NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

Together, weaving a brighter future for our communities

2017/18 INTEGRATED REPORT

Thembelihle project, Pretoria, Gauteng

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

Together, weaving a brighter future for our communities

The industrious southern masked weaver bird (Ploceus velatus) is a master builder, and this Integrated Annual Report is dedicated to the tireless little nest builder. We notice his attention to the finest detail, darting in and out from leafy vegetation, meticulously stripping the building material and masterfully weaving it into a home to impress his mate.

But, the story doesn't just end there. The building site is carefully chosen, often, two overhanging twigs that lie next to each other, forming a fork are joined together with grass. This dynamic tension is the foundation for his home.

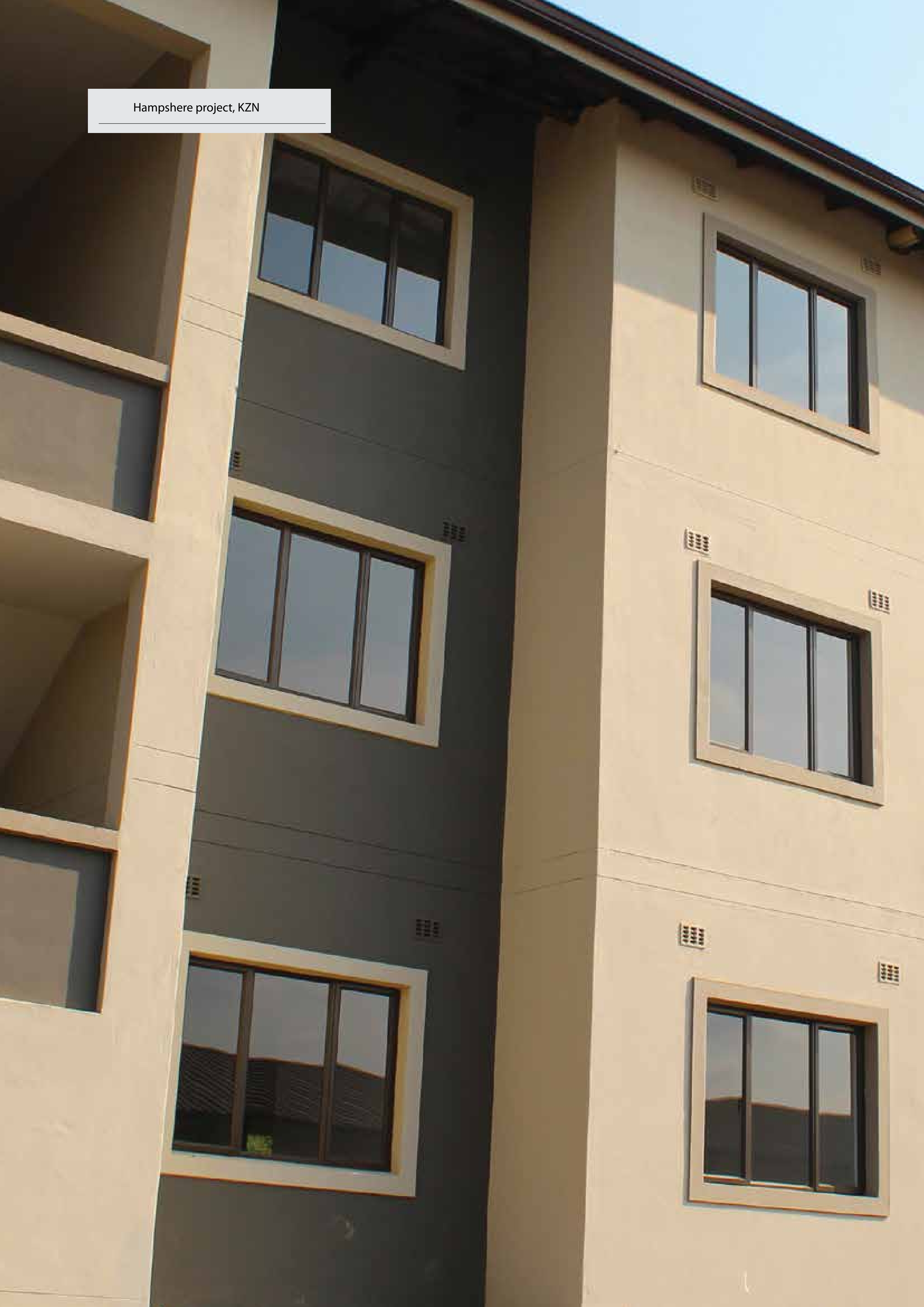
The female, carefully watching the proceedings, is the unforgiving building inspector he must impress.

Once the structure is complete, she tests out its integrity and strength for herself. If the construction fails, the little weaver must do it again, and again, until she is satisfied. Only then can the taxing job of building the nest begin, this too, tested as rigorously as before.

Only once it meets the expectations of the female weaver bird, will she enter the nest to lay her eggs.

The male weaver bird is indeed tireless. He will build no fewer than 25 nests to this level of perfection, in a single season. The design is ingenious. Able to withstand the ravages of wind, rain and the harsh African climate. Even more interesting is the fact that weaver birds live in colonies and build hundreds of nests close together. Sometimes several nests are built on one tree branch… all in the spirit of community.

Our mandate is very much like that of the little weaver bird, to enable the provision of affordable housing to South Africa's 'gap market' in partnership with a broad range of other financial institutions. The integrity of our organisation, always remaining intact by purposeful action taken towards this objective. Our mandate is clear. Our commitment is total, and our dedication to homing the nation is the driving force behind all we do. It is in this spirit – and that of the little weaver bird - that we theme this year's Integrated Report.



Hampshere project, KZN

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Sondela Village, Springs, Gauteng

ACRONYMS AND ABBREVIATIONS

AFD	Agence Française de Developpement
APP	Annual performance plan
BBBEE	Broad-based black economic empowerment
CEO	Chief Executive Officer
Companies Act	Companies Act No 71, 2008
CTCHC	Cape Town Community Housing Company (Pty) Limited
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
HSDB	Human Settlements Development Bank
IHS	International Housing Solutions (Pty) Limited
ILO	International Labour Organisation
IT	Information technology
KING IV	KING IV Code on Corporate Governance
MOI	Memorandum of Incorporation
MTSF	Medium Term Strategic Framework
NHFC	National Housing Finance Corporation SOC Limited
NURCHA	National Urban Reconstruction and Housing Agency SOC NPC
OMCH	Old Mutual Capital Holdings (Pty) Limited
PFMA	Public Finance Management Act 1 of 1999
RHLF	Rural Housing Loan Fund SOC NPC
RFI	Retail finance intermediary
SOC	State-owned company
SHI	Social housing institution
SHRA	Social Housing Regulatory Authority
TUHF	Trust for Urban Housing Finance Holdings (Pty) Limited

DEFINITIONS

Gap Market:

Households earning a combined monthly income of between R3 500 and R15 000. These are income earners who earn above the income threshold to receive a free house from the government but experience difficulty in obtaining a mortgage from the mainstream financial institutions.

NHFC Target Market:

South African households with a monthly income of between R1 500 and R15 000.

Matlosana project, Klerksdorp, Northwest

SECTION

01

ABOUT THIS REPORT

This 2018 Integrated Report provides stakeholders with information regarding the environmental, social and governance practices, and sustainable development performance at the National Housing Finance Corporation SOC Limited, a state-owned company. The report covers the activities of the NHFC, its engagement with various stakeholders and with its partnership entities over the 12-month period from 1 April 2017 to 31 March 2018 covering the financial year 2017/18. More importantly, this report is a record of our delivery – and continual delivery – on the shareholder's mandate and on the social, human and natural capitals that we employ in the delivery of that mandate.

REPORT SCOPE AND BOUNDARY, BASIS FOR INCLUSION AND RESTATEMENTS

This report sets out our impacts as a company and as a group, including our shareholdings in subsidiary and associate companies.

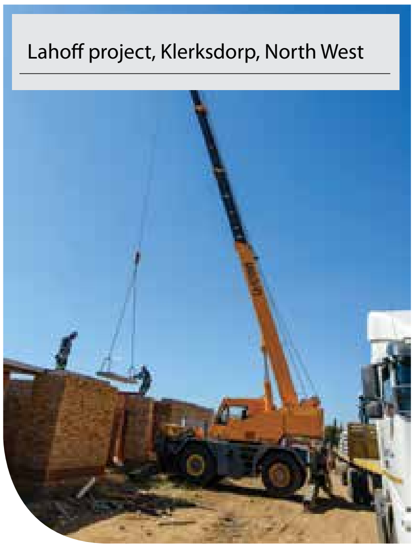
REPORTING GUIDELINES

The NHFC, as a Schedule 3A state-owned company, is required to align its reporting in accordance with the Companies Act, PFMA and National Treasury regulations. The NHFC has endeavoured to expand this minimum reporting requirement to include guidelines as outlined in King IV and also the GRI Standards.


Matlosana project, Klerksdorp North West


Sharon Court project, Pretoria, Gauteng


Matlosana project, Klerksdorp, Northwest


Lahoff project, Klerksdorp, North West


Sondela Village, Springs, Gauteng

FORWARD-LOOKING STATEMENTS

As the NHFC continues to grow its operational structure, diversify its portfolio, and increase its financial outlook, it is necessary to classify such future events and developments as being potentially forward-looking statements. As such, these statements are based on reasonable assumptions, and calculated projected future occurrences that were designed to impact the organisation positively. However it is, important to note that these projections are governed by external factors that may be entirely outside our control. To ensure a successful outcome, there are several mitigating factors that need to be addressed, going forward. These include risks, uncertainties and dynamics which are outlined in the risk section of this report.

BOARD STATEMENT OF RESPONSIBILITY

This report, has been reviewed and approved by the NHFC Board of Directors, who are satisfied with its completeness, accuracy and the integrity of the reporting standards used. The report has been complied in accordance with the International Reporting Framework and in consultation with Global Reporting Initiative (GRI) frameworks and standards. This report was authorised and approved by the Board on 30 July, 2018.

THE NHFC ETHOS

VALUES

OUR VALUES ARE BEST SUMMARISED IN THE FOLLOWING ACRONYM: OPTICA

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

MANDATE

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

VISION

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

MISSION

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

UNIQUE ATTRIBUTES

Risk Taking

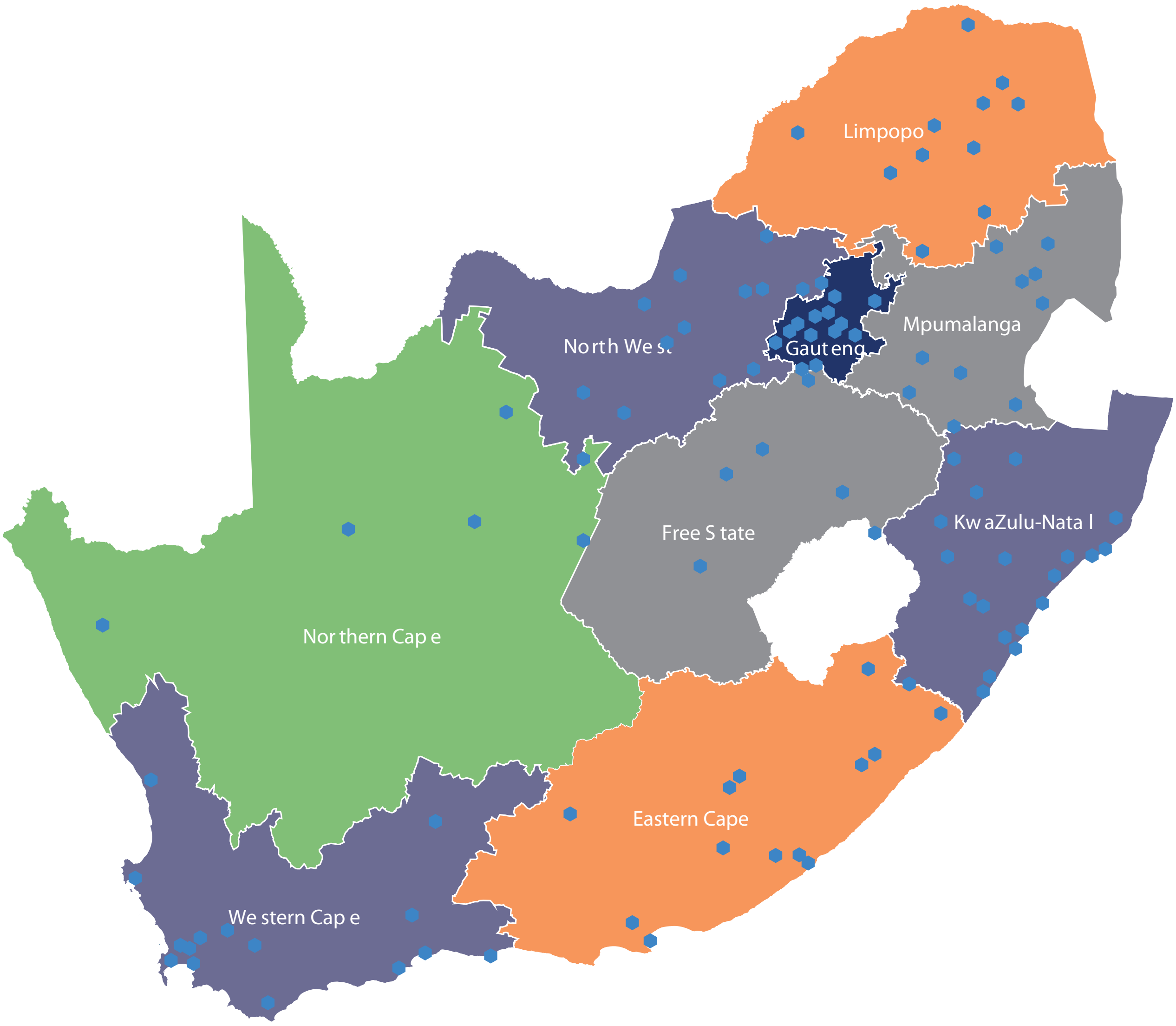
We take risk to bring new opportunities in the affordable housing market e.g.
Social housing;
Inner - city developments

Making Markets Work

We provide funding in areas where commercial lenders find it tough to operate and thereby stimulate investment activity

OUR FOOTPRINT

The NHFC's reach in South Africa



The NHFC footprint spans the entire country – the markers on the map are indicative of NHFC's presence in a particular region in terms of reach of our clients and their housing projects, and secondly, are representative of the 'density' of that presence. Our most concentrated area of operation is in Gauteng, followed by KwaZulu-Natal and Eastern Cape.

Hilltop project, KZN

SECTION

02

OUR BUSINESS

PERFORMANCE HIGHLIGHTS:
A SNAPSHOT OF OUR PERFORMANCE

Funds disbursed:
R382 million

9615
jobs facilitated

Loans approved:
R398 million

Environmentally "green" homes completed:
232

Housing opportunities facilitated:
28 817

90% of staff trained target exceeded by
10%

Mobilised
R2.2 billion
through third party funding leveraged through the NHFC's strategic partnerships during the year.

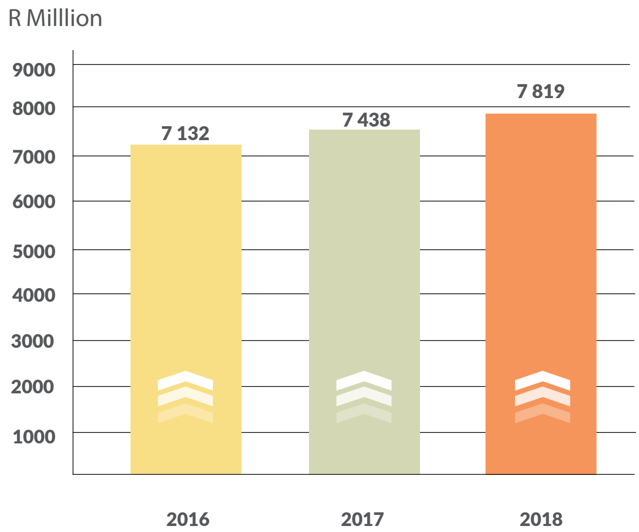
95 097
Individuals whose lives were derectly improved through the NHFC's work in 2017/18

Disbursed
R329 million
towards BEE Entrepreneurs

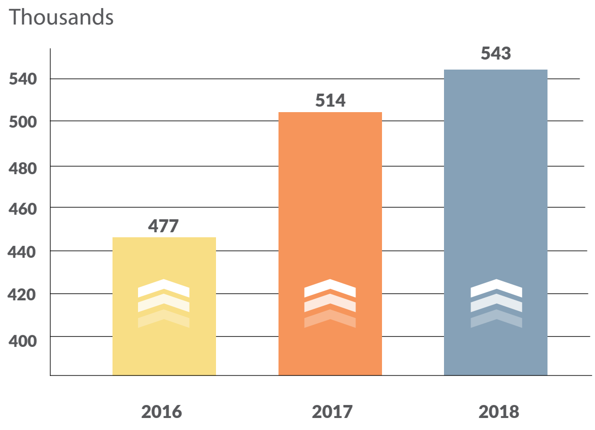
R100.5 million
surplus for year

CUMULATIVE DEVELOPMENT IMPACT
CUMULATIVE FUNDS DISBURSED BY THE NHFC SINCE 1996

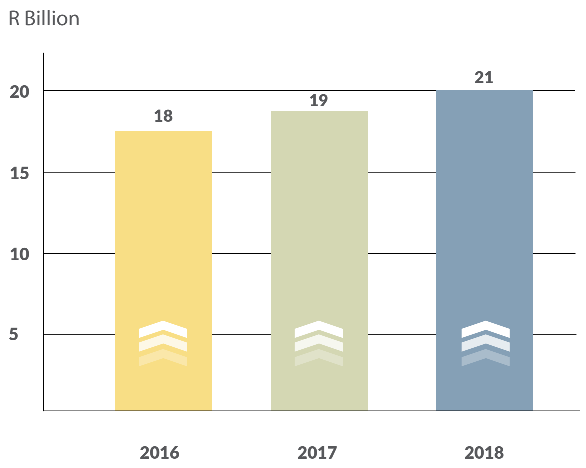
GRAPH 1: CUMULATIVE FUNDS DISBURSED DIRECTLY BY NHFC



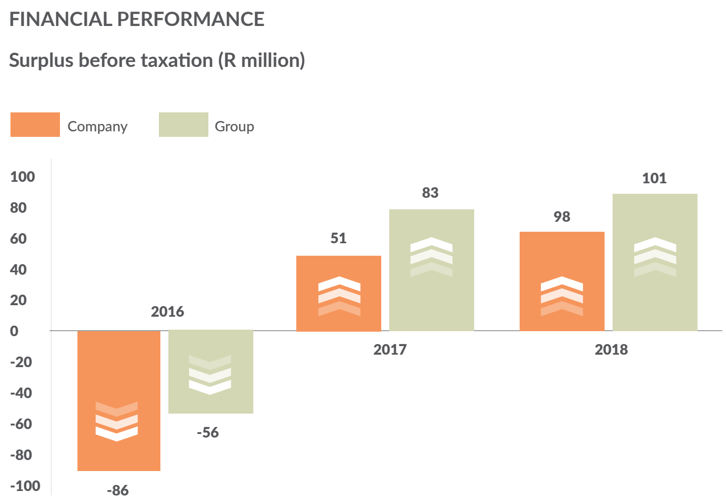
GRAPH 2: CUMULATIVE UNITS/HOUSING OPPORTUNITIES DELIVERED THROUGH OUR FUNDING, INTERVENTIONS AND PARTNERSHIPS SINCE 1996



GRAPH 3: PRIVATE-SECTOR FUNDS LEVERAGED THROUGH OUR FUNDING, INTERVENTIONS AND PARTNERSHIPS SINCE 1996



GRAPH 4: FINANCIAL PERFORMANCE



* From 1 April 2017 the NHFC was exempt from income tax.

ABOUT THE NHFC

WHO WE ARE

The NHFC is a Development Finance Institution, established by the National Department of Human Settlements to:

- Provide wholesale funding to retail finance intermediaries who on-lend to households to either purchase a house or improve an existing one.
- Provide project finance to social housing institutions and private landlords for the development of rental housing units;
- Invest (equity/quasi equity) in entities that innovate or deliver housing at scale; and
- Facilitate and mobilise increased and sustained participation of the private sector.

OUR DELIVERY MECHANISMS:

SOCIAL HOUSING – RENTAL

This is subsidised rental housing made available by social housing institutions which are registered with the Social Housing Regulatory Authority (SHRA). Rentals are at below market rates due to the grants and subsidies provided as initial project funding by various spheres of government via SHRA. The NHFC provides 30% to 35% of the project funding as secured debt funding with the balance provided by SHRA and the provinces.

PRIVATELY-OWNED RENTAL HOUSING

We provide long-term funding to develop or refurbish affordable privately-owned rental accommodation. Such housing – including inner-city developments – has typically represented a third of the funding made available by the NHFC.

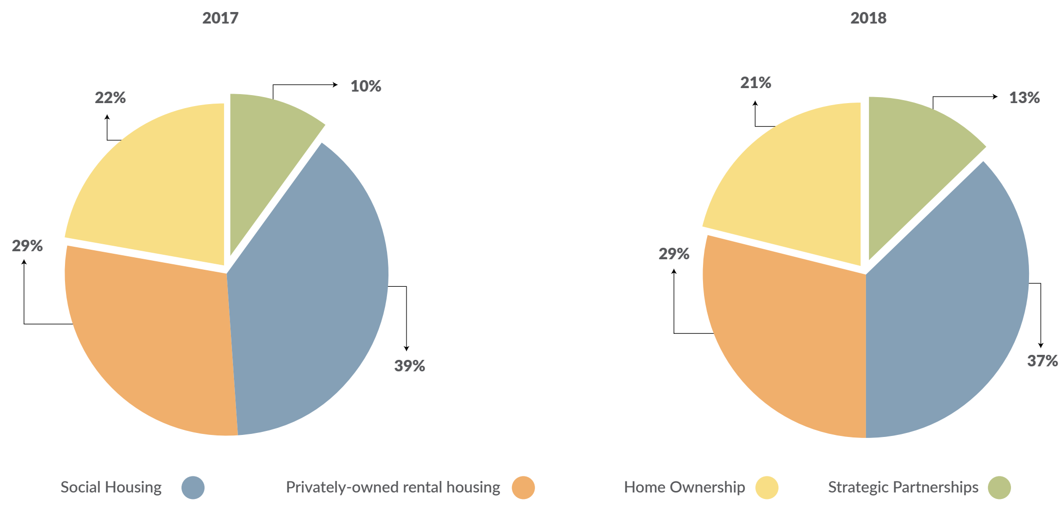
HOME OWNERSHIP

We provide wholesale funding to RFI's who on lend to households. Loans by RFI's are to enable end-users to build or purchase a completed house or to build on an incremental basis.

STRATEGIC PARTNERSHIPS

Working with investors, developers and housing development agencies and funds, we seek to leverage private-sector and development funding to create affordable housing. We achieve this through the provision of risk capital or various debt instruments.

HOW WE HAVE ALLOCATED CAPITAL



DETERMINING MATERIALITY

The NHFC strategy, and the external reporting of the organisation's performance is informed by our organisation's most material issues. Therefore, it is crucial that we define material issues as prescribed in our Shareholder Mandate which advocates the social outputs and outcomes which are fundamental to the organisation's ability to create and sustain short, medium and long-term value (as outlined in the International Integrated Reporting Framework), and the GRI's rule of inclusion to 'substantively influence the assessments and decisions of stakeholders.'

Stakeholder relationships form the very heart of our organisation, and indeed, our business model. Therefore, stakeholder engagement intended to discover their concerns and interests forms the basis of the materiality-determination process.

A summary of these can be broadly expressed as follows:

- Development funding and impact on the effective creation of affordable housing opportunities;
- Financial sustainability;
- Socio-economic and environmental impact;
- DFI consolidation/HSDB establishment; and
- The provision of products which are responsive and relevant to market needs.

Our Shareholder and stakeholders understand that our operating context (economic, financial, social and regulatory) profoundly impacts on our ability to deliver on our mandate and subsequently, influences the NHFC's strategy.

Our strategy, so informed, hinges upon the Shareholder Mandate, and the ability to manage stakeholder expectations in order to create value, mitigate risk, and to manage opportunity – which is our most material consideration.

ABOUT OUR STAKEHOLDERS

LEVERAGING OUR STAKEHOLDER PARTNERSHIPS TO CREATE VALUE

NHFC's stakeholders are defined as either individuals or groups that have a material interest in the company. The NHFC engages with stakeholders through both formal and informal interactions, at corporate, divisional and operational level as is appropriate to the stakeholder. We value the many benefits of a strong, mutually beneficial, long-term relationship with all our stakeholders. The valid and reasonable interests of our stakeholders are treated as important material concerns which influence the way we do business. Stakeholder interactions provide a big-picture overview and much-needed perspective, which helps us to streamline our strategy and plot a path for long-term direction and sustainability.

OUR KEY STAKEHOLDERS

- Tenants and homeowners (NHFC beneficiaries)
  Tenants and homeowners who are the direct beneficiaries of the NHFC product are the ultimate recipients of the collective efforts of both the NHFC and the various key stakeholders outlined above.

- NHFC staff
  The NHFC is sensitive and alive to the truth that its value creation is through its HUMAN CAPITAL. As a result, our employees are our most important stakeholder. Consequently, cordial employee relations are derived through ongoing employee engagement and consultation on all decisions that affect them. Recently, workshops were undertaken to consult our employees on draft HR policies with possible changes in terms and conditions of employment. Furthermore, through the employee representative union, we consulted our main stakeholder on salary increases. Positive employee/employer relations are important for NHFC to realise all its other impacts.

- The South African Government
  The NHFC receives its mandate from, and is answerable to, the Department of Human Settlements. The Minister of Human Settlements is the executive authority of the NHFC representing the shareholder. NHFC relationship with the Minister of Human Settlements is through a shareholder compact which is signed annually.

  In executing its oversight role, Parliament's Human Settlements Portfolio Committee takes an interest in the organisation's work and impact.

FUNDERS

- Agence Francaise De Developpement
  The AFD has in the past advanced R205 million in loan funding to the NHFC. As a partner with deep understanding of our developmental mandate, they remain a critical partner and have expressed support for the pending merger and establishment of the HSDB.

- European Investment Bank
  The EIB has in the past provided a R216 million facility which unlocked R701 million in investment. As one of the multilaterals in support of our work, there will be future collaboration. In the current term, the NHFC has decided to put any funding on hold till establishment of the HSDB.

PARTNERS

- Social Housing Regulatory Authority (SHRA)
  To strenghten the implementation of social housing and to avoid duplication in the assessments of social housing projects in order to reduce turn-around times when processing loans applications.

- International Housing Solutions (IHS)
  As a private equity investor. IHS has set up two property funds with the first closing with R1.9 billion in equity funding in 2008 and the second (Fund II) which had so far, raised R2.1 billion in equity and quasi equity funding.

  This funding was from a range of institutional investors and is typically ,matched with debt funding. In the first fund, the NHFC was a debt provider and invested a total of approximately R167 million in various projects which was subsequently refinanced by the client (and settled the NHFC).

  In the case of Fund II, approximately R4 billion of debt funding will be matched with the R2.1 billion of equity and quasi equity funding to provide approximately 10 000 to 11 000 homes.

The Fund has also expanded its investment criteria to invest in social housing. Should this business model be successful, the Fund will increase the number of homes delivered to approximately 15 000 to 16 000. The NHFC has committed R300 million in equity and quasi equity funding and may selectively invest additional funding at project level. At year end R81 million of our equity and quasi equity funding had been disbursed.

- Gauteng Partnership Fund (GPF)
  In 2012, the NHFC partnered with the Gauteng Partnership Fund (a DFI of the Gauteng Provincial Government) to stimulate investment in housing by emerging property investors through the Emerging Entrepreneur Empowerment Property Fund. The product is unique in that it affords empowerment property investors the opportunity to acquire property with minimal equity capital. This is done through matching GPF's loans with the NHFC debt funding which are both provided at concessional rates. To date, the fund has benefitted 14 businesses which are wholly owned by historical disadvantaged individuals resulting in the creation of 534 housing units.

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

ASSOCIATE COMPANIES

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

  The NHFC's catalytic junior debt funding of R250 million into HiP Lending Trust 2 has managed to leverage R1-billion of private sector funding mainly from OMCH and Futuregrowth.

