project finance, historical and investment debt relief, or even equity. The objective is to evolve into a well-rounded institution that operates on most fronts. We also embarked on new policy initiatives where we refined policy to make sure that we create greater impact, enhancing the transformation mandate that we've been given by the shareholder.

ADDRESSING INTEGRATION CHALLENGES

Post the consolidation, one of the key challenges in the year under review was the effective on-boarding of all staff as we created the 'one NHFC.' The real challenge was the creation of a cohesive workforce that reflected the NHFC ethos. While a number of concerns and grievances were raised, these were investigated, and it was found that the true solution was to be found elsewhere. Therefore, through the reworking and enhancing of the change management processes, a harmonised environment was established after specifically adopting a rigorous, constant communication and transparent approach to all staff matters. This was used as pillars, in journeying to the creation of the 'one NHFC'.

STAKEHOLDER ENGAGEMENT – A SNAPSHOT

Our primary stakeholders have, for the most part, been our sister institutions, namely, those companies that fall under the same shareholder. In the year under review, we intensified our interactions with these institutions with a view to collaborate together in operating as a bank of last resort, focused on human settlements. We have focused squarely on maintaining strong strategic partnerships throughout the year and have successfully engaged with various stakeholders on a number of key material topics. These engagements are tabulated in the Stakeholder Engagement section of this report, found from page 55 to page 60.

During the course of this fiscal, the NHFC has interacted with portfolio committees and Parliament, with a view to streamlining the consolidation process, and have continued to keep the Ministry abreast on all developments pertaining to the delivery of our mandate.

OUTLOOK FOR 2021

The true effects of COVID-19 will probably be felt in the following year, thus based on the experience of other major financial institutions, the level of bad debts, reduced earnings is going to multiply, and the NHFC is not exempted from these negative effects. Added to that is the slow economic recovery, unemployment and technical recession in the current and medium term.

Yet, it is the current MTSF, where Social Housing is the human settlement's priority delivery area, and as a consequence, the NHFC is expected to raise R4.1 billion of debt and equity to support the SHRA's additional grant of R4 billion to its current MTSF allocation, to deliver 30 000 housing units, a challenge that seems almost impossible under the current socio-economic environment.

The support that we have received from stakeholders is reassuring, and gives us reason to believe that better days are ahead. Therefore, despite the challenges that 2020 presented, we expectantly look forward to conquering the pandemic, with a global turnaround, in which we will operate in the 'new 'normal'.

I must emphasise that we acknowledge the fact that the people who entrust us with their resources – much will be expected of us to when interacting with them – including high levels of prudency and an equally high level of accountability in dealing with those resources, in meeting the expectations of the funders, including our shareholder as well. As we look to the future, we continue to strive towards the goal of sustainability and becoming the institution that becomes a leverage for Human Settlement.

APPRECIATION

I would be remiss to not express my heartfelt and deepest thanks to each and every individual who has, in some way, advanced the cause of the NHFC in putting people under shelter. From a personal viewpoint, it is indeed extremely fulfilling to watch the mandate of the NHFC come to life. To witness the upliftment of the hard-working, everyday South African who find themselves in the Gap Market owning their own home, is testament to the people behind our organisation. I also extend sincere thanks and appreciation to Minister Dr. Lindiwe Sisulu as the Minister of Human Settlements, Water and Sanitation for her help, advice and direct involvement. Much has been accomplished to the benefit of the people as a result.

And, last, but in no way least, a vote of thanks goes out to my fellow board members and colleagues, whose tireless and often, selfless acts of service have resulted in great success under great and difficult times. I know that we could never have achieved so much, without your commitment and drive. I thank you.

SPECIAL MENTION

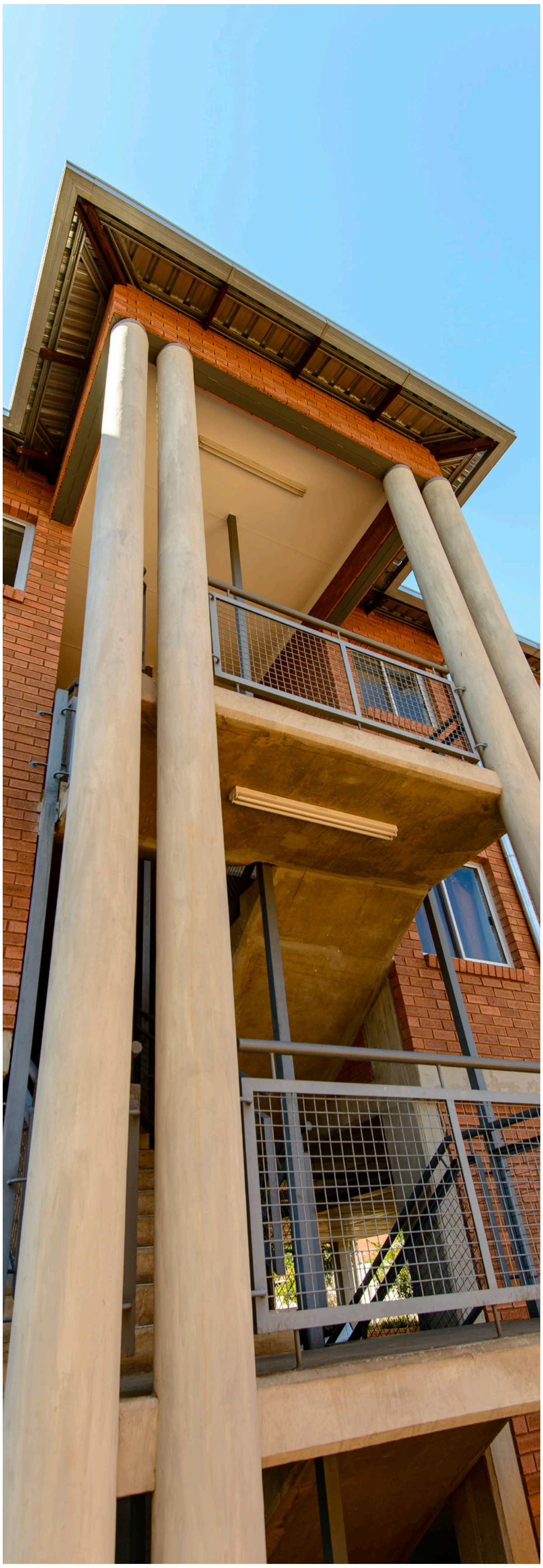
I would like to take this opportunity to personally extend a very special mention to an individual who has been the guiding light of the NHFC for over twenty years: our CEO, Mr Samson Moraba, on the occasion of his retirement, on 31 August 2020. His leadership, contributions and sacrifice have paved the way forward, and bear testament to where the organisation finds itself today. Your resilience, passion and attention to the finest detail in the face of a great many challenges are leadership examples that will continue to lead us in your absence. From the board, the management and staff of the NHFC, we thank you for your service, and will proudly carry the torch you pass on, to the betterment of the people whom the NHFC serve. You will be greatly missed.

CONCLUSION

I thank our clients for putting their trust in us, the partners, funders, co-funders and stakeholders for their unwavering and continued support of the NHFC. As we advance boldly into a new fiscal, I am confident that the NHFC will continue to add value and change lives. In the spirit and theme of this report, I believe that together, we can achieve all that we set out to do.

MR SIZWE TATI
Chairperson of the Board

31 August 2020



CEO'S **REVIEW**

SAMSON MORABA

OVERVIEW

I take great pleasure in presenting this Integrated Annual Report to our shareholder, stakeholders and the general public.

The year under review can be best summarised as a 'subdued year' in terms of the overall performance of the NHFC. Yet, there were significant achievements in terms of building a foundation, to moving the NHFC to the next level, which is the HSDB, along with a few highlights that were interspersed along the way.

HIGHLIGHTS

COMMERCIAL GROWTH

Notwithstanding the tough economic and market conditions, the disbursements are **R724 million** and approvals stood at **R939 million**.

Leveraged funds of **R1.1 billion** from the private sector into the affordable housing space.

FLISP exceeded all targets that had been set for the 2019/2020 year. We achieved **R123 million** approvals resulting in commitments being higher than the **R95 million** allocation. The number of actual subsidies approved were **2 212** and disbursed are **1 167** against the planned **1 266** and **633**, respectively. The amount leveraged from banks is **R943 million** to a planned **R215 million**.

An improved Cost to Income Ratio of **46,7%**, and credit loss ratio of **1,5%** against a target of **63%** and **2,5%**, respectively. Group surplus of **R220 million**, and is **358%** of budget **R48 million**.

DEVELOPMENT

Leveraged **R1.1 billion** from the private sector which resulted in the delivery of **2 972** housing units.

LOWLIGHTS

This year experienced challenging developmental impact, while better than the previous year, mostly were below budget:

CREATED **35 356** HOUSING OPPORTUNITIES AND IS 52% OF BUDGET (68 526).

APPROVED **R939M** AND IS 74% OF BUDGET (R1 272M).

DISBURSEMENT **R724M** AND IS 62% OF BUDGET (R1 161M).

STRATEGIC OVERVIEW

As mentioned by the Chairman on our trajectory to the HSDB, the greatest achievement in the year under review was the tailoring of the NHFC's Operating Model, by successfully delivering on these critical pillars:

- To drive scale, we commenced with tailoring of our operating model to be responsive to the market we serve. This was attained by consolidating the Lending business of the NHFC to have an end-to-end Customer Value Proposition for different market segments, each underpinned by a specialised credit process.
- To drive efficiency, we bundled activities that do not necessarily drive differentiation or competitive advantage like HR, Procurement and Legal, while tremendously important functions, typically benefit from leveraging of Skill and Scale.
- Positioned the NHFC/HSDB, as an ecosystem orchestrator in the Human Settlement funding and financing.
- Working on establishing a sustainable funding model for the NHFC to support the Human Settlement development expansion.

OUTLOOK

As we look to the next year, we can all be immensely proud of the achievements that were collectively made over 2020. These achievements, and indeed, the lessons that we've had to learn, simply function as the springboard that propels us forward.

With the establishment of the HSDB through an enabling legislation being so imminent, we look forward to realising the ambition of being the human settlements bank of choice, initiating, orchestrating and delivering on all the funding and financing solutions, using a variety of mechanisms.

Through our deliberate focus and embedding of our strategic partnership model, we want to raise the bar in our ability of effectively leveraging both public and private sector partners in delivering mega-integrated human settlements development projects. In this regard we see an increased opportunity to use our core project financing and corporate finance skills and competencies, complemented by the best partnerships in the financing market.

We will continue to strengthen our digital technology platform to create greater resilience to our operations, significantly improve efficiencies, and delight our customer experience.

Towards the end of 2019/2020, we remained mindful that the negative impact of COVID-19 on the NHFC will significantly dent our revenue forecast both for year-end and more so, in the following years.

Yet, as a DFI, we remain upbeat, as we are a counter–cyclical agent in the market we serve, in that, while other financiers withdrew, we cautiously pick opportunities left on the table.

> "As we look to the next year, we can all be immensely proud of the achievements that were collectively made over 2020."

APPRECIATION

I want to express my deepest gratitude to the Honourable Minister of Human Settlements, Water and Sanitation, Dr Lindiwe Sisulu, for frequently charting a path less travelled, and beckoning us to follow. For me, this has been very special and profound, in that in the last sixteen years, I have on three occasions, had to positively respond to that clear, articulate, yet forceful voice.

My gratitude also goes to the DG of Human Settlements, Mbulelo Tshangana, for his guidance, support and partnership with the NHFC, together with his Executive team and the Human Settlements department staff, with whom we have worked over the years.

My gratitude goes to the Parliamentary Portfolio Committee members, who made our presentations lively and interesting, by the rigour with which they interrogated everything tabled for Parliament. I also want to thank them for their continued support and their high regard of the NHFC.

My gratitude also goes to our clients, sister institutions, partners and funders for their support and in helping us deliver on our mandate and allowing us to make a difference in the lives of so many ordinary people that we serve. My utmost desire is that they continue to excel in doing so, into the future.

I sincerely want to acknowledge and thank the Board of the NHFC, under the leadership of the late Mr. Eric Molobi, Professor Michael Katz, and now Mr. Sizwe Tati, for building a culture of trust, communication, teamwork and candid debate. I want to also thank them for creating an atmosphere that promoted open discussion, role clarity and genuine respect for differing opinions. Lastly, I want to thank the Board, for having confidence in me and my executive team, by giving us the necessary support, guidance, and utmost trust to lead the corporation through its many phases of evolution.

Lastly, my heartfelt appreciation goes to you, the entire NHFC team, for the remarkable contributions we have made together, over the years. As one of our core values, you have proven that what makes you distinct in the human settlements funding and financing sector, is that you are motivated by your passion for purpose, to make a difference in the lives of those who are under-served by the traditional housing finance markets. You have demonstrated that everyone has a place and something to offer, and by working together, and only together, can we succeed as a team.

And to my Executive team, you have truly set an extraordinary example of commitment, professionalism, and solidarity and I have over the years, personally learned so much from each one of you, and appreciated every opportunity to work side-by side with you.

Wishing you all the very best as the Human Settlements Development Bank (HSDB), in every step you take to accelerate the transformation of the sector, achieving greater delivery in scope and scale of funding and financing solution options and being the human settlements bank of choice. I trust that you will emerge even stronger, post this COVID-19 pandemic crisis.

SAMSON MORABA
Chief Executive Officer

31 August 2020

MATERIALITY:
STAKEHOLDER ENGAGEMENT

The NHFC places a high degree of emphasis on engaging with stakeholders, who are defined as entities or individuals that can, within reason, be expected to be significantly affected by our activities, financial products and services.

The stakeholders that the organisation interacts with are primarily the shareholder, suppliers, clients, vulnerable groups, local communities, and employees, among others. Further classification and descriptions can be seen in the table below, which also highlights the NHFC's Stakeholder Engagement process. This is based on systematic or generally accepted approaches, methodologies and or principles that we have identified to be most appropriate for the level of engagement required.

Defining our key stakeholders:
Our strategic partners continued to deliver increased scale through leveraging much-needed private sector funding, towards the delivery of houses as well as home improvements.

STAKEHOLDERS	HOW WE ENGAGE	KEY ISSUES	STAKEHOLDER'S CONTRIBUTION TO VALUE CREATION
• Government (Shareholder representative) • National Department of Human Settlements (NDoHS) • South African Government Departments – National Treasury	• Quarterly report • Annual Performance Plans • Integrated Annual Reports	• Capital Provision/Management • MTFS framework and outcomes • Strategic Plan and Annual Performance Plans	• Entity delivers on mandate and transforms human settlements sector • Finance provided is used in accordance with mandate • Budgets • Quarterly performance
• South African Reserve Bank	• Quarterly	• F02 and F04 Reports	• Financial Position, Financial Performance and Cash Flow
Parliamentary Portfolio	• Integrated Annual Reports • Quarterly reports • Parliamentary Committee Sittings	• Service delivery • Compliance	• Focuses on the performance of public entities
Board of Directors	• Board meetings • Sub-board committee meetings	• Oversight Management • Quarterly Reports • Integrated Report	• Oversee the overall strategic direction of the entity
Executive Committee	• EXCOM	• Management • Operational Performance • Strategic Direction	• Operations of the entity

STAKEHOLDERS	HOW WE ENGAGE	KEY ISSUES	STAKEHOLDER'S CONTRIBUTION TO VALUE CREATION
Employees	• CEO's staff address • Internal newsletters • Intranet	• Disbursement/Collection/ Management/overall performance	• Source of income • Career and skills development
Department of Public Services and Administration	• Meetings	• Management • Compliance	• Ensures entity maintains a compliant and functioning public service
Funders: • DoHS • National Treasury • EIB, AFD, PIC, KFW/ DBSA • International Finance Corporation (IFC) • IHS Fund II • ABSA, FNB, INVESTEC, NEDBANK, STD	• Annual reports • Half-yearly reports • Quarterly reports • Face-to-face meetings	• NDoHS: Annual Performance Report • National Treasury: Estimate of National Expenditure • National treasury: Quarterly Report • EIB, AFD, PIC, KFW/DBSA: Debt funders - Financial performance of the NHFC and ability to service debt • IFC: Exploration of financing collaborations • IHS: Financial and operational performance of our investment and other areas of collaboration • ABSA, FNB, INVESTEC, NEDBANK, STD: Co-funding opportunities	• Return on investments • Objectives and outcomes • Budgets • Quarterly performance • Contractor Development • Financing scale
Partners per programme: Social Housing: • National Rental Housing Task Team • Social Housing Regulatory Authority (SHRA) • Gauteng Partnership Fund (GPF)	• Quarterly meeting • Monthly meeting	• National Rental Housing Task Team: Review of operational performance of the rental portfolio • SHRA: Quarterly project progress discussions • SHRA: Quarterly project progress discussions and Technical Evaluation meeting • GPF: Engagement on co-funded empowerment program and new co-funding opportunities	• Return on investments • Co-funding capital contributions • New business • Prudent use of resources

STAKEHOLDERS	HOW WE ENGAGE	KEY ISSUES	STAKEHOLDER'S CONTRIBUTION TO VALUE CREATION
Incremental Housing: • Intermediaries • NDoHS • Data Management, Verification and Analysis • National Union of Mineworkers (NUM)	• Meetings • Workshops	• Regular meetings with existing and potential intermediaries • Data management, verification and analysis: Met with the Director to obtain information on BNG houses and serviced sites delivered in major urban areas of South Africa • Data management, verification and analysis: Shared information with our clients to support their market efforts of incremental housing loans in urban areas • NUM: Attended NUM Housing Workshop on the consolidation of inputs for Submission to the Department of Energy and Mineral Resources • NUM: Planned further engagements with NUM to explore prospect to support mineworkers with incremental loans	• Return on investments • New business • Capital gain • Prudent use of resources
Affordable Housing: • FLISP division • Developers • Western Cape Government	• External meetings • Internal meetings • Workshop	• FLISP Division: To explore better ways of maintaining existing clients and attracting potential clients • FLISP Division: Leveraging NHFC as an administrator of FLISP for competitive advantage against our competitors • An in-person customer relationship management drive embarked on by the division in order to assure existing clients of our service delivery, provide an update on the DFI consolidation and ascertain their future pipeline projects for bridging finance • Explored interesting and unique hybrid products in the Western Cape that involves farmers • Engaged the Western Cape Government and to offer NHFC the opportunity to offer bridging finance that will assist building houses for farm workers	

STAKEHOLDERS	HOW WE ENGAGE	KEY ISSUES	STAKEHOLDER'S CONTRIBUTION TO VALUE CREATION
Subsidy Housing: • Provincial Human Settlements Departments • KZN implementing agents • Business Development Division	• External meetings • Internal meetings	• Re-established relations across different provinces particularly the following: Limpopo, Gauteng, Free State, KwaZulu-Natal and Mpumalanga • Engagements have already taken place in Gauteng • KwaZulu-Natal – Implementing Agents were the key focus for Subsidy Housing, given the size of work that was allocated to some of the big contractors • KwaZulu-Natal Implementing Agents: Have a sizeable number of contractors and sub-contractors in their databases • There is also a number of referrals in the pipeline from the Business Development Division and some are at an advanced stage – at almost 90% completion	• Return on investments • New business • Capital gain • Prudent use of resources
FLISP: • Banks and other financial institutions • Clients	• Internal meetings	• FLISP is a credit-linked subsidy, therefore banks have been identified as central in the FLISP partnership model • Other important stakeholders such as GEHS, developers, large employers (who provide housing benefits to employees) and Estate Agents play a critical role in the sourcing of FLISP applications	

STAKEHOLDERS	HOW WE ENGAGE	KEY ISSUES	STAKEHOLDER'S CONTRIBUTION TO VALUE CREATION
Strategic Partnerships and Programme Management: • YOMANE • Social Housing Regulatory Authority (SHRA) • Small Enterprise Development Agency (SEDA) • Small Enterprise Finance Agency (SEFA) • Black Business Council in the Built Environment (BBCB) • EFFECTUS Capital Management • National Treasury • Randfontein Mega Project • Gauteng Cogta • uTshani Fund • South African Property Owners Association (SAPOA)	• External meeting • Social Housing Incubation Programme presentation External meetings • Presentations • Introductory meeting to explore ways of collaboration • Training • Face-to-face meetings	• YOMANE: Collaboration to access PDI lenders and Building Material suppliers. Sign MOU to formalise relations • SHRA Sector development on transformation and municipal support • SEDA, SEFA, BBCBE: Sign MOU'S to formalise relations • Effectus Capital Management company profile and experience in the sector • Treasury: Public Finance Management Act overview and its contents. Irregular expenditure framework • Randfontein Mega Projects: Meeting on Prospects of financing the development • Gauteng Cogta: Meeting with MEC Maile on Gauteng Contractor Incubator • uTshani Fund: Potential collaborations on PHP implementations • SAPOA: Discussion regarding featuring an article on the SAPOA publication	• Sharing the NHFC Concept Note on Business Development Initiative that the NHFC can structure to support smaller/ start-up lenders • Technical and Financial assistance to eligible SHI's • Co-funding opportunities • Programme Management and Capacity building collaborations • Lobbying for other organisations in the sector to work through the HSDB/NHFC in order to meet the needs of the sector timeously • Lobbying for legislative changes • An opportunity to fast-track and implement IRDP by the NHFC/HSDB • Understanding the Act and the compliance universe relating to irregular expenditure • IRDP Project Delivery • Contractor development • Support to self-help housing • Raise public awareness on NHFC project finance

STAKEHOLDERS	HOW WE ENGAGE	KEY ISSUES	STAKEHOLDER'S CONTRIBUTION TO VALUE CREATION
Stakeholder and Marketing; • NDoHS • Housing Development Agency (HDA) • National Home Builders Registration Council (NHBRC) • SAFM • MP Human Settlements Department • Co-operative Governance Human Settlements & Traditional Affairs (COGHSTA) • Standard Bank • DoHS Communicators Forum	• Workshops – direct marketing • Walk-ins	• Increase organisation's footprint • Source new business and maintain existing partnerships • Keeping stakeholders informed • The NHFC participated at the Human Settlements Indaba planning session with the NDoHS. The Indaba was held on 6 March 2020, with the main objective being to strengthen partnership with different stakeholders for sustainable human settlements through innovation. The CEO had an opportunity for an interview on SAFM, explaining to the public about the status of HSDB establishment and positioning the NHFC. The Indaba was concluded with a Ministerial Dinner that was held on 5 February 2020 in honour of Dr. Thandi Ndlovu • The NHFC began the process of hosting workshops in partnership with other key stakeholders to create awareness and position the 'newly' merged entity. The workshop strategy was aimed at articulating our product offering to targeted clientele. The workshops were undertaken in collaboration with HDA, NHBRC and Limpopo COGHSTA	• Assisting the organisation to connect broadly with a network of stakeholders
CSI: • NDoHS - Women's Build • Nelson Mandela University	• Sponsorships	• The sponsorship was to support the Departmental of Human Settlements Women's Build initiative at Entokozweni in the Eastern Cape Province. NHFC sponsored three houses with stoves. The support falls within the 'Partnering for the Greater Good' CSI pillar, under the Shareholder Support category • The purpose of the sponsorship was for a return trip for 22 students of the Nelson Mandela University in Port Elizabeth to travel to Bloemfontein. The students are enrolled for the degree in Human Settlements, at the faculty of Engineering and Built Environment. They were attending a National Conference for students in Human Settlements, which was held at the University of Free State in Bloemfontein.	• Contribution to societal goals

PART D: **GOVERNANCE**

"A CLEAR CONSCIENCE MAKES A SOFT PILLOW."

AFRICAN PROVERB

THE NHFC **LEADERSHIP**

Sizwe Tati
Chairman
Yakani Group

BCom (Acc) (University of the North), Graduate Diploma Company Director (GIMT), Postgraduate Diploma in Management (Henley), Senior Executive Programme (Harvard), Certificate Business Integration and Leadership Development Programme (Wharton Business School)

Samson Moraba
Chief Executive Officer

BCom (UNISA)
PMD (HBS)

Anthea Houston
Chief Executive Officer
Communicare NPC

MBA (UCT), Postgraduate Management Diploma (UCT), Banking Licentiate Diploma

Adrian Harris
Innovative Financial Services
Strategist and Entrepreneur

BTech (DUT), Advanced Business Programme (DUT), MBA (UJ/Wales)

“A GOOD LEADER WAS ONCE A GOOD FOLLOWER”

Johan Coetzee
Director of Companies

BA (UP), MBA (UP)

Phekane Ramarumo
Pr plan Chief Executive
Truly African Solutions

B.A. in Political Sciences and Public Admin (UL)
HD (Development Planning) Wits;
MRP (SUNYA, USA)
Higher Certificate in Business Management (USW)

Khehla Shubane
Independent Consultant

BA (Hons) (Wits), MBA (Bond)

Thembi Chiliza
Retired Banker

BAdmin (Fort Hare), Management Development Programme (Durban Westville), Diploma in Management Consulting (NAFCOC)

Sango Ntsaluba
Executive Chairperson
NMT Capital

BCom (Fort Hare), (Hons) B Compt (UNISA), CA (SA), HDip Tax Law (UJ), M Com (UCT)

EXECUTIVE **MANAGEMENT**

Samson Moraba
Chief Executive Officer

BCom (UNISA)
PMD (HBS)

Viwe Gqwetha
Executive Strategic Partnerships

BA, Masters in Town and Regional Planning, (University of Natal)

Jabulani Fakazi
Executive Grant Facilitation

MA Pol. Sc. Development Policy (NIU, USA), BSc Economics (NIU, USA), PDBM (UKZN), IEDP (WBS)

Bruce Gordon
Executive Credit

BCompt (Hons) (UNISA), CA (SA)

Mandu Mamatela
Executive Corporate Strategy

BCom (Hons) (University of North West), MBA (PU for CHE), IDEP (UK) (Wits)

Kyansambo Vundla
Chief Financial Officer

BCom, PGDip Acc (Rhodes University) CA (SA)

Vuyokazi Menye
Chief Information Officer

BSc Computer Science (University of the Western Cape)
International Investment Management certificate (Fordham University (New York))
Project Management Diploma from Executive Education
Certificate in IT Governance (Cobit 8)
Regulatory Examination Certificate: Representatives from Moonstone (FSB)
TogaF 8 Certificate from Foster-Melliar

Lawrence Lehabe
Executive Lending

BCom (Zululand), MSc Marketing (National University of Ireland)

Dr Nomsa Ntshingila
Executive Human Resources

PhD (UNISA), MSc Clinical Psychology (MEDUNSA), BSocSc Hons (University of North West), HED, BA Communications (Fort Hare)

Zola Lupondwana
Executive Corporate Finance

BCom (Botswana), ACA, CFA, CA(SA)

Andrew Higgs
Executive Company Secretary

BCom (Rhodes), (Hons) B Compt (UNISA), CA(SA), MTP (SA), MAP (WBS), International Diploma Governance (ICA), Advanced Certificate Governance (hc) (ICA and University of Manchester), Advanced Executive Diploma in Corporate Governance (UNISA), Tax Management Planning (WBS), Housing Finance (Wharton Business School),

Sindisa Nxusani
Executive Corporate Support

BCompt (Hons) (Unisa), CA(SA)

CORPORATE **GOVERNANCE**

INTRODUCTION

The NHFC governance report provides information on the performance and management relating to the governance, economic, social and ethical impacts of the organisation's activities. It focuses on the NHFC's governance, sustainability, and regulatory requirements and applies to the NHFC and its operating subsidiaries.

The NHFC fulfils its mandate in a manner that is consistent with the principles of integrity, fairness, transparency, ethical leadership, efficiency and accountability. The Board of Directors and Executive Management remain committed, as far as possible, to applying the principles of the King Code IV, the Global Reporting Index Sustainability Reporting Standards, the PFMA, the Companies Act and all other related legislation within its corporate governance structures and processes in order to:

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

The King IV Report advocates an outcomes-based approach and defines corporate governance as the exercise of ethical and effective leadership towards the achievement of the following governance outcomes:

The application of King IV is on an apply and explain basis, and the practices underpinning the principles are entrenched in the NHFC's internal controls, policies and procedures governing corporate conduct. From a materiality point of view, the board is satisfied that in the main, the NHFC has applied the principles as set out in King IV.

Combined assurance

Combined assurance receives deliberate and focused attention from the NHFC board. The Audit Committee ensures that the combined assurance model addresses the NHFC's risks and material matters in such a way as to avoid duplication of effort, rationalise collaboration among assurance providers and manage costs. Activities are managed to maximise the impact, depth and reach from assurance service providers, to enable an effective control environment and to ensure the integrity of the information used for reporting and decision making.

Statutory Form

The NHFC was incorporated under the Companies Act 1973, and is subject to the current Companies Act of 2008. It is a Schedule 3A state-owned entity under the PFMA, and is wholly-owned by the state, as represented by the Minister of Human Settlements, Water and Sanitation.

Accountability to the shareholder

The Board is accountable to the DHS, which relationship is embodied in the Shareholder's Compact, countersigned by the Minister of Human Settlements, Water and Sanitation as the Executive Authority. The Compact confirms the NHFC's mandate and holds the Board accountable for managing its operations according to the APP and Strategic Business Plan.

The Board reports formally to the DHS every quarter, and the CEO and Chairperson meet periodically with the Minister.

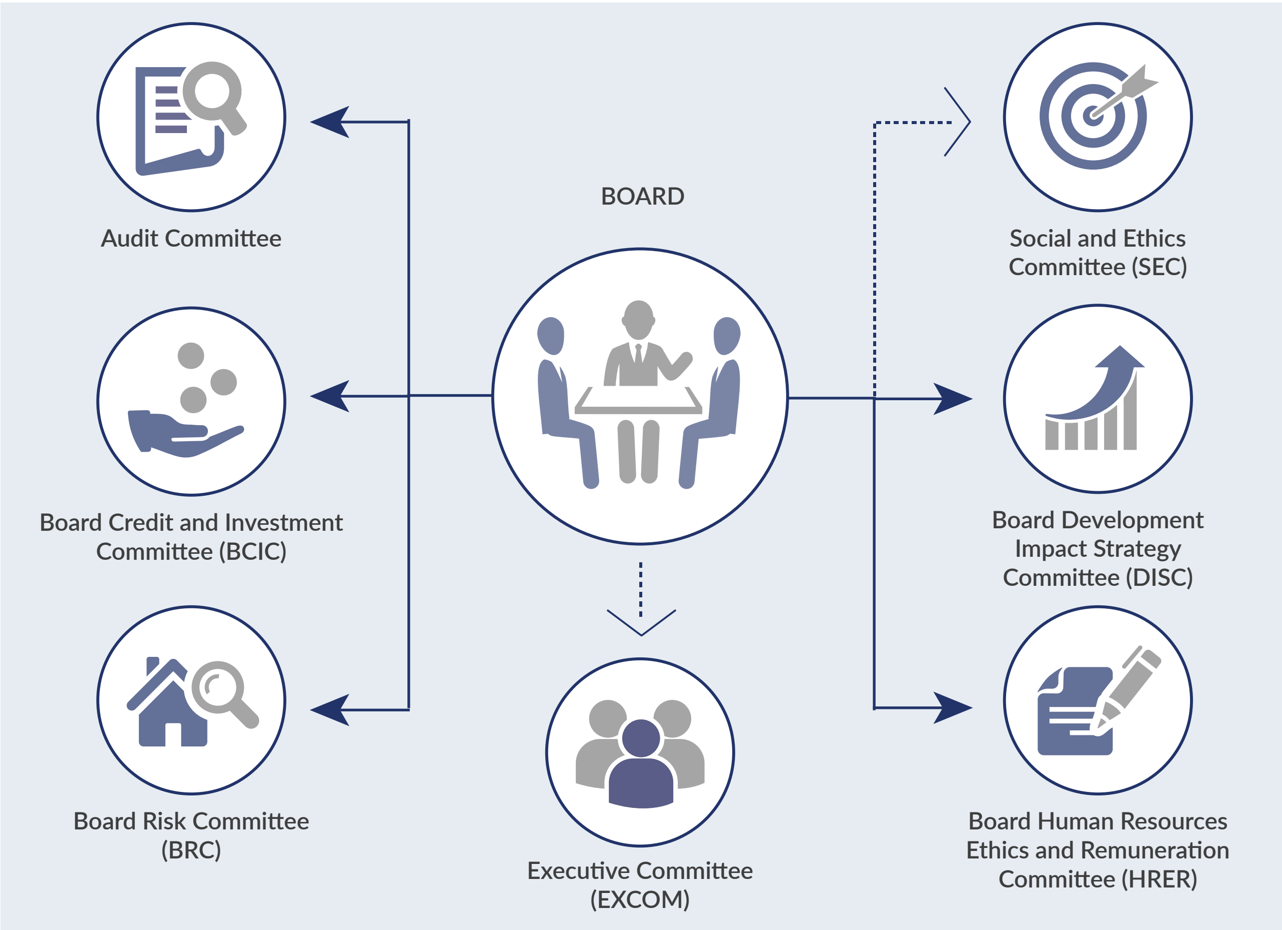
BOARD

Board governance, structures and framework

The Board, as the accounting authority, provides leadership, vision and strategic direction to enhance shareholder value and ensure the NHFC's long-term sustainability and growth. The Board is responsible for developing and overseeing the execution of the strategy and monitoring of performance against the APP.

