NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

LAYING STRONG FOUNDATIONS FOR TOMORROW'S SUCCESS

2019 INTEGRATED REPORT

CONTENTS

PART A | General Information

About this report

Introduction

This Integrated Report is the National Housing Finance Corporation's (NHFC) annual communication in which the financial results, business outlook, strategy, and other relevant information is contained. It seeks to set out, in a concise, comparable (where appropriate), and consistent manner how our strategy and performance for the year under review have materially impacted our stakeholders. The report content is based on previous performance, as well as information aimed at providing stakeholders with a view of the sustainability of the business, and the impact the NHFC has on the well-being of South Africans.

The NHFC is listed as a schedule 3A entity in the Public Finance Management Act 1999 (PFMA) and registered in terms of the Companies Act of 2008. Thus, it is obliged to align all reporting to the requirements of the PFMA and the Companies Act, while ensuring compliance with the King IV Report in its continued commitment to report and operate ethically and honestly with stakeholders.

Report scope and boundary

The merger of the Rural Housing Loan Fund NPC (RHLF) and the National Urban Reconstruction and Housing Agency NPC (NURCHA) into the NHFC became effective on 1 October 2018. This merger is a crucial step towards the formation of the Human Settlements Development Bank (HSDB) which is anticipated to be implemented in the next eighteen to twenty-four months. The mandate for the formation of the HSDB is the responsibility of the National Department of Human Settlements, with the end-goal of supporting the human settlements delivery value-chain. The NHFC fully subscribes to this mandate.

All information presented in this report reflects the merged organisation as at 31 March 2019, with the results being consolidated for the final six months. NURCHA and RHLF prepared integrated reports for the period prior to the merger. Therefore, results and the financial position will only in rare instances be comparable to previous years' results despite comparatives being presented throughout.

Forward-looking statements

As the NHFC continues to refine its operational structure, diversify its portfolio, increase and improve operational results, it is necessary to classify such future events, developments, and strategic vision as being potentially forward-looking statements. These statements are based on reasonable assumptions, as well as calculated projected future occurrences that may impact the organisation. However, it is important to note that these projections may be affected by external factors, which may be out of our control. To ensure a successful outcome, there are several mitigating factors, which include: risks, uncertainties and dynamics, these 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 integrity of the reporting standards used in its development. The report has been compiled in accordance with the International Reporting Framework, relevant legislative requirements, as well as the Global Reporting Initiative. This report was approved by the Board on 30 July 2019.

> **"The principal mandate of the NHFC is to broaden and deepen access to affordable housing for the low-to-middle income South African households.**

NHFC ETHOS

VISION

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

MISSION

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

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 (DFI). The principal mandate of the NHFC is to broaden and deepen access to affordable housing finance for the low-to-middle income South African households.

VALUES

- Ownership
- Passion
- Teamwork
- Integrity
- Creativity
- Achievement

UNIQUE ATTRIBUTES

RISK TAKING

We take informed and calculated risks to create new opportunities within the affordable housing market.

MAKING MARKETS WORK

We provide funding in areas where commercial lenders find it tough to operate, which in turn enables us to stimulate investment activity.

DEFINITIONS

GAP MARKET

Households earning a combined monthly income of between R3 501 and R22 000. These are income earners who earn above the income threshold to receive free housing from the government, but have difficulty in obtaining credit for mortgages from the mainstream financial institutions.

NHFC TARGET MARKET

South African households with a monthly income of between R800 to R22 000.

SALIENT FEATURES

Funds disbursed:
R570 MILLION

R574 MILLION
LOANS APPROVED

102
Eco-friendly houses developed

94%
OF STAFF TRAINED

19 423
HOUSING OPPORTUNITIES CREATED

R446
MILLION
TOWARDS BEE ENTREPRENEURS, INCLUDING WOMEN AND YOUTH

R108,4 MILLION
PROFIT
FOR THE YEAR

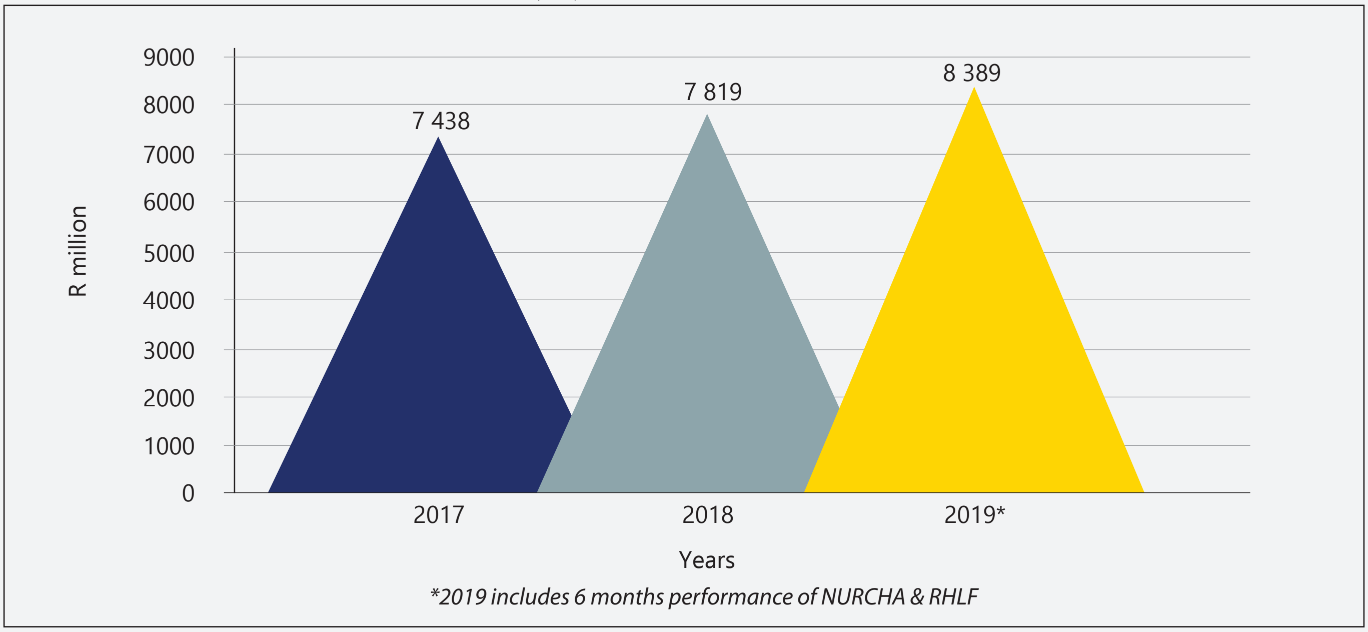
ACHIEVED COST TO INCOME RATIO OF
47,5%
& A CREDIT LOSS RATIO OF 2,6% (2,8% of 2018)

The Future of HR Awards in association with Careers24

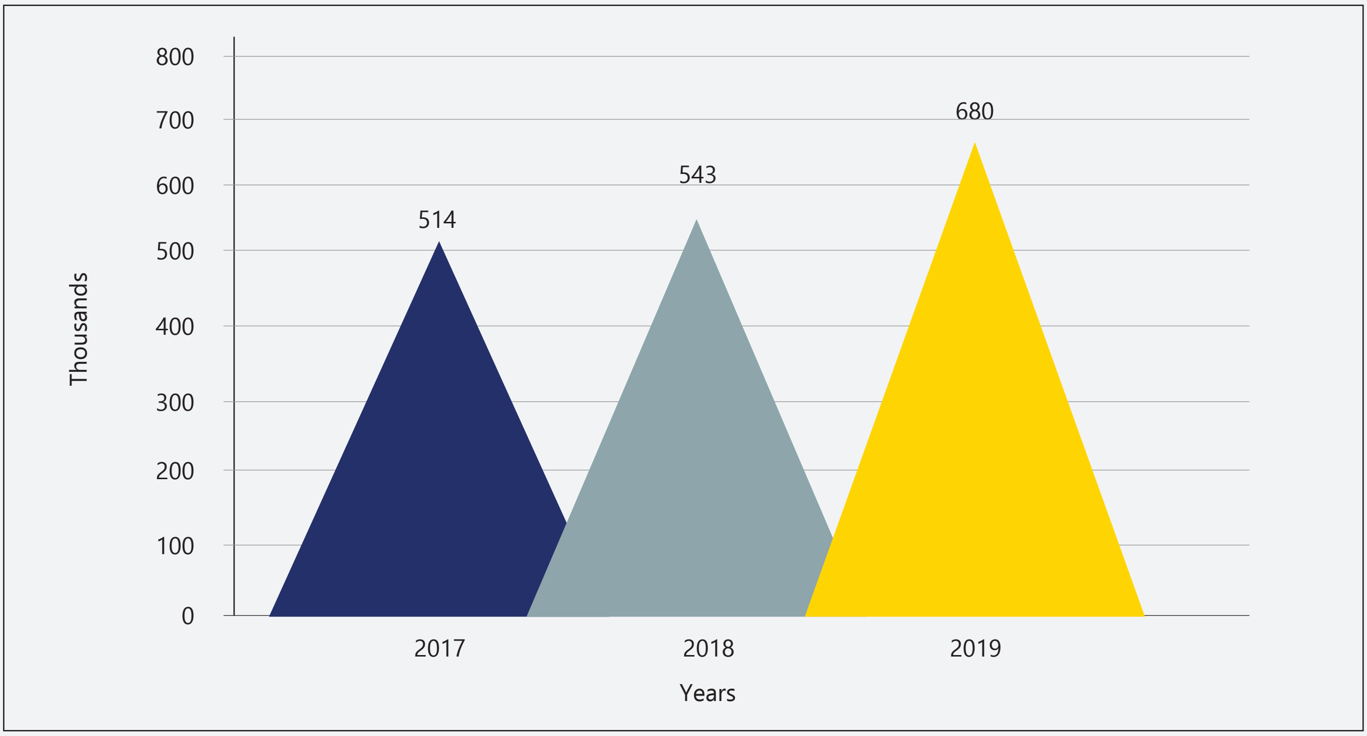
NHFC soared above strong contenders to take home the coveted HR Future Award trophy in the Employer of Choice: Public Sector category. This award is a confirmation that the NHFC is future-fit and fully up to speed with the fast-changing and digitally disrupted HR industry, a position which is at the cusp of human capital management.

Cumulative development impact

Graph 1: Cumulative funds disbursed directly by NHFC

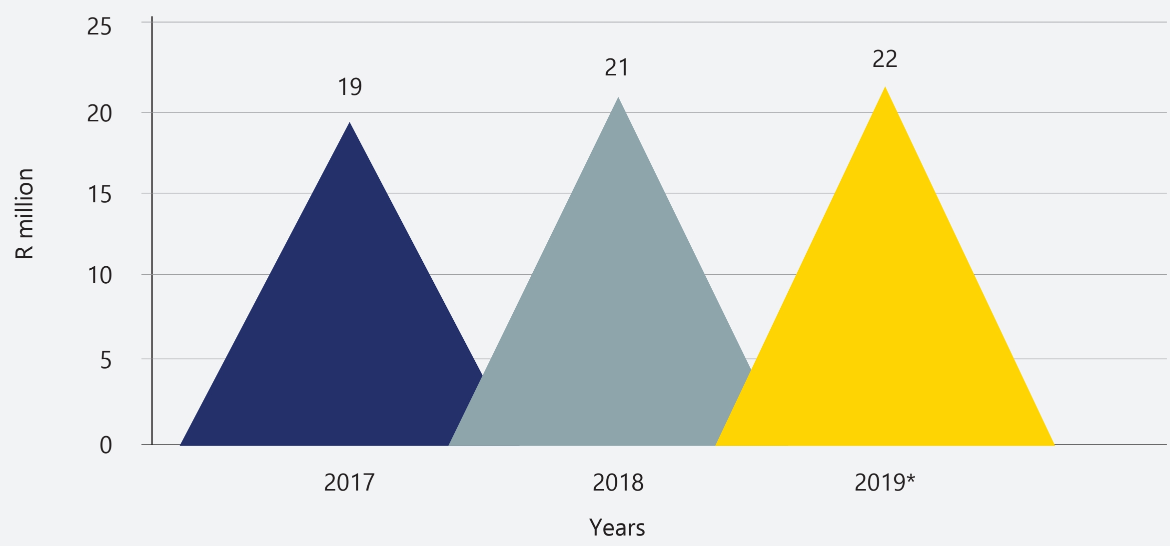


Graph 2: Cumulative units / housing opportunities delivered through our funding, interventions and partnerships

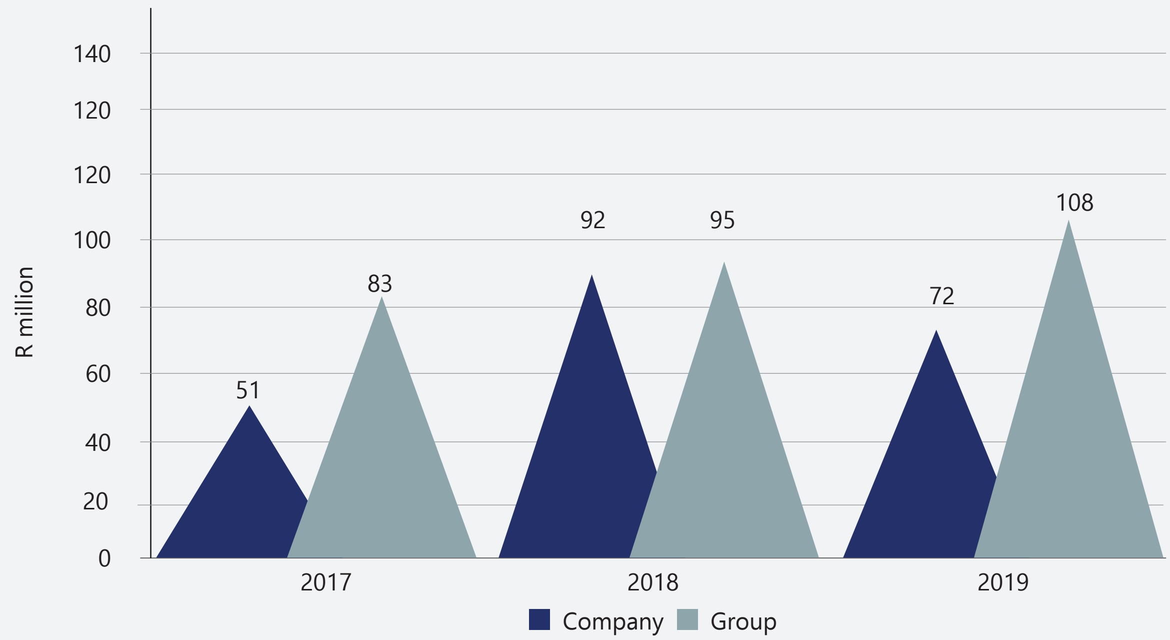


Cumulative development impact | continued

Graph 3: Private-sector funds leveraged through our funding, interventions and partnerships



Graph 4: Financial performance - annual surplus



*Includes RHLF & NURCHA from 01/10/2018

PART B | Our Business

THE NHFC

Who we are

The National Housing Finance Corporation SOC Ltd (NHFC) is a Schedule 3A Public Entity, supporting housing delivery through the provision of affordable housing finance. We have operated since 1996, on a national level, providing access to funding for the low-to-middle income group.

Consistent with last year, we have the following credit ratings issued by Global Credit Ratings Co:

National rating:

Long - term: A+
Outlook: Stable
Short - term: A1

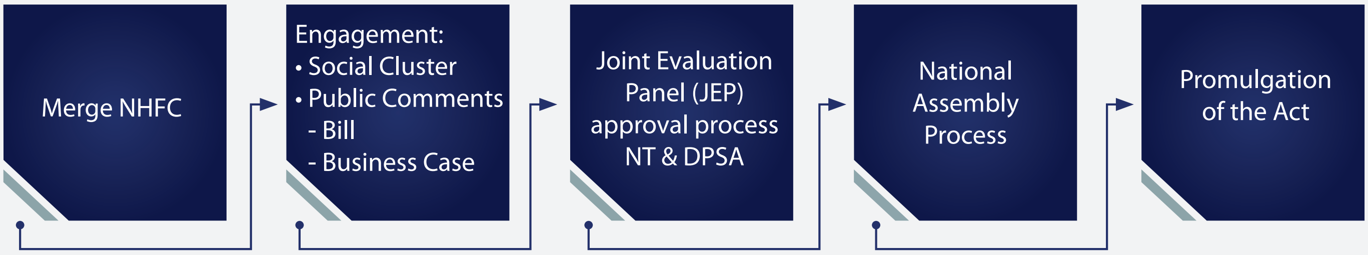
Having this credit rating places us in a position to borrow funds should this be necessary, before or after conversion to the HSDB.

The Merger

The NHFC will continue in its existing legal format but will change its constitution documents to conform to the HSDB requirements that are spelled out in the legislation once it has passed through the appropriate processes.

The merger has brought three formidable institutions together, to form one entity with the sole goal of facilitating processes whereby South Africans are empowered to improve their own living standards, by providing access to finance which usually is not available through commercial channels.

Milestones to the establishment of the HSDB



How we achieve our mandate

We achieve our mandate through the facilitation and provision of financing opportunities to various households, dependent upon their affordability. Each programme is designed with the end-user's needs and requirements in mind. The next page is a summary of our target market and product offering.

THE NHFC | continued

How we achieve our mandate

Rental housing

Privately-owned rental housing: medium- to long-term loans / private rentals:
- We provide long-term funding to develop or refurbish affordable privately-owned rental accommodation.

Social housing rental:
- This is subsidised rental housing, made available by social housing institutions registered with the Social Housing Regulatory Authority (SHRA).

We provide 30% - 35% project funding as secured debt with the balance provided by SHRA and the provinces in the form of grants and provincial subsidies.

Incremental housing

We offer funding to non-banking intermediaries, who on-lend to homeowners, for incremental improvements, including additional living space. Funding is facilitated to empower both rural and urban low- income earners to better their living conditions. Intermediaries are encouraged to grow to a point where they can access funding from other institutions, crowding in the private sector as a funding partner to the NHFC.

Home ownership

We invest in developments where individuals purchase completed units through mortgages (with value not exceeding R900 000). Loans are provided to homeowners via our clients who are non-banking retail intermediaries.

Subsidy and affordable housing programme

We provide bridging and development finance to contractors and developers involved in the development of subsidy and affordable housing. Funding is provided to contractors who have been awarded contracts by public and private sector entities for the construction of subsidy housing and related community facilities.

THE NHFC | continued

Finance Linked Individual Subsidy Programme (FLISP)

The NHFC has been assisting the Gauteng Department of Human Settlements in the current reporting period. NDOHS further commissioned NHFC to make preparations to administer and facilitate the delivery and access to FLISP nationally with effect from 1 April 2019.

FLISP was developed by the NDoHS with the view to facilitate sustainable and affordable first-time home-ownership opportunities to South African citizens and legal permanent residents' households who earn between R3 501 and R22 000 per month.

FLISP offers qualifying applicants, with approved mortgage loans, a measurable opportunity of reducing the eventual monthly loan repayment instalments to an affordable amount over the loan repayment term.

Strategic investments

We work closely with investors, developers and housing development agencies and funds to leverage private sector and development funders to finance and create affordable housing stock.

Contractor Finance Development Programme (CFDP)

Through this programme, we assist small- and medium-sized home builders with bridging finance, training and mentoring to enable them to gainfully participate in the construction sector. The programme focuses especially on women and youth owned construction companies. In addition, technical support and business development to contractors is provided, as is facilitating the Material Supplier Undertaking agreement.

Programme and fund management programme

Programme management and project implementation services are offered, under this programme, to provincial and local authorities. We therefore support the development of project and programme management capacity and enhance service delivery in the human settlement sector.

Programme performance overview

Private Rental

During the year under review, the private rental performance has demonstrated further evidence of slowing growth in the residential rental market, largely due to a decrease in the number of viable applications received and processed. Challenges in the private rental pipeline generation were evident in the reduced number of loans approved, R33 million against a target of R135 million which can be attributed to:

- Declining national demand for rental stock;
- Deteriorating market strength;
- Delays in municipal approvals;
- A declining trend in rental escalations; and
- A general tough economic climate.

Rental prices and escalation rates are reducing, a clear indication of tenants who are under severe economic pressure. A balancing act between vacancies, escalations, market strength and rent collections trends, has proved far more challenging in lieu of the hard-hitting economic outlook. In this market, such risks can only be mitigated by developments with lower loan to value ratios, which has proven to be quite a challenge as developers lacked sufficient equity to sustainably gear developments.

Although we managed to disburse a significant portion of our private rental targets, R188 million against a target of R198 million (95%), delays in construction progress has contributed to the low amount of housing opportunities realised. Increasing volatility on construction sites as a result of disruptive community forums who illegally demand jobs and contracts from developers, has become a challenge and hinders progress on most construction sites.

Social Rental

Social housing loan approvals performance was encouraging and demonstrates an appetite from the market for social housing, as well as an increase in the quality of Social Housing Institutions (SHI) and developments. Building relationships and intensifying engagements with social housing stakeholders has been beneficial and we continue to see the fruits of such engagements.

Loans towards social housing institutions reached R232 million against a target of R90 million or 258% of target. The significant increase against budget was to make up for the shortfall in private loan approvals and this has ensured that the overall rental loan approvals target of R225 million was exceeded by R40 million.

The levels of disbursements, R77 million against the target of R127 million, and housing opportunities realised were affected by delays in construction and municipal approvals. Developments, which were intended to break ground in this financial year, encountered several municipal approval delays.

The deal pipeline for rental housing stood at R434 million at year- end, with social housing contributing more than 63% of the potential new business. Most of these social housing projects have been approved by the Social Housing Regulatory Authority (SHRA).