  As at 31st March 2018 cumulative disbursements for Trust 2 amounted to R224, 8 million. HIP is still drawing on the committed R250 million junior debt for the trust.

- Trust for Urban Housing Finance (TUHF)
  TUHF provides loans to property investors and entrepreneurs wishing to build a business based on the provision of rental housing in the affordable housing market. Based on its specialised understanding of inner city residential market, TUHF is able to provide expert advice and a wide range of competitive products tailored to the diverse financial needs of its client base. The NHFC played a pivotal role in establishing TUHF in 2003 through an interest free R10 million loan facility. Since then, the NHFC has acquired an equity investment in TUHF and currently owns 32.6% of the company. In addition, the NHFC had provided debt funding. TUHF has grown its loan and advances book to a value exceeding R2.7 billion from funding from NHFC and a range of established institutional investors.

  The NHFC also provided additional funding of R200 million in this financial year to enable TUHF to raise R1 billion in funding from other sources. The funding provided will also allow TUHF to expand in other provinces notably Eastern Cape, Free State, Kwazulu Natal, and Western Cape.

SUBSIDIARY COMPANY

- Cape Town Community Housing Company (CTCHC)
  CTCHC is a wholly owned subsidiary of the NHFC and has focused on the development of residential houses either for rental, outright sale or sale via a long-term instalment sale agreement in the affordable housing market. It currently holds residential housing stock mainly in and around Cape Town. The NHFC investment over the years has had a significant impact in providing affordable housing solutions in the Western Cape. However, in recent years, from a financial perspective, CTCHC has been incurring losses and the investment has therefore not provided the desired returns for the NHFC. A strategic decision has been made to exit the business of CTCHC or if that fails, restructure the costs of business to bring them in line with revenues generated.

HOW WE ENGAGE WITH OUR STAKEHOLDERS

We place increasing emphasis on engagement with the stakeholders in our value chain from both the supply and demand side to build value over time in what is an increasingly complex operating environment. Our role as a DFI means that we have many inter-relations with our stakeholders including our shareholder, funders, partner organisations in the private and public arena, and with our clients.

In the period under review some of our stakeholder engagements have focussed on the DFI consolidation process which will culminate in an established HSDB. Phase one of the process is at an advanced stage and nearing finalisation. The phase two salient milestones are: the process of engagement with stakeholders to gather their valuable input viz; the draft business case and enabling legislation.

In the period under review we began a process to review how we interface with our stakeholders. This review will find expression in the integrated stakeholder communication strategy which is being developed. It will provide directives and guidelines on how we will communicate with our key internal and external stakeholders and our shareholder. We will also develop a set of measurements and evaluation techniques for reporting on our interactions with stakeholders in the forthcoming year.

To achieve this, we base our communication on the principles of transparency, clarity, openness and honesty, and on being a listening and responsive organisation in building value in a responsible manner that develops and safeguards our material and natural assets for future generations.

Our communication promises a two-way commitment approach with employees and stakeholders and the maintenance of a culture of effective communication to ensure growth and mutually profitable interactions.

We disseminate information and facilitate dialogues to promote our offerings towards influencing perceptions and strengthening our market share positioning, reputation and relationships. We promise to support our stakeholders with proactive communication on defined material issues to ensure growth and mutually profitable interactions, and we will maintain a consistent corporate image that projects our professionalism and commitment to excellence.

Mr Moraba addressing stakeholders at the Stakeholders breakfast

The Honourable Minister of Human Settlements, Nomaindiya Mfeketo at the Thembelihle social housing project launch

ENGAGEMENT WITH STAKEHOLDERS ON DFI CONSOLIDATION AND HSDB ESTABLISHMENT

We (NHFC,NURCHA and RHLF) have had numerous engagements with various stakeholders especially pertaining to the DFI Consolidation. These include the following:

STAKEHOLDER		CONTEXT OF ENGAGEMENT
Public Sector	• DFIs • Provinces • Metros • Municipalities • SALGA	• Consultative sessions to benefit stakeholders about the draft Bill (enabling legislation) and business case for HSDB are taking place as both critical documents have reached maturity in development and are now ready for consultation. • The sessions are targeted at different stakeholder groups.
Private Sector	•Banks •Institutional Investors •Multilaterals •Clients	
Funders	• EIB • AfD • Others	• Funders have been appraised of the pending consolidation. In the year under review, focus was on seeking approval from all on their facilities being consolidated into one balance sheet and the change in governance structure. Of significance to funders is the assurance that their covenants will not be compromised.
Intermediaries of Nurcha, RHLF and NHFC		• All entities' Intermediaries were engaged to request approval of the loan cessions. Such approval was granted and fellow shareholders agreed to waive their rights.
Government	• NDoHS • National Treasury	• Regular updates and engagements on progress with regards to the consolidation of the three DFI and HSDB establishment.
Employees	• NHFC, NURCHA, RHLF	• A Change management programme was initiated towards smoothing the transitioning period. The 3 three entities are now physically integrated. • Engaged staff on integrated HR policies.

OUR OPERATING CONTEXT

The mandate of the NHFC asserts that our function is to "Mobilise funding into the human settlements space in partnership with a broad range of institutions." Therefore, the NHFC is tasked with providing wholesale finance and acts as a fund and risk manager. At the genesis of our country's democracy, the years 1994 to present day 2018 have seen one of the largest state-sponsored affordable housing drive ever recorded.

About 121 784 social rental units were made available to South Africans who fall within the 'gap market'. Yet, in the face of such development, the homing of these individuals continues to be decidedly challenging. However, it must be noted that the private sector has also played a pivotal role in providing supply of housing units in the affordable housing market through listed and unlisted property funds and vehicles.

The NHFC recognises that approximately 40% of the South African population (an estimated 6.4 million households) is categorised as the gap market. These households, with monthly incomes of between R3 500 and R15 000, subsequently find themselves at a disadvantage when trying to secure mortgage loans from traditional lenders (banks and other finance institutions) or rental accommodation. Without financial assistance, they are consigned to never being afforded the opportunity to either own a home, or to have access to suitable rental accommodation. It is for this reason that the NHFC, together with various partner organisations and the Department of Human Settlements actively initiate programmes and initiatives to cater to the needs of this gap market. This is evident in both our mandate from Government as well as in the Ministry of Human Settlements' Medium Term Strategic Framework (MTSF), as highlighted below which targets the delivery of 1.5 million housing opportunities over the MTSF 2014/15 to 2018/2019.

MEDIUM TERM STRATEGIC FRAMEWORK (MTSF)

The MTSF is the Government's strategic plan for the 2014-2019 electoral term. The framework reflects the commitment made in the election manifesto of the governing party, including the implementation of the NDP. The MTSF sets out the actions Government will take; the targets that need to be achieved; and also provides a structure for the commitments of national, provincial and local government to be implemented.

Accordingly, the NHFC typically plays a critical role in informing and influencing policy through commenting on various policy documents that have an impact on the operations of the business. The NHFC advocated for the adjustment of the qualifying household income bands in Social Housing. It is a step towards increasing the viability of social housing projects.

The household income bands were adjusted as follows:

- Primary market – R1 500 to R5 500 per month for qualifying households;
- Secondary market - R7 500 to R15 000 per month for qualifying households; and
- The grant quantum for SHIs was increased from R125 000 to R155 000 per unit.

RISKS, CHALLENGES AND OPPORTUNITIES

The present economic climate has improved under the new presidential administration, yet, there is a pervasive negative market sentiment that exists. With high unemployment rates, escalating inflation, burgeoning fuel prices and limited financial resources per household, it is therefore not surprising that the gap market is struggling to service their debt. Worse still, the economic situation has impacted upon those already hard-hit as the very institution – low cost housing development – is threatened.

Adversity can, however, fuel innovation and growth. We have noted that traditional lenders have also cautiously entered into the gap market. For the first time, companies restricted their focus and placed it exclusively on the rental market. These companies have registered on the JSE Stock Exchange and Real Estate Investment Trust (REITs) have grown their investments into the affordable- housing space. Pension and provident funds have identified the trend and have followed suit. The most satisfying outcome is that households at the upper end of the R1 500-R15 000 monthly income band have been able to secure funding from commercial lenders – a key desired NHFC outcome.

HOW WE CREATE VALUE

OUR VALUE CREATORS

MOBILISE

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

FINANCIAL SUSTAINABILITY

Conduct the business activities of the NHFC in a manner that ensures the continued economic sustainability of the NHFC whilst promoting lasting social, ethical and environmental development.

FACILITATE

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

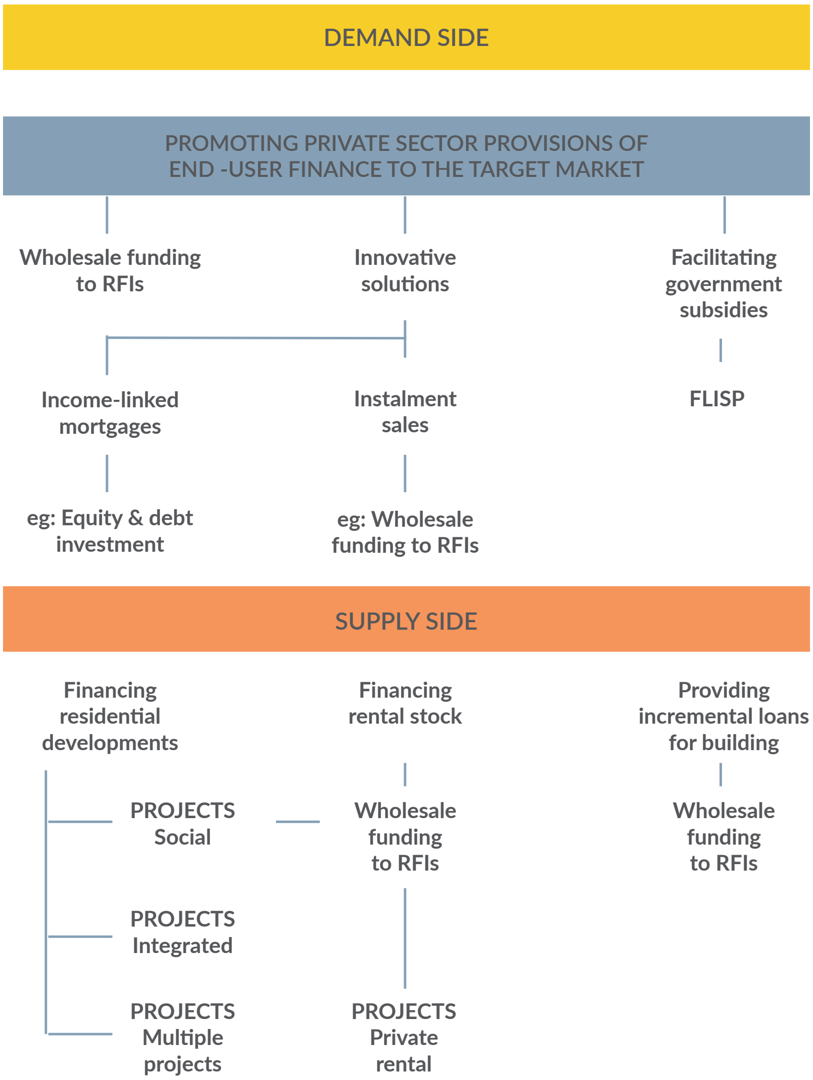
INNOVATE

Introduce innovative housing finance solutions in the market with the intention of creating new forms of housing delivery.

FINANCE

Provide funding to households through RFI's to purchase a house or incrementally improve their home.

THE NHFC BUSINESS MODEL



FINANCIAL SUSTAINABILITY

The long-term financial sustainability of the NHFC remains a key focus area. Target ratios have been set to ensure the financial health of the company. These ratios are critical in ensuring that the developmental mandate is foremost and that we ultimately strive to attain a return on equity of at least inflation for capital preservation. Our Board approved risk appetite statement encapsulates all the elements that safeguard the sustainability of the NHFC.

Key steps include the following:

- Ensure that the capital structure of the NHFC is enhanced through the raising of debt and equity funding in the medium to long term. Additionally, we must remain mindful of the impact of borrowings on the capital structure and financial risk of the NHFC as debt can negatively impact certain financial targets. In this regard, a further capital injection would be required to sustain the organisation over the medium term.

- Asset growth supported by quality of revenue through a portfolio mix that promotes sustainability. However, the growth is impacted by both the subdued growth in the economy and the overall market conditions as well as the limited shareholder support. Capital allocation decisions and risk management have been brought to the fore. Focus remains on the core business that is secured through mortgages, personal suretyships and guarantees, and active monitoring (and limiting) of exposure to equity and quasi-equity investments. In addition, the current Shareholder prioritisation of Social Housing influences the capital allocation across the sub-programmes. This, in turn, impacts the overall sustainability of the NHFC and reduces the facilitation of private sector funding.

INPUTS

2017	HUMAN AND INTELLECTUAL CAPITAL	2018
71	EMPLOYEES (GROUP)	70
944	TRAINING SPEND (R000)	1055

On ongoing skills and development
Employees turnover of 4% against target of 8%

SOCIAL CAPITAL

- Government mandate (social license to operate)
- Collaboration with Public and Private sector partnerships

2017	FINANCIAL CAPITAL (R MILLION)	2018
100	SHAREHOLDER EQUITY ALLOCATIONS (DURING THE YEAR)	100
283	DEBT FUNDING	249
2925	CAPITAL AND RESERVES	3128

2017	NATURAL CAPITAL	2018
111 010m^2	LAND UNDER DEVELOPMENT/BUILDING SPACE BEING CONVERTED TO HOUSING (PER SQUARE METRE)	96 284

OUTPUTS AND OUTCOMES

Financial Capital (R million)

2017	DISBURSED AND FUNDING LEVERAGED FROM THIRD PARTIES FOR AFFORDABLE HOUSING	2018
1 940		2 558

	2017	2018
SOCIAL HOUSING UNITS	1 861	2 242
PRIVATE RENTAL HOUSING UNITS	5 040	3 208
INCREMENTAL HOUSING LOANS	27 745	22 468
AFFORDABLE HOUSING UNITS	1 507	899
JOBS CREATED	8 802	9 615
HISTORICALLY DISADVANTAGED PROPERTY ENTREPRENEURS SUPPORTED	18 698 housing units built	29 713 housing units built

TRADE-OFFS

Early loan settlements spoke to the success of our performance against the mandate and boosted liquidity in the short term but undermined longer-term revenue streams.

The risk of breaching covenants with key funders necessitated a sharper focus on the quality of the loan book, ultimately translating into more prudent credit management. This also meant that we needed to ensure that private applicants make adequate equity contributions to the deals being assessed to ensure robustness; the effect has been negative on deal flow, particularly the private rental business.

Our social-impact imperative requires us to assume risks which might be beyond the appetite of private investors.

This year the bad debts and net impairments charge was a total of R61.7 million (2.7% of the gross loans & advances book) which was below the budgeted credit loss ratio of 3.0%.

Recently, the Shareholder has directed the NHFC to prioritise social housing and this was supported by additional capitalisation. Company loan approvals to social housing institutions were in line with the budget for the year primarily as a result of the adjustments in social housing income bands in the last quarter of the financial year which significantly enhanced project viability. In the private rental market, a select number of clients resulted in out-performance of the budget for the year resulting in the overall budget for approvals being exceeded. However, disbursements achieved were below budget due to the continued poor consumer and business sentiment.

Lahoff project, Kleksdorp, Northwest

DELIVERING ON OUR STRATEGY

OVERVIEW

The NHFC is a Developmental Finance Institution established by the National Department of Human Settlements, to make housing finance affordable and accessible to the affordable/Gap housing market, by partnering with credible intermediaries and other financial institutions. We achieve our mandate through the facilitation and provision of wholesale financing for home ownership through mortgage loan finance and incremental housing depending on the affordability of end users. Through our Finance-Linked Individual Subsidy Programme (FLISP), we assist those who are in the gap market to acquire houses. These are families and individuals who earn within an income bracket that precludes them from qualifying for a mortgage facility or from entering into a rental agreement.

Furthermore, our role extends to leveraging private sector funding into the affordable housing market. This is enabled by the development of strategic alliances and partnerships with companies that operate within the affordable housing market, mainly developers, investors and housing development funds etc. through equity investments mezzanine and junior debt structures.

OUR STRATEGIC PLAN

Our Strategic Plan is aligned to the Medium Term Strategic Plan (MTSF), a mechanism for achieving alignment between the National Development Plan and the current NDOHS mandate. The current MTSF planning horizon is financial year 2014/15 to 2018/19.

HOW WE DELIVER ON OUR STRATEGY

We deliver our strategy through a variety of financing and investment activities, directly or in partnership with like-minded institutions. These financing activities are directed towards delivery of rental housing and home ownership ultimately.

OUR STRATEGIC OBJECTIVES ARE SET OUT AS FOLLOWS:

- Expand housing finance activities
- Facilitate increased and sustained lending financial institutions
- Ensure & maintain NHFC's financial sustainability
- In 2018 an additional priority was included i.e. the consolidation of the 3 human settlements DFI's towards the establishment of a more impactful HSDB

Harmony Village, Mitchells Plain, Cape Town

PROGRESS MADE ON DELIVERY OF STRATEGIC OBJECTIVES

STRATEGIC PRIORITIES	OBJECTIVES INFORMING THE PRIORITY	HOW FAR DID WE GO IN ACHIEVING THEM	VEHICLES & RESOURCES	STAKEHOLDERS IMPACTED	RISKS
• Expand Housing Finance activities	• Make housing & housing finance affordable and accessible to those households earning between R1 500 and R15 000 per month	• Disbursed R382 million to create 3051 housing opportunities with option of rental or affordable housing	• Social housing project funding • Private rental housing • Affordable home ownership • FLISP	• Social-housing agencies • Contractors • TUHF, Developers, Landlords, Strategic partners, AFD , EIB, Banks • HIP, Developers, International Housing Solutions	• Mandate breach • Market relevance • Financial sustainability • Credit risk • Investment risk
• Facilitate increased and sustained lending by financial institutions	• Use our limited financial capital to incentivise private capital to create social value by investing in affordable housing	• Mobilised R2.2 billion funding through leveraging NHFC's Strategic Partnerships by providing more risk capital in order to mitigate financial risk for the private sector • Through this initiative, 25766 housing opportunities were delivered	• New investment into strategic partnerships • Incremental housing • Affordable home ownership • Private rental housing	• HIP, IHS, AFD, EIB, Banks, RFIs, Contractors • HIP, AFD, EIB, RFIs • TUHF	• Poor economic outlook affecting appetite of private sector and third parties to co-invest in the sector
• Ensure and maintain NHFC's financial sustainability	• The NHFC has to demonstrate its ongoing financial resilience as there is an inherent tension between a developmental mandate (generally involves higher risk) and financial sustainability.	• Maintained a cost to income ratio of 41% in line with a continued cost conscious culture • We delivered one of our best financial results of a surplus of R101 million (Group accounts) for the year, significantly higher than R45 million in the prior year.	• Grant funding • Loan book • Cost efficiency	• Government and co-funders	• Funding
• Consolidation of the 3 Human Settlements DFIs towards establishment of a more impactful HSDB	• Address market failure through innovative financing and effective risk mitigation instruments • Support the effective transformation of the human settlements sector across the value chain	• 90% achievement of milestones in phase 1. • All funders of the 3 entities have consented to the transaction. • Business case and draft Bill in consultation phase with stakeholders	• Taxation Amendment Act to reclassify NHFC as non-taxpaying • Company Tribunal • DFI consolidation project funding • National Treasury approval of business case and funding model (Phase 2) • Cabinet and Parliamentary approval (Phase 2)	• NDoHS • National Treasury	• Operational • Human resources • Reputational • Compliance • Funding

OUR PERFORMANCE (AGAINST THE MTSF TARGETS)

REPORT FOR THE YEAR

Complied for the year-ended 31 March 2018, and prepared in accordance with Section 55 (2) of the PFMA

*key performance indicators (units/housing opportunities, funds disbursed, private sector funds leveraged and approvals) are assured by external auditors

PROGRAMME 1: EXPAND HOUSING ACTIVITIES THROUGH EFFECTIVE PROVISION OF HOUSING FINANCE OPPORTUNITIES

Expand housing finance activities through the effective provision of housing finance opportunities (disbursements)
Desired outcomes: Adequate housing and improved quality of living environments

High level overview of programme

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	DEVIATION FROM PLANNED TARGET TO ACTUAL	COMMENT ON DEVIATION
Number of housing opportunities facilitated					
Social Housing Units	1861	2 268	2 242	-26	99% achievemnt, therefore target achieved.
Private Rental Housing Units	738	725	579	-146	Delayed implemenation in select projects (mainly poor business sentiment)
Total Rental	2599	2 993	2 821	-172	
Affordable Housing Units	126	318	230	-88	Slower than budgeted International Housing Solutions and HIP disbursements mainly as a result weak economic conditions affecting end users who are unable to qualify for mortgage finance.
Total	2725	3 311	3 051	-260	
Number of beneficiaries benefitting (factor of 3.3 utilised)	8 993	10 926	10 068	-858	

PROGRAMME 1: EXPAND HOUSING ACTIVITIES THROUGH EFFECTIVE PROVISION OF HOUSING FINANCE OPPORTUNITIES

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	DEVIATION FROM PLANNED TARGET TO ACTUAL	COMMENT ON DEVIATION
Value of disbursements (R'm)					
Social Affordable Housing (R'm)	197	101	110	9	Target achieved
Private Rental Housing (R'm)	44	203	152	-51	Quality deals in private rentals housing was a challenge due to poor business sentiment and inadequate equity to render projects viable.
Total Rental Housing (R'm)	241	304	262	-42	Key clients, International Housing Solutions and HIP were unable to draw approved funds for the period due weak market conditions.
Affordable Housing (R'm)	66	159	120	-39	
Total (R'm)	307	463	382	-81	

PROGRAMME 1: EXPAND HOUSING ACTIVITIES THROUGH EFFECTIVE PROVISION OF HOUSING FINANCE OPPORTUNITIES

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	DEVIATION FROM PLANNED TARGET TO ACTUAL	COMMENT ON DEVIATION
Value of approvals (R'm)					
Social Affordable Housing (R'm)	143	80	82	2	Target achieved
Private Rental Housing (R'm)	159	284	311	27	Target achieved
Affordable Housing (R'm)		-	5	5	Target exceeded
Total (R'm)	302	364	398	34	

PROGRAMME 2: FACILITATE THE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	DEVIATION FROM PLANNED TARGET TO ACTUAL	COMMENT ON DEVIATION
Number of housing opportunities facilitated through leveraged funds					
Private Rental Housing Units	4 302	2 920	2 629	-291	Fewer units than planned delievered by associate company TUHF mainly due to delays in construction of funded units.
Affordable Housing Units	1 381	1 035	669	-366	Key clients, International Housing Solutions and HIP were unable to disburse per plans due to weak market conditions, the outcome of which was that less than planned units were delivered.
Incremental Housing Loans	27 745	10 342	22 468	12 126	
Total	33 428	14 297	25 766	11 469	
Number of beneficiaries benefitting (factor of 3.3 utilised)	110 312	47 180	85 029	37 849	

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	DEVIATION FROM PLANNED TARGET TO ACTUAL	COMMENT ON DEVIATION
Leveraged funds from Private Sector (R'm)					
Private Rental Housing (R'm)	339	353	514	161	Target achieved
Affordable Housing (R'm)	684	637	1 206	569	Target achieved
Incremental Housing Loans (R'm)	611	253	456	203	Target achieved
Total Rental (R'm)	1 634	1 243	2 176	933	

PROGRAMME 3: OTHER DEVELOPMENTAL IMPACTS

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	DEVIATION FROM PLANNED TARGET TO ACTUAL	COMMENT ON DEVIATION
Estimated number of jobs facilitated (Formula applied 11,13 jobs created for every R1m spent in a project)	8 802	7 301	9 615	2 314	Target achieved
Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs (R'm)	217	254	329	75	Target achieved

PROGRAMME 4: PROVIDE ROBUST, TIMELY, RELEVANT MARKET RESEARCH
STRATEGIC OBJECTIVE: Stimulate the low-to-middle income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing customers

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	DEVIATION FROM PLANNED TARGET TO ACTUAL	COMMENT ON DEVIATION
Undertake mortgage performance index analysis					
Develop and implement affordable housing dashboard with key market indicators.	Bi-Annual	Bi-Annual	0	0	Target not achieved as activity was pended to deploy resources to HSDB establishment work.
Develop advocacy through stakeholder engagement to enhance our ability to respond to key issues: - Quarterly reviews with shareholder	Quarterly	Quarterly	0	0	Target not achieved as activity was pended to deploy resources to HSDB establishment work.
Roundtable seminar with NHFC clients	Bi-annual	Bi-annual	0	0	Target not achieved as activity was pended to deploy resources to HSDB establishment work.

NHFC SUMMARY OF ACTUAL CONTRIBUTION TO MTSF TO DATE

PERFORMANCE INDICATOR	MTSF 5 YEAR TARGET 2014/15 – 2018/19		
No. of housing opportunities	NHFC		NDOHS
	Number of housing opportunities	% Contribution	Number of housing opportunities
	5 Years	5 Years	5 Years
Number of Social Housing Units	5 899	22%	27 000
Number of Private Rental Housing Units*	15 390	62%	5 000
Total Rental	21 289		52 000
Number of Affordable Housing Units	9 110		
Number of Incremental Housing Loans	17 498		
Total Affordable Housing*	26 608	24%	110 000
Total before FLISP	47 897		162 000
FLISP			70 000
Total including FLISP	47 897		232 000

All programs are either on or ahead of target.

* The above budgeted performance is mainly as the result of the leveraged contribution from a retail intermediary and the strategic partnership with TUHF.

** NHFC is the FLISP implementing agent for Gauteng Province.

MTSF TARGET TO DATE 2014/15, 2015/16, 2016/17 AND 2017/18			MTSF ACTUAL TO DATE 2014/15, 2015/16, 2016/17 AND 2017/18		
NHFC		NDOHS	NHFC		NDOHS
Number of housing opportunities	% Contribution	% Contribution	Number of housing opportunities	% Contribution	% Contribution
Total			Total		
4 613	78%	17%	5 798	98%	21%
12 094	79%	48%	17 009	111%	68%
16 706			22 807		
7 432			8 225		
12 734			73 436		
20 166	76%	18%	81 661	307%	74%
36 873			104 468		
			3 974		
36 873			108 442		

Factors that impacted our Performance During 2017/18

- The building market's activity (for new private sector-financed housing) has remained largely subdued up to late 2017 in both the planning and construction phases and this is mainly due to weak economic growth as reflected in GDP growth of 1.3% in the year ended 31 December 2017.
- Conservative forecasting factoring impact of weak economy

Areas of Improvement

- Forecasting.

Outlook

- The improvement of business and consumer confidence bodes well for the housing and property finance sector as a whole.

Sondela Village, Springs, Gauteng

SECTION

03

PERFORMANCE REVIEW

CHAIRMAN'S REPORT

PROFESSOR MICHAEL KATZ

I would like to thank the board for their diligence, and for their ethical conduct in the leadership and oversight of the NHFC.

THE LOCAL ENVIRONMENT

Economic and political developments had a profound impact on the NHFC during the reporting period. The financial year can be characterised as having two distinct periods with the first period being from April to end of November 2017. That period was highlighted by political uncertainty, poor confidence (consumer and business) and tepid economic growth. This was reflected in the continued sovereign credit downgrades reported on 3 April 2017 by two of the credit rating agencies that were concerned about weakening standards of governance and public finances. Besides concerns of the economic outlook and anticipated rise in public sector debt to GDP, there were also concerns relating to the governance and going concern status of major state-owned entities. In addition, uncertainty about leadership as the governing party was heading to its elective conference in December 2017 affected private sector fixed investment which remains critical for job creation. The credit ratings of a broad range of public sector entities and large private sector corporates were downgraded, mainly in line with the change in the sovereign credit downgrades as well as company specific challenges. As a result of these factors, finding viable, bankable property transactions proved a challenge for the NHFC.

Mountain View Villas, Maitland KZN

The second period from December 2017 reflects the outcome of the ruling party's elective conference in December which provided direction that the broader business community regarded as positive from a policy and economic point of view. The first quarter of 2018 therefore, started on a positive note with respect to sentiment and outlook with GDP growth in 2018 expected to exceed the 1.3% growth achieved in 2017. The credit rating agencies also changed their outlook on the economy since early January 2018, and it became critical for government to remain on this path for the short to medium term, to make a significant dent in the challenges of high unemployment, poverty and low economic growth.