The Board discharges this responsibility within the powers set out in the Memorandum of Incorporation (MOI) and through the Board committees. Although the Board delegates operational responsibilities to its committees and executive management, it remains accountable to the DHS.

Each Board committee has a clearly defined mandate in its terms of reference, which are reviewed annually. The management of day-to-day operations is delegated by the Board to the CEO, who is assisted by EXCOM and its subcommittees.



NHFC's Board governance structure

> "The Board, as the accounting authority, provides leadership, vision and strategic direction to enhance shareholder value and ensure the NHFC's long-term sustainability and growth."

Board composition

Board members are ultimately appointed by the Human Settlements, Water and Sanitation. The MOI provides for a maximum of 12 members. However, there are currently 9 members including the Chairperson. During the year Mr Gondongwana tendered his resignation from the board to the Minister.

With the exception of the CEO, the board members are all independent non-executive directors. The Board members have extensive qualifications, experience and specialist skills-sets across the industry and within their own spheres of competence. This enables them to provide balanced, independent advice and judgement in the decision-making process.

Succession planning is important in ensuring continuity and maintaining the correct mix of expertise. As a result, the composition of the Board and its committees are reviewed annually, to ensure that there is a continuation of intellectual capacity and experience at all levels.

The provision within the MOI dictates that a total of one-third of the longest serving Non-executive Directors must automatically retire at the Annual General Meeting. These directors may be nominated for re-election for a further period of three years. Such re-appointment can only be confirmed by the Minister, who acts in the capacity of Shareholder. At the Annual General Meeting of the company, held on 28 November 2019, Ms. Chiliza and Mr. Shubane automatically retired in terms of the Memorandum of Incorporation and were re-appointed by the Shareholder.

Shareholder's Compact

The Shareholder's Compact is a concise overview of the roles, functions, responsibilities and powers of the Board and the shareholder, and is reviewed annually. By means of the Shareholder's Compact, the Board undertakes to manage the organisation by:

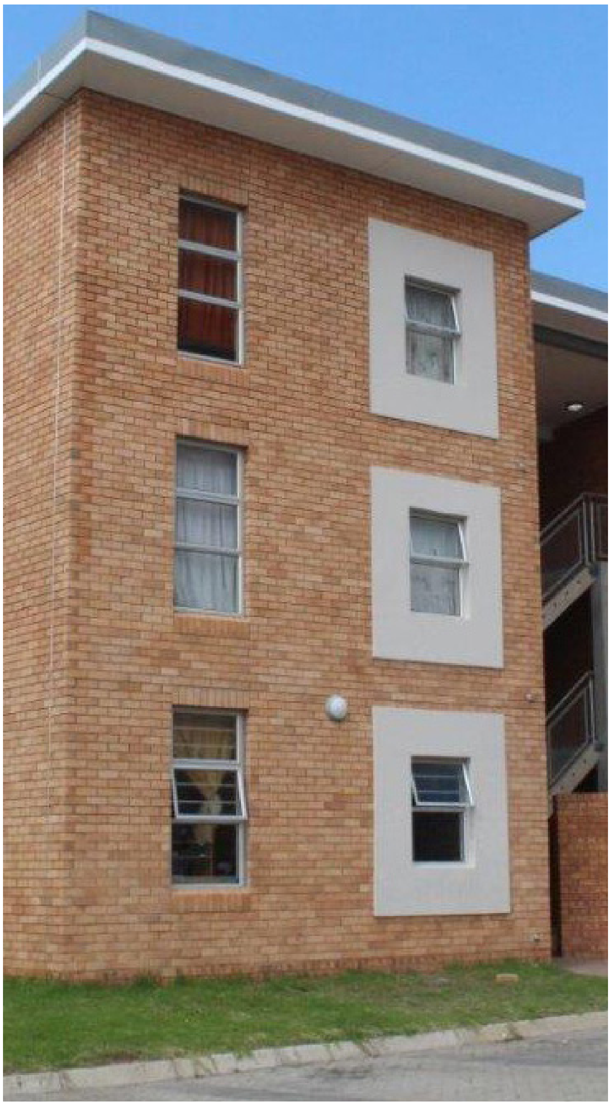
- Approving the organisational strategy, the APP, strategic plan and budget
- Observing the legitimate interests of the shareholder
- Monitoring operational and financial performance and ensuring that the required control systems are in place
- Reviewing the delegated authority policy
- Determining and nurturing the moral, ethical and transformational culture of the company by formulating guidelines and policies that encourage the participation of management, staff and stakeholders in decision-making processes
- Supporting a culture of innovation and initiative throughout the organisation with its clients and stakeholders
- Ensuring that all technology systems used are adequate to guarantee effective and efficient performance
- Monitoring the socio-economic ethical compass of the NHFC and its interaction with its clients and stakeholders; and,
- Monitoring the implementation of transformation objectives and commitment to women-managed programmes

Non-executive director remuneration

At the annual general meeting of the company, and in accordance with National Treasury Guidelines, the Department of Public Enterprise's Guidelines, a comparison within the sector enterprises, a comparison with external service provider annual evaluation reports and internal policy guidelines, the shareholder reviews and approves the remuneration for Non-executive Directors for attending Board and Board Committee meetings.

Board evaluation

It is the policy of the Board to have evaluations on its performance and effectiveness, as well as that of the Board committees. The evaluation, carried out during September 2019 highlighted no significant findings.



Board meetings

The Board meets quarterly, and additionally to approve the annual financial statements. Further meetings may also be called by the shareholder. The Chairpersons of the respective Board Committees report back to the Board at the quarterly Board meetings. The record of attendance at Board meetings for the period under review is reflected in the Attendance Register below.

Attendance Register

The following table is a summary of attendance by the directors at all Board and committee meetings during the financial year.

DIRECTOR NAME	BOARD	AUDIT	RISK	CREDIT AND INVESTMENT	DEVELOPMENT IMPACT & STRATEGY	SOCIAL AND ETHICS	HUMAN RESOURCES AND REMUNERATION
Mr S Tati Chairperson	7/7*		2/3		3/3*		
Mr J Coetzee	7/7		6/6	7/7*	3/3		
Mr S Ntsaluba	5/7	5/7*	3/6				4/4
Ms A Houston	2/7				2/3		4/4
Ms P Ramarumo	7/7		6/6		3/3	4/4*	
Mr A Harris	7/7	7/7		7/7	3/3	4/4	
Mr E Godongwana*	0/4		2/6*		0/2		
Ms T Chiliza	7/7	7/7	1/1	7/7			
Mr K Shubane	6/7		5/6	7/7			4/4*
Mr S Moraba (CEO)	7/7	7/7	6/6	7/7	3/3	4/4	4/4

*Denotes Chairperson

Company Secretary

In terms of the Companies Act and the PFMA, the company is required to appoint a Company Secretary, who is answerable to the Board. The Company Secretary plays a pivotal role in the corporate governance of the organisation. The Company Secretary assists with matters of ethics, good governance and the provision of information and training required by the directors to fully accomplish their fiduciary responsibilities. Directors have unrestricted access to the advice and services of the Company Secretary in all aspects of the Board's mandate and operations of the company.

Ethics and managing conflicts of interest

In line with the Companies Act and King IV, the Board is bound to conduct the business of the organisation in accordance with sound ethical principles. These are embodied in the Code of Conduct which also sets out the legal requirements and procedures to be followed in declaring an interest in any business matter before a Board committee or the Board.

The declaration of any interest is a standing item on all Board, Board committees', management committees' and subsidiary companies committees' meeting agendas. In addition, all Board members are requested annually to provide a full declaration of all internal and external interests, which is kept on record in the Company Secretary's office.

All directors and management are expected to conduct themselves in a professional manner at meetings, and where there may be potential differences in matters of principle when discussing individual agenda matters, these differences are formally noted and handled according to the Board Compact, the Code of Conduct, and in terms of best practice.

Access to information and professional advice

All directors have unrestricted access to the Chairperson of the Board, the CEO, the Company Secretary and Executive Management should they require any additional information outside of that provided in meeting packs, in discharging their duties.

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

Board and statutory committees

All Board committees have clear defined terms of reference, which set out the specific responsibilities delegated to them by the Board. These are reviewed annually in order to ensure alignment with the NHFC's mandate and strategic objectives from the shareholder, applicable legislation and regulations, governance standards, and to take account of prevailing underlying conditions in the human settlements sector. All the Board committees are chaired by Non-executive Directors.

Executive Management attend committee meetings by invitation. This attendance provides committees with an additional perspective on agenda items where necessary, and enables the Non-executive directors to give direction or receive further information where required. Guidance is also taken from external professional institutions and service providers, legal and audit firms, which collectively issue position papers, professional opinions, research findings and guidelines, which the NHFC uses to assist itself in its implementation and compliance with various relevant statutes.

Audit Committee

The Audit Committee is composed of three independent Non-executive Directors. The members are confirmed and appointed at each annual general meeting by the shareholder. The current serving members are Mr. S Ntsaluba (Chairperson), Mr. A Harris and Ms. T Chiliza. The CEO, the Chief Financial Officer (CFO), external auditors and internal auditors attend all meetings. During the year, the committee holds additional in-camera sessions to consider the performance of the CFO and finance division, the performance and relationships with the internal auditors and external auditors, and the underlying support of the Executive Management. The Audit committee meets a minimum of six times a year and its primary objective is to assist the Board in discharging its duties relating to:

- Oversight of financial reporting, as well as compliance with all applicable legal requirements and accounting standards
- The operation of adequate systems of internal control and internal audit processes
- Reviewing the annual financial statements, accounting policies, financial provisions, adjustments, estimates and valuations
- Reviewing the APP, Strategic Plan and budget
- Reviewing the annual integrated report
- Reviewing the effectiveness of management information and systems of internal control with specific reference to the findings and recommendations of the external and internal auditors
- Oversight of the external audit process
- Oversight of the internal audit process
- Oversight over the appointments of external and internal auditors; and
- Review of and approval of quarterly reports to the shareholder as delegated by the Board

The external auditor is the Auditor General of South Africa (AGSA). The AGSA's appointment is confirmed annually by the shareholder at the Annual General Meeting.

The NHFC has an outsourced 'whistleblowing' practice. Matters may be reported to the external independent party, which records and categorises the items. These are then sent in a report to the Chairperson of the Audit Committee, for investigation, recommendation or subsequent action.

The internal audit function is outsourced to an external service provider, independent of the external audit function. The internal auditor is Ngubane and Co. who have been appointed on a three-year contract. Once this is complete, a tender process will be put in place for the appointment of new internal auditors.

The internal auditors conduct reviews of the key processes related to the significant risks of the company and the subsidiary company – CTCHC – and to provide independent assurance to the Board and management on the effectiveness of the internal control systems. The Audit Committee reviews the work of the internal auditors, and the lead auditor of this function has direct unhindered access to the Chairpersons of the Audit Committee and the Board, to ensure that any significant audit matters requiring immediate Board attention, are dealt with.

The internal audit function conforms to the International Standards for the Professional Practice of Internal Auditors as published by the Institute of Internal Auditors.

BOARD CREDIT AND INVESTMENT COMMITTEE

The Board Credit and Investment Committee comprises four independent Non-executive directors plus the CEO. Meetings are also attended by members of the Executive management and professional staff responsible for various portfolios.

The primary objective is to help the Board in fulfilling its credit and investment responsibilities.

The committee:

- Annually reviews the credit philosophy, risk framework and policy, risk appetite, long-term investment strategy and related policies, for recommendation to the Board for approval
- Reviews and discharges its functions under the Treasury Management Policy
- Reviews the quarterly Strategic Investments and Credit Reports, noting portfolio performances and recommending legal action, impairments, bad debt write-offs or revaluation of investments where applicable, to other Board committees and the Board
- Considers and approves loan applications for facilities between R50 million up to R200 million, upon recommendation by the Management Credit and Investment Committee. Investments and facilities in excess of R200 million are referred to the Board for approval
- Considers and approves long-term retail debt investments up to R100 million. Investments that exceed R100 million are recommended to the Board; and
- Considers annual and post investment reviews of strategic and major clients of the NHFC

The committee met seven times to review the various diverse funding applications received from the housing sector. The record of attendance for the Board Credit and Investment Committee meetings during the period under review is reflected in the meeting attendance register above.

Board

CREDIT PROPOSALS
- Above or cumulatively above **R200 000 000**

INVESTMENT PROPOSALS
- Above or cumulatively above **R100 000 000**

Board Credit and Investment Committee (BCIC)

CREDIT PROPOSALS
- Below or cumulatively above **R200 000 000**
- Above or cumulatively above **R50 000 000**

INVESTMENT PROPOSALS
- Above or cumulatively above **R20 000 000**
- Below or cumulatively below **R100 000 000**

Management Credit and Investment Committee

CREDIT PROPOSALS
- Below or cumulatively below **R50 000 000**
- Above or cumulatively above **R10 000 000**

INVESTMENT PROPOSALS
- Below or cumulatively below **R20 000 000**
- Above or cumulatively above **R10 000 000**

Delegation of credit and investment approvals

HUMAN RESOURCES, ETHICS AND REMUNERATION COMMITTEE

This committee is composed of three independent non-executive directors and is attended by the CEO and the Executive Manager: Human Resources.

The Human Resources, Ethics and Remuneration Committee meets four times a year and its responsibilities include:

- Annually reviewing the Human Resources Policy and Strategy, the Remuneration Policy and Balance Scorecard Remuneration Framework, and recommending them to the Board for approval
- Reviewing and monitoring the top HR risks
- Considering and approving salary increases for all staff
- Approving the implementation of bonuses and incentives for all staff
- Reviewing and recommending Executive Managers' salary increases and incentive bonuses to the Board for approval
- Reviewing the terms and conditions of Executive Managers' Service Agreements
- Annually reviewing and approving succession planning; and
- Monitoring and implementing the Ethics Policy

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

The NHFC has a zero-tolerance approach to dishonest, corrupt and illegal conduct. This is central to the Code of Conduct. Criminal behaviour will not be permitted and formal charges would be laid against perpetrators, who will be dismissed if found to have participated in unacceptable behaviour. In the past year there have been no instances of dishonest, corrupt or illegal conduct reported. In addition, the HR policy complies with the International Labour Protocol in not employing children, and promoting gender and payment equality standards.

SOCIAL AND ETHICS COMMITTEE (SEC)

The Social and Ethics Committee (SEC) is a mandatory committee of the Board as laid down in terms of section 72 (4) of the Companies Act. Its mandate is to report to the shareholder on its monitoring of the company's activities in response to principles and standards as highlighted in the Companies Act, and which includes the Organisation for Economic Cooperation and Development, the International Labour Organisation and the United Nations Global Compact. In addition, it is also guided by King IV, the PFMA and various other legislation.

For good corporate governance purposes, the SEC extends its reporting to the main NHFC board.

As the SEC is collaborative in nature, its purpose is not to duplicate work done within the company or by other board committees. The SEC therefore performs its oversight role to ensure that the company remains committed to being a socially responsible corporate citizen and creates a sustainable business with regard to the ethical, economic, social, transformational and environmental impact on the communities within which it operates.

The SEC is composed of two independent non-executive directors and the CEO. Executive Management attend meetings by invitation. It meets four times a year and its responsibilities include:

- The company conducts its business activities in an ethical and socially responsible manner in fulfilling its duties
- Social and economic development of its employees and other stakeholders
- Promotion of equality and prevention of unfair discrimination
- Ensuring the company has established a Code of Ethics which includes the prevention of fraud, bribery and corrupt practices, as well as the protection of human rights
- The contribution to the development of the communities in which its business activities are predominantly conducted – which includes poverty alleviation and the beginning of wealth creation
- Ensuring that appropriate labour and employment practices are adhered to, both in terms of local legislation and the protocols specified in the Companies Act; and
- Ensuring that there is a framework and strategy for stakeholder engagement

A separate report for the Social and Ethics Committee is included on page 78 in this Integrated Report.

BOARD RISK COMMITTEE (BRC)

The Board Risk Committee comprises of the chairpersons of the various board committees, and is also attended by the CEO and Executive Managers. It meets six times a year and its primary objective is to assist the Board execute its responsibilities with respect to risk and fraud management.

In fulfilling its mandate, the committee:

- Annually reviews the Enterprise Risk Management Strategy and Framework as well as the Fraud Prevention Plan, and monitors management in the implementation thereof
- Bi-annually reviews and recommends the Risk Appetite Statement and Policy to the Board for approval
- Evaluates the effectiveness of risk management systems, processes and controls

- Annually reviews and recommends all risk management policies to the Board for approval; and,
- Approves financial risk management strategies as recommended by the Board Credit and Investment Committee

DEVELOPMENTAL IMPACT AND STRATEGY COMMITTEE (DISC)

This committee is comprised of six independent Non-executive directors and the CEO, and is attended by Executive management.

Its main objectives are to:

- Review strategy discussions arising from other board committees
- Review and recommend the company strategy to the Board and to ensure that it is both relevant and responsive to the housing market
- Give the Board assurance that the strategic objectives are aligned to the DHS's human settlements strategy
- Review the strategic direction in relation to the economy, as well as supply and demand imperatives in the market
- Recommend amendments to the company's strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved
- Monitor the company's performance against the objectives set for developmental impact; and
- Monitor the impact of developmental activities on the financial strategy

In addition to the above, the Development Impact and Strategy Committee has been co-ordinating oversight and input into the business plan, financial model and legislation for the Human Settlements Development Bank.

Governance over subsidiary company

The NHFC is the sole shareholder of the Cape Town Community Housing Company (Pty) Ltd (CTCHC), which is a managed housing stock development company.

The CTCHC is subject to the guiding corporate governance principles of the NHFC, which ensures that its business is conducted in a proper, ethical and responsible manner.

The CTCHC has its own Board of two directors, which meets quarterly. The Chairperson of the CTCHC Board is the CEO of the NHFC as delegated by the NHFC Board.

The CTCHC has its own Audit Committee which meets quarterly and reviews the annual financial statements, annual report, annual audit plan, and annual internal audit function, risk register and quarterly performance of CTCHC.

During the year CTCHC finalised its financial restructure by the conversion of shareholder loans to equity, thereby ensuring that it operates as a going concern.

CTCHC concentrates on collections from the instalment sale book and sale of units in its Upington Project. Oversight of CTCHC is exercised from the NHFC Lending division, while CTCHC operations are controlled by a General manager in Cape Town.

Governance is maintained through delegated authority, to ensure adherence to the NHFC group's overall subscription to the principles of ethical leadership and good corporate governance.

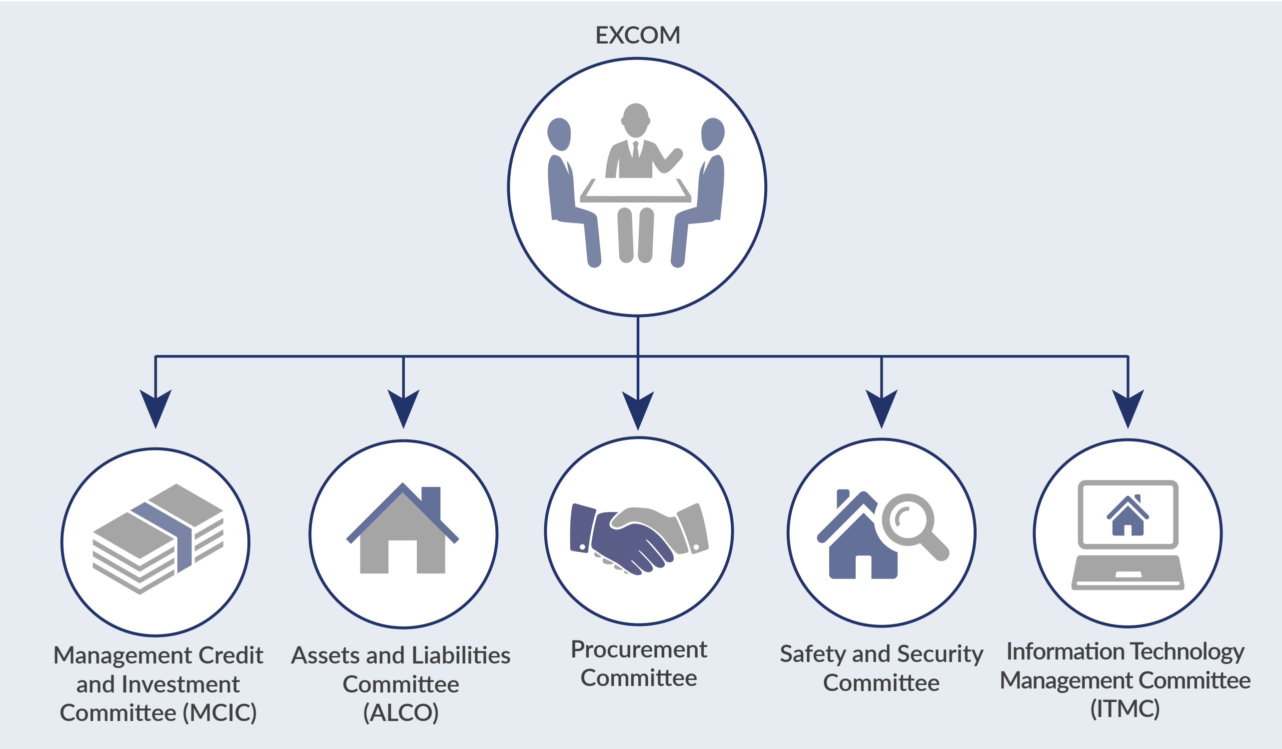
MANAGEMENT COMMITTEES

Executive Committee (EXCOM)

EXCOM comprises the company Executive Managers and CEO, and is involved in managing the NHFC's day-to-day business. EXCOM has its own terms of reference.

The main functions of EXCOM include formulating and implementing the NHFC's Board approved strategy, preparing the APP and key performance indicators for the strategic plan, preparation of the budget, policies, procedures and internal controls of the organisation, risk assessment, information technology (IT), procurement oversight, quarterly reports, and all investment applications.

All management committee decisions are reviewed at EXCO before being taken forward to board committees.



Management Credit and Investment Committee (MCIC)

The Management Credit and Investment Committee is an executive management sub-committee of the Board Credit and Investment Committee. It meets regularly to make recommendations to the Board Credit and Investment Committee, or approve funding approvals within its own mandate. It has its own terms of reference and is responsible for approving loan facilities up to R50 million per client (which is reviewed annually and by the Board Credit and Investment Committee annually), and recommending amounts in excess of R50 million to the Board Credit and Investment Committee.

It also reviews and recommends on all strategic investment proposals to the Board Credit and Investment Committee.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee is chaired by an Executive Manager.

The committee's objectives are to:

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

Information Technology Management Committee (ITMC)

The Information Technology Management Committee is chaired by an Executive Manager.

Its main objectives are to:

- Review the IT strategy to ensure that it is aligned with the APP
- Develop an IT governance framework and IT policies, and oversee its implementation
- Obtain independent assurance that the IT internal framework is effective
- Monitor all IT risks and controls to determine whether they are addressed effectively and ensure that relevant plans and controls are in place; and
- Review all IT major capital expenditure proposals

Procurement Committee

The Procurement Committee is chaired by the Chief Financial Officer.

The Procurement Committee's main objectives are to:

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

Safety and Security Committee (SASC)

The Safety and Security Committee is chaired by the Executive Manager: Human Resources.

Its main objective is to monitor, evaluate, advise on and make decisions regarding health, safety and security matters, and to report on these matters to the Social and Ethics Committee. It is responsible for monitoring and implementing the safety and security policy.

> "The Safety and Security Committee (SASC) is responsible for monitoring and implementing the safety and security policy."

SOCIAL AND ETHICS **COMMITTEE REPORT**

The Social and Ethics Committee (SEC) has been established in terms of section 72 (4) of the Companies Act 2008. The mandate of the SEC is to report to the shareholder on its monitoring of the activities of the NHFC as prescribed in the Companies Act. In addition, it also complies with good corporate governance practice in terms of the King IV Report.

Within the NHFC, the SEC ensures that the company remains committed to being a socially responsible corporate citizen and creates a sustainable business with regards to the ethical, economic, social and environmental impact on the communities it operates within.

The SEC executes its duties with reference to relevant South African legislation, principles and standards of the Organisation for Economic Cooperation and Development, the International Labour Organisation and the United Nations Global Compact. As a result, the SEC has adopted and applied the Global Research Institute G4 Framework for its work.

The King IV Report has acknowledged the increased oversight role of Social and Ethics committees concerning organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships, including its statutory and regulatory duties. There is focus on transformation, B-BBEE, and the role of women and children. Therefore, the board committees for Risk, Credit and Investment, Development Impact and Strategy and Human Resources, Ethics and Remuneration report accordingly, highlighting the activities and the impact of each quarter.

The SEC additionally notes the NHFC risk profile, various policies, terms of references and committee charters, staff ethics management and training, marketing and communications activities, stakeholder interaction, transformation, environmental impact, B-BBEE compliance, fraud management, supply chain management, and controls to prevent corruption.

Since the SEC is a monitoring committee, the actual verification work rests with executive management. The SEC also maintains a close, mutual working arrangement with the Audit Committee.

Monitoring and sustainable development

During the year ending 31 March 2020, the following have been the focus areas of the NHFC:

United Nations Global Compact

- In consideration of the National Environment Management Act, there has been an ongoing review of the provision of housing as a result of funding applications by housing providers or investment institution intermediaries. The housing provided has been in the form of incremental housing, social rental and private rental housing. New specialised programmes are also being developed for developers and contractors. In all cases the environmental, transformational, gender and infrastructural issues are reviewed.
- The SEC has noted the ongoing challenges arising especially in social housing around rent boycotts, building hijackings, as well as the combined efforts to deal with these by executive management, the shareholder, and SHRA. As a result, it is pleasing to note the steps being taken by management and the Department of Human Settlements for a revised policy on the challenges and potential solutions for social housing.
- The SEC has noted the success and outcomes of a number of environmental impact assessments and development programmes for various projects. These approvals are also interrogated and approved by local authorities.
- The supply chain evaluations ensure that there are no violations of freedom of association or collective bargaining with suppliers and clients. In addition, it is clarified that no child labour is utilised, nor is there discrimination bargaining with clients.
- In terms of the SANS environmental regulations, assurance is obtained to confirm compliance with building regulations and standards, environment standards, use of environmentally friendly materials, and adherence to heritage and fauna standards. The SEC continues to monitor the framework assessment methodology used by the NHFC when looking at such issues for funding applications.
- In terms of National Treasury Frameworks on Combatting Crime and Fraud and associated legislation, confirmation has been received that there has been no incidences of fraud or fines imposed, and that the required compliance certificates have been issued to National Treasury. In addition, the NHFC has a standard for checking on the backgrounds of all funding applicants to ensure that there are no negative issues highlighted that could give rise to the recovery of monies.
- The SEC has noted the application of the Politically Exposed Persons policy, which is also being used to monitor key players in funding applications.

PROMOTION OF EQUALITY UNDER B-BBEE ACTIVITIES HAS INDICATED THE FOLLOWING PERFORMANCE AS PER THE INTEGRATED ANNUAL REPORT:

Disbursements to emerging BEE entrepreneurs: **R566 million**

Disbursements to women and youth **R83 million**

Housing Opportunities facilitated **35 356**

Stakeholder Engagement and Management

- The HSDB business case has been finalised and was approved by National Treasury.
- The next step is for the promulgation of related legislation to come into effect. Prior to this occurring, various necessary review stages needed to be realised before reaching Parliament for approval.
- The Stakeholder Strategy, Mapping and Framework guides The NHFC communication and consultation engagements and is a progressive 'stepping stone' towards the HSDB.
- The SEC considered the Corporate Social Investment policy for the integrated NHFC and an implementation proves and budget reviewed.
- A new ICT Strategy, IT Governance, updated ICT policies and procedures have been prepared following the appointment of a new Chief Information Officer (CIO) to the organisation. This is especially encouraging as the ICT strategy is focusing on NHFC business process modernisation and integration of disparate business application systems following the DFI merger in October 2018. The strategy has also prioritised implementation of a new and improved system for FLISP, electronic Boardpac solution, implementation of information and cyber security process and facilitation of work-from-home solutions as a result of the COVID-19 pandemic and the national lockdown.
- The NHFC participates in the Govan Mbeki Awards adjudication quarterly committee meetings which review the provincial and annual awards. The awards promote excellence within the Human Settlements sector.
- The SEC Chairperson was part of the NDoHS Indaba in February 2020, at which a pact was signed with all stakeholders, committed to the development and improvement of inner-city housing, the eradication of informal settlements, facilitation of contractors and the development of women entrepreneurs in construction. These articles are also embodied in the HSDB business plan.
- The organisation attended several National Communicator forums and meetings to establish a comprehensive communication plan.
- The company has participated in several stakeholder development show days and launches.
- The FLISP Program continues to exceed expectations and will commence with a national footprint, moving beyond Gauteng, from April 2020.
- The NHFC website has been upgraded following the DFI merger, and website content and traffic is monitored in accordance with company policies. In addition, continual external threats and security challenges against the integrity of the NHFC IT infrastructure are being addressed. These threats are mitigated through the implementation of new and innovative cyber-protection that firewalls our data.
- The NHFC has obtained a generator, which will ensure functional operation of our offices in the face of an electricity outage. This effectively minimises down-time and untimely stoppages, ensuring uninterrupted work flow.
- Contractor workshops have been held in Gauteng as part of the client outreach programme
- New publications on the Incremental Housing Finance programme have been prepared and distributed.
- Various policies have been considered – Human Resources, Ethics, Corporate Social Investment, Stakeholder Management, and Fraud Risk, as well as the application assessment and environment review processes of the Business divisions.

DFI MERGER AND HSDB FORMATION

- Work is continuing within the organisation with the restructuring of the divisional arrangement, in preparation for the HSDB roll-out.
- All staff positions have been reviewed, a skills audit undertaken, and job descriptions reviewed. The fixed-term contractor's agreements have also been restructured.
- Policies have been reviewed and consolidated – for example, credit and pricing - for products provided by the NHFC. An expanded risk appetite mandate is under review.

ILO Protocol and South African Labour legislation

- Towards the end of the financial year, the President announced the COVID-19 State of Disaster, followed by a lockdown from 26 March 2020. This lockdown has been extended, at different levels of security.
- The NHFC has responded proactively and has adopted all the Disaster Management protocols, prepared a Risk Register, trained all staff and implemented a work from home rule. This has proven successful, with a higher degree of productivity and commitment from staff.
- From June 2020 the offices have been re-opened to a select number of employees (primarily IT, FLISP and some admin) and strict sanitising, PPE and spatial distancing protocols are in place. In addition, the NHFC has engaged a nurse to test all employees daily and a private vehicle has been arranged for staff without their own transport.
- The NHFC has further interacted with clients and made arrangements, and decided for payment moratoria or loan rescheduling for affected entities. These have resulted in the business plan needing to be revised and updated for the negative financial consequence arising.
- All employees have received training on the COVID-19 Virus requirements as well as HR policies, Ethics, Money Laundering, etc. Additional formal training in leadership, technical matters, continuing professional development and on the job training is undergoing.
- The company has received requests to assist post-graduate study research from students who are conducting academic investigation in some of the areas of the NHFC business, where their insights may be useful in bringing in new thinking, best practice and application.
- All Employment Equity requirements are in place.

Corporate Governance

- All the required legislative and regulatory corporate governance protocols are in place, the Annual Performance Plan and Shareholder's Compact for 2020-2021 have been submitted to and approved by the shareholder, as well as the new five-year Medium-Term Strategic Plan.
- All CIPC compliance is in place, the PAIA requirements are in place, codes on ethics and employee's values are in place and all key risk, IT and remuneration frameworks are in place and the annual meeting calendar is in place. The company is additionally implementing POPI protocols and revised standards for its B-BBEE compliance and measurement.
- It is noted that the performance of the Provident Fund has come under pressure due to an economic downturn during the year. However, the trustees of the Provident Fund meet regularly and are closely monitoring the fund managers' performances.
- An active whistle-blowing policy is in place, and one incident has been reported to the NHFC. This has been dealt with under the control of the Audit Committee and Board Chairpersons.
- SEC is providing oversight and ongoing attention within the NHFC, to the Government imperative to ensure that women receive at least 30% funding towards their activities.

ENTERPRISE **RISK MANAGEMENT**

REPORT: AS AT 31 MARCH 2020

The NHFC's approach to managing risk is set out in its approved Enterprise-wide Risk Management framework. The assessment of the NHFC's strategic and operational risks is performed annually. All the identified risks are monitored and evaluated on a quarterly basis by management and the Board, ensuring that risk responses are current and dynamic. During the process of continuous monitoring and evaluation, emerging risks are also identified to ensure that all risk areas are effectively managed and proper mitigation plans are put in place.