The existing social housing book had however, posed significant challenges, as arrears on four big social housing clients increased to levels not previously experienced. These arose mainly as a result of organised rental boycotts by tenants, as well as, illegal occupation of completed units prior to contractor handover. This means that these clients have incurred massive costs related to eviction of non-paying tenants and securing the affected developments. These acts of illegality resulted in lost revenue for the SHI's impacting their financial sustainability. We have offered assistance in the form of restructuring debt to some of the SHIs, and made several attempts to find resolutions, in conjunction with stakeholders such as the National Department of Human Settlements (NDOHS), the SHRA, the affected provinces and municipalities.

Affordable Housing

The affordable housing programme under-delivered mainly as a result of:

- Staff losses; and
- Challenging market conditions.

2018/2019 was a tough economic year in terms of end-user affordability (financial pressures, high cost of living and consumer confidence) and there was an under-demand for residential property in this market. The residential developers were opting for a wait and see approach before developments could commence, for the economic environment to turnaround.

Programme performance overview | continued

Under the sub-programme, R140 million in disbursements were made and loans of R96 million were approved. The programme experienced a high employee turnover in the year due to job security and anxiety around the prolonged merger.

> **FLISP offers qualifying applicants with approved mortgage loans, a measurable opportunity of reducing the eventual monthly loan repayment instalments to an affordable amount over the loan repayment term.**

Strategic initiatives to support improved performance of the programme in 2019/2020 include:

- Review of the current product offering with potential to expand and include mezzanine finance to the Affordable Housing Programme product offerings;
- Improved focus with NDoHS on targeted rapid growth areas including 14 mining towns in six district municipalities located across five Provinces;
- Engagement with developer and contractor forums, and revival of previous NHFC Project Finance Division clients;
- Working closer with the Housing Development Agency (HDA) on the rollout of catalytic projects; and
- Emerging Developer workshops to assist with the accelerating delivery of housing to beneficiaries.

Subsidy Housing

The performance of subsidy housing was marginally low due to several challenges ranging from staff issues, operational inefficiencies relating to turnaround times and other external factors. The deal pipeline in the Eastern Cape was thin and, in an attempt, to limit concentration in that province. Intensive marketing and business development activities in other provinces were therefore a major focus in the latter part of the year in order to build a solid deal pipeline for 2019/2020.

Improved loan conditions, introduced in respect of the signing of the Irrevocable Payment Instruction by provincial Departments of Human Settlements, to mitigate diversion of funds for loan repayments impacted deal closure, resulting in deals of R76 million (79%) being approved compared to the planned target of R98 million. Loans approved had 5 072 potential housing opportunities but only 940 were achieved as not all the loans approved were disbursed during the year.

The subsidy housing programme is a major contributor to economic empowerment with 82% of the current value of loans being disbursed to black-owned enterprises. The Contractor Finance and Development Programme (CFDP) is a priority for the NHFC. This programme is a joint effort with the HDA in the Eastern Cape and provides funding and support to emerging contractors. While the CFDP is labour intensive, only 20 units are typically allocated per contractor with an average loan value of R800 000 and project value of R2 million.

Incremental Housing

R135 million in loans were approved under the sub-programme representing 169% of target (R80 million). Tough market conditions have led to lower disbursements of approved facilities as some clients struggled to issue loans - especially those with limited

Programme performance overview | continued

loan distribution channels. R63 million (79%) was disbursed against a target of R80 million. 14 698 incremental loans were facilitated from disbursements. Amendment of Regulation 26A promulgated under the Social Assistance Act specifically prohibits any deduction from SASSA accounts, other than for a funeral policy as specified in the Regulation and, which deduction should not exceed 10%. This amendment was implemented as the Cash Payment Services (CPS) was on the verge of being cancelled - resulting in developmental housing lenders being unable to collect on loans to old age social grant recipients.

We explain the adverse impact of the amendment of Regulation 26A on demand for and issuing of loans below:

- It is reported that during the CPS era, CPS would make deductions for funeral policies in terms of Regulation 26A, before making social grant payments into the grant recipients' personal bank accounts held at Grindrod Bank. Grindrod issued SASSA branded debit cards to beneficiaries which were used to access funds in their accounts.
- The terms and conditions, governing the cards issued by Grindrod, permitted grant beneficiaries to sign debit or stop order authorisations.
- It was within this context that some intermediaries were able to grant incremental housing loans to many pensioners who wanted to improve their housing conditions; and these loans were mainly granted in building merchants where pensioners would apply through in-store loan officers. Intermediaries would then collect via debit order from pensioner's bank account at Grindrod.
- It is worth noting, however, that it was at this level where the widely reported predatory practices took place such as, among others:
  - *Unauthorised deductions;*
  - *Multiple funeral scheme policies; and*
  - *Advance electricity and cellular telephone charges.*

It was crucial that this abuse be addressed, with the unintended consequence of social grant recipients being denied accessing developmental housing credit on favourable terms.

With the prohibition of any other deduction from SASSA accounts, other than for funeral policy, it meant

Programme performance overview | continued

that lenders who granted incremental housing loans lost deduction capability from accounts of pensioners that they used to enjoy while pensioner accounts were with Grindrod Bank before the amendment of the Regulation.

As a result, the following has occurred:

- Difficulties in collection on loans already granted;
- Reluctance by intermediaries to grant new loans to pensioners as SASSA/SAPO regime does not permit any deductions on pensioner's cards due to the prohibition stipulated in the amended Regulation 26A. However, applications are considered if pensioners have bank accounts with commercial banks. The result of these difficulties is that pensioners are finding it difficult to access incremental housing loans; and while lenders are finding it difficult to collect on already granted loans resulting in losses being reported.
- At one intermediary that was the trailblazer in serving this market, rejection rates averaged 52% in the last six months of the financial year.

We are in the process of compiling a motivation to propose that government consider amending Regulation 26A to include deductions for developmental housing credit in order to enable old age grant recipients to access incremental housing loans without a need to open commercial bank accounts as these can be costly.

Strategic Partnerships

In addition to the above-mentioned programmes, we work with investors, developers and housing development agencies and funds to leverage private sector and development funders to finance and create affordable housing stock. The key strategic partners of the NHFC are described in more detail below, in the Key Stakeholders section. Funding is provided to these funders in the form of equity, quasi-equity and debt funding to these partners who are typically providing innovative funding solutions and housing supply in the affordable housing market. Under this programme, R98 million was disbursed to partners against a target of R102 million, no loan approvals were planned in the year under review for this programme. R1 003 million against R1 022 million represents additional capital invested in the form of debt and equity by NHFC partners into housing initiatives aimed at delivering housing at a larger scale. 2 783 (70%) housing opportunities were facilitated from such initiatives against a target of 3 973. The reason for lower delivery of units had to do with a larger proportion of funded projects being made up of brownfields generating fewer new units into the market.

Entrepreneur Support and BEE Funding

For the period under review under review R446 million was disbursed to BEE clients under the rental programme - R133 million directly by the NHFC and indirectly R313 million by the NHFC associate Trust for Urban Housing Finance (TUHF). BEE clients under this programme are assisted to establish themselves as property entrepreneurs whereby they are able to develop rental housing investment properties in major metros.

The affordable housing sub-programme has seen R42 million disbursed towards black clients involved in the delivery of affordable housing including GAP housing in the target market.

The subsidy housing sub-programme is a major contributor to economic transformation with 82% of the current value of loans being disbursed to black-owned enterprises.

Through the incremental housing finance sub-programme, black and women owned clients are assisted in the form of access to loan facilities and technical advice offered by NHFC's internal team. As at the end of the financial year, commitments to the black and women owned intermediaries as well as community-based organisations was at R31.2 million, while a total of only R6.5 million had been disbursed to them. Since all of them are start-up companies, they have not yet built capacity to absorb large amount of disbursements for on-lending. As a result, of this constrained capacity, they do not as yet deliver loans at scale. However, the strategy is to formulate support policy for these BEE partners in order to contribute to the transformation of the incremental housing finance industry in the long term.

Programme and Fund Management

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

Programme performance overview | continued

This portfolio is run on a full-cost recovery basis and over the past four years has been engaged to run several development programmes across all spheres of government. It has successfully delivered several flagship programmes, including the Contractor Finance and Development Programme (CFDP), Free State Programme Management Support, Eastern Cape Bucket Eradication Programme and City of Cape Town Ceilings Retrofit Programme.

The delivery capacity and value of the portfolio have been stepped up, which advanced the achievement of sector development objectives. In the year under review, this portfolio has slowed down due to several factors, mainly as a result of the transitional arrangements brought about by the merger.

Four programmes will form part of the programmes that will continue within the portfolio under the soon-to-be-established HSDB, as discussed below. These programmes, which are still under implementation, also have the scope for evolution into new sector development products and will introduce development management practices in the sector.

Ceilings Retrofit Project

The City of Cape Town had a total of 40 000 RDP housing units built without ceilings and electricity prior to 2005. The city committed R155 million to retrofit 8 001 units with electricity and ceilings. NHFC was appointed in May 2015 as programme managers and all units have been delivered. A number of SMMEs benefited from the programme, with 25% disbursed to local SMMEs and 5% to local labour.

Western Cape Department of Human Settlements (WC DoHS)

Two projects have been approved by the WC DoHs:

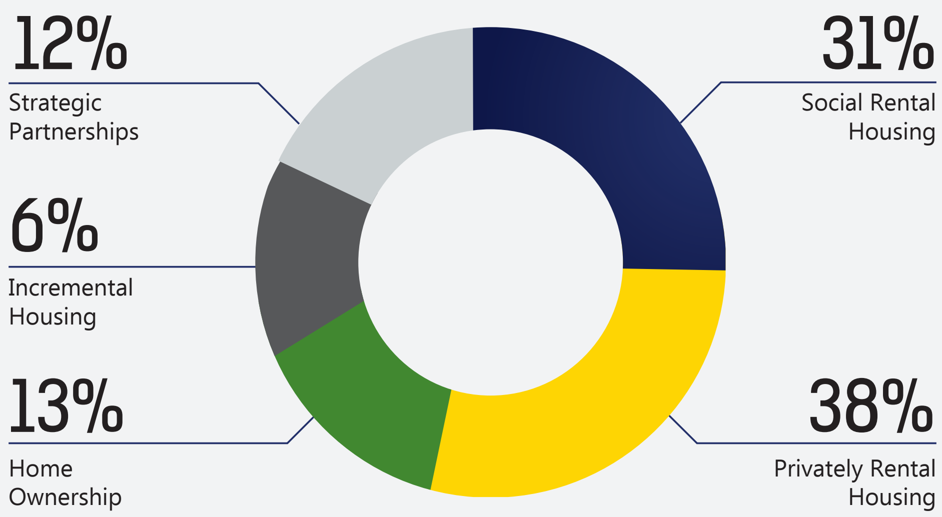
- Kuyasa Retrofit Project: Retrofitting of ceiling, electricity and minor roofs seals consequent to the ceilings retrofit. Over a period of three years, a total of 2 373 units will be delivered.
- The project is in the documentation stage where bills of quantities for 13 SMMEs are complete as well as their work package documents.
- Drakenstein Retrofit Project:
- Removal of asbestos roofs, retrofitting of ceilings and supplying of electricity to 477 units. These units were built as part of the then Peoples Housing Process (PHP) and are now experiencing various problems. The process of scope definition with stakeholders has taken longer than expected. Progress has improved and work packages for 30 units has been created as a start-up.

Contractor Finance Development Programme (CFDP)

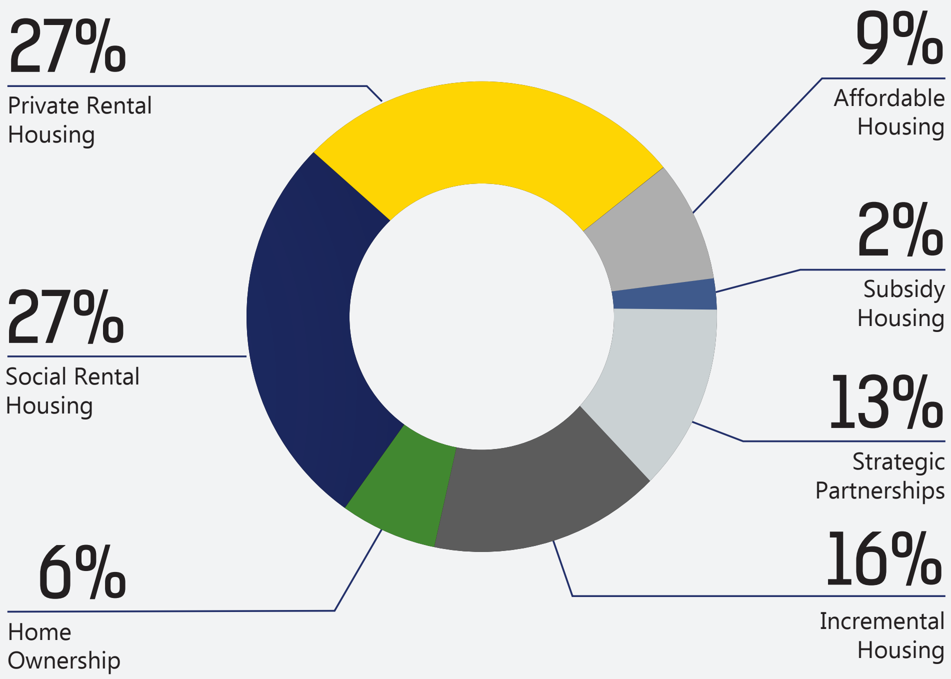
The CFDP supports small and established contractors, developing them to reach sustainability and maturity as enterprises in the construction sector. It assists small and medium home builders with bridging finance, training and mentoring to enable them to gainfully participate in the construction sector. The programme focuses especially on women- and youth-owned construction companies. In addition, technical support and business development to contractors is provided, as is facilitating the Material Supplier Undertaking agreement.

How we have allocated capital

2018 – NHFC figures before merger



2019 – Merged NHFC figures



Our business model

Through effective utilisation of our inputs, we are able to make housing finance available to households earning below R15 000 per month. Subsequent to year end this amount was increased to R22 000 per month.

We secure funding from reserves, other institutions and government grants. Interest is the major income stream, but other areas are being developed. With the growth in the NHFC's equity investments, dividend income will, over time, become a significant source of income. Effective cost management and staff investment aides in the profits being utilised efficiently.

OUR RESOURCES

CAPITAL	HOW OUR RESOURCES ARE USED TO SUPPORT OUR BUSINESS MODEL
FINANCIAL CAPITAL Shareholder equity Dividends from investments Interest income, fees and capital repayments from loans provided Debt funding	• Making new equity investments • Disbursing new loans • Operational expenditure • Repaying borrowings
HUMAN CAPITAL Our employees	• Appraising funding applications • Monitoring and evaluation of portfolio • Managing all other operational business areas
SOCIAL CAPITAL Government Public and Private Sector partnerships Other funders and development partners Clients and project co-funders	• Advocacy in policy formulation • Private sector leveraging • Business development investing in projects
INTELLECTUAL CAPITAL Industry specific knowledge and experience Knowledge gained from project development, credit granting and post monitoring investment	• Managing risk in the business • Strategies developed for project funding and • Programme planning and execution
NATURAL CAPITAL Land under development /building space converted to housing m^2	• Built environment compliance standards • NHBRC technical requirements • Environmental Impact Assessment regulation

OUTPUTS AND OUTCOMES

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

Our business model | continued

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

DEMAND SIDE

PROMOTING PRIVATE SECTOR PROVISIONS OF END-USER FINANCE TO THE TARGET MARKET

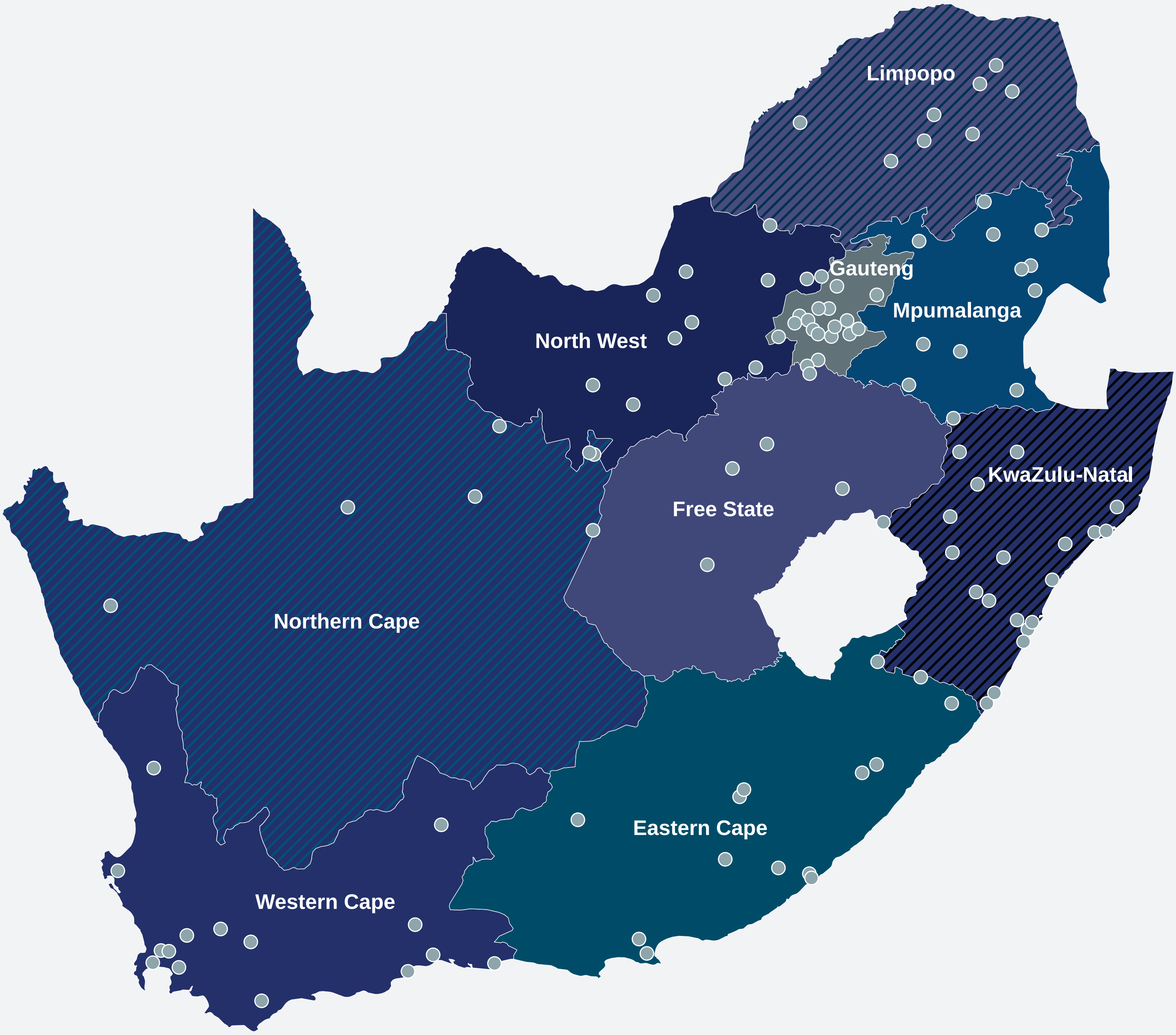
Wholesale Funding To RFIs	Innovative Solutions	Facilitating Government Subsidies
Income-linked mortgages	Instalment Sales	FLISP
e.g: Equity & debt Investment	e.g: Wholesale Funding to RFIs	Providing Incremental Loans for Housing

SUPPLY SIDE

Financing Residential Developments	Financing Rental Stock	Wholesale Funding to RFIs
PROJECTS SOCIAL	Wholesale Funding to RFIs	
PROJECTS Integrated		
PROJECTS Multiple Rental	PROJECTS Private Rental	

Where we operate

As a national entity, our mandate is to lend in all provinces. We achieve this national footprint through our intermediary and direct partners who have developed loan distribution channels in all provinces. The NHFC's reach in South Africa is depicted below and represents our dedication to all South Africans with our most concentrated area of operation being Gauteng, followed by Kwa Zulu-Natal and Eastern Cape.



Our Strategy

As a Development Finance Institution (DFI), the NHFC has a Constitutional responsibility to all South Africans by performing in the most effective manner possible. We are ultimately here to serve the low-to-middle income population by giving them the opportunity to live with dignity.

Through the merger we believe synergies are spearheaded to attain a stronger organisation, fully able to perform towards the strategic goals ahead. In broadening and deepening reach, borrowers living in rural areas who otherwise cannot access mortgage finance or lack title to land classified as communal land will have now have an opportunity to access incremental housing finance. The secondary market in urban township will be unlocked for those seeking to progressively extend their houses.

The conclusion of the merger coincided very well with the end of the 2014-2019 Medium Term Strategic Framework period, and as a new bigger entity, we look forward to transforming the Human Settlements financing framework as we craft our new MTSF 2020 – 2024 plans.

We are constantly looking at ways to improve delivery on the mandate of broadening and deepening access to affordable housing for the low-to-middle income South African households. We have therefore set out the following strategic objectives.

We have therefore set out the following strategic objectives:

- Expand housing finance activities through the effective provision of housing finance solutions to enable households to have a choice in meeting their housing needs;
- Facilitate the increased and sustained lending by financial institutions to the lower end of the housing market;
- Mobilise sustainable funding in partnership with the broadest range of institutions; and
- Drive the process of changing the structure of the NHFC to that of an entity ready to assume the role of the HSDB.