There now exists a renewed sense of hope with the country under the leadership of President Cyril Ramaphosa, to restore governance, strengthen public institutions and organisations and to position the state to better delivery of services, more efficiently and effectively.

CONTINUED RELEVANCE OF THE NHFC AND DFI'S IN SOUTH AFRICA

With the recent focus on fiscal consolidation and change in national priorities (as exemplified by increased state funding of higher education), a recurring topical issue is the importance of how the state and the broader South African citizens can extract greater value and impact from state owned entities, including development finance institutions.

Development finance institutions remain relevant in South Africa – especially, given the glaring gap - where access to opportunities exist in our society. DFIs are created by governments as a means to promote and support the national economic plans such as housing, industrial development, agriculture and trade. The DFIs typically provide credit, guarantees and a wide range of capacity-building programmes to SMME's and even larger corporations whose financial needs are not sufficiently served by the private sector or capital markets.

DFIs are expected to play a critical counter-cyclical role in South Africa by scaling up lending operations when private financial institutions experience temporary difficulties in granting credit. They have to play an important role in capital formation, economic expansion and job creation.

Financial sustainability and good governance are critical elements for the long-term success of DFIs. To be seen as value creating for the broader society, DFIs need business models that ensure long-term financial sustainability through sound risk management tools and high corporate governance standards that insulate them from undue political interference. When DFIs don't perform optimally, they are a drain on public finances, distort credit markets, displace and crowd out the private sector. A well-defined mandate, competent management and board, high standards of corporate governance and transparency are important cornerstones of success.

ETHICAL LEADERSHIP AND SOME SIGNIFICANT MATTERS AND EVENTS

The recent lapses in ethics in South Africa have been brought to the fore by negative publicity affecting the public and private sector during the year under review. Significant entities have seen their reputations tarnished and sadly, this has affected economic growth and job prospects for many. Recently, unfortunately even the bastions of independence and probity - the auditing profession, has been tarnished as a result of allegations of misconduct. The board of the NHFC and management have decided, in these circumstances, to review their policies, internal processes and systems to ensure that we remain beyond reproach as a company. That is effectively the only way the NHFC can remain a successful business in the long term.

LOOKING AHEAD AND APPRECIATION

In order for South Africa to build a truly inclusive economy, a lot of hard work lies ahead for both the public and private sector. Meaningful and effective public private partnerships built on mutual respect and trust, and in a hope for a better future will be critical in placing South Africa at the forefront of African development. We remain optimistic that the path to economic recovery and renewed hope has started.

In the previous financial year, the board of the NHFC was significantly bolstered with new board members. I am satisfied that the board is appropriately balanced and contains skills to ensure that the NHFC is well-governed and that it plays its rightful role in society in terms of delivering on its mandate.

NHFC staff at the change management workshop

We were confident that this financial year will come to a close with the Human Settlements Development Bank fully operational and in place, but unanticipated circumstances have caused a delay which we believe will be resolved in the 2018/19 financial year. In the words of our Minister of Human Settlements Nomaindiya Mfeketo, "It is the golden era of human settlements expansion…" The establishment and corporatisation of HSDB will be fast tracked and the Human Settlements Development Bank Bill will be set before parliament for approval. The board and management are working tirelessly to conclude this process, which we all admit, has been protracted.

I would like to thank Dr Lindiwe Sisulu for her tireless and enthusiastic faith in the leadership and staff of the NHFC. She was the the Honourable Minister of Human Settlements from May 2014 to 28 February 2018. During that period she provided much needed support to the NHFC. I would also like to thank the Honourable Minister of Human Settlements, Nomaindiya Mfeketo, who, proverbially, 'hit the ground running' as she entered the arena as one well-versed with insight and deep understanding of the challenges facing the human settlements space.

I would also like to thank the board for their diligence, and for their ethical conduct in the leadership and oversight of the NHFC. And some worthy thanks go to management, who have continued to forge a path of innovation and providing much needed development funding in the affordable housing sector, as well as in partnership with a variety of stakeholders, including multilateral agencies and the private sector.

Finally, I would like to thank our clients, partners, funders and co-funders for their continued faith and support of the NHFC.

PROFESSOR MICHAEL KATZ
Chairperson

CEO'S REVIEW

SAMSON MORABA

The NHFC is committed to its strategy of financing the development of sustainable human settlements.

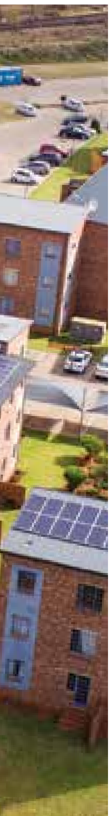
Sondela Village, Springs, Gauteng

THE YEAR UNDER REVIEW

Growth in the economy has been pedestrian due to, among others, weak consumer and business confidence, lack of domestic investment and high indebtedness levels of consumers. The pedestrian growth is also reflected in GDP growth of only 1.3% which nonetheless, exceeded National Treasury's forecast of 1%. Economic activity contracted in the first quarter but there was a surprise growth push that peaked in Q4 at 3.1% quarter on quarter. Mitigating the poor growth were the positive interventions by the Reserve Bank that saw it reducing the repo rate which impacted positively the bank lending rate. The prime lending rate opened the year at 10.50% and at the close of the year end stood at 10.25%, the reduction brought much needed relief to debt-laden consumers of NHFC products.

We closed the 2017/18 financial year on a high note after overcoming a few legal hurdles required for the consolidation phase. As we've highlighted before, this consolidation process is being undertaken in two phases though embarked on in parallel. The phase one of consolidating assets and liabilities of RHLF and NURCHA through a donation's agreement had one outstanding milestone which is subject to approval through the PFMA's Section 66 application. This also required absolute backing and consent of the current funders to the three entities. Though some of the funders came to the party early, engagement with those who hadn't given consent was protracted and got resolved close to the financial year end. The political climate and the uncertainty prevailing at the time also dampened our momentum as the full Section 66 application will only be processed in the new financial year.

OUR PERFORMANCE



Notwithstanding the economic challenges that interspersed the local and global markets, it is satisfying to note that 2017/2018 has been largely successful for the NHFC.

The NHFC is committed to its strategy of financing the development of sustainable human settlements. The strategic objectives for NHFC, to deliver on its strategy, are reviewed annually to ensure they remain relevant, developmental and sustainable, while meeting the needs of the immediate customers and households in its target market.

Excellent progress has been made over the past year in delivering on these strategic objectives, as it is with great pride that the NHFC delivered a set of good financial results, since the 2008/2009 financial year. The surplus for the year was R101 million, against a budget of R21.7 million in the group accounts.

The NHFC's operational responsibilities continue to guide and streamline our collective efforts.

A brief highlight of these are included below:

- Loans worth R484 million were approved against a budget of R364 million (133% achievement).
  A loan approved of R86 million for a key client was however not taken up bringing the amount of the loans approved down to R398 million, still exceeding target by R34 million (9%);
- Delivering a surplus of R101 million versus last fiscal's R45 million;
- Disbursed R382 million (82% achievement) against a target of R463 million;
- Attracting private sector funding into the affordable housing market and facilitating 25 766 opportunities through leveraged funds;
- On the transformation front, BEE transactions to the tune of R329 million for the current year were funded directly and indirectly together with TUHF, GPF and the NEF;
- Improving liquidity to free more funds for disbursements while reducing bad debts and impairments;
- Together with partners, leveraged funding reached R2.2bn (175% of target); and
- facilitating the creation of 9 615 jobs.

Although we have experienced a normalisation of the market in respect of our private rental business, as more private investors are active in the inner city, our private rental business is not as robust. Deal flow has become very competitive in cases where projects have adequate equity in the region of 30% to 40%. Most sponsors of such projects demand competitive rates which in most instances the NHFC is unable to offer and as such, deals are foregone to the banks or other financial intermediaries. The total deal flow in the pipeline was reasonable at R1billion, of which R672 million (66%) representing deals that were approved but still to be disbursed.

The management of all profitability drivers has remained a key focus area, in particular, keeping a mindful eye on potential additional costs arising from the DFI consolidation, and making sure that these remain firmly in check.

DFI CONSOLIDATION AND ESTABLISHMENT OF THE HSDB

The above mentioned Section 66 Concurrent Application for Approval has been submitted to National Treasury for a decision in August 2018.

Other progress made on the DFI Consolidation was the following:

- All staff of NURCHA and RHLF are now physically located at the NHFC.
- All Operational processes are at a ready stage, awaiting the consolidation transaction effective date to be merged under a single NHFC structure.
- All funders, PIC, DBSA (KfW), EIB and AfD, have given support and in principle approval to the Consolidation process.

Though the year had its challenges, we've progressed in terms of significant outcomes of the HSDB establishment viz the business case, enabling legislation and policy framework for HSDB. The policy framework for HSDB has been approved. This is an important guide for both the business case and the draft bill which are also advanced and in a state of readiness for engagement with private sector stakeholders. The engagement process has begun already with the public sector and will continue in the new financial year.

UNLOCKING GREATER DELIVERY IMPACT THROUGH STRATEGIC ALLIANCES

The NHFC understands its mandate as a DFI and it informs how we understand and measure our effectiveness. DFIs also need to play a transformative role in the economy and refrain from imitating the traditional lending role that banks perform. Offering concessional finance with risk coverage facilities such as guarantees and first loss facilities is part of our business.

By harnessing the economic power that our strategic investment partnerships continue to provide, I am pleased to announce that R2.2 billion was mobilised into the affordable housing sector, exceeding the target of R1.2 billion, creating 25 766 housing opportunities. These achievements were mainly due to the contribution from our key investment partnerships, in the main, International Housing Solutions (IHS), Trust for Urban Housing Finance (TUHF) and Housing Investment Partners (HIP) and the wholly owned subsidiary City of Cape Town Community Housing Company (CTCHC).

Notwithstanding the above successes the slower project implementation due to slow growth impacted the equity investment business component. This is evidenced by the 75% target disbursement achieved. Total delivery in the affordable housing market has been decreasing for a number of years.

TUHF is the leading provider of commercial property finance for entrepreneurs in the inner cities of South Africa. Their finance and support enables these entrepreneurs to purchase, refurbish and convert property, providing decent and affordable rental housing close to work and economic opportunities. On 31 March 2018 TUHF total assets exceeded R2.7 billion and achieved profit after tax R43.3 million.

The NHFC is a 32.6% equity investor and debt provider in TUHF where Old Mutual and Futuregrowth and PIC are also significant shareholders and/or funders. In 2017 TUHF launched their first R280 million tranche of our R1 billion domestic medium-term note (DMTN) programme on the Johannesburg Stock Exchange (JSE). Over 14 years growth is built on in-depth market knowledge, appetite for risk and street level approachability. TUHF is about commercial success coupled with real social impact.

That's why TUHF takes the hard line in all their business dealings – focusing on the potential for profitability while keeping an eye on our development impact. TUHF has delivered 34 000 inner city rental units over time.

The mandate of CTCHC is that the company provides affordable housing through developments that cover all aspects of integrated and sustainable Human Settlements spectrum within the Province of the Western Cape. To date CTCHC has delivered 3 995 institutional subsidy homes to qualifying beneficiaries who earn less than R15 000 per month. It also provides an instalment sale product enabling buyers who do not qualify for a mortgage loan to grow into the affordable criteria. A process of restructuring the company has been embarked upon in order to align the operating model with the reduced business activities despite the rental and other boycotts around Cape Town.

HIP has been established as a fund manager to introduce the income-linked residential mortgage loan into the affordable housing market. The shareholders are NHFC 33% and Old Mutual Capital Holdings (OMCH) the 67% shareholder who have provided seed capital. Lending Trust 1 and 2 amounting to R1.35 billion where NHFC provided junior debt amounting to R270 million and OMCH and Futuregrowth the balance as mezzanine and senior debt. Trust 2 will be fully disbursed during 2018/19 and then HIP will have provided 3 000 mortgage loans in total.

HIP is geared to breakeven during 2018/19 whilst the lending trusts are performing above expectation. Lending Trust 3 amounting to R506 million funded by a grant of R100 million from the Jobs Fund of National Treasury, OMCH R6 million risk capital and Futuregrowth R400 million was closed early 2018. The project is part of the SkyCity being developed by Cosmo who is the development partner and the project targets to create 600 jobs and deliver 1 000 affordable housing units by 2021. Futuregrowth Asset Management is a firm one typically associates with fixed interest investments in companies and projects that have a role to play in national development and the transformation of South African society, including infrastructure, community property, renewable energy, agriculture and state-owned enterprises. Futuregrowth has become a preferred debt provider partner in TUHF and HIP.

IHS is a real estate fund manager focused on the development and management of affordable housing communities. They invest equity in affordable housing projects, many designed to be energy efficient, which generate social and environmental benefits beyond addressing housing needs. They also manage funds that pool investments to deliver attractive risk-adjusted returns to the investors and social and environmental benefits to the communities where they invest. IHS Property Management provides property administration for IHS Investments and focuses on providing affordable, safe, clean and secure living environments.

The well-established private equity firm IHS decision to bring part of its portfolio of residential properties to the JSE was seen as a major achievement to attract institutional investors to a new asset class referred to as a REIT. The company's focus will be to acquire yield-accretive rental properties, with a specific focus on the affordable housing market and middle-income households. The properties will fetch rentals of between R3 000 to R7 000.

The NHFC has also provided R300 million as capital provider to IHS Fund II SA which is a multi-investor fund targeting investments in affordable housing, including green housing projects, within South Africa. IHS Fund II SA began fundrasing in July 2014 and at year-end 2017 had raised approximately R 1 653 million of capital from 11 investors. IHS Fund II SA also has an additional participating debt commitment from OPIC for up to R 1 075 million. At end of financial year 2018, IHS Fund II SA had closed on 19 investments that represent a total of 6,875 affordable for-sale and rental housing units in South Africa. The NHFC disbursement at the commencement of the financial year amounted to R81 million.

The Strategic Partnership investment portfolio has succeeded to develop a robust policy and oversight framework, set risk limits and grow the internal capacity and capability and to be recognised as a risk partner of choice in the affordable housing market. Our objective is to crowd in the fixed interest investment role players and housing developers into the affordable housing market and ensure delivery at scale.

Last year, one of the policy challenges that we highlighted as 'impediments' to our ability to deliver on targets, was the social housing policy.

In this financial year, I am pleased to report that the lower limit (qualifying household monthly income) has been adjusted from R3,500 to R5,500 and the upper limit from R7,500 to R15, 500. These changes have been gazetted following ministerial approval. The NHFC has been able to achieve a higher level of approvals for social housing projects. This bears testimony to the great efforts invested in strengthening our partnerships with the SHRA, and building collaborative efforts to tackle among others, regulatory hurdles negatively impacting delivery of housing and the business of the NHFC.

APPRECIATION AND OUTLOOK

The Board and Management of the NHFC is optimistic about the prospects of a Consolidated NHFC, with a robust single balance sheet, more efficient, effective and with synergistic operations, serving the broader human settlements market.

To this end, I wish to extend my sincere appreciation to the former Minister of Human Settlements, the Honourable Dr Lindiwe Sisuslu, for leading this momentous change in a most admirable way.

In the same breath, I wish to thank our Minister, Honourable Nomaindiya Mfeketo, for giving the necessary impetus to the process, leading to the establishment of the Human Settlements Development Bank (HSDB).

A well-deserved thanks to the Director General, Mr Mbulelo Tshangana and team for his unwavering support and facilitation to accelerate the pace of the requisite approval processes.

I thank the Portfolio Committee of Human Settlements for their support, especially in the oversight and fiduciary role that they have played. It is through their feedback and counsel that we have remained steadfast in achieving our ultimate goal of improving the lives of the underserved South Africans.

Thank you to our Chairman, Prof Michael Katz, for his visionary and decisive leadership of the Board and to fellow Board Members for their ongoing guidance and support.

On the DFI Consolidation, none of our achievements would have been possible without the hard work, commitment and dedication by the staff and leadership of the three entities (NHFC, RHLF and NURCHA.) I appreciate that we all embraced the change, of the establishment of One NHFC and as we journey to the creation of One HSDB.

I wish to thank the Executive team and staff for their tireless efforts and unmatched dedication - especially during such an exciting (yet unnerving) transitional phase. Your ability to embrace change is most laudable and your courage exemplary. Your commitment has undoubtedly ushered in a great deal of hope for the future.

I do acknowledge that keeping staff morale high of the three entities is a challenge, especially in the context of the delayed set of decisions, relating to the Consolidation transaction. In the meantime during this transitional stage, the retention of scarce skills from the three entities remains a priority.

To our strategic partners, we are sincerely grateful for the complementary and mutually beneficial relationships that we enjoy together. Our partnerships are of inestimable value. I also wish to acknowledge our funders for aptly responding to our request for approval to consolidate the three entities.

A hearty thanks to our clients, without whom we would not have been able to make such a difference to so many. Your involvement has touched the lives of many South Africans who have benefitted from our collective efforts.

SAMSON MORABA
Chief Executive Officer

Thembelihle project, Pretoria, Gauteng

SECTION

04

OUR GOVERNANCE AND RISK MANAGEMENT

CORPORATE GOVERNANCE

The NHFC governance report provides information on the performance and management relating to the most material governance, economic, social and environmental impacts of the organisation's activities. The scope includes NHFC and its operating subsidiary. The target audience is all stakeholders who have an interest in the NHFC's governance and sustainability performance, and includes regulatory authorities, the human settlements sector, civil society, current and potential customers, media and employees.

The reporting process has been guided by the principles and requirements contained in Generally Recognised Accounting Practice, the Global Reporting Index Sustainability Reporting Standards, King IV, the Companies Act, PFMA and other key statutes and regulations as pertain to the company.

The King IV Report was released on 1 November 2016 and applies for the financial year starting 1 April 2017. It 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:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

The application of King lV is on an apply and explain basis, and the practices underpinning the principles are entrenched in many of 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 lV.

The NHFC fulfils its mandate in a manner that is consistent with best practices and the continued upholding of the principles of integrity, fairness, transparency and accountability, as set out in the King Report.

The NHFC governance framework is also applied to its subsidiary CTCHC through the Terms of Reference of governance structures, setting out guiding corporate governance principles, to ensure that the business of the subsidiary is conducted in an ethical and responsible manner and to set key performance areas for monitoring.

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

GOVERNANCE AND LEADERSHIP HIGHLIGHTS

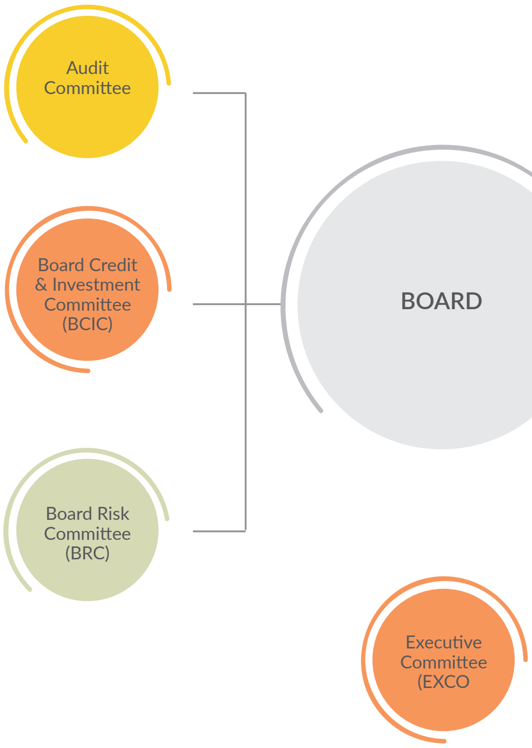
THE BOARD

The NHFC Board is incorporated under the Companies Act and is a state-owned company, wholly owned by the Department of Human Settlements. It is defined as a Schedule 3A state-owned entity under the PFMA.
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 performance against the APP which is a rolling three-year corporate plan which is prepared by the NHFC for its shareholder and National Treasury on an annual basis.

The Board discharges this responsibility within the powers set out in the 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 the Board reviews and approves each year. The management of day-to-day operations is delegated by the Board to the CEO, who is assisted by EXCO and its subcommittees.

NHFC'S BOARD GOVERNANCE STRUCTURE



ACCOUNTABILITY TO THE SHAREHOLDER

The Minister of Human Settlements (the Minister) represents the Shareholder's interests, as the Executive Authority determines the NHFC's mandate and holds the Board of Directors accountable for managing its operations within that mandate.

STRATEGIC OBJECTIVES AND PERFORMANCE MANAGEMENT

As provided for in Section 52 of the PFMA, a Shareholder Compact (the Compact) is entered into annually with the National Department of Human Settlements.

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

The Board reports to the Shareholder through quarterly reports as well as the Annual Report. The CEO, who is entrusted with the day to day management of the NHFC's operations, meets regularly and consults with the DHS and the Minister.

BOARD STRUCTURES AND FRAMEWORK

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

The Board discharges this responsibility within the powers set out in the MOI and the Board Charter.

BOARD COMPOSITION

Board members are appointed by the Minister. The MOI provides for a maximum of 12 members. However, the Minister has chosen to appoint 11 members currently.

With the exception of the CEO, the board members are all independent non-executive directors. The Chairperson is also appointed by the Minister. The Board members' extensive qualifications, experience and specialist skills across the industry, and within their own spheres of competence, enable them to provide balanced, independent advice and judgement in the decision-making process.

The positions of Chairperson and CEO are separate, with a clear division of roles and responsibilities, as defined in the Board Charter.

The Shareholder Compact is a concise overview of the roles, functions, responsibilities and powers of the CEO, the Board, and the interaction and relations with the shareholder, and is reviewed annually with the DHS. Through it, the Board retains full and effective control of the organisation by:

- Approving the organisational strategy, the APP and budget, and by monitoring executive management closely in the implementation thereof;
- Observing the legitimate interests of the shareholder;
- Monitoring operational and financial performance against the corporate Balanced Scorecard, by ensuring that the required control systems are in place;
- Reviewing the delegated authority policy that sets out the powers it delegates to management;
- Determining and nurturing the moral and ethical culture of the NHFC 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 and with its clients and stakeholders, and ensuring that all technology systems used by the company are adequate to guarantee effective and efficient performance; and
- Monitoring the socio-economic ethical compass of the NHFC and its interaction with its clients and stakeholders.

In accordance with government approved guidelines, at the annual general meeting of the company, the shareholder reviews and approves the remuneration for Non-executive directors for attending Board and Board Committee meetings, and these directors' fees are disclosed in the annual financial statements. The remuneration is reviewed in context against National Treasury Guidelines, the Department of Public Enterprise's Guidelines, comparison within the sector enterprises, a comparison with external service provider annual evaluation reports and internal policy guidelines.

The MOI provides that one-third in number of the longest serving Non-executive directors, will automatically retire at the annual general meeting of the company. These directors may allow themselves to be nominated for re-election for a further period of three years. Such re-appointment is confirmed by the shareholder. At the annual general meeting of the company held on 30 November 2017, Ms P Ramarumo, Ms A Houston, Mr J Coetzee and Mr S Ntsaluba automatically retired by rotation and were re-appointed by the shareholder for a further three-year period.

At the annual general meeting of the NHFC in November 2016, the Minister reconstituted the Board by appointing members from RHLF and NURCHA as well as advisors to the Minister, as part of the transitional phase towards the DFI Consolidation and the HSDB formation.

The Board endeavours to promote gender diversity, and acknowledges the benefits a truly diverse board would have in terms of race and gender representation. These are communicated to the Minister in her consideration of nominations to the Board.

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 and to ensure that there is a continuation of intellectual capacity and experience at all levels.

BOARD EVALUATION

It is the policy of the Board to arrange bi-annual external evaluations on its performance and effectiveness, as well as that of the Board committees. An evaluation was carried out for the year ended 31 March 2018 and there were no significant findings.

Succession planning is important in ensuring continuity and maintaining the correct mix of expertise.

NHFC Board

BOARD MEETINGS

The Board is required to meet quarterly, and additionally to approve the annual financial statements. It may meet more frequently as circumstances require. 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 below.

DIRECTOR NAME	29 JUNE 2017	20 JULY 2017	28 SEPT 2017	12 OCT 2017	30 NOV 2017	29 MARCH 2018
Prof M Katz (Chairperson)	√	•	√	√	√	√
Mr S Moraba (CEO)	√	√	√	√	√	√
Mr S Tati	√	√	√	√	√	√
Mr J Coetzee	√	√	√	√	√	√
Mr S Ntsaluba	√	√	•	•	√	√
Ms A Houston	√	√	•	•	√	√
Ms P Ramarumo	√	√	√	√	√	√
Mr A Harris	√	√	•	√	√	√
Mr E Godongwana	√	•	√	√	√	•
Ms T Chiliza	√	√	√	√	√	√
Mr K Shubane	√	√	√	√	√	√
	• Absent with permission					

BOARD CHARTER

The NHFC's Board Charter is reviewed annually and has been aligned with the DHS framework and King IV. The Charter gives a concise overview of the demarcation of roles, functions, responsibilities and powers of the CEO, the Board and the Shareholder.

NHFC Board members at the Stakeholders breakfast, Cape Town

COMPANY SECRETARY

In terms of the Companies Act and the PFMA, the NHFC is required to appoint a Company Secretary who is answerable to the Board. In addition to the standard responsibilities with respect to co-ordinating and tabling minutes at Board and Committee meetings, the Company Secretary also plays a pivotal role in the corporate governance of the organisation. The Company Secretary maintains an arm's length relationship with the Board and 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 NHFC.

ETHICS AND MANAGING CONFLICTS OF INTEREST

In line with the Companies Act and the King Code, the Board is bound to conduct the business of the NHFC in accordance with sound ethical principles. These are embodied in an internal document, the NHFC Code of Conduct (the Code). The Code 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 and Board committee meeting agendas, and in addition, all Board members and executive managers are required each year to provide a declaration, 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 Compact and Code, 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 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 NHFC, by arrangement with the Company Secretary or Board Chairperson.

BOARD AND STATUTORY COMMITTEES

All Board committees have clearly 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 from the shareholder, applicable legislation and regulations, governance standards, the strategic objectives of the NHFC, and to take account of prevailing underlying conditions in the human settlements sector. All the Board committees are chaired by Non-executive directors and the board Chairperson plays no active role in them.

Management attends 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 request further information where required. Guidance is also taken from external professional institutions and service providers, legal firms 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.

It is the practice of the NHFC to rotate the Non-executive directors among the various committees, and to rotate the Chairperson's position on each from time to time. This is to provide for robust interaction within the committees and to enable various members to bring their skills, new ideas and experience into play, when considering agenda items with management, without compromising the existing organisational and intellectual knowledge from the longer-serving committee and Board members. To this end, Non-executive directors may also be invited from other committees to assist in deliberations on cross-cutting agenda items.

Attention is given to the balance and the number of directors, skills and experience, and how many committees each director serves on, to ensure there is cross-pollination of input, understanding of the business, and robust interaction to drive the business and mandate of the company.

AUDIT COMMITTEE

The Audit Committee is composed of three independent Non-executive directors as per the Companies Act. The members are confirmed and appointed at each annual general meeting by the shareholder. The current serving members are Mr S Ntsaluba (Chairperson), Mr S Tati and Ms T Chiliza. The CEO, the Chief Financial Officer ("CFO") and various Executive managers attend meetings by invitation, as do the external and internal auditors. During the year, the committee holds additional in-camera sessions to consider the performance of the CFO, the performance and relationships with the internal and external auditors, and the underlying support of the Executive management in the performance of the audits.

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:

- Annual consideration of the Audit Committee terms of reference for confirmation by the Board;
- 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 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; and
- Review of and approval of quarterly reports to the shareholder as delegated by the Board.

The NHFC has an outsourced "whistleblowing" practice. All matters that may be raised, are reported firstly to an independent external third party, which records and assesses the items, and then they are handed on to the CEO and/or Chairperson of the Audit Committee, for investigation and subsequent action.

The internal audit function is outsourced to an external service provider, independent of the external audit function. The internal auditors conduct periodic reviews of the key processes related to the significant risk of the company and the subsidiary company, 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 (as required) 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. Since this is an outsourced function, it is reviewed every three to five years for the service provider to be appointed following an open tender process.