Risk appetite

All risks are managed within the corporation's risk appetite statement and are aligned to the corporation's vision. The NHFC's risk appetite statement is reviewed annually and approved by the Board. It expresses the level and types of risks which the corporation is prepared to accept or tolerate while pursuing its strategic objectives. It includes both qualitative and quantitative boundaries on risk exposure.

Compliance risk

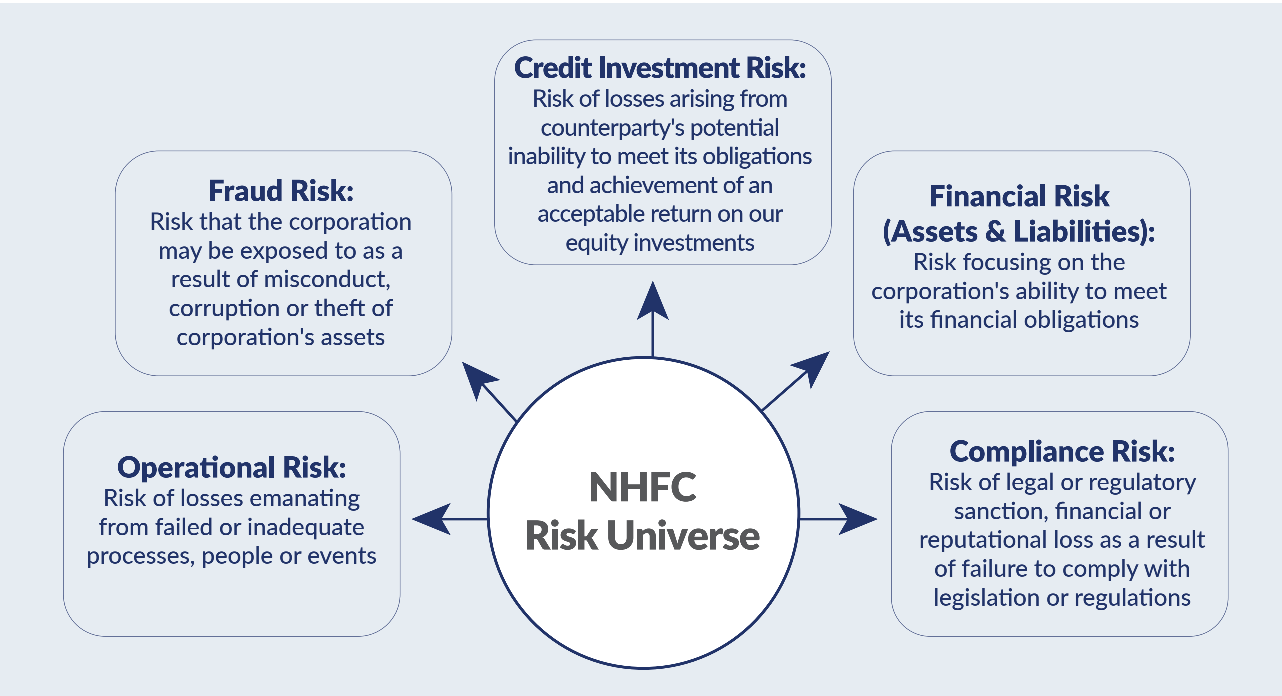
The NHFC has adopted a structured approach to evaluate compliance risk and ensure that adequate responses are initiated timeously to avoid any negative impact on the corporation. Regulatory compliance function provides specific focus on regulatory compliance risk in line with the approved Compliance Framework.

Combined risk

The NHFC combined assurance model is approved by the Board. The model represents the way risks are currently being managed between the three lines of defence. The first is the function that owns and manages the risk, the second line being the functions that oversee or specialise in risk management and compliance. The third line of defence are the functions that provide independence assurance including the internal audit function. The corporation's focus is on the development of a more structured assessment, monitoring and mitigation process to ensure consideration and merger of all potential risks as part of the combined assurance approach.

RISK UNIVERSE

The NHFC's Risk is expressed in line with the Corporation's Risk Universe, which includes:



NHFC RISK REGISTER

RISK ID NO	RISK TYPE	RISK/ THREAT IN ACHIEVING OBJECTIVES	MITIGATION PLANS	INHERENT RISK	RESIDUAL RISK
1	Mandate Risk	Funding the market that is not aligned to the mandate. Failure of the NHFC to deliver on the shareholder's (NDoHS) mandate.	APP approved by shareholder (NDoHS). NHFC operating within approved mandate. Credit policy effectively implemented. Development Monitoring Team established for unsecured lending to ensure that funds are used as per approved mandate.	Medium	Low
2	Financial Sustainability Risk	Challenge in balancing developmental mandate with financial sustainability leading to APP targets not being met.	Ensure that there is alignment of strategy to market conditions. NHFC risk appetite aligned to existing financial markets. Continuous tracking of financial sustainability ratios (i.e. Return on Equity, Return on Assets, Gross Profit margin, Bad Debts). Business performance objectives aligned to corporate strategy.	High	High
3	Credit Risk	Challenge in granting quality loans resulting in unsuccessful collections or credit risk in excess of risk tolerance.	Ensure compliance to credit policy (risk-based pricing, collection processes, credit assessment criteria). Regular credit reviews done. Ongoing monitoring of account performance. Strengthen post investment process.	High	Medium
4	Investment Risk	Inability to attract suitable funding partners (Attrition of partners, emerging partners). Not realising expected returns from strategic investments.	Attract funders through incentives included in the value proposition. Offering attractive Risk sharing options. Align investments to NHFC Investment Policy and Risk appetite.	High	Medium
5	Funding Risk	Challenge to mobilise sustainable funding, raise debt at the appropriate price from DFI's, Debt Market and Shareholder equity.	Align NHFC risk appetite statement to ever-changing financial markets and sustainability. Optimal Shareholder Funding in support of debt capacity to enable blended funding model.	High	High

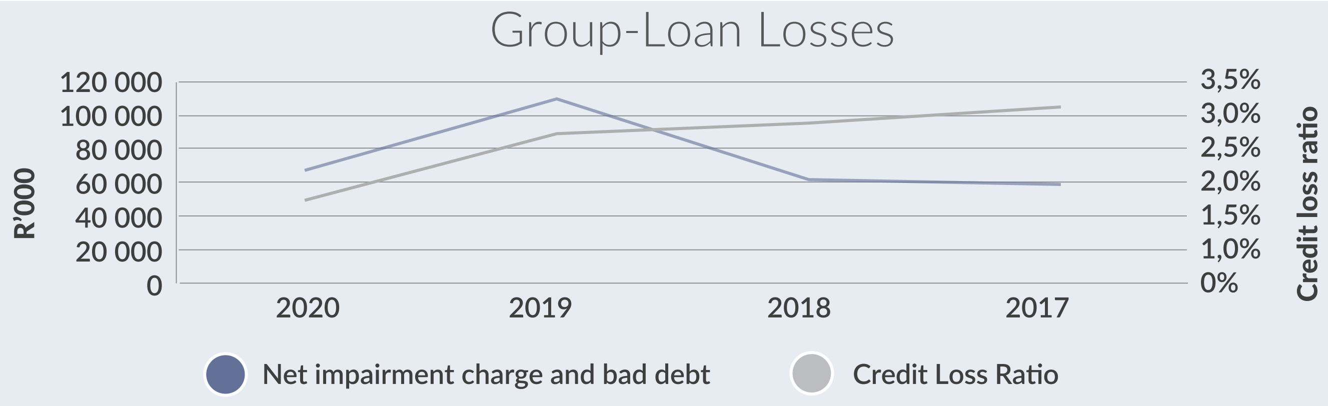
RISK ID NO	RISK TYPE	RISK/ THREAT IN ACHIEVING OBJECTIVES	MITIGATION PLANS	INHERENT RISK	RESIDUAL RISK
6	HR Risk	Challenge in attracting, engaging, rewarding and retaining talent. Skilled and talented staff may be unsettled by the DFI Consolidation.	Ensure compliance to HR policies. Continue to embed change management into everyday business. Staff turnover rate managed within the target of 2%. Target Operating Model in the process of being implemented.	Medium	Low
7	Reputational Risk	Loss of reputation (due to negative publicity).	Continuous implementation of Code of Conduct. Adherence to good corporate governance practice. Adoption of a customer-centric approach. Implementation of consequence management.	Medium	Low
8	Compliance Risk	Non-compliance to legislation, regulations and policies.	Complies with PFMA and National Treasury Regulations continue to monitored. B- BBEE Plans put in place to improve NHFC B-BBEE level gradually each year. The NHFC is currently at Level 8 COIDA) - Registration with COIDA in the process of being finalised.	High	Medium
9	Governance Risk	Possibility of adverse audit opinion. Dysfunctional Board. Lack of approved policies and procedures.	Fully-constituted Board. Regular meetings held as per meeting schedules. Quarterly Board updates. Annual Board evaluation conducted.	Medium	Low
10	IT Risk	Misalignment of IT and Business Strategy. Inappropriate or failed internal processes. Inappropriate IT platform.	ITMC continue to function as per TOR. IT governance structure and policies in place. IT Controls reviewed by Internal Auditors annually. IT platform and business applications regularly reviewed and implemented accordingly. IT strategy aligned to business strategy.	High	Low
11	Market Risk	Limited ability to provide thought leadership to the low-to-medium housing market (advocacy, insights and foresights, innovation).	Partnered with BER to assist with research for economic conditions. NHFC continues to influence the affordable housing market through a variety of communication channels; i.e. regular meetings with SHRA, NDOHS and BASA.	High	Low

MANAGING CREDIT RISK

Credit Loss Ratio

A key aspect of the NHFC's mandate is to be sustainable and to thereby not require funding from the State to keep operating. Clearly this does not preclude the State providing funding where it is considered necessary to increase the capacity of the NHFC to deliver on its development mandate.

The NHFC is a development finance institution and as such it lends money to ensure that development takes place in the human settlements sector. This means that embracing credit risk is a key aspect of its ability to perform. This risk needs to be managed in a way that ensures that credit losses, while inevitable, are minimised within the constraints of the development mandate and the economy in which the NHFC operates. A key measure of this is the Credit Loss Ratio.



It can be seen that the ratio has been declining over the past few years. The goal in the Risk Appetite Statement adopted by the Board after year-end is to reduce this to a level of 1,25%. This goal was set by benchmarking against other South African development finance institutions as well as some other African housing development finance institutions.

Non-Performing Loans (NPL) over time

The precursor to any bad debts is the non-performing portion of the NHFC's loan book. Currently the biggest challenge we have is within the social housing portion of the book. Sixty percent of this book was non-performing at year-end.

A variety of interventions have been undertaken, in coordination with the Social Housing Regulatory Authority which has an interest in ensuring that these non-profit companies continue to provide low cost accommodation.

These include the placing of one entity under administration in terms of the Social Housing Act, while another went into voluntary business rescue and a third is restructuring after the SHRA funded a consultancy for them.

Subsequent to year end, the credit department was restructured with a section focusing purely on resolving the challenges of the non-performing book being set up. This was done with existing NHFC employees.

Company accounts

LOAN CATEGORY	TOTAL BOOK R'000	IMPAIRMENTS R'000	NET BOOK R'000	NON-PERFORMING R'000	NON PERFORMING/ TOTAL BOOK %
Strategic Investments	575 393	20 232	595 625	-	0%
Social Housing	872 045	(140 965)	731 080	524 650	60%
Private Rental Housing	930 166	(13 595)	916 572	323 636	35%
Home Ownership	181 366	(40 815)	140 551	81 155	45%
Affordable Housing	226 036	(65 043)	160 992	76 024	34%
Subsidy Housing	34 431	(32 277)	2 153	405	1%
Incremental Housing	492 639	(141)	492 498	141	0%
Total	**3 312 076**	**(272 605)**	**3 039 471**	**1 006 011**	**30%**

INFORMATION TECHNOLOGY GOVERNANCE

The Information and Communications Technology (ICT) division has a responsibility for providing strategic digital enablement, leadership and support to all the NHFC divisions and strategic partners to achieve its mandate and objectives. Also, it is the role of the ICT department to put in place effective technological capabilities that will enable the achievement of the NHFC business modernisation journey. These will be realised by strategically partnering with business to deploy business solutions that will enable the business to generate returns, introduce agility, efficiencies and scalability to meet and exceed client expectations. The aim is to ensure consistent, secure and optimal availability of NHFC services through ICT. The ICT division will use technology to accelerate the company's competitive advantage, in line with the NHFC's strategic direction, vision and mission.

Given the above objective, the NHFC appointed a Chief Information Officer (CIO) in October 2019 with the responsibility of providing strategic direction and leadership in mobilising ICT resources. The CIO takes responsibility for the effectiveness of the department in supporting the business of the company and aligning ICT strategy with overall business strategy. The CIO also influences business process innovation for the creation of strategic value and improved delivery. The CIO participates in the development and implementation of the company's business strategy, implementation of IT governance, advising on appropriate technologies, and guides implementation of tools and measures for the protection of company information, knowledge and intellectual property.

In line with the mandate of the organisation, the above stated objectives, the current and future positioning of the NHFC, the ICT department is currently implementing an ICT Strategy titled the NHFC Business Modernisation Strategy. The ICT Strategy is focused on establishing the NHFC ICT strategic direction that will result in a client experience that is simple, empowering, engaging, fair, secure and unified. The ICT Strategic Plan outlines how ICT will be used to connect and provide services to South African citizens, NHFC employees, strategic partners, intermediaries, subsidiaries, shareholders and third-party service providers to the information and services they need, using technology to provide and support the services provided by the NHFC. The strategy is aimed at enabling the organisation to achieve its strategic and operational objectives, empower internal and external stakeholders with technologies and digitised processes that will contribute to operational efficiencies.

In executing the ICT Strategy, the ICT division has established five enduring core outcomes for the ICT organisation that will serve as the foundation for all current and future strategies. The five core outcomes of the NHFC ICT governance plan, is to:

- Have competent and capacitated ICT human capital
- Digitise and optimise content and information management
- Strengthen IT governance and Risk management
- Stabilise and ensure adequacy of ICT infrastructure; and
- Ensure effective Information and Cyber Security

The following initiatives and solutions were delivered in the year under review:

- Approved NHFC ICT Strategy (NHFC Business Modernisation Strategy)
- FLISP Business Process Mapping exercise and business case development
- Consolidation of three Accounting Solutions into Pastel Evolution
- Upgrade of CRM for retail lending products
- Boardpac solution
- Microsoft Office 365 and Zoom
- Digital Signature Software (Acrobat DC)
- Virtual Private Network
- Resolved long outstanding ICT Audit Findings
- 98% availability of ICT services in line with business requirements; and
- Consolidation of email servers

" The Information and Communications Technology (ICT) division has a responsibility for providing strategic digital enablement, leadership and support to all the NHFC divisions and strategic partners to achieve its mandate and objectives. "

PART E: **OUR CAPITALS**

"WHEN THE ROOTS ARE DEEP, THERE IS NO REASON TO FEAR THE WIND."

AFRICAN PROVERB

HUMAN AND **INTELLECTUAL CAPITAL**

The NHFC defines Human Capital as the most important and valuable aspect of our business. It is this collective of work ethic, knowledge, social and personality attributes embodied in the ability to perform a function that results in the creation of economic value. We believe that Human capital is the one unique feature that sets companies apart from each other, further entrenching our unshakable belief that our people are a 'precious resource that must be treasured, but also a capital that the organisation invests in to yield a return over time,' as defined by Becker, in 'Economic Growth and Resources, Volume 3 (1975).

Towards this end, the NHFC's value for its employees is shown in the way Human Resources has structured itself, among other things, to deliver value to the employees of the NHFC. The company views our people as essential partners in the various business divisions, who we equip to deliver on our mandate. HR performs the vital function of realising organisational needs of talent management, using internationally-recognised best practice to achieve staffing goals. Additionally, the HR Department functions as a Service Centre to address the needs of our staff, among these, leave management and physical and emotional wellness. The NHFC talent management model also ensures that the organisation invests in the development and the upliftment of its employees.

Consequently, recruitment and selection practices which are embedded in our Talent Management strategy places priority in considering internal staff, wherever possible, to realise a return on investment in our employees. This developmental approach to our recruitment ultimately ensures that all our employees are accommodated in suitable roles.

BOLSTERING STAFF MORALE AND FOSTERING TOGETHERNESS

During the year under review, the CEO, Mr. Samson Moraba, held several quarterly staff addresses to report back on the organisation's performance and to address any related issues. The staff were encouraged to celebrate World Kindness Day, Heritage Day and any celebratory events to boost staff morale and to actively create a healthy atmosphere at the office.

Samson Moraba, NHFC's Chief Executive, addresses the staff during the quarterly staff meeting, and brings them up to date on developments within the organisation.

The NHFC staff during the CEO's address at the quarterly staff meeting.

Celebrating Unity in Diversity – National Heritage Day

A few of the NHFC staff members, resplendent in their traditional wear.

Employee wellness

While the COVID-19 pandemic continues to grip the world, the resilience of the NHFC employee wellness programme was put to test. Even under the most trying conditions imaginable, we are happy to report that our Employee Wellness Program (EWP) has proved to be highly beneficial at a time when this vital service was needed most.

The NHFC's EWP, which is administered in partnership with an external service provider, offers a comprehensive employee wellness programme which addresses a broad range of employee health issues including physical, psychosocial, environmental, lifestyle and health issues, as well as offering advice on the management of personal finances.

As such, during the lockdown, to mitigate against the adverse effects of the COVID-19 pandemic, and the subsequent lockdown imposed on our employees, all aspects of the programme proved valuable to staff members. This was of particular importance to those who required access and assistance remotely, including getting to health care facilities during the lockdown – thanks to our robust Employee Wellness Programme. Similarly, where employees needed psychosocial care and support, this service was made possible through our EWP.

Employee Wellness Utilisation Report

As part of NHFC's commitment to its employees and community, and in line with the company's values, the organisation contracted an external service provider to provide confidential counselling to employees and their immediate family members. The report for the year indicates utilisation of this service, which tops out above the average industry norm. This can be attributed to the effects of COVID-19, and the specific request by the NHFC for the service provider to engage NHFC employees during this period to ensure their wellbeing during these trying times.

UTILISATION OF THE WELLNESS PROGRAMME

PROGRAMME FOCUS AREA	1 JUNE 2019-MARCH 2020	TREND	SECTOR AVG
Individual counselling and support services. (The percentage of cases expressed as a percentage of the number of eligible employees).	11%		5%
Manager engagement. (The percentage of cases that pertains to managers engaging with the programme, expressed as a percentage from professional coaching).	19%		15%
Organisational services. (The percentage of the number of CISD's and group events held onsite.	28%		15%
Staff Engagement. (The total number of instances people have engaged with the wellbeing programme).	41%		20%

Employee Development

Our Employee Development policy addresses our plans to consciously empower our employees through specific learning and development programs and activities. In the competitive world of business, employees are our competitive edge. The NHFC is very aware of this reality, that periodically, employees need to upskill and acquire new skills to perform better for the mutual benefit of both the employee and the organisation.

Building and retaining strong skills

With globalisation and the rise of artificial intelligence, paired with a demand for customer experience, our approach to talent acquisition and management is firmly steeped in empowering and retaining our talented employees. Our succession plan and succession pool strategy attest to this belief in growing and retaining our own, to deploy them in the many facets of our business, when opportunities present themselves.

Ultimately, our Employee Development Strategy rests on these four pillars:

- To build a leadership pipeline
- To build the technical depth of our employees
- To provide experiential learning to young graduates, building our employee pipeline and also contributing to the countrywide capacity-building of our nation's youth
- To cater for our employee's aspirational and developmental needs

Our Employee Development Strategy compliments our developmental philosophy, which is to grow our own. This also feeds into our Succession Plan, through the succession pool. As employees grow and develop, our human capital also grows. Consequently, staff members who joined the NHFC in unskilled roles, are now employed at professional levels.

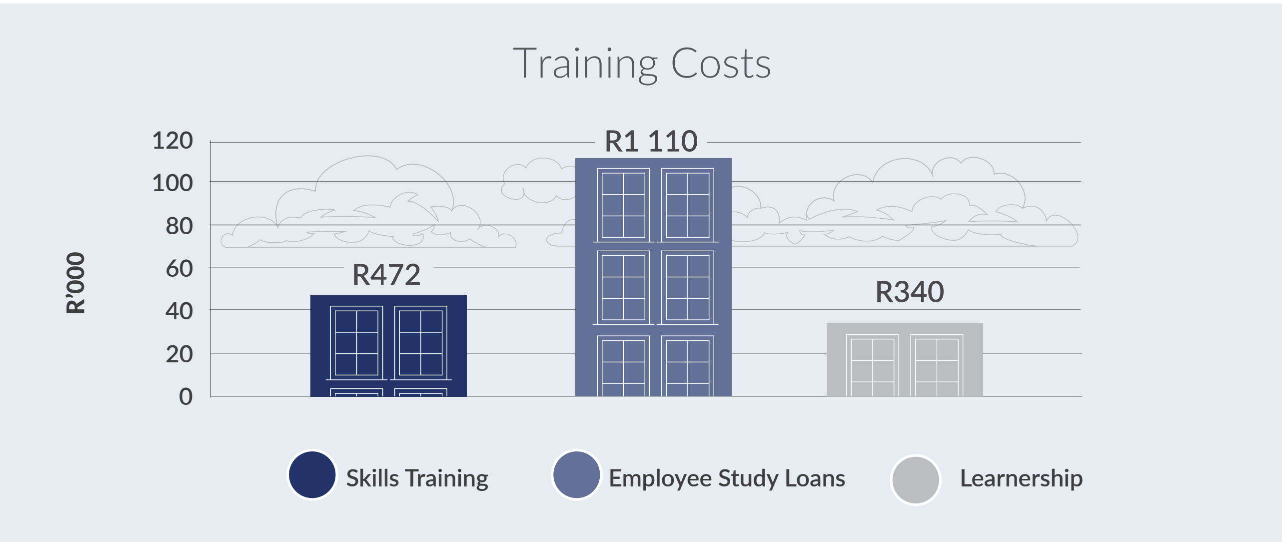
In the period under review, since the consolidation, we have had to address the duplication of roles which emanated from the consolidation of the three entities. As a result, several employees, including executive managers, were redeployed to other aspects of the business where their skills were most suitable.

The succession plan and the procedure to administer it, has been subsequently approved. The next steps include the implementation of the strategy to ensure that the NHFC business continues unhindered, should any changes occur as a result of sudden or planned vacancies in key positions. With the alignment of resources to our business model, our focus shifted to gearing our human capital to meet the demands of the Human Settlement Development Bank (HSDB).

In order to achieve this, our business model has incorporated new business streams such as Corporate Finance and expanded Programme Management.

Training Expenditure

For the period under review, we had budgeted to train 85% of staff. However, we achieved 96% of our budget, using 42% of the budget, due to the fact that the entire month of March 2020 was completely under lockdown. Therefore, the majority of the training was internally driven.



Employee development and legislation

In the South African context, the Skills Development Act aims to expand the knowledge and competencies of the labour force to improve productivity and employment. This is achieved through improving the quality of life of staff, increase their prospects of finding gainful employment and ensure upward mobility in various career levels.

In the year under review, in fulfilment of the Skills Development Act imperative, 96% of our staff were trained against a target of (85%), in all categories of employment. Furthermore, to comply with the Act, we submitted our Workplace Skills Plan (WSP) to the BANKSETA and received an acknowledgment of receipt.

Additionally, we have successfully submitted and implemented the 2019/2020 WSP report. Also, the organisation compiles the EMP502 report twice a year (February and October), in compliance with the South African Revenue Service SARS regulations. Accordingly, we have complied with relevant SARS legislation. Consequently, all income tax returns (IRP 5) were distributed to employees for them to report on their annual taxes.

Occupational Health and Safety

In line with the Occupational Health and Safety Act, (OHSA), we have developed a Health and Safety policy and procedure. We have subsequently trained eight safety representatives on various areas of the health and safety legislation.

We had planned to put our learnings into practice, through the execution of two safety drills. However, due to the lockdown and subsequent social distancing rules, this safety exercise did not materialise.

Nonetheless, in line with the regulations that set out specific measures which employers are required to take to protect their employees in the workplace from COVID-19 (regulations issued in terms of section 27(2) of the Disaster Management Act, 2002 and the COVID-19 Directive on Health and Safety in the Workplace, issued by the Department of Employment and Labour), the NHFC additionally developed its own COVID-19 Protocols.

As a result of the NHFC COVID-19 Protocols, the following infrastructure has been put in place to minimise the rate of COVID-19 infection among employees: Policy and Procedure on Work from Home, a Readiness Checklist – which outlines the state of the NHFC readiness in mitigating risk against its employees being infected with COVID-19, Staff Training on the various protocols, COVID-19 Risk assessment and mitigation plans, procurement of the services of an Occupational Nurse, procurement of staff transport for staff who rely on public transport (28 employees), rearranging staff seating for an open plan seating arrangement to allow for 2 meters between individuals, and putting in place meeting protocols to ensure social distancing.

Further, in order to ensure that vulnerable employees and those with comorbidities were protected, staff segmentation was done along the following lines: Age, vulnerability, and staff who are office bound were rotated. Office hours were reduced for office bound staff. The level of cleanliness of the entire office building was improved from twice a day to every two-hours for cleaning and disinfecting.

The NHFC set aside a R2 million budget for the procurement of necessary COVID-19 Personal Protective Equipment such as temperature thermometers, face masks for staff who are office bound, and face screens for the frontline staff. Additionally, sanitisers (both surface and hand), gloves for the frontline employees, an attendance register book noting all employees who are in the office on a given day, their contact interactions and their personal details, in the event that there is a need to trace them, was initiated. There is also clear COVID-19 informational signage for employees and NHFC visitors.

In line with the Directive from the Department of Employment, Labour and the National Department of Health, the NHFC established protocols of handling employees who tested positive and for employees who were in contact with people who have tested positive.

A task team which is an extended arm of the Safety and Security Committee was put in place. The team, which comprised of Human Resources, Facilities Management, ICT, Enterprise-Wide Risk, Legal, Finance, Marketing and employee union representatives meets weekly to update progress on implementation. An independent Compliance Officer is also part of the task team, to ensure compliance to the NHFC-approved Protocols.

Furthermore, the employee nominated Health and Safety team ensures a compliance culture at the office. Weekly reports are submitted to the Executive Team and quarterly reports to the Board and Board Committees.

At the time of writing this report no employee of the NHFC was infected on the premises. However, a total of six employees were reported to have been infected with COVID-19. The infected employees were infected outside of the organisation. At the time of writing this report, all six employees had recovered from COVID-19 symptoms.

Monitoring and compliance to the NHFC protocols are carried out by the Compliance Officer.

Labour practice and grievance mechanisms

Since the consolidation of the three entities, the NHFC has two employee representative unions (the South African Society of Bank Officials -SASBO and the South African SA Worker's Union). At the time of writing this report SASBO was the union with the most NHFC members. However, SASAWU is querying the numbers and has taken this process up for review with an independent facilitator from the CCMA.

Any union with a majority of members is entitled to all organisational rights which are provided for by the Act, including the trade union access to a workplace, deductions from employees' wages for trade union subscriptions by the employer, holding elections of trade union representatives at a workplace and leave for trade union activities during working hours.

On the other hand, the union that does not have a majority affiliation, but has sufficient representatives in the workplace is entitled to the following rights: access to the workplace for union organisers; deductions from employees' wages of trade union subscriptions by the employer and time off work for trade-union activities for union office bearers who are employees.

The NHFC has a recognition agreement with SASBO as the union with a majority of members. As part of the recognition agreement, the NHFC negotiates salary increases.

In the current financial year, after protracted negotiations, the NHFC signed an agreement of a 6.2% salary increase for the bargaining unit. Senior managers and the Executive Managers received a salary increase of 5.7% and 5% respectively.

Employment Equity (EE)

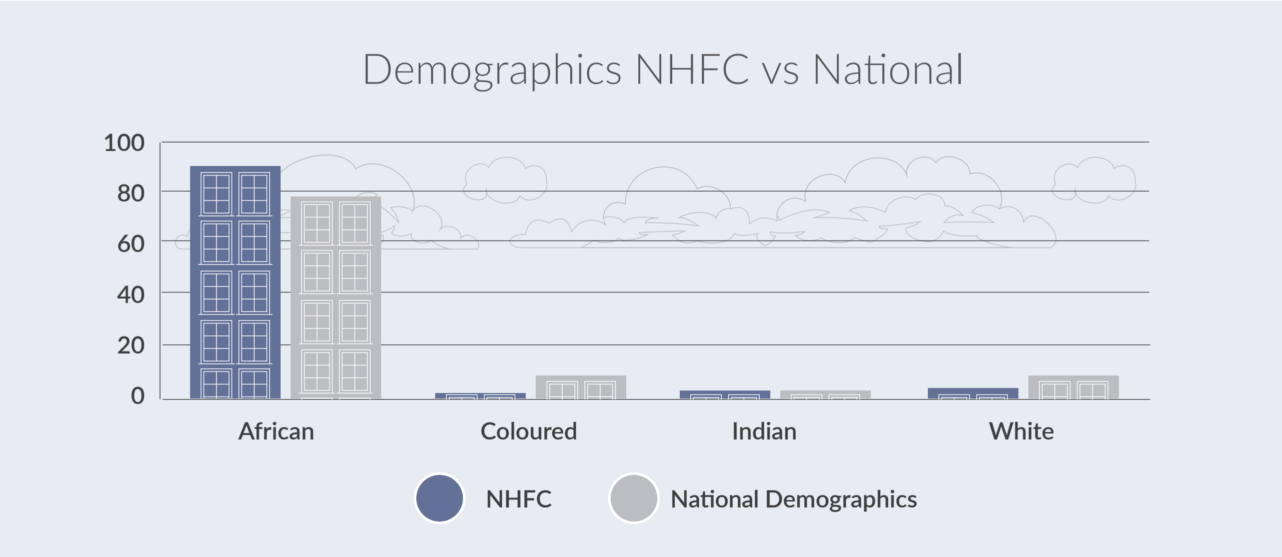
The Employment Equity Act is aimed at promoting equity in the workplace, to ensure that all employees receive exposure to equal opportunities and that employees are treated fairly by their employers. The Act also requires employers to implement affirmative action measures to redress the disadvantages in employment experienced by previously disadvantaged individuals. The law protects employees from unfair treatment and from any form of discrimination in the workplace.

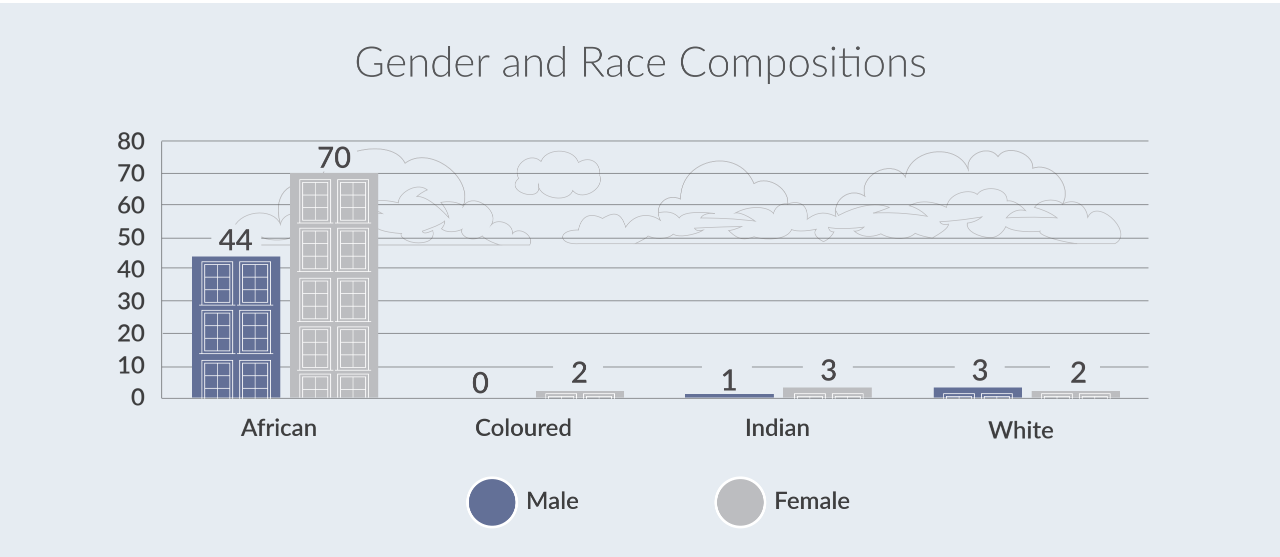
The Employment Equity plan enables the employer to develop a plan to assist in achieving reasonable progress towards employment equity, thereby aiding in eliminating unfair discrimination in the workplace, while also achieving equitable representation of employees from designated groups by means of affirmative action measures.