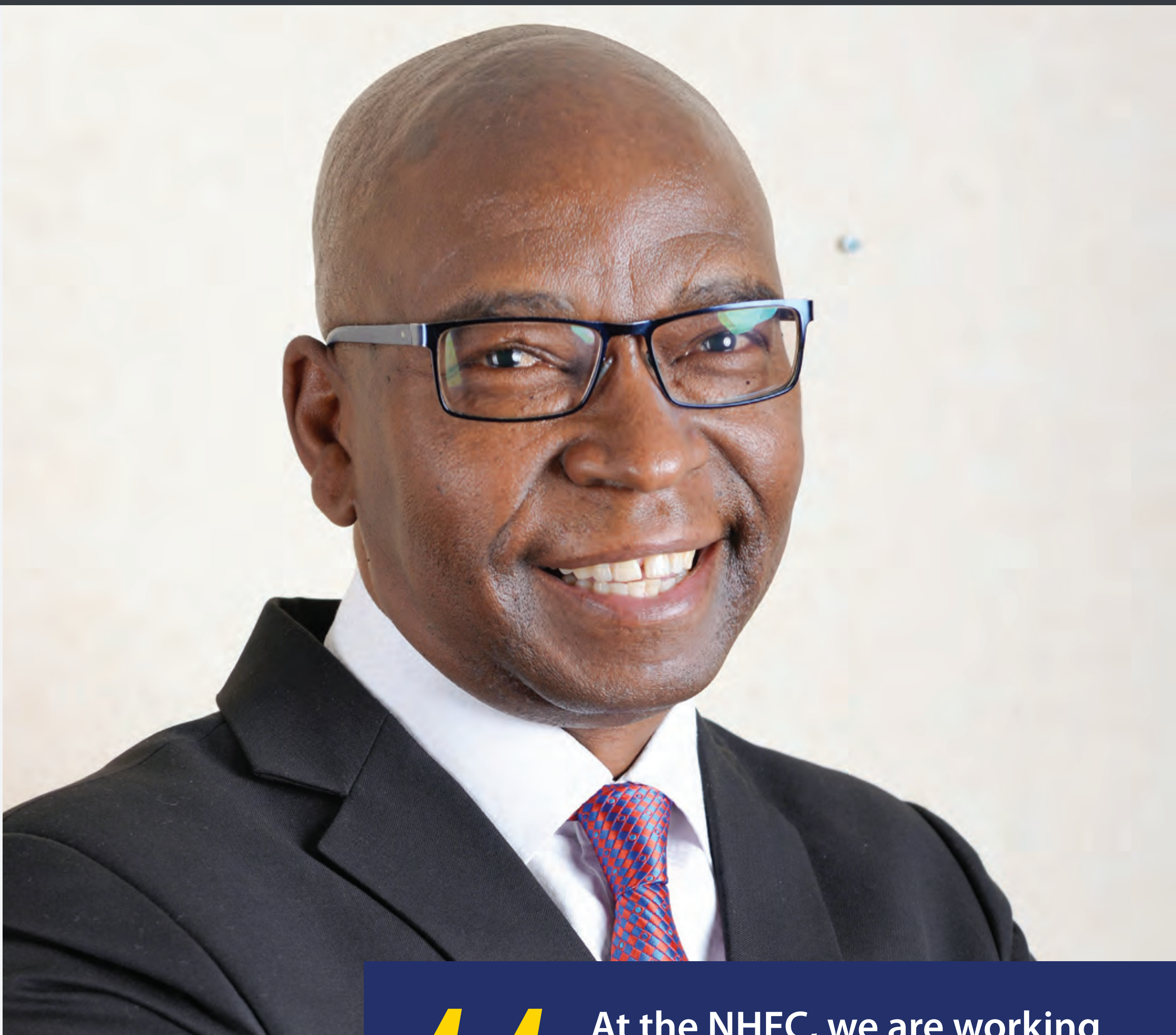
The NHFC pursued the following priorities during the 2019 financial year:

Focus Area	Description
Conclude the merger of NHFC, NURCHA and RHLF	• We have successfully integrated three entities into one. • We are gearing up the NHFC to be stronger and ready for the establishment of the HSDB.
Operationalising the Modified FLISP programme	• The NHFC was designated as the programme manager for the FLISP programme, this is a major vote of confidence in the organisation. FLISP is a funded mandate, over the three-year Medium-Term Expenditure Framework amounting to R1 billion. It is anticipated that this will leverage R3 billion in the private sector funding for subsidised mortgages and other loans. • We are in the process of designing the New FLISP Business and Technology Architecture.
Response to the operating environment	• Reviewing strategy for the social housing sector market. • This year has not been without challenges - firstly, the social housing sector has marked an increase in credit risk due to rent boycotts leading to non-performance of loans to Social Housing Institutions. Yet, issues like the Alexandra uprising, although one of the contributing factors to the negative perception, is seen by us as an opportunity for the NHFC to become more involved and more dedicated to providing housing. The uprising itself demonstrates the desperation felt by the South African population, the NHFC is planning on helping as many South Africans in our target market.
Organisational culture and capabilities	• Post the merger we have an approved HR policy which regulates the conduct and behaviour of employees. • The skills audit is underway. • Operational integration of systems (IT, HR and Credit), people and processes are also almost finalised.

PART C | Performance Information

Chairman's overview

The economic growth during 2018/2019 financial year at 0,8% was below market expectations (of approximately 1,3% at the start of the year) and reflects the significant work that lies ahead for both the public and private sector in achieving sustainable growth which is necessary to have a meaningful impact on our significant social and economic challenges, primarily high unemployment and income inequality.



Sizwe Tati
Chairman

> **"At the NHFC, we are working tirelessly to achieve our strategic goals, and to improve our operational outputs. Some of these have been achieved.**

Macro environment

The human settlements sector, like the investment industry, bemoans the state of the construction sector, while watching more and more contractors fold. The state of a construction company reflects the poor business pipeline which has been eroded, over the last couple of years by poor economic growth, poor fixed investment and poor business confidence. The loss of capable skills (sometimes through emigration) due to liquidations of construction companies, is a significant concern for the NHFC. There appears to be little light at the end of the tunnel, in the current economic climate, as construction companies continue to fight for their survival. Added to the above, is the recent spate of violent attacks happening on construction sites, and the crises which also include illegal occupation, land invasions and rent boycotts take on entirely a new form, negatively impacting even some of the NHFC clients.

The NHFC is watching with keen interest the land reform initiatives which are important in broadening access and ownership of land in the country. What remains important to us is that these reforms are undertaken in a manner that does not erode property rights and confidence of business, and South Africans in general, in this asset class.

What has been noted in South Africa, like other developing countries, is the migration from rural to urban areas which has placed significant pressure on the larger municipalities in terms of providing acceptable housing options and necessary infrastructure for South Africans.

However, we are encouraged by institutional reforms as well as various enquiries that took place since President Ramaphosa was appointed in February 2018. These have included a number of strong Cabinet appointments, commissions of enquiry into state capture, Public Investment Corporation and the administration of the South African Revenue Services. In addition, senior appointments have been made at various state-owned entities and the National Prosecuting Authority.

Strategic overview

The 2018/2019 financial year was a watershed year in the history of the NHFC with the approval of the merger of the NHFC with RHLF and NURCHA being provided by National Treasury under the PFMA. This merger is the culmination of a number of years of planning and is consistent with the drive of the Government to enhance the impact, viability, operational efficiency and effectiveness of the three Human Settlements DFIs.

Effective from 1 October 2018, the RHLF and the NURCHA donated their entire businesses to the NHFC. This resulted in the total asset base of the NHFC increasing by approximately R1.4 billion to R4.8 billion, from the merger.

Addressing governance risk

The impact of external poor governance is multi-faceted through poor public service delivery, suppressed economic growth, poor fiscal metrics, poor investor and consumer confidence and negative impact on availability and cost of capital. The NHFC remains on a process of enhancing its policies, procedures and systems to ensure we minimise the risk of losses from governance failures.

At the NHFC, we are working tirelessly to achieve our strategic goals, and to improve our operational outputs.

Key events after the year under review

I would like to thank the Honourable Minister Nomaindia Mfeketo and staff at the Department of Human Settlements for their unwavering support of the NHFC during this significant period of transition into the HSDB.

Following the cabinet changes post the national election which took place in May 2019, we are thrilled to welcome Minister Dr. Lindiwe Sisulu as the Minister of Human Settlements, Water and Sanitation. We are positive about the future and look forward to working closely with Minister Sisulu in order to develop and strengthen human settlements delivery through sustainable financing from the NHFC and later the HSDB.

Appreciation

Professor Michael Katz, after serving on the NHFC Board for over 22 years, with utmost dedication, commitment and distinction, resigned from the Board on the 31 July 2018. His leadership and guidance have set the path for the journey ahead to the establishment of the HSDB. His invaluable leadership expertise as Chairperson, counsel and contribution has made the NHFC what it is today, and that he will be sorely missed.

I would like to thank the board and staff of the NHFC for embarking with enthusiasm and energy in contributing to meaningful and sustainable investment in housing infrastructure in the country. I congratulate them on the smooth transition towards the creation of a fully integrated NHFC, enroute to HSDB.

Finally, let me thank our clients, partners, funders and co-funders for their continued support of the NHFC.

The year ahead

Although the economy performed below expectation in 2018/19, it is expected that 2019/20 will be a year of renewed optimism, steady growth and more disciplined work for the country and the NHFC. Investing for the long term will be critical in changing the economic trajectory of the country.

Mr Sizwe Tati
Chairperson

CEO's review

In the first six months of the year under review, the entities were independent and reported as such. Following the official date of the merger, 1 October 2018, and post the fulfilment of the conditions precedent for the merger to take place, we are now able to report on a consolidated basis.

Samson Moraba
Chief Executive Officer

> There has been a united realignment of ideals and our employees are charting a new course for the NHFC.

The merger has been a remarkable, albeit sometimes challenging journey. We have all learnt a great deal about the industry, each other, and we have successfully created a cohesive unit.

The year under review

This was a standout year for the NHFC, a period that redefined the NHFC as we knew it, in the last 23 years.

Not only has this year under review being an eventful one, as captured by the Chairman from an MTSF point of view, but it has also become a year of two different halves for the NHFC. The first six months being a period of three Human Settlements DFIs, with NURCHA and RHLF being externally audited for a close out at half year, the 30th September 2018. The last six months being a single unit NHFC, wherein both NURCHA and RHLF have been merged (See Note 36 for details in the NHFC Annual Financial Statements, as at 31 March 2019).

As a consequence of the above merger, year on year comparatives would not be reflective of a true picture for the NHFC, as the above two halves are completely different.

Notwithstanding the above transition, we are delighted to report on the merged NHFC, with the following highlights:

- Created 19 423 housing opportunities (excluding any work in progress in the developments);
- Approved R574m in loans;
- Disbursed R570m (inclusive of BEE disbursements);
- Leveraged R1bn from private sector which resulted in the delivery of 2 783 housing units;
- Surplus of R108m, at a Group level; and
- Disbursed R446m (NHFC R133m and R313m though TUHF) towards BEE, including women and youth.

Challenges

The human settlements and the South African macro-economic landscape over the last year has not been without its difficulties. The environment has been a tough one in which to operate due to the weak economy which fell into technical recession in the first half of 2018. As a consequence, the housing market was affected as fewer construction opportunities presented themselves. Our pipeline was similarly affected as reflected in our low level of achievements against approvals and disbursements targets.

With respect to our social housing rental lending business, there have been several rental boycotts and illegal occupation of properties funded during the year under review, which have impacted our results negatively. Yet we are, committed to partnerships and discussions which will mitigate this risk.

Private rental financing has become a very competitive space with overcapacity of developments resulting in lower yields for investors and financiers as vacancy rates in the sector widen. Accordingly, the pipeline in this space has become thin.

Changes in the SASSA regulations, which came into effect during the year, barring loan repayment deductions directly from SASSA accounts negatively impacted our incremental lending business. We will engage with relevant parties to find a solution.

Opportunity

The NHFC has made great strides in reshaping the human settlements environment, as the merger has proved to be invaluable to facilitating an end to end addressing of the human settlement funding and financing need, but more so, to the households we intend to serve, through meeting their human settlements financing needs.

Finance Linked Individual Subsidy Programme (FLISP)

South African citizens and legal residents earning between R3 501 and R22 000 often find it difficult to receive mortgage finance, yet through FLISP this is now possible. The NHFC received the mandate to manage this programme as a funded mandate, work has commenced to operationalise this, by building a business and IT architecture, in collaboration with key stakeholders. These would predominantly be the banking sector, as well as developers, mortgage originators, estate agencies and other non-banking intermediaries.

Compliance

During the year under review, we defaulted on one of EIB's covenants. The primary cause of this breach is the escalating credit risk associated with social housing clients due to rental boycotts and illegal occupation of rental units, negatively affecting rental collections. The EIB has however, waived their right to accelerate repayments, until we have reviewed and adjusted these covenants to acceptable levels, by 31 July 2019. I would like to thank them for their empathy towards the non-compliance, largely caused by the rental boycotts experienced.

Operation integration

As with any organisational change, there has been a period of transformation through the merger. Yet, we are pleased to report that, on the whole, there has been a united realignment of ideals and our employees are charting a new course for the NHFC. While the integration remained positive in most respects, it is pleasing to note that it had no negative impact to our clients and external stakeholders.

Appreciation and outlook

Following a year of political and economic challenges, we are set to improve the human settlements and housing environment. The NHFC board is excited and optimistic about the future of human settlements in South Africa.

It is with deep gratitude that I thank Mr Mbulelo Tshangana, Director General, for his unwavering support of the merger and his constant assistance in moving the NHFC towards the goal of the HSDB.

To echo our Chairman's thanks to the previous Minister of Human Settlements, Ms Nomaindia Mfeketo, her support has been most valuable in this transition period.

Welcoming Minister Dr. Lindiwe Sisulu, the Minister of Human Settlements, Water and Sanitation, is an honour. We have worked together in the past and we are delighted that this partnership will culminate with the realisation of the ultimate goal, the establishment of the HSDB, that will radically change the funding and financing of Human Settlements.

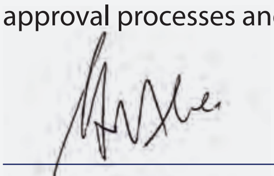
I would like to express my gratitude to the Board, and in particular the Chairman, Mr Sizwe Tati, for the continued strategic leadership, engagement and oversight.

A special word of thanks also goes to Prof Michael Katz, who for the many years of inspirational leadership, mentoring and guidance to me, as Chairman of the Board of the NHFC.

To management and staff, your having worked tirelessly to bring the merger into being in a not so disruptive way, is praiseworthy, and for that, I thank you. We would not have been able to help as many households as we did, in the year under review. I am truly excited after we merged, to have worked as we did with each other, as we successfully integrated our operations and captured the low hanging fruit we identified during our due diligence phase.

To our clients, partners, funders and stakeholders, we thank you for showing great understanding and commitment, by your continued support to us, during this transition stage.

Lastly, for us, there is great urgency to take the establishment of the HSDB to the next level, through the requisite approval processes and the commencement with the Parliamentary process, in the current financial year.



Mr Samson Moraba
Chief Executive Officer

Materiality

Matters are determined to be material when they have the potential to impact our performance and value. In addition, we define materiality based on our Shareholder Mandate, as well as relevant regulatory frameworks.

Ongoing stakeholder engagements provide us with a view of expectations and identification of issues considered as material, therefore ongoing communication with our stakeholders is a business imperative.

Stakeholder and shareholder expectations can be broadly summarised as:

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

In addition to the above, our shareholder and key stakeholders appreciate that our operating context: economic, financial, social and regulatory, has a profound impact on our ability to deliver results and, hence, on our strategy.

In addition, we ensure that our strategy is defined by the materiality of results and remains information driven.

As a DFI, we are accountable not to Government, but also to the South African public. Stakeholder engagement is therefore a critical element our success. Our stakeholder engagement is detailed below:

Stakeholder engagement

Creating and maintaining effective and long-term relationships with stakeholders is a fundamental element in the success and sustainability of the NHFC.

We interact with stakeholders both formally and informally, on all levels. Constant engagement leads to strengthened trust and long-term benefits for the end-users of our products and services.

The NHFC firmly believes in honest communication with its stakeholders, and as such all results are conveyed to them, whether good or bad. Honesty and integrity are foundations for the NHFC, creating trust among the stakeholders.

Our key stakeholders

Tenants and Homeowners (beneficiaries of the NHFC)

The tenants and homeowners s, as citizens needing improved human settlements, are the reason the NHFC exists and are therefore considered a key stakeholder group.

NHFC staff

Through the merger, the staff of the organisations have been handled effectively with change management consultants being on-hand to assist with the employee queries or fears. Through on-going employee communication and training, the NHFC validates that employees are truly the most important asset of any business.

Funding partners

Public Investment Corporation (PIC)

The PIC relationship has transferred seamlessly from a long relationship with NURCHA since 2012 into NHFC since 1st October 2018. This is a strategic financing partnership that enhanced ability to finance the affordable housing category of the housing market. It is a relationship that is expected to grow from strength to strength in response to the enormous housing challenge in the affordable housing segment of the market.

European Investment Bank (EIB) and Agence Française de Développement (AFD)

In December 2018, the NHFC Management held meeting with EIB and AFD as a result of a breach of two financial covenants relating to EIB. The breach occurred at 30 September quarter end. Indications are that some of the financial covenants will continue to be under threat. The adverse effect of Non-Performing Social Housing Institutions to NHFC is significant and thus threaten NHFC ability to continue meeting its financial covenants. The loan restructuring is a short to medium term solutions, engagements with all stakeholders are ongoing to ascertain long lasting solutions to the challenges facing Social Housing Institutions

Development Bank of Southern Africa (DBSA)

The DBSA has been a funder of RHLF for many years and this funding partnership enabled RHLF to scale up delivery of incremental loans in rural areas. With the merger of RHLF to NHFC effective 1 October 2018, the loan was transferred to NHFC. We expect that this relationship will continue as incremental housing loans is delivered at scale in both rural and urban areas.

Materiality | continued

Investment partners

International Housing Solutions (IHS)

As one of the most established specialised affordable housing private equity funds in South Africa, IHS has raised two funds to date:

- ***Fund 1: Equity Funding***
  We were a debt provider in select projects and committed R167 million to the fund. This has subsequently been settled due to a refinancing by the client. Since 2008, this fund has raised R1.9 billion in equity funding.

- ***Fund 2: Equity and Quasi-Equity Funding***
  We are one of the largest equity investors in this fund, with R300 million committed to the vehicle. A total of just over R2 billion has been raised as equity funding and quasi equity funding including NHFC's commitment of R300 million. It is expected that this funding will be matched with approximately R3.5 to R4 billion of debt over the life of the fund in order to deliver 10 000 to 11 000 homes.

  The strategy of the fund is to invest 60%-70% of the equity in rental projects with the rest invested in development of 'for sale' projects. The rental projects are typically turn-key projects in order to mitigate development risk. These were key enhancements in the business model after experiencing several teething challenges with the first fund with respect to development risk.

  The fund has slowly expanded into social housing and should this business model succeed, the fund is expected to deliver 15 000 to 16 000 housing opportunities.

  At year end the NHFC had invested R160.6 million of the committed R300 million.

Gauteng Partnership Fund (GPF)

The partnership is to stimulate rental housing in the Gauteng Province and is delivered through two vehicles namely:

- ***Empowerment programme***
  This programme is targeting at emerging property entrepreneurs from previously disadvantaged communities, as has to date extended this funding to 14 emerging entrepreneurs. GPF and the NHFC engage on a regular basis to discuss performance and challenges. During the year under review no funding was extended, and for this reason both parties are in the process of reviewing the programme in order to resuscitate and invigorate it.

- ***Established property developers***
  Under this programme, NHFC provides up to 50%, GPF 30% to the qualifying developers and the rest is the developers' owned capital contribution (minimum 20%). The partnership has to date funded 10 clients in Gauteng and has since yielded about 1 494 units. No projects were funded in the 2018/2019, yet we are looking into this matter and will continue the partnership.

Social Housing Regulatory Authority (SHRA)

The NHFC remains a committed partner of the SHRA in terms of an existing MOU which has informed the below activities in the year under review:

- Information sharing in respect of issues that impact social housing sustainability at both client (governance, financial, property and tenant management) and sector level;
- Application pipeline progress updates to clear up issues that impact the turn - around time of applications;
- Dealing with delinquent common clients and joint intervention to address root causes; and
- Holding of monthly meetings where client and sector matters are ventilated, and actions are agreed.

Housing Development Agency (HDA)

The HDA, Gauteng Provincial Government and NHFC are working together on a strategy to finance catalytic projects and these engagements are on-going. HDA has invited the NHFC to work together in assisting Gauteng Human Settlements in formulating a plan for the land release programme.

The programme is aimed at prioritising the release of land and identifying land parcels that are currently not in use. Released land will address housing, economic, social cohesion and agricultural needs. Land will, in addition, also be made available for people who want to build houses for themselves, as well as for urban agriculture, township businesses, sports and recreational purposes.

Materiality | continued

Land parcels that are under review for the programme are parcels and title deeds owned not just by the private sector, but also by the State.

Associate companies

Trust for Urban Housing Finance Holdings (Pty) Ltd (TUHF)

The company is a 32,6% associate of the NHFC, and development loans are also provided to fund the business.

TUHF provides mortgage loans to small and medium-sized property investors and entrepreneurs seeking to invest in the supply of affordable housing units, mainly located in inner-city areas of larger metropolitan areas in South Africa.

Based on their specialised understanding of the inner-city residential market, TUHF is able to provide expert advice and wide range of tailored funding solutions.

TUHF has succeeded in attracting a number of corporates as equity and debt investors such as Public Investment Corporation, and Futuregrowth.