THE COMMITTEE HELD SIX MEETINGS DURING THE PERIOD UNDER REVIEW AND THE RECORD OF ATTENDANCE IS AS FOLLOWS:

DIRECTOR NAME	25 APRIL 2017	11 JULY 2017	28 JUL 2017	5 OCT 2017	27 OCT 2017	23 JAN 2018
Mr S Ntsaluba (Chairperson)	•	√	√	√	√	√
Mr S Tati	√	√	√	√	√	√
Ms T Chiliza	√	√	√	√	√	√
• Absent with permission						

BOARD CREDIT AND INVESTMENT COMMITTEE

The Board Credit and Investment Committee is comprised of five independent Non-executive directors and the CEO. Meetings are also attended by members of the management team.

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

- Annually reviews its terms of reference, 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, loan restructurings, bad debt write-offs or revaluation of investments where applicable, to other Board committees and the Board;
- Approves all loan applications for facilities between R25 million up to R160 million, upon recommendation by the Management Credit and Investment Committee. Loan facilities in excess of R160 million are referred to the Board for approval.
- Approves all long-term investment proposals (equity & quasi equity) up to R100 million. Investments proposals 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 meets at least four times a year, and more frequently if required. The record of attendance for the four Board Credit and Investment Committee meetings during the period under review is as follows:

DIRECTOR NAME	16 MAY 2017	7 SEPT 2017	4 DEC 2017	26 MAR 2018
Mr J Coetzee (Chairperson)	√	√	√	√
Mr S Tati	√	√	√	√
Mr S Moraba (CEO)	√	√	√	√
Ms T Chiliza	√	√	√	√
Mr A Harris	√	√	√	√
Mr K Shubane	√	√	√	√

MANAGEMENT CREDIT AND INVESTMENT COMMITTEE

The Management Credit and Investment Committee is an executive management subcommittee of the BCIC. It meets a minimum of four times a year and more frequently if required, before each BCIC meeting. It has its own terms of reference and, as a subordinate committee, is responsible for approving loan facilities up to, or cumulatively up to R25 million per client (which is reviewed annually and by the BCIC annually), and recommending amounts in excess of R25 million to the BCIC.

Southernwood Square, East London

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

Delegation of credit and investment approval

Board	Credit proposals • Above or cumulatively above **R160 000 000** Investment proposals (equity and quasi equity) • Above or cumulatively above **R100 000 000**
Board Credit & Investment Committee (BCIC)	Credit proposals • Below or cumulatively below **R160 000 000** • Above or cumulatively above **R25 000 000** Investment proposals (equity and quasi equity) • Below or cumulatively below **R100 000 000**
Management Credit & investment Committee	Credit proposals • Below or cumulatively below **R25 000 000** Investment proposals (equity and quasi equity) • All investment proposals are recommended to BCIC
Internal Credit Committee	• All credit and investment proposals are recommended to MCIC

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 at least four times a year and its responsibilities include:

- Review Code of Ethics and monitors compliance;
- Annually reviewing its Terms of Reference, 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;
- Reviewing and monitoring the HR audit findings;
- Considering and approving salary increases for all staff other than Executive Managers;
- Approving the implementation of bonuses and incentives for all staff other than for Executive Managers;
- Reviewing and recommending Executive Managers' salary increases and incentive bonuses to the Board for approval;
- Review the Provident Fund reports and ensure good stewardship of employees' retirement savings by the Board of Trustees;
- Reviewing the terms and conditions of Executive Managers' Service Agreements; and
- Annually reviewing and approving succession planning.

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 would 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.

The committee held four meetings during the year under review.

DIRECTOR NAME	9 JUN 2017	14 SEPT 2017	9 NOV 2017	14 MAR 2018
Mr K Shubane (Chairperson)	√	√	√	√
Mr S Ntsaluba	√	•	√	•
Ms A Houston	√	√	•	√
Mr S Moraba	√	√	√	√
• Absent with permission				

SOCIAL AND ETHICS COMMITTEE

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 (generally at the annual general meeting), on its monitoring of the NHFC in response to various principles and standards of the Organisation for Economic Cooperation and Development, the International Labour Organisation, the United Nations Global Compact and local legislation compliance.

In addition to the SEC executing its duties in terms of the Companies Act, it is also guided by King IV, the PFMA and various other mandatory legislation.

For good corporate governance purposes, the SEC extends its reporting to the main NHFC board. Quarterly reporting by executive management and board committees is facilitated by use of the international benchmark GRI G4 Reporting Framework.

As the SEC is collaborative in nature, its purpose is not to duplicate work done within the NHFC or by other board committees. The SEC therefore performs its oversight role within the NHFC 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 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.

The committee's terms of reference ensure that the NHFC's strategy has included the following social and ethics components in its execution:
- The NHFC 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 that are impacted by the NHFC;
- The NHFC promotes equality and also prevents unfair discrimination;
- The NHFC has established a Code of Ethics which includes the prevention of fraud, bribery and corrupt practices;
- The NHFC ensures the protection of human rights;
- The NHFC contributes to the development of the communities in which its business activities are predominantly conducted – which includes poverty alleviation and the beginning of wealth creation;
- The NHFC ensures that appropriate labour and employment practices are adhered to, both in terms of local legislation and the protocols specified in the Companies Act; and
- The NHFC has a framework and strategy for stakeholder engagement.

The Social and Ethics Committee had four meetings during the year under review and the record of attendance is as follows:

DIRECTOR NAME	21 JUNE 2017	5 OCT 2017	17 NOV 2017	26 MAR 2018
Ms P Ramarumo (Chairperson)	√	√	√	√
Mr S Moraba (CEO)	√	√	√	√
Ms Chiliza	√	√	√	√

A separate report for the Social and Ethics Committee is included on page 84 in this Integrated Report.

BOARD RISK COMMITTEE

The Board Risk Committee consists of six independent non-executive directors and is also attended by the CEO and Executive managers. It meets six times a year and its primary objective is to help the Board execute its responsibilities with respect to risk management.

In fulfilling its mandate the committee:
- Annually reviews its terms of reference, 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.

The committee held six meetings during the period under review.

DIRECTOR NAME	25 APR 2017	11 JUL 2017	28 JUL 2017	5 OCT 2017	27 OCT 2017	26 JAN 2018
Mr E Godongwana (Chairperson)	√	√	√	√	√	√
Mr S Tati	√	√	√	√	√	√
Mr S Ntsaluba	•	√	√	•	√	√
Mr J Coetzee	√	√	√	√	√	√
Ms P Ramarumo	√	√	√	√	√	√
Mr K Shubane	√	√	√	•	√	√
Mr S Moraba (CEO)	√	√	√	√	√	√
Ms T Chiliza	N	B	N	N	N	N

• Absent with permission
B By invitation
N Not applicable

DEVELOPMENT IMPACT AND STRATEGY COMMITTEE

The Development Impact and Strategy Committee consists of non-executive directors and CEO, and is also attended by Executive managers.

Its main objectives are to:

- Review and recommend the NHFC's strategy to the Board and to ensure that it is both relevant and responsive to the affordable housing market;
- Give the Board assurance that the NHFC's strategic objectives are aligned to the DHS's human settlements strategy;
- Review the strategic direction of the NHFC in relation to economic, supply and demand imperatives in the market;
- Recommend amendments to the NHFC's strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved;
- Monitor the NHFC's performance against the objectives set for developmental impact; and
- Monitor the impact of developmental activities on the NHFC's financial strategy.

The committee held three meetings during the period under review.

DIRECTOR NAME	16 MAY 2017	14 SEPT 2017	15 MARCH 2018
Mr S Tati (Chairperson)	√	√	√
Ms A Houston	•	√	√
Mr J Coetzee	√	√	√
Ms P Ramarumo	√	√	√
Mr E Godongwana	•	•	•
Mr A Harris	√	√	√
Mr S Moraba (CEO)	√	√	√
• Absent with permission			

In addition to the above, the Development Impact and Strategy Committee has been providing oversight and input into the business plan, financial model, policy and legislation for the formation of the HSDB.

GOVERNANCE OVER SUBSIDIARY COMPANIES

The NHFC is the sole owner of the 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, and which meets quarterly. The Chairperson of the CTCHC Board is the CEO of the NHFC, as delegated by the NHFC Board.

In addition, CTCHC has its own Audit Committee which meets quarterly and also reports to the NHFC Audit Committee. The annual financial statements, annual report, annual audit plan, and annual internal audit function are reviewed first by the CTCHC Audit Committee, before being referred to the NHFC Audit Committee.

CTCHC has appointed a Chief Operating Officer, but oversight of the operations and performance of CTCHC is managed by the NHFC Chief Operating Officer and the NHFC CFO.

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.

ASSOCIATE COMPANIES

The NHFC has board representation on associate companies to strengthen these companies' boards.

MANAGEMENT COMMITTEES

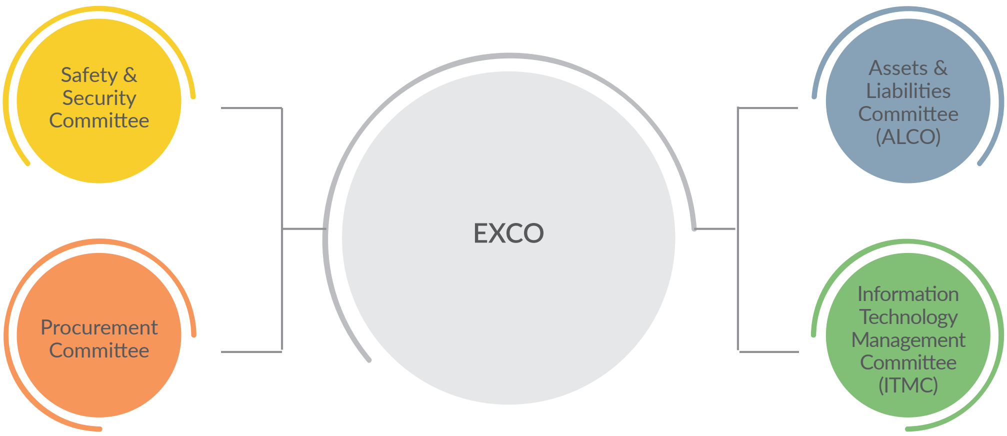
Executive Committee (EXCO)

EXCO comprises the Executive managers, who are involved in managing the NHFC's day-to-day business. EXCO has its own terms of reference and reports to the Board.

The main functions of EXCO 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 COMMITTEES



MANCO

A Management Committee ("MANCO") was established during the year comprising the Executive Management of NHFC, RHLF and NURCHA.

Its main purpose was to ensure the successful completion of all contractual conditions necessary to give effect to the DFI Consolidation, as well as to assist with the smooth transition of staff, assets liabilities and operations into the consolidated NHFC after the effective date.

In addition, MANCO commenced reviewing key policies and processes for NHFC board approval, that would be required to be in place for the consolidation.

Simultaneously, MANCO has also been spearheading the work required for the HSDB business case, financial model, policy and legislation. This has required interaction with the shareholder, the human settlements and DFI sectors and other key stakeholders. All work prepared for the HSDB is referred to DISC, then the NHFC Board, prior to handing over to the shareholder who assumes ultimate responsibility for the arrangement.

ASSETS AND LIABILITIES COMMITTEE

The Assets and Liabilities Committee is chaired by the CEO.

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

INFORMATION TECHNOLOGY MANAGEMENT COMMITTEE

The CEO chairs the Information Technology Management Committee.

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 the implementation thereof;
- 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 Chief Financial Officer chairs the Procurement Committee.

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 NHFC 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;
- Ensure compliance with South Africa's procurement laws and 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

The Safety and Security Committee is chaired by the General 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.

Thembelihle project, Pretoria, Gauteng

BOARD OF DIRECTORS

Prof. Michael Katz

Independent Non-Executive Chairperson

BCom LLB (Wits), LLM (Harvard Law School), LLD (hc) (Wits)

Mr. Sizwe Tati

Yakani Group

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

Mr. Samson Moraba

Chief Executive Officer

BCom (UNISA) PMD (HBS)

Mr. Johan Coetzee

Director of Companies

BA (UP), MBA (UP)

Ms. Phekane Ramarumo PR Pln

Chief Executive: Truly African Solutions

BA (Political Science) (U Limpopo) HD (PDA) (Wits), MRP (SUNYA, USA)

adership Team

Mr. Sango Ntsaluba

Executive Chairperson: NMT Capital

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

Mr. Enoch Godongwana

Independent Consultant

MSc Financial Economics (University of London)

Ms. Anthea Houston

CEO: Communicare NPC

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

Mr. Adriaan Harris

Innovative Financial Services Strategist and Entrepreneur

B Tech (DUT), Advanced Business Programme (DUT), MBA (UJ/Wales)

Ms. Thembi Chiliza

Acting CEO of KZN Financial Literary Association Trust

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

Mr. Khehla Shubane

Independent Consultant

BA Hons (Wits), MBA (Bond)

EXECUTIVE MANAGEMENT
AND PRESCRIBED OFFICERS

Mr. Samson Moraba
Chief Executive Officer
BCom (UNISA) PMD (Harvard Business School)

Mr. Lawrence Lehabe
Acting Chief Operating Officer
BCom (Zululand), MSc Marketing (National University of Ireland)

Mr. Zola Lupondwana
Acting Chief Financial Officer
BCom (Botswana), ACA, CFA, CA(SA)

Ms. Mandu Mamatela
Executive Manager: Corporate Strategy
BCom (Hons) (University of North West), MBA (PU for CHE), IDEP (UK) (Wits)

adership Team

Mr. Siegfried Mogane

Acting Executive Manager: Group Risk

BCom (UNISA), M Strat (UCT), Postgraduate Diploma in Management (Corporate Governance) (Monash)

Dr. Nomsa Ntshingila

Executive Manager: Human Resources

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

Mr. Andrew Higgs

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), Certificate Programme in Housing Finance (Wharton Business School), Housing Finance in Sub-Saharan Africa (Wharton Business School)

ENTERPRISE RISK MANAGEMENT REPORT

MANAGING RISK

Some State-owned entities made headline news for all the wrong reasons in the 2017/18 financial year, mainly in relation to state capture and non-compliance with laws and regulations. Compounding this, poor risk management and equally dismal governance made for a bleak outlook. Therefore, it can be said that the reputation of state owned entities as vehicles for delivering social development suffered immeasurable harm. However, we are glad to report that this is not the case where the NHFC is concerned. We are immensely proud to declare that the company has not – in any way – been party to using public resources for personal benefit nor have we been involved with structuring business opportunities and deals for the exclusive benefit of family and friends.

OUR COMPLIANCE

The company reviewed its Compliance Risk Framework, legislation, regulations and best practice codes that it complies with. Where gaps in our compliance framework were identified, the necessary corrective steps and measures were immediately put into place. The subsequent enhancement of the Anti-Money Laundering Policy and Financial Action Task Force Procedures are firmly in place. The NHFC is now in the process of aligning its compliance processes to the King IV Report on accepted governance principles and we hope to complete this work in conjunction with the development finance institutions that we are consolidating with - by the middle of 2018.

The NHFC also compared and reviewed the compliance processes of the three housing finance development institutions that are amalgamating with it. The NHFC Compliance Framework and Policies were adopted as policies of the consolidated entities on the effective date of the consolidation by the enlarged Board of the NHFC which comprises of members of the NHFC, NURCHA and RHLF.

ENTERPRISE WIDE RISK AND CREDIT RISK REPORT

ENTERPRISE WIDE RISK MANAGEMENT

The NHFC operates in the financial services space, and therefore, like any financial service institution, faces a myriad of risks that, nonetheless, offer opportunities for growth when managed effectively.

NHFC RISK FRAMEWORK

The Board is responsible for the governance of risk and has delegated the oversight of risk management to the Board Risk Committee. Risk management is governed in terms of Board-approved Risk Policy and Risk Appetite Statements.

A review of the NHFC risk management framework and policies by the three housing development finance institutions, resulted in the NHFC risk management framework and policies being recommended and approved. The policies of the NHFC will be the main framework adhered to when the combined entities take effect from the date of consolidation.

The following risks were identified as possible barriers to meeting our strategic objectives for the year. A concerted effort in managing the identified barriers, resulted in improved performance, growth of the advances book and profitability.

RISK	INHERENT RISK RATING	MITIGATION STRATEGIES
Credit risk	HIGH	Improved post-monitoring investment processes and achieved a credit loss ratio of 3% against a budget of 3% for the financial year (in the company accounts)
Investment risk	HIGH	This refers to the NHFC investing in equity and quasi equity with various strategic partners. NHFC did not seek new investment partners during the financial year.
Funding	HIGH	Received a grant capital of R100 million from the shareholder and therefore allowed for increased investment in the social housing space. However, no debt funding was secured in line with our short-term funding strategy.
Business performance	HIGH	Securing bankable property deals proved a challenge during the year due to prevailing economic conditions and business confidence.The NHFC advocated that the Department of Human Settlements increase the income band for the social housing target market. The request was approved. The increase in the social housing income band has resulted in increased loan approvals (post year-end) for social housing projects as the increase in the income band increased rental affordability.

INTERNAL CONTROLS

The focus on improving internal controls continued in 2017/18. Outsourced Risk and Compliance (ORCA) remained the NHFC Internal Auditor for the year. On average, controls were found to be adequate.

The effectiveness of the controls are as follows:

AREA	PERCENTAGE OF INTERNAL CONTROLS THAT WERE REGARDED AS EFFECTIVE	PERCENTAGE OF INTERNAL CONTROLS THAT WERE REGARDED AS INEFFECTIVE
Compliance	74	26
Lending	69	31
Credit Management	84	16
Supply Chain Management	37	63
HR Leave Management	67	33
Treasury	90	10
Finance	100	0

An action plan is in place to improve control effectiveness across all areas to at least 90%.

REPORT ON THE PROMISES OF 2017/18

The table below captures succinctly the promises we made in the integrated report of 2016/17 with respect to enterprise wide risk management.

Integrate risk divisions of NHFC, NURCHA and RHLF	Concurrent approval of the DFI Consolidation still outstanding.
Integrate the risk management framework and policies of the three entities into one	NHFC Risk and Compliance Framework and Policies adopted as the policies of the consolidated NHFC on effective date.
Further develop the Risk Appetite Statement	DFI Consolidation not finalised. NHFC Risk Appetite Statement approved by the Board. However, it does not encompass the other two DFI entities.

FOCUS FOR THE 2018/19 FINANCIAL YEAR

1. Integrate risk and compliance divisions of the three entities into one.
2. Enhance the compliance culture.
3. Comply to King IV recommendation on Risk Governance.

MANAGING CREDIT RISK IN THE 2017/18 FINANCIAL YEAR.

GOVERNANCE OF CREDIT RISK

The NHFC advances book comprise of the following books:

SOCIAL HOUSING

These are loans provided to Social Housing Institutions for the development of subsidised rental units. The loans are provided to established and start-up social housing institutions. Social housing loans have a loan term of 15 to 20 years.

PRIVATE RENTAL

These are loans to private landlords for the development of rental stock for letting to households who are in the monthly income bracket of R7 500 – R15 000.

WHOLESALE FINANCE

These are loans that are provided to Retail Finance Intermediaries who on-lend to households who are in the R15 00 – R1 5000 per month income bracket for the purpose of improving their living space conditions. NHFC has stopped providing finance for incremental loans purposes as the Rural Home Loan Fund is better able to service this segment of the low-income market.

RETAIL LOANS

These were mortgage loans that were granted to households to purchase their own homes. The Retail Business has been closed and the NHFC is now collecting the book.

HOW WE MANAGE CREDIT RISK

The management of credit is in terms of board-approved Credit and Investment Policies.

The following credit granting committees approve credit applications in terms of their delegated authority, for details on their delegated authority, refer to the Governance report on page 48 to page 63.

Internal Credit Committee: The Credit Division Internal Credit Committee assesses credit applications and makes recommendations to the Management Credit Committee. The internal credit committee comprises of the executive manager: credit, credit analyst, general manager: lending, general manager: legal and client managers.

Management Credit Committee: The Committee comprise of the Chief Financial Officer, Executive Manager: Credit, Executive Manager: Lending, General Manager: Finance, General Manager: Legal, General Manager: Lending, Credit Analyst and Client Managers. MCIC approves loans within their delegated authority upon the recommendation of the Internal Credit and Investment Committee.

Board Credit and Investment Committee: The Board Credit and Investment Committee approves loans in terms of their delegated authority upon recommendation by the Management Credit and Investment Committee.

Board: The Board is the ultimate credit granting authority for the NHFC and approves loans upon the recommendation of the Board Credit and Investment Committee.

LOAN APPROVALS

The number of loan applications received, assessed and approved has declined in this financial reporting period, as compared to the previous year. This was due to the prevailing low growth economic conditions and the fact that the economy is not creating jobs. With regard to social housing it was also subject to low deal flow as a result of the income band not having been adjusted for a number of years resulting in affordability challenges for the target market.

CATEGORY	NUMBER OF APPLICATIONS APPROVED	TOTAL VALUE OF LOANS APPROVED	NUMBER OF APPLICATIONS APPROVED	TOTAL VALUE OF LOANS APPROVED
	31 MARCH 2017		31 MARCH 2018	
		R'000		R'000
Social Housing	5	143 165	2	81 689
Private rental	6	159 045	3	310 984
Strategic investment	-	-	1	4 620
Total	11	302 210	6	397 293

The Department of Human Settlements has revised the social housing income bands with effect from 1 February 2018 and this should result in an increase in the number of social housing institutions applying for development loans. In addition, the implementation of the Catalytic Projects would, in the coming years, also result in an increase in the number of private rental developments.

Growth in Advances before impairments

CATEGORY	MARCH 2017 VALUE IN R'000	MARCH 2018 VALUE IN R'000	% GROWTH
Social Housing	786 366	872 086	18%
Private rental	635 598	752 577	11%
Incremental and Home Ownership	236 062	244 166	3%
Strategic investment	215 273	280 819	30%
Retail	244 478	223 033	(9%)

NB: Retail has been discontinued and the loan book value and number declines in line with full settlements of the loans.

The advances book growth was driven by disbursements on projects approved in prior years and are now being implemented.

CREDIT MATERIAL RISK

In this reporting period, Credit focused on improving performance and quality of the loan book. This has been achieved in comparison to the previous year as reflected by impairments and write-offs.

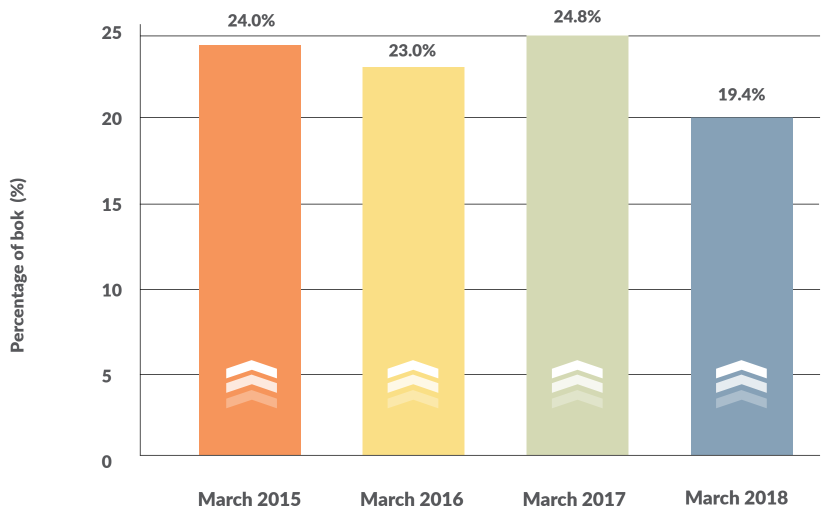
COMPANY ACCOUNTS	FY 2017	FY 2018
Current year's net impairment charge and bad debts (R000)	94 888	72 556
Gross loans & advances (closing) (R000)	2 117 775	2 339 586
Credit loss ratio (including bad debts)*	4.0%	3.0%

* Calculated as current year's net impairment charge and bad debts / average gross loans and advances

With a concerted effort being made in 2017/18 to manage the credit loss ratio, the company's final ratio for the year was 3.0%, which was in line with the budget of 3% as provided in the Annual Performance Plan.

The quality of the book, as a percentage of the gross loan book, has improved slightly with the non-performing book improving from 24.8% as at 31 March 2017 to 19.4% at March 2018. The quality of the loan book is a key performance indicator that is monitored closely by the NHFC's financiers, NHFC management and the board. The graph below reflects the historical trend of the non-performing book.

NON-PERFORMING LOANS (NPL) OVER TIME



A multi-pronged strategy was put in place to improve the quality of the book;

- Credit criteria was enhanced for new credit applications to ensure that they can withstand the demands of tough trading conditions;
- Intensified post-investment monitoring;
- The continued write-off of the loan book where the prospects of recovery remain weak/poor; and
- Restructured loans in order to give struggling projects displaying potential the prospect of recovery/rehabilitation.

EMERGING ENTREPRENEUR EMPOWERMENT PROPERTY FUND PROGRAMME (EEEPFP)

The NHFC has committed R240 million for a co-funding agreement with the Gauteng Partnership Fund. The EEEPFP funding is aimed at 100% Historically Disadvantaged Individuals (HDI) owned companies.

The programme is designed to promote participation of HDI companies in the affordable rental property market. The relationship is regulated by a co-funding agreement which spells out the responsibilities of each funder in the programme.

CHALLENGES

A number of the companies whose projects were approved in terms of the NHFC–GPF agreement faced challenges in the implementation of these projects, mainly because of lack of built environment skills and experience and business confidence.

THE IMPLEMENTATION OF THE PROJECTS WAS HAMPERED BY:

- Prolonged period to achieve break-even.
- Municipal delays for the approval of building plans and re-zoning.
- Extended construction periods leading to cost-escalation of the project.

The above challenges have led to a significant number of the projects being discontinued and most portfolio being identified as non-performing. Of the R195 million approved facilities 22% are performing and 16% are non-performing. While the balance of 62% are undrawn or projects which have been discontinued.

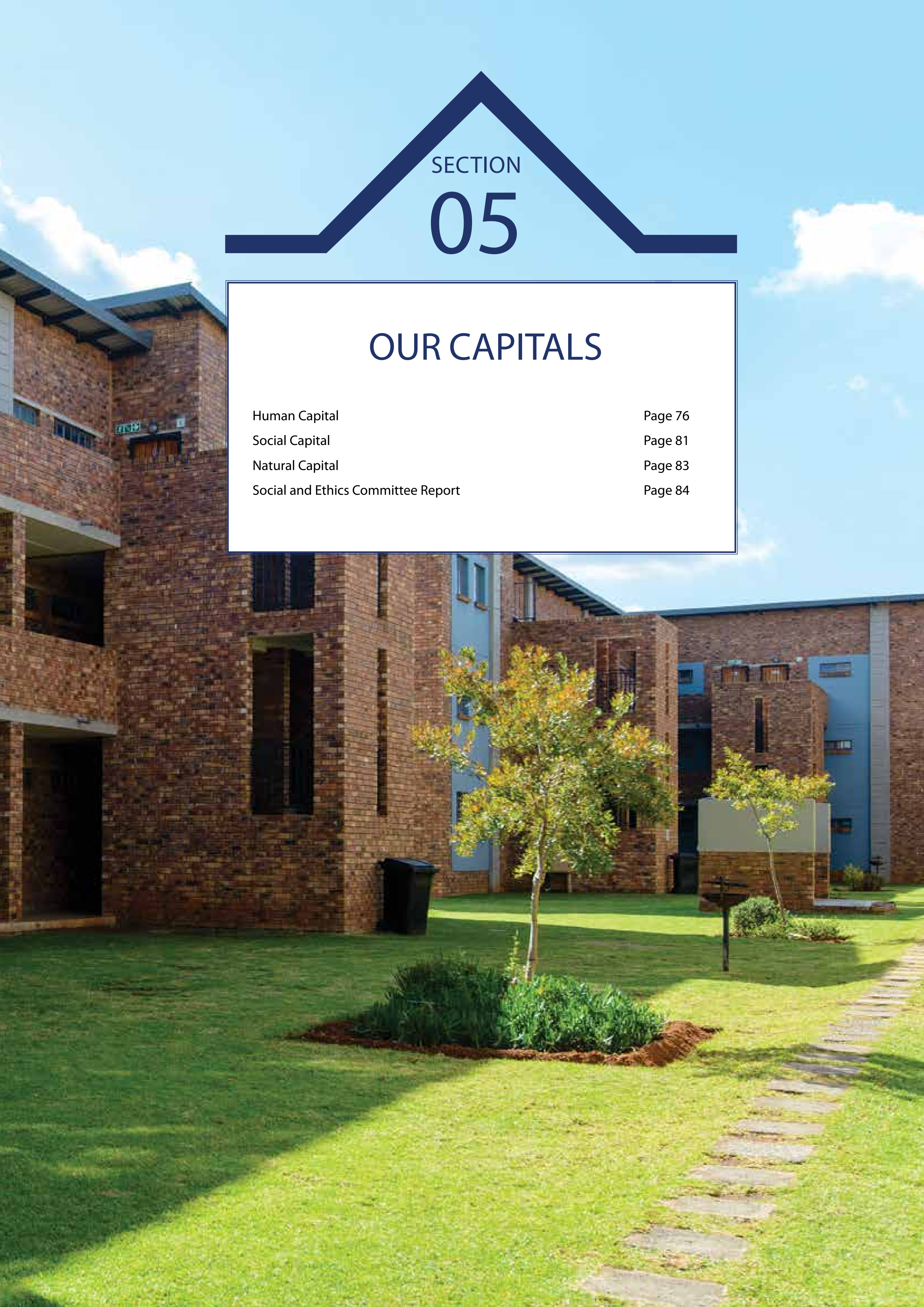
The GPF and NHFC are jointly exploring various interventions to improve the performance of these projects.