In the reporting year, the NHFC submitted its 2020/21 Employment Equity plan to the Department of Labour, which acknowledged receipt of the company's willingness to comply with the Employment Equity Act. We are happy to report that while the NHFC has not realised the target that it set out to achieve in terms of equitable representation in the workplace, it has made bold strides in improving the demographic profile at executive level. In the past year, a female executive manager was employed, increasing the percentage of females in the executive team from 20% to 28%. Future recruitment plans are outlined in our Employment Equity Report.

The NHFC will continue to use any opportunity at its disposal to achieve the necessary demographic equity profile.

The graph below indicates the status of the company's employment equity.





Remuneration and benefits

Remuneration is pay, or, financial compensation provided in exchange for the services an employee has performed. The NHFC remuneration philosophy aims to attract, motivate and retain its employees to contribute optimally to the achievement of its mandate expectation.

As a result, remuneration in the NHFC is structured in two cash components, which creates a well-balanced remuneration mix. A guaranteed remuneration package based on a Total Cost to Company has been created which provides all employees with flexibility to structure their packages as they please, as well as a variable component, which is dependent on the performance of both the organisation and the employees.

Employees' salaries are reviewed annually in April. However, for the employees who are in the Bargaining Unit, such annual increases are done in consultations/negotiations with the employee representative union that has the majority of NHFC employees as its members.

With the NURCHA and RHLF merger, the NHFC has two unions representing staff in the Bargaining Unit representing SASBO and SASAWU. After protracted negotiations with SASBO, (who at the moment have the majority of our staff as its members), for the financial years 2021 and 2022, an agreement was reached for a salary increase of 6.2% for employees in the Bargaining Unit.

Our salary increases are based on two considerations:

- To cushion staff from inflation effects; and
- To reflect employee contribution to the performance of the organisation.

Incentive Bonuses

Our remuneration mix is made up of two cash components; a guaranteed remuneration component and a variable component, which is dependent on the performance of both the organisation and the employees.

Subject to individual employment contracts with the NHFC, employees are incentivised at different levels, according to the NHFC Job Grading; the Tuned Assessment of Skills and Knowledge (TASK) job evaluation system, which is owned by Deloitte & Touche and is used mostly in the public sector. Accordingly, employees in TASK levels 4- 17/Patterson Band A-D and Hay Incentive Percentage are categorised as follows:

TASK LEVEL GRADING	PATTERSON BAND GRADING	HAY GRADING	EMPLOYEES DECISION LEVEL	PERCENTAGE TOTAL COST TO COMPANY POTENTIAL
4-8	B	85-191	Semi-skilled workers Support staff (automatic decisions)	up to 20%
9-13	C	192-370	Administrative staff (routine decisions)	up to 20%
14-17	D	371-734	Professional, Middle Management (interpretive decisions)	up to 25%
18-22	E	735-1800	Programming Decisions/Senior Managers	30%
23-26	F	1801-3580	Policy making/ Executive	Up to 85% with short- and long-term, (50% short-term)

Subject to company performance and the performance of employees, a performance bonus is declared and paid after performance audit confirmation.

When bonuses are declared, the awarding is based on the employee's cumulative consistent achievement of performance objectives, and contribution to the overall achievement of planned company annual objectives.

Furthermore, each employee bonus is awarded according to their individual employment contracts.

The executive performance contracts tie employees to a three-year rolling incentive cycle scheme. This incentive cycle scheme is primarily aimed at achieving shareholder value, which is attained by, among other things, the retention of executive managers over a short- to medium-term basis.

The executive bonus structure has a short-term (annually paid out component) and a long-term component, paid out in three tranches as follows: 50%, 30%, 20% in a three-year cycle. Therefore, in year one, only a 50% component of the bonus is paid. In year two, a 50% annual short-term component and the 30% which was banked the previous year is paid out. In the third year, the short-term component of 50%, the 20% of the first year, and the 30% of the previous year is paid out. Therefore, a potential 100% of the 85% of TCE of an executive can only be attained in the third year.

After three years of satisfactory performance, the executive can be retained. If the performance of the executive is not satisfactory, the performance management process of the NHFC kicks in, in line with the Performance Management Policy.

OUR **CAPITALS**

Employment Diversity

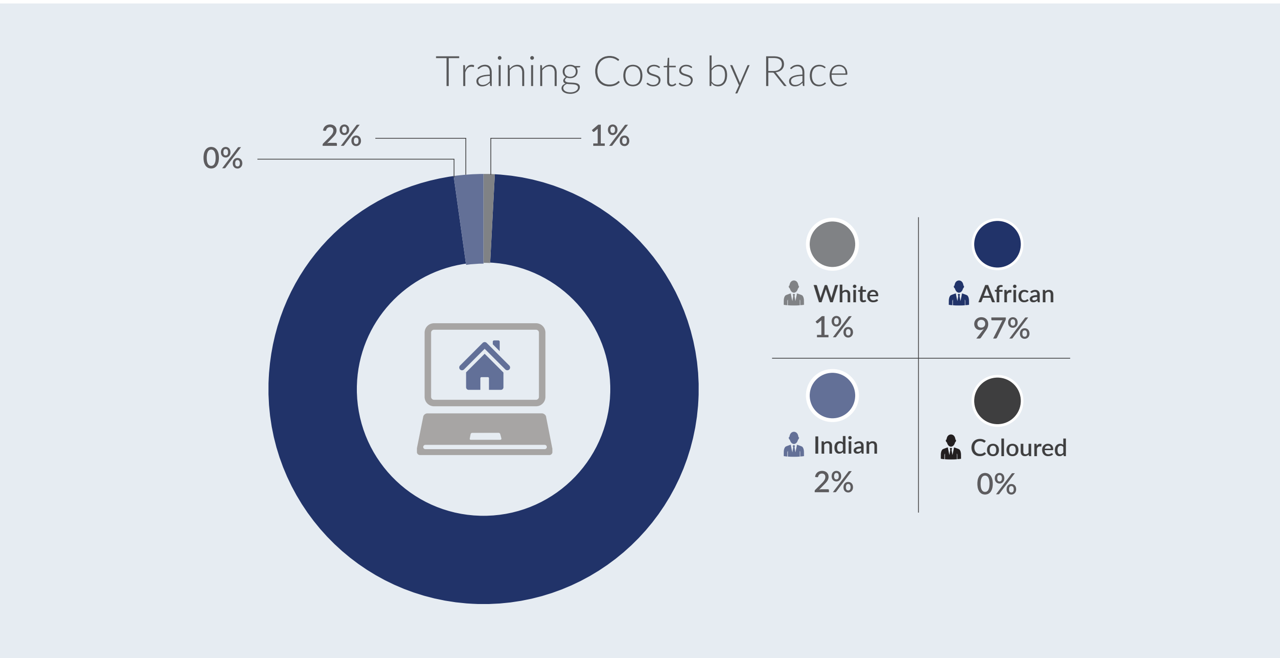
South Africans have experienced major changes in the landscape of employment relations in organisations over the past two decades. Although numerous pieces of legislation have been put in place to achieve greater social justice, progress in redressing unfair discrimination in the workplace has been slow and uneven. To redress the past discrimination and to enforce social justice, the Labour Relations Act of 1995, was put in place. More legislative frameworks which sought to implement the spirit of the Constitution of South Africa of 1996, such as the Basic Conditions of Employment Act of 1997, the Employment Equity (EE) Act of 1999 (amended in 2004), the Skills Development Act of 1998 and the Skills Development Levies Act of 1999 were put in place.

While the Employment Equity (EE) Act of 1999 (amended in 2004), the Skills Development Act of 1998 and the Skills Development Levies Act of 1999 were focused more on ensuring the recruitment, succession planning and training of persons in the designated groups (Africans, Coloureds and Indians, as well as women and people with disabilities), they also emphasised emergent skills gaps (Horwitz et al. 2005; Rautenbach 2005; Swanepoel, Erasmus, Van Wyk & Schenk 2003; Thomas 2004).

The NHFC's belief in the power of South African diversity can be seen in the diversity of its workforce and governing structures. While there is more work to be done to achieve the desired end-state (reflection of the South African demographic profile in the structures and levels of work), this belief drives talent management decisions and considerations.

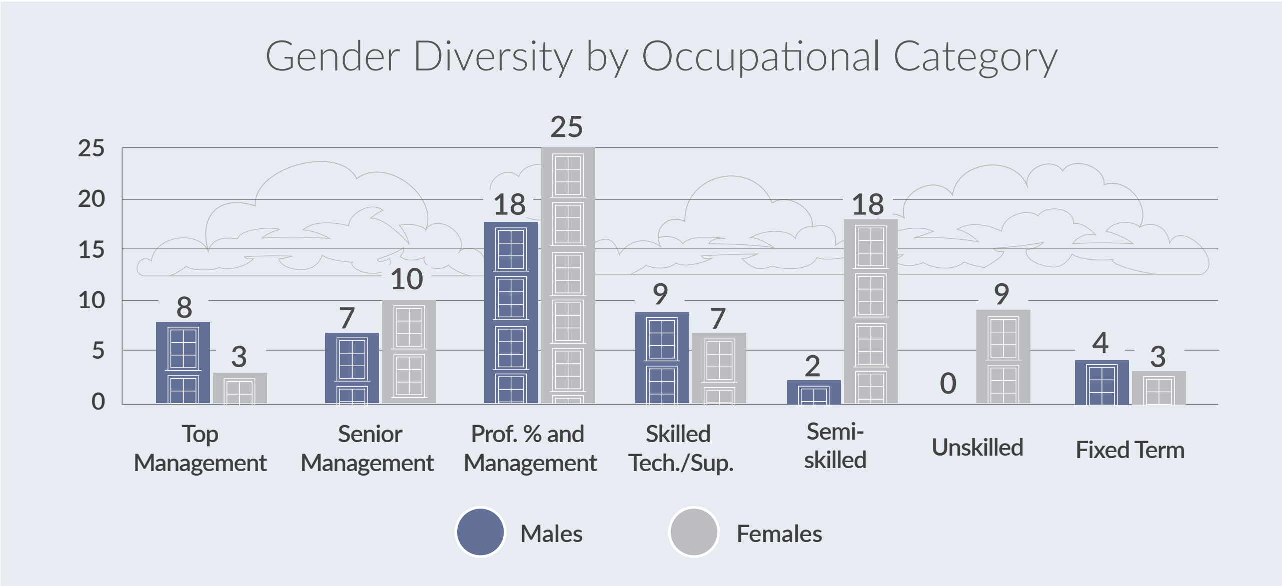
Training spent by race

The training spent within the company is reflective of the organisation's demographics. The bulk of the training spent was more on employees of African descent. The graph indicates that there was no training for employees from the coloured population.



Gender diversity per job category and gender

Gender diversity in the workplace means that men and women are hired at a consistent rate of pay, are paid equally and are given the same working opportunities with the same promotional opportunities.



The graph above shows the spread of opportunities afforded to the two different genders by occupation.

Employment statistics by job category

JOB CATEGORY	NEW APPOINTMENTS	NEW CONTRACTS	TRANSFERS	RESIGNATIONS	PROMOTIONS	DISMISSALS	RETIREMENTS
Top Management	1	0	0	0	0	0	0
Senior Management	2	0	0	2	0	0	1
Professional/ Management	3	0	0	0	0	0	0
Skilled Technical/ Supervisors	2	3	0	0	0	0	0
Semi-skilled	1	0	2	0	0	0	0
Unskilled	6	0	0	0	0	0	0
Fixed Term	4	0	0	0	0	1	0
Total	**19**	**3**	**2**	**2**	**0**	**1**	**1**

Remuneration and employee relations

The changes in the labour laws on equal remuneration for equal work is gaining momentum. The Department of Labour continues to monitor the policy changes on the issues.

The NHFC continues to remunerate its employees adequately for their competence, and fairly, for equal work. Therefore, there is no discrimination in terms of gender and race. To give effect to this principle, the NHFC has a grading system that determines the relative worth of a job, rather than placing reliance and focus on the incumbent.

Since the consolidation of the three entities within a similar operating model, which translated to a similar occupational mix, but different grading systems and levels of work, the NHFC sought to standardise and align to a single grading system. As a result, in the period under review, the NHFC engaged the services of a service provider to conduct job evaluations of at least 70 positions within the corporation. The outcome of this process is the alignment of job grades in line with the newly approved job grading system and organograms.

Human rights and labour practices

As a firm believer in the spirit and the intentions of the International Labour Organisation (ILO), the NHFC continues to comply to the ILO's labour standards as enshrined in its conventions, through its policies and practices. The spirit and intention of the following ILO protocols continue to influence the NHFC's Human Resources policies and practices:

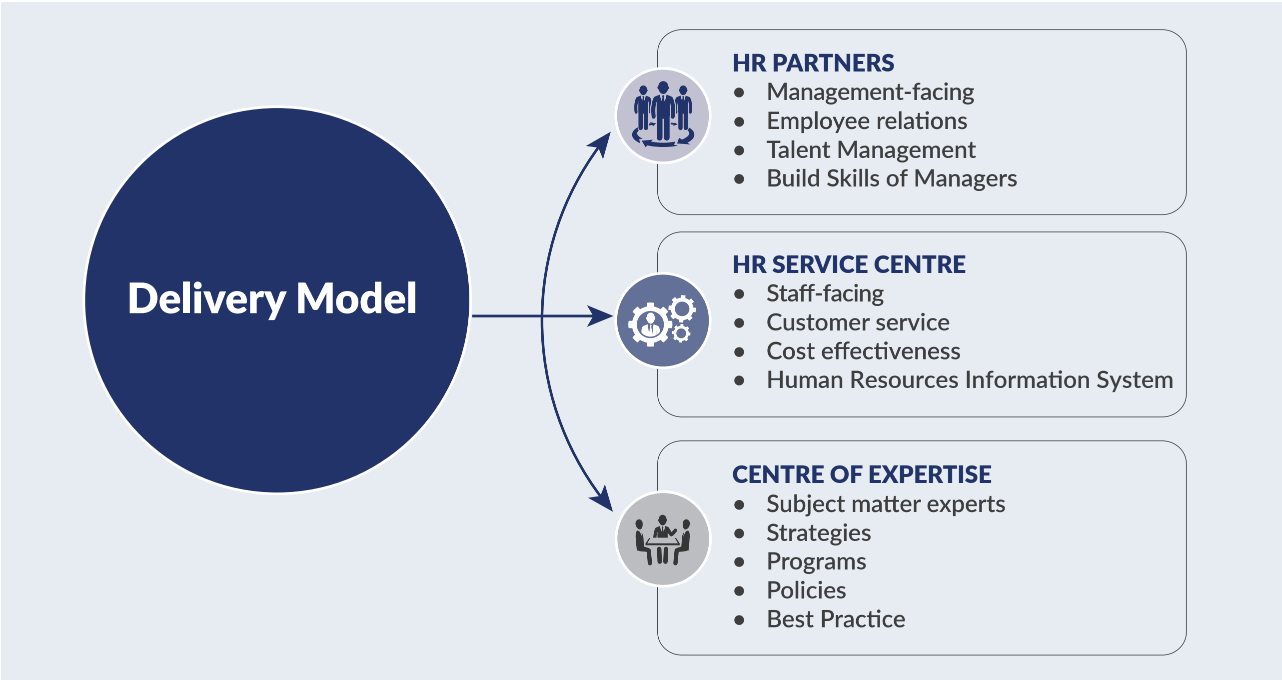
- Prohibition of child labour
- Compulsory labour
- Freedom of association
- Elimination of discrimination in employment and occupation
- Security practices and human rights grievance mechanism

As a result of complying with the ILO protocols, in the period under review, there were no infringements identified related to the above human rights and labour practices.

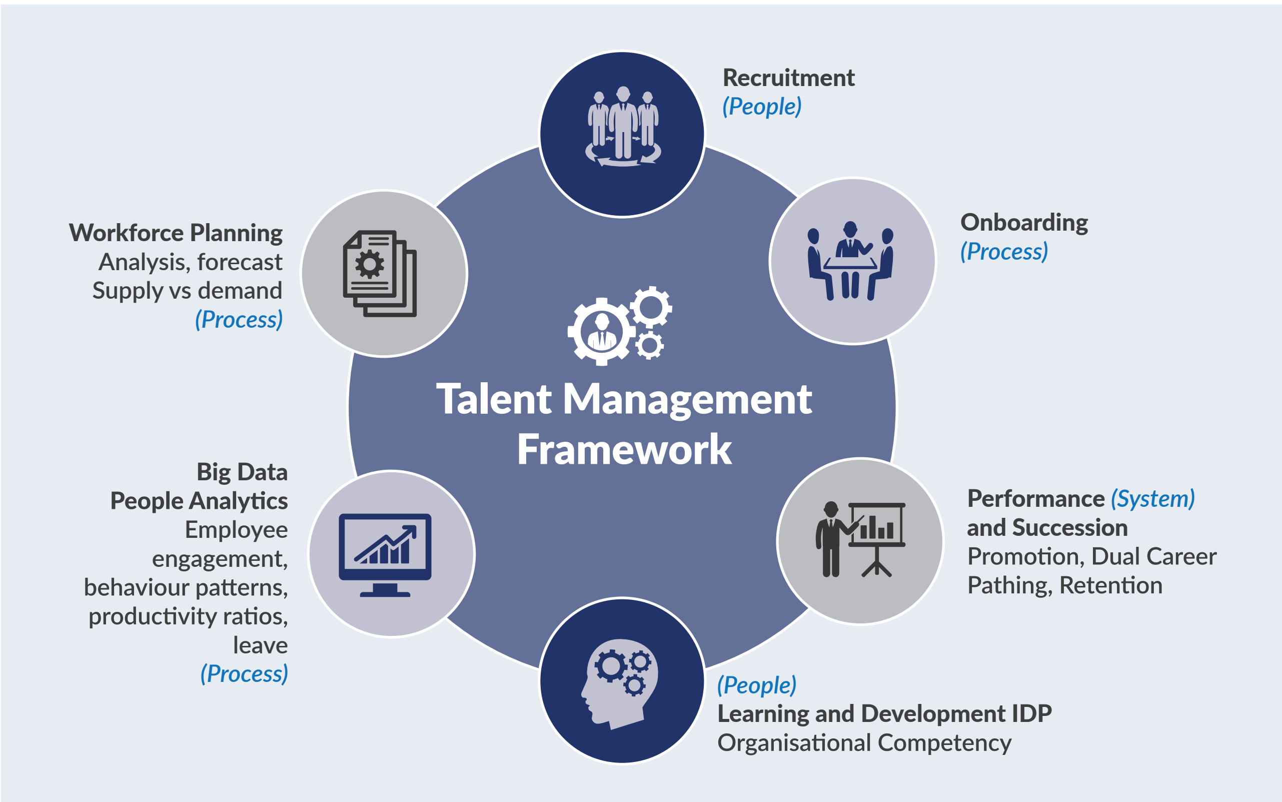
For the period under review, the following statistics have been noted:

Talent management

As part of its value proposition to the NHFC, the HR team developed and attained approval for the following Value Delivery Model and Talent Management Framework:



Talent Management Framework



The NHFC Learnership Programme

The NHFC Learnership Programme is a partnership agreement with a skills development statutory body (agency). This arrangement is in place, to ensure grant opportunities to youth for the purposes of skills development, training, workplace coaching and learner support.

Towards this end, the organisation takes on several learners from the BankSeta database to provide them with work training, so that they acquire marketable skills, and are exposed to the workings of the corporate work environment. During the year under review, the NHFC has hosted 12 learners, 8 of whom were females and 4 males, of different racial backgrounds. The learners have various educational backgrounds, holding different undergraduate certificates ranging from Matric, Accounting, Digital Marketing, including Bachelor of Science degrees in Human Settlements. The learners are assigned to various NHFC departments where they get to work closely with permanent professionals and acquire direct, on the job training – particularly in the built sector. This NHFC learnership programme runs for a period of 12 months. We are pleased to report that at the end of the 12 months, we were delighted to extend one of the student's learnership agreements. The student in question is Lethabo Modikoa, and he had started working in the Supply Chain Management (SCM) department. He was later drafted into the NHFC on a permanent basis and finds his new place within the organisation in the Product Department, FLISP. Apart from securing employment through his dedication and hard work, Lethabo has gained insightful experience working with the NHFC, and is now capable of providing training assistance to other new learnership incumbents within his department.

Lethabo Modikoa, the student who received a permanent position after completing the NHFC Learnership Programme, happily sits at his desk, now employed in the FLISP department of the organisation.

> "During the year under review, the NHFC has hosted 12 learners, 8 of whom were females and 4 males, of different racial backgrounds."

Social Capital

As the NHFC, our mandate demands return on social capital, which has been discussed throughout this report. The provision of affordable, appropriate housing remains at the heart of the organisation.

Entrepreneur Support and BEE Funding

Disbursements towards BEE including women

A total of R566 million (97% of target) was disbursed to emerging BEE entrepreneurs by the NHFC and its strategic partners, missing the projected target by 2%. Of that, R83 million being for women and youth entrepreneurs.

Funds leveraged

This represents funding raised into the sector, triggered by NHFC strategic partners. Funding raised reached R1 136 million (88% of target) which facilitated delivery of 2 972 housing opportunities representing 114% of target.

Natural Capital

Our intentions and commitment to the environment remains a priority. As part of our contribution, we endeavour to ensure that our clients adhere to environmental legislation and ensure that the impact provided is socially and environmentally responsible. The merger of the three entities in preparation for the HSDB provides us with new opportunities to explore green funding for different products. A major component of our ongoing research will be assessing which of the merged NHFC products would provide the most impact through green initiatives, as well as the mechanisms required for such a funding initiative.

HIGHLIGHTS

Environmental initiatives are an important part of our project feasibility criteria. An inclusion of environmental contributions in our submissions for approvals ensures the continued compliance with SANS 10400-XA and SANS 204 and National Environmental Management Act (NEMA). The following environmental principles were considered in granting loan approvals:

- Design and orientation of buildings – the buildings face North thereby optimising orientation and maximising light exposure.
- Social spaces are created between buildings to encourage a sense of community and create multifunctional and ergonomically designed spaces.
- Parks and recreation areas, as well as central refuse areas are included.
- The arrangement of windows in the design allows for maximum energy efficiency and complies with SANS 204 regulations.
- Plenty of natural light and ventilation will be facilitated by windows on both sides of the units which can be opened.
- Roof assembly and roof overhang is designed to control heating of rooms.
- Landscaping is targeted to be water efficient and make use of indigenous vegetation.
- Fixtures and fittings have been considered with regards to low overall consumption of energy and includes - low flow taps/fittings, LED lighting fixtures, and other similar measures.
- A reduction in parking for developments built close to public transport.
- Waste management consideration to be included as a provision for potential recycling.

Future Outlook

As the world continues to move towards greater sustainability, and greater care and attention is given to organisations, and the resulting impacts that operations have on the natural environment, we are pleased to report that the NHFC is totally committed towards the green initiative. Our direct involvement in human settlements, means that we are also involved in assessing and choosing to partner with organisations that have a similar outlook as we do, and can join us in making sure that there is a world worth having, and bequeathing, to the generations that will come after us.

NHFC CORPORATE SOCIAL INVESTMENT PROJECTS

"HELP ME DURING THE FLOOD, AND I WILL HELP YOU DURING THE DROUGHT."

AFRICAN PROVERB

TOGETHER, BUILDING A BRIGHTER FUTURE FOR OUR COMMUNITIES

Corporate Social Responsibility (CSI) is a concept where organisations consider the interests of society by taking responsibility for the impact of their activities on shareholders, employees, customers, suppliers, communities and other stakeholders, as well as the environment.

NHFC's CSI policy provides guidelines to all divisions within the organisation on how to approach and align departmental activities to support the organisations approach to CSI. The organisation commits to ensure that there is a sustainable contribution to social and economic development, which eventually gradually enhances the reputation and credibility of the organisation with key stakeholders. In order to achieve positive impact and results, the NHFC has created strategic and sustainable partnerships with Government, non-Governmental organisations, community based organisations and other relevant internal and external stakeholders.

The NHFC invests in development and empowerment projects that embrace the diversity of South Africans and plays a significant role in the field of community upliftment. Our policy and programmes are aimed at focusing on initiatives which enjoy broad-based stakeholder support.

The NHFC's CSI policy is designed across four pillars, each aimed at benefiting our stakeholders. These pillars drive the CSI policy forward and are closely linked to the company's overall busines strategy.

- Education and skills development for change
- Building communities from the ground up
- Partnering for the greater good
- Employee support and involvement

SPONSORSHIP FOR TRANSPORATION OF THE STUDENTS OF NELSON MANDELA UNIVERSITY

The purpose of the sponsorship was for a return trip for 22 students of the Nelson Mandela University in Port Elizabeth to travel to Bloemfontein. The students are enrolled for the degree in Human Settlements, at the faculty of Engineering and Built Environment. They were attending a National Conference for students in Human Settlements, which was held at the University of the Free State in Bloemfontein.

NHFC took a decision to offer tangible sponsorship such as transportation for a return trip. The students left Port Elizabeth on 13 October 2019 and safely returned on 15 October 2019.

The university expressed their gratitude to the NHFC for the support.

The students from Nelson Mandela University who received NHFC sponsorship for travel expenses to attend the National Conference for students in Human Settlements.

SPONSORSHIP OF FURNITURE FOR THE WOMEN'S BUILD

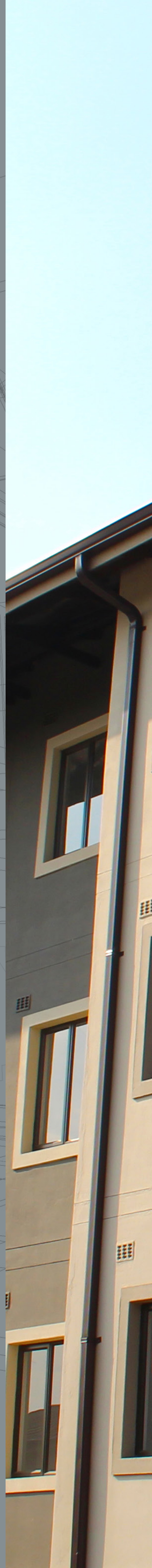
This sponsorship was to support the Department of Human Settlements Women's Build initiative at Entokozweni in the Eastern Cape Province. Women's Build is one of the few commemorative events that the organisation supports on an annual basis.

The initiative is a designed programme aimed at building houses for vulnerable and marginalised groups of society such as the elderly, people with disabilities, women caring for orphans, and child-headed households. NHFC sponsored three houses with stoves. The support falls within the 'Partnering for the Greater Good' CSI pillar, under the Shareholder support category.

A home that was built by the Human Settlements Women's Build initiative in Entokozweni in the Eastern Cape.

One of the three Entokozweni homes that the NHFC sponsored appliances to.

PART F: **FINANCIAL STATEMENTS**



TOGETHER, BUILDING A BRIGHTER FUTURE FOR OUR COMMUNITIES

GENERAL **INFORMATION**

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The NHFC provides housing finance to retail intermediaries, property developers and Social Housing Institutions, as well as supports and capacitates emerging housing intermediaries through strategic partnerships
Directors	Mr Sizwe Tati (Acting Chief Executive Officer) Ms Thembi Chiliza Mr Johan Coetzee Mr Enoch Godongwana (Resigned) Mr Adrian Harris Ms Anthea Houston Mr Samson Moraba (Chief Executive Officer) (Retired) Mr Sango Ntsaluba Ms Phekane Ramarumo (Acting Chairperson of the Board) Mr Khehla Shubane
Registered office	Old Trafford 3, Isle of Houghton, 11 Boundary Road, Houghton 2193
Postal address	PO Box 31376 Braamfontein 2017
Bankers	The Standard Bank of South Africa Limited
Auditors	Auditor-General of South Africa
Company registration number	1996/005577/30
Level of assurance	These annual financial statements have been prepared in compliance with the applicable requirements of the Companies Act 71 of 2008.

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The financial statements were prepared by Mogotsi Oepeng BCompt (Hons) (Unisa) (General Manager-Finance) under the supervision of Kyansambo Vundla, CA (SA) the Chief Financial Officer of the NHFC.

STATEMENT OF RESPONSIBILITY **BY THE BOARD**

The Board of Directors, which constitutes the Accounting Authority, is required by the Companies Act of South Africa, 2008 (Act No.71 of 2008) (Companies Act) and Public Finance Management Act of 1999 (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the National Housing Finance Corporation SOC Limited (NHFC) at 31 March 2020, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the annual financial statements and have been given unrestricted access to all financial records and related data.

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

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

The Directors acknowledge that they are ultimately responsible for the systems of financial and risk management and internal control and attach considerable importance in maintaining a strong control environment. To enable the Directors to meet these responsibilities it sets standards of internal control aimed at reducing the risk of error or deficit in a cost-efficient manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the business is conducted in a manner that, in all reasonable circumstances, is above reproach.

The focus of the NHFC's enterprise-wide risk management is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the NHFC endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

The Directors have reviewed the NHFC's cash flow forecast for the year to 31 March 2020, and in light of this review and the current financial position, it is satisfied that the NHFC has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the NHFC's annual financial statements and their report is presented on pages 112 to 114.

The annual financial statements, set out on pages 118 to 198, which have been prepared on the going concern basis, were approved by the Board of Directors on 26 October 2020 and were signed on their behalf by:

MR SIZWE TATI
Acting Chief Executive Officer

MS PHEKANE RAMARUMO
Acting Chairperson of the Board

COMPANY SECRETARY'S **CERTIFICATION**

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88(2)(E) OF THE COMPANIES ACT

I hereby confirm in terms of Section 88(2)(e) of the Companies Act, Act 71 of 2008, that the NHFC lodged with the Commissioner of Intellectual Property and Companies, all such returns and notices as are required of a State Owned Enterprise in terms of the Act for the financial year ending 31 March 2020, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

ANDREW HIGGS
Company Secretary

REPORT OF THE **AUDITOR-GENERAL**

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LTD

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

1. I have audited the consolidated and separate financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries (the group) set out on pages 118 to 198, which comprise the consolidated and separate statement of financial position as at 31 March 2020, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2020, and their financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and 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, 2008 (Act No. 71 of 2008) (the Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group in accordance with sections 290 and 291 of the *Code of ethics for professional accountants and parts 1 and 3 of the International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 38 to the consolidated and separate financial statements, the corresponding figures for 31 March 2019 were restated as a result of errors in the financial statements of the group at, and for the year ended, 31 March 2020.

Events after the reporting date

8. I draw attention to note 37 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of COVID-19 on the group's future prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances. My opinion is not modified in respect of this matter.

Responsibilities of accounting authority for the financial statements

9. The Board of Directors, which constitutes the accounting is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
10. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

11. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
12. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT OF THE **AUDITOR-GENERAL**

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LTD

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

13. In accordance with the Public Audit Act of South Africa 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programme presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
14. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the public entity for the year ended 31 March 2020:

PROGRAMME	PAGES IN THE ANNUAL PERFORMANCE REPORT
Programme one – Expand housing finance activities, through the effective provision of housing finance solutions to enable the households to have a choice in meeting their housing needs	191-193

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify any material findings on the usefulness and reliability of the reported performance information for this programme.

Other matter

18. I draw attention to the matters below.

Achievement of planned targets

19. Refer to the annual performance report on pages 191 to 198 for information on the achievement of planned targets for the year and explanations provided for the under-/overachievement of a number of targets.

Adjustment of material misstatements

20. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
22. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual report

23. 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 PFMA. Material misstatements of non-current assets and disclosures identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

24. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R5 358 000 as disclosed in note 39 to the annual financial statements, as required by section 51 (1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by the continued use of contracts after expiry dates.

REPORT OF THE **AUDITOR-GENERAL**

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LTD

OTHER INFORMATION

25. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected programme presented in the annual performance report that have been specifically reported in this auditor's report.
26. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
27. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
28. I did not receive the other information prior to the date of this auditor's report. When we do receive and read this information, if we conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROL DEFICIENCIES

29. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
30. Management did not adequately review the financial statements and the annual performance report submitted for auditing, as evidenced by the material misstatements identified in the financial statements which were corrected due to the audit process.
31. Management did not adequately review and monitor non-compliance with laws and regulations pertaining to irregular expenditure.

Auditor General

Pretoria
26 October 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

AUDIT COMMITTEE **REPORT**

The Audit Committee is pleased to submit its report in compliance with the Public Finance Management Act of 1999 and the Companies Act of 2008 of South Africa. Details on the composition and role of the Audit Committee, frequency of meetings and attendance at meetings are set out in the Corporate Governance Section on pages 71 to 72 of the Integrated Report.