TUHF is trading profitably despite the economic downturn and resulting pressure on the rental customers as well as the IFRS 9 impairment requirements which have negatively affected the profits for the year ended 31 March 2019.

Housing Investment Partners (HIP)

HIP has two distinct aspects to the business: the fund management business and the actual property trusts which are asset backed mortgage loans which have to date, provided 3 000 households with mortgage funding in the affordable housing market.

The fund manager, Housing Investment Partners (Pty) Ltd, is owned 33,3% by NHFC and 66,7% by the Old Mutual Group. The fund managers' infrastructure (policies, technology platform and outsourced operating model) is viewed as best of breed. It was developed to manage a mortgage portfolio in excess of R15 billion. It currently runs at break even on a monthly basis, as a company, after a business rationalisation exercise over the last two years. However, to make meaningful profits requires the business to significantly grow its current asset base of about R1.35 billion in Trust 1 and 2 which was fully disbursed by March 2019. The risk capital investment of R270 million by the NHFC in Trusts 1 and 2 has been able to leverage an additional R1.1 billion from private sector investors in the Old Mutual Group and Futuregrowth which is in the form of mezzanine and senior debt funding.

The property trusts have a well-managed loan book each achieving collection rates over 90% with a well-developed loan management system. As the focus is transacting with the home owner (retail market) in HIP, the investment in systems and processes has been a key business differentiator. The NHFC is achieving a return above budget in Trust 1 and 2.

Trust 3 for an amount of R506 million has been closed and was funded by the Jobs Fund, Old Mutual Group and Futuregrowth with a strategic development partners. The onerous requirements of the Jobs Fund and the low level of activity in the affordable housing market has resulted in a strategic review of the initiative. Raising risk capital/junior debt layer of 20% funding has been the inhibiting factor.

Lendcor (Pty) Ltd

The company is a 20% associate of the NHFC. Other ordinary shareholders are Mettle Investments Ltd with 49,9% equity stake and Lendcor Holdings (Pty) Ltd with 30,1% shareholding.

NHFC is a major funder of Lendcor business which provides incremental housing loans to low income borrowers. The company has well established partnerships with building material suppliers in all provinces of South Africa. Through these stores, they grant incremental housing loans to the NHFC target market. Lendcor contributes the majority of the number of incremental housing loans that NHFC reports because the company grants small loans to many borrowers in the lowest income market segments of our mandate.

Subsidiary companies

Cape Town Community Housing Company (CTCHC)

CTCHC is a wholly owned subsidiary of the NHFC that comprises of two main business units:

- The Instalment Sale Agreements (ISA) loan book, which are loans provided to needy households who then purchase property from CTCHC through a structured instalment sale agreement. The gross loan book is approximately R125 million of the R227 million due from CTCHC; and

Materiality | continued

- Project finance loans provided to various projects was a gross amount of R102 million with the most significant being Augrabies Park, in Upington.

However, the net amount of both books is approximately R108 million due to write-offs and interest suspension over the years. The key focus for us remains the preservation of value via the collection of the ISAs as well as the speedy sale from the Augrabies Park project (as the other development loans have been written off to zero).

These actions are an integral part of the restructure of the company, which was approved by the Board, and included discontinuing the property development activities. Rectifying the ISAs in line with the Constitutional Court judgement of 29 November 2018 will also result in legal action being taken against the non-paying occupants.

It is expected that the negative impact of CTCHC on the financial performance of the NHFC will be decreased considerably after the above initiatives have been implemented.

Other subsidiaries

With the conclusion of the merger, six subsidiary companies from NURCHA were transferred to the NHFC. These were Special Purpose Vehicles (SPV) created to ring-fence funding with various financing partners. Four of these are dormant and two are active as outlined below:

NURCHA loan fund (NLF)

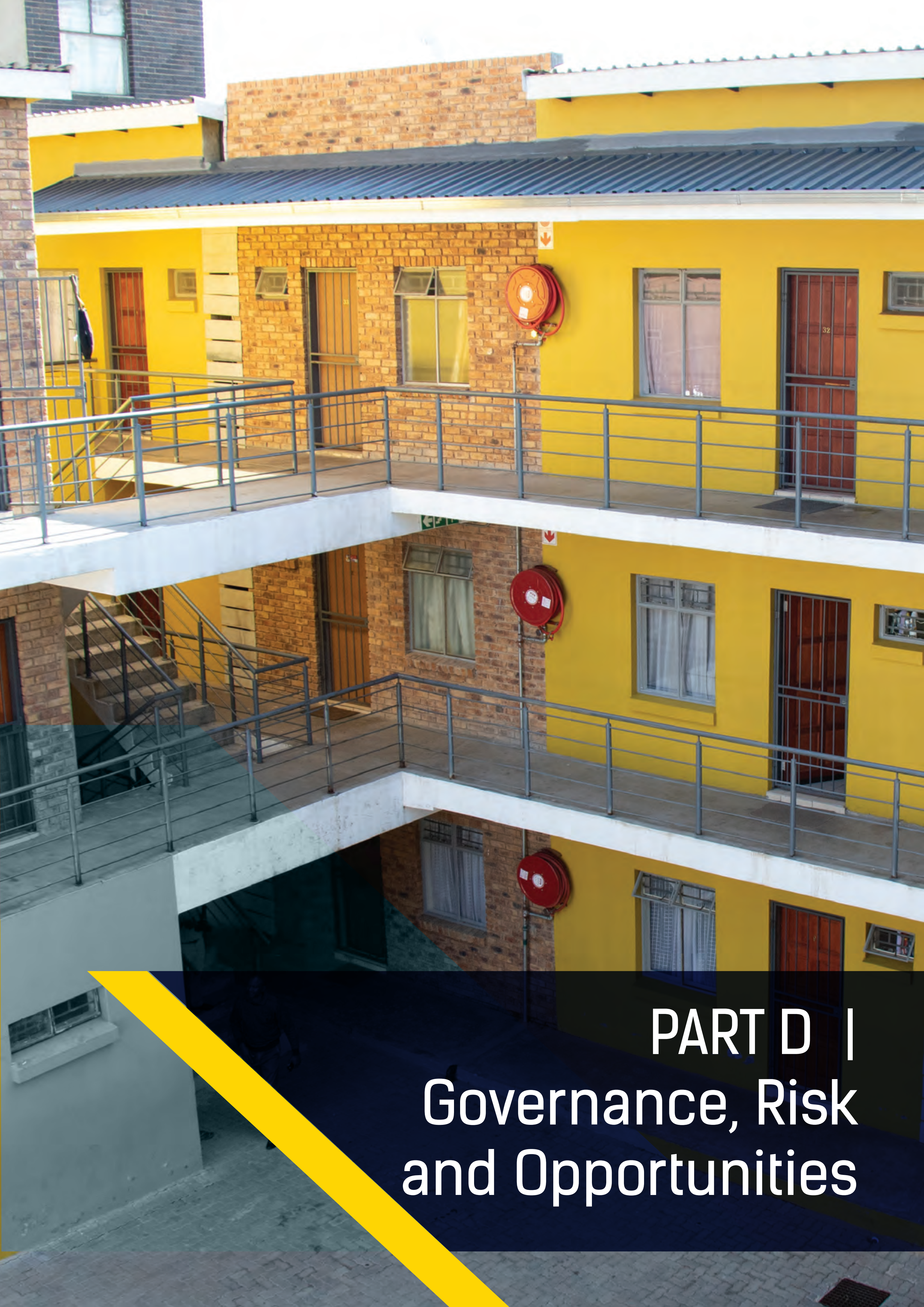
NLF provides bridging finance to contractors and developers building low- and moderate-income housing and related community facilities and infrastructure. The company operates principally in South Africa. It is funded by both NHFC (40%) and PIC (60%). The covenants as agreed on with PIC have been fully complied with

NURCHA Management Services (NMS)

This SPV was originally a structure with the Dutch Entrepreneurial Development Bank (FMO) which was later converted as a vehicle for under which programmes and fund management business was undertaken. This business stream entails collaborations with the three spheres of government. The company operates principally in South Africa.

Provincial and local government spheres

NHFC has a network of relationships with the two spheres as a lender of choice to the social housing market segment, affordable housing developer and contractors participating in housing development. There are some provinces and metropolitan municipalities that have established contractual relationships with NHFC to provide programme management services and contractor development support. These collaborative relationships are key to the achievement of sector development target.



PART D | Governance, Risk and Opportunities

Leadership

Sizwe Tati
Non-Executive Chairman
Yakani Group

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

Samson Moraba
Chief Executive Officer

BCom (UNISA) PMD (HBS)

Enoch Godongwana
Independent Consultant

MSc Financial Economics (University of London)

Anthea Houston
Chief Executive Officer
Communicare NPC

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

Adrian Harris
Innovative Financial Services:
Strategist and Entrepreneur

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

Johan Coetzee
Director of Companies

BA (UP), MBA (UP)

Phekane Ramarumo PR Pln
Chief Executive
Truly African Solutions

HD (PDA) (Wits),
MRP (SUNYA, USA)

Khehla Shubane
Independent Consultant

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

Thembi Chiliza
Retired Banker

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

Sango Ntsaluba
Executive Chairperson
NMT Capital

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

Executive Management

Samson Moraba
Chief Executive Officer

BCom (UNISA) PMD (HBS)

Viwe Gqwetha
Executive Strategic Partnerships

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

Jabulani Fakazi
Executive Incremental Housing Finance

Master of Arts (Pol. Sc. Development Policy) (Northern Illinois University), Bachelor of Science (Economics) (Northern Illinois University), Postgraduate Diploma in Business Management (University of KwaZulu-Natal), International Executive Development Programme (Wits Business School)

Bruce Gordon
Acting Chief Financial Officer

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

Mandu Mamatela
Executive Corporate Strategy

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

Lawrence Lehabe
Executive Lending

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

Nomsa Ntshingila
Executive Human Resources

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

Zola Lupondwana
Executive Credit

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

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)

Sindisa Nxusani
Executive Corporate Support

BCompt (Hons) (Unisa)
CA (SA)

Corporate Governance

Introduction

This section provides information on the performance and management relating to the governance, economic, social and environmental impacts of the organisation's activities.

The scope includes NHFC and its operating subsidiaries.

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.

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

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

The King IV Report advocates an outcome-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; and
- Legitimacy.

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

Combined assurance

Combined assurance receives deliberate and focused attention from the Board. The Audit Committee ensures that the combined assurance model addresses risks and material matters, in such a way as to avoid duplication of effort, rationalise collaboration among assurance providers and manage costs.

Activities are managed to maximise the impact, depth and reach from assurance service providers, to enable an effective control environment and ensure the integrity of the information used for reporting and decision making.

Statutory form

The NHFC is incorporated as a State-Owned Company in terms of the Companies Act. In addition, it is listed in Schedule 3A of the Public Finance Management Act and is wholly owned by the State, represented by the Minister of Human Settlements.

Accountability to the shareholder

The Board is accountable to the Minister of Human Settlements as the Executive Authority. The Shareholder Compact determines our mandate and holds the Board accountable for managing its operations within its mandate and according to the APP and Strategic Business Plan.

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

Board

Board governance, structures and framework

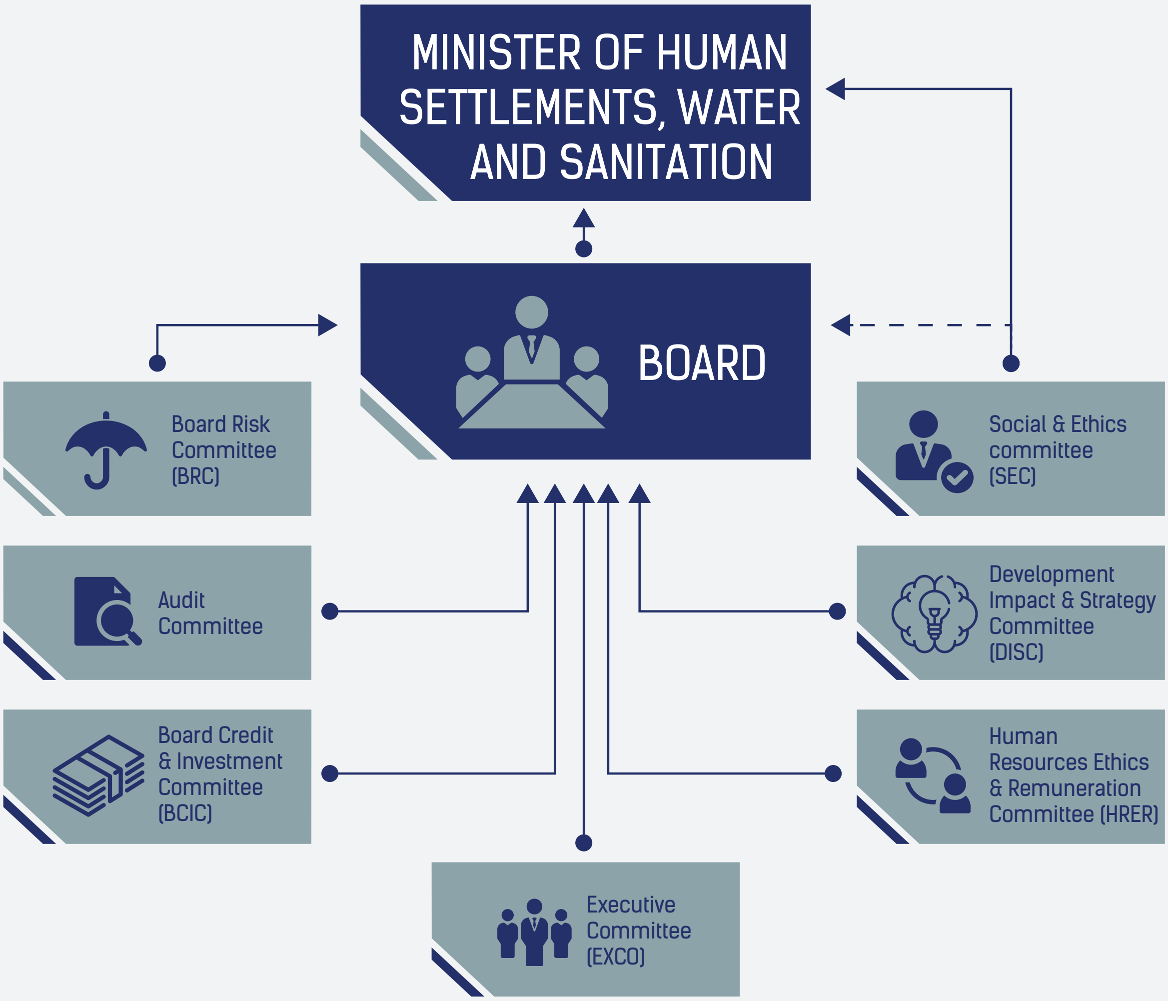
The Board, as the accounting authority, provides leadership, vision, and strategic direction to enhance shareholder value and ensure the NHFC's long-term sustainability and growth. The Board is responsible for developing and overseeing the execution of the strategy and monitoring of performance against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

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

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

Corporate Governance | continued

NHFC's Board governance structure



Board composition

Board members are appointed by the Minister of Human Settlements. The MOI provides for a maximum of 12 members. However, the Minister has appointed 10 members, including the Chairperson.

During the year Professor M. Katz resigned as Chairperson of the Board, having served for over twenty-two years as a non-executive director and twelve years as Chairperson. The Minister has formally appointed Mr S. Tati as the new Chairperson.

Apart from the CEO, the Board members are all independent, non-executive directors. 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.

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.

The MOI provides that one-third in number of the longest serving non-executive directors will automatically retire at the Annual General Meeting (AGM). 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 29 November 2018, Messrs S. Tati, E. Godongwana and A. Harris automatically retired by rotation, and were re-appointed by the shareholder for a further three-year period.

Corporate Governance | continued

Shareholder's compact

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

- Approving the organisational strategy, the APP and budget, and monitoring the implementation thereof by executive management;
- Observing the legitimate interests of the shareholder;
- Monitoring operational and financial performance against the corporate balanced scorecard, and 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;
- Monitoring the socio-economic ethical compass of the NHFC and its interaction with its clients and stakeholders; and
- Monitoring and implementation of transformation objectives and commitment to women managed programmes.

Non-executive director remuneration

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

Board evaluation

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

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.

Board meetings

Director name	17/5	28/6	30/7	27/9	5/11	29/11	28/3
Prof M. Katz (Chairperson) (1 April 2018 – 31 July 2018)	√	•	√	N	N	N	N
Mr S. Moraba (CEO)	√	√	√	√	√	√	√
Mr S. Tati (Chairperson) (Acting 1 May 2018 – 1 Feb 2019)	√	√	√	√	√	√	√
Mr J. Coetzee	√	√	√	√	√	√	√
Mr S. Ntsaluba	•	√	√	•	•	√	√
Ms A. Houston	√	•	•	√	•	•	√
Ms P. Ramarumo	√	√	√	√	√	√	√
Mr A. Harris	√	√	•	√	√	√	√
Mr E. Godongwana	√	√	•	•	√	•	√
Ms T. Chiliza	√	√	√	√	√	√	√
Mr K. Shubane	√	√	√	√	√	√	√

N - Professor Katz resigned as a Board member on 31/07/2018 | • Absent with apology

Corporate Governance | continued

Company secretary

In terms of the Companies Act and the PFMA, we are required to appoint a Company Secretary who is answerable to the Board. The Company Secretary plays a pivotal role in the corporate governance of the organisation. The Company Secretary 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 IV, the Board is bound to conduct the business of the NHFC in accordance with sound ethical principles. These are embodied in the NHFC Code of Conduct. The Code of Conduct also sets out the legal requirements and procedures to be followed in declaring an interest in any business matter before a Board committee or the Board.

The declaration of any interest is a standing item on all Board, Board committees, management committees and subsidiary committees meeting agendas. In addition, all Board members are required each year to provide a detailed 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 Board Compact, the Code of Conduct, and in terms of best practice.

Access to information and professional advice

All directors have unrestricted access to the Chairperson of the Board, the CEO 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 with the Company Secretary.

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 and strategic objectives from the shareholder, applicable legislation and regulations, governance standards, best practice and to take account of prevailing underlying conditions in the human settlements sector. All the Board committees are chaired by non-executive directors.

Executive management attend committee meetings by invitation. This attendance provides committees with an additional perspective on agenda items, where necessary, and enables the non-executive directors to give direction or receive further information where required. Guidance is also taken from external professional institutions and service providers, legal 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.

From time to time, the NHFC rotates the Chairpersons and non-executive directors among the various committees. This is to provide for robust interaction within the committees and to enable members to bring their skills, experience, and intellectual and institutional knowledge into play, and to also engage in deliberations on cross-cutting agenda items.

Audit Committee

The Audit Committee is composed of three independent non-executive directors. The members are confirmed and appointed at each AGM by the shareholder. The current serving members are Mr S. Ntsaluba (Chairperson), Mr A. Harris and Ms T. Chiliza, as Mr Tati retired from the committee during the year following his appointment as Board Chairperson. The Chief Executive Officer, the Chief Financial Officer, executive managers, and external and internal auditors attend all meetings.

During the year, the committee holds additional in-camera sessions to consider the performance of the CFO and finance division, the performance and relationships with the internal and external

Corporate Governance | continued

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;
- Oversight over the appointments of external and internal auditors from time to time; and
- Review of and approval of quarterly reports to the shareholder as delegated by the Board.

The current external auditor is the Auditor General of South Africa (AGSA) which has exercised its legislative prerogative to conduct the annual audit of the NHFC. The AGSA's appointment is confirmed annually by the shareholder at the AGM. For the period under review, this is the second external audit of the AGSA.

We have 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. The reports made are handed on to the Chairperson of the Audit Committee, for investigation, recommendation or subsequent action.

The internal audit function is outsourced to an external service provider, independent of the external audit function. During the year under review, following an independent external open tender, the NHFC appointed Ngubane and Co as internal auditors for the following three years, following the expiry of the contract with Outsourced Risk and Compliance Assessment (Pty) Ltd ("ORCA").

The internal auditors conduct periodic reviews of the key processes related to the significant risks of the company and the subsidiaries, 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.

The Audit Committee held six meetings during the period under review and the record of attendance is as follows:

Audit committee meetings

Director name	26/4	26/7	29/10	29/1	28/3
Mr S. Ntsaluba (Chairperson)	√	•	√	√	√
Mr S. Tati	√	√	•	N	N
Ms T. Chiliza	√	√	√	√	√
Mr A. Harris	N	N	N	√	√

- Absent with apology

Corporate Governance | continued

Board credit and investment committee

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

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

The committee:

- Annually reviews 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, capital restructuring, impairments, bad debt write-offs or revaluation of investments where applicable, to other Board committees and the Board;
- Considers and approves loan applications for facilities between R25 million up to R160 million, upon recommendation by the Management Credit and Investment Committee. Investments and facilities in excess of R160 million are referred to the Board for approval;
- Considers and approves equity and quasi-equity up to R100 million. Investments that exceed R100 million are recommended to the Board; and
- Considers annual and post investment reviews of strategic and major clients of the NHFC.

The committee meets at least four times a year, and more frequently if required. The record of attendance for the Board Credit and Investment Committee meetings during the period under review is as follows:

Board Credit and Investment Committee meetings

Director name	14/6	28/6	25/9	26/11	28/2	26/3
Mr J. Coetzee (Chairperson)	√	√	√	√	√	√
Mr S. Tati	√	√	√	√	√	√
Mr S. Moraba (CEO)	√	√	√	√	√	√
Ms T. Chiliza	√	√	√	√	√	√
Mr A. Harris	√	√	√	√	√	√
Mr K. Shubane	√	√	√	√	√	√

Corporate Governance | continued

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 and Investment Committee (BCIC)

CREDIT PROPOSALS
- Below or cumulatively above R160 000 000
- Above or cumulatively above R 25 000 000

INVESTMENT PROPOSALS (equity and quasi equity)
- Below or cumulatively below R100 000 000

Management Credit and Investment Committee (MCIC)

CREDIT PROPOSALS
- Below or cumulatively below R 25 000 000

INVESTMENT PROPOSALS (equity and quasi equity)
- All investment proposals are recommended to BCIC

Internal Credit Committee (ICC)

- 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 (HR), Ethics and Remuneration Committee meets at least four times a year and its responsibilities include:

- 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;
- Reviewing the terms and conditions of Executive Managers' Service Agreements;
- Annually reviewing and approving succession planning; and
- Monitoring and implementing the Ethics Policy.