Sondela Village, Springs, Gauteng

SECTION

05

OUR CAPITALS



HUMAN CAPITAL

INTEGRATION OF OUR HUMAN CAPITAL

The NFHC had a twin peak expectation for the financial year 2017/18, the first was to deliver on its mandate - all six capitals and to make the DFI Consolidation a reality. Consequently, we were to ensure a smooth DFI employee integration through a change management process, while also managing the NHFC talent to ensure that it was able to deliver on its Annual Performance Plan successfully.

Operationally, issues of employee productivity in the face of change became central to talent management. This required doing more (ensuring consolidation happened and also maximising NHFC internal employee productivity) with less. As a result, we had to stretch our human capital resources. Consequently, despite the moratorium on recruitment employee productivity improved, and the company accomplished significant goals on both fronts.

Cost savings were partially realised as a result of the sharing of office space with RHLF and NURCHA from September 2017 thereby reducing rental costs. Further cost savings will be realised once the DFI consolidation is approved by National Treasury via cost savings such as audit fees, directors' fees and IT costs. The change management intervention, while it is still ongoing, has assisted in allaying employee's fears of being integrated. Coupled with this, the approved consolidated HR policy which harmonised the terms and conditions of employees in the three entities, will go a long way in facilitating the creation of a common culture among the consolidated NHFC employees.

EMPLOYEE WELLNESS

The NHFC has put in place a comprehensive wellness programme which addresses a broad range of employee health issues including physical, psychosocial, environmental, lifestyle health issues and management of personal finance. These are administered through a service provider and managed through company policies and procedures.

In the period under review, to mitigate the leadership health risk, annual Executive medical assessments were done. Furthermore, an Employee Wellness Day was held to manage NHFC employee's health risk, by screening all our employees for chronic diseases such as diabetes and HIV/AIDS.

In addition, employees received advice on Nutritional Health. Employee participation on both programmes (Executive medical assessments and Wellness day) was satisfactory.

However, the utilisation of the employee wellness service remains low. For the year under review only 19% of employees utilised the programme. This figure is slightly lower in comparison to the previous financial year, although this percentage is still satisfactory in contrast to the market average.

EMPLOYEE DEVELOPMENT

Our investment in employee training and development has strengthened our employer brand. This includes building the leadership pipeline and technical depth of our employees' capabilities in order to drive our current and future goals. To this end, all our General Managers attended a "Leadership through Change" training programme to equip them to navigate through the current change process. Evidence of this, is a smooth operational transition and our current financial year end performance in the face of enormous challenges.

Our training spend is a testimony of our belief in employee development and efforts. While we planned to train 80% of staff within budget, we actually trained 90% of our employees on various technical skills.

Furthermore, our experiential learning programme is beginning to bear fruit. Since we embarked on an experiential learning programme in 2013 which entailed offering bursary schemes to needy African students from previously disadvantaged institutions of higher learning, taking in newly qualified students on a one-year internship programme, and offering a year-long learnership to students from the Setas for one-year working experience, we recruited 42 learners through our experiential learning programme.

Of the learners who went through our experiential learning, six (14%), were employed by the organisation, actually reducing the cost of recruitment dramatically. In the current year, out of eight learners, we employed one. Furthermore, our under graduate students sponsorship contributes towards a country-wide skill development mandate and youth career advancement quest.

Employee satisfaction is of utmost importance to the NHFC. We are sensitive to the point that employees are our brand ambassadors, impacting every area of our operation. Consequently, we conducted a change readiness assessment. The feedback and recommendations from the process have formed the basis for action plans put in place to address identified areas.

NHFC values an ethical culture and leadership. In keeping up with this ideal, the NHFC leadership, including board members were taken through King IV and Ethics training. In addition, the executive team members attended a Director Training, offered by the Institute Of Directors in Southern Africa (IODSA). This training is aimed at instilling values of ownership and accountability in the leadership, thus further refining leadership capabilities.

LEGISLATION COMPLIANCE TRAINING AND DEVELOPMENT

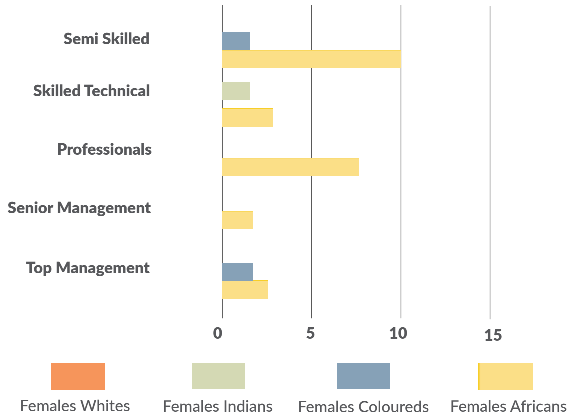
Compliance with relevant statutes and legislation is very important at the NHFC, therefore, in fulfilling the Skills Development Act imperative, we had planned to train at least 80% of staff, and however this expectation was exceeded in all categories of staff development with 90% of staff ultimately receiving training. In line with the Act, the NHFC submits its Workplace Skills Plan (WSP) to the BANKSETA annually. In the period under review, we have submitted and implemented the 2017/18 WSP report successfully.

Annually, to comply with South African Revenue Service (SARS) regulations, we compile EMP502's twice a year, (February and October). Likewise, we have complied with the relevant (SARS) legislation. Consequently, all income tax returns (IRP 5) were distributed to employees for them to report on their annual taxes.

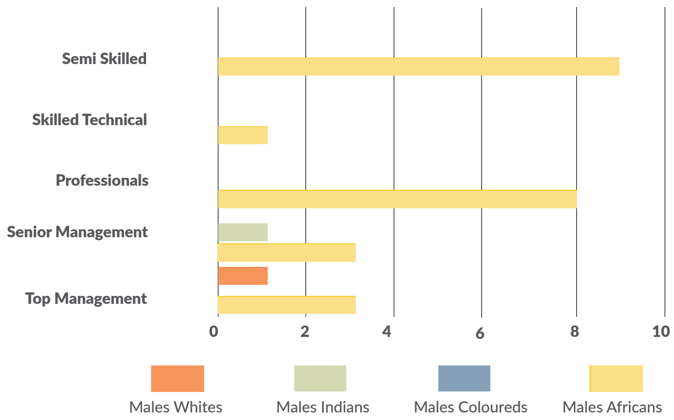
We have developed a Health and Safety policy and procedure to give effect to the Occupational Health and Safety Act (OHSA), also, to ensure that both employees and external visitors to the organization remain safe on the workplace premises. We also have employees who are nominated to officiate as trained Health and Safety representatives in different occupational health roles, as another precautionary measure for the safety and health of our employees.

THE GRAPHS BELOW DENOTES TRAINING CONDUCTED IN COMPLIANCE WITH THE PLANNED WSP ACCORDING TO GENDER:

Training by occupational level females



Training by occupational level males



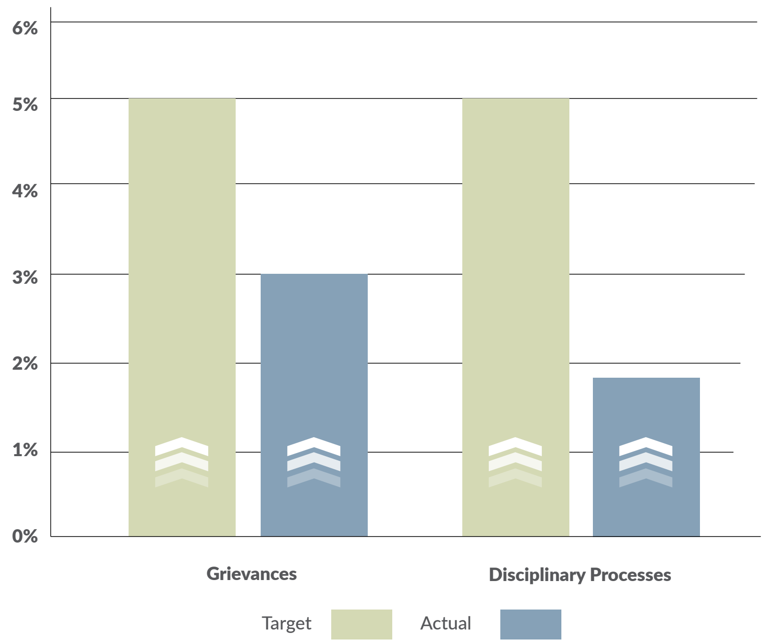
The NHFC planned to conduct two annual health and safety drills in line with health and safety requirements, in order to familiarize employees with their work environment and in anticipation of an emergency. In the year under review, only one drill was carried out. However, there were no health hazard incidents reported to the Compensation Commissioner.

LABOUR PRACTICE AND GRIEVANCE MECHANISMS

The NHFC and its employee representative union partner, continue to enjoy a cordial working relationship through a recognition agreement. As a result, during the current financial year salary negotiations, a settlement was reached on staff salary increases for financial year 2018/19. Similarly, consultation on the changes in the draft consolidated HR policies were held.

Consequently, our employee/employer staff relationship is also good. There was only one (2%) disciplinary process conducted against 5% provided for. Although, there were two (4%) grievance processes noted also against (5%) planned, these were resolved amicably. Furthermore, the CCMA matter which was referred for arbitration, by our ex-employee, because of a dispute on the process of boarding for health reasons was settled.

2017/2018 labour processes



EMPLOYMENT EQUITY

Employment Equity reporting and implementation remains part of our measurement on how we are transforming our workplace demographics to achieve racial integration in the workplace.

As stipulated in the Employment Equity Act, each workplace ought to have demographics which mirror those of the country, in order to actively redress the imbalances that were created during the apartheid regime in the workplace.

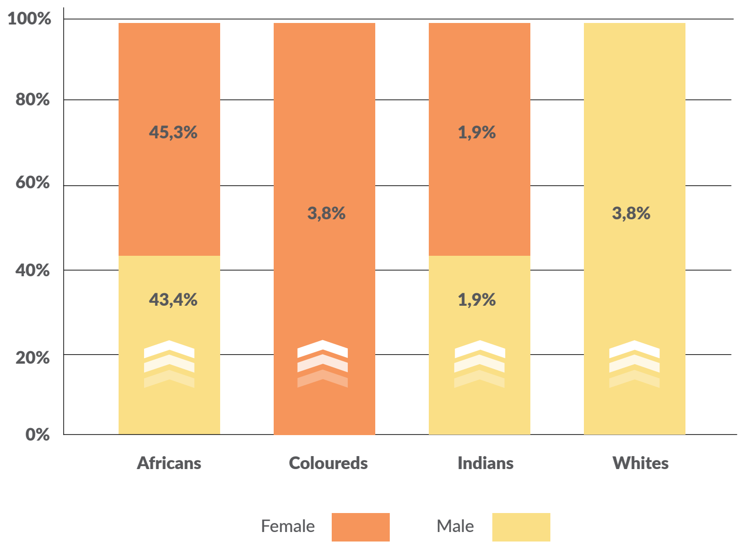
While the NHFC's demographics largely remain in line with the aims of the Act (there are more people of black descent, and fewer of those who are white), we acknowledge that this can be improved upon, to ensure that we are in line with employment equity objectives we set for ourselves.

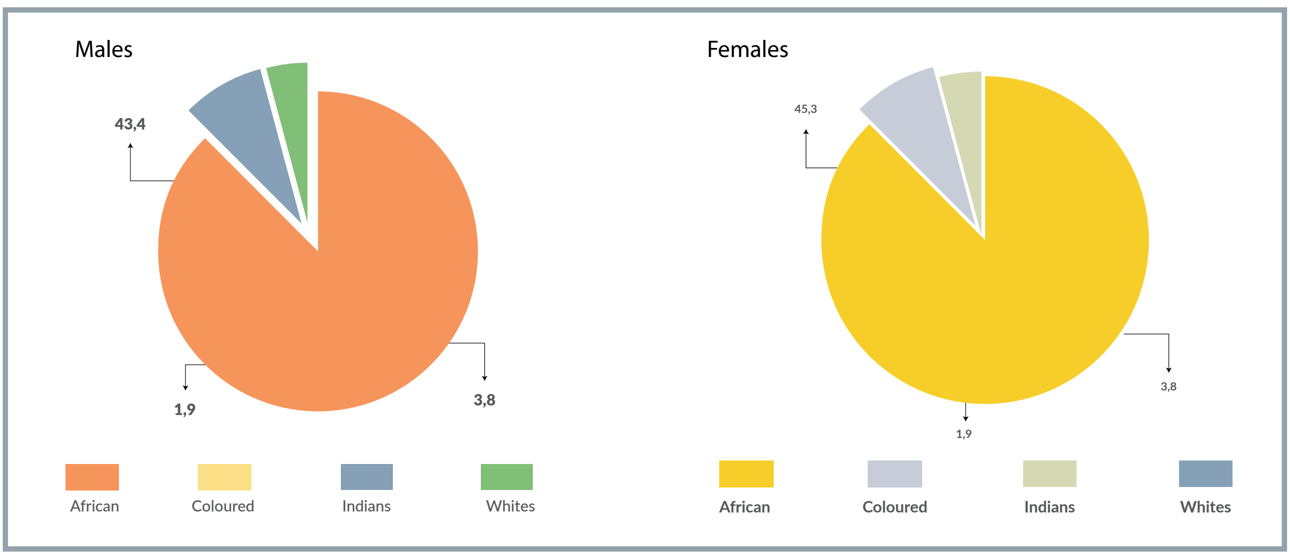
For the year under review, the NHFC submitted the Employment Equity report which was acknowledged by the Department of Labour. We will report on the performance against this plan in the 2019 financial year.

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

BELOW ARE THE NHFC DEMOGRAPHICS AS AT 30 MARCH 2018:

Male/Female Ratio 2018





REMUNERATION AND EMPLOYEE RELATIONS

NHFC and the employee representative trade union amicably agreed on a 7% salary increase for employees in the bargaining unit. In line with the Board mandate, the salary increase for NHFC employees is 6.5%.

Our staff salary increase is a function of our attempt to alleviate the effects of inflation on our staff, as well as a reflection of our employee performance against their given targets. As a result, while all our employees will get a salary increase, in implementing it, differentiation on the basis of performance is factored in.

Linked to this, are performance incentives which are based on both individual and company performance as measured against set targets (annual performance plans), as well as what the company can afford. When bonuses are declared, the awarding thereof to employees is also based on their cumulative consistent annual performance as a contribution to the achievement of the company's planned annual objectives. Furthermore, each employee bonus is awarded according to their individual employment contracts.

Similarly for executives, theirs is a three-year rolling cycle incentive scheme, based on the Department of Public Enterprise Remuneration Guidelines for Executive Managers. This is linked to the executive's three-year performance contracts. The executive management's three year rolling incentive scheme is also aimed at retaining them, at least for the three-year performance contract period or its renewal thereafter. As a result, the incentive long-term portion pay-out is deferred.

However, due to the delays in the DFI consolidation process, an executive decision to award the full incentive payments instead of doing so in tranches (as envisaged in the three year rolling scheme) was taken. This was done to avoid carrying over the financial liability to the DFI, which is envisaged to be effective in the financial year 2019.
In the reporting period, no unfair labour practice claim was instituted against the NHFC on the basis of unequal remuneration. In line with its policy of equal remuneration and non-discrimination against individuals on the basis of gender or race, the company ensures that there is equal pay for work of equal value. To this end, two organisation design processes are undertaken (an annual remuneration survey which is done by a credible external service provider to benchmark the NHFC executive remuneration to that of other State-Owned Entities of its size and complexity, as well as a job evaluation which measures the relative worth of the job in the market).

Going forward, when the three DFI entities are merged, and when the 'Organisation Design" proposed in the Business Case is approved, all jobs will be subjected to an evaluation process to determine their worth in the market, in keeping up with the policy of equal remuneration for equal work.

HUMAN RIGHTS AND LABOUR PRACTICES

The Corporation continues to observe the International Labour Organisation (ILO) labour standards as enshrined in the fundamental conventions. Through its policies and practices, the NHFC subscribes to the following protocols:

- Prohibition of child labour;
- Compulsory labour;
- Freedom of association;
- Elimination of Discrimination in Employment and Occupation; and
- Security practices and Human Rights Grievance Mechanism.

During the period under review, no infringements were identified relating to the above Human Rights and Labour practices.

TALENT MANAGEMENT

As a result of the DFI consolidation process, which also meant taking stock of each of the DFI entities' human resources, we planned to put a moratorium on recruitment of external resources. This meant increasing the workload of our current resources to ensure that we achieved our mandate expectation.

Therefore, in the reporting period, with the departure of some of our employees (CFO, Strategic investment manager, a paralegal administrator and a retirement of a client manager), certain employee movements were necessary to plug in the gaps. We have promoted the Lending financial analyst to the GM role, and we are in the process of recruiting for her previous role, because it is a key role and there was no suitable candidate internally. The Executive manager: Credit was appointed to act until the end of financial year 2018/19 in the role of Chief Financial Officer. Whereas the Executive manager: Corporate Support Services was also asked to act as the Chief Risk Officer, providing oversight on both Credit and Enterprise-wide Risk, for the same period. Plans are advanced to replace the client manager who went on retirement as well as the Strategic Investment Manager, as both roles are vital to our lending business.

With the new bigger entity (HSDB) underway, the succession pool will also be bigger (to include employees from NURCHA & RHLF) to nurture employees who will be identified as successors or to populate key roles in the consolidated NHFC.

SOCIAL CAPITAL

The social value created by the NHFC through its disbursements and partnerships is explained throughout this report. The most profound social outcome effected by the corporation relates to the provision of decent affordable housing for large numbers of South African individuals and families. In addition, the NHFC is instrumental in creating social value through programmes that create social capital advancement, one of these being the Finance Linked Individual Subsidy Programme. The FLISP is a grant that is provided to first time homeowners by provincial governments. It was developed to facilitate sustainable and affordable first-time home-ownership opportunities to South African citizens and permanent residents earning between R3 501 and R15 000 per month.

SOCIAL IMPACTS

During the 2017/18 fiscal year, the NHFC has endeavoured to create meaningful interactions on a social scale. Our involvement has seen the NHFC sponsor a number of beneficiaries and sponsoring the Govan Mbeki awards entrepreneurs' and Women's Categories. The total CSI spend was R 1 21 903.00.

CORPORATE COMMUNICATIONS AND MARKETING

The Corporate Communications and Marketing (CC&M) department has been intrinsically involved in the amalgamation of not only the three DFI's, but also in creating and helping the new staff to assimilate our corporate culture at the NHFC. We are, therefore, extremely proud to contribute in meaningful ways towards the continuance of the NHFC's social capital.
Towards this end, we have made strides and have highlighted key initiatives that we have undertaken along the journey. The department has been instrumental in creating staff cohesion and improving morale, especially for those who migrated from the 2 DFI's into the NHFC.

The initiatives include:

CHANGE MANAGEMENT WORKSHOP

As part of the DFI on-boarding programme, a staff change management workshop was conceptualised and coordinated. Feedback from the full-day, all NHFC (HSDB) staff workshop was overwhelmingly positive and the energy and enthusiasm displayed by all staff was fantastic to see.

NHFC (HSDB) SHARED LEARNING SESSIONS

Product knowledge presentations were scheduled for all staff to understand the product offering of each of the 3 DFI's. The keen interest displayed by staff, their engaging questions and the presenters' depth of understanding of the subject matter brought meaning to the sessions. Plans are afoot to hold more sessions for specific programmes in the foreseeable future.

WELCOMING NURCHA AND RHLF INTO THE FOLD

An event was organised where the NHFC welcomed NURCHA and RHLF employees into the ranks of the NHFC, this, following their move to the NHFC premises. Additionally, in celebration of Heritage Day, a braai was also organised for all HSDB staff – conducted in a more social and informal setting. In the spirit of curtailing costs, employees were requested to make monetary contributions towards the event so as to prevent unnecessary wastefulness and fruitless expenditure.

HSDB CORPORATE BRAND DEVELOPMENT PROJECT

The establishment of a new entity, namely, the HSDB necessitates the development of a new corporate identity. To this end, CC&M engaged the Vega School of Branding and Design to assist with the development of a corporate brand identity for the HSDB. During the brand development process all staff members were extensively involved. Much progress has been achieved and a new corporate brand identity will be finalised in due course.

OTHER OUTREACH INITIATIVES

The department conducted various other initiatives to facilitate a greater understanding of the environment that we work in, the stakeholders involved and the people we serve.

These engagements include, advancement of NHFC objectives and comprised product launches, public engagement projects, exhibitions (unrelated to the HSDB), and participation in the Govan Mbeki Human Settlements awards.

TRANSFORMATION

The NHFC adopts a zero-tolerance approach to all forms of unfair discrimination. We support the principle of transformation as an effective way to redress historical inequality, to facilitate broader social development and to give the people we serve the opportunity to live productive and happy lives – starting with, first and foremost, the provision of homes. In the period being reviewed, a great many housing opportunities have been made available through NHFC funding.

Transformation is as much a part of our values, strategy and business processes as it is our ethical business practice. It includes and directs how we engage and develop our workforce, our procurement spend and distribute the value we create. To this end, we have exceeded our plans on employee development for the period being reviewed. For our procurement (22 %) of our expenditure was spent on BBBEE companies.

We understand that inadequate attention to transformation, and a lacklustre performance can negatively affect our company's reputation and decrease the social and relationship capital that has been painstakingly built with government, communities, investors, customers and developers.

HOW WE MANAGE TRANSFORMATION

The NHFC's transformation objectives are closely monitored and reviewed by the Social and Ethics Committee. Performance is measured against the Broad-Based Socio-Economic Charter of the Department of Human Settlements and directives from the office of the Minister of Human Settlements.

Transformation principles are integrated into our business processes and compliance is managed as part of the relevant business function.

ENTERPRISE SUPPLIER DEVELOPMENT

Enterprise development (ED) is embedded in all of NHFC's activities. This is aligned with the transformational objectives of the government to see increased and sustained participation of black people, women and other historically disadvantaged individuals in the economy.

Our procurement and Lending practices demonstrate that we are committed to doing our part to help realise this objective.

Emerging Entrepreneur Empowerment Property Fund Programme ('EEEPFP')
The Emerging Entrepreneur Empowerment Property Fund Programme (EEEPFP) is a co-funding arrangement between the NHFC and the Gauteng Partnership Fund (GPF) aimed at 100% Historically Disadvantaged Individuals (HDI) owned companies. The programme is designed to promote participation of HDI companies in the affordable rental property market.

An amount of R332 million has been set aside with the NHFC portion being R233 million as senior debt funder and GPF R100 million.R130 million of the senior facility has since been taken up with 18 HDI's having benefitted from the programme, translating into 698 housing opportunities.

Supplier Development (SD)
NHFC acknowledges the importance of BBBEE as a critical component of achieving sustainable and inclusive economic growth.

NHFC aims to optimise its contribution to BBBEE in the execution of its mandate as a State Owned Entity.

Our supplier development programme aim to enable those smaller, black-owned enterprises that are already supplying the company to increase their business with us, and their capacity to supply more broadly.

NHFC preferential procurement expenditure for 2017/2018 has decreased by 2%.This is mainly due to expenditures curbed, pending the DFI consolidation.

FINANCIAL YEAR	2016/2017	2017/2018	DECREASE
Preferential Procurement	R19 390 080.81	R18 990 550.84	2%

Central Supplier Database
To do business with NHFC, suppliers must be registered on National Treasury's CSD system and have their BBBEE status level verified and with this system all South African businesses registered will gain access to market.

NHFC continues to maintain its non-monetary strategy regarding the development of suppliers which includes preferential procurement and payment terms.

Generally, Small and Medium-sized Enterprises (SME's) and Qualifying Small Enterprise (QSE's) have cash flow concerns and require shorter payment periods to ensure their business remains sustainable. We also give these small suppliers advice and access to knowledge in areas where they may be lacking (e.g. procurement and legal issues). Loss reviews are also conducted by the NHFC to suppliers who are not successful to give reasons why they were not awarded the contracts.

NATURAL CAPITAL

At the NHFC we are committed to making sure that our clients are aware of and adhere to environmental legislation. Construction of affordable housing units must be undertaken in an environmentally and socially responsible manner. Our ongoing research exercise aimed at establishing a dedicated fund which will subsidise green building initiatives will culminate after the establishment of the HSDB. During the period under review, our focus was aimed at influencing new and existing clients to reduce environmental impact with the main focus being energy consumption and the reduction of water usage and wastage.

HIGHLIGHTS

Environmental initiatives are one of the most important considerations of our project feasibility criteria. Environmental monitoring which is included in our construction clients monthly project reporting has ensured the following outcomes:

- Continued compliance with SANS 10400-XA and SANS 204; and
- Monitoring application of initially proposed sustainability initiatives.

Of the developments approved for the year in review, 1 188 of 1 325 units will be developed with some of the following client proposed environmental measures:

- Maximizing building heat gain and by orientating blocks towards a northern direction;
- Aluminium windows and doors designed to have low e-type glass which ensures optimum energy efficiency as regulated by SANS 10400-XA;
- The installation of heat pumps;
- Installing rainwater harvesting systems for landscaping purposes;
- The planting of hardy, drought resistant indigenous plants and landscaping to reduce the effect on the water table; and
- The utilisation of solar geysers as part of the construction plan.

OVERCOMING CHALLENGES

Certain environmental initiatives undertaken by our clients can be done at a minimal cost with long term servings. However the broader initiatives impact on the initial capital investment, which has had a direct effect on project viability. This remains a constant challenge in the current economic environment.

THE FUTURE IS GREEN

Through continued engagement with the Green Building Council of South Africa, we encourage our clients to utilise the Excellence in Design for Greater Efficiencies rating tool for residential developments. Utilising this tool can provide a saving of up to 20% in water, electricity and embodied energies. With this initiative, the NHFC intends to ensure that there will be measurable impact and water saving measures to our nationwide pipeline and in particular the Cape Town pipeline.

SOCIAL AND ETHICS COMMITTEE REPORT

The Social and Ethics Committee (SEC) has been established in terms of section 72 (4) of the Companies Act and is constituted as a committee of the NHFC board. The mandate of the SEC is to report to the shareholder on its monitoring of the activities of the NHFC. For good corporate governance purposes, the SEC extends its reporting to the main NHFC board and does this in line with best practice and using an internationally benchmarked GRI G4 framework.

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

The SEC executes its duties in terms of the Companies Act which references specific pieces of other South African legislation, principles and standards of the Organisation for Economic Cooperation and Development, the International Labour Organisation and the United Nations Global Compact. It is also guided by the King IV Code on Corporate Governance and the PFMA.

It is noteworthy that King IV Code has acknowledged the increased oversight role of Social and Ethics committees and spelt out the responsibilities for SEC. These include oversight of, and reporting on, organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships, and its statutory and regulatory duties. Consequently, the board committees for Risk, Credit and Investment, Development Impact and Strategy and Human Resources Ethics and Remuneration prepare quarterly framework reports for SEC. In addition, SEC notes the NHFC Risk profile, various policies, terms of references and committee charters, ethics management and roll-out on the NHFC, Marketing and Communications activities, BEE compliance, as well as progress on the DFI Consolidation and towards the establishment of the Human Settlements Development Bank.

Since SEC is a monitoring committee, actual verification work rests with executive management and the actual numbers are confirmed by Internal Audit. SEC also maintains a joint arrangement with the Audit Committee.