EXECUTION OF THE FUNCTIONS OF THE AUDIT COMMITTEE

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

EXTERNAL AUDITORS

The Audit Committee approved the external auditors' terms of engagement, scope of work, the annual fee and noted the applicable levels of materiality. Based on written reports submitted, the Audit Committee reviewed, with the external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved. The Audit Committee is satisfied that the 2020 audit was completed without any restrictions on its scope. The Audit Committee is satisfied that the external auditors are independent of the group, as defined by the Companies Act No.71 of 2008 and the Public Finance Management Act No.1 of 1999 and as per the standard stipulated by the auditing profession.

No non-audit fees were paid to the external auditors for the year under review.

INTERNAL AUDIT

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

SYSTEMS OF INTERNAL CONTROLS

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

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

FINANCIAL AND REGULATORY REPORTING

The Audit Committee examined and reviewed the quarterly reports regarding the financial and operational performance of the group, the tracking and monitoring of key performance indicators, details of budgets, forecasts, financial reporting controls and processes, and the adequacy and reliability of management information used during the reporting process.

EVALUATION OF ANNUAL FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The Audit Committee has reviewed principles, policies and practices adopted in the preparation of annual financial statements for the 2020 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the audit of the annual financial statements. The Audit Committee is satisfied that they are adequate and appropriate and that the audited annual financial statements comply in all material respects with the Public Finance Management Act, the Companies Act of South Africa and Generally Recognised Accounting Practice.

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

MR SANGO NTSALUBA
Chairperson of the Audit Committee

Date: 26 October 2020

DIRECTORS' **REPORT**

MANDATE AND PRINCIPAL ACTIVITIES

The National Housing Finance Corporation SOC Limited (NHFC) was established by the National Department of Human Settlements as a Development Finance Institution (DFI) with the principal mandate of broadening and deepening access to affordable housing finance, for low-to-middle income South African households. The NHFC is listed as a schedule 3A public entity in terms of the Public Finance Management Act. Details of the NHFC's principal activities are described on pages 18 to 20.

CORPORATE GOVERNANCE

For the financial year under review, the Directors have embraced the principles of PFMA, King IV on Corporate Governance and the Companies Act and endeavour to comply with these recommendations as far as possible.

FINANCIAL HIGHLIGHTS

The financial highlights are set out on page 187.

FINANCIAL RESULTS

The financial results of the NHFC for the year under review are set out on pages 118 to 186.

The NHFC group has achieved a pleasing set of financial results despite a challenging macro-economic environment which had an adverse impact on our clients in the property sector. This was achieved on the back of continued focus on effective management of the quality of the loan book, operational efficiency, and risk-based pricing strategies. This was aided by effective management of our cash and cash equivalents which continued to generate strong investment returns.

The last quarter of 2019/2020 experienced an extraordinary disruption in the operating environment of South Africa and the rest of the world from the spread of the global pandemic. Coronavirus, commonly known as COVID-19 took less than 3 months to spread to tens of thousands from the point of origin in Wuhan China, to Europe, United States, Middle East and Africa. Markets responded with the worst decline since the 2008 financial crisis. The South African economy is also experiencing the impact of the coronavirus more significantly as it was already dealing with the impact of the expected Moody's downgrade, weakening rand and expectations of a contracting economy.

Because of the uniqueness of the challenge at hand, the permutations around the short- to medium-term financial impact are many and difficult to accurately predict.

BUSINESS PERFORMANCE RESULTS

The business performance against predetermined objectives for the year under review is set out on pages 187 to 198.

SHARE CAPITAL AND SHAREHOLDER

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

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

DIVIDENDS

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

GOING CONCERN

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

An allocation of R50 million in 2019/20 and R80 million in 2018/19 was received from the shareholder.

DIRECTORATE AND SECRETARIAT

Details pertaining to the directors and company secretary appear on pages 64 to 65 and 69 to 71.

EXTERNAL AUDITORS

The auditors are The Auditor-General of South Africa and were appointed in the 2018 financial year.

HUMAN SETTLEMENTS DEVELOPMENT BANK (HSDB)

The process towards the establishment of the HSDB is well underway. The business case has been concluded and the Bill has been submitted to the Office of the Chief State Law Advisor for Pre-certification and legal opinion.

The current financial year is the first year of full operations as a merged entity. The NHFC is undergoing a gradual transformation process of restructuring its operations to the HSDB business model. Once the Bill has been promulgated, a name change of the NHFC will be done through its MOI to HSDB.

The outstanding steps to achieve the HSDB establishment are as follows:

- Draft Legislation
- Promulgate Legislation
- Secure Approvals and Funding
- Operationalise HSDB Act

DIRECTORS' **REPORT** (CONTINUED)

The Board, the shareholder and National Treasury remain committed to concluding this strategic process towards the establishment of the HSDB

REMUNERATION OF DIRECTORS AND MEMBERS OF BOARD COMMITTEES

The Directors' emoluments are set out on page 182 of these financial statements.

AUDIT COMMITTEE MEMBERS OF BOARD COMMITTEES

The appointed Audit Committee members and External Auditors are in line with the Companies Act, Act 71 of 2008.

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

INTERNAL CONTROL

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

INFORMATION TECHNOLOGY

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

The implementation of the IT Governance Framework is delegated to an IT Management Committee, the details of which are reflected on page 77.

EVENTS AFTER THE REPORTING DATE

Refer to Note no.37.

SUBSIDIARIES AND ASSOCIATES

The NHFC's investments are disclosed in notes 12 to 16 of the Annual Financial Statements.

INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT

PERFORMANCE

The performance of the NHFC against the Shareholder's Compact with the Minister of Human Settlements is set out on pages 187 to 198.

IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

During the year, the NHFC incurred R5.4 million of irregular expenditure and R1.2 million of fruitless and wasteful expenditure due to non-compliance with our National Treasury Regulations and Supply Chain Management Policies.

On investigation it was found that the company did not suffer any losses and therefore no disciplinary process or criminal charges were laid against any officials.

The expenditure is disclosed in note 39 of the Annual Financial Statements.

ACCOUNTING AUTHORITY CHANGES

Mr Samson Moraba, CEO of NHFC, retired on 31 August 2020 and Mr Sizwe Tati, Chairperson of the NHFC will be acting as CEO until a permanent CEO is appointed. Non-executive director Ms Phekane Ramarumo has been appointed as acting Chairperson of NHFC until further notice.

LOSSES FROM CRIMINAL CONDUCT

In terms of the Materiality Framework agreed with the shareholder, any material losses due to criminal conduct that individually (or collectively where items are closely related) exceed R1.2 million, must be reported. The NHFC did not incur any material losses during the financial year.

The Directors' Report for the year ended 31 March 2020 was approved by the Board of Directors on 26 October 2020 and is signed on their behalf by:

MR SIZWE TATI
Acting Chief Executive Officer

MS PHEKANE RAMARUMO
Acting Chairperson of the Board

STATEMENT OF FINANCIAL **PERFORMANCE**

FOR THE YEAR ENDED 31 MARCH 2020

		Group		Company	
	Note(s)	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Interest on advances	3	479 100	443 226	249 707	223 981
Interest received on investments	3	105 444	77 125	102 616	76 295
Rental income	3	15 575	15 860	14 174	14 007
Dividends received	3	9 960	13 837	9 960	13 837
Sale of houses	3	20 468	3 381	–	–
Management fees	3	13 074	3 631	17 168	8 977
Share of residual interest in controlled entities	3	–	–	18 261	9 171
Fees on advances	3	3 367	2 432	3 367	2 432
Revenue		**646 988**	**559 492**	**415 253**	**348 700**
Cost of sales	4	(20 707)	(3 014)	–	–
Net impairments and write-offs	6	(81 944)	(109 351)	(70 095)	(104 725)
Gross surplus		**544 337**	**447 127**	**345 158**	**243 975**
Other operating income	5	26 187	6 567	2 844	4 571
Operating expenses	6	(238 042)	(194 770)	(192 912)	(144 875)
Operating surplus		**332 482**	**258 924**	**155 090**	**103 671**
Investments Fair Value and Impairments	20 & 8	1 157	5 795	(84 062)	107 568
Income from associates	7	28 362	13 457	–	–
Finance costs	9	(142 268)	(132 526)	(22 334)	(20 032)
Surplus for the year		**219 733**	**145 650**	**48 694**	**191 207**

STATEMENT OF FINANCIAL **POSITION**

FOR THE YEAR ENDED 31 MARCH 2020

		Group		Company	
	Note(s)	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Assets					
Non-Current Assets					
Loans and advances	11	3 291 907	3 207 323	2 062 435	2 045 201
Investments in controlled entities	13	–	–	341 170	376 560
Investments in associates	16	226 902	202 194	142 104	167 117
Property, plant and equipment	17	2 451	2 050	2 331	1 950
Intangible assets	18	522	274	512	271
Finance lease receivables	19	105 622	100 553	–	–
Investment property	20	62 300	66 000	62 300	66 000
Investment in non controlled entities	12	254 456	156 917	254 456	156 917
		3 944 160	**3 735 311**	**2 865 308**	**2 814 016**
Current Assets					
Loans and advances	11	465 946	605 669	381 374	495 587
Properties developed for sale	21	–	14 684	–	–
Finance lease receivables	19	7 952	53 352	–	–
Other receivables and prepayments	22	20 985	22 789	28 649	22 808
Held to maturity investments	23	696 158	488 445	696 158	488 445
Cash and cash equivalents	24	1 105 890	1 058 470	889 437	910 830
Income tax receivable	10	35 169	35 169	35 169	35 169
		2 332 100	**2 278 578**	**2 030 787**	**1 952 839**
Total Assets		**6 276 260**	**6 013 889**	**4 896 095**	**4 766 855**
Liabilities					
Non-Current Liabilities					
Financial liabilities	28	1 427 502	1 463 402	264 429	300 270
Long term payables	31	10 130	10 850	–	–
		1 437 632	**1 474 252**	**264 429**	**300 270**
Current Liabilities					
Funds under management	27	107 546	43 121	97 095	32 637
Financial liabilities	28	36 927	40 637	36 764	38 245
Provisions	29	36 250	32 942	35 795	32 487
Trade and other payables	30	30 588	22 077	14 773	14 671
		211 311	**138 777**	**184 427**	**118 040**
Total Liabilities		**1 648 943**	**1 613 029**	**448 856**	**418 310**
Net Assets		**4 627 317**	**4 400 860**	**4 447 239**	**4 348 545**
Issued capital	25	842	842	842	842
Share premium	25	879 158	879 158	879 158	879 158
Grant capital	26	1 656 698	1 545 038	1 656 698	1 545 038
Retained earnings		1 901 259	1 724 802	1 772 917	1 724 223
Non distributable and other reserves		189 360	251 020	137 624	199 284
Total Net Assets		**4 627 317**	**4 400 860**	**4 447 239**	**4 348 545**
Total net assets and liabilities		**6 276 260**	**6 013 889**	**4 896 095**	**4 766 855**

STATEMENT OF CHANGES IN **NET ASSETS**

FOR THE YEAR ENDED 31 MARCH 2020

	Issued capital R'000	Share premium R'000	Total share capital R'000	Non distri–butable reserve R'000	Grant capital R'000	Total reserves R'000	Retained earnings R'000	Total net assets R'000
Group								
Opening balance as previously reported	842	879 158	880 000	51 736	730 000	781 736	1 424 580	3 086 316
Restatement (Note 38)	–	–	–	–	–	–	48 531	48 531
Balance at 01 April 2018	**842**	**879 158**	**880 000**	**51 736**	**730 000**	**781 736**	**1 473 111**	**3 134 847**
Restated surplus for the year	–	–	–	–	–	–	145 650	145 650
Grant capital	–	–	–	–	80 000	80 000	–	80 000
Acquisition from merger	–	–	–	199 284	735 038	934 322	106 041	1 040 363
Changes in net assets	–	–	–	199 284	815 038	1 014 322	251 691	1 266 013
Balance at 01 April 2019	**842**	**879 158**	**880 000**	**251 020**	**1 545 038**	**1 796 058**	**1 724 802**	**4 400 860**
Surplus for the year	–	–	–	–	–	–	219 733	219 733
Restatement of reserves in group accounts	–	–	–	–	–	–	29 148	29 148
Grant capital	–	–	–	–	50 000	50 000	–	50 000
Reclassification of reserves to grant capital	–	–	–	(61 660)	61 660	–	–	–
Reversal of interest recognised in prior years due to restructurings	–	–	–	–	–	–	(72 424)	(72 424)
Changes in net assets	–	–	–	(61 660)	111 660	50 000	176 457	226 457
Balance at 31 March 2020	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**1 901 259**	**4 627 317**
Note(s)	25	25	25		26			
Company								
Opening balance as previously reported	842	879 158	880 000	–	730 000	730 000	1 399 449	3 009 449
Restatement (Note 38)	–	–	–	–	–	–	25 510	25 510
Balance at 01 April 2018	**842**	**879 158**	**880 000**	**–**	**730 000**	**730 000**	**1 424 959**	**3 034 959**
Restated surplus for the year (Note 38)	–	–	–	–	–	–	191 207	191 207
Grant capital	–	–	–	–	80 000	80 000	–	80 000
Acquisition from merger	–	–	–	199 284	735 038	934 322	108 057	1 042 379
Changes in net assets	–	–	-	199 284	815 038	1 014 322	299 264	1 313 586
Balance at 01 April 2019	**842**	**879 158**	**880 000**	**199 284**	**1 545 038**	**1 744 322**	**1 724 223**	**4 348 545**
Surplus for the year	–	–	–	–	–	–	48 694	48 694
Grant capital	–	–	–	–	50 000	50 000	–	50 000
Reclassification of reserves to grant capital	–	–	–	(61 660)	61 660	–	–	–
Changes in net assets	–	–	–	(61 660)	111 660	50 000	48 694	98 694
Balance at 31 March 2020	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 772 917**	**4 447 239**
Note(s)	25	25	25		26			

CASH FLOW **STATEMENT**

FOR THE YEAR ENDED 31 MARCH 2020

		Group		Company	
	Note(s)	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Cash flows from operating activities					
Receipts					
Sale of goods		20 468	3 381	–	–
Interest, rental and dividend income		612 654	518 536	371 484	314 534
Other income		49 130	-	4 874	3 537
		682 252	521 917	376 358	318 071
Payments					
Employee costs		(100 944)	(75 851)	(96 576)	(55 433)
Net cash payment to suppliers		(108 641)	(71 028)	(64 485)	(37 806)
Finance costs		(143 107)	(131 367)	(23 173)	(18 873)
Net cash payment to customers		(146 591)	(221 386)	(98 535)	(128 950)
		(499 283)	(499 632)	(282 769)	(241 062)
Net cash flows from operating activities	32	**182 969**	**22 285**	**93 589**	**77 009**
Cash flows from investing activities					
Additions to property, plant and equipment	17	(2 279)	(2 058)	(2 200)	(2 058)
Disposal of property, plant and equipment	17	–	9	–	9
Addition of other intangible assets	18	(492)	(249)	(477)	(246)
Decrease in Held to Maturity Investment		(207 711)	45 589	(207 713)	45 587
Movement in Investment in controlled entities		–	–	18 261	(13 035)
Net cash flows from investing activities		**(210 482)**	**43 290**	**(192 128)**	**30 256**
Cash flows from financing activities					
Net movement in borrowings		(39 610)	53 866	(37 322)	(34 989)
Movement in funds under management		64 544	(3 290)	64 468	(9 551)
Acquisition from merger		-	531 876	-	454 425
Grant capital		50 000	80 000	50 000	80 000
Net cash flows from financing activities		**74 933**	**662 452**	**77 146**	**489 885**
Net increase/(decrease) in cash and cash equivalents		**47 420**	**728 027**	**(21 393)**	**597 150**
Cash and cash equivalents at the beginning of the year		1 058 470	330 443	910 830	313 680
Cash and cash equivalents at the end of the year	24	**1 105 890**	**1 058 470**	**889 437**	**910 830**

ACCOUNTING **POLICIES**

FOR THE YEAR ENDED 31 MARCH 2020

CORPORATE INFORMATION

1.1 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000), except as otherwise indicated. The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements for the year ended 31 March 2020 comprise the NHFC, its subsidiaries and the Group's interest in associates (referred to as the Group). The financial year-end for Cape Town Community Housing Company (Proprietary) Limited, Mortgage Default Insurance Company (Proprietary) Limited, Gateway Home Loans (Proprietary) Limited, and Gateway Home Loans 001 (Proprietary) Limited is 31 March. Similar accounting policies are applied across the Group.

1.2 Statement of compliance

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, as well as the requirements of the Companies Act (Act No 71 of 2008) and the Public Finance Management Act (Act No 1 of 1999), as amended.

1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2020.

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

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

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

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

1.4 Changes in accounting policy and disclosure

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

1.5 Summary of significant judgements, estimates and assumptions

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

Bonus provision

Staff and management bonuses are provided for as and when the employee renders service. The bonus is based on performance and is evaluated using a rating method on an annual basis.

Investment properties

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

The company uses the Direct Method of Comparison as a primary method of determining the fair value of the Company's investment property. The Direct Method of Comparison, as accepted by our Courts, entails valuers to conduct their assessment of Market Value by considering prices paid for comparable type property in recent open market transactions in the vicinity of the Subject Property being valued, disregarding transactions that are not sufficiently comparable, and taking into account any adjustments that need to made in order to render the figures obtained from the comparable transactions more meaningful. Comparable transactions are guided by issues such as the date of the sale, the presence or absence of improvements, and the general location of the subject property, as well as its productivity and size.

The usual cautionary principle with regard to sales to an expropriating authority applies, i.e. such sales may be used for comparison, but the valuer should adjust for the fact that such sales are not open market transactions.

ACCOUNTING **POLICIES**

FOR THE YEAR ENDED 31 MARCH 2020

Where there is a shortage of such sales, the comparable sales method is impractical and then in such cases, valuers would then use one of the other accepted valuation methods, i.e. either the Income Method (aimed at ascertaining the lands productive value) or the Cost Method (replacement value).

Fair value of financial instruments

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

Refer to note 33 for a comprehensive assessment of financial risk management.

1.6 Summary of significant accounting policies

(a) Business combinations and goodwill

i) Business combinations from 1 January 2010

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled in equity.

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

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

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

ii) Business combinations prior to 1 January 2010

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

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

ACCOUNTING **POLICIES**

FOR THE YEAR ENDED 31 MARCH 2020

(b) Investment in subsidiaries

Investments in subsidiaries are carried at fair value. The preferred basis of determining the fair value has been determined using the discounted cash flow method unless it has been deemed inappropriate. In such a case the price to earnings multiple is used to determine fair value. When a subsidiary ceases to be profitable with going concern issues, the investment in subsidiary is held at cost.

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

(c) Interest in associates

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

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

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

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

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

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

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

Investments in associates are carried at fair value in the company financials. When an associates financial performance deteriorates or has an adverse outlook, with no reliable financial information available. The carrying value of such an investment is assessed using the cost model.

(d) Property, plant and equipment

i) Measurement

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

ii) Subsequent cost

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

iii) Depreciation

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

Item	Average useful life
Furniture and fittings	16.67%
Motor vehicles	25%
Office equipment	16.67%
Computer equipment	33.33%
Leasehold improvements	period of lease

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

ACCOUNTING **POLICIES**

FOR THE YEAR ENDED 31 MARCH 2020

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

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

When an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition. Leasehold improvements relate to operating leases.

iv) De-recognition

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

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

(e) Properties developed for sale

The cost of the properties for sale comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the properties developed for sale to their present location and condition.

Properties developed for sale are measured at the lower of cost and net realisable value.

Instalment sale agreements which have been cancelled and the asset transferred in the name of Cape Town Community Housing Proprietary Limited are transferred at the cost of the foregone asset, being the remaining balance of the instalment sale.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost to completion and the estimated cost necessary to make the sale. Development expenditure is capitalised and measured at cost, being all directly attributable cost necessary to prepare the property to be able to operate in the manner intended by management.

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

Work-in-progress

Work in progress is measured at the actual costs of the development expenditure incurred on the housing projects. The cost of completed housing units are transferred to cost of sales when units are sold, occupied and transferred. The balance of completed units is transferred to inventory awaiting allocation to approved buyers.

(f) Intangible assets

(i) Recognition and measurement

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

Intangible assets are amortised using the straightline method over three years and tested for impairment annually.

(ii) Derecognition

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

(g) Financial instruments

i) Financial assets

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

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

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

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

This standard has an impact on loans and receivables, held-to-maturity investments and equity investments. Management determine the classification of its financial assets at initial recognition.

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

This includes financial assets and liabilities that are:

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

Financial instruments held at amortised cost

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

Recognition and measurement

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

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

Equity investments

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

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

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

Held-to-maturity investments

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

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

Loans and receivables

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

Amortised cost

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

Trade and other receivables

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

Cash and short-term deposits

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

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

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

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ii) Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

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

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

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

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

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

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

Finance lease receivables

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

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

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

(iii) Financial liabilities

Recognition and measurement

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

Financial liabilities comprise the following:

Other payables

Other payables are recognised at fair value.

Interest-bearing loans and borrowings

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

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

iv) De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

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

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

Financial liabilities

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

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

(h) Provisions

Provisions are recognised when:

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

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

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

Provisions are not recognised for future operating losses.

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

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note 33.

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(i) Borrowing costs

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

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

The capitalisation of borrowing costs commences when all the following conditions have been met:

- Expenditures for the asset have been incurred;
- Borrowing costs have been incurred; and
- Activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation is suspended during extended periods in which active development is suspended.

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

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

(j) Leases

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

Finance leases – Group as lessor

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

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

Finance leases – Group as lessee

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

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

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

(k) Contingent liabilities and commitments

Contingent liabilities

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

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

Commitments

Items are classified as commitments where the Group has committed itself to disbursement on lending activities and with suppliers for future transactions. Commitments are not recognised in the statement of financial position but disclosed in the notes.

(l) Revenue recognition

i) Revenue from exchange transactions

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

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

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

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

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

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

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

Fees – Initiation fees are raised when the loan agreement is signed by two parties.

Revenue from servicing the loan – other fees that are charged by the entity for servicing the loan are recognised as revenue as the services are provided.

Revenue from strategic investments

Residual income/(loss) derived from equity investments.

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

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

(m) Taxation

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

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

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

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

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

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

Deferred tax relating to items recognised directly in other comprehensive income is recognised in equity and not in profit and loss.

(n) Retirement benefits

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

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

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(o) Investment property

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

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

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

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

(p) Related party disclosures

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

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

1.7 Events after reporting date

Events after the 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.

(q) Presentation of budget information in financial statements

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

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

(r) Determination of fair values

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

Investment property

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

Capitalisation method (investment property)

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

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

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

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

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

(s) Employee benefits

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

1.8 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. 1 of 2018/2019 on Irregular Expenditure Framework (effective from 1 December 2018).

Irregular expenditure is recorded in the notes to the Financial Statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided.

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.

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.

1.9 Transfer of functions between entities under common control

Definitions

An acquirer is the group that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another group so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an group's objectives, either by providing economic benefits or service potential.

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A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another group.

A transferor is the group that relinquishes control of a function.

Common control – For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an group's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole group. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which group to the transaction or event is the transferor(s) and which group is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which group is the acquirer and which group is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

1.10 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would 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.

1.11 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.

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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.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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 pre-specified 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.

ACCOUNTING **POLICIES**

FOR THE YEAR ENDED 31 MARCH 2020

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.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use. Useful life is either:

(a) The period of time over which an asset is expected to be used by the group; or
(b) The number of production or similar units expected to be obtained from the asset by the group.

Criteria developed by the group to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.13 Share capital/contributed capital

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

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	The impact is not material.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	The impact is not material.
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	The impact is not material.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	The impact is not material.
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	The impact is not material.
• GRAP 20: Related parties	01 April 2019	The impact is not material.
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	The impact is not material.
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	The impact is not material.
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	The impact is not material.
• GRAP 107: Mergers	01 April 2019	The impact is not material.
• GRAP 108: Statutory Receivables	01 April 2019	The impact is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The impact is not material.
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	The impact is not material.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	The impact is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	The impact is not material.
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	The impact is not material.
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	The impact is not material.
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	The impact is not material.

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FOR THE YEAR ENDED 31 MARCH 2020

2.2 Standards and interpretations issued, but not yet effective

The group has not applied the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2019	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2019	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Unlikely there will be a material impact

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FOR THE YEAR ENDED 31 MARCH 2020

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
3. REVENUE				
Interest on advances				
Interest on performing advances	459 803	414 338	241 349	206 308
Interest on impaired advances	8 358	17 673	8 358	17 673
Interest on finance leases receivable	10 939	11 215	–	–
	479 100	**443 226**	**249 707**	**223 981**
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	105 444	77 125	102 616	76 295
Rental income				
Rental income from investment property	15 575	15 860	14 174	14 007
Dividend received				
Dividend income from TUHF	8 297	8 350	8 297	8 350
Dividend income from IHS	1 505	5 487	1 505	5 487
Dividend income from Greenstart	158	–	158	–
	9 960	**13 837**	**9 960**	**13 837**
Sale of houses				
CTCHC sale of houses	20 468	3 381	–	–
Management Fees				
Fees charged to controlled entities	–	–	11 643	6 937
Programme management fees	7 549	1 591	–	–
FLISP recovery	5 525	2 040	5 525	2 040
	13 074	**3 631**	**17 168**	**8 977**
Share of residual interest in controlled entities – Housing Investment Partners*	–	–	18 261	9 171
*Refer to Note 38 for the restatement of 2019 revenue from strategic investments.				
Fees on advances	3 367	2 432	3 367	2 432
4. COST OF SALES				
CTCHC cost of sale of houses	(20 707)	(3 014)	–	–
5. OTHER OPERATING INCOME				
Other operating income is made up as follows:				
Levies from finance lease receivable	2 140	1 910	–	–
Recoveries and refunds	4 446	2 167	1 276	2 167
Other interest received	426	1 981	386	391
Sundry income*	19 175	509	1 182	2 013
	26 187	**6 567**	**2 844**	**4 571**

*Included in group sundry income is CTCHC R17.5m settlement on a performance guarantee insurance policy.

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
6. OPERATING SURPLUS				
Included in operating surplus is the following items:				
Staff costs	93 134	67 561	90 765	62 462
Salaries	70 900	52 599	68 782	47 822
Medical aid contributions	1 545	2 897	1 545	2 897
Provident fund contributions	7 685	6 025	7 434	5 703
Bonus	13 004	6 040	13 004	6 040
Executive costs (refer to note 36)	39 614	38 102	39 614	32 896
Salaries	21 552	22 792	21 552	17 882
Medical aid contributions	959	691	959	691
Provident fund contributions	2 758	2 497	2 758	2 201
Bonus	14 345	12 122	14 345	12 122
Administration	6 237	4 043	4 452	3 003
Marketing	1 160	1 363	1 160	1 363
Consultancy	9 011	4 787	8 574	4 509
Directors' fees	4 904	4 450	4 904	4 450
Legal fees	5 883	4 812	4 667	2 977
Auditors' fees	6 885	4 082	6 908	3 832
Travel and entertainment	2 479	1 733	1 707	1 286
Communication	1 942	1 888	1 836	1 725
Training and development	1 005	1 384	997	1 336
Office expenses	5 030	5 188	2 878	3 646
Depreciation and armotisation	2 120	2 074	2 053	2 028
Sundry & Investment property expenses	13 311	12 941	13 331	12 966
Operating lease expense	10 933	7 691	9 066	6 396
	203 648	**162 099**	**192 912**	**144 875**
Management fees incurred in controlled entities	34 394	32 671	-	–
Total operating expenses	**238 042**	**194 770**	**192 912**	**144 875**
Impairments	**64 590**	**(61 658)**	**68 443**	**(57 032)**
Net impairment raised on loans and advances	94 712	(36 008)	86 263	(57 264)
Net impairment reversed on other	–	232	–	232
Impairments from controlled entity	(12 303)	(25 882)	–	–
Impairment of held to maturity investment	(17 661)	–	(17 661)	–
Impairment of dividend accrued Greenstart	(158)	–	(158)	–
Bad debts written-off				
Bad debts written-off on loans and advances	(146 534)	(47 693)	(138 538)	(47 693)
Total Net impairments and bad debts written off	**(81 944)**	**(109 351)**	**(70 095)**	**(104 725)**

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
7. INCOME/(LOSS) FROM ASSOCIATE				
Income/(loss) from associates				
TUHF Holdings Limited	24 297	11 223	–	–
Housing Investment Partners Proprietary Limited	3 653	2 601	–	–
Lendcor Proprietary Limited	411	192	–	–
Norufin Housing Proprietary Limited	-	(515)	–	–
Kabo Financial Enterprise Proprietary Limited	-	(43)	–	–
	28 362	**13 457**	**–**	**–**
8. INVESTMENT FAIR VALUE AND IMPAIRMENT				
Fair value changes on investments				
Investment in unit trusts	(4)	(27)	(4)	(27)
Unlisted investments				
Cape Town Community Housing Company Proprietary Limited	–	–	(24 816)	–
TUHF Holdings Limited	–	–	(23 093)	8 693
International Housing Solutions Proprietary Limited	(28 486)	(178)	(28 486)	(178)
Real people Holdings Limited	33 347	–	33 347	–
Housing Investment Partners	–	–	(35 390)	106 401
Impairment	**–**	**–**	**–**	**–**
Lendcor Proprietary Limited	–	–	(1 920)	(8 033)
Norufin Proprietary Limited	–	–	–	(5 286)
Total	**4 857**	**(205)**	**(80 363)**	**101 570**
9. FINANCE COSTS				
Interest on financial liabilities	142 268	132 526	22 334	20 032
10. TAXATION				
Income tax receivable: statement of financial position				
Balance at the beginning of the year	35 169	33 912	35 169	33 912
Interest earned	–	1 257	–	1 257
Balance at the end of the year	**35 169**	**35 169**	**35 169**	**35 169**

The NHFC is exempt from normal taxation as per Taxation Laws Amendment Act No 15 of 2016 published in the Government Gazette on 19 January 2017 under notice 40562. The deferred tax asset has been reversed in the prior year to reflect the impact on the tax exemption status. However, the NHFC complies with all other South African taxes, including employees' tax and value-added tax. The income tax receivables is discussed further in the subsequent events note.

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
11. LOANS AND RECEIVABLES – ADVANCES				
Gross advances				
Opening balances	4 137 196	3 132 944	2 919 914	2 002 177
Acquisition from merger	-	920 337	-	924 601
Disbursements	624 514	501 457	601 636	450 468
Interest charged	473 181	423 712	253 074	226 413
Repayments	(1 088 709)	(793 561)	(874 597)	(636 052)
Reclassification to equity	-	-	(24 816)	-
Amounts previously impaired, written-off	(146 534)	-	(138 539)	-
Amounts never impaired but written-off	-	(47 693)	-	(47 693)
Balance at the end of the year	**3 999 648**	**4 137 196**	**2 736 672**	**2 919 914**
Impairments on advances				
Balances at the beginning of the year	(324 204)	(100 789)	(379 126)	(91 596)
Acquisition from merger	-	(161 757)	-	(230 266)
Adjusted opening balance	**(324 204)**	**(262 546)**	**(379 126)**	**(321 862)**
Amounts impaired and written off during the year	146 534	-	138 539	-
Increase in impairments on advances	(107 085)	(63 877)	(95 136)	(59 483)
Impairments reversed during the year	42 960	2 219	42 860	2 219
Net impairments (raised)/reversed	**82 409**	**(61 658)**	**86 263**	**(57 264)**
Balance at the end of the year	**(241 795)**	**(324 204)**	**(292 863)**	**(379 126)**
Comprising:				
Specific impairments	(201 220)	(284 671)	(252 288)	(339 592)
General impairments	(40 575)	(39 533)	(40 575)	(39 533)
Net advances	**3 757 853**	**3 812 992**	**2 443 809**	**2 540 788**
Maturity analysis				
Receivable within one year	465 946	605 668	381 374	495 587
Receivable within one to two years	359 542	385 600	347 948	361 141
Receivable within two to three years	275 094	260 396	25 351	241 630
Receivable beyond three years	2 657 271	2 561 328	1 689 136	1 442 430
Net advances	**3 757 853**	**3 812 992**	**2 443 809**	**2 540 788**
Loans and advances – NHFC	2 330 367	2 350 197	2 443 809	2 540 788
Loans and advances – Subsidiaries	74 737	124 462	–	-
Loans and advances – Controlled entities HIP	1 346 379	1 332 072	–	-
Loans and advances - Abahlali	6 370	6 261	-	-
Total Loans and advances	**3 757 853**	**3 812 992**	**2 443 809**	**2 540 788**
Non-current assets	3 291 907	3 207 323	2 062 435	2 045 201
Current assets	465 946	605 669	381 374	495 587
	3 757 853	**3 812 992**	**2 443 809**	**2 540 788**

Impairments were reversed as a result of certain loans and advances being renegotiated and settled and irrecoverable amounts which are subsequently written-off.

Loan terms issued to clients vary from one year to 20 years.