In discharging its duties, the committee gives due cognisance to the NHFC's remuneration philosophy, which is to offer remuneration that will attract,

Corporate Governance | continued

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. In addition, the HR policy complies with the International Labour Protocol in not employing children and promoting gender and payment equality standards.

The committee met during the year under review as follows:

> “The NHFC has a zero-tolerance approach to dishonest, corrupt and illegal conduct.

Human resources, ethics and remuneration committee meetings

Director name	7/6	6/9	9/11	7/3
Mr K. Shubane (Chairperson)	√	√	√	√
Mr S. Ntsaluba	√	√	•	•
Ms A. Houston	•	√	√	√
Mr S. Moraba	√	√	√	√
• Absent with apology				

Social and Ethics Committee (SEC)

The Social and Ethics Committee (SEC) is a mandatory committee of the Board, as laid down in terms of section 72 (4) of the Companies Act. Its mandate is to report to the shareholder on its monitoring of the NHFC, in response to various principles and standards as highlighted in the Companies Act, and which include the Organisation for Economic Cooperation and Development, the International Labour Organisation and the United Nations Global Compact.

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 be 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 a minimum of four times a year.

The committee’s terms of reference ensure that the NHFC’s strategy has included the following social and ethics review components in its execution:

- Annual review of the terms of reference;
- The NHFC conducts its business activities in an

Corporate Governance | continued

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 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:

Social and ethics committee meetings

Director name	14/6	25/9	26/11	26/3
Ms P. Ramarumo (Chairperson)	√	√	√	√
Mr S. Moraba (CEO)	√	√	√	√
Ms T. Chiliza	√	√	√	√
• Absent with apology				

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

Board Risk Committee (BRC)

The Board Risk Committee consists of the chairpersons of the various Board committees (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 and fraud 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 attendance at meetings during the period under review:

Board risk committee meetings

Director name	26/4	26/7	20/9 Joint Audit	29/10	7/12 Joint Audit	10/1 Joint Audit	29/1
Mr E. Godongwana (Chairperson)	√	√	√	√	•	•	•
Mr S. Tati	√	√	√	•	√	•	√
Mr S. Ntsaluba	•	•	•	√	√	√	√
Mr J. Coetzee	√	√	√	√	√	√	√
Ms P. Ramarumo	√	√	√	√	√	•	√
Mr K. Shubane	√	√	√	•	√	√	√
Mr S. Moraba (CEO)	√	√	√	•	√	√	√
• Absent with apology							

Corporate Governance | continued

Developmental Impact and Strategy Committee (DISC)

This committee is composed of six independent non-executive directors and the CEO and is attended by Executive management.

Its main objectives are to:

- Review the terms of reference annually;
- Review strategy discussions arising from other Board committees;
- 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 attendance at meetings during the period under review:

Developmental impact and strategy committee (DISC) meetings

Director name	18/7	8/11	7/3
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 apology			

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

Governance over subsidiary company

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

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

The CTCHC has its own Board of two directors, who meet quarterly. The Chairperson of the CTCHC Board is the CEO of the NHFC as delegated by the NHFC Board. The CTCHC has its own Audit Committee which meets quarterly and reviews the annual financial statements, annual report, annual audit plan, and annual internal audit function, risk register and quarterly performance of CTCHC.

During the year CTCHC undertook an operational and financial restructure. This has seen the appointment of a new General Manager to replace the previous Chief Operating Officer, and the handing over of a number of administrative and support functions to the NHFC.

CTCHC will now concentrate on collections from the instalment sale book and sale of units in its Upington Project. Oversight of CTCHC is exercised by the NHFC COO.

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.

Corporate Governance | continued

Management committees

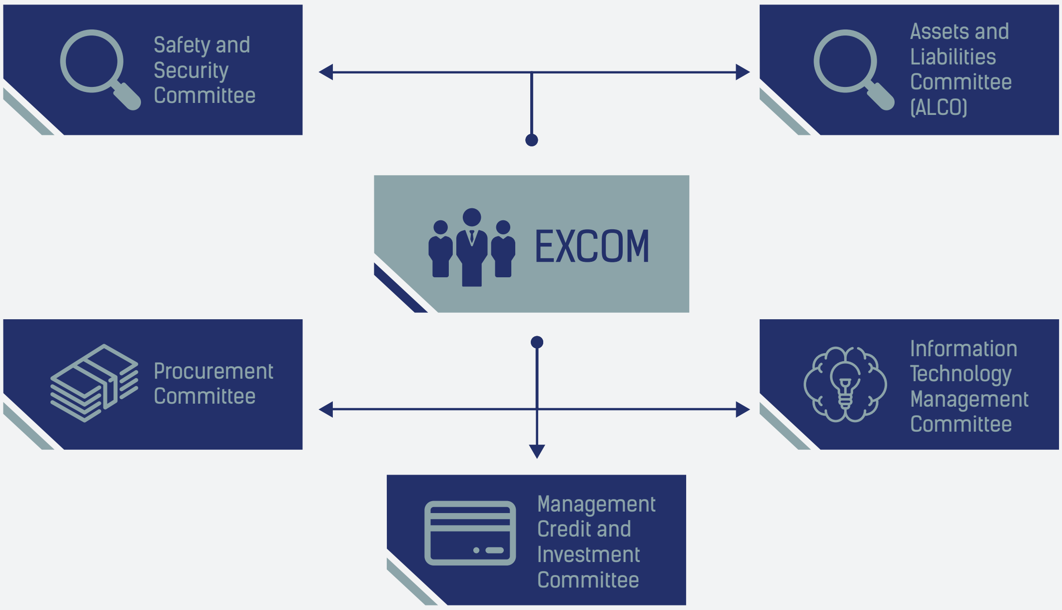
Executive Committee (EXCOM)

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

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

All management committee decisions are reviewed at EXCOM before being taken forward to Board committees.

Management committees



Management Committee (MANCO)

MANCO was established during the previous financial 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 merger, as well as to assist with the smooth transition of staff, assets liabilities and operations into the merged 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 merger.

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.

Once the DFI merger came into effect on 1 October 2018, MANCO ceased to operate and was replaced by a new EXCOM.

Management Credit and Investment Committee (MCIC)

The MCIC is an executive management subcommittee of the Board Credit and Investment Committee. It meets regularly following recommendations from the technical Internal Credit and Investment Committee ("ICIC") to make recommendations to Board Credit and Investment Committee or funding approvals within its own mandate. 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 Board

Corporate Governance | continued

Credit and Investment Committee annually), and recommending amounts in excess of R25 million to the Board Credit and Investment Committee.

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

Assets and Liabilities Committee (ALCO)

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

The committee's objectives are to:

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

Information Technology Management Committee (ITMC)

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

Its main objectives are to:

- Review the IT strategy to ensure that it is aligned with the APP;
- Develop an IT governance framework and IT policies and oversee 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 Procurement Committee is chaired by the Chief Financial Officer.

The Procurement Committee's main objectives are to:

- Monitor and ensure the implementation of the procurement policy, procedures and procurement code of conduct, as well as to investigate reports of non-compliance;
- Oversee the adjudication and appointment of service providers to the 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 (SASE)

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.

Social and ethics committee report

The Social and Ethics Committee (SEC) has been established in terms of section 72 (4) of the Companies Act, with the mandate of reporting to the shareholder. These reports contain information on its monitoring of the activities of the NHFC as prescribed in the Companies Act and in conjunction with good corporate governance practice in terms of the King IV Report. As a result, the SEC also extends its reporting to the NHFC board. For this purpose, the SEC has adopted the internationally benchmarked Global Research Institute G4 framework matrix which is completed by management on the work done by and for board committees.

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

The SEC executes its duties with reference to relevant South African legislation, principles and standards of the Organisation for Economic Cooperation and Development, the International Labour Organisation and the United Nations Global Compact.

It is noteworthy that the King IV Code has acknowledged the increased oversight role of Social and Ethics committees. This includes oversight of, and reporting on:

- Organisational ethics;
- Responsible corporate citizenship;
- Sustainable development and stakeholder relationships; and
- Statutory and regulatory duties. Included in these is a focus on Transformation, BBBEE, women and children. Consequently, the board committees for Risk, Credit and Investment, Development Impact and Strategy and Human Resources, Ethics and Remuneration report accordingly highlighting the activities and the impact each quarter. In addition, SEC calls for and reviews specific additional areas of focus.

The SEC notes the NHFC risk profile, various policies, terms of references and committee charters, ethics management and training for NHFC staff, marketing and communications activities, BBBEE compliance, as well as progress on the DFI Consolidation and towards the establishment of the Human Settlements Development Bank.

Since the SEC is a monitoring committee, actual verification work rests with executive management and the reported numbers are confirmed by internal and external Audit, and maintains a joint mutual working arrangement with the Audit Committee.

Monitoring and sustainable development

During the year ending 31 March 2019, the following have been the focus areas of the NHFC:

United Nations Global Compact:

- In consideration of the National Environment Management Act, there has been an ongoing review of the provision of housing as a result of

“ The SEC ensures that the company remains committed to be a socially responsible corporate citizen and creates a sustainable business regarding the ethical, economic, social and environmental impact on the communities within which it operates.

Social and ethics committee report | continued

funding applications by housing providers or investment institutions.

- SEC has noted the new challenges arising especially in social housing around rent boycotts, building hijackings as well as the combined efforts to deal with these by executive management, the shareholder and SHRA.
- SEC has noted the outcomes of a number of environment impact assessments and development programmes. In most cases these are approved by local authorities, and the NHFC places reliance on verified approvals and/or, exemptions.
- 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 and standards, environment standards, use of environmentally friendly materials, and adherence to heritage and fauna standards. The SEC continues to monitor the framework assessment methodology used by the NHFC when looking at such issues for funding applications.
- In terms of National Treasury Frameworks on Combatting Crime and Fraud and associated legislation, confirmation has been received that there has been no incidences of fraud or fines imposed, and that the required compliance certificates have been issued to National Treasury. In addition, the NHFC has a standard for checking on the backgrounds of all funding applicants to ensure that there are no negative issues highlighted that could give rise to reputational or recovery of monies.
- SEC has noted the introduction of a new Politically Exposed Persons policy, which is also being used to monitor key players in funding applicants.

Promotion of Equality under BBBEE activities has indicated the following performance as per the Integrated Annual Report:

R446 mil
Spent on women, youth and BBBEE entrepreneurs

7 Learner placements

4 Bursaries awarded

Stakeholder Engagement and Management:

- Work has progressed on the HSDB business case which has been workshopped with various stakeholder groups.
- The next step is for the Minister to have oversight of the business case and for it to be further shared with sector stakeholders and DFI interest groups. Thereafter the business case and related legislation will be presented to Parliament for consideration and approval. The key messages of the HSDB are:
  - *The HSDB must focus on getting the basics right. Clients need certainty and dependability when it comes to eligibility criteria and adjudication processes.*
  - *The HSDB must have a clear strategy 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*

Social and ethics committee report | continued

used to disrupt as well as to transform the human settlements finance sector.

- Work has been ongoing on the Stakeholder Strategy and Framework for both the consolidated NHFC and as a steppingstone to the HSDB.
- Work has been ongoing on the Corporate Social Investment policy for the integrated NHFC.
- The NHFC participated in the Ministerial handover of several projects in KwaZulu-Natal for First Metro Housing Company.
- The 2018 Integrated Annual Report was successfully completed on time and delivered to Parliament as required by the PFMA.
- The NHFC participates on the Govan Mbeki Awards adjudication quarterly committee meetings which review the provincial and annual awards.
- The NHFC attended two National Communicator forum meetings to establish a comprehensive communication plan.
- The company participated in the Lydenburg Thaba Chweu Open Day to showcase NHFC products and the FLISP programme.
- The company participated in the Human Settlements open day hosted by the minister for the Gugulethu community.

> **"The HSDB must focus on getting the basics right. Clients need certainty and dependability when it comes to eligibility criteria and adjudication processes.**

- Website content and traffic is monitored in accordance with company policies. The website has also been updated for the FLISP programme.
- Sponsorships have been facilitated for R10 000 in total which have purchased furniture for a Military Veterans family in Gauteng.
- Prize money for the Best Woman Contractor at the annual Govan Mbeki Housing Awards of R20 000 was made.
- Safety and protective gear have been donated at all build and Ministerial projects.
- The NHFC website has been redeveloped following the DFI merger.
- Contractor workshops have been held in Gauteng as part of the client outreach programme.
- New publications on the Incremental Housing Finance programme have been prepared and distributed.
- Various policies have been considered – Politically Exposed Persons, Human Resources, Ethics, Corporate Social Investment, Stakeholder Management, and Fraud Risk, as well as the application assessment and environment review processes of the Business divisions.

DFI consolidation and HSDB formation

- All the necessary permissions and activities required to give effect to the DFI merger of NURCHA and RHLF into the NHFC have been achieved, and it has been effective from 1 October 2018. SEC has been monitoring key risks and implementation strategies since that date.
- The businesses and staff of the three entities have been centrally housed in one business location. As a result, a number of activities have been unified – payroll, treasury functions, IT administration and management oversight of the business. This has further resulted in an internal administrative and operational restructure of the business so that the NHFC will operate as one unified business going forward, and to set the foundation for the HSDB.
- Management is further reviewing policies and committee terms of references to cater for integrated reporting and accountability.

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

Social and ethics committee report | continued

and on the job training. In addition, a recognition agreement has been signed with the Union.

- All Employment Equity requirements are in place.
- The ethics policy has been reviewed and workshopped with all employees.
- Work has commenced on re-aligning staff functions within the consolidated NHFC and to set the foundation for the forthcoming HSDB.

Corporate Governance

- All the required legislative and regulatory corporate governance protocols are in place, the Annual Performance Plan and Shareholder's Compact for 2019-2020 have been submitted to the shareholder, the revised consolidated Annual Performance Plan from 1 October 2018 to 31 March 2019 has also been submitted to the shareholder.
- All CIPC compliance is in place, the PAIA requirements are in place, codes on ethics and employee's values are in place and all key risk, IT and remuneration frameworks are in place and the annual meeting calendar is in place.
- The Code of Ethics was reviewed in conjunction with the Human Resources, Ethics and Remuneration Committee.
- A review has been undertaken of the King IV commentary concerning Transformation requirements and workshopped further at DISC. This matter has been escalated as a key priority for the NHFC.
- It is noted that the performance of the Provident Fund has come under pressure due to an economic downturn during the year. Performance has also been impacted by negative findings at various commissions of enquiry set up to investigate corruption and corporate governance failures in a number of key institutions in the country, and which have affected investor confidence and sentiment. However the trustees of the Provident Fund meet regularly and are closely monitoring the fund managers' performances.
- An active whistle-blowing policy is in place, and there have not been any incidents reported for the NHFC.
- SEC is providing oversight and ongoing attention within the NHFC, to the government imperative to ensure that women receive at least 30% funding towards their activities.

Enterprise Risk Management

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

Risk appetite

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

Compliance risk

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

Combined risk

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

Risk universe

The diagram below illustrates NHFC risk universe.

Enterprise Risk Management | continued

NHFC Risk register

Risk Id No	Risk Type	Risk/ Threat in Achieving Objectives	Mitigation Plans	Inherent Risk
1	Mandate Risk	• Funding the market that is not aligned to the mandate. • Failure of the NHFC to deliver on the shareholder's (NDoHS) mandate.	• Submission of the Annual Performance Plan (APP) to the shareholder for approval. • Implementation of Credit Policy to ensure that funding approval is aligned to mandate. • Enhance relationships with Provinces to provide reach in delivery mechanisms and impact. • Compliance to NHFC Corporate Governance requirements	Medium
2	Financial Sustainability Risk	Challenge in granting quality loans resulting in unsuccessful collections or credit risk in excess of risk tolerance.	• Continuous evaluation of strategy to ensure alignment to market conditions. • Continuous review of NHFC risk appetite to ensure alignment with changing financial markets. • Tracking of financial sustainability ratios and operating enviroment (i.e Return on equity, Return on assets, Gross profit margin, Bad Debts • Implement business performance objectives that are aligned to the corporate strategy.	High
3	Credit Risk	Skills audit (underway) will assist with identifying skills set limitations (if any) which will be enhanced with training or recruitment.	• Enforce compliance with the credit policy from the origination/initiation period of facilities. • Strengthen post investment process. • Implement effective collection process in line with the credit policy. • Introduced risk based pricing. • Improved collection processes. • Tightened credit assessment criteria	High
4	Investment Risk	Inability to attract suitable funding partners (Attrition of partners, emerging partners). Not realising expected returns from strategic investments.	• Develop appropriate value proposition which will incentivise new funders. (Attraction). • Develop and offer attractive Risk sharing strategies. • Ensure that Investments are aligned to NHFC Investment Policy and Risk Appetite Statement. • Implementing CTCHC wind down plan.	High
5	Funding Risk	Challenge to mobilise sustainable funding, raise debt at the appropriate price from DFI's, Debt Market and Shareholder equity.	• Continuous review of NHFC risk appetite statement to ensure alignment with changing financial markets and operating enviroment. • Optimal Shareholder Funding in support of debt capacity to enable blended funding model. (In current context however no new borrowings).	High
6	HR Risk	Challenge in attracting, engaging rewarding and retaining talent. Skilled and talented staff may be unsettled by the pending DFI Consolidation.	• Draft and get approval for the HR Strategy with related Retention Strategy. • Implement approved retention strategy and continue to monitor. • HR policies implemented and continuously monitored to ensure that skilled and talented employees are identified and provided with opportunities to grow. • Continue to embed change management into everyday business.	Medium
7	Reputational Risk	Loss of reputation (due to negative publicity).	• Effectively implement a Code of Conduct. • Implement and monitored Stakeholder Engagement Strategy and Plan. • Adhere to good corporate governance practice. • Adoption of a customer centric approach.	Medium

Enterprise Risk Management | continued

NHFC risk register | continued

Risk Id No	Risk Type	Risk/ Threat in Achieving Objectives	Mitigation Plans	Inherent Risk
8	Compliance Risk	Non-compliance to legislation, regulations and policies.	• Implement and monitor adherence to Code of ethics and values. • Adhere to good corporate governance practices.	Medium
9	Governance Risk	• Possibility of adverse audit opinion. • Dysfunctional Board. • Lack of approved policies and procedures.	• Fully constituted Board. • Regular meetings as scheduled. • Quarterly Board Updates. • Annual Board evaluations.	High
10	IT Risk	• Misalignment of IT and Business Strategy. • Inappropriate or failed internal Processes. • Inappropriate IT platform.	• ITMC continue to function well. • IT Governance structure and policies in place. • Adequate management and compliance risk policies in place that are reviewed annually. • Robust controls reviewed by Internal Auditors annually. • Tried and tested IT platform and business applications implemented. • IT strategy aligned to business strategy • Regular ITMC meetings to ensure alignment with business needs.	High
11	Market Risk	Limited ability to provide thought leadership to the low - medium housing market (advocacy, insights and foresights, innovation).	• Partnered with reputable affordable housing research company to provide market insights and foresights • Use market insights and foresight to develop innovative products for the target market. • NHFC continues to influence affordable housing market through a variety of communication channels; i.e. regular meetings with SHRA, NDOHS and BASA.	High

Managing credit risk

The focus of the analysis below is on credit risk, which for a lending entity is our primary risk, having a significant impact on the financial sustainability of the company.