During the year ending 31 March 2018 the following have been the focus areas of the NHFC:

UNITED NATIONS GLOBAL COMPACT:

- Under the National Environment Management Act there has been the provision of housing through the formal review of funding applications of housing providers or investment institutions that have implemented impact assessments and development programmes.
- In terms of the Employment legislation, the supply chain evaluations have ensured that there are no violations of freedom of association or collective bargaining with suppliers and clients. In addition, it has been confirmed 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 standards regulations, environment standards, use of environmental friendly materials, and adherence to heritage and fauna standards. Furthermore, specialised training has been arranged with the Green Building Council of South Africa.
- In terms of National Treasury Frameworks on Combatting Crime and Fraud and associated legislation, confirmation has been received that there have been no incidences of fraud or fines imposed, and the required compliance certificates have been issued to National Treasury.

PROMOTION OF EQUALITY UNDER THE BBBEE ACT AND ANCILLARY LEGISLATION HAS INDICATED THE FOLLOWING PERFORMANCE:

9 615
Jobs created

R329 million
Spend on BBBEE women and youth

1 087
Beneficiaries impacted

7
Learner placements

7
Bursaries awarded

Implementation and testing of initiatives to mitigate the environmental impact of products and services, including the use of protective clothing and adherence to safety measures both on sites and in the company.

STAKEHOLDER ENGAGEMENT AND MANAGEMENT:

- A HSDB stakeholder consultative workshop was convened in response to the Minister's directive for the DFI's to consult broadly with stakeholders with the intent to solicit their views and expectations of the new HSDB. The key messages revolved around:
  - The HSDB must focus on getting the basics right. Clients need certainty and dependability when it comes to eligibility criteria and project evaluation processes.
  - The HSDB must have a clear strategy and which gives clear direction and strategic focus. A broad set of strategic objectives with supporting balanced score cards will help building an efficient and effective organization.
  - The HSDB must be innovative. There are opportunities in partnerships and in the development of new technologies that can be used to disrupt as well as to transform the human settlements finance sector.
  - The NHFC was involved in coordinating and overseeing the HSDB stakeholder breakfast hosted by the Minister of Human Settlements in May 2017, following the Minister's Budget Vote Speech presentation. Stakeholders were requested to contribute ideas and innovation inputs towards the establishment of the housing bank.
  - Sponsorships have been facilitated for R28 000 in total which have purchased furniture for a Military Veterans family in Gauteng.
  - The NHFC staged an exhibition at the African Construction and Concrete Expo with branding and collateral material. In addition, the company sponsored an exhibition at the Mangosuthu University of Technology hosted by the Minister and the Vice-Chancellor.
  - New content has been developed and will be placed as a modal form overlaying the website home pages of NURCHA and RHLF.

DFI CONSOLIDATION

- A number of events have been organized as part of the on-boarding process for the physical integration of the three DFI's. These activities have also been implemented with the objective of improving overall staff morale and participation during the transition process.
- This includes a welcoming event, periodic get-togethers, a Heritage Day braai (which costs were covered by employees), and change management workshop. It is noted that the Internal (staff) stakeholder is key in ensuring that the consolidation becomes successful.
- As part of the DFI consolidation process, product knowledge presentations were scheduled for all staff to understand the product offering of each of the three DFI's.
- A process is underway to develop a new brand identity for the HSDB. The Vega School of Branding and Design has been enlisted to facilitate this project.

ILO PROTOCOL AND SOUTH AFRICAN LABOUR LEGISLATION:

- All employees have received training on the HR policies and reviews and over 90% have received additional formal training in leadership, technical matters, continuing professional development and on the job training. In addition, a recognition agreement has been signed with the Union.

NHFC staff at the change management workshop

CORPORATE GOVERNANCE:

- All the required legislative and regulatory corporate governance protocols are in place, the Annual Performance Plan and Shareholder's Compact have been submitted to the shareholder, all CIPC compliance is in place, codes on ethics and employee's values are in place and all key risk, IT and remuneration frameworks are in place.
- The Code of Ethics was reviewed in conjunction with the Human Resources, Ethics and Remuneration Committee.

As this report is presented, the final outstanding Conditions Precedent for the DFI Consolidation are almost completed. We expect the NHFC to operate as the Consolidated entity from the new financial year. This in turn will have the result that the composition of the internal committees and structures will require to be reviewed to include RHLF and NURCHA participants as well.

The DFI Consolidation activities towards the HSDB are dependent on the legislative requirements being in place.

Thembelihle project, Pretoria, Gauteng

SECTION

06

FINANCIAL PERFORMANCE

CFO'S REPORT

ZOLA LUPONDWANA

> *The NHFC presented a pleasing set of financial results despite a challenging macro-economic environment which had an adverse impact on our client base in the property sector.*

Riverside Mews, Parkland, Cape Town

The NHFC presented a pleasing set of financial results despite a challenging macro-economic environment which had an adverse impact on our client base 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 also aided by the effective management of our cash and cash equivalents which continued to generate strong investment returns.

OPERATING RESULTS

The key drivers of performance of the NHFC remain the loan book growth, cost and risk reflective pricing, loan book quality, operational efficiency, and the funding structure of the company.

For a number of years, the NHFC has struggled to achieve above inflation growth in the net loans and advances. However, this year the growth in the net loan book was above inflation at 15% year on year. However, this did not all translate into the requisite growth in lending income (interest on advances) which increased by 4% in the consolidated accounts primarily due to a slight drop in the repurchase rate, the continued negative impact of suspended interest on select non-performing accounts, as well as the disbursements being skewed towards the last quarter of the financial year. At 60% of the total asset base, loans and advances are a critical driver of revenue growth.

The lower than budgeted disbursements, at R382 million versus a budget of R463 million, related to the challenging trading environment where the NHFC saw fewer bankable property transactions.

This resulted in investment income of R70 million for the year against a budget of R24 million for the year mainly as a result of significantly larger than budgeted cash available to invest in money market instruments. Clearly the plan for the NHFC is to ensure that it maintains an optimal level of cash and cash equivalents and rather have it deployed in residential projects, generating more sustainable lending income.

Impairments and write-offs were R62 million in the current financial year against a budget of R90 million for the year which translated into a credit loss ratio of 2.7% against a budget of 3.0% for the year. The lower impairments and write offs were a positive respite for the group after a challenging two years in 2015/16 and 2016/17 where the credit loss ratio was at 8.4% and 3.0% in the consolidated financial statements. The significant review of the loans and advances in the prior years, an improving post investment monitoring process, as well as an adjustment in the credit criteria for new applications resulted in the lower credit loss ratio in the current year.

Operational efficiency remains a cornerstone of the strategy of the NHFC and this continued to yield positive results during the year through savings with respect to mainly outsourced services and employment costs. The cost to income ratio at group level was 42% in the current financial year against a budget of 52% and 43% in the prior year.

The surplus in the consolidated accounts at R101 million was a significant improvement on the budget of R22 million as well as the prior year of R45 million. As noted above, the key drivers of this performance have been continued operational efficiency and lower impairments and write offs (from better portfolio management) which have negated the lower than budgeted lending income.

STRATEGIC INVESTMENTS

Besides the NHFC's core business of lending typically through asset backed loans, the company has a deliberate strategy of diversifying its income stream through investing selectively, through a variety of financial instruments in companies that are innovative and playing a role in being front runners in developing the affordable housing finance market in areas that are largely ignored by the private sector. In that regard, the NHFC has investments in IHS, HIP, TUHF and CTCHC which all play a unique role in the market place.

KEY FINANCIAL INDICATORS

			ACTUAL MARCH 2018	BUDGET MARCH 2018	ACTUAL MARCH 2017	ACTUAL MARCH 2016
Return on equity	%	Group Company	3,2% 3,2%	0,5% 0,6%	1,6% 0,3%	-0,8% -2,0%
Return on assets	%	Group Company	2,9% 3,0%	0,7% 0,8%	2,6% 1,6%	-1,8% -2,8%
Cost to income ratio	%	Group Company	41,6% 39,8%	52,0% 46,0%	43,0% 39,0%	41,0% 42,0%
Credit Loss ratio (inc bad debts)	%	Group Company	2,7% 3,0%	3,0% 3,0%	3,0% 4,0%	8,4% 9,0%

The NHFC is a significant investor in IHS which is a private equity fund that is focused on the affordable housing market. Their second fund, which had an initial close in July 2014, has gained traction in the market place and to date R2.1 billion has been raised in equity and quasi equity. This capital will be matched with approximately R4.2 billion of debt funding to build a total of 10 000 to 12 000 residential units over the life of the fund (a ten year period). If opportunities in social housing are fully exploited by the fund, the number will increase to 15 000 to 17 000 residential units. While the NHFC has not yet recognised income from the fund, it is expected that the investment will provide satisfactory returns for the NHFC from 2019/20 onwards.

HIP is specialist investment vehicle that provides innovative income linked mortgage loan finance to home owners. The NHFC has impaired its investment in equity and well as shareholders loans and currently generates income from its sub-ordinated junior debt investment. It is hoped that HIP will gain traction in the market place through securing addition capital to grow its loan book. This is crucial if the company is to achieve long-term sustainability.

TUHF has continued on its steady growth in a tough trading environment. Besides being an investor in equity in TUHF (with the NHFC holding 33% of the issued share capital), the NHFC has exposure to a preference share and senior debt investment.

SUMMARISED CONSOLIDATED FINANCIAL PERFORMANCE

	MAR-18 R MILLLION	MAR-17 R MILLION	MAR-16 R MILLION
Interest on lending operations	182	175	156
Interest on investments	70	63	42
Sale of houses	18	35	116
Non-interest revenue	22	5	7
	292	278	321
Cost of sales	-16	-32	-94
Net impairments and bad debts	-62	-59	-188
Gross surplus	214	187	39
Operating expenses	-113	-104	-90
	101	83	-51
Other income	18	20	16
Finance costs	-18	-20	-22
Deficit/surplus before tax	101	83	-57

SUMMARISED CONSOLIDATED FINANCIAL POSITION

	MAR-18 R MILLLION	MAR-17 R MILLION	MAR-16 R MILLION
Loans and receivable-advances	2 085	1 819	1 809
Equity investments	180	173	134
Instalment sale receivable	110	122	129
Investment property	96	91	88
Other non-current assets	2	2	40
	2 474	2 207	2 200
Property developed for sale	66	73	96
Money market investments and cash	864	959	815
Other current assets	56	43	32
Total assets	3 460	3 282	3 143
Net assets	3 125	2 924	2 756
Other financial liabilities	249	283	317
Funds under management	53	39	45
Other current liablitites	33	36	25
Total net assets and liabilities	3 460	3 282	3 143

After a rigorous appraisal process, the NHFC approved an additional R200 million investment in senior debt in TUHF over the financial year. This is expected to provide much needed capital as the business grows its foot print in the country.

CTCHC is a wholly owned Cape based property developer which was initially a partnership between the NHFC and the City of Cape Town. In the prior year, a strategic decision was taken to sell the business.

The entity continues to be a drain on the resources of the NHFC through impairments, interest suspension and generating operating losses. A process to sell the business was unsuccessful. As a result, the NHFC started a process to streamline CTCHC's operations in order to achieve a break even point on a monthly basis from September 2018 onwards.

FINANCIAL POSITION, COVENANTS AND CASH

With the noted decrease in impairments and write-offs charge in the current financial year, the strength and quality of the loan book reflected an improvement with the non-performing loan book as a percentage of the gross loan book decreasing from 24.8% (1 April 2017) to 19.4% at financial year-end which remains above our medium to long term target range of 12% to 15%.

The focus of the group remains intensifying the post investment monitoring process, restructuring select loans and also enhancing the front end of the appraisal process through rigorous stress testing of applications to ensure that projects can withstand the vagaries of a challenging trading environment, should this continue.

The total impairment provision as a percentage of the gross loan book increased slightly from 4.7% (1 April 2017) to 5.9%. The NPL coverage ratio increased marginally from 27.8% to 28.6% over the year. The NPL coverage ratio is a measure of the amount of specific impairment provisions held against the NPLs and management expects to recover the unimpaired portion through realisation of securities and other recovery methods.

The liquidity of the NHFC remains strong primarily as a result of strong treasury management, improved collections (on loans and advances), and the receipt of R100 million from our shareholder earlier in the financial year. The group's consolidated cash and cash equivalents (including short-term money market instruments) were at R864 million at year end and R848 million in the company accounts.

After a challenging environment with respect to the sovereign credit rating, the pressures eased off towards the end of the year primarily due to the outcome of the ANC elective conference.

In November 2017, Global Credit Ratings affirmed the NHFC national scale ratings of A+ and A1 in the long and short term respectively with the outlook accorded changing to stable from negative. Furthermore, Global Credit Ratings maintained the NHFC's international scale long term local currency rating of BB with the outlook as negative.

The respite in credit downgrades on sovereign debt as well as in private sector companies is most welcome as it is expected that business confidence will improve as well as much needed fixed investment.

Funding liabilities remain quite low at the NHFC and comprise of two multilateral loans secured at very favourable rates by the NHFC. The debt to equity ratio of the NHFC group remains low at 8% with funding being heavily skewed towards shareholder funds. The long-term plan is for the NHFC to change the funding mix in order to raise additional debt funding from select development finance institutions and fund managers on a concessionary basis. This is especially the case with the focus on fiscal consolidation and changing budget priorities of the Government. This will require greater focus on achieving sustainable operating cash flows to ensure ability to service the debt.

While the NHFC was able to meet its loan covenants from its funders, the ratios relating to asset quality remain under strain.

OUTLOOK

Various consumer and business confidence indices has shown an improvement in the first half of 2018. Combined with the adjustment in the qualifying Social Housing income bands in February 2018, the short-term outlook for securing bankable property transactions has improved. The focus of the company will be on seeking to diversify its funding sources (especially in debt markets), maintaining operational efficiency and continuing to enhance portfolio management processes.

In addition, with respect to the pending DFI consolidation, the policies, processes and systems are receiving much needed enhancement and improvement to deal with the expected increased scale in business.

ZOLA LUPONDWANA
Acting Chief Financial Officer

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Members	Prof Michael Katz (Chairman) Ms Thembi Chiliza Mr Johan Coetzee Mr Enoch Godongwana Mr Adrian Harris Ms Anthea Houston Mr Samson Moraba (Chief Executive Officer) Mr Sango Ntsaluba Ms Phekane Ramarumo Mr Khehla Shubane Mr Sizwe Tati
Postal address	PO Box 31376 Braamfontein 2017
Bankers	Standard Bank of South Africa Limited
Auditors	Auditor General of South Africa
Company registration number	1996/005577/30

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The financial statements were prepared by Mogotsi Oepeng (Financial manager) under the supervision of Zola Lupondwana, CA (SA) the acting 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 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 2018, 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 2019, 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 98 to 100.

The annual financial statements, set out on pages 102 to 168, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 July 2018 and were signed on their behalf by:

PROF MICHAEL KATZ
Chairperson

MR SAMSON MORABA
Chief Executive Officer

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 2018, 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

INDEPENDENT AUDITORS REPORT

REPORT ON THE AUDIT OF 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 set out on pages 102 to 168, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the 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 2018, and their financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP), the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 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 the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and 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 code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

OTHER MATTERS

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

Previous period audited by a predecessor auditor

7. The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act on 31 July 2017.

Responsibilities of the accounting authority for the financial statements

8. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP, the requirements of the PFMA and the Companies Act and for such internal control as the accounting authority determines it necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

9. 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 accounting authority 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

10. 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.

11. 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.

INDEPENDENT AUDITORS REPORT CONTINUED

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

12. 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 material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the group. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did 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.

14. 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 programmes presented in the annual performance report of the group for the year ended 31 March 2018:

PROGRAMMES	PAGES IN THE ANNUAL PERFORMANCE REPORT
Programme 1: Expand housing finance activities through effective provision of housing finance opportunities	165 – 166
Programme 2: Facilitate the increased and sustained lending by financial institutions	166 – 167

15. 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.

16. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

PROGRAMME 1 – EXPAND HOUSING ACTIVITIES THROUGH EFFECTIVE PROVISION OF HOUSING FINANCE OPPORTUNITIES

Indicator: Number of beneficiaries benefitting (factor of 3.3)

17. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the target 10 068 number of beneficiaries benefiting. This was due to an inadequate technical indicator description and proper performance management systems and processes that predetermined how the achievement would be measured and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 10 068 as reported in the annual performance report.

PROGRAMME 2 – FACILITATE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS TO THE LOWER END OF THE HOUSING MARKET

Indicator: Number of beneficiaries benefitting (factor of 3.3)

18. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of target 85 029, number of beneficiaries benefiting. This was due to an inadequate technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 85 029 as reported in the annual performance report.

OTHER MATTERS

19. I draw attention to the matters below.

Achievement of planned targets

20. Refer to the annual performance report on pages 165 to 168 for information on the achievement of planned targets for the year and explanations provided for the over achievement and under achievement of a number of targets.

INDEPENDENT AUDITORS REPORT CONTINUED

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of all selected programmes. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

22. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the group with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

23. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

24. 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 assets and liabilities identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and Contract Management

25. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by treasury regulations 16A6.1.

Other information

26. 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 those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

27. My opinion on the consolidated and separate 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.

28. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

29. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have no matters to report in this regard.

Internal control deficiencies

30. 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 the performance report and the findings on compliance with legislation included in this report.

Financial and Performance Management

31. Management did not ensure adequate review and monitoring which resulted in material non-compliance on the quality of the submitted annual financial statements, procurement and contract management and material findings on predetermined objectives.

Auditor-General

PRETORIA
14 September 2018

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 48 to 63 of the Intergrated 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 2018 audit was completed without any restrictions on its scope. The Audit Committee is satisfied that the external auditors are independent of the group.

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 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 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 2018 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the audited 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.

CHAIRPERSON OF THE AUDIT COMMITTEE
Date: 26 July 2018

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 16 to 24.

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 14 to 15.

FINANCIAL RESULTS

The financial results of the NHFC for the year under review are set out on pages 105 to 162.

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.

BUSINESS PERFORMANCE RESULTS

The business performance against predetermined objectives for the year under review is set out on pages 163 to 168.

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.

During the year the NHFC was recapitalised by the Shareholder in the amount of R100 million.This was the last tranche of the approved budget allocation of R300 million over the Medium Term Expenditure Framework period.

A further allocation of R80 million and R50 million in 2018/19 and 2019/20 respectively has since been confirmed by the Shareholder.

DIRECTORATE AND SECRETARIAT

Details pertaining to the directors and company secretary appear on pages 64 to 65 and 52.

EXTERNAL AUDITORS

After serving as external auditors for five years from financial years 2011/12 to 2016/17, SizweNtsalubaGobodo Incorporated retired as external auditors of the NHFC.

The NHFC appointed the Auditor-General South Africa for the financial year ended 31 March 2018.

THE RETIREMENT OF THE CHIEF FINANCIAL OFFICER

Zonia Adams, the Chief Financial Officer resigned on 28 February 2018 after serving in this position for over ten years.

DIRECTORS' REPORT CONTINUED

Zola Lupondwana, who was the previous Executive Manager: Credit for the last four and half years, has been appointed the Acting Chief Financial Officer effective from 1st March 2018.

DFI CONSOLIDATION

In the previous financial year, the Directors of the NHFC outlined critical milestones achieved towards the consolidation of the three Human Settlements development finance institutions. The directors of the NHFC also highlighted that, to give effect to the transaction, was dependent on the fulfilment of various suspensive conditions as per the donations agreements. The agreements seek to seal the transfer of assets and liabilities of National Urban Reconstruction and Housing Agency (NURCHA) and Rural Housing Loan Fund (RHLF) into the NHFC.

We report that at the end of the 2017/18 financial year, a substantive number of the suspensive conditions, worth highlighting the approval of the respective funders of the three entities has been achieved. The only remaining factor being an approval in terms of the PFMA, which requires the Minister of Finance sign off.

While every effort was well spent towards fulfilling the legal aspects of the consolidation phase, the physical location of staff in common premises was critical towards the concerted efforts of integration. The year under review was characterised by organisational change management processes, engaging organised labour, IT integration and alignment of policies, all in preparation for the consolidated NHFC.

The process of establishing the Human Settlement Development Bank (HSDB) is being undertaken in parallel to the above consolidation. The HSDB Policy has been approved by the relevant structures, the drafting of the Business Case and the Enabling Legislation are in the final stages of consultation and drafting.

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 160 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 63.

EVENTS AFTER THE REPORTING DATE

CAPE TOWN COMMUNITY HOUSING COMPANY (PROPRIETARY) LIMITED (CTCHC)

CTCHC is a wholly owned subsidiary of the NHFC. After a protracted tender process to sell CTCHC, none of the bidders were able to provide an offer to satisfy the NHFC's requirements and to maximise the value that could be obtained from the sale. As a result, the bid process was terminated in June 2018 as all bids failed.

In the light of the current structure of the company, slow business pipeline and continuing operating losses in CTCHC, the Board of CTCHC recommended in its meeting in June 2018, to begin a process of restructuring in order for the business to break even on a monthly basis by September 2018.

DIRECTORS' REPORT CONTINUED

This is in the light of the significant historical operating losses incurred, and interest income that the NHFC has suspended over the last couple of years for project loans advanced to CTCHC.

SUBSIDIARIES AND ASSOCIATES

The NHFC's investments are disclosed in notes 8 to 12 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 165 to 168.

IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

During the year, the NHFC incurred R2.95 million of irregular 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 34 of Annual Financial Statements.

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 2018 was approved by the Board of Directors on 30 July 2018 and is signed on their behalf by:

PROF MICHAEL KATZ
Chairperson

MR SAMSON MORABA
Chief Executive Officer

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2018

		Group		Company	
	Note(s)	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Interest on advances	1	181 786	174 770	172 954	175 106
Interest received on investments	1	70 325	62 519	69 700	61 938
Rental income	1	13 548	3 848	10 961	1 172
Dividends received	1	8 348	884	8 348	3 530
Sale of houses	1	17 685	34 783	–	–
Revenue		291 692	276 804	261 963	241 746
Cost of sales	2	(16 435)	(31 814)	–	–
Net impairments	4	(40 893)	200 488	15 910	164 211
Bad debts	4	(20 832)	(259 099)	(88 466)	(259 099)
Gross surplus		213 532	186 379	189 407	146 858
Other operating income	3	14 406	15 557	8 562	8 819
Administrative expenses	4	(89 388)	(88 879)	(78 918)	(77 035)
Other operating expenses	4	(23 491)	(15 054)	(21 379)	(12 885)
Surplus before tax		115 059	98 003	97 672	65 757
Fair value adjustments	4	–	–	18 601	4 580
Share of profit of an associate		3 988	5 180	–	–
Finance costs	5	(18 532)	(19 770)	(18 532)	(19 658)
Surplus before taxation		100 515	83 413	97 741	50 679
Income tax expense	6	–	(37 837)	–	(43 419)
Surplus for the year		100 515	45 576	97 741	7 260

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

		Group		Company	
		2018	2017	2018	2017
	Note(s)	R'000	R'000	R'000	R'000
Assets					
Non-Current Assets					
Loans and receivables – advances	7	1 955 383	1 477 328	2 041 383	1 627 114
Investment in associate	12	180 215	173 204	156 504	137 903
Property, plant and equipment	13	1 269	930	1 121	868
Intangible assets	14	835	814	833	811
Instalment sale receivables	15	105 779	116 188	–	–
Investment property	16	96 222	91 124	60 000	58 400
		2 339 703	1 859 588	2 259 841	1 825 096
Current Assets					
Loans and receivables – advances	7	129 991	341 656	168 124	344 672
Properties developed for sale	17	65 539	72 844	–	–
Instalment sale receivables	15	4 600	6 297	–	–
Other receivables and prepayments	18	21 935	10 650	29 265	17 322
Held to maturity investments	19	534 032	601 229	534 032	601 229
Cash and short term deposits	20	330 443	358 113	313 680	340 765
Income tax receivable	6	33 912	32 554	33 912	32 554
		1 120 452	1 423 343	1 079 013	1 336 542
Total Assets		3 460 155	3 282 931	3 338 854	3 161 638
Liabilities					
Non-Current Liabilities					
Other financial liabilities	24	216 586	249 274	216 086	248 773
Long term payables	27	10 990	11 501	-	-
		227 576	260 775	216 086	248 773
Current Liabilities					
Funds under management	23	52 672	39 225	52 672	39 225
Other financial liabilities	24	32 394	33 269	32 394	32 394
Provisions	25	18 004	19 034	17 436	18 483
Trade and other payables	26	4 304	5 938	5 001	5 239
		107 374	97 466	107 503	95 341
Total Liabilities		334 950	358 241	323 589	344 114
Net Assets		3 125 205	2 924 690	3 015 265	2 817 524
Issued capital	21	842	842	842	842
Share premium	21	879 158	879 158	879 158	879 158
Grant capital	22	730 000	630 000	730 000	630 000
Retained earnings		1 463 469	1 362 954	1 405 265	1 307 524
Non distributable reserves		51 736	51 736	–	–
Total Net Assets		3 125 205	2 924 690	3 015 265	2 817 524
Total net assets and liabilities		3 460 155	3 282 931	3 338 854	3 161 638

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2018

	Issued capital R'000	Share premium R'000	Total share capital R'000	Non–distri–butable reserves R'000	Grant capital R'000	Total reserves R'000	Retained earnings R'000	Total net assets R'000
Group								
Balance at 01 April 2016	842	879 158	880 000	28 525	530 000	558 525	1 317 378	2 755 903
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	45 576	45 576
Grant	–	–	–	–	100 000	100 000	–	100 000
Share of associates reserves	–	–	–	23 211	–	23 211	–	23 211
Total changes	–	–	–	23 211	100 000	123 211	45 576	168 787
Balance at 01 April 2017	842	879 158	880 000	51 736	630 000	681 736	1 362 954	2 924 690
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	100 515	100 515
Grant	–	–	–	–	100 000	100 000	–	100 000
Total changes	–	–	–	–	100 000	100 000	100 515	200 515
Balance at 31 March 2018	842	879 158	880 000	51 736	730 000	781 736	1 463 469	3 125 205
Note(s)	21	21	21		22			

	Issued capital R'000	Share premium R'000	Total share capital R'000	Non–distri–butable reserves R'000	Grant capital R'000	Total reserves R'000	Retained earnings R'000	Total net assets R'000
Company								
Balance at 01 April 2016	842	879 158	880 000	–	530 000	530 000	1 300 264	2 710 264
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	7 260	7 260
Grant	–	–	–	–	100 000	100 000	–	100 000
Total changes	–	–	–	–	100 000	100 000	7 260	107 260
Balance at 01 April 2017	842	879 158	880 000	–	630 000	630 000	1 307 524	2 817 524
Changes in net assets								
Surplus for the year	–	–	–	–	–	–	97 741	97 741
Grant	–	–	–	–	100 000	100 000	–	100 000
Total changes	–	–	–	–	100 000	100 000	97 741	197 741
Balance at 31 March 2018	842	879 158	880 000	–	730 000	730 000	1 405 265	3 015 265
Note(s)	21	21	21		22			

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2018

		Group		Company	
	Note(s)	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cash flows from operating activities					
Receipts					
Sale of goods		17 685	34 783	–	–
Interest, rental and dividend income		252 250	235 461	240 206	232 540
Other income		7 951	9 645	5 605	5 259
		277 886	279 889	245 811	237 799
Payments					
Employee costs		(69 775)	(35 704)	(61 968)	(30 211)
Net cash payment to suppliers		(31 761)	(68 758)	(28 789)	(46 467)
Finance costs		(18 532)	(19 770)	(18 532)	(19 658)
Net cash payment to customers		(331 149)	(53 915)	(310 275)	(47 653)
Taxation paid		–	(9 550)	–	(9 550)
		(451 217)	(187 697)	(419 564)	(153 539)
Net cash flows from operating activities	28	(173 331)	92 192	(173 753)	84 260
Cash flows from investing activities					
Additions to property, plant and equipment	13	(1 062)	(553)	(933)	(527)
Proceeds from sale of investment property	16	–	30	–	–
Addition of other intangible assets	14	(358)	(463)	(356)	(463)
Investment in associate		–	(6 533)	–	(6 533)
(Increase)/Decrease in Held to Maturity Investment		67 197	(130 944)	67 197	(130 944)
Net cash flows from investing activities		65 777	(138 463)	65 908	(138 467)
Cash flows from financing activities					
Repayment of borrowings		(33 563)	(34 528)	(32 687)	(33 317)
Movement in funds under management		13 447	(5 658)	13 447	(5 658)
Grant capital		100 000	100 000	100 000	100 000
Net cash flows from financing activities		79 884	59 814	80 760	61 025
Net increase/(decrease) in cash and cash equivalents		(27 670)	13 543	(27 085)	6 818
Cash and cash equivalents at the beginning of the year		358 113	344 570	340 765	333 947
Cash and cash equivalents at the end of the year	20	330 443	358 113	313 680	340 765

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2018

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 2018 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 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 2018.