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
12. INVESTMENTS IN NON-CONTROLLED ENTITIES				
Blue Financial Services Limited Shares at cost – ordinary shares				
Investments in shares at cost	30 000	30 000	30 000	30 000
Accumulated impairment	(30 000)	(30 000)	(30 000)	(30 000)
Carrying amount of shares	–	–	–	–

As part of a debt restructuring agreement, the NHFC acquired 67 415 730 ordinary shares by converting a R30 million interest bearing loan owed by Blue Financial Services Limited to equity. This was equivalent to 0,88% of the issued capital. The conversion took place in July 2012 at an agreed share price of 44,5 cents per share. The equity investment in Blue Financial Services was devalued during July 2013 following a significant decrease in the share price to 13 cents, a further devaluation was taken in March 2016 as a prudent measure given the uncertainties surrounding the company's underlying performance in its operations, the prolonged suspension from the JSE and the lack of audited financial statements. Other factors that inherently affect the company's future prospects include the raising of funding and the settlement of the Debt Restructuring Agreement lenders.

As there is no quoted share price or reliable financial information, the investment in Blue financial services is measured at cost less accumulated impairments in accordance with GRAP. In the absence of a quoted share price, the carrying value has been fully impaired.

Real People Investment Holdings Limited

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Investment at cost	56 590	56 590	56 590	56 590
Amounts disbursed during the year	–	–	–	–
	56 590	**56 590**	**56 590**	**56 590**
Fair value changes	**(2 319)**	**(35 666)**	**(2 319)**	**(35 666)**
Cumulative changes	(35 666)	(35 666)	(35 666)	(35 666)
Current year changes	33 347	-	33 347	-
Carrying amount	**54 271**	**20 924**	**54 271**	**20 924**

As a result of a restructuring in Real People in December 2017, the NHFC converted a portion of its senior debt investment in Real People into Payment in Kind ("PIK") notes, a quasi-equity investment. R131.9 million senior debt facility (including interest) was restructured.

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

12. INVESTMENTS IN NON-CONTROLLED ENTITIES (CONTINUED)

The ordinary shares held in Real People Investment Holdings by the NHFC equated to 6.69% of the issued ordinary shares in the company which was acquired at a nominal amount of R80.39. As at March 2018 bulk of the equity and quasi-equity exposure was held in the E PIK Notes at a gross value of R52.76 million. An amount of R31.5 million previously impaired of the exposure in E PIK notes in financial year 31 March 2017. An additional impairment of R4.2 million was incurred in the 31 March 2018 financial, which has now been reclassified from impairments to fair value adjustments in equity instruments. The gross balance of R56.6 million has been reclassified from loans and advances to investments in non-controlled entities in the statement of financial position for the 31 March 2019 year.

International Housing Solutions

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Investment at costs	155 966	155 966	155 966	155 966
Amounts disbursed in current year	92 678	–	92 678	–
	248 644	**155 966**	**248 644**	**155 966**
Fair value changes	**(48 459)**	**(19 973)**	**(48 459)**	**(19 973)**
Cumulative changes	(19 973)	(19 795)	(19 973)	(19 795)
Current year changes	(28 486)	(178)	(28 486)	(178)
Carrying value	**200 185**	**135 993**	**200 185**	**135 993**

The Fund's primary purpose is to invest in affordable housing projects, including completed projects that are to be renovated, and projects in development. Fund investments may be in the form of equity interests, interests in trusts, debt, subordinated debt or preferred equity in housing projects. As a limited partner, the NHFC participates in the profits and losses generated by the Fund. Its revenue therefore is accrued from the profits or losses generated per reporting period.

The Fund made distributions to its limited Partners (LPs) of R1,5 million in 2020 (R5,5 million in 2019)
The investment in IHS was reclassifed from loans and advances to investment in non-controlling entities on the statement of financial position.

Total investment in non-controlling entities	254 456	156 917	254 456	156 917

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

13. INVESTMENTS IN CONTROLLED ENTITIES

Investment in Abahlali Housing Association
The NHFC took control of Abahlali Housing Association and the bank accounts in 2007 after the company was in financial distress. All settlements proceeds from the active underlying loan book are deposited into the Abahlali bank account, of which the NHFC has full control.

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Investment at cost	-	-	-	-
Cumulative impairments	-	-	-	-
Carrying amount of the investment in Abahlali	-	-	-	-

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

	Group 2020 R'000	Group Restated 2019 R'000	Company 2020 R'000	Company Restated 2019 R'000
Investment at Cost	–	–	2 000	2 000
Acquisition of shares during the current year	–	–	24 816	–
	–	–	**26 816**	**2 000**
Accumulated fair values from prior years	–	–	(2 000)	(2 000)
	–	–	**24 816**	**–**
Current year fair value adjustment	–	–	(24 816)	–
Carrying amount of the investment in CTCHC	**–**	–	**–**	**–**

A total of 43 577 707 debentures are being substituted for 43 577 707 ordinary no par value shares in the share capital of Cape Town Community Housing Company (Pty) Ltd for a gross value total premium of R51 518 225.81.

The shareholder's loan of R121 708 494.23 has been capitalised by the issue of 102 949 529 ordinary no par value.

CTCHC has processed the restructuring as at 31 March 2020. All of NHFC outstanding debt granted has been converted to equity with the exception of Harmony Village. The incurrence of finance cost has been ceased, also with the NHFC no longer accruing any interest revenue at a shareholder level.

Housing Investment Partnership Trust

	Group 2020 R'000	Group Restated 2019 R'000	Company 2020 R'000	Company Restated 2019 R'000
Opening balance	–	–	270 159	247 953
Disbursement	–	–	–	22 206
	–	**–**	**270 159**	**270 159**
Cummulative fair value changes – inception to date	**–**	**–**	**71 011**	**–**
Accumulated fair value from prior years	–	–	106 401	–
Fair value for the current year	-	-	(35 390)	106 401
Carrying amount of the investment in HIP	**-**	**-**	**341 170**	**376 560**

Other subsidiaries

NOTES TO THE ANNUAL **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2020

13. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

The following wholly-owned subsidiaries of the National Housing Finance Company are held at cost, the value of the individual subsidiaries equals to the share capital which is less than a R1000:

- NHFC Management Services (Pty) Ltd
- NURCHA Loan Fund (Pty) Ltd
- NURCHA Development Finance (Pty) Ltd
- NURCHA Equity Services (Pty) Ltd
- NURCHA Bridging Finance (Pty) Ltd
- NURCHA Finance Company (Pty) Ltd

Total Investment in Controlled Entities	**–**	**–**	**341 170**	**376 560**

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
14. INVESTMENT IN DEBENTURES – CAPE TOWN COMMUNITY HOUSING COMPANY (PROPRIETARY) LIMITED				
Debentures				
Non-convertible debentures at cost – issued prior to 31 March 2004	–	–	18 000	18 000
Non-convertible debentures at cost – issued prior to 31 March 2005	–	–	2 654	2 654
Non-convertible debentures at cost – issued prior to 31 March 2006	–	–	543	543
	–	–	21 197	21 197
Accumulated impairment	–	–	(21 197)	(21 197)
Accumulated impairment	–		3 000	3 000
Convertible debentures acquired at cost	–	–	(3 000)	(3 000)
Carrying amount of debentures	–	–	–	–

The CTCHC balance sheet was restructured during the current financial year. Part of the restructuring included the conversion of debentures to equity. A total of 577 707 ordinary no par value shares, at a total premium value of R51 518 225.81 were issued in respect of the substitution of 43 577 707 debentures to shares.

15. INVESTMENT IN PREFERENCE SHARES

Greenstart Proprietary Limited				
Opening balance	2 500	2 500	2 500	2 500
Cumulative impairments	(2 500)	(2 500)	(2 500)	(2 500)
Dividends accrued	158	–	158	–
Dividends impaired	(158)	–	(158)	–
Investment in preference shares at fair value	**–**	**–**	**–**	**–**

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

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16. INVESTMENTS IN ASSOCIATES

6.1 Investment in associate – TUHF Holdings Limited

The company is involved in the provision of commercial property finance in the form of bridging finance and long-term loans for the regeneration of South African inner city precincts and surrounding suburbs. The NHFC effectively owns 32,65% of the issued share capital consisting of ordinary shares.

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

	Group	
	2020 R'000	Restated 2019 R'000
Share of the associate's balance sheet		
Total assets	1 382 796	1 066 377
Total liabilities	(1 208 493)	(916 472)
Net asset	**174 303**	**149 905**
Investment at cost	33 282	33 282
Accumulated share of profits of associates	70 723	58 051
Accumulated share of reserves in associates	45 900	47 349
	149 905	138 682
Current year share of the associates's profit	4 031	12 672
Other reserves*	20 267	(1 449)
Carrying amount of the investment in TUHF	**174 203**	**149 905**
Share of the associate's revenue	172 276	128 452
Investment in C class ordinary shares		
Carring amount of the investment in C class ordinary shares	6 533	6 533
Investment in preference shares		
Carring amount of the investment in preference shares	35 000	35 000
Carrying amount of investment in TUHF	**215 736**	**191 438**

*Other reserves include movements in employee share scheme, dividends declared and non distributable reserves.

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	Company	
	2020 R'000	Restated 2019 R'000
16. INVESTMENTS IN ASSOCIATES (CONTINUED)		
16.2 Investment in associate – TUHF Holdings Limited		
The following table illustrates the summarised financial information in the company's books:		
Investment in ordinary shares at cost	33 282	33 282
Investment in C class ordinary shares at cost	6 533	6 533
Total cost of acquisition	**39 815**	**39 815**
Opening fair value changes	90 382	81 689
Current year fair value changes	(23 092)	8 693
Cumulative fair value changes – inception to date	**67 289**	**90 382**
Net carrying value	107 104	130 197
Investment in preference shares		
Carrying amount of the investment in preference shares	35 000	35 000
Carrying amount of the investment in TUHF	**142 104**	**165 197**

The investment in TUHF has been valued at fair value, except for preference shares which are carried at cost. Constraints in the capital markets in the short-to medium-term are expected to cause some challenges in sustaining the growth momentum achieved in the past few years. NHFC has applied a discounted cash flow (DCF) method in arriving at the valuation of TUHF. Company projections have been reviewed to understand the reasonableness of projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. Cost of equity was computed using a risk-free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in TUHF.

NHFC's shareholders loans to the value of R6.5 million were converted to C ordinary shares in the prior financial years.

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

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

The NHFC has a 33.33% equity shareholding in HiP, the fund management company that developed the income linked mortgage loan product and arranges and manages the debt funds that provide the mortgage loan funding.

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

	Group	
	2020 R'000	Restated 2019 R'000
Share of the associate's balance sheet		
Total assets	13 645	11 402
Total liabilities	(39 255)	(38 019)
Net asset	**(25 610)**	**(26 617)**

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	Group	
	2020 R'000	Restated 2019 R'000
16. INVESTMENTS IN ASSOCIATES (CONTINUED)		
16.3 Investment in associate – Housing Investment Partners (Proprietary) Limited (HiP) continued		
Share of the associate's revenue	9 295	8 617
Share of profit/(loss)	3 653	2 601

The Group's share of cumulative losses amounts to R33.165 million above in 2020 (R33.165 million in 2019) which have been recognised in the Shareholder loan investment account.

The Group's share of cumulative losses in the associate HiP have been recognised up to the cost of the investment, being R7.233 million.

The investee has a different reporting date of 31 December. There has not been any material impact for the current year as all losses have been written-off against the investment at group level. The different reporting date has, however, been considered when preparing the valuation of the investment.

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

The following table illustrates the summarised financial information in the company's books:

	Company	
	2020 R'000	Restated 2019 R'000
Investment in shares opening balance	7 232	7 232
Movement in investment in associate	(7 232)	(7 232)
Carrying amount of the investment HiP	–	–

HiP is an entity established to operate as a fund manager that designed and developed the innovative income-linked retail home loans product. HiP originates, manages and administers the debt funds that provide the mortgage loan funding. NHFC has applied a discounted cash flow (DCF) method in arriving at the valuation of HiP. Company projections have been reviewed to understand the reasonableness in projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represents the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in HiP. No fair value adjustment was processed in the current financial year. HIP as a fund manager, needs to significantly raise the funds under management (loan book) for the business to be financial sustainable. It continues to generate operating losses.

The investee has a different reporting date of 31 December. The different reporting date has however been considered when preparing the valuation of the investment.

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16. INVESTMENTS IN ASSOCIATES (CONTINUED)

16.5 Investment in associate – Lendcor (Proprietary) Limited (Lendcor)

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

	Group	
	2020 R'000	Restated 2019 R'000
Share of the associate's balance sheet		
Current assets	46 004	41 997
Non-current assets	(35 448)	(31 852)
Net asset	**10 556**	**10 145**
Investment at cost	350	350
Accumulated share of profits	9 795	9 603
	10 145	9 953
Current year share of profits	411	192
Carrying amount of the investment in Lendcor	**10 556**	**10 145**
Share of the associate's revenue	15 697	16 712
The groups share of cumulative equity amounts to R10.6 million.		

16.6 Investment in associate – Lendcor (Proprietary) Limited (Lendcor)

The following table illustrates the summarised financial information in the company's books:

	Company	
	2020 R'000	Restated 2019 R'000
Investment in equity shares		
Investment in ordinary shares at cost	350	350
Total costs of acquisition	**350**	**350**
Opening accumulated impairment	1 570	9 603
Current year impairment	(1 920)	(8 033)
Cumulative accumulated impairment – inception to date	**(350)**	**1 570**
Carrying amount of the investment in Lendcor	**–**	**1 920**

NHFC has a 20% interest in Lendcor (Pty) Ltd and has a right to appoint a director. As there is no quoted share price or reliable financial information, the investment in Lendcor is measured at cost less accumulated impairments in accordance with GRAP. The investee company has a February year end, adjustments have been processed to align the financials to the NHFC year end of March.

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16. INVESTMENTS IN ASSOCIATES (CONTINUED)

16.7 Investment in associate – Norufin Housing (Proprietary) Limited (Norufin)

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

	Group	
	2020 R'000	Restated 2019 R'000
Share of the associate's balance sheet		
Current assets	8 992	8 992
Non-current assets	(10 935)	(10 935)
Net asset	**(1 943)**	**(1 943)**
Investment at cost	5 288	5 288
Accumulated share of profits of associate	(4 441)	(3 926)
	847	1 362
Current year share of profits	–	(515)
Carrying amount of the investment in Norufin	**847**	**847**

16.8 Investment in associate – Norufin (Proprietary) Limited (Norufin)

The following table illustrates the summarised financial information in the company's books.

	Company	
	2020 R'000	Restated 2019 R'000
Investment in ordinary shares at cost	5 286	5 286
Total costs of acquisition	**5 286**	**5 286**
Opening accumulated impairment	(5 286)	–
Current year impairment	–	(5 286)
Cumulative impairments – inception to date	**(5 286)**	**(5 286)**
Carrying amount of the investment in Norufin	**–**	**–**

As there is no quoted share price or reliable financial information, the investment in Norufin is measured at cost less accumulated impairments in accordance with GRAP.

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16. INVESTMENTS IN ASSOCIATES (CONTINUED)

16.9 Investment in Kabo Financial Enterprise (Pty) Ltd

The Entity has a 20% interest in Kabo Financial Enterprise (Pty) Ltd and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Kabo Financial Enterprise (Pty) Ltd.

	Group	
	2020 R'000	Restated 2019 R'000
Share of associates balance sheet		
Total assets	639	639
Total liabilities	(766)	(766)
Net assets	**(127)**	**(127)**
Accumulated share of profits/(losses)	(236)	(193)
	(236)	(193)
Current year share of losses	–	(43)
Carrying amount of the investment in Kabo	**(236)**	**(236)**

As part of NHFC's commitment to transforming the incremental housing industry, the company took up equity in Kabo. This is done to assist the company with the initial losses that a start-up will incur. As a consequence of these losses, the share capital is fully provided for. Other than NHFC's shares, Kabo is 80% black woman owned.

16.10 Investment in Kabo Financial Enterprise (Pty) Ltd

The following table illustrates the summarised financial information in the company's books:

	Company	
	2020 R'000	Restated 2019 R'000
Investment in equity shares		
Original investment in Kabo	250	250
Accumulated impairment	(250)	(250)
Carrying amount of the investment in Kabo	**–**	**–**

As there is no quoted share price or reliable financial information, the investment in Kabo is measured at cost less accumulated impairments in accordance with GRAP.

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16.11 Investment in Lehae Housing (Pty) Ltd

The Entity has a 20% interest in Lehae Housing (Pty) Ltd and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Lehae Housing (Pty) Ltd.

	Group	
	2020 R'000	Restated 2019 R'000
Investment at Cost	–	–
Accumulated share of profits/(losses)	–	–
Carrying amount of the investment in Lehae	**–**	**–**

16.12 Investment in Lehae Housing (Pty) Ltd

The following table illustrates the summarised financial information in the company's books:

	Company	
	2020 R'000	Restated 2019 R'000
Investment in equity shares	800	800
Original investment in Lehae		
Accumulated impairments	(800)	(800)
Carrying amount of the investment in Lehae	–	–

As there is no quoted share price or reliable financial information, the investment in Lehae is measured at cost less accumulated impairments in accordance with GRAP.

	Group	
	2020 R'000	Restated 2019 R'000
Total Investment in associates Group	226 902	202 194

	Company	
	2020 R'000	Restated 2019 R'000
Total Investment in associates Company	142 104	167 117

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17. PROPERTY, PLANT AND EQUIPMENT

	Group					
	2020			Restated 2019		
	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture and fittings	3 321	(3 121)	200	3 128	(3 030)	98
Motor vehicles	556	(501)	55	555	(443)	112
Office equipment	1 437	(641)	796	657	(567)	90
Computer equipment	10 936	(9 562)	1 374	9 870	(8 801)	1 069
Leasehold improvements	2 702	(2 676)	26	2 700	(2 020)	680
Total	**18 952**	**(16 501)**	**2 451**	**16 910**	**(14 861)**	**2 050**

	Company					
	2020			Restated 2019		
	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture and fittings	3 104	(2 905)	199	2 911	(2 817)	94
Motor vehicles	436	(436)	–	436	(409)	27
Office equipment	1 323	(531)	792	543	(459)	84
Computer equipment	10 613	(9 299)	1 314	9 530	(8 465)	1 065
Leasehold improvements	2 702	(2 676)	26	2 290	(1 610)	680
Total	**18 178**	**(15 847)**	**2 331**	**15 710**	**(13 760)**	**1 950**

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17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliation of property, plant and equipment – Group – 2020

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	98	137	(35)	200
Motor vehicles	112	–	(57)	55
Office equipment	90	836	(131)	796
Computer equipment	1 069	1 181	(876)	1 374
Leasehold improvements	680	124	(778)	26
	2 050	**2 278**	**(1 876)**	**2 451**

Reconciliation of property, plant and equipment – Group – 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fittings	13	122	–	(37)	98
Motor vehicles	203	–	–	(91)	112
Office equipment	52	55	–	(17)	90
Computer equipment	595	1 154	(9)	(671)	1 069
Leasehold improvements	405	727	-	(452)	680
	1 268	**2 058**	**(9)**	**(1 268)**	**2 050**

Reconciliation of property, plant and equipment – Company – 2020

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	94	138	(33)	199
Motor vehicles	27	–	(27)	–
Office equipment	84	836	(128)	792
Computer equipment	1 065	1 101	(852)	1 314
Leasehold improvements	680	124	(778)	26
	1 950	**2 199**	**(1 818)**	**2 331**

Reconciliation of property, plant and equipment – Company – 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fittings	5	123	–	(34)	94
Motor vehicles	88	–	–	(61)	27
Office equipment	42	55	–	(13)	84
Computer equipment	587	1 147	(9)	(660)	1 065
Leasehold improvements	399	733	–	(452)	680
	1 121	**2 058**	**(9)**	**(1 220)**	**1 950**

The cost of fully depreciated assets that are still in use amount to R13.3 million (2019: R14.9 million), and for the Group R14.4 million (2019: R16 million).

No property, plant and equipment has been pledged as security.

No significant amount was incurred to repair and maintain property, plant and equipment.

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18. INTANGIBLE ASSETS

	Group					
	2020			Restated 2019		
	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software	11 739	(11 217)	522	11 336	(11 062)	274
Total	**11 739**	**(11 217)**	**522**	**11 336**	**(11 062)**	**274**

	Company					
	2020			Restated 2019		
	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software	11 489	(10 977)	512	11 012	(10 741)	271
Total	**11 489**	**(10 977)**	**512**	**11 012**	**(10741)**	**271**

Reconciliation of intangible assets – Group – 2020

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Computer software	274	492	(244)	522

Reconciliation of intangible assets – Group – 2019

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Computer software	835	249	(809)	274

Reconciliation of intangible assets – Company – 2020

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Computer software	271	477	(236)	512

Reconciliation of intangible assets – Company – 2019

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Computer software	833	246	(808)	271

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
19. FINANCE LEASE RECEIVABLES				
Gross investment in the lease due				
– within one year	198 024	252 766	–	–
	198 024	252 766	–	–
less: Unearned finance revenue	(84 570)	(98 861)	–	–
	113 454	**153 905**	**–**	**–**
Non-current assets	105 622	100 553	–	–
Current assets	7 952	53 352	–	–
	113 574	**153 905**	**–**	**–**

The average term on the finance lease receivable is 16 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest was 10,5% (2019: 10,5%) per annum. NHFC considers that the fair values of the finance lease receivables does not differ materially from the carrying value.

The amount of R113.5m (2019: R153.9m) is the maximum exposure to credit risk.

20. INVESTMENT PROPERTY

	Group					
	2020			Restated 2019		
	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	62 300	–	62 300	66 000	–	66 000

	Company					
	2020			Restated 2019		
	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	62 300	–	62 300	66 000	–	66 000

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20. INVESTMENT PROPERTY (CONTINUED)

Reconciliation of investment property – Group – 2020

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	66 000	(3 700)	62 300

Reconciliation of investment property – Group – 2019

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	60 000	6 000	66 000

Reconciliation of investment property – Company – 2020

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	66 000	(3 700)	62 300

Reconciliation of investment property – Company – 2019

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	60 000	6 000	66 000

Nature and impact of the change in the valuation method.

NHFC previously used the net income method for the valuation of investment property in the 31 March 2019 financial year and the direct comparison method in the current year.

The fair of the investment property using the direct sale method is R62.3 million for the 31 March 2020, using the net income method for the valuation of the investment property would have resulted in a carrying value of R61.6 million. The change in the valuation method used to estimate the fair value of the property has resulted in an additional R0.7 million in the carrying value, Management regards this difference between the two valuation methods as insignificant.

31 March 2020 valuation

Investment property for the Company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, Mr Tiaan Chris van Niekerk (Registered Professional Associated Valuer at Spectrum Valuers and Asset Solutions (Pty) Ltd) on 01 April 2020. Mr Tiaan Chris van Niekerk is not connected to the Company and has experience in property valuations.

The company uses the Direct Method of Comparison as a primary method of determining the fair value of the Company's investment property. The Direct Method of Comparison, as accepted by our Courts, entails valuers to conduct their assessment of Market Value by considering prices paid for comparable type property in recent open market transactions in the vicinity of the Subject Property being valued, disregarding transactions that are not sufficiently comparable, and taking into account any adjustments that need to be made in order to render the figures obtained from the comparable transactions more meaningful. Comparable transactions are guided by issues such as the date of the sale, the presence or absence of improvements, and the general location of the subject Property, as well as its productivity and size.

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20. INVESTMENT PROPERTY (CONTINUED)

The usual cautionary principle with regard to sales to an expropriating authority applies, i.e. such sales may be used for comparison, but the valuer should adjust for the fact that such sales are not open market transactions. Where there is a shortage of such sales, the comparable sales method is impractical and then in such cases, valuers are would then use one of the other accepted valuation methods, i.e. either the Income method (aimed at ascertaining the lands productive value) or the Cost method (replacement value).

31 March 2019 valuation

Investment property for the Company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, A Balme (Registered Professional Valuer at Balme Van Wyk & Tugman (Pty) Ltd) on 01 April 2019. Mr A Balme is not connected to the Company and has experience in property valuation. The capitalisation of net income method of valuation was used, based on a capitalisation rate of 11,5%. The capitalisation rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised net operating income by the purchase price. This yield is based on information derived from market analysis. The capitalisation rate for the subject area is 11,5%.

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	(3 700)	6 000	(3 700)	6 000
Net rental income	15 575	15 860	14 174	14 007
	11 875	**21 860**	**10 474**	**20 007**
Details of investment property				
Property				
– Purchase price: 1 December 2008	21 654	21 654	21 654	21 654
– Additions since purchase or valuation	40 646	44 346	40 646	44 346
	62 300	**66 000**	**62 300**	**66 000**

a) Description: Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place

21. PROPERTIES DEVELOPED FOR SALE

Work in progress	4 530	2 262	–	–
Carrying value of repossessed properties	(4 530)	12 422	–	–
	–	**14 684**	**–**	**–**

Included in housing stock are units previously held under instalment sale, that were transferred into the name of Cape Town Community Housing (Proprietary) Limited, upon the cancellation of the instalment sales, at the remaining balance of the instalment sale.

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
22. OTHER RECEIVABLES AND PREPAYMENTS				
Commitment and guarantee fee	–	851	–	851
Staff debtors	1 996	1 592	1 996	1 592
Deposits and prepayments	177	894	667	535
Other debtors receivables	16 257	16 917	23 431	17 295
Dividends receivable	2 555	2 535	2 555	2 535
	20 985	**22 789**	**28 649**	**22 808**

Deposits and pre-payments mainly relate to office rental deposits.

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

Other staff debtors are charged interest at the prime lending rate.

Other receivables consist mainly of interest receivable.

Commitments and guarantee fee is a raising fee for the DBSA loan.

23. HELD-TO-MATURITY INVESTMENTS

Development Bank of Southern Africa Limited	60 000	–	60 000	–
Industrial Development Corporation Soc Limited	40 000	40 000	40 000	40 000
Telkom SA SOC Limited	60 000	29 000	60 000	29 000
ABSA Bank Limited	40 000	60 000	40 000	60 000
Investec Bank Limited	80 000	–	80 000	–
Nedbank Limited	80 000	40 000	80 000	40 000
Land and Agricultural Bank of South Africa Soc Limited*	99 211	107 630	99 211	107 630
Trans-Caledon Tunnel Authority (TCTA)	18 489	104 326	18 489	104 326
Transnet SOC Limited	52 597	–	52 597	–
Stanlib Limited	7 906	–	7 906	–
South African Reserve Bank Soc Limited	157 955	107 489	157 955	107 489
Total held-to-maturity money market investments	**696 158**	**488 445**	**696 158**	**488 445**

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

Investments bought in line with NHFC investment policy counter party risk, refer to Financial risk note.

* The Promissory notes held in the counterparty have been partially impaired as part of the post balance sheet assessment as a result of the default on maturity of the Notes post year end.

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
24. CASH AND CASH EQUIVALENTS				
Short-term deposits – NHFC				
ABSA Bank Limited	13 246	49 920	11 657	48 423
Investec Bank Limited	8 040	10 579	8 040	10 579
Nedbank Limited	137 766	9 553	121 959	9 553
Standard Bank of South Africa Limited	21 226	3 371	21 226	3 371
Rand Merchant Bank, a division of First Rand Bank Limited	18 415	11 411	18 415	11 411
Stanlib Limited	5 719	42 992	5 719	42 992
CPD	482 926	616 547	482 926	616 547
First National Bank Limited	33 008	25 390	31 616	24 493
	720 346	**769 763**	**701 558**	**767 369**
Cash at bank and in hand – NHFC				
Cash on Hand	10	13	3	6
Standard Bank of South Africa Limited	40 756	171 047	18 786	122 760
First National Bank Limited	139 350	-	71 995	–
Netbank Limited	103 011	82 135	–	–
	283 127	**253 195**	**90 784**	**122 766**
Total cash and short-term deposits-NHFC	**1 003 473**	**1 022 958**	**792 342**	**890 135**

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
24. CASH AND CASH EQUIVALENTS (CONTINUED)				
Short term deposit - third party funds				
Reserve Bank – FLISP	94 972	20 457	94 972	20 457
Standard Bank – FLISP	646	-	646	–
First National Bank – CFDP	2 811	4 333	–	–
	98 429	**24 790**	**95 618**	**20 457**
Cash at bank and in hand - third party funds				
Standard Bank – FLISP	1 477	238	1 477	238
First National Bank – Gqebera	2 511	10 484	–	–
	3 988	**10 722**	**1 477**	**238**
Total third party funds	**102 417**	**35 512**	**97 095**	**20 695**
Total Cash and cash equivalents	**1 105 890**	**1 058 470**	**889 437**	**910 830**
NHFC				
Short-term deposits	720 346	769 763	701 558	767 369
Cash at Bank	283 127	253 195	90 784	122 766
	1 003 473	**1 022 958**	**792 342**	**890 135**
FLISP				
Short-term deposits	95 618	20 457	95 618	20 457
Cash on hand and at bank	1 477	238	1 477	238
	97 095	**20 695**	**97 095**	**20 695**
CFDP				
Short-term deposits	2 811	4 333	–	–
Gqebera				
Cash on hand and at bank	2 511	10 484	–	–
Total Cash and cash equivalents	**1 105 890**	**1 058 470**	**889 437**	**910 830**

*Funds under management refer to note 27.

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
25. ISSUED CAPITAL AND SHARE PREMIUM				
Capital				
Ordinary shares				
Authorised				
100 000 000 Ordinary shares of R0,01 each	1 000	1 000	1 000	1 000
Issued and fully paid				
84 187 332 ordinary shares of R0,01 each	842	842	842	842
Share premium	879 158	879 158	879 158	879 158
The unissued shares are under the control of the shareholder.				
26. GRANT CAPITAL				
Opening balance	1 545 038	730 000	1 545 038	730 000
NDoHS	50 000	80 000	50 000	80 000
Transfers from NURCHA	–	381 000	–	381 000
Transfers from RHLF	–	180 975	–	180 975
Reclassification of reserves to grant capital	61 930	–	61 930	–
Subtotal	1 656 968	1 371 975	1 656 968	1 371 975
Transfers from NURCHA – Open society Institution of New York	–	18 300	–	18 300
Transfer from RHLF – KFW	–	154 763	–	154 763
Additions from Non-SA government Institutions	–	173 063	–	173 063
	1 656 968	**1 545 038**	**1 656 968**	**1 545 038**

The initial grant of R200 million arose as a result of the merger of the Housing Equity Fund and the Housing Institutions Development Fund in the 2002 financial year. They are considered to be permanent and are therefore included in Shareholder's Equity. There are no conditions attached to these grants. During previous financial years additional grant capital amounting to R530 million was received from the shareholder and a further R80m was received during the 31 March 2019 year and R50 million in the current year.

A total of R381 million Government Grants [R20 million from the Department of Housing and R361 million from the National Department of Human Settlements] has been transferred to the NHFC from NURCHA, these are considered to be permanent and are therefore included in Shareholder's equity. In addition, a R18.3 million grant from the Open Society Institution of New York has transferred to the NHFC.

A total of R181 million Government Grants has been transferred to the NHFC from RHLF, these are considered to be permanent and are therefore included in Shareholder's equity. In addition, R154.8 million grant from KFW has transferred to the NHFC, the terms of the grant from the KFW require that these funds, and any interest earned on them, are used for loans to retail lenders who may only use these funds to grant housing loans to poor rural families.

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
27. FUNDS UNDER MANAGEMENT				
FLISP[a]	97 095	32 637	97 095	32 637
Gqebera[b]	10 451	10 484	–	–
	107 546	**43 121**	**97 095**	**32 637**

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

(b) The NHFC is managing funds on behalf of the Gqebera Housing Development.

The net income on these funds is capitalised. The cost of managing the implementation of FLISP is recovered on an annual basis.

Funds under management are invested in held-to-maturity investments (note 23) and short-term deposits (note 24).