Group accounts	2019	2018	2017
Current year's net impairment charge and bad debts (R'000)	83 701	61 725	58 611
Gross loans and advances (R'000)	3 207 571	2 215 453	1 908 170
Credit loss ratio (%)*	2,6%	2,8%	3,0%

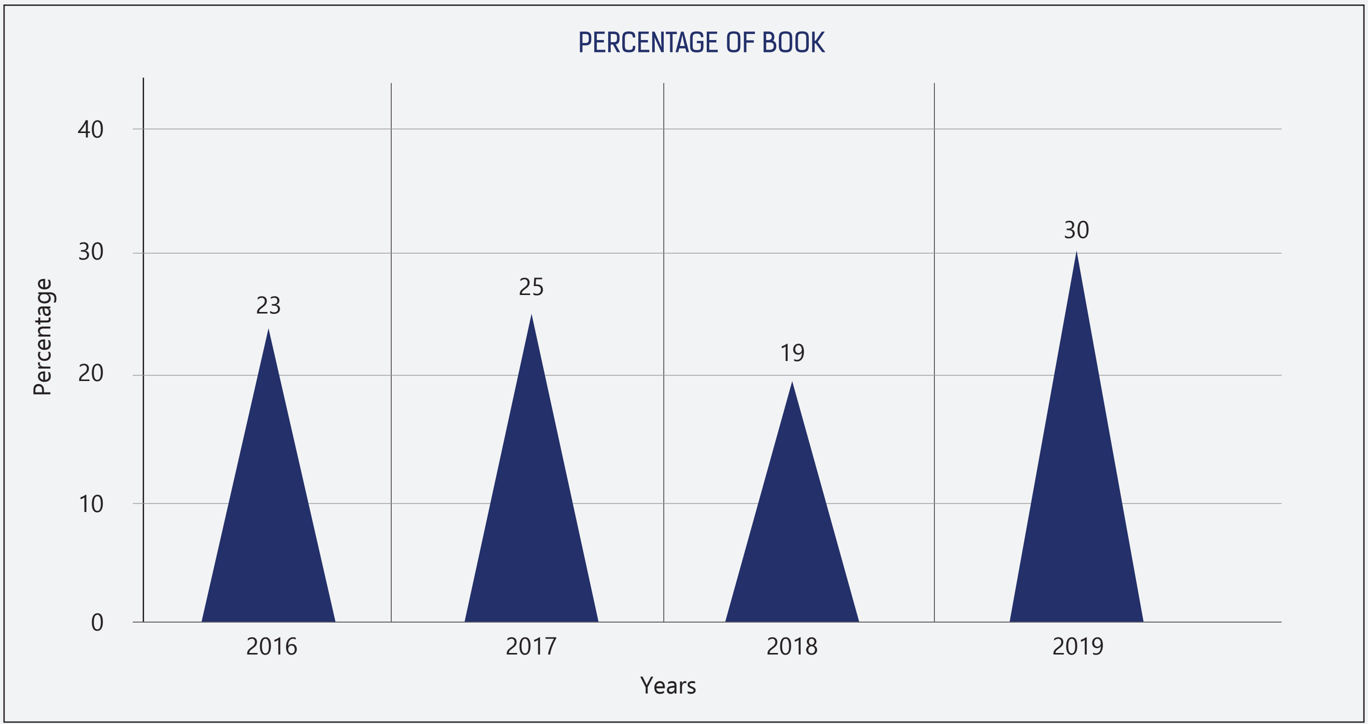
* Calculated as current year's net impairment charge and bad debts / closing gross loans and advances plus bad debts

On the company's side, a concerted effort has been made in 2018/2019 to manage the credit loss ratio, the ratio for the year was 3,1%, which was below the budget of 3,7% as provided in the Annual Performance Plan.

Further, non-performing loan book, as a percentage of the gross loan book, has deteriorated over the year with the ratio increasing from 19,4% at March 2018 to 30,4% in March 2019. 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.

Enterprise Risk Management | continued

Non-Performing Loans (NPL) over time



The social housing book is a primary cause of the material deterioration in the asset quality reflected above and continues to pose a challenge as arrears in three key clients increased to R24.3 million as at end March 2019. The impact thereof is that at year end, the NHFC breached an asset quality ratio from the EIB. Approximately 56% of the non-performing book relates to social housing at R576 million of a total non-performing book of R1.02 billion, while the social housing makes up approximately 30% of the entire loan book (performing and non-performing).

The primary causes of the deterioration are:

- Illegal occupation of units by politically motivated community members in select social housing projects, mainly in KwaZulu-Natal;
- Rent boycotts are being experienced in the Western Cape and Free State; and
- Significant costs related to eviction of non-paying tenants and securing of affected properties, running into tens of millions in some projects. This is an addition to revenue lost on the subject properties. These clients have requested assistance from the NHFC in the form of loans to cover related costs and restructuring of debt.

It must be noted that, while there was a deterioration in the loan book over the year, the impact with respect to the credit loss charge was contained. The reason is that the NHFC is, typically, the sole provider of debt funding in social housing projects (typically 30% to 35% of the total project costs) with the balance of funding in the form of grants and provincial subsidies. A first covering mortgage bond is taken as security by the NHFC and due to the low loan values, the risk of loss of capital has been assessed as low by the NHFC.

While the sector is a strategic focus area of the Department of Human Settlements and the NHFC, developments in the sector are being watched closely and any further deterioration may have an adverse impact on the capital investment in the sector, especially much needed private sector funding.

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.

PART E | OUR CAPITALS

Our capitals

Human and intellectual capital

Human capital is the foundation of any strong company, and during the year under review because of the merger, there was added pressure to ensure our staff knew how valued they are in the organisation.

Integration of our human capital

A great deal of effort went into ensuring that the staff integration process went on smoothly. This included; the development and approval of the new Human Resources policy framework, as well as the rollout of the Human Resource Management (HRM) interventions such as job alignment, skills audit and job evaluation processes.

Employee engagement is central to all our decisions on staff matters, as a result, several activities with both staff and their representative unions were undertaken.

Throughout the merger, employee change agents and champions were instrumental in quelling off fears and anxieties among fellow employees. At leadership level, the smooth transition could be attributed to the partnerships and collaborative work between working teams.

Duplication of roles due to the merger, provided the NHFC with the opportunity to apply rigorous HRM interventions such as skills audit, job grading and job evaluation in order to find role alignment and for benchmarking of benefits.

Anticipation of role duplication as a result of the merger, was the reason for a moratorium in the recruitment of external candidates. This moratorium remains in place, with the exception being only where no such capacity exists internally, particularly at senior management levels, external candidates may be employed.

The internal recruitment of staff is also adapted to be developmental in approach, in order to cater for any knowledge and skill gaps that have been identified from internal recruitment. Ultimately, we aim to make sure that all our employees are accommodated in suitable roles.

Another spin off from the merger which is derived from leveraging the office premises is cost savings, particularly, office on office rental payments, as well as reduced costs on the following shared services such as IT, audit fees and directors' fees.

Employee wellness

A comprehensive wellness programme was put into place, which addresses a broad range of employee health issues including physical, psychosocial, environmental, lifestyle health issues and management of personal finances. These are administered through a service provider and managed through company policies and procedures.

Apart from a corporate wellness day, individual utilization of 17% (combination of telephonic, face to face and financial counselling) is reported to be above the industry norm of 9%. Furthermore, the wellness programme also caters for the executive medical assessments, which are beneficial in the identification and timeous mitigation of health risk of the leadership.

Employee development

Our training strategy to build our employee capacity is based on three pillars:

- Building a leadership pipeline;
- Building the technical depth of our employees; and
- Advancing experiential learning by providing work experience to young graduates, thereby building our employee pipeline and also contributing in the countrywide capacity building of youth.

Furthermore, employee aspirational training is encouraged for the long-term development and empowerment of our employees. When employees grow, our human capital also grows. Consequently, some staff members who joined the NHFC in unskilled roles, are now employed at professional levels.

Our training expenditure in the year being reviewed was lower (52%) than budget (85%) due to most staff training being insourced (mentoring, coaching and running change management workshops). Yet, almost all (94%) our staff were trained in line with our training strategy. Furthermore, the self-development aspect of employee growth and development remained high at (29%) staff training expenditure. In the new financial year with staff being redeployed and posted to new roles, it is envisaged that there would be an increase in skills development initiatives and spend.

The return on our experiential learning investment is also starting to bear fruit. Since the inception of our experiential learning programme in 2013, 11% out of 55 learners we recruited, have become NHFC employees.

Our capitals | continued

A further 50% of those employed were promoted from entry level employment to professional levels of employment, bearing testimony not only to the developmental nature of our recruitment strategies, but also to the quality of our experiential learning programme.

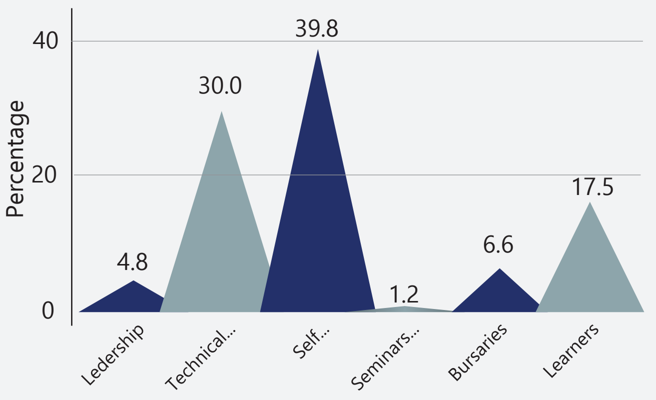
In our endeavour to make sure that our leadership receives world class and relevant training, we enlisted all our Executive Management into the Discovery Leadership Summit to expose them to global thought leadership for inspiration.

Furthermore, some executive members have been enrolled with the IoDSA for Director Training. This training is aimed at instilling values of ownership and accountability in the leadership, thus further refining leadership capabilities.

Employee development and legislation

In fulfilling the Skills Development Act imperative we have exceeded budget by training (94%) of our staff in all categories against the target of 85%, we set ourselves in the period under review. Furthermore, to comply with the Act, we submit our Workplace Skills Plan (WSP) to the BANKSETA annually. In the period under review, we have submitted and implemented the 2017/2018 WSP report successfully.

Training and development expenditure by % 2019



* The graph above illustrates training expenditure for 2019 by training needs area

As expected, on an annual basis we compile the EMP502 twice a year to comply with South African Revenue Service (SARS) regulations (February and October). Accordingly, 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.

In line with the Occupational Health and Safety Act, (OHSA), we have developed a Health and Safety policy and procedure. As per plan, we have also nominated and trained eight safety representatives.

We had planned to conduct two safety drills. However, only one has been conducted to familiarise employees with their work environment in anticipation of an emergency.

There was one reportable incident reported to the Compensation Commissioner.

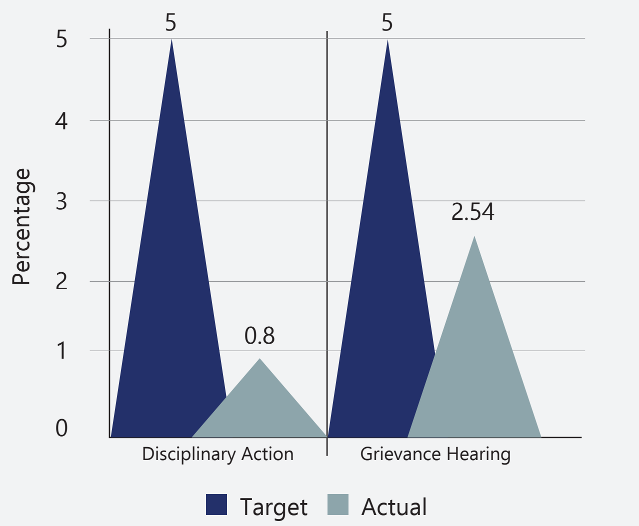
Labour practice and grievance mechanisms

With the two employee representative unions since the merger and none of them with an outright majority of 50% +1 representation, both unions' employee representation is limited to secondary organizational employee rights.

Operationally, on the labour relations front, only one (1%) incidence of grievances were noted against a provision of 5% in terms of the acceptable level in the organization.

Noteworthy, in the period under review is the finalisation of wage negotiations with both unions representing employees in the organisation (SASAWU and SASBO).

Labour relation processes 2018/2019



Our capitals | continued

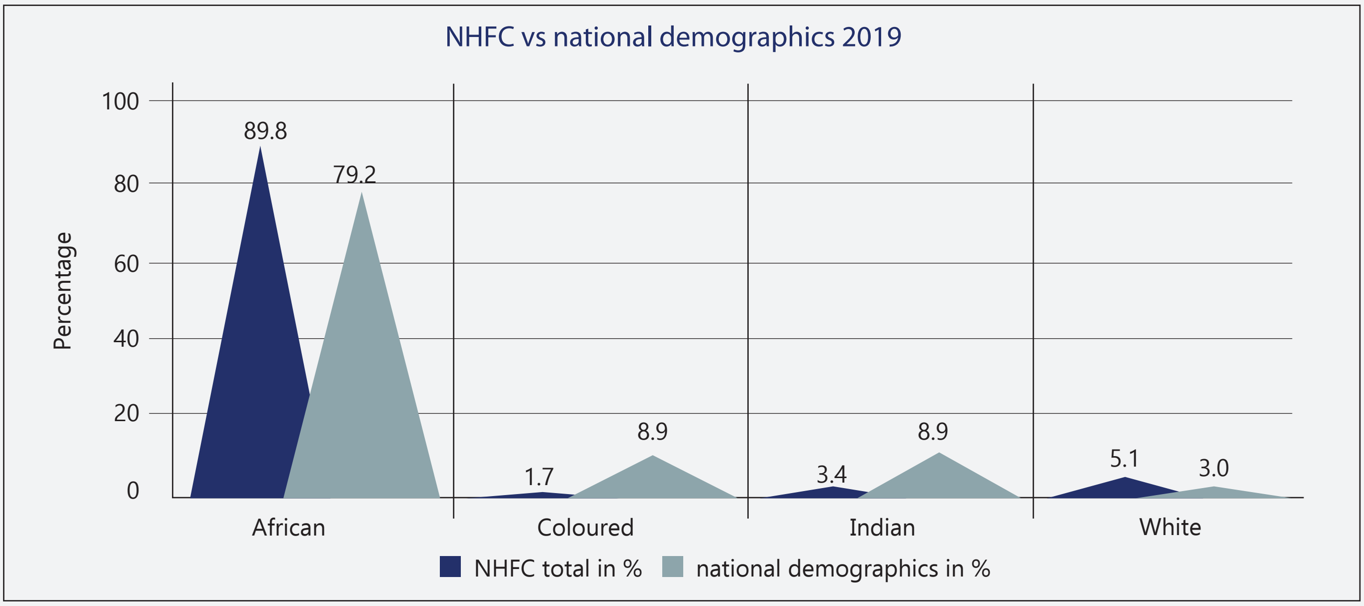
Employment Equity (EE)

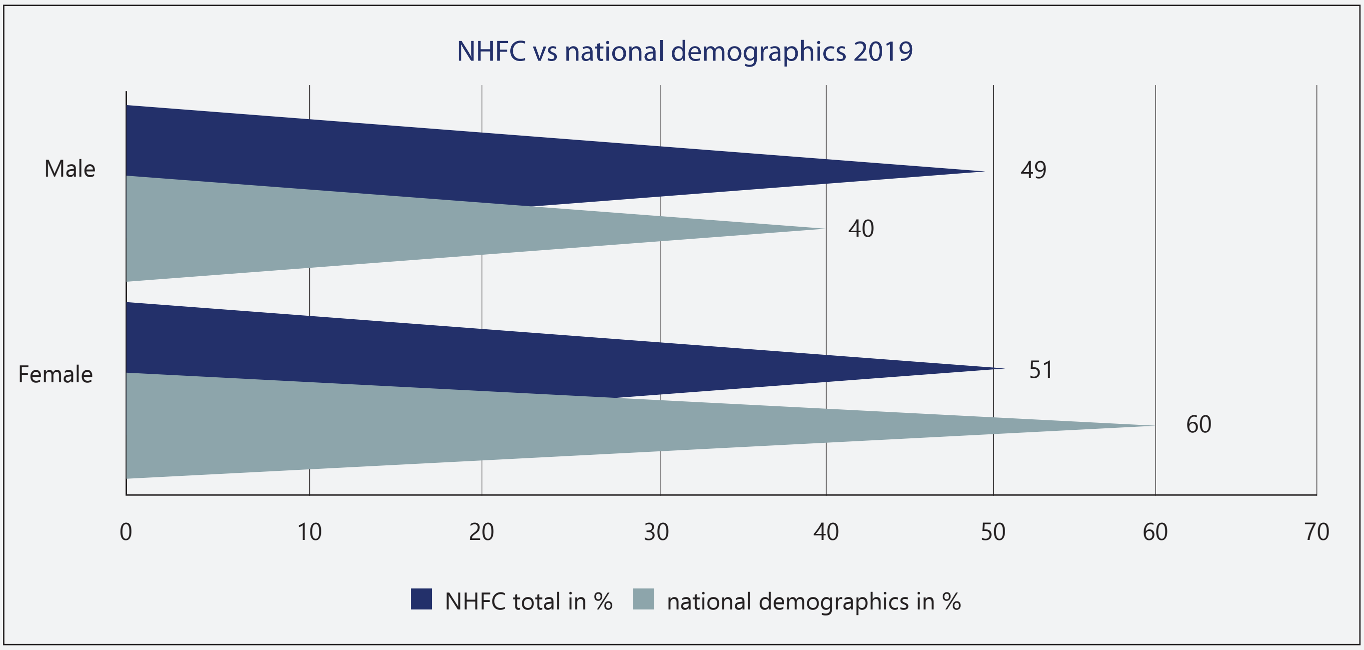
Employment Equity reporting and implementation remains part of our measurement on how we are transforming the workplace to achieve racial integration.

The graphs below indicate the NHFC status quo vs national demographics profile, the employment composition of our employees in terms of gender, at different levels of the organisation, which shows how much work still needs to be done to transform the workplace. The picture depicted by the graphs below will inform strategic decision making along the HRM value chain.

The Department of Labour acknowledged receipt of our Employment Equity report and plan for 2019/2020, which was submitted to comply with the Employment Equity Act.

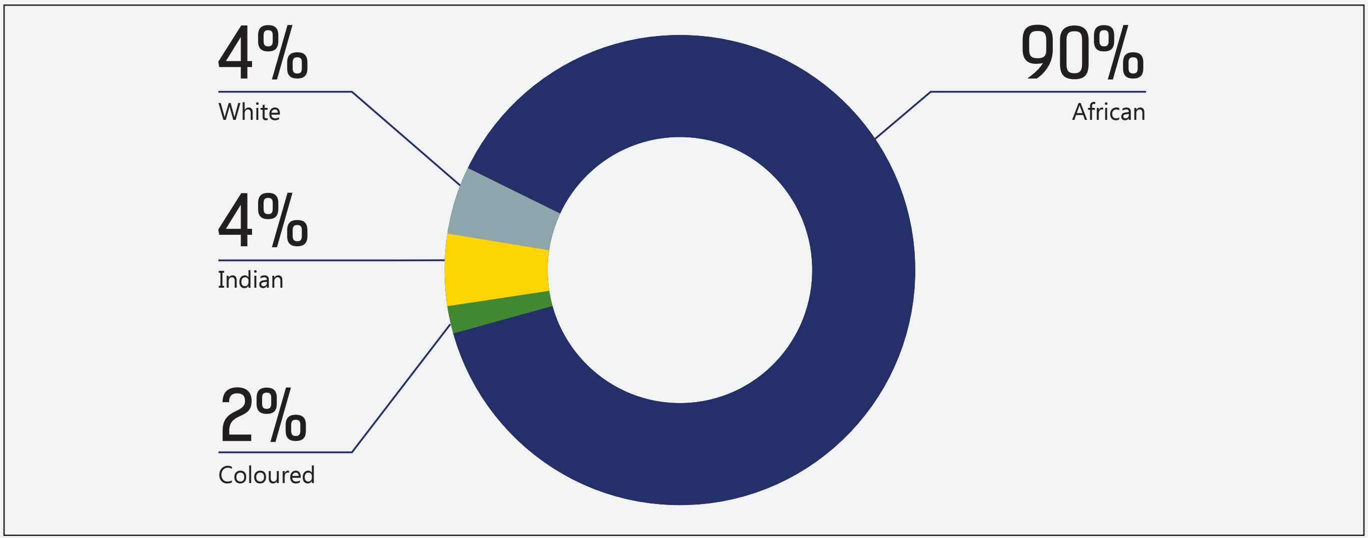
The graph below indicates the status of the company's employment equity.