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 Group 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 Group 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

The fair value of the Company's investment property is determined using the capitalisation of net income method of valuation based on a capitalisation rate of 11,5%. Such rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised income by the purchase price. This yield is based on information derived from market analysis. Comparable sales in the immediate vicinity reflect a capitalisation rate in the region of 11,5%. For the Group, the valuation is based on open market value for existing use.

Transfers are made to investment properties from properties-developed-for-sale when there is a change in use.

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 30 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

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.

(b) Investment in subsidiaries
Investment in a subsidiary is 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.

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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

(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
Computer equipment	33.33%
Computer software	33.33%
Funiture and fittings	16.67%
Motor vehicle	25%
Office equipment	16.67%
Leasehold improvement	period of lease

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

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

Properties developed for on-selling are measured at the lower of cost and net realisable value. The cost of the properties for on-selling comprises the cost of purchase, cost of conversion and other costs incurred in bringing the properties developed for on-selling to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

Development expenditure is included as directly attributable costs incurred in bringing properties developed for on-selling to their present location and condition.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

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

(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 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 financial instruments 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

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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

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 the 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 performance 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.

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 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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

- 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.

Instalment sale receivables

Instalment sale agreements 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.

Instalment sale receivables are initially recognised at the net investment in the instalment sale 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 instalment sale 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

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 28.

(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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

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 entiy 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 events 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 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

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:

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.

ii) Revenue from non-exchange transactions
Revenue from non-exchange transactions refers to transactions where 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

(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.

(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 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.

The nature OR type of properties classified as held for strategic purposes are as follows:

(p) Related party disclosures
Related parties are identified as being those parties that control or have significant influence over NHFC and those parties that are controlled or significantly influenced by 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.

(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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

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.

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.

1.7 NEW STANDARDS AND INTERPRETATION

The applicability of the following standards of GRAP has been prescribed by the Minister of Finance for financial years beginning on or after 1 January 2018:

GRAP 105: Transfer of Functions between entities under common control
This standard establishes accounting principles for the acquirer in a transfer between entities under common control.

Grap 106: Transfer of functions between entities not under common control
The Standard establishes accounting principles for the acquirer in a transfer of functions between entities not under common control.

Grap 107: Mergers
The standard establishes accounting principles for the combined entity and combining entities in a merger.

GRAP 18: Segment Reporting
This standard will provide accounting principles for accounting for segment reporting in both separate and consolidated financial statements.

In the case where both conslidated and separate financial statements are presented, segment report presented will be in relation of consolidated financials.

The following accounting standards, amendments to standards and interpretations, have been approved but not yet effective:

GRAP 20: Related parties
This standard will provide information about identifying related party relationships and transactions, identifying outstanding balances, including commitments, between an entity and its related parties, identifying the circumstances in which disclosure of these items is required and determining the disclosures to be made about those items in the consolidated and separate financial statements of the reporting entity.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

The Group has not yet quantified the potential impact of the new standard on the Group. Effective date not yet gazetted by the Minister of Finance.

GRAP 32: Service Concession Arrangements: Grantor
The Standard will prescribe the accounting for service concession arrangements by the grantor, a public sector entity. The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

GRAP 108: Statutory Receivable
The Standard will prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivable.

The Group has not yet quantified the potential impact of the new standard on the Group. Effective date not yet gazetted by the Minister of Finance.

GRAP 109: Accounting Principals and Agents
The Standard will outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard provides guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

IGRAP 17: Interpretation of the standard of GRAP on Service Concession Arrangement Where a Grantor Controls a Significant Residual Interest in an Asset
This Standard of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

The Group has not yet quantified the potential impact of the new standard on the Group.

Effective date not yet gazetted by the Minister of Finance.

1.8 NEW IFRS STANDARDS

The following new IFRS standards were included because in the absence of a GRAP standard for a certain transaction, the company may use the IFRS standard available.

IFRS 9: Financial instruments
The new standard replaces IAS 32, IAS 39 and IFRS 7.

IFRS 9 Financial Instruments is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting and is mandatorily effective for periods beginning on or after 1 January 2018 for IFRS reporting entities.

IFRS 15: Revenue from contracts with customers
The standard replaces IAS 18.

IFRS 15 specifies how and when an IFRS reporting entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 applies to an annual reporting period beginning on or after 1 January 2018.

IFRS 16: Leases
The standard replaces IAS 17.

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019.

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FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
1. INCOME				
Interest on advances				
Interest on performing advances	164 701	159 050	168 185	159 050
Interest on impaired advances	4 769	2 080	4 769	16 056
Interest on instalment sales	12 316	13 640	–	–
	181 786	174 770	172 954	175 106
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	70 325	62 519	69 700	61 938
Rental income				
Rental income from investment property	13 548	3 848	10 961	1 172
Dividend received				
Dividend income	8 348	884	8 348	3 530
Sale of houses				
Subsidiary sale of houses	17 685	34 783	–	–
2. COST OF SALES				
Subsidiary cost of sale of houses	(16 435)	(31 814)	–	–
3. OTHER OPERATING INCOME				
Other operating income is made up as follows:				
Management fees	169	2 210	–	–
Levies from instalment sales	2 014	2 176	–	–
Fair value adjustment on investment properties	5 097	2 752	1 600	400
Recoveries and refunds	2 853	7 795	2 689	7 795
Other interest received	1 709	323	1 709	323
Sundry income	2 564	301	2 564	301
	14 406	15 557	8 562	8 819

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
4. PROFIT BEFORE TAX				
Administrative expenses				
Staff costs^	40 894	39 993	36 191	34 561
Salaries	32 337	32 016	28 557	27 062
Medical aid contributions	1 826	1 486	1 826	1 486
Provident fund contributions	4 048	3 385	3 125	2 907
Bonus	2 683	3 106	2 683	3 106
Management costs (refer note 31)	31 138	30 692	27 402	26 718
Salaries	18 155	16 776	14 857	13 744
Medical aid contributions	599	562	599	562
Provident fund contributions	2 134	1 924	1 696	1 518
Bonus	10 250	11 430	10 250	10 894
Administration	3 386	2 691	2 567	1 857
Marketing	1 396	3 658	1 396	3 600
Consultancy	3 705	2 760	3 669	2 741
Directors' fees	3 875	3 465	3 875	3 465
Legal fees	2 048	2 296	1 153	1 339
Auditors' fees	2 295	2 504	2 157	2 074
Travel and entertainment	651	820	508	680
Total	89 388	88 879	78 918	77 035
Other operating expenses				
Communication	1 745	2 149	1 562	1 987
Tranining and development	965	944	928	880
Office expenses	2 980	2 907	2 151	2 014
Depreciation and amortisation	1 060	1 399	1 014	1 314
Sundry & Investment property expenses	9 978	14	9 978	14
Operating lease expense	6 763	7 641	5 746	6 676
Total	23 491	15 054	21 379	12 885
^ Number of employees	70	71	53	54

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
4. PROFIT BEFORE TAX CONTINUED				
Fair value changes on investments				
Unlisted investments				
Trust for Urban Housing Finance Holdings (Proprietary) Limited	–	–	18 601	4 580
	–	–	18 601	4 580
Total	–	–	18 601	4 580
Impairments				
Net impairment raised on loans and advances	40 893	(200 488)	(15 910)	(164 211)
Bad debts written off	20 832	259 099	88 466	259 099
Bad debts raised-Other	1 489	–	–	–
Bad debts raised on loans and advances	19 343	259 099	88 466	259 099
5. FINANCE COSTS				
Interest on other financial liabilities	18 532	19 770	18 532	19 658

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
6. TAXATION				
Major components of the tax (income) expense				
Deferred				
Originating and reversing temporary differences	–	(37 837)	–	(43 419)
Reconciliation of the tax expense				
The NHFC is tax exempt as from 1 April 2016 in terms of section 10(1)(t) of the Income Tax Act.				
Accounting surplus	100 515	83 413	97 741	50 679
Tax effect of adjustments on taxable income				
Reversal of deferred tax due to tax exemption	–	37 837	–	43 419
Income tax expense reported in the statement of financial performance	–	37 837	–	43 419
Income tax receivable: statement of financial position				
Balance at the beginning of the year	32 554	23 004	32 554	23 004
Tax paid	–	9 550	–	9 550
Interest earned	1 358	–	1 358	–
Balance at the end of the year	33 912	32 554	33 912	32 554

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.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
7. LOANS AND RECEIVABLES – ADVANCES				
Gross advances				
Opening balances	1 908 170	2 098 398	2 117 775	2 330 406
Disbursements	381 260	303 229	381 260	306 068
Repayments	(54 635)	(234 357)	(70 983)	(259 599)
Amounts previously impaired, written off	(14 055)	(230 123)	(70 858)	(230 123)
Amounts never impaired but written off during year	(5 287)	(28 977)	(17 608)	(28 977)
Balance at the end of the year	2 215 453	1 908 170	2 339 586	2 117 775
Impairments on advances				
Balances at the beginning of the year	(89 186)	(289 674)	(145 989)	(310 200)
Amounts impaired in previous years and written off during the year	14 055	230 123	70 858	230 123
Increase in impairments on advances	(54 948)	(31 514)	(54 948)	(67 791)
Impairments reversed during the year	–	1 879	–	1 879
Impairments raised during the year	(40 893)	200 488	15 910	164 211
Balance at the end of the year	(130 079)	(89 186)	(130 079)	(145 989)
Comprising:				
Specific impairments	(93 016)	(56 043)	(93 016)	(112 846)
General impairments	(37 063)	(33 143)	(37 063)	(33 143)
Net advances	2 085 374	1 818 984	2 209 507	1 971 786
Maturity analysis				
Receivable within one year	129 991	341 656	168 124	344 672
Receivable within one to two years	135 628	110 097	156 043	148 648
Receivable within two to three years	210 753	109 135	214 315	129 923
Receivable beyond three years	1 609 002	1 258 096	1 671 025	1 348 543
Net advances	2 085 374	1 818 984	2 209 507	1 971 786
Non-current assets	1 955 383	1 477 328	2 041 383	1 627 114
Current assets	129 991	341 656	168 124	344 672
	2 085 374	1 818 984	2 209 507	1 971 786

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
8. INVESTMENT IN LISTED EQUITY INVESTMENTS				
Blue Financial Services Limited				
Shares at cost – ordinary shares				
Investments in shares at cost	30 000	30 000	30 000	30 000
Fair value adjustments	(30 000)	(30 000)	(30 000)	(30 000)
Carrying amount of shares at 31 March 2018	–	–	–	–

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. In the absence of a quoted share price, the carrying value has been fully impaired.

9. INVESTMENTS IN SUBSIDIARIES

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.

	Company 2018 R'000	Company 2017 R'000
Shares at fair value – ordinary shares		
Opening balance	2 000	2 000
Fair value adjustment	(2 000)	(2 000)
Carrying amount of shares at 31 March 2018	–	–

Management has applied a discounted cash flow (DCF) method in arriving at the valuation of CTCHC. 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 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. A price to earnings ratio valuation multiple 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 CTCHC.No fair adjustment was processed in the current financial year.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000

10. INVESTMENT IN DEBENTURES – CAPE TOWN COMMUNITY HOUSING COMPANY (PROPRIETARY) LIMITED

	Group 2018 R'000	Group 2017 R'000	Company 2018 R'000	Company 2017 R'000
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)
Convertible debentures acquired at cost	–	–	3 000	3 000
Accumulated impairment	–	–	(3 000)	(3 000)
Carrying amount of debentures at 31 March 2018	–	–	–	–

The NHFC has subordinated its claims against CTCHC in respect of the debentures in favour of other creditors of CTCHC.

R24 million interest on debentures has been suspended (2017: R20 million) .

11. INVESTMENT IN PREFERENCE SHARES

	Group 2018 R'000	Group 2017 R'000	Company 2018 R'000	Company 2017 R'000
Greenstart (Proprietary) Limited				
Original cost	2 500	2 500	2 500	2 500
Fair value adjustment	(2 500)	(2 500)	(2 500)	(2 500)
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 value 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

12. INVESTMENTS IN ASSOCIATES

12.1 INVESTMENT IN ASSOCIATE – TRUST FOR URBAN HOUSING FINANCE HOLDINGS (PROPRIETARY) LIMITED (TUHF)

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	
	2018 R'000	2017 R'000
Share of the associate's balance sheet		
Total assets	893 916	834 655
Total liabilities	(754 440)	(702 984)
Net asset	139 476	131 671
Investment at cost	33 282	33 282
Accumulated share of profit of an associate	43 332	33 918
Accumulated share of reserves in associate	55 057	31 845
Carrying amount of investment in associate at 31 March	131 671	99 045
Current year share of profit in associate	14 719	9 414
Other reserves	(7 708)	-
Current year share of reserves in associate	–	23 212
Carrying amount of the investment in TUHF	138 682	131 671
Share of the associate's revenue	116 227	102 900
Investment in C class ordinary shares		
Investment in C Class ordinary shares	6 533	6 533
Investment in preference shares		
Opening balance	35 000	35 000
Current year Movements	–	–
Carrying amount of investment preference shares	35 000	35 000
Carrying amount of investment in TUHF	180 215	173 204

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

12. INVESTMENTS IN ASSOCIATES CONTINUED

12.2 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	
	2018 R'000	2017 R'000
Share of the associate's balance sheet		
Current assets	2 968	1 126
Non-current assets	2 059	153
Current liabilities	(725)	(1 238)
Non-current liabilities	(35 249)	(28 833)
Net asset	(30 947)	(28 792)
Share of the associate's revenue	7 389	5 758
Share of losses from associates	(3 023)	(4 234)

The Group's share of cumulative losses amounts to R31.549 million above in 2018 (R28.545 million in 2017) which have been recognised in Shareholder loan investment account.

The Group's share of cumulative losses in the associate HiP have been recognised up to the carrying amount 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.

Total carrying amount of the investment in associates – Group	180 215	173 204

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

12. INVESTMENTS IN ASSOCIATES CONTINUED

12.3 INVESTMENT IN ASSOCIATE – TRUST FOR URBAN HOUSING FINANCE HOLDINGS (PROPRIETARY) LIMITED (TUHF)

The following table illustrates the summarised financial information in the company's books:

	Company	
	2018 R'000	2017 R'000
Investment in equity shares opening balance		
Original investment in TUHF	96 370	91 790
Fair value adjustment in investment in TUHF	18 601	4 580
Carrying amount of the equity	114 971	96 370
Investment in C class ordinary shares		
Investment in C class ordinary shares	6 533	6 533
Current year movements	–	–
Carrying amount of investment in C class ordinary shares	6 533	6 533
Investment in preference shares		
Opening balance	35 000	35 000
Current year Movements	–	–
Carrying amount of investment in preference shares	35 000	35 000
Total investment in associates TUHF	156 504	137 903

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. Management 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 loan to the value of R6.5 million have been converted to C ordinary shares in the prior financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

12. INVESTMENTS IN ASSOCIATES CONTINUED

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%.

12.4 INVESTMENT IN ASSOCIATE – HOUSING INVESTMENT PARTNERS (PROPRIETARY) LIMITED (HIP)

The following table illustrates the summarised financial information in the company's books:

	Company	
	2018 R'000	2017 R'000
Share of the associate's balance sheet		
Original cost	7 232	7 232
Accumulated fair value adjustment	(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. Management 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.

Carrying amount of total investment in asscociates	156 504	137 903

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

13. PROPERTY, PLANT AND EQUIPMENT

	Group					
	2018			2017		
	Cost R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Furniture and fittings	2 590	(2 577)	13	2 619	(2 588)	31
Motor vehicles	556	(353)	203	637	(486)	151
Office equipment	546	(493)	53	576	(510)	66
Computer equipment	6 990	(6 395)	595	6 640	(6 034)	606
Leasehold improvements	1 847	(1 442)	405	1 299	(1 223)	76
Total	12 529	(11 260)	1 269	11 771	(10 841)	930

	Company					
	2018			2017		
	Cost R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated depreciation and accumul ated impairment R'000	Carrying value R'000
Furniture and fittings	2 373	(2 367)	6	2 373	(2 356)	17
Motor vehicles	436	(348)	88	436	(288)	148
Office equipment	432	(390)	42	425	(381)	44
Computer equipment	6 610	(6 023)	587	6 245	(5 656)	589
Leasehold improvements	1 431	(1 033)	398	883	(813)	70
Total	11 282	(10 161)	1 121	10 362	(9 494)	868

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

13. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment – Group – 2018

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	31	–	(18)	13
Motor vehicles	151	120	(68)	203
Office equipment	66	7	(20)	53
Computer equipment	606	388	(399)	595
Leasehold improvements	76	547	(218)	405
	930	1 062	(723)	1 269

Reconciliation of property, plant and equipment – Group – 2017

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fittings	54	–	–	(23)	31
Motor vehicles	225	–	–	(74)	151
Office equipment	86	35	(6)	(49)	66
Computer equipment	470	518	–	(382)	606
Leasehold improvements	112	–	–	(36)	76
	947	553	(6)	(564)	930

Reconciliation of property, plant and equipment – Company – 2018

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	17	–	(11)	6
Motor vehicles	148	–	(60)	88
Office equipment	44	7	(9)	42
Computer equipment	589	380	(382)	587
Leasehold improvements	70	546	(218)	398
	868	933	(680)	1 121

Reconciliation of property, plant and equipment – Company – 2017

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	29	–	(12)	17
Motor vehicles	208	–	(60)	148
Office equipment	57	22	(35)	44
Computer equipment	429	505	(345)	589
Leasehold improvements	106	–	(36)	70
	829	527	(488)	868

The cost of fully depreciated assets that are still in use amount to R12.8 million (2017: R 10 million), and for the Group R14 million (2017:R10.2 million).

No property, plant and equipment has been pledged as security.

No significant amount was incurred to repair and maintain property, plant and equipment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

14. INTANGIBLE ASSETS

	Group					
	2018			2017		
	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value
Computer software, other	4 312	(3 477)	835	3 962	(3 148)	814
Total	4 312	(3 477)	835	3 962	(3 148)	814

	Company					
	2018			2017		
	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software, other	3 974	(3 141)	833	3 619	(2 808)	811
Total	3 974	(3 141)	833	3 619	(2 808)	811

Reconciliation of intangible assets – Group – 2018

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software, other	814	358	(337)	835

Reconciliation of intangible assets – Group – 2017

Computer software, other	1 187	462	(835)	814

Reconciliation of intangible assets – Company – 2018

Computer software, other	811	356	(334)	833

Reconciliation of intangible assets – Company – 2017

Computer software, other	1 174	463	(826)	811

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
15. INSTALMENT SALE RECEIVABLES				
Gross investment in the lease due				
– within one year	230 733	252 222	–	–
	230 733	252 222	–	–
less: Unearned finance revenue	(120 354)	(129 737)	–	–
	110 379	122 485	–	–
Non-current assets	105 779	116 188	–	–
Current assets	4 600	6 297	–	–
	110 379	122 485	–	–

The average term on the instalment sale 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% (2017: 10,9%) per annum. Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.

The amount of R110.379 million (2017: R122.485 million) is the maximum exposure to credit risk.

16. INVESTMENT PROPERTY

	Group					
	2018			2017		
	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	96 222	–	96 222	91 124	–	91 124

	Company					
	2018			2017		
Figures in Rand thousand	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	60 000	–	60 000	58 400	–	58 400

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

16. INVESTMENT PROPERTY CONTINUED

Reconciliation of investment property – Group – 2018

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	91 124	5 098	96 222

Reconciliation of investment property – Group – 2017

	Opening balance R'000	Disposals R'000	Fair value adjustments R'000	Total R'000
Investment property	88 402	(30)	2 752	91 124

Reconciliation of investment property – Company – 2018

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	58 400	1 600	60 000

Reconciliation of investment property – Company – 2017

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	58 000	400	58 400

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 31 May 2018. 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%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
16. INVESTMENT PROPERTY CONTINUED				
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	5 098	2 752	1 600	400
Net rental income	3 929	3 848	1 342	1 172
	9 027	6 600	2 942	1 572
Details of investment property				
Details of investment property				
– Purchase price: 1 December 2008	44 932	44 932	21 654	21 654
– Additions since purchase or valuation	51 290	46 192	38 346	36 746
	96 222	91 124	60 000	58 400

a) Description: Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place

b) Situated at: The corner of President, Human, Clark and FH Odendaal Streets

In addition, for the Group, a percentage of the housing stock held by CTCHC was reclassified as investment property due to the directors' assessment of the allocation of houses held for investment purposes.

The houses were valued by an independent valuator, Siyakulu Property Valuers. The effective date of the revaluation was April 2018. Revaluations were done by Mr GB Adams, of Siyakulu Property Valuers. Mr Adams is not connected to the Company and has recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

17. PROPERTIES DEVELOPED FOR SALE

Work in progress	2 276	3 156	–	–
Carrying value of repossessed properties	63 263	69 688	–	–
	65 539	72 844	–	–

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
18. OTHER RECEIVABLES AND PREPAYMENTS				
Staff debtors	2 203	2 338	2 203	2 338
Deposits and prepayments	674	153	536	2
Other debtors receivables	10 886	8 159	18 354	12 336
Dividends recievable	8 172	–	8 172	2 646
	21 935	10 650	29 265	17 322

Deposits and prepayments mainly relate to office rental deposits.

Study loans included in staff debtors are non-interest bearing and are written off or recovered when studies are completed. Other staff debtors are charged interest at the prime lending rate.

Other receivables consist mainly of interest receivable.

19. HELD-TO-MATURITY INVESTMENTS

	Group 2018 R'000	Group 2017 R'000	Company 2018 R'000	Company 2017 R'000
Telkom SA SOC Limited	32 000	–	32 000	–
ABSA Bank Limited	60 000	60 000	60 000	60 000
Investec Bank Limited	40 000	40 000	40 000	40 000
Nedbank Limited	60 000	80 000	60 000	80 000
Land and Agricultural Bank of South Africa Limited	76 295	111 718	76 295	111 718
Eskom Holdings SOC Limited	74 386	112 766	74 386	112 766
Trans-Caledon Tunnel Authority (TCTA)	56 938	48 365	56 938	48 365
Standard Bank of South Africa Limited	20 000	40 000	20 000	40 000
Transnet SOC Limited	74 413	18 380	74 413	18 380
Development Bank of South Africa Limited	40 000	90 000	40 000	90 000
Held-to-maturity money market investments – NHFC	534 032	601 229	534 032	601 229
Total held-to-maturity money market investments	534 032	601 229	534 032	601 229

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
20. CASH AND SHORT TERM DEPOSITS				
Short-term deposits – NHFC				
ABSA Bank Limited	46 880	48 557	46 880	48 557
Investec Bank Limited	5 480	7 178	5 480	7 178
Nedbank Limited	1 119	4 476	1 119	4 476
Standard Bank of South Africa Limited	3 550	4 959	3 550	4 959
Rand Merchant Bank, a division of First Rand Bank Limited	2 836	11 678	2 836	11 678
Stanlib Limited	44 964	41 714	44 964	41 714
South African Reserve Bank	150 588	176 276	150 588	176 276
	255 417	294 838	255 417	294 838
Short-term deposits – Abahlali*				
ABSA Bank Limited	1 409	1 323	1 409	1 323
Short-term deposits – FLISP*				
Reserve Bank (Flisp-Gauteng)	46 497	33 180	46 497	33 180
Cash at bank and in hand				
Cash on hand	15	12	3	3
Standard Bank of South Africa Limited	22 339	24 038	5 588	6 699
FLISP – Standard Bank of South Africa Limited	91	101	91	101
Abahlali – Standard Bank of South Africa Limited	4 675	4 621	4 675	4 621
	27 120	28 772	10 357	11 426
Total cash and short-term deposits	330 443	358 113	313 680	340 765
NHFC				
Short-term deposits	255 417	294 838	255 417	294 838
Cash at Bank	22 354	24 050	5 591	6 702
	277 771	318 888	261 008	301 540
Abahlali*				
Short-term deposits	6 084	5 945	6 084	5 945
FLISP*				
Short-term deposits	46 588	33 280	46 588	33 280
	330 443	358 113	313 680	340 765

* Funds under management refer to note 23.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
21. 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.				
22. GRANT CAPITAL				
Opening balance	630 000	530 000	630 000	530 000
Additions	100 000	100 000	100 000	100 000
	730 000	630 000	730 000	630 000

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 the previous financial years an additional grant capital amounting to R430 million was received from the shareholder and a further R100m received during the current year.

23. FUNDS UNDER MANAGEMENT

	Group 2018 R'000	Group 2017 R'000	Company 2018 R'000	Company 2017 R'000
Abahlali(a)	6 084	5 945	6 084	5 945
FLISP(b)	46 588	33 280	46 588	33 280
	52 672	39 225	52 672	39 225

(a) The NHFC is managing funds on behalf of the Abahlali Housing Association relating to social housing rental units.

(b) The NHFC is managing funds on behalf of the various provincial government human settlements departments relating to Finance Link Individual Subsidy Programme. All uncommitted budgetary allocations were returned to the provinces.

The net income on these funds is capitalised. The cost of managing the implementation of FLISP is recovered through a management fee.

Funds under management are invested in held-to-maturity investments (note 19) and short-term deposits (note 20).

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
24. OTHER FINANCIAL LIABILITIES				
At amortised cost				
Dutch International Guarantees for Housing (DIGH)	–	875	–	–
– Loan 2				
The loan bears interest at a fixed rate of 7.09% per annum and the final instalment of R874 481 was settled during the current financial year.				
Agence Francaise de Developpement (AFD)	112 667	128 762	112 667	128 762
This loan bears interest at a fixed rate of 6.078% per annum and is repayable in equal semi-annual capital instalments of R888 692 (2017: R7 888 692) exclusive of interest. Interest and capital is paid bi-annually on 31 May and 31 November of each year.The final instalment is payable on 24 November 2024.				
European Investment Bank (EIB)	135 813	152 405	135 813	152 405
This loan bears interest at a quartely 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 (2017: R8 308 077) exclusive of interest. Interest and capital is paid bi-annually on 15 June and 15 December of each year.				
The final instalment is payable on 15 December 2025.				
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.				
	248 980	282 543	248 480	281 167
Total other financial liabilities	248 980	282 543	248 480	281 167
Non-current liabilities				
At amortised cost	216 586	249 274	216 086	248 773
Current liabilities				
At amortised cost	32 394	33 269	32 394	32 394

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FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
25. PROVISIONS				
Provisions	18 004	19 034	17 436	18 483
Total provisions	18 004	19 034	17 436	18 483
Provision for leave pay				
Opening balance as at 1 April 2017	4 729	4 078	4 483	3 772
Additional provision raised	36	651	19	711
Closing balance as at 31 March 2018	4 765	4 729	4 502	4 483
Provision for incentive bonus				
Opening balance as at 1 April 2017	14 000	3 600	14 000	3 600
Provision utilised for the year	(14 000)	(3 571)	(14 000)	(3 571)
Additional provision raised	12 934	13 971	12 934	13 971
Closing balance as at 31 March 2018	12 934	14 000	12 934	14 000
Provision for tax				
Opening balance as at 1 April 2017	–	3 159	–	3 159
Provision utilised for the year	–	–	–	–
Additional provision raised	–	–	–	–
Reversed during the year	–	(3 159)	–	(3 159)
Closing balance as at 31 March 2018	–	–	–	–
Provision for municipal rates				
Opening balance as at 1 April 2017	305	305	–	–
Closing balance as at 31 March 2018	305	305	–	–

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 2019 financial year. Provision for incentive bonus includes the three year rolling incentive scheme for executives.

Provision for municipal rates covers the rates that are outstanding and is payable when certain erven are transferred into the name of CTCHC.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
26. TRADE AND OTHER PAYABLES				
Trade payables	2 040	3 502	5 001	5 239
Payments received in advanced	9	9	–	–
Accrued expense	1 955	1 978	–	–
Accrued audit fees	300	449	–	–
	4 304	5 938	5 001	5 239

Trade payables are non-interest bearing and are settled within 30-day terms.

27. LONG TERM PAYABLES

Vat payable	10 990	11 501	-	-
Total	10 990	11 501	-	-

The balance will be paid to SARS on annual instalments to match the manner in which revenue is received from customers.