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
28. FINANCIAL LIABILITIES				
At amortised cost				
Old Mutual Capital Holding Proprietary Limited	349 660	353 011	–	–
Trust 1 – the loan bears interest at prime + 0.25% payable monthly with a bullet payment for capital in March 2027 of R80 million. Trust 2 -The loan bears interest at prime + 1.1% payable monthly with a bullet payment for capital in March 2026 of R350 million.				
Future growth Asset Management Proprietary Limited	743 100	742 037	–	–
The loan bears interest at jibar + 2.9% payable quarterly with a bullet payment for capital in March 2026 of R650 million.				
Agence Francaise de Developpement (AFD)	80 489	96 572	80 489	96 572
This loan bears interest at a fixed rate of 6.078% per annum and is repayable in equal semi-annual capital instalments of R7 888 692 (2019: R7 888 692) exclusive of interest. Interest and capital is paid bi-annually on 31 May and 30 November of each year. The final instalment is payable on 24 November 2024.				
European Investment Bank (EIB)	101 744	118 839	101 744	118 839
This loan bears interest at a quarterly variable rate of 3M Jibar with a maximum margin of 0.40% per annum and is repayable in semi-annual equal capital instalments of R8 308 077 (2019: R8 308 077) exclusive of interest. Interest and capital is paid bi- annually on 15 June and 5 December of each year. The final instalment is payable on 15 December 2025.				
Development Bank of South Africa	118 960	123 104	118 960	123 104
The loan bears interest at a fixed rate of 7.56% per annum payable half yearly on 15 June and 15 December.Repayment of the 41 half yearly instalment commenced on 14 December 2014.				
Public Investment Corporation (PIC)	69 976	69 976	–	–
The loan bears interest at the prime interest rate and interest is serviced monthly.The capital is repayable in eight equal quarterly instalments of R8 747 000 commencing in 1 July 2021.				
City of Cape Town	500	500	–	–
The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town to the Cape Town Community Housing Company (Proprietary) Limited. The loan is payable as and when the company (CTCHC) becomes profitable.				
Total financial liabilities	**1 464 429**	**1 504 039**	**301 193**	**338 515**
Non-current liabilities				
At amortised cost	1 427 502	1 463 402	264 429	300 270
Current liabilities				
At amortised cost	36 927	40 637	36 764	38 245

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
29. PROVISIONS				
Provision for leave pay				
Opening balance as at 1 April 2019	8 909	4 765	8 759	4 502
Acquisition from merger	–	3 004	–	3 004
Additional provision raised	1 190	1 140	1 190	1 253
Closing balance as at 31 March 2020	**10 099**	**8 909**	**9 949**	**8 759**
Provision for incentive bonus				
Opening balance as at 1 April 2019	20 440	12 934	20 440	12 934
Provision utilised for the year	(20 440)	(12 934)	(20 440)	(12 934)
Additional provision raised	25 846	18 612	25 846	18 612
Acquisition from merger	–	1 828	–	1 828
Closing balance as at 31 March 2020	**25 846**	**20 440**	**25 846**	**20 440**
Provision for retention rewards*				
Opening balance as at 1 April 2019	3 288	–	3 288	–
Acquisition from merger	–	3 288	–	3 288
Provision utilised during the year	(3 288)	–	(3 288)	–
Closing balance as at 31 March 2020	**–**	**3 288**	**–**	**3 288**
Provision for municipal rates				
Opening balance as at 1 April 2019	305	305	–	–
Closing balance as at 31 March 2020	**305**	**305**	**–**	**–**
Total provisions	**36 250**	**32 942**	**35 795**	**32 487**

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

Provision for incentive bonus is expected to be realised when bonuses are paid in the 2020 financial year. Provision for incentive bonus includes the three year rolling incentive scheme for some of executives.

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

*Retention reward – The final payment is payable 12 months after the merger is completed. The payments are all calculated and payable based on the salary at September 2016. The merger was completed on 1 October 2018 and the retention rewards were paid in the 2020 financial year.

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
30. TRADE AND OTHER PAYABLES				
Trade payables	9 111	4 347	12 230	4 120
Payments received in advanced	1 748	601	1 748	–
Accrued expense	19 729	16 169	795	10 041
Accrued audit fees	-	960	-	510
	30 588	**22 077**	**14 773**	**14 671**

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

	Group 2020 R'000	Group Restated 2019 R'000	Company 2020 R'000	Company Restated 2019 R'000
31. LONG TERM PAYABLES				
VAT Payable	10 130	10 850	–	–

The VAT payable arises from CTCHC on the Harmony Village project and will be paid to SARS on annual instalments to match the manner in which revenue is received from customers.

	Group 2020 R'000	Group Restated 2019 R'000	Company 2020 R'000	Company Restated 2019 R'000
32. CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit before tax	219 733	145 650	48 694	191 207
Non-cash and separately presented items	53 013	64 664	145 862	10 183
Working capital changes	56 814	33 357	(2 432)	4 569
Increase in advances	(146 591)	(221 386)	(98 535)	(128 950)
Net cash flows generated from (used in) operations	**182 969**	**22 285**	**93 589**	**77 009**
Non-cash and separately presented items				
Depreciation and amortisation	2 120	2 074	2 053	2 028
Dividends accrued	(2 536)	(2 535)	(2 536)	(2 535)
Impairments and bad debts	81 944	109 351	70 095	103 493
Share of profit of an associate	(28 362)	(13 457)	-	-
FLISP recovery	(2 273)	(2 040)	(2 273)	(2 040)
Fair value adjustment on equity investments	(4 861)	205	80 363	(101 568)
Fair value adjustment on property investment	3 700	(6 000)	3 700	(6 000)
Intercompany fees	-	-	(11 643)	(6 937)
Accrued interest income	(19 165)	(11 293)	(19 165)	(11 293)
Non cash items from controlled entities	28 823	(18 711)	19 038	27 965
Accrued finance costs	6 230	7 070	6 230	7 070
Lease instalment	(12 607)	-	-	-
Net cash flows used in operations	53 013	64 664	145 862	10 183
Working capital changes				
Decrease in properties developed for sale	2 989	50 855	–	–
(Increase)/ decrease in finance lease receivable	40 331	(35 429)	–	–
(Increase)/ decrease in accounts receivable	1 804	(6 670)	(5 841)	(8 438)
Increase in accounts payables	8 382	17 783	101	6 076
Increase in provisions	3 308	6 818	3 308	6 931
	56 814	33 357	(2 432)	4 569

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33. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

The South African Revenue Services has levied an additional assessment in the tax treatment on the Capital grants received from the National Department of Human Settlement. The additional assessment amounts to R216 million, including interest and penalties. The NHFC has consulted on the matter and is of the view that the amounts in dispute are not due and payable. The NHFC has filed an objection on the matter in line with the tax administration act. This is a contingent liability as:

- The outcome is not wholly within the NHFCs control
- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- The amount of the obligation cannot be measured with sufficient reliability

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
A contingent liability exist in relation to an additional assessment received from SARS following an audit conducted post the deregistration	215 169	–	215 169	–
	215 169	**–**	**215 169**	**–**
Commitments in respect of lending activities				
Loans approved and contracted for: Exceeding availability but committed	26 865	32 754	26 865	32 754
Still within availability period	756 156	525 892	756 156	471 718
Subtotal	783 021	558 646	783 021	504 472
Approved but not yet contracted for	423 139	171 807	423 139	171 807
	1 206 160	**730 453**	**1 206 160**	**676 279**
Operational contracts	19 376	7 382	19 376	7 382
	19 376	**7 382**	**19 376**	**7 382**

Operating lease commitment – Group as lessee

The Group entered into a commercial lease on the property from which it operates. The lease was effective from 1 April 2012 to 31 March 2017. The lease had an escalation clause of 8% per annum. The lease has been extended for eighteen months from 1 April 2019 to 30 September 2020 with a deposit guarantee of R533 500.

Future minimum rentals payable under current operating lease as at 31 March 2020:

National Housing Finance Corporation SOC Ltd	6 623	6 367	6 623	6 367
Cape Town Community Housing Proprietary Ltd	769	–	–	–
Within one year	7 392	6 367	6 623	6 367
National Housing Finance Corporation SOC Ltd	5 911	3 422	5 911	3 422
After one year but not more than five years	5 911	3 422	5 911	3 422
Total office operating lease commitments – office buildings	**13 303**	**9 789**	**12 534**	**9 789**

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34. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

Credit risk
Credit risk is the risk of an economic loss arising from the failure of a counterparty to fulfil its contractual obligations. The Group is exposed to credit risk from its operating activities, primarily advances in the form of senior debt, sub-ordinated debt and investments (short-term deposits and money market instruments).

Equity risk
Investment in equity and quasi-equity instruments such as ordinary shares, preference shares, junior and mezzanine debt is regulated through the Board approved policy. This is typically done for entities that are start-ups and providing innovative funding solutions in the affordable housing market. Compared to our core business of secured loans with first covering mortgage bonds, these kinds of instruments are unsecured and high risk in nature. It is used for leveraging private sector funding and maximising impact.

Given the risk profile of this investment, only a maximum of 12% of the NHFC's net asset value can be invested to this asset class (in total) based on the Board approved Risk Appetite Statement.

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

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

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

In order to avoid excessive concentrations of risk, the risk appetite statement includes specific guidelines to focus on maintaining a diversified portfolio. Provision is also made for prudential limits. Identified concentrations of credit risks are controlled and managed accordingly. Advances are presented net of the allowance for impairment. The requirement for an impairment is analysed at regular intervals guided by an impairment policy.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

Short-term deposits and held-to-maturity money market investments are placed with financial institutions rated at least P-3 or better in terms of short-term credit ratings by a reputable rating agency. Counterparty limits are reviewed by the Board of Directors on an annual basis. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group exposure at year-end is within approved counterparty limits.

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

Maximum exposure to credit risk.

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Loans and receivables – advances	3 757 853	3 812 992	2 443 809	2 540 788
Finance lease receivables	113 574	153 905	-	-
Held-to-maturity investments	696 158	488 445	696 158	488 445
Cash and short-term deposits	1 105 890	1 058 470	889 437	910 830
Other receivables and prepayments	20 985	22 789	28 649	22 808
Investment in preference shares	35 000	35 000	35 000	35 000
	5 729 460	5 571 601	4 093 053	3 997 871

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

The main types of collateral taken against loans and receivables – advances subject to credit risk are:
- Mortgage bonds over properties;
- Cession of debtors book;
- Cession of income and bank account;
- Guarantees;
- Personal suretyship of principals;
- Pledge of call account or fixed deposits; and
- Cession of shares.

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

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	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
34. FINANCIAL RISK MANAGEMENT (CONTINUED)Z				
Credit quality of loans and receivables				
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.				
Neither past due nor impaired	2 863 658	3 199 031	1 730 663	1 874 125
Past due but not impaired*	631 626	445 197	634 614	553 344
Impaired**	485 383	492 968	355 872	492 444
12 months Turnaround period	18 981	–	15 523	–
	3 999 648	4 137 196	2 736 672	2 919 914
Less: Specific impairments	(201 220)	(284 671)	(252 288)	(339 593)
General impairments	(40 575)	(39 533)	(40 575)	(39 533)
Net advances	**3 757 853**	**3 812 992**	**2 443 809**	**2 540 788**

* Past due but not impaired balance is the full outstanding capital as at the date on which the client defaulted.
** Impaired balance is not equal to specific impairments as some advances are not fully impaired after considering the value of security.

		Group					
		Ageing of amounts due					
		Total balance R'000	Capital instalment R'000	Current to 30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 180+ days R'000
Ageing analysis of advances that are past due, but not impaired:	**2020**	631 626	460 356	33 966	8 614	9 226	119 464
Ageing analysis of advances that are past due, but not impaired:	2019	445 197	401 363	9 968	4 978	4 820	24 068

		Company					
		Ageing of amounts due					
		Total balance R'000	Capital instalment R'000	Current to 30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 180+ days R'000
Ageing analysis of advances that are past due, but not impaired:	**2020**	634 614	417 400	18 266	10 042	12 441	176 465
Ageing analysis of advances that are past due, but not impaired:	2019	553 344	438 980	13 121	9 413	6 403	85 427

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's credit process considers the following to be key indicators of default:
- Evidence of financial distress when it is considered that the borrower is unlikely to pay its credit obligation in full; and
- The debt is more than 90 days in arrears.

The fair value of collateral that the Group holds relating to past due or impaired loans and receivables at 31 March 2020 amounts to R1 581 million (2019: R1 534 million).

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

The carrying amounts of advances that would otherwise be past due whose terms have been renegotiated amounts to R18.9 million (2019: R116.97 million).

	Group		Company	
	2020 R'000	Restated 2019 R'000	2020 R'000	Restated 2019 R'000
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least F1				
– Held-to-maturity investments – money market	696 158	488 445	696 158	488 445
– Cash and short term deposits	1 105 890	1 058 470	889 437	910 830
Counterparties assessed by reference to historical information about counterparty default rates				
– Finance lease receivables	113 574	153 905	–	–

Other receivables and pre-payments are considered current and are not considered impaired.

The investment in preference shares is not considered impaired.

Concentration risk of loans and receivables by operation

	Group	Company
Strategic investment	7%	18%
Incremental housing loans	11%	15%
Home ownership	36%	6%
Private Rental Housing	22%	28%
Social Rental Housing	20%	25%
Affordable Housing	4%	7%
Subsidy Housing	0%	1%

Interest rate risk

Interest rate risk is the exposure of the Group to increased financing cost and reduced revenue due to adverse changes in interest rates.

The objectives of managing interest rate risk are to:
- Identify and quantify interest rate risk and to structure assets and liabilities to reduce the impact of changes in interest rates;
- Minimise the negative impact of adverse interest rate movement on the Group's returns within an acceptable risk profile;
- Reduce the cost of capital and minimise the effect of interest rate volatility on funding cost;
- Manage exposures by ensuring an appropriate ratio of floating rate exposures to fixed rate exposures; and
- Take advantage of interest rate cycles.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Group 2020		Group 2019	
	Fixed rate R'000	Prime linked rate R'000	Fixed rate R'000	Prime linked rate R'000
The Group is exposed to interest rate risk on the following assets and liabilities:				
Assets				
Loan and receivables – advances rates vary between 5.00% and 14.00% p.a.	225 510	3 532 343	220 801	3 592 191
Finance lease receivables average interest rate of 10.50% p.a.	113 574	–	153 905	–
Held-to-maturity investment rates vary between 6.7% and 8.56% p.a.	–	696 158	–	488 445
Cash and short-term deposits rates vary between 3.75% and 5.25% p.a.	–	1 105 890	–	1 058 470
Liabilities				
Funds under management vary between 5.58% to 7.26%	–	107 546	–	43 121
AFD loan – the rate is fixed at 6.078%	80 489	–	96 572	–
EIB loan– the rate varies between 6.783% and 7.55%	–	101 744	–	118 839
DBSA loan -the rate is fixed at 7.56% p.a.	118 960	–	123 104	–
PIC loan- the rate is at prime	–	69 975	–	69 976
Futuregrowth Asset Management Proprietary Limited	–	743 100	–	742 032
Old Mutual Capital Holding Proprietary Limited	–	349 660	–	353 011

	Group 2020		Group 2019	
	Fixed rate R'000	Prime linked rate R'000	Fixed rate R'000	Prime linked rate R'000
Assets				
Loan and receivables – advances rates vary between 5.00% and 14.00% p.a.	225 510	2 218 299	220 801	2 319 987
Held-to-maturity investments rates vary between 6.7% and 8.56% p.a.	–	696 158	–	488 445
Cash and short-term deposits rates vary between 3.75% and 5.25% p.a.	–	889 437	–	910 830
Liabilities				
Funds under management vary from 5.58% to 7.26%	–	97 095	–	32 637
AFD loan – the rate is fixed at 6.078%	80 489	–	96 572	–
EIB loan– the rate varies between 6.783% and 7.55%	–	101 744	–	118 839
DBSA loan -the rate ia fixed at 7.56%	118 960	–	123 104	–

Interest rate risk management strategy is as follows:

1. Clients who access variable interest rate facilities are subject to interest rates that reset on a change in prime interest rate or on a quarterly basis in accordance with various market indices.

The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.

2. Investments are aligned to the cash flow requirements and strategy of the core business. The portfolio is diversified utilising a mix of fixed and floating rate instruments within the policy framework and is continually monitored to adapt to changing dynamics.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate sensitivity
The impact of 1% move in interest rates, which is deemed reasonable based on the interest rate forecasts, with all other variables held constant is reflected below.

		Group		Company	
	Increase/ decrease %	Effect on profit 2020 R'000	Effect on profit 2019 R'000	Effect on profit 2020 R'000	Effect on profit 2019 R'000
Loans and receivables – advances	1	35 323	35 921	22 183	23 199
	(1)	(35 323)	(35 921)	(22 183)	(23 199)
Held-to-maturity investments	1	6 962	4 884	6 962	4 884
	(1)	(6 962)	(4 884)	(6 962)	(4 884)
Cash and short-term deposits	1	11 059	10 584	8 894	9 108
	(1)	(11 059)	(10 584)	(8 894)	(9 108)
Financial liabilities	1	(13 720)	(13 270)	(1 988)	(1 515)
	(1)	13 720	13 270	1 988	1 515
The Group earns interest as follows:					
Interest on advances		479 100	443 226	249 707	223 981
Interest on investment		105 444	77 125	102 616	76 295
		584 544	**520 351**	**352 323**	**300 276**
The Group's interest obligations are as follows:					
Interest on other financial liabilities		142 268	132 526	22 334	20 032

Liquidity risk
Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to honour its financial commitments on a cost effective and timeous basis.

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:
- Short- and long-term cash flow management;
- Diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- At least 60% of money market portfolio to mature within six months;
- Limiting capital market investments to 30% of the portfolio; and
- Mobilisation of funding.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarises the maturity profile of the Group's financial liabilities at 31 March based on contractual undiscounted payments.

	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
As at 31 March 2020				
Trade and other payables	30 588	–	–	30 588
Funds under management	-	-	107 546	107 546
Long term payables	-	-	10 130	10 130
Financial liabilities	-	36 927	1 427 502	1 464 429
	30 588	**36 927**	**1 545 178**	**1 612 693**
As at 31 March 2019				
Trade and other payables	22 077	–	–	22 077
Funds under management	-	-	43 121	43 121
Long term payables	-	-	10 850	10 850
Financial liabilities	-	40 637	1 463 402	1 504 039
	22 077	**40 637**	**1 517 373**	**1 580 087**

Fair value of financial instruments
The carrying value of financial assets and financial liabilities for both years approximated their fair values.

Capital management
The objective of the Group's capital management is to ensure that it maintains a strong credit rating and generates sufficient capital to support its business objectives and maximise shareholder value.

The Group monitors capital using the debt to equity ratio, which is the interest-bearing debt divided by the equity. The Group's policy is to keep the ratio at 35% and below.

	Group	
	2020 R'000	Restated 2019 R'000
Total interest bearing debt	1 464 429	1 504 039
Total equity	4 627 317	4 400 860
Debt to equity ratio	32 %	34 %

Credit rating
The credit ratings below are provided by the Global Credit Rating Co.

National
Long term A+ (ZA)
Short term A1 (za)
International BB to BB-

The international rating was revised down due to a change in the mapping methodology. Subsequent to the above rating actions, all ratings were withdrawn for analytical reasons.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- Level 1: Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.
- Level 2: Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the financial position date. The valuation techniques or models are periodically reviewed and the outputs validated.
- Level 3: Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

	Group			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2020				
Unlisted equity investments in non-controlled entities	–	254 456	–	254 456
Unlisted equity investments in associates	–	191 902	–	191 902
Total	**–**	**446 358**	**–**	**446 358**
2019				
Unlisted equity investments in non-controlled entities	–	156 917	_	156 917
Unlisted equity investments in associates	–	167 194	_	167 194
Total	**–**	**324 111**	**_**	**324 111**

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2020				
Unlisted equity investments in non-controlled entities	–	254 456	–	254 456
Unlisted equity investments in associates	–	107 104	–	107 104
Unlisted equity investments in controlled entities	–	341 170	–	341 170
Total	**–**	**702 730**	**–**	**702 730**
2019				
Unlisted equity investments in non-controlled entities		156 917		156 917
Unlisted equity investments in associates		132 117		132 117
Unlisted equity investments in controlled entities		376 560		376 560
Total		**665 594**		**665 594**

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FOR THE YEAR ENDED 31 MARCH 2020

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Group 2020				
Unlisted equity investments in non-controlled entities	254 456	-	-	254 456
Unlisted equity investments in associates	191 902	-	-	191 902
Loans and receivables – advances	-	3 757 853	-	3 757 853
Finance lease receivables	-	-	113 574	113 574
Held-to-maturity investments	-	-	696 158	696 158
Cash and short-term deposits	-	1 105 890	-	1 105 890
Other receivables	-	20 985	-	20 985
Investment in preference shares	-	-	35 000	35 000
	446 358	**4 884 728**	**844 732**	**6 175 818**
Group 2019				
Unlisted equity investments in non-controlled entities	156 917	–	–	156 917
Unlisted equity investments in associates	167 194	–	–	167 194
Loans and receivables – advances	–	3 812 992	–	3 812 992
Finance lease receivables	–	–	153 905	153 905
Held-to-maturity investments	–	–	488 445	488 445
Cash and short-term deposits	–	1 058 470	–	1 058 470
Other receivables	–	22 789	–	22 789
Investment in preference shares	–	–	35 000	35 000
	324 111	**4 894 251**	**677 350**	**5 895 712**

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Company 2020				
Unlisted equity investments in non-controlling entities	254 456	-	-	254 456
Unlisted equity investments in associates	107 104	-	-	107 104
Unlisted equity investments in controlling entities	341 170	-	-	341 170
Loans and receivables – advances	-	2 443 809	-	2 443 809
Held-to-maturity investments	-	-	696 158	696 158
Cash and short-term deposits	-	889 437	-	889 437
Other receivables	-	28 649	-	28 649
Investment in preference shares	-	-	35 000	35 000
	702 730	**3 361 895**	**731 158**	**4 795 783**
Company 2019				
Unlisted equity investments in non-controlling entities	156 917	-	-	156 917
Unlisted equity investments in associates	132 117	-	-	132 117
Unlisted equity investments in controlling entities	376 560	-	-	376 560
Loans and receivables – advances	-	2 540 788	-	2 540 788
Held-to-maturity investments	-	-	488 445	488 445
Cash and short-term deposits	-	910 830	-	910 830
Other receivables	-	22 809	-	22 809
Investment in preference shares	-	-	35 000	35 000
	665 594	**3 474 427**	**523 445**	**4 663 466**

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

	Financial liabilities at amortised cost R'000
Group 2020	
Financial liabilities	1 464 429
Trade and other payables	30 588
Funds under management	107 546
	1 602 563
Group 2019	
Financial liabilities	1 504 039
Trade and other payables	22 077
Funds under management	43 121
	1 569 237

	Financial liabilities at amortised cost R'000
Company 2020	
Financial liabilities	301 193
Trade and other payables	14 773
Funds under management	97 095
	413 061
Company 2019	
Financial liabilities	338 515
Trade and other payables	14 671
Funds under management	32 637
	385 823

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35. RELATED PARTIES

The consolidated financial statements include the financial statements of National Housing Finance Corporation SOC Limited, its subsidiaries and associates as listed below.

	2020 % equity interest	2019 % equity interest
Gateway Homeloans (Proprietary) Limited	100	100
Gateway Homeloans 001 (Proprietary) Limited	100	100
Cape Town Community Housing Company (Proprietary) Limited	100	100
TUHF Holdings Limited	33	33
Housing Investment Partners (Proprietary) Limited	33	33
Mortgage Default Insurance Company (Proprietary) Limited	100	100
NHFC Management Services (Proprietary) Limited	100	100
NURCHA Finance Company (Proprietary) Limited	100	100
NURCHA Equity Services (Proprietary) Limited	100	100
NURCHA Development Finance (Proprietary) Limited	100	100
NURCHA Bridging Finance (Proprietary) Limited	100	100
NURCHA Loan Fund (Proprietary) Limited	100	100
Lendcor (Proprietary) Limited	20	20
Norufin Housing (Proprietary) Limited	20	20
Kabo Financial Investments Ltd	20	20
Lehae Housing (Pty) Ltd	20	20
Housing Investment Partners Trust 1*	-	-
Housing Investment Partners Trus 2*	-	-
Abahlali Housing Association^	-	-

*NHFC is invested in Junior debt facility.

^NHFC controls Abahlali Housing Association and its bank account.

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FOR THE YEAR ENDED 31 MARCH 2020

35. RELATED PARTIES (CONTINUED)

The following table provides the total amounts of transactions and outstanding balances which have been entered into with related parties for the relevant financial years:

	Company		Company	
	Amounts owed by/ to related parties 2020 R'000	Transactions with related parties 2020 R'000	Amounts owed by/ to related parties Restated 2019 R'000	Transactions with related parties Restated 2019 R'000
Cape Town Community Housing Company (Proprietary) Limited				
– Advances	84 311	–	227 472	–
– Interest received	–	20 781	–	21 007
– Payroll administration	362	–	–	–
Housing Investment Partners (Proprietary) Limited				
– Working capital loan	33 165	–	33 165	33 165
Housing Investment Partners Trust 1	–	–	–	–
– Equity	17 740	–	26 398	–
Housing Investment Partners Trust 2	–	–	–	–
– Equity	323 429	–	350 162	–
TUHF Holdings Limited				
– C Class ordinary shares	6 533	–	6 533	–
– Disbursement	–	60 000	–	100 521
– Interest received	–	39 741	–	38 366
– Dividend income	–	8 297	–	8 350
– Loans	439 804	–	403 276	–
– Equity investment	107 195	–	130 197	–
– Preference share	35 000		35 000	
NHFC Management Services (Pty) Ltd	–	–	–	–
Loan repayments	–	2 394	–	235
Interest received	–	2	–	9
Administrative fees	–	7 188	–	3 815
Loans	30 941	–	26 146	–
NURCHA Finance Company (Pty) Ltd	–	–	–	–
Loan repayments	–	–	–	144
Interest received	–	20	–	10
Loan disbursements	–	178	–	70
Loans	13 623	–	13 425	–

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35. RELATED PARTIES (CONTINUED)

	Company		Company	
	Amounts owed by/ to related parties 2020 R'000	Transactions with related parties 2020 R'000	Amounts owed by/ to related parties Restated 2019 R'000	Transactions with related parties Restated 2019 R'000
NURCHA Equity Services (Pty) Ltd	–	–	–	–
Loan repayments	–	–	–	29
Interest received	–	20	–	10
Loans	12 984	–	12 956	–
NURCHA Development Finance (Pty) Ltd	–	–	–	–
Loan repayments	–	4 344	–	–
Interest received	–	789	–	519
Administrative fees	–	50	–	25
Loan disbursements	–	460	–	–
Loans	15 807	–	18 852	–
NURCHA Bridging Finance (Pty) Ltd	–	–	–	–
Loan repayments	–	6 000	–	–
Interest received	–	–	–	188
Administrative fees	–	2 150	–	1 057
Loan disbursements	–	–	–	6 500
Loans	15 621	–	19 471	–
NURCHA Loan Fund (Pty) Ltd	–	–	–	–
Loan repayments	–	11	–	170
Interest received	–	3 132	–	1 627
Administrative fees	–	2 215	–	2 010
Loans	73 796	–	68 461	–
Lendcor (Proprietary) Limited	–	–	–	–
Loans	171 275	–	158 742	–
Interest received	–	12 300	–	5 894
Norufin Housing (Proprietary) Limited	–	–	–	–
Loans	–	–	5 288	–

Terms and conditions with related parties
Transactions with related parties are done on terms equivalent to those that prevail in arm's length transactions which would occur in the ordinary course of business.

Except for advances, accounts receivable are interest free and settlement occurs in cash within 30 days. There have been no guarantees provided or received for any related receivables.

Although the NHFC has a relationship with our sole shareholder, the Department of Human Settlements, and acts as agent in certain instances, due to IPSAS 20 the NHFC need not disclose balances or the value of transactions between the parties.

Transactions with key management personnel are disclosed under note 36.

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FOR THE YEAR ENDED 31 MARCH 2020

36. DIRECTORS' AND PRESCRIBED OFFICERS'/EXECUTIVE MANAGERS'EMOLUMENTS

The amounts disclosed in the table below are the amounts recognised as an expense during the reporting period related to key management personnel.

National Housing Finance Corporation SOC Ltd

	Fees	Salaries	Bonuses	Post–employment pension and medical benefits	Committees fees	Total 2020	Total 2019
Non-executive Chairman							
Mr SA Tati	784	–	–	–	–	784	677
Directors – independent non-executives							
Mr J Coetzee[1]	623	–	–	–	157	780	731
Ms AW Houston[2]	228	–	–	–	–	228	187
Mr SS Ntsaluba	655	–	–	–	–	655	527
Ms PV Ramarumo	513	–	–	–	–	513	522
Ms T Chiliza	632	–	–	–	–	632	555
Mr K Shubane	621	–	–	–	–	621	586
Mr E Godongwana[5]	75	–	–	–	–	75	306
Mr A Harris	616	–	–	–	–	616	394
Directors' fees	**4 747**	**–**	**–**	**–**	**157**	**4 904**	**4 485**
Chief Executive Officer and executive director							
Mr SS Moraba[3]	–	4 566	4 004	439	–	9 009	9 074
Executive managers/and Prescribed officers							
Z Lupondwana	–	1 401	865	230	–	2 496	2 810
N Ntshingila	–	1 360	864	367	–	2 591	2 720
L Lehabe	–	1 976	1 129	371	–	3 476	3 651
S Mogane	–	–	-	–	–	-	1 547
M Mamatela	–	1 803	1 106	234	–	3 143	3 085
A Higgs	–	1 415	946	140	–	2 501	2 468
J Fakazi	–	2 133	1 411	461	–	4 005	2 089
B Gordon	–	1 585	897	285	–	2 767	1 481
V Gqwetha	–	2 424	1 517	567	–	4 508	2 195
S Nxusani	–	1 828	1 030	484	–	3 342	1 776
V Menye[4]	–	1 061	576	139	–	1 776	–
Management costs	**–**	**21 552**	**14 345**	**3 717**	**–**	**39 614**	**32 896**

1. Board fees earned by Mr Coetzee as a representative of the NHFC on the HIP (Pty) Ltd Board and HIP Trust 1.
2. Fees are paid to Communicare Ltd as an employer of AW Houston who has ceded them to Communicare NPC.
3. The CEO is the only director with a service contract with NHFC.The notice period does not exceed one year.
4. Ms V Menye was appointed on 01 October 2019.
5. Mr Godongwana resigned as a director on 08 November 2019.

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FOR THE YEAR ENDED 31 MARCH 2020

36. DIRECTORS' AND PRESCRIBED OFFICERS'/EXECUTIVE MANAGERS' EMOLUMENTS

(CONTINUED)

Directors' and senior management emoluments – Cape Town Community Housing Company Proprietary Limited

	Fees	Salaries	Bonuses	Post–employment pension and medical benefits	Committees fees	Total 2020	Total 2019
Chairman							
SS Moraba	–	–	–	–	–	–	–
Directors – Non-executives							–
N Ntshingila	–	–	–	–	–	–	–
Directors' fees	**–**	**–**	**–**	**–**	**–**	**–**	**––**
Key members of management							
P Jones	–	–	–	–	–	–	1 641
W Jurgens	–	–	–	–	–	–	2 859
F Moos	–	–	–	–	–	–	706
Management costs	**–**	**–**	**–**	**–**	**–**	**–**	**5 206**

Mr SS Moraba and Dr N Ntshingila are executives of the holding company and currently serve on the subsidiary's board. However they receive no remuneration as board members.

* No remuneration was paid for services as director for the 2020 and 2019 financial year

37. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

COVID 19

Since its outbreak around December 2019, the COVID-19 pandemic has severely impacted many global economies around the world. The South African Reserve Bank has since January 2020 cut the repo rate by 2.75% as a measure to revive the economy. The rate cut will significantly impact the NHFCs profitability in the short- to medium-term.

Because of the uniqueness of the challenge at hand, the permutations around the short- to medium-term term financial impact are many and difficult to accurately predict.

The NHFC Group has determined that these events are non-adjusting on the carrying values but will have slight impact on the group liquidity profile in the short term following distressed market conditions.

General assumptions used in the assessment of fair values have been moderated where applicable.

Relief measures to NHFC clients impacted by COVID-19

As a developmental finance institution and as a response to the COVID-19 pandemic, the NHFC has granted various interventions on challenges encountered by its client. These includes amongst others, capital and interest moratorium, extended loan terms and also waiving any breaches of key financial covenants for an extended period of time. Any shortfalls in the collections will be restructured and collected over the remaining loan terms. At the date of publishing the financial statements, the clients that have applied for the moratorium are not of a material amount and, therefore, do not adversely impact the liquidity classification of advances in the short-term. All other NHFC rights remain in place and enforceable.

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37. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE COVID-19 (CONTINUED)

COUNTERPARTY DEFAULT

As at year end, the NHFC had R118 million invested in promissory notes with maturity in June and July 2020. The counterparty announced significant challenges with the honouring the maturity values at the said dates. The NHFC has elected to rollover the maturity values for another 13 months in August 2020, into a medium-term Promissory note that is partially Government guaranteed, as a cure for the short-term liquidity challenges. The NHFC has determined that the default is an adjusting event. Given the increased default risk associated with the counterparty, the NHFC has reassessed the fair value of the new promissory note by impairing the 31 March 2020 carrying values of the unsecured portion by 30%. GRAP 104 requires that a reliable estimation of the amount be determined for an impairment, but given the limited information available to make such a determination, management applied their judgement and has provided for the possible loss event.

SARS audit and resultant assessment

The NHFC was exempted from normal taxation by the Taxation Laws Amendment Act No. 15 of 2016 published in the Government Gazette on 19 January 2017 under notice 40562.