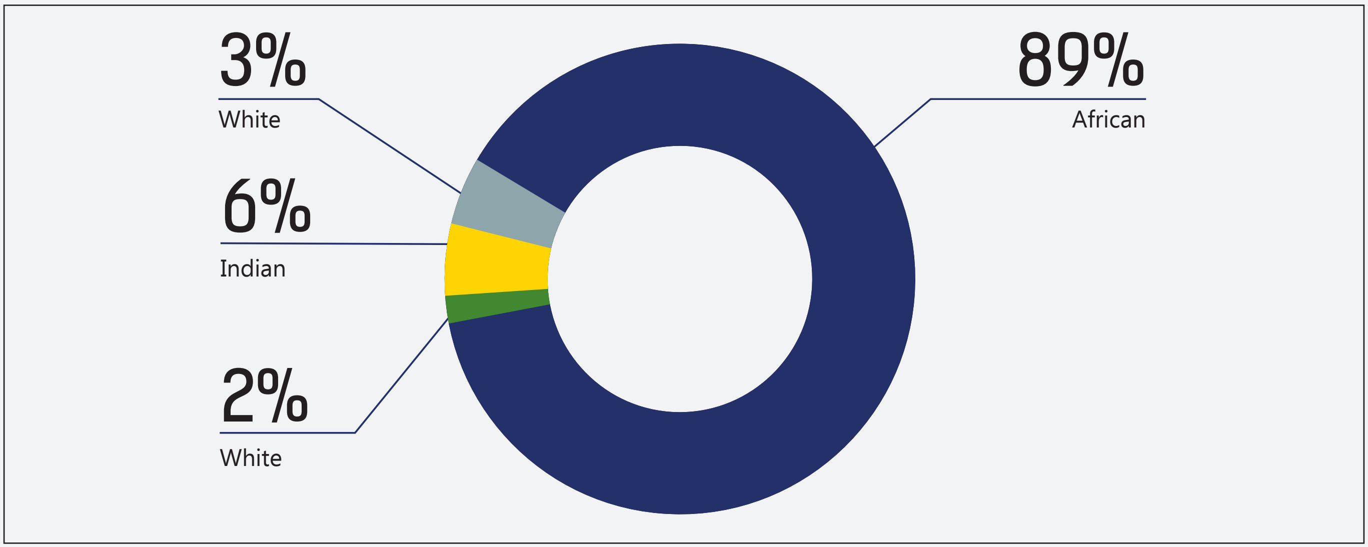


Our capitals | continued

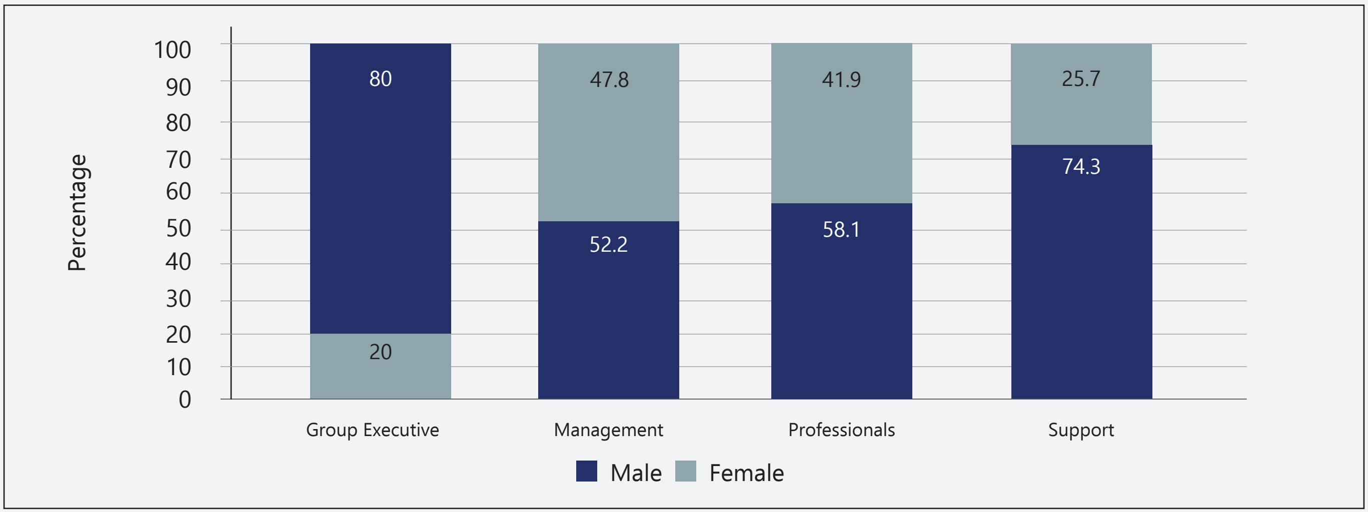
Employment diversity



Training spent by race

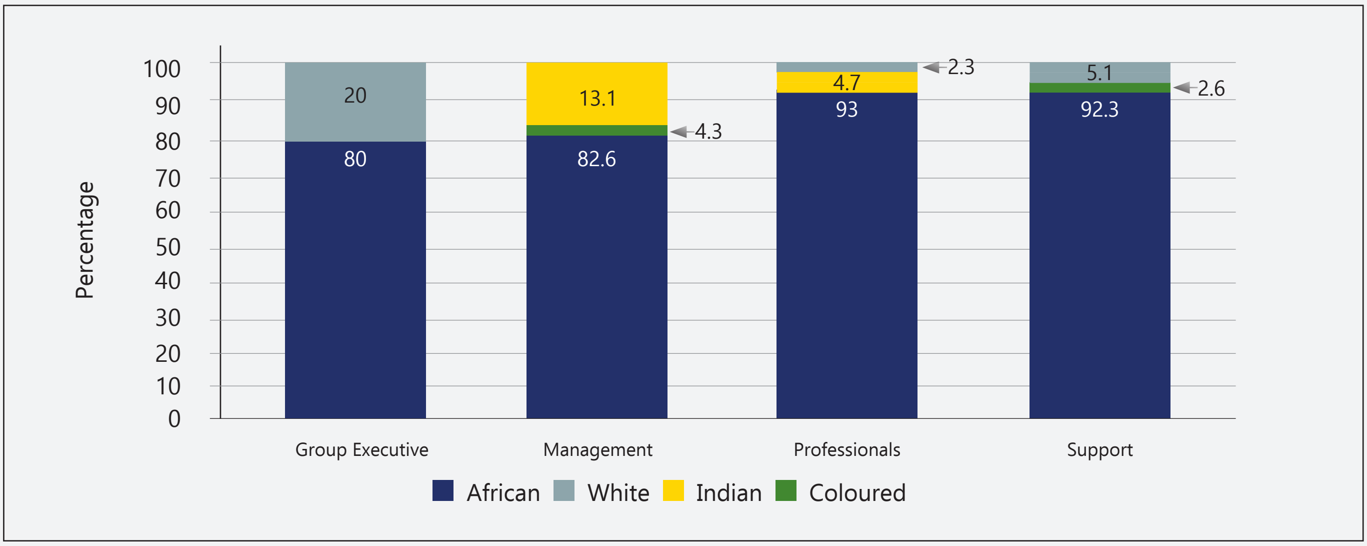


Gender diversity per job category and gender



Our capitals | continued

Employment statistic by job category



Remuneration and employee relations

With the merger, the NHFC has two unions representing staff in the bargaining unit. In the spirit of maintaining cordial relations with both union representatives being the South African Society of Bank Officials (SASBO) and the South African State and Allied Workers Union (SASAWU) we invited them both to negotiate 2019/2020 salaries as none of them had sufficient representation in the workplace at the time the salary negotiations began.

Each union representative was given three months (which expired in March 2019) to prove the majority of member subscription (50%+1 representation). We are in the position to negotiate secondary organisational rights of employees (including salaries) with the union which has a 50%+1 representation.

In the period under review (post salary negotiations), for the financial year 2019/2020 we signed a salary agreement of 7% salary increase for staff in the bargaining unit.

Our salary increases are based on two considerations;

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

As a result, the implementation of salary increases is on a range (low median and high), to differentiate on the basis of performance.

Related to salary increase differentiation, is 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 is based on the employee's cumulative consistent achievement of performance objectives, contributing to the overall achievement of planned company annual objectives.

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

The executive performance contracts tie them to a three-year rolling incentive cycle scheme, which is based on the Department of Public Enterprise Remuneration Guidelines for Executive Managers. This incentive cycle scheme is primarily aimed at achieving shareholder value, which is achieved by among other things, the retention of executive managers over a short- and medium-term basis. Accordingly, only a portion of the pay-out is made, with the remaining portion deferred to a future date (three-year cycle). At the end of the first three-year performance contract, there is an opportunity for renewal and or non-renewal, based on the performance of the executive.

On the 1 October 2018, following the merger, and with the imminent establishment of the HSDB in the next 12 to 18 months, an executive decision to award the full (100%) executive incentive instead of deferring the payments to a three year cycle was taken in order to avoid carrying over the administrative burden of the NHFC to the HSDB. Should an Executive resign during

Our capitals | continued

the three year cycle of the long-term incentive, any portion thereof would be recouped by the company in proportion.

The NHFC practices equal pay for work of equal value. In the reporting period, no unfair labour practice claims were instituted against the company based on unequal remuneration. In line with our policy of equal remuneration and non-discrimination against individuals on the basis of gender or race, two organisation design processes are undertaken on an annually (a remuneration survey which is done by a credible external service provider) to benchmark both the executive remuneration and that of our general staff to both other private and public entities of the same size and complexity as the NHFC.

We also engage the services of the independent service provider to conduct job evaluation for all new jobs to ensure we get the relative worth of the jobs right and pay accordingly.

As part of the redesign, we have embarked on the skills audit which will assist us to align our people, systems and processes. The gaps that are identified through this process of skills audit will be systematically dealt with in a developmental approach.

With the finalisation of this process, other design processes, such as the job evaluation, training and development will unfold.

Human rights and labour practices

We continue to observe the International Labor Organisation (ILO) 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 rrievance mechanism.

In the period under review, no infringements were identified relating to the above human hights and labour practices.

Talent Management

As a result of the merger, which revealed several talent management challenges, such as duplication of roles, we have embarked on several talent management strategies including reviewing job profiles, skills audit (currently underway), development of the training and development strategies to address the gaps identified in the skills audit process (underway) report and we also instituted external recruitment moratorium.

In the reporting period, we are reorganising staff according to key decision functional points. This meant physical relocation of staff to do away with divisional silos, and to focus on gearing ourselves to deliver on our merged NHFC mandate and for HSDB readiness.

This means while we have frozen external recruitment of staff, the exceptions to this are detailed above. As a result, with the retirement of the Executive Corporate Support, the role has been assigned to one of the two CFO's. Subsequently, for the enterprise wide role, we have employed a General Manager, instead. Plans are afoot for the recruitment of the CFO. Currently, one of the CFO's is holding the fort.

Once the moving dust has settled, the HR strategy which includes a succession plan and pool will be developed to enable a smoother and swifter talent management plan.

Social capital

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

Entrepreneur support and BEE funding

For the period under review, the private rental sub-programme disbursed R446 million to black clients: R133 million directly by the NHFC and indirectly R313 million by TUHF.

Black clients under this programme are assisted to establish themselves as property entrepreneurs, whereby they can develop rental housing investment properties in major metros.

The affordable housing sub-programme has seen R42 million disbursed towards black clients involved in the delivery of GAP housing in the target market.

Our capitals | continued

The Subsidy Housing sub-programme is a major contributor to economic transformation with 82% of the current value of loan being disbursed to black-owned enterprises. A lot of focus is being placed on the CFDP programme, which is a joint effort with the HDA in the Eastern Cape and provides funding and support to emerging contractors. While the CFDP programme is labour intensive, only 20 units are typically allocated per contractor with an average loan value of R800k and project value of R2 million. Despite the effort required to maintain the programme, it contributes very little to output results.

Through the incremental housing finance sub-programme, black- and women-owned clients are assisted in the form of access to loan facilities and technical advice offered by our internal team. As at the end of the financial year, commitments to the black and women owned intermediaries as well as community-based organisations was at R31.2 million, with a total of R6.5 million being disbursed.

Since all of these clients are start-up companies, they have not yet built capacity to absorb large amount of disbursements for on-lending. As a result of this constrained capacity, they do not yet deliver loans at scale. However, the strategy is to formulate support policy for these BBBEE partners in order to contribute to the transformation of the incremental housing finance industry in the long term.

Natural capital

Our intentions and commitment to the environment remains a priority. As part of our contribution, we endeavour to ensure that our clients adhere to environmental legislation and ensure that the impact provided is socially and environmentally responsible.

The merger of the three entities in preparation for the HSDB provides us with new opportunities to explore green funding for the different products. A major component of our ongoing research will be assessing which of the merged NHFC products would provide the most impact through green initiatives, as well as the mechanisms required for such a funding initiative.

During the period under review, we focused on compliance of existing and new clients of the rental portfolio, as well as improving our reporting mechanisms to bring environmental matters back into the fore. This was done through highlighting environmental initiatives of proposed clients in our internal credit submissions and reporting the environmental impacts of projects assessed to our social and ethics committee through provided frameworks.

Highlights

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

The following environmental principles were considered in granting loan approvals of R267.8 million in our rental development projects:

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

Future

Through engagement with the Green Building Council of South Africa, we continue to encourage our clients to incorporate, the Excellence in Design for Greater Efficiencies rating tool for residential developments, which can provide up to 20% saving in water, electricity and embodied energies. With the merged NHFC products, researching and finding strategic solutions on affordable green funding will gain momentum going forward in order to provide measurable impact at scale.

PART F | FINANCIAL STATEMENTS

Index

The financial statements were prepared by Mogotsi Oepeng (Financial Manager) BCompt (Hons) (UNISA), under the supervision of Bruce Gordon, CA (SA) the acting Chief Financial Officer of the NHFC.

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Schedule 3A State Owned Company
Nature of business and principal activities	Development Finance Institution to, Provide project funding finance to social housing institutions and private landlords for the development of rental housing units; Facilitate the delivery of housing and related community facilities and infrastructure to low and middle income communities, together with programme and fund management; Facilitate access to housing finance for low income earners in rural areas to improve their living and housing conditions; Invest (equity/quasi equity) in entities that innovate or deliver housing at scale; Facilitate and mobilise increased and sustained participation of the private sector.
Directors	Mr Sizwe Tati (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 Prof Michael Katz (Resigned effective 31 July 2018)
Registered office	Old Trafford 3, Isle of Houghton 11 Boundary Road, Houghton 2193
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
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Chief Financial Officer's Report

Introduction

As discussed elsewhere in the integrated report, NURCHA and RHLF both donated their businesses to the National Housing Finance Corporation SOC Ltd (NHFC) as the first step in a process towards forming the HSDB.

This led to challenges with reporting as the three entities were on a variety of different financial, creditors and debtors' systems that, subsequent to year end, are in the process of being standardised.

Development impact

As a consequence of poor economic conditions and adapting to new processes following the merger of the three entities, the value of disbursements was down at R570 million against a budget of R849 million. In the end this led to lower impact for our mandated market.

Financial results

We had an excellent year from a financial perspective. The primary reasons for us exceeding our net profit budget are, through a lower than expected impairment figure and lower than budgeted operating expenditure. This is clearly demonstrated in the summary group income statement below.

It should be noted that, because of the merger, comparative figures are not informative when looked at as absolutes, however the year-on-year movement in ratios is instructive.

	2018/19				2017/18
	Actual R'000	Budgeted R'000	Variance		Actual R'000
			R'000	%	
Revenue	366 424	355 318	11 106	3,1%	300 282
Finance costs	(23 581)	(23 499)	(82)	0,3%	(18 532)
Operating expenses	(161 387)	(174 288)	12 901	(7,4%)	(112 879)
Impairments and bad debts	(83 469)	(128 000)	44 531	(34,8%)	(61 725)
Fair value adjustments	(27)	-	(27)	(100,0%)	-
Other	10 443	1 941	8 502	438,0%	(12 447)
Net operating profit	**108 403**	**31 472**	**76 931**	**244,4%**	**94 699**

		Actual 2015/2016	Actual 2016/2017	Actual restated 2017/2018	Actual 2018/2019
		%	%	%	%
Return on equity	Group	-0,8%	1,6%	3,1%	2,5%
	Company	-2,0%	0,3%	3,1%	1,7%
Return on assets	Group	-1,8%	2,6%	2,8%	2,3%
	Company	-2,8%	1,6%	2,8%	1,6%
Cost to income ratio	Group	41,0%	43,0%	42,5%	47,5%
	Company	42,0%	39,0%	40,7%	44,6%
Credit loss ratio	Group	8,4%	3,0%	2,8%	2,6%
	Company	9,0%	4,0%	3,0%	3,1%
Productive assets	Group	61,8%	60,7%	66,1%	63,6%
	Company	69,5%	66,7%	71,0%	66,9%

While the company exists to deliver on its mandate, it is essential that it does so sustainably. A good measure of sustainability is to ensure that the group's return on equity exceeds the inflation rate. As can be seen from the table above the group is not achieving this objective. Given that the aim is to grow the NHFC going forward, the primary way that this can be addressed is by improving the productive asset ratio, while managing the credit risk well.

Clearly, we need to make a return on new investments, which after impairments, exceeds the return made on keeping our cash in money markets. NHFC has a clear policy against any form of risk taking by its treasury, with funds invested for measurable returns and no hedging or swap type structures used. In addition, all our debt is denominated in South African Rand.

Strategic Investments

We have, historically, invested in intermediaries with a view to share in the growth and profitability that we finance. This has had mixed results, as is to be expected when we are often taking a position of venture capitalist, to create new companies in our space. With the merger, we have found that there is a concerted effort to fund black and women owned start-ups with a view to transforming the incremental lending and housing construction industries. The blending of these ideals going forward, and particularly as we move to the HSDB, will serve our country, well as we transform the industries in which we operate and share in the benefits of this transformation.

Outlook

With the merger complete and a cash flush balance sheet, we are in an ideal position to boost the availability of finance in the housing market. While the economy is in the doldrums, as a development finance institution, we see it as our responsibility to invest counter cyclically and provide a boost to the economy, small as it will be with our limited balance sheet.

The annual performance plan projects disbursements of R1.2 billion in the new financial year. This will enable us to deliver in excess of 68 000 housing opportunities, including 14 thousand new units.

As a newly merged entity we are looking to the new year with excitement and a passion to deliver on the promises of our mandate.

Mr Bruce Gordon
Acting Chief Financial Officer

Statement of Responsibility by the Board

The Board of Directors, which constitutes the Accounting Authority, is required by the Companies Act of South Africa, 2008 (Act No.71 of 2008) (Companies Act) and Public Finance Management Act of 1999 (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the National Housing Finance Corporation SOC Limited (NHFC) at 31 March 2019, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the annual financial statements and have been given unrestricted access to all financial records and related data.

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

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

The Directors acknowledge that they are ultimately responsible for the systems of financial and risk management and internal control and attach considerable importance in maintaining a strong control environment. To enable the Directors to meet these responsibilities it sets standards of internal control aimed at reducing the risk of error or deficit in a cost-efficient manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of the NHFC's enterprise-wide risk management is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the NHFC endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

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

The external auditors are responsible for independently reviewing and reporting on the NHFC's annual financial statements and their report is presented on pages 73 to 77.

The annual financial statements, set out on pages 82 to 162, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 July 2019 and were signed on their behalf by:

Mr Sizwe Tati
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 2019, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

Andrew Higgs
Company Secretary

Report of the Auditor-General to Parliament on National Housing Finance Corporation (SOC) Ltd

Report on the Consolidated and Separate Financial Statements

Opinion

1. I have audited the consolidated and separate financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries (the group) set out on pages 82 to 162, which comprise the consolidated and separate statement of financial position as at 31 March 2019, 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 2019, and their financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA 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 sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other matter

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 Rural Housing Loan Fund (RHLF) and National Urban Reconstruction & Housing Agency (NURCHA and its subsidiaries) acquired by National Housing Finance Corporation SOC ltd on 1 October 2018 were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act on 30 September 2018. Unqualified opinion was expressed.

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 SA Standards of GRAP, the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
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 appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Report of the Auditor-General to Parliament on National Housing Finance Corporation (SOC) Ltd | continued

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.

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 public entity. 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 public entity for the year ended 31 March 2019:

Programmes	Pages in the annual ' performance report
Programme 1: Expand housing activities through effective provision of housing finance opportunities	158 - 160
Programme 2: Facilitate the increased and sustained lending by financial institutions	161 - 162

15. 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 finance activities through effective provision of housing finance opportunities

    Reported strategic or development objectives were not consistent or complete when compared with the planned strategic or development objectives

Report of the Auditor-General to Parliament on National Housing Finance Corporation (SOC) Ltd | continued

17. The strategic objective approved in the annual performance plan was expand housing finance activities through effective provision of housing finance opportunities. However, the objective reported in the annual performance report was expand housing finance activities through effective provision of housing finance solutions, thus enabling low to middle income households to have choices of renting, owning or incrementally building to meet their needs through opportunities created by various programmes' to enable choice of tenure options to meeting their housing need.

Estimated number of opportunities created through disbursement

18. The target approved in the annual performance plan was 50 952. However, the target reported in the annual performance report was 29 447. Due to these significant inconsistencies, I was unable to obtain sufficient and appropriate audit evidence for the variance between the planned target and reported achievement in the annual performance report. Limitations were placed on the scope of my work as I was unable to confirm the reported reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reason for the variance reported.

Value of disbursement

19. The target approved in the annual performance plan was 1 241. However, the target reported in the annual performance report was 849. Due to these significant inconsistencies, I was unable to obtain sufficient and appropriate audit evidence for the variance between the planned target and reported achievement in the annual performance report. Limitations were placed on the scope of my work as I was unable to confirm the reported reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reason for the variance reported.

Value of approval

20. The target approved in the annual performance plan was 1 039. However, the target reported in the annual performance report was 647. Due to these significant inconsistencies, I was unable to obtain sufficient and appropriate audit evidence for the variance between the planned target and reported achievement in the annual performance report. Limitations were placed on the scope of my work as I was unable to confirm the reported reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reason for the variance reported.

Programme 2: Facilitate the increased and sustained lending by financial institutions

Reported strategic or development objectives were not consistent or complete when compared with the planned strategic or development objectives.

21. The strategic objective approved in the annual performance plan was facilitate the increased and sustained lending by financial institutions. However, the objective reported in the annual performance report was facilitate increased and sustained lending by private sector to the lower end of the housing market.

Estimated number of housing opportunities facilitated through leveraged funds

22. I was unable to obtain sufficient appropriate audit evidence to support the reason for the variance between the planned target of 3 973 and the achievement of 2 783 reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported reason for the variance.

Value of leveraged funds from the Private sector

23. The target approved in the annual performance plan was 1 202. However, the target reported in the annual performance report was 1 022. Due to these significant inconsistencies, I was unable to obtain sufficient and

Report of the Auditor-General to Parliament on National Housing Finance Corporation (SOC) Ltd | continued

appropriate audit evidence for the variance between the planned target and reported achievement in the annual performance report. Limitations were placed on the scope of my work as I was unable to confirm the reported reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reason for the variance reported.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on pages 161 - 162 for information on the achievement of planned targets for the year and explanations provided for the under and over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 17 - 23 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 1: Expand housing finance activities through effective provision of housing finance opportunities. and Programme 2: Facilitate the increased and sustained lending by financial institutions. 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

27. 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 public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
28. The material finding on compliance with specific matters in key legislations is as follow:

    Annual financial statements, performance and annual report

29. 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.

Other information

30. 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.
31. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

Report of the Auditor-General to Parliament on National Housing Finance Corporation (SOC) Ltd | continued

32. 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.

33. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

34. 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 annual performance report and the finding on compliance with legislation included in this report.

35. Management did not adequately review the financial statements and the annual performance submitted for auditing, as evidenced by the material misstatements identified in both the financial statements and annual performance report which were corrected due to the audit process.

36. Management did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities of the merged entity.

Auditor-General

Pretoria

31 July 2019

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 41 - 42 of the Integrated Report.

Execution of the Functions of the Audit Committee

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

External Auditors

The Audit Committee approved the external auditors' terms of engagement, scope of work, the annual fee and noted the applicable levels of materiality. Based on written reports submitted, the Audit Committee reviewed, with the external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved. The Audit Committee is satisfied that the 2019 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 2019 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
29 July 2019

Directors' Report

Mandate and Principal Activities

The National Housing Finance Corporation SOC Ltd (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 9 to 11.