28. CASH FLOWS FROM OPERATING ACTIVITIES

Net profit before tax	100 515	83 413	97 741	50 679
Non-cash and separately presented items	30 482	42 119	30 255	78 856
Working capital changes	26 821	44 969	8 526	10 742
Tax paid	–	(9 550)	–	(9 550)
Increase in advances	(331 149)	(68 759)	(310 275)	(46 467)
Net cash flows generated from (used in) operations	(173 331)	92 192	(173 753)	84 260
Non-cash and separately presented items				
Depreciation and amortisation	1 060	1 399	1 014	1 314
Proceeds from sale of property, plant and equipment	(104)	6	–	–
Dividends accrued	(8 172)	–	(8 172)	(2 646)
Share of profit of an associate	(3 988)	(5 180)	–	–
Fair value loss on listed equity investments	–	–	(18 601)	(4 580)
Fair value adjustment on property investment	(5 097)	(2 752)	(1 600)	(400)
Impairment on advances	40 893	(200 488)	(15 910)	(164 211)
Bad debts written off	20 832	259 099	88 466	259 099
Flisp recovery	(1 991)	–	(1 991)	–
Provision for withholding tax	–	(3 160)	–	(3 160)
Rental income	(10 461)	(566)	(10 461)	(500)
Instalment sale levy	–	(179)	–	–
Interest accrued	(1 358)	–	(1 358)	–
Accrued interest on investment	(1 132)	(6 060)	(1 132)	(6 060)
Net cash flows used in operations	30 482	42 119	30 255	78 856

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000

28. CASH FLOWS FROM OPERATING ACTIVITIES CONTINUED

Working capital changes				
(Increase)/decrease in properties developed for sale	7 305	22 850	–	–
(Increase)/decrease in instalment sale receivable	12 106	2 422	–	–
(Increase) decrease in accounts receivable	10 582	4 613	9 812	1 571
Increase/(decrease) in accounts payables	(2 142)	4 031	(239)	(1 941)
(Decrease)/increase in provisions	(1 030)	11 052	(1 047)	11 112
	26 821	44 969	8 526	10 742

Tax paid				
Balance at beginning of the year	32 554	23 004	32 554	23 004
Interest accrued	1 358	–	1 358	–
Balance at end of the year – current tax	(33 912)	(32 554)	(33 912)	(32 554)
	–	(9 550)	–	(9 550)

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand and investment in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

Cash on hand and balances with banks	24 151	28 772	6 803	11 424
Short-term deposits	306 292	329 341	306 877	329 341
	330 443	358 113	313 680	340 765

Property, plant and equipment and intangible assets
During the period, the Group acquired property, plant and equipment and intangible assets with an aggregated cost of R1 420 000 (2017: R1 012 000). None of the additions were acquired by means of government grants.

During the period, the Company acquired property, plant and equipment and intangible assets with an aggregated cost of R1 289 000 (2017: R990 000). None of the additions were acquired by means of government grants.

29. CONTINGENT LIABILITIES AND COMMITMENTS

Contingencies
At 31 March 2018 the Group did not have any contingent liability in respect of bank guarantees (2017: R0), arising in the ordinary course of business from which it is anticipated that no material liability will arise.

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 has an escalation clause of 8% per annum. The lease has been extended for two years effective 1 April 2017 to 31 March 2019 with a deposit guarantee of R533 500.

29. CONTINGENT LIABILITIES AND COMMITMENTS CONTINUED

Future minimum rentals payable under current operating lease as at 31 March 2018:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
National Housing Finance Corporation SOC Limited	6 757	4 510	6 757	4 510
Cape Town Community Housing (Proprietary) Limited	872	808	–	–
Within one year	7 629	5 318	6 757	4 510
National Housing Finance Corporation SOC Limited	–	5 295	–	5 295
Total office operating lease commitments – office buildings	7 629	10 613	6 757	9 805

30. FINANCIAL RISK MANAGEMENT

The Group has various financial assets such as loans and receivables, instalment sale 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 maximize 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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30. FINANCIAL RISK MANAGEMENT CONTINUED

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 proceseses 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.

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	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Loans and receivables – advances	2 085 374	1 818 984	2 209 507	1 971 786
Instalment sale receivables	110 379	122 485	–	–
Held-to-maturity investments	534 032	601 229	534 032	601 229
Cash and short-term deposits	330 443	358 113	313 680	340 765
Other receivables and prepayments	21 935	10 650	29 265	17 322
Investment in preference shares	35 000	35 000	35 000	35 000

30. FINANCIAL RISK MANAGEMENT CONTINUED

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.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
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	1 882 531	1 546 036	1 884 725	1 592 997
Past due but not impaired*	122 329	105 593	244 268	105 593
Impaired**	210 593	256 541	210 593	419 185
	2 215 453	1 908 170	2 339 586	2 117 775
Less: Specific impairments	(93 016)	(56 043)	(93 016)	(112 846)
General impairments	(37 063)	(33 143)	(37 063)	(33 143)
Net advances	2 085 374	1 818 984	2 209 507	1 971 786

* 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.

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30. FINANCIAL RISK MANAGEMENT CONTINUED

		Group					
		Ageing of amounts due					
		Total balance	Capital instalment	Current to 30 days	30 to 60 days	60 to 90 days	90 to 180+ days
Ageing analysis of advances that are past due, but not impaired:	2018	122 328	51 324	1 694	850	848	67 612
Ageing analysis of advances that are past due, but not impaired:	2017	105 593	71 366	754	831	828	31 814

		Company					
		Ageing of amounts due					
		Total balance	Capital instalment	Current to 30 days	30 to 60 days	60 to 90 days	90 to 180+ days
Ageing analysis of advances that are past due, but not impaired:	2018	244 268	126 155	4 611	2 338	2 325	108 839
Ageing analysis of advances that are past due, but not impaired:	2017	105 593	71 366	754	831	828	31 814

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 2018 amounts to R1 091 million (2017: R798 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 R60 million (2017: R3 million).

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30. FINANCIAL RISK MANAGEMENT CONTINUED

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least P-3				
– Held-to-maturity investments – money market	534 032	601 229	534 032	601 229
– Cash and short term deposits	330 443	358 113	313 680	340 765
Counterparties assessed by reference to historical information about counterparty default rates				
– Instalment sale receivables	110 379	122 485	–	–

Other receivables and prepayments 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

Strategic investment	12%
Incremental housing loans	6%
Home Ownership	13%
Private Rental Housing	38%
Social Rental Housing	31%

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

30. FINANCIAL RISK MANAGEMENT CONTINUED

		Group 2018		Group 2017	
	Strategy	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.	1	426 129	1 659 245	323 904	1 495 080
Instalment sale receivables average interest rate of 10.50% p.a.	1	110 379	–	122 485	–
Held-to-maturity investment rates vary between 7.09% and 8.90% p.a.	2	–	534 032	–	601 229
Cash and short-term deposits rates vary between 6.00% and 7.94% p.a.	2	–	330 443	–	358 113
Liabilities					
Funds under management vary between 6.00% to 7.65%	–	–	52 672	–	39 225
AFD loan – the rate is fixed at 6.078%	–	112 667	–	128 762	–
EIB loan– the rate varies between 7.43% and 7.72%	–	–	135 813	–	152 405
Other financial liabilities – the rate is fixed at 7.09% and 8.84%	–	–	–	875	–

		Group 2018		Group 2017	
	Strategy	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.	1	426 129	1 783 378	349 670	1 622 116
Held-to-maturity investments rates vary between 7.09% and 8.90% p.a.	2	–	534 032	–	601 229
Cash and short-term deposits rates vary between 6.00% and 7.94% p.a.	2	–	313 680	–	340 765
Liabilities					
Funds under management vary from 6.00% to 7.65%	–	–	52 672	–	39 225
AFD loan – the rate is fixed at 6.078%	–	112 667	–	128 762	–
EIB loan– the rate varies between 7.43% and 7.53%	–	–	135 813	–	152 405

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

30. FINANCIAL RISK MANAGEMENT CONTINUED

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.

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 before tax 2018 R'000	Effect on profit before tax 2017 R'000	Effect on profit before tax 2018 R'000	Effect on profit before tax 2017 R'000
Loans and receivables – advances	1	16 592	14 951	17 834	16 621
	(1)	(16 592)	(14 951)	(17 834)	(16 621)
Held-to-maturity investments	1	5 340	6 012	5 340	6 012
	(1)	(5 340)	(6 012)	(5 340)	(6 012)
Cash and short-term deposits	1	3 304	3 581	3 137	3 408
	(1)	(3 304)	(3 581)	(3 137)	(3 408)
Other financial liabilities	1	(1 358)	(1 524)	(1 358)	(1 524)
	(1)	1 358	1 524	1 358	1 524
The Group earns interest as follows:					
Interest on advances		181 786	174 770	172 954	175 106
Interest on investment		70 325	62 519	69 700	61 938
		252 111	237 289	242 654	237 044
The Group's interest obligations are as follows:					
Interest on other financial liabilities		18 532	19 770	18 532	19 658

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

30. FINANCIAL RISK MANAGEMENT CONTINUED

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.

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 2018				
Trade and other payables	4 304	–	–	4 304
Funds under management	–	–	52 672	52 672
Long term payables	–	–	10 990	10 990
Other financial liabilities	–	32 394	216 586	248 980
	4 304	32 394	280 248	316 946
As at 31 March 2017				
Trade and other payables	5 938	–	–	5 938
Funds under management	–	–	39 225	39 225
Long term payables	–	–	11 501	11 501
Other financial liabilities	–	33 269	249 274	282 543
	5 938	33 269	300 000	339 207

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.

Total interest bearing debt	248 980	282 543
Total equity	3 125 205	2 924 690
Debt to equity ratio	8 %	10 %

30. FINANCIAL RISK MANAGEMENT CONTINUED

Credit rating
The credit ratings below are provided by the Global Credit Rating Co.

National	
Long term	A+
Short term	A1
International	BB

The National Scale Ratings of the NHFC were maintained in the financial year with the outlook on the National Scale changed from negative to stable.

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
2018				
Unlisted equity investments	–	145 215	–	145 215
2017				
Unlisted equity investments	–	138 204	–	138 204

	Company			
	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
2018				
Unlisted equity investments	–	121 504	–	121 504
2017				
Unlisted equity investments	–	102 903	–	102 903

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

30. FINANCIAL RISK MANAGEMENT CONTINUED

Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

	Group			
	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
2018				
Investment in unlisted equity investments	145 215	–	–	145 215
Loans and receivables – advances	–	2 085 374	–	2 085 374
Instalment sale receivables	–	–	110 379	110 379
Held-to-maturity investments	–	–	534 032	534 032
Cash and short-term deposits	–	330 443	–	330 443
Other receivables	–	21 935	–	21 935
Investment in preference shares	–	–	35 000	35 000
	145 215	2 437 752	679 411	3 262 378
2017				
Investment in unlisted equity investments	138 204	–	–	138 204
Loans and receivables – advances	–	1 818 984	–	1 818 984
Instalment sale receivables	–	–	122 485	122 485
Held-to-maturity investments	–	–	601 229	601 229
Cash and short-term deposits	–	358 113	–	358 113
Other receivables	–	10 650	–	10 650
Investment in preference shares	–	–	35 000	35 000
	138 204	2 187 747	758 714	3 084 665

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

30. FINANCIAL RISK MANAGEMENT CONTINUED

	Company			
	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
2018				
Investment in unlisted equity investments	121 504	–	–	121 504
Loans and receivables – advances	–	2 209 507	–	2 209 507
Held-to-maturity investments	–	–	534 032	534 032
Cash and short-term deposits	–	313 680	–	313 680
Other receivables	–	29 265	–	29 265
Investment in preference shares	–	–	35 000	35 000
	121 504	2 552 452	569 032	3 242 988
2017				
Investment in unlisted equity investments	102 903	–	–	102 903
Loans and receivables – advances	–	1 971 786	–	1 971 786
Held-to-maturity investments	–	–	601 229	601 229
Cash and short-term deposits	–	340 765	–	340 765
Other receivables	–	17 322	–	17 322
Investment in preference shares	–	–	35 000	35 000
	102 903	2 329 873	636 229	3 069 005

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

30. FINANCIAL RISK MANAGEMENT CONTINUED

	Financial liabilities at amortised cost R'000
Financial liabilities by category	
The accounting policies for financial instruments have been applied to the line items below:	
Group 2018	
Other financial liabilities	248 980
Trade and other payables	15 294
Funds under management	52 672
	316 946
Group 2017	
Other financial liabilities	282 543
Trade and other payables	17 435
Funds under management	39 225
	339 203
Company 2018	
Other financial liabilities	248 480
Trade and other payables	5 001
Funds under management	52 672
	306 153
Company 2017	
Other financial liabilities	281 167
Trade and other payables	5 238
Funds under management	39 225
	325 630

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

31. RELATED PARTIES

The consolidated financial statements include the financial statements of National Housing Finance Corporation SOC Limited, its subsidiaries and associates as listed below.

	Country of incorporation	2018 % equity interest	2017 % equity interest
Gateway Homeloans (Proprietary) Limited	RSA	100	100
Gateway Homeloans 001 (Proprietary) Limited	RSA	100	100
Cape Town Community Housing Company (Proprietary) Limited	RSA	100	100
Trust for Urban Housing Finance Holdings (Proprietary) Limited	RSA	33	33
Housing Investment Partners (Proprietary) Limited	RSA	33	33
Mortgage Default Insurance Company (Proprietary) Limited	RSA	100	100

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

31. RELATED PARTIES

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 2018 R '000	Transactions with related parties 2018 R '000	Amounts owed by/ to related parties 2017 R'000	Transactions with related parties 2017 R'000
Cape Town Community Housing Company (Proprietary) Limited				
Advances	220 797	–	224 412	–
Interest received	–	3 483	–	13 975
Payroll administration	–	–	–	8 208
Accounts receivable	–	–	2 947	_
Housing Investment Partners (Proprietary) Limited 2017				
Working capital loan	33 165	–	28 454	–
Disbursements	–	46 818	–	57 597
Advances	199 177	–	178 575	–
Trust for Urban Housing Finance Holdings (Proprietary) Limited				
Conversion to C Class ordinary shares	6 533	–	–	6 533
Disbursement	–	100 000	–	–
Interest received	–	21 699	–	23 553
Dividend income	–	8 348	–	3 530
Advances	327 138	–	244 701	–
Equity investment	121 504	–	102 903	–

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 31.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

32. 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 Limited

	Fees	Salaries	Bonuses	Post employment pension and medical benefits	Board fees for investee companies	Total 2018	Total 2017
Non-executive Chairman							
Prof. M Katz[1]	–	–	–	–	–	–	–
Directors - independent non-executives							
Mr J Coetzee[2]	449	–	–	–	209	658	643
Ms AW Houston[3]	216	–	–	–	–	216	232
Mr SS Ntsaluba	495	–	–	–	–	495	352
Ms PV Ramarumo	449	–	–	–	–	449	351
Ms S Swanepoel[4]	–	–	–	–	–	–	273
Mr SA Tati	542	–	–	–	–	542	498
Mr PT Phili[4]	–	–	–	–	–	–	400
Ms D Msomi[4]	–	–	–	–	–	–	213
Ms T Chiliza[5]	453	–	–	–	–	453	142
Mr K Shubane[5]	473	–	–	–	–	473	129
Mr E Godongwana[5]	286	–	–	–	–	286	109
Mr A Harris[5]	303	–	–	–	–	303	123
Directors' fees	3 666	–	–	–	209	3 875	3 465
Chief Executive Officer and executive director							
Mr SS Moraba[6]	–	4 258	4 132	465	–	8 855	8 552
Executive managers / and Prescribed officers							
Z Lupondwana	–	1 357	904	224	-	2 485	2 248
N Ntshingila	–	1 310	928	318	-	2 556	2 425
L Lehabe	–	1 901	1 351	294	-	3 546	2 968
S Mogane	–	1 407	934	308	-	2 649	2 491
M Mamatela	–	1 615	1 066	229	-	2 910	2 746
Z Adams	–	1 682	-	316	-	1 998	3 075
A Higgs	–	1 327	935	141	-	2 403	2 213

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

32. DIRECTORS'AND PRESCRIBED OFFICERS' / EXECUTIVE MANAGERS' EMOLUMENTS

Management	–	14 857	10 250	2 295	–	27 402	26 718

1. Prof Katz has waived his right to fees.
2. Board fees earned by Mr Coetzee as a representative of the NHFC on the HIP (Pty) Ltd Board and HIP Trust 1.
3. Fees are paid to Communicare Ltd as an employer of AW Houston who has ceded them to Communicare Ltd.
4. Ms S Swanepoel, Mr PT Phili and Ms D Msomi retired as directors on 24 November 2016.
5. Ms T Chiliza, Mr K Shubane, Mr E Godongwana and Mr A Harris were appointed as directors on 24 November 2016.
6. The CEO is the only director with a service contract with NHFC. The notice period does not exceed 1 year.

Directors' and senior management emoluments - Cape Town Community Housing Company (Proprietary) Limited

	Fees	Salaries	Bonuses	Post employment pension and medical benefits	Members' fees	Total 2018	Total 2017
Chairman SS Moraba	–	–	–	–	–	–	–
Directors - Non - executives N Ntshingila	–	–	–	–	–	–	–
Directors' fees	–	–	–	–	–	–	–
Key members of management							
P Jones	–	1 250	–	173	–	1 423	1 493
W Jurgens	–	1 450	–	185	–	1 635	1 826
F Moos	–	598	–	80	–	678	655
Management costs	–	3 298	–	438	–	3 736	3 974

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.

33. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

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

CTCHC is a wholly owned subsidiary of the NHFC. A protracted tender process to sell CTCHC, none of the bidders were able to provide an offer to satisfy the NHFC's requirements and to maximise the value that could be obtained from the sale. As a result the bid process was terminated in June 2018 as all bids failed.

In the light of the current structure of the company, slow business pipeline and continuing operating losses in CTCHC, the Board of CTCHC recommended in its meeting in June 2018, to begin a process of restructuring in order for the business to break-even on a monthly basis by September 2018.

34. IRREGULAR EXPENDITURE

	Company	
	2018	2017
Opening balance (R'000)	–	–
Irregular expenditure incurred during the year (R'000)	2 950	–
Irregular expenditure incurred in previous years identified in the current financial year (R'000)	–	–
Condoned by National Treasury (R'000)	–	–
Closing balance (R'000)	2 950	–

During the year a number of purchases below R500 000 (including VAT) were made by the NHFC of various good and services (mainly legal, travelling and accommodation expenses) without the required price quotations as required by National Treasury Regulations 16A6.1 and Practice Note 8 of 2007/2008.

An investigation was undertaken and there was no need for a disciplinary process in all the incidents. Rather a focus on enhancing the internal controls was initiated.

The NHFC's management is currently in a process of obtaining condonation for such expenditure from the National Treasury.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2018

Budget on Accrual Basis

	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
Group Statement of Financial Performance					
Revenue					
Sale of goods	39 471	–	39 471	17 685	(21 786)
Rental income	1 400	–	1 400	13 548	12 148
Interest on advances	188 257	–	188 257	181 786	(6 471)
Interest on investments	23 710	–	23 710	70 325	46 615
Dividends received	500	–	500	8 348	7 848
Other income	16 815	–	16 815	14 406	(2 409)
Total revenue	270 153	–	270 153	306 098	35 945
Expenditure					
Impairments and bad debts	(90 118)	–	(90 118)	(61 725)	28 393
Cost of sales	(36 653)	–	(36 653)	(16 435)	20 218
Expenses	(111 734)	–	(111 734)	(112 879)	(1 145)
Total expenditure	(238 505)	–	(238 505)	(191 039)	47 466
Operating surplus	31 648	–	31 648	115 059	83 411
Finance costs	(17 656)	–	(17 656)	(18 532)	(876)
Share of surpluses or deficits from associates	7 700	–	7 700	3 988	(3 712)
Surplus before taxation	21 692	–	21 692	100 515	78 823
Taxation	(7 084)	–	(7 084)	–	7 084
Surplus after tax	14 607	–	14 607	100 515	85 908

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2018

The results of the Cape Town Community Housing Company (Proprietary) Limited (CTCHC), and Mortgage Default Insurance Company (Proprietary) Limited (MDIC) are consolidated into the financial statements. In addition the financial statements have accordingly, included the results of associate companies being Trust for Urban Housing Finance Holdings (Proprietary) Limited (TUHF) and Housing Investment Partners (Proprietary) Limited (HIP). However, it must be noted that MDIC is a dormant company which has no material impact of the financial statements below.

An overview of the economic and operational trading environment is provided in the message from the Chairman and CEO's report.

The financial performance of the NHFC was impacted by the following:

- Positive variance with respect to interest on investments (of R47 million) due to the significant cash and cash equivalent balance that was maintained during the year which exceeded the budget. The cash and cash equivalents are invested in short term money market instruments until deployed in projects that are approved. As the cash is deployed, the NHFC should, in future, see a rising trend with respect to interest on loans and advances.

- Operational expenses were in line with the budget at R113 million versus a budget of R112 million. It must be noted that the actual performance figures have correctly accounted for with rental income and operating expenses relating to an investment property have been disclosed separately ("grossed up"). In the budget, the investment income from the property was included on a net basis.

    - Operational efficiencies were achieved mainly in outsourced services (due to the lower than budgeted business activity and a concerted effort to manage costs) as well as staff costs. This resulted in the group achieving a cost to income ratio of 42% in 2017/18 versus 43% in the prior year.

- Lower than budgeted impairments and write offs (at R62 million versus a budget of R90 million).

    - As noted in the Chief Financial Officers report, after two financial years of significant impairments of R59 million (in 2016/17) and R188 million (2015/16) in the consolidated accounts, the impairments and write offs charge has subsided to reflect the significant review of the loan book in the previous years and better quality of business being written.

- CTCHC, is largely a property developer, affects the financial statements above through the sale of goods, associated cost of sales as well as interest earned on instalment sale agreements (which are included interest on advances).

    - Due to funding challenges CTCHC was not able to invest in new development projects during the year and the sales of housing units reflected above relates to residual sales from projects completed in the prior year(s).

    - It generated a gross profit margin of R1.3 million on property sales which even when including interest on instalments sales (relating to CTCHC), resulted in an operating loss due to slow business activity and excess staff capacity. The slower than budgeted sales of housing units was mainly due to a project in Upington which has proved a challenging project with a very low uptake of units by buyers. The property market remains depressed in the area coupled with intense competition in the vicinity. While a process is currently underway to dispose of CTCHC, critical conditions with the preferred bidder have yet to be met. Should the sale not happen, plans are underway to begin a cost rationalisation programme.

- While the NHFC group achieved a pleasing result with respect to the surplus before taxation, as a DFI, it is hoped that the performance will, in future, be driven more by lending income (interest on advances), and less from interest on investments, as the group deploys capital to residential building projects.

ANNUAL PERFORMANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2018

PROGRAMME 1: EXPAND HOUSING ACTIVITIES THROUGH EFFECTIVE PROVISION OF HOUSING FINANCE OPPORTUNITIES

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

Performance indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned target to Actual	Comment on deviation
Number of housing opportunities facilitated					
Social Housing Units	1,861	2,268	2,242	-26	99% achievement, therefore target achieved.
Private Rental Housing Units	738	725	579	-146	Delayed implementation in select projects (mainly poor business sentiment)
Total Rental	2,599	2,993	2,821	-172	Slower than budgeted International Housing Solutions and HIP disbursements mainly as a result weak economic conditions affecting end users who are unable to qualify for mortgage finance.
Affordable Housing Units	126	318	230	-88	
Total	2,725	3,311	3,051	-260	
Number of beneficiaries benefitting (factor of 3.3 utilised)*	8,993	10,926	10,068	- 858	

* The factor of 3.3 utilised is as provided by Statistics South Africa in the Community Survey Report of 2016

PROGRAMME 1: EXPAND HOUSING ACTIVITIES THROUGH EFFECTIVE PROVISION OF HOUSING FINANCE OPPORTUNITIES

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Performance indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned target to Actual	Comment on deviation
Value of disbursements (R'm)					
Social Affordable Housing (R'm)	197	101	110	9	Target achieved
Private Rental Housing (R'm)	44	203	152	-51	Quality deals in private rentals housing was a challenge due to poor business sentiment and inadequate equity to render projects viable.
Total Rental Housing (R'm)	241	304	262	-42	
Affordable Housing (R'm)	66	159	120	-39	Key clients, International Housing Solutions and HIP were unable to draw approved funds for the period due weak market conditions.
Total (R'm)	307	463	382	-81	

ANNUAL PERFORMANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2018

STRATEGIC OBJECTIVE: Expand housing finance activities, through the effective provision of housing finance solutions, thus enabling low-to-middle income households to have the choice of renting, owning or incrementally building, thereby meeting their housing needs.					
Performance indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned target to Actual	Comment on deviation
Value of approvals (R'm)					
Social Affordable Housing (R'm)	143	80	82	2	Target achieved
Private Rental Housing (R'm)	159	284	311	27	Target achieved
Affordable Housing (R'm)		-	5	5	
Total (R'm)	302	364	398	34	

PROGRAMME 2: FACILITATE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS

STRATEGIC OBJECTIVE: Facilitate increased and sustained lending by financial institutions to the lower end of the housing market					
Performance indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned target to Actual	Comment on deviation
Number of housing opportunities facilitated through leveraged funds					
Private Rental Housing Units	4,302	2,920	2,629	-291	Fewer units than planned delivered by associate company TUHF mainly due to delays in construction of funded units.
Affordable Housing Units	1,381	1,035	669	-366	Key clients, International Housing Solutions and HIP were unable to disburse per plans due to weak market conditions, the outcome of which was that less than planned units were delivered.
Incremental Housing Loans	27,745	10,342	22,468	12,126	Target achieved
Total	33,428	14,297	25,766	11,469	
Number of beneficiaries benefitting (factor of 3.3 utilised)*	110,312	47,180	85,029	37,849	

* The factor of 3.3 utilised is as provided by Statistics South Africa in the Community Survey Report, 2016

ANNUAL PERFORMANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2018

PROGRAMME 2: FACILITATE INCREASED AND SUSTAINED LENDING BY FINANCIAL INSTITUTIONS					
STRATEGIC OBJECTIVE: Facilitate increased and sustained lending by financial institutions to the lower end of the housing market					
Performance indicator	Actual Achievement 2016/17	Planned Target 2018	Actual Achievement 2017/18	Deviation from Planned target to Actual	Comment on deviation
Leveraged funds from Private Sector (R'm)					
Private Rental Housing (R'm)	339	353	514	161	Target achieved
Affordable Housing (R'm)	684	637	1,206	569	Target achieved
Incremental Housing Loans (R'm)	611	253	456	203	Target achieved
Total Rental (R'm)	1,634	1,243	2,176	933	

PROGRAMME :OTHER DEVELOPMENTAL IMPACT					
STRATEGIC OBJECTIVE: Conduct the business activities of the NHFC in an ethical manner that ensures the continued economic sustainability of the NHFC, while promoting lasting social, ethical and environmental development					
Other Performance indicators	Actual Achievement 2016/17	Planned Target 2018	Actual Achievement 2017/18	Deviation from Planned target to Actual	Comment on deviation
Estimated number of jobs facilitated (Formula applied 11,13 jobs created for every R1m spent in a project)	8,802	7,301	9,615	2,314	Target achieved
Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs (R'm)	217	254	329	75	Target achieved

ANNUAL PERFORMANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2018

PROGRAMME: PROVIDE ROBUST, TIMELY, RELEVANT MARKET RESEARCH					
STRATEGIC OBJECTIVE: Stimulate the low-to-middle income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing customers					
Performance indicator	Actual Achievement 2016/17	Planned Target 2018	Actual Achievement 2017/18	Deviation from Planned target to Actual	Comment on deviation
Undertake mortgage performance index analysis					
Develop and implement affordable housing dashboard with key market indicators.	Bi-Annual	Bi-Annual	0	0	Target not achieved as activity was pended to deploy resources to HSDB establishment work.
Develop advocacy through stakeholder enjoyment to enhance our ability to respond to key issues: - Quarterly reviews with shareholder	Quarterly	Quarterly	0	0	Target not achieved as activity was pended to deploy resources to HSDB establishment work.
Roundtable seminar with NHFC clients	Bi-annual	Bi-annual	0	0	Target not achieved as activity was pended to deploy resources to HSDB establishment work.

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

National Housing Finance Corporation Soc Ltd.

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