An assessment was received post the balance sheet date for the period before the deregistration, following an audit and for tax years 2014, 2015 and 2016. The NHFC has consulted on the matter and is of the view that the amounts in dispute are not due and payable. The NHFC's view on the matter is further supported by tax opinions that were obtained during the period mentioned. The NHFC has filed an objection on the matter in line with the tax administration act. The NHFC has determined that this not a post balance sheet adjusting event as management has assess the probability of the tax assessment being upheld through the appeal process allowed by the tax administration act. NHFC has disclosed this as a contingent liability, refer to page 167.

An overpayment of taxation resulted in an amount due to the NHFC which has been recognised as an amount receivable from 2017. As a result of the tax assessment raised by SARS on 1 April 2020 the amount has been provisionally offset against the assessed tax by SARS. The NHFC has not offset these amounts as there is a reasonable expectation that upon the finalisation of the dispute the amounts will be released to the NHFC.

The NHFC has disclosed this as a contingent liability, refer 33

Change in Accounting Authority

Subsequent to year end, there was a change in the CEO due to Mr Samson Moraba's retirement effective from 31 August 2020. Mr Sizwe Tati has been appointed as the acting CEO. Non-executive director Ms Phekane Ramarumo has been appointed as acting chairperson of NHFC until further notice.

38. RESTATEMENT OF PRIOR PERIOD ERROR

Background

Strategic Investments

Over a number of years the NHFC has made strategic investments into various instruments which were recorded as loans and advances but which have the appearance and substance of quasi-equity or equity instruments. To date, all payments received on these instruments have been recorded as capital repayments, with no revenue recognised. In addition, all the investments have been recognised as loans and advances rather than separately presented as equity investments. These investments have been presented as equity in the respective balance sheets of the investee companies. This lead to an incongruence of balances between the NHFC and the investee companies primarily due to the income recognition principle and asset classification.

Therefore, the NHFC is a holder of a residual interest in these investments as it is entitled to receive the net assets of an entity therefore meeting the GRAP 104.06 criteria. The initial classification for these affected financial assets was therefore an error in terms of GRAP 3 and therefore needs to be restated retrospectively.

Separate financial statements

To correct the error, the NHFC has applied GRAP 104 to account for the residual interest in their separate financial statements using the fair value model.

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38. RESTATEMENT OF PRIOR PERIOD ERROR (CONTINUED)

Group Financial statements

Upon assessment, management also concluded that the NHFC is a controlling entity on some of investments and thus applied GRAP 35.

GRAP 35 requires an entity to present consolidated financial statements if it is a controlling entity.

Correctly classifying these strategic investments has implications on previously reported results. These have been adjusted in the 31 March 2020 annual financial statements, with the 31 March 2019 comparatives in the statement of financial position, statement of comprehensive income, statement of changes in equity and the relevant notes now reflecting the corrected amounts.

Summary impact

The change in the revenue accounting treatment has increased the asset base and equity of the NHFC by R108 million, with R47.6 million impacting retained earnings, R23.1 million impacting the 31 March 2019 results and R37.3 million recognised in the 31 March 2020 financial year. Total reclassifications from loans and advances to equity investments for the 31 March 2019 amount to net of R425.6 million.

Abahlali Housing Association

The NHFC took control of Abahlali Housing Association and the bank accounts in 2007 after the company was in a financial distress. All settlements proceeds from the active underlying loan book are deposited into the Abahlali bank account of which the NHFC has full control. Abahlali Housing Association was incorrectly not accounted for as a subsidiary, it was previously accounted for as Funds under Management.

	Group			Company		
	31 March 2019			31 March 2019		
	Previously Reported R'000	Correction R'000	Restated R'000	Previously Reported R'000	Correction R'000	Restated R'000
Statement of Financial Position						
Non-Current assets						
Loan and advances	2 290 685	916 638	3 207 323	2 433 518	(388 317)	2 045 201
Investment in controlled entities	-	-	-	-	376 560	376 560
Investment in non controlled entities	-	156 917	156 917	-	156 917	156 917
Current assets						
Other receivables and prepayments	22 268	521	22 789	22 809	–	22 809
Loan and advances	586 397	19 272	605 669	495 587	-	495 587
Cash and cash equivalents	976 335	82 135	1 058 470	917 091	(6 261)	910 830
Total assets	**4 838 418**	**1 175 471**	**6 013 889**	**4 627 969**	**138 899**	**4 766 868**
Non-current liabilities						
Financial liabilities	370 746	1 092 656	1 463 402	300 270	–	300 270
Current liabilities						
Trade and other payables	21 171	915	22 086	14 683	–	14 683
Financial liabilities	38 245	2 392	40 637	32 637	-	32 637
Funds under management	49 382	(6 261)	43 121	38 898	(6 261)	32 637
Total liabilites	523 336	1 089 692	1 613 028	424 583	(6 261)	418 322
Net Assets						
Retained earnings	1 639 024	85 780	1 724 804	1 579 064	145 160	1 724 224
Total Net Assets and Liabilities	**4 838 418**	**1 175 471**	**6 013 889**	**4 627 969**	**138 899**	**4 766 868**

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38. RESTATEMENT OF PRIOR PERIOD ERROR (CONTINUED)

	Group			Company		
	31 March 2019			31 March 2019		
	Previously Reported R'000	Correction R'000	Restated R'000	Previously Reported R'000	Correction R'000	Restated R'000
Interest on advances	243 077	200 149	443 226	223 981	–	223 981
Share of residual interest in controlled entities	–	–	–	–	9 171	9 171
Dividends received	8 350	5 487	13 837	8 350	5 487	13 837
Net impairments and bad debts	(83 469)	(25 882)	(109 351)	(103 493)	(1 232)	(104 725)
Operating expenses	(161 387)	(33 382)	(194 769)	(144 875)	-	(144 875)
Finance costs	(23 581)	(108 945)	(132 526)	(20 032)	-	(20 032)
Fair value changes	5 973	(178)	5 795	1 345	106 223	107 568

39. IRREGULAR EXPENDITURE

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Irregular expenditure				
Opening balance	5 387	2 950	5 387	2 950
Add Irregular expenditure incurred in current year	5 358	2 437	5 358	2 437
Add irregular expenditure incurred in prior years but identified in current year	–	–	–	–
Less irregular expenditure written-off	–	–	–	–
Less irregular expenditure recovered	–	–	–	–
Less irregular expenditure condoned	–	–	–	–
Closing balance*	**10 745**	**5 387**	**10 745**	**5 387**
Fruitless and Wasteful Expenditures				
SARS Penalty fees were charged as a results of a disallowable expense claims when the NHFC was a tax paying entity.	1 153	–	1 153	–
Closing balance*	**1 153**	**–**	**1 153**	**–**

* The entity is in the process of applying for condonation for the 2018 and 2019 period.

STATEMENT OF COMPARISON OF BUDGET AND **ACTUAL AMOUNTS**

FOR THE YEAR ENDED 31 MARCH 2020

	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	Reference
Group						
Statement of Financial Performance						
Revenue						
Interest on advances	327 702	–	**327 702**	479 100	**151 398**	Note 3
Interest received on investments	54 000	–	**54 000**	105 444	**51 444**	Note 3
Rental income	11 789	–	**11 789**	15 575	**3 786**	Note 3
Dividends received	–	–	**–**	9 960	**9 960**	Note 3
Sale of houses	46 770	–	**46 770**	20 468	**(26 302)**	Note 3
Management fees	5 807	–	**5 807**	13 074	**7 267**	Note 3
Other income	20 290	–	**20 290**	26 187	**5 897**	Note 5
Fees on advances	–	–	–	3 367	**3 367**	Note 3
Total revenue	**466 358**	**–**	**466 358**	**673 175**	**3 367**	
Expenditure						
Impairments and bad debts	(102 800)	–	**(102 800)**	(81 944)	**20 856**	Note 6
Cost of sales	(51 214)	–	**(51 214)**	(20 707)	**30 507**	Note 4
Operating expenses	(240 561)	–	**(240 561)**	(238 042)	**2 519**	Note 6
Total expenditure	**(394 575)**	**–**	**(394 575)**	**340 693**	**53 882**	
Finance costs	(28 881)	–	**(28 881)**	(142 268)	**(113 387)**	Note 9
Fair value adjustment	–	–	**–**	1 157	**1 157**	Note 8&20
Share of surpluses or deficits from associates	4 825	–	**4 825**	28 362	**23 537**	Note 7
Surplus for the year	**47 727**	**–**	**47 727**	**219 733**	**172 006**	

STATEMENT OF COMPARISON OF BUDGET AND **ACTUAL AMOUNTS**

FOR THE YEAR ENDED 31 MARCH 2020

The results group financial performance includes the following subsidiaries:

Active entities:
- Cape Town Community Housing Company (Proprietary) Limited (CTCHC),
- Housing Investment Partners Trust 1
- Housing Investment Partners Trust 2
- NHFC Management Services (Proprietary) Limited
- NURCHA Bridging Finance (Proprietary) Limited, and
- NURCHA Loan Fund (Proprietary) Limited (NLF)

Dormant entities:
- Mortgage Default Insurance Company (Proprietary) Limited (MDIC)
- Gateway Homeloans (Proprietary) Limited
- Gateway Homeloans 001 (Proprietary) Limited
- NURCHA Finance Company (Proprietary) Limited
- NURCHA Equity Services (Proprietary) Limited, and
- NURCHA Development Finance (Proprietary) Limited

In addition the financial statements have included the results of associate companies being Trust for Urban Housing Finance Holdings (Proprietary) Limited (TUHF), Housing Investment Partners (Proprietary) Limited (HIP) and Lendcor (Proprietary) Limited.

Consolidation process
The main difference between NHFC Group and NHFC Company results is the inclusion of the subsidiaries results in the Group account to reflect their underlying economic performance, funding arrangements and asset performance. Intercompany funding arrangements and management fees are eliminated. Interest revenue from CTCHC facilities has been suspended in the books of the NHFC company performance. The Groups associate companies have been including using the equity accounting method as prescribed by the GRAP standards.

Economic overview
An overview of the economic and operational trading environment is provided in the message from the Chairman and CEO's report.

Material inclusions in the actual performance resulting from prior period error (see note 38)
As reported in the restatement note, the group has determined that it has a residual interest in some of the quasi equity investments. This has impacted the manner and the timing in which the revenue from these investments is recognised in the statement of comprehensive income, the GRAP requirements are driven by the extent of the residual interest and therefore required different inclusion of the economic performance differs at group and company level.

- **Statement of Comprehensive income impact in the Group Financial statements**

The following additional amounts have been included in the group statement of comprehensive income for the 31 March 2020 financial year:

– Interest on loans and advances	R210.0 million
– Impairments and bad debts	R12.3 million
– Operating expenses	R34.6 million
– Finance cost	R112.9 million
– Fair value adjustment (upward)	R4.8 million
– Dividends recieved	R1.5 million

Note that these amounts were not budgeted for as per the 1 April 2019 – 31 March 2020 Annual Performance Plan.

STATEMENT OF COMPARISON OF BUDGET AND **ACTUAL AMOUNTS**

FOR THE YEAR ENDED 31 MARCH 2020

- Statement of Comprehensive income impact in the Separate financial statements
  The following additional amounts have been included in the company statement of comprehensive income for the 31 March 2020 financial year:

– Share of residual income in controlled entities R18.3 million
– Dividends received R1.5 million

Note that these amounts were not budgeted for as per the 1 April 2019 – 31 March 2020 Annual Performance Plan.

Current year performance

Key drivers of business performance for the NHFC Group as a lending institution business are the loan book growth, quality of the loan book that impacting the level of impairments and write offs and the operational efficiency.
On the asset growth, the Group:

- Achieved disbursements of 62% R724 million against a budget of R1.2 billion for the financial year
- Incurred pre-settlements of R67 million
- Incurred net bad debts and impairments of R81.9 million, R70.1 million at a company level

The above factors have contributed to the lower than budgeted interest on loans and advances line.

On the equity investments:
- The group incurred fair value adjustments of R84.1 million at a company level to reflect reflecting reduced growth outlook in some of the strategic partners

In the operating expenses, on a normalised comparison, i.e. with the exclusion of R34.6 million reflected as management fees in controlled entities, the group realised a saving of R36 million reflecting managements concerted effort towards operational efficiency.

STATEMENT OF COMPARISON OF BUDGET AND **ACTUAL AMOUNTS**

FOR THE YEAR ENDED 31 MARCH 2020

	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	Reference
Company						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Interest on advances	313 659	–	**313 659**	249 707	**(63 952)**	Note 3
Interest received on investments	54 000	–	**54 000**	102 616	**48 616**	Note 3
Rental income	11 789	–	**11 789**	14 174	**2 385**	Note 3
Dividends received	–	–	**–**	9 960	**9 960**	Note 3
Fees	5 807	–	**5 807**	17 168	**11 361**	Note 3
Other income	26 355	–	**26 355**	2 844	**(23 511)**	Note 4
Share of residual interest in controlled entities	–	–	**–**	18 261	**18 261**	Note 3
Fees on advances	–	–	–	3 367	**3 367**	Note 3
Total revenue	**411 610**	–	**411 610**	**418 097**	**6 487**	
Expenditure						
Impairment and bad debts	(102 800)	–	**(102 800)**	(70 095)	**32 705**	Note 6
Operating expenses	(230 742)	–	**(230 742)**	(192 912)	**37 830**	Note 6
Total expenditure	**(333 542)**	–	**(333 542)**	**(263 007)**	**70 535**	
Finance cost	(21 752)	–	**(21 752)**	(22 334)	**(582)**	Note 9
Fair value adjustments	–	–	**–**	(84 062)	**(84 062)**	Note 8 & 20
Surplus for the year	**56 316**	–	**56 316**	**48 694**	**(7 622)**	

ANNUAL PERFORMANCE **REPORT**

PROGRAMME #1: EXPAND HOUSING FINANCE ACTIVITIES, THROUGH THE EFFECTIVE PROVISION OF HOUSING FINANCE SOLUTIONS TO ENABLE THE HOUSEHOLDS TO HAVE A CHOICE IN MEETING THEIR HOUSING NEEDS					
OUTCOMES: ADEQUATE HOUSING AND IMPROVED QUALITY OF LIVING ENVIRONMENTS					
Performance Indicator	Actual Achievement 2018/2019	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
Number Of Housing Opportunities Facilitated Through Disbursements*					
Social Housing Units**	289	734	485	249	Target not met. Social Housing Institution in Cape Town experienced construction delays, and therefore did not complete construction as was targeted.
Private Rental Housing Units	275	403	247	156	Target not met. The cancellation of Savannah which was to contribute to 2019/2020 delivery contributed to the low performance on units.
Total Rental	**564**	**1,137**	**732**	**405**	
Affordable Housing Mortgage Loans and or Units***	44	202	0	202	Target not met. As per recommendation of Internal Auditors, the units from disbursements from Strategic Investment are recognised on completion of units and under number of units facilitated through Leverage Funds.
Bridging Finance: Affordable Housing Units	394	2,298	92	2,206	Target not met. Targets incorporated services to stands and construction of units, however APP Technical indicator definition only included units, therefore stands reported had to be removed. Loan approvals in the previous two financial years were quite low, hence the unit's outcome/performance in the current year is low.
Bridging Finance: Subsidy Housing Units	940	10,350	1,845	8,505	Target not met due to incorrect forecasting – there was no real science that informed the initial target which was way overstated as well as failiure to convert deals that were approved.
Sub-Total - Units	**1,942**	**13,987**	**2,669**	**11,318**	
Incremental housing Loans	14,698	54,539	32,687	21,852	Target not met. Tough economic conditions prevailing in the financial year ending 2019/20 partly contributed to intermediaries not fully drawing on their approved facilities. Our single largest contributor in number of loans did not draw the full approved facility in 2019/20.
Total Opportunities	**16,640**	**68,526**	**35,356**	**33,170**	

*Housing opportunities include units, mortgage loans and Incremental housing loans.

**Housing units include completed, transferred or rented units.

*** Affordable Housing – Number of mortgage loans and or units originated through Strategic Partnerships such as HIP and IHS.

ANNUAL PERFORMANCE **REPORT** (CONTINUED)

PROGRAMME #1: EXPAND HOUSING FINANCE ACTIVITIES, THROUGH THE EFFECTIVE PROVISION OF HOUSING FINANCE SOLUTIONS TO ENABLE THE HOUSEHOLDS TO HAVE A CHOICE IN MEETING THEIR HOUSING NEEDS					
OUTCOMES: ADEQUATE HOUSING AND IMPROVED QUALITY OF LIVING ENVIRONMENTS					
Performance Indicator	Actual Achievement 2018/2019	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
Value of Disbursements (R'M)					
Social Housing	77	78	36	42	Target not met. Social Housing Project in Port Elizabeth did not take up full facility as targeted as a result of increased grants which decreased the debt requirements. While a separate project in Cape Town did not draw the facility as early as was initially targeted due to construction delays.
Private Rental Housing	188	115	109	6	Target not met. Project in Springs which was due to disburse in this financial year did not break ground as targeted.
Total Rental Housing	**265**	**192**	**145**	**47**	
Affordable Housing	98	41	91	50	Target exceeded by R50 million. The target was exceeded mainly due to the ramp-up of development of units, a Strategic Partner wherein NHFC is invested.
Bridging Finance: Affordable	42	359	68	291	Target not met. Performance for the year overall was very low due to the fact that disbursements are an outcome of loans approved in previous financial year/s. Loan approvals in the previous two financial years were quite low, most of the loans approved in the current financial year's Q1 & Q2 were not taken-up hence the low outcome/performance. Improvements are anticipated in the next financial year driven by the approvals obtained in Q3 & Q4 of this financial year.
Bridging Finance: Subsidy	102	207	236	29	Target exceeded by R29 million as most clients were operating at full capacity demamding increased funding as they excelerate project roll out.
Incremental Housing	63	361	184	177	Target not met. Intermediaries drew slightly less than anticipated due to tough economic conditions. Some new facilities were only approved in the last month of the financial year ending 2019/20. Smaller start-up clients that are still building capacity only drew smaller amounts.
Total value of disbursements	**570**	**1,161**	**724**	**437**	

ANNUAL PERFORMANCE **REPORT** (CONTINUED)

PROGRAMME #1: EXPAND HOUSING FINANCE ACTIVITIES, THROUGH THE EFFECTIVE PROVISION OF HOUSING FINANCE SOLUTIONS TO ENABLE THE HOUSEHOLDS TO HAVE A CHOICE IN MEETING THEIR HOUSING NEEDS					
OUTCOMES: ADEQUATE HOUSING AND IMPROVED QUALITY OF LIVING ENVIRONMENTS					
Performance Indicator	Actual Achievement 2018/2019	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
Value of Approvals*					
Social Housing	232	207	35	172	Target not met due to challenges of non-payment in the SHI sector and increase in the NHFC NPL that forced a tightening of lending towards SHI's until the risks were adequately mitigated.
Private Rental Housing	33	138	215	77	Target exceeded by R77 million, as a result of augmenting Rental Portfolio challenges by exploring Student Housing Transactions as a test case.
Total Rental Housing	**265**	**345**	**251**	**94**	
Affordable Housing	-	-	-	-	
Bridging Finance Affordable	96	359	215	144	Target not met. Business leads were identified during late Q3 and early Q4 of the financial year but not all could be converted timeously due to insufficient application information/documents and standard requirements as per policy. Improvements are anticipated in the next financial year driven by the new business leads acquired in Q3 & Q4 of this financial year.
Bridging Finance Subsidy	76	207	64	143	Target not met due to incorrect forecasting and low deal pipeline.
Incremental housing	135	361	409	48	Target exceeded by R48 million due to increased demand from existing clients.
Total Value of Approvals	**574**	**1,272**	**939**	**333**	

*facilities approved by relevant governance structure in line with the delegated authority

ANNUAL PERFORMANCE **REPORT** (CONTINUED)

PROGRAMME #2: FACILITATE THE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS TO THE LOWER END OF THE HOUSING MARKET					
STRATEGIC OBJECTIVE: FACILITATE THE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS TO THE LOWER END OF THE HOUSING MARKET;					
Performance Indicator	Actual Achievement 2018/2019	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
Value of funds leveraged from the Private Sector (R'M)					
Number of Private Rental Housing Units*	1,237	2,281	395	1,886	Target no met. Fewer greenfield projects delivering new units.
Number of Affordable Housing -Mortgage Loans and Units**	1,546	328	2,577	2,249	Target exceeded by 2 249 units. Projects completed at a pace faster than was targeted.
Incremental Loans: NHFC	-	-	-	-	
Total	**2,783**	**2,609**	**2,972**	**363**	

*Private Rental - estimated number of units arising from signed loan agreements approved in any particular year through funds leveraged by TUHF. Evidence of units may not be actual delivery but expected delivery from loans signed. The TUHF estimated numbers are both greenfield, brownfield and refinanced units.

** Affordable Housing – estimated number of mortgage loans arising from signed loan agreements approved in any particular year by HIP and estimated housing units arising from deals signed by IHS. Evidence of units may not be actual delivery in respect of HIP but expected delivery from loans signed - the average loan size being R500 000.

ANNUAL PERFORMANCE **REPORT** (CONTINUED)

PROGRAMME #2: FACILITATE THE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS TO THE LOWER END OF THE HOUSING MARKET					
STRATEGIC OBJECTIVE: FACILITATE THE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS TO THE LOWER END OF THE HOUSING MARKET;					
Performance Indicator	Actual Achievement 2018/2019	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
Value of funds leveraged from the Private Sector (R'M)					
Private Rental Housing	796	402	733	331	Target exceeded by R331 million. Due to the NHFC associate company disbursing a larger quantum than was targeted.
Affordable Housing*	89	164	227	63	The target was exceeded by R63 million mainly due to the ramp up of investment by a key client that is a private equity investor.
Incremental loans**	-	-	-	-	
Bridging Finance: Affordable Housing*	118	718	176	542	Target not met. The method of calculating the budget of this indicator was done on the premise that we finance only serviced stands, indicator definition will be corrected in the next planning cycle.
Total	**1,003**	**1,284**	**1,136**	**149**	

ANNUAL PERFORMANCE **REPORT** (CONTINUED)

PROGRAMME #3: CONDUCT THE BUSINESS ACTIVITIES OF THE NHFC THAT ENSURES CONTINUED FINANCIAL SUSTAINABILITY WHILE PROMOTING GREATER DEVELOPMENT IMPACT					
STRATEGIC OBJECTIVE: MAINTAIN FINANCIAL SUSTAINABILITY					
Performance Indicator	Actual achievement 2018/19 (Restated)	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
ROE: minimum target of 2.5%, within 3 years	3,3%	1,1%	4,7%	3,6%	Target exceed as a result of recognition of revenue from reclassification of quasi-equity portfolio previously not budgeted for. The initial classification for these affected financial assets was an error in terms of GRAP 3 and restated retrospectively. All the investments had been recognised as loans and advances rather than separately presented as equity investments with no revenue previously recognised. Net surplus impact for the year is R56.5 million. The group also benefitted from additional leverage of R1.1 billion consolidated from controlled entities. Additional drivers included net bad debts and impairments savings of R20.9 million and overall operating expenses realised group savings of R36 million.
ROA (PBT) (target): minimum of 2% within 3 years	2,4%	1,0%	3,6%	2,6%	Target exceed as a result of recognition of revenue from reclassification of quasi-equity portfolio previously not budgeted for. The initial classification for these affected financial assets was an error in terms of GRAP 3 and restated retrospectively. All the investments had been recognised as loans and advances rather than separately presented as equity investments with no revenue previously recognised. Net surplus impact for the year is R56.5 million. The group also benefitted from additional leverage of R1.1 billion consolidated from controlled entities. Additional drivers included net bad debts and impairments savings of R20.9 million and overall operating expenses realised group savings of R36 million.
Credit loss ratio: <3%	2,6%	2,5%	1,5%	1,0%	Target exceeded, net bad debts and impairments savings of R20.9 million realised in the 2019/20 financial year.
Advances Asset growth (loans and advances): Average of 11% over 3 years	14,4%	11,0%	-1,4%	-12,4%	Target not exceed as a result of reclassification of quasi-equity portfolio previously not budgeted for. The initial classification for these affected financial assets was an error in terms of GRAP 3 and therefore restated retrospectively. R1.4 billion has been consolidated from underlying controlled entities.

ANNUAL PERFORMANCE **REPORT** (CONTINUED)

PROGRAMME #3: CONDUCT THE BUSINESS ACTIVITIES OF THE NHFC THAT ENSURES CONTINUED FINANCIAL SUSTAINABILITY WHILE PROMOTING GREATER DEVELOPMENT IMPACT					
STRATEGIC OBJECTIVE: MAINTAIN FINANCIAL SUSTAINABILITY					
Performance Indicator	Actual achievement 2018/19 (Restated)	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
Improve operational efficiency: total operational expenditure to total income ratio target of 45% within 3 years	45,2%	63,0%	46,7%	16,3%	Target exceed as a result of recognition of revenue from reclassification of quasi-equity portfolio previously not budgeted for. The initial classification for these affected financial assets was therefore an error in terms of GRAP 3 and therefore restated retrospectively. Net surplus impact for the year is R56.5 million. Additional drivers included net bad debts and impairments saving of R20.9 million and overall operating expenses savings of and the group released a saving of R36 million.
Secure funding of R50 million from shareholder (grant funding) in FY 2019/20 and an additional R100 million and R150 million in FY 2020/21 and FY 2021/22	80	50	50	0.0%	Target achieved, R50 million received during the 2019/20 in line with the Shareholder commitment. Amount included as shareholder grant capital.

PROGRAMME #4: FACILITATE TRANSFORMATIVE CHANGE OF THE AFFORDABLE HOUSING SECTOR SPACE IN PARTNERSHIP WITH A BROAD RANGE OF INSTITUTIONS					
STRATEGIC OBJECTIVE: FACILITATE TRANSFORMATIVE CHANGE OF THE AFFORDABLE HOUSING SECTOR					
Performance Indicator	Actual Achievement 2018/2019	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Comment on Deviation
Total disbursements targeted towards emerging BEE entrepreneurs (R'm)					
Total disbursements targeted towards emerging BEE entrepreneurs (R'm)	446	581	566	15	Target not met. Although the target was not met by 3%, the NHFC has taken a position to increase BEE compliance by applicants and clients, which will positively contribute to reported BEE disbursements.
Value of disbursements targeted towards women and youth entrepreneurs (R'm) already included in total disbursements above	N/A	348	83	265	Target not met. The challenges of the current market conditions are evident in the poor participation of women and the youth in as delopers, contractors and intermediaries in this part quarter

ANNUAL PERFORMANCE **REPORT** (CONTINUED)

PROGRAMME MANAGEMENT

Programme Management	Planned Target 2019/20	Actual Achievements	Variance	Comment on Deviation
Number of houses to be built or retrofitted	499	456	-43	Target was not met by 43 units not fitted. Kuyasa and Drakenstein Programme experienced delays between Provincial Department and beneficiary community disagreements. New tenders stalled as a result.
Number of programmes signed contracts	1	2	1	Target was exceeded by 1 more programme than planned. The success rate on business development was higher than expected.
Value of contracts signed (Programme Management)	68	144	76	Target value of signed contracts was exceeded by R76 million. Programmes signed were higher than expected.
CFDP				
Number of SMME Contractors for enterprise development	10	23	13	Target was exceeded by 13 more SMMEs. More SMMEs than projected were used.
Value of private funds mobilised for enterprise development	10	0	-10	Target was not met. Nothing was secured from private firms for enterprise development.

FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAMME (FLISP)

Output	Performance Indicator	Actual Achievement 2018/19	Planned Target 2019/2020	Actual Achievement 2019/2020	Variance	Commentary
Disbursements of FLISP subsidies	Number of Subsidy Applications approved	New indicator	1 266	2 212	946	Target was exceeded by 946 as more than budgeted qualifying applications were received and approved.
	Number of Subsidies disbursed	New indicator	633	1 167	534	Target was exceeded by 534 as more applications were approved and subsequently disbursed.
	Subsidies disbursed (R million)	New indicator	47	60	13	Target was exceeded by R13 million as more subsidy applications were approved and subsequently disbursed in the same year.
	Leveraged from financial institutions (R million)	New indicator	215	943	728	Target was exceeded by R728 million as more than budgeted subsidies were disbursed.

NOTES

Samson Moraba, a man at the heart of servant leadership.

The mark of a true leader is always to serve a greater purpose than themselves, and to also serve people. The saying is trustworthy and is no different for leaders in any organisation. Their goal is to serve their organisation's employees, its customers, shareholders and most importantly, the society in which the organisation operates. Samson Moraba, the outgoing CEO, has served the NHFC for over twenty years, as this kind of leader.

The result of his service is evidenced, both in the impact on the people along the way, as well as the performance of the NHFC. Moraba is a man that is imbued with a high level of critical thinking, diligence, passion, energy, and humility. His approach to business and life is anchored in his faith, characterised by integrity, perseverance, and a passion for making a difference. It is these values that have governed his actions and decisions.

In this tribute to the outgoing CEO, we take a look at his tenure at the NHFC and share insights into the man who has led the NHFC towards its evolution into the Human Settlements Development Bank (HSDB).

Samson Moraba was born and raised in the East Rand township of Payneville, in Springs. He would later attend Tlakula High School in Kwa-Thema, where he matriculated at the top of his class.

He explains that he explored various career paths before finally deciding which vocation he would pursue after school. In his own words, business was the last thing that came to mind at the time. It, however, was in business that Moraba found his passion, developed strengths and learnt about servant leadership.

His early career was mainly in Information Technology (IT), as a Business Systems Analyst in various industries, including Banking, Mining, Retail, Engineering and Manufacturing and FMCG. The defining moment in his career came to him while he was at JCI Limited. Moraba worked at JCI for seven years, as a manager in both the Treasury Back Office and in Corporate Finance and it was during his time at JCI that Moraba had the privilege to attend Harvard Business School and MIT on a scholarship from the Harvard Business School Club of South Africa. Both these experiences would turn out to be eye-opening and career-advancing.

Not long after returning from the United States, he moved on from JCI and joined Gemini Consulting, as a Senior Consultant, and from there was headhunted by Standard Corporate Merchant Bank (SCMB) for the role of Senior Manager IT. Samson was later promoted to IT Director at the bank.

While being content with his career progression at SCMB, Moraba felt a desire to make a difference in his chosen path and a need to make a more significant contribution. This was when the opportunity of being CEO at the NHFC presented itself. While not having been exposed to the public sector and the affordable housing finance environment, he was intrigued when a head-hunter reached out to him for the role of CEO. Little did he know at the time that, more than 20 years later he would remain passionate about supporting the NHFC, and its people to fulfil the mandate of making affordable housing finance accessible to all South Africans with a reasonable source of income.

The NHFC, during his time at the helm, has evolved, adapted and remained relevant to the changing environment, both at Government policy and priorities levels while grounded in the financial sustainability level as a Development Finance Institution. The NHFC that he is now leaving is not the same as the one he joined in January 1999, even though, he may have driven to the same parking bay every day, and the organisation remained at the same address for those 21 years.

In his personal life, achieving a right work-life balance has always been one of the most significant challenges over the years, as both husband and father. His wife, Cynthia, has been a supportive partner, a wise counsellor and most importantly, his best friend. Together they have two sons and one daughter, two daughters-in-law and two beautiful grandchildren.

Often when asked, what accomplishments, activities or the events during his time as CEO of the NHFC made him most proud, he reflects on leaving a legacy knowing he will be leaving behind capable successors to take the company forward. In his view, a leader never accomplishes anything alone. For him, his successes are all tied to the people that have been involved in the NHFC and worked with him to create genuinely transformative feats. As he says his goodbyes, Mr Moraba is proud of all the work that he and the NHFC has achieved in his twenty years.

The pinnacle of his achievements is the consolidation of the three Human Settlements Development Finance Institutions (DFI) into a single organisation, the NHFC. The journey to the consolidation of these three Human Settlements DFIs was never without its complexities and challenges, and yet they persevered. As of 1 October 2018, the NHFC became one unified organisation. And this historic consolidation has created a platform that will significantly improve the quality of life of the people in South Africa through the provision of accessible and affordable finance for meeting their housing needs.

Now as Samson's tenure at NHFC comes to an end, new opportunities have presented themselves. Close to his heart is teaching biblical truths and sharing leadership principles from a biblical perspective, as we have seen him model them in his own life. It is in doing this that Samson hopes to continue to contribute to the communities where he lives and serves. He hopes to share his wisdom, knowledge and the experience that he has gained over the years, with the next generation.

As NHFC, we Thank you, Mr Moraba, for all that you have done to turn the NHFC into an organisation that we can all be immensely proud of. We have big shoes to fill and endeavour to uphold the high standards of excellence, servant-leadership and passion that you have modelled.

We salute you and wish you well!

In his own words:

"As the Bible says: 'For everything, there is a season, a time for every activity under heaven'. There is a time to come onto the stage and a time to get off the stage. This is my time to get off this stage. Thank you and farewell".

























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