Corporate Governance

For the financial year under review, the Directors have complied with the PFMA and the Companies Act, and further endeavor to comply with the principles of the King IV on Corporate Governance as far as possible.

Financial Highlights

The financial highlights are set out on page 4 to 7.

Financial Results

The financial results of the NHFC for the year under review are set out on pages 82 to 153.

The NHFC group has achieved a positive set of financial results despite a continuing, 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. Our cash and cash equivalents 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 154 to 162.

Share Capital And Shareholder

The Government of the Republic of South Africa, as represented by the Minister of Human Settlements, is the primary shareholder of the NHFC.

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 received an allocation of R80 million from the Shareholder for social housing activities and a further R50 million has been committed and confirmed in 2019/20 by the Shareholder.

Directorate and Secretariat

Details pertaining to the directors and company secretary appear on pages 34 to 35 and 40.

The former Chairman of the company, Professor Michael Katz, resigned from the board on 31 July 2018 following some 22 years with the company and 12 of them as Chairman. The board wishes to thank him for his valuable services and commitment. Professor Katz has been succeeded by Mr Sizwe Tati, who has been appointed the new Chairman by the Minister of Human Settlements.

External Auditors

The NHFC appointed the Auditor-General South Africa as external auditors of the company from 2017/2018 and retained their appointment for the financial year ended 31 March 2019.

Acting Chief Financial Officer

Bruce Gordon has been appointed the Acting Chief Financial Officer with effect from 1 April 2019, replacing Zola Lupondwana, who has returned to his previous role as Executive Manager: Credit.

DFI Consolidation and Human Settlements Development Bank

We are pleased to advise that all the suspensive

Directors' Report | continued

conditions of the Donations Agreements with National Urban Reconstruction and Housing Agency (NURCHA) and Rural Housing Loan Fund (RHLF) have been complied with, and the DFI Consolidation referred to in previous years, came into effect from 1 October 2018. As a result the assets, liabilities, staff and businesses of NURCHA and RHLF have been transferred into the NHFC.

Consequently the financial results of the NHFC have included the take-on balances from NURCHA and RHLF respectively from 1 October 2018, and the financial and operating performance has included the activities of the now NURCHA and RHLF divisions for the six month period 1 October 2018 to 31 March 2019.

Budgets have been adjusted under the Minister approved amended Annual Performance Plan accordingly.

The NHFC is now in a position to restructure the business towards the establishment of the Human Settlements Development Bank (HSDB). The HSDB Policy has been approved by the relevant structures, and 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.

Breach of Financial Covenants

As at the quarter ended of September 2018 as well as the quarter ended 31 December 2018, the NHFC breached two covenants of one of its financiers – EIB. The covenants breached are to do with the asset quality of the company and reflect particularly challenges experienced by clients in social housing.

The NHFC has managed to negotiate a Reservation of Rights Letter with EIB in respect of these covenants, in which EIB undertook not to exercise its rights to accelerate the loans, to allow for a renegotiation and adjustment of these covenants to acceptable levels, by 31 July 2019.

Events After The Reporting Date

The renegotiation process with EIB on the revision of the asset quality financial covenants was completed post year end, the NHFC is in compliance with the amended, refer to note 33.

Remuneration of Directors and Members of Board Committees

The Directors' emoluments are set out on page 148 of these financial statements.

Audit Committee Members

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

The NHFC's policy is not to use the External Auditors for non-audit services.

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 49.

Subsidiaries and Associates

The NHFC's investments are disclosed in notes 8 to 12 of the Annual Financial Statements.

The organisational restructure of Cape Town Community Housing Company (CTCHC) has been completed and the financial restructure will be in place in the new financial year. 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.

Directors' Report | continued

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 158 to 162.

Irregular, Fruitless and Wasteful Expenditure

During the year, the NHFC incurred R2 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.

Where possible, condonation of the irregular expenditure has been sought from National Treasury.

No Fruitless or Wasteful expenditure was incurred during the year.

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.

Mr Sizwe Tati
Chairperson

Mr Samson Moraba
Chief Executive Officer

Statement of Financial Position as at 31 March 2019

	Note(s	Group 2019 R'000	Group Restated 2018 R'000	Company 2019 R'000	Company Restated 2018 R'000
Assets					
Non-Current Assets					
Loans and receivables – advances	7	2 290 685	1 955 383	2 433 518	2 041 383
Investment in associate	12	202 194	176 290	167 117	156 504
Property, plant and equipment	13	2 050	1 269	1 950	1 121
Intangible assets	14	286	835	283	833
Finance lease receivables	15	100 553	160 719	-	-
Investment property	16	66 000	60 000	66 000	60 000
		2 661 768	**2 354 496**	**2 668 868**	**2 259 841**
Current Assets					
Loans and receivables – advances	7	586 397	129 991	495 587	168 124
Properties developed for sale	17	14 684	17 673	-	-
Finance lease receivables	15	53 352	4 600	-	-
Income tax receivable	6	35 169	33 912	35 169	33 912
Other receivables and prepayments	18	22 268	16 119	22 809	23 449
Held to maturity investments	19	488 445	534 032	488 445	534 032
Cash and cash equivalents	20	976 335	330 443	917 091	313 680
		2 176 650	**1 066 770**	**1 959 101**	**1 073 197**
Total Assets		**4 838 418**	**3 421 266**	**4 627 969**	**3 333 038**
Liabilities					
Non-Current Liabilities					
Other financial liabilities	24	370 746	216 586	300 270	216 086
Long term payables	27	10 850	10 990	-	-
		381 596	**227 576**	**300 270**	**216 086**
Current Liabilities					
Funds under management	23	49 382	52 672	38 898	52 672
Other financial liabilities	24	38 245	32 394	38 245	32 394
Provisions	25	32 942	18 004	32 487	17 436
Trade and other payables	26	21 171	4 304	14 683	5 001
		141 740	**107 374**	**124 313**	**107 503**
Total Liabilities		**523 336**	**334 950**	**424 583**	**323 589**
Net Assets		**4 315 082**	**3 086 316**	**4 203 386**	**3 009 449**
Issued capital	21	842	842	842	842
Share premium	21	879 158	879 158	879 158	879 158
Grant capital	22	1 545 038	730 000	1 545 038	730 000
Retained earnings		1 639 024	1 424 580	1 579 064	1 399 449
Non distributable and other reserves		251 020	51 736	199 284	-
Total Net Assets		**4 315 082**	**3 086 316**	**4 203 386**	**3 009 449**
Total net assets and liabilities		**4 838 418**	**3 421 266**	**4 627 969**	**3 333 038**

Statement of Financial Performance for the year ended 31 March 2019

		Group		Company	
		2019 R '000	Restated 2018 R '000	2019 R '000	Restated 2018 R '000
	Notes				
Interest on advances	1	242 357	181 786	223 981	172 954
Interest received on investments	1	77 008	70 325	76 295	69 700
Rental income	1	15 860	13 548	14 007	10 961
Dividends received	1	8 350	2 532	8 350	2 532
Sale of houses	1	3 381	17 685	-	-
Fees	1	3 153	-	9 369	-
Revenue		**350 109**	**285 876**	**332 002**	**256 147**
Cost of sales	2	(3 014)	(16 435)	-	-
Net impairments	4	(35 776)	(40 893)	(55 800)	15 910
Bad debts	4	(47 693)	(20 832)	(47 693)	(88 466)
Gross surplus		**263 626**	**207 716**	**228 509**	**183 591**
Other operating income	3	16 315	14 406	12 611	8 562
Administrative expenses	4	(130 933)	(89 388)	(116 778)	(78 918)
Other operating expenses	4	(30 454)	(23 491)	(28 097)	(21 379)
Surplus		**118 554**	**109 243**	**96 245**	**91 856**
Fair value adjustments	4	(27)	-	(4 655)	18 601
Share of profit of an associate	4	13 457	3 988	-	-
Finance costs	5	(23 581)	(18 532)	(20 032)	(18 532)
Surplus for the year		**108 403**	**94 699**	**71 558**	**91 925**

Statement of Changes in Net Assets for the year ended 31 March 2019

	Issued capital R'000	Share premium R'000	Total share capital R'000	Non distributable and other 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 2017	842	879 158	880 000	51 736	630 000	681 736	1 362 954	2 924 690
Changes in net assets								
Restated surplus for the year (Note 35)	-	-	-	-	-	-	94 699	94 699
Restatement of share of losses from associates	-	-	-	-	-	-	(3 925)	(3 925)
Restatement of Investment properties fair value adjustment	-	-	-	-	-	-	(29 148)	(29 148)
Grant capital	-	-	-	-	100 000	100 000	-	100 000
Total changes	-	-	-	-	100 000	100 000	61 626	161 626
Balance at 01 April 2018	**842**	**879 158**	**880 000**	**51 736**	**730 000**	**781 736**	**1 424 580**	**3 086 316**
Changes in net assets								
Surplus for the year	-	-	-	-	-	-	108 403	108 403
Grant capital	-	-	-	-	80 000	80 000	-	80 000
Acquisition from merger	-	-	-	199 284	735 038	934 322	106 041	1 040 363
Total changes	-	-	-	199 284	815 038	1 014 322	214 444	1 228 766
Balance at 31 March 2019	**842**	**879 158**	**880 000**	**251 020**	**1 545 038**	**1 796 058**	**1 639 024**	**4 315 082**
Note(s)	21	21	21		22			
Company								
Balance at 01 April 2017	**842**	**879 158**	**880 000**	**-**	**630 000**	**630 000**	**1 307 524**	**2 817 524**
Changes in net assets								
Restated surplus for the year (Note 35)	-	-	-	-	-	-	91 925	91 925
Grant capital	-	-	-	-	100 000	100 000	-	100 000
Total changes	-	-	-	-	100 000	100 000	91 925	191 925
Balance at 01 April 2018	**842**	**879 158**	**880 000**	**-**	**730 000**	**730 000**	**1 399 449**	**3 009 449**
Changes in net assets								
Surplus for the year	-	-	-	-	-	-	71 558	71 558
Grant capital	-	-	-	-	80 000	80 000	-	80 000
Acquisition from merger	-	-	-	199 284	735 038	934 322	108 057	1 042 379
Total changes	**-**	**-**	**-**	**199 284**	**815 038**	**1 014 322**	**179 615**	**1 193 937**
Balance at 31 March 2019	**842**	**879 158**	**880 000**	**199 284**	**1 545 038**	**1 744 322**	**1 579 064**	**4 203 386**
Note(s)	21	21	21		22			

Cash Flow Statement for the year ended 31 March 2019

	Note(s)	Group 2019 R'000	Group Restated 2018 R'000	Company 2019 R'000	Company Restated 2018 R'000
Cash flows from operating activities					
Receipts					
Sale of goods		3 381	17 685	-	-
Interest, rental and dividend income		323 095	252 250	296 994	240 206
Other income		5 974	7 951	3 487	5 605
		332 450	277 886	300 481	245 811
Payments					
Employee costs		(85 843)	(69 775)	(75 424)	(61 968)
Net cash payment to suppliers		(33 277)	(31 761)	(33 526)	(28 787)
Finance costs		(23 581)	(18 532)	(20 032)	(18 532)
Net cash payment to customers		(116 174)	(331 149)	(119 706)	(310 275)
		(258 875)	(451 217)	(248 687)	(419 563)
Net cash flows from operating activities	28	**73 575**	**(173 331)**	**51 794**	**(173 753)**
Cash flows from investing activities					
Additions to property, plant and equipment	13	(23)	(1 062)	(23)	(933)
Disposal of property, plant and equipment	13	24	-	14	-
Addition of other intangible assets	14	(109)	(358)	(109)	(356)
Decrease in Held to Maturity Investment		45 587	67 197	45 587	67 197
Net cash flows from investing activities		**45 479**	**65 777**	**45 470**	**65 908**
Cash flows from financing activities					
Repayment of borrowings		(34 989)	(33 563)	(34 989)	(32 687)
Movement in funds under management		(3 290)	13 447	(13 774)	13 447
Acquisition from merger		485 117	-	474 910	-
Grant capital		80 000	100 000	80 000	100 000
Net cash flows from financing activities		**526 838**	**79 884**	**506 147**	**80 760**
Net increase/(decrease) in cash and cash equivalents		**645 892**	**(27 670)**	**603 411**	**(27 085)**
Cash and cash equivalents at the beginning of the year		330 443	358 113	313 680	340 765
Cash and cash equivalents at the end of the year	20	**976 335**	**330 443**	**917 091**	**313 680**

Accounting Policies

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 2019 comprise the NHFC, its subsidiaries and the Group's interest in associates (referred to as the Group). The financial year-end for all subsidiaries 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 2019.

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

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

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

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

1.4 Changes in accounting policy and disclosure

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

1.5 Summary of significant judgements, estimates and assumptions

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

Bonus provision

Staff and management bonuses are provided for as and when the employee renders service.

The bonus is based on performance and is evaluated using a rating method on an annual basis.

Investment properties

Management reassesses annually the most appropriate allocation of housing stock into inventory and investment

Accounting Policies | continued

properties categories. The percentage allocation is estimated as the most likely manner in which economic benefits will be realised from these assets, be it either in the form of proceeds on the sale of the asset or rental income received on the lease of an operating lease asset.

The 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.

Accounting Policies | continued

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

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

ii) Business combinations prior to 1 January 2010

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

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

(b) Investment in subsidiaries

Investments in a subsidiaries 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 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.

Accounting Policies | continued

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.

(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	Depreciation rate per annum
Furniture and fittings	16,67% to 20%
Motor vehicles	25%
Office equipment	16,67%
Computer equipment	33,33%
Leasehold improvements	period of lease

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

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.

Accounting Policies | continued

Leasehold improvements relate to operating leases.

iv) De-recognition

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

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

(e) Properties developed for sale

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

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

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

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

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

Work-in-progress

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

(f) Intangible assets

(i) Recognition and measurement

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

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

(ii) Derecognition

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

Computer software	33,33%

Accounting Policies | continued

(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.

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.

Accounting Policies | continued

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.

Accounting Policies | continued

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
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decreases cannot yet be identified with the individual financial assets in the Group.

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

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

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

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

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

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

Finance lease receivables

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

Accounting Policies | continued

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

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

(iii) Financial liabilities

Recognition and measurement

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

Financial liabilities comprise the following:

Other payables

Other payables are recognised at fair value.

Interest-bearing loans and borrowings

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

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

iv) De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

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

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

Financial liabilities

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

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

Accounting Policies | continued

(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 29.

(i) Borrowing costs

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

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

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

- Expenditures for the asset have been incurred;
- Borrowing costs have been incurred; and
- Activities that are necessary to prepare the asset for its intended use are in progress.

Capitalisation is suspended during extended periods in which active development is suspended.

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

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

(j) Leases

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

Accounting Policies | continued

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 disbursement on lending activities and with suppliers for future transactions. Commitments are not recognised in the statement of financial position but disclosed in the notes.

(l) Revenue recognition

<u>i) Revenue from exchange transactions</u>

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

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.

Accounting Policies | continued

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

Rental income

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

Interest income

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

City of Cape Town, institutional and other subsidies

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

Dividends

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

Fees

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

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

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.

Accounting Policies | continued

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

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

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

(n) Retirement benefits

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

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

(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.

(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.

Accounting Policies | continued

(q) Presentation of budget information in financial statements

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

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

(r) Determination of fair values

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

Investment property

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

Capitalisation method (investment property)

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

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.

Accounting Policies | continued

1.7 Events after reporting date

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

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

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

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

1.8 Irregular expenditure

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

(a) This Act; or
(b) The State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) Any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

Accounting Policies | continued

1.9 Transfer of functions between entities under common control

Definitions

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

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

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

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

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.
Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

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

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

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

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

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

Identifying the acquirer and transferor

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

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

Accounting Policies | continued

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

1.10 Fruitless and wasteful expenditure

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

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

2.1 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 1: Presentation of Financial Statements

The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

GRAP 2: Cash Flow Statements

The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date.

GRAP 3: Accounting policies, Changes in Accounting Estimates and Errors

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

GRAP 5: Borrowings Costs

This Standard prescribes the accounting treatment for borrowing costs.

GRAP 6: Consolidated and Separate Financial Statements

The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity.

GRAP 7: Investments in Associates

This Standard prescribes the accounting treatment for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets.

GRAP 9: Revenue from Exchange Transactions

The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events.

Accounting Policies | continued

GRAP 14: Events After the Reporting Date

The objective of this Standard is to prescribe:

When an entity should adjust its financial statements for events after the reporting date; and the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting date.

GRAP 16: Investment Property

The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

GRAP 17: Property, Plant and Equipment

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that the users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

The objective of this Standard is to define provisions, contingent liabilities and contingent assets, identify the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them.

GRAP 20: Related Party Disclosures

The objective of this Standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

GRAP 24: Presentation of Budget Information in Financial Statements

This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. This Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts.

GRAP 31: Intangible Assets

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard of GRAP.

GRAP 104: Financial Instruments

The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.

GRAP 105: Transfer of Functions Between Entities Under Common Control

The objectives of the Standard is to establish accounting principles for the aquirer and transferor in a transfer of functions between entities under common control.

2.2 The following statements were approved but not yet effective

The impact of the following standards will be assessed and adopted when effective.

Accounting Policies | continued

GRAP 34: Separate financial statements

The objective of this standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, join ventures and associates when an entity prepares separate financial statements.

GRAP 35: Consolidated financial statements

The objectives of this standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

GRAP 36: Investment in associates and Joint ventures

The objective of this standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

GRAP 104: Financial Instruments (revised)

The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.

GRAP 38: Disclosure of Interests in other entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.

Notes to the Annual Financial Statements

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
1. Income				
Interest on advances				
Interest on performing advances	213 469	164 701	206 308	168 185
Interest on non performing advances	17 673	4 769	17 673	4 769
Interest on finance lease receivable	11 215	12 316	-	-
	242 357	**181 786**	**223 981**	**172 954**
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	77 008	70 325	76 295	69 700
Rental income				
Rental income from investment property	15 860	13 548	14 007	10 961
Dividend received				
Dividend income	8 350	2 532	8 350	2 532
Sale of houses				
CTCHC sale of houses	3 381	17 685	-	-
Fees				
Fees on loans for construction projects	3 153	-	2 432	-
Fees charged to controlled entities	-	-	6 937	-
	3 153	**-**	**9 369**	**-**
2. Cost of sales				
CTCHC cost of sale of houses	(3 014)	(16 435)	-	-
3. Other Operating Income				
Other operating income is made up as follows:				
Management fees	77	169	-	-
Levies from finance lease receivable	1 910	2 014	-	-
Fair value adjustment on investment properties	6 000	5 097	6 000	1 600
Recoveries and refunds	4 207	2 853	4 207	2 689
Other interest received	2 098	1 709	391	1 709
Sundry income	2 023	2 564	2 013	2 564
	16 315	**14 406**	**12 611**	**8 562**

Notes to the Annual Financial Statements | continued

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
4. Profit Before Tax				
Administrative expenses				
Staff costs*	67 561	40 894	62 462	36 191
Salaries	52 599	32 337	47 822	28 557
Medical aid contributions	2 897	1 826	2 897	1 826
Provident fund contribution	6 025	4 048	5 703	3 125
Bonus	6 040	2 683	6 040	2 683
Management costs (refer note 32)	38 102	31 138	32 896	27 402
Salaries	22 792	18 155	17 882	14 857
Medical aid contributions	691	599	691	599
Provident fund contributions	2 497	2 134	2 201	1 696
Bonus	12 122	10 250	12 122	10 250
Administration	4 043	3 386	3 003	2 567
Marketing	1 363	1 396	1 363	1 396
Consultancy	4 787	3 705	4 509	3 669
Directors' fees	4 450	3 875	4 450	3 875
Legal fees	4 812	2 048	2 977	1 153
Auditors' fees	4 082	2 295	3 832	2 157
Travel and entertainment	1 733	651	1 286	508
Total	**130 933**	**89 388**	**116 778**	**78 918**
Other operating expenses				
Communication	1 888	1 745	1 725	1 562
Training and development	1 384	965	1 336	928
Office expenses	4 476	2 980	3 646	2 151
Depreciation and armotisation	2 074	1 060	2 028	1 014
Sundry & Investment property expenses	12 941	9 978	12 966	9 978
Operating lease expense	7 691	6 763	6 396	5 746
Total	**30 454**	**23 491**	**28 097**	**21 379**
Share of profit/loss from associates				
Trust for Urban Housing Finance Holdings Proprietary Limited	11 223	7 011	-	-
Housing Investment Partners Proprietary Limited	2 600	(3 023)	-	-
Lendcor Proprietary Limited	192	-	-	-
Norufin Housing Proprietary Limited	(515)	-	-	-
Kabo Financial Enterprises Proprietary Limited	(43)	-	-	-
	13 457	**3 988**	**-**	**-**
*Number of employees	121	70	115	53

Notes to the Annual Financial Statements | continued

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
4. Profit Before Tax | continued				
Fair value changes on investments				
Investments				
Unit trust	(27)	-	(27)	-
	(27)	-	(27)	-
Investments in Associates				
Trust for Urban Housing Finance Holdings Proprietary Limited	-	-	8 692	18 601
Lendcor Proprietary Limited	-	-	(8 034)	-
Norufin Housing Proprietary Limited	-	-	(5 286)	-
	-	-	(4 628)	18 601
Total	**(27)**	**-**	**(4 655)**	**18 601**
Net Impairments	**(35 776)**	**(40 893)**	**(55 800)**	**15 910**
Net impairment raised on loans and advances	(36 008)	(40 893)	(56 032)	15 910
Net impairment reversed on other	232	-	232	-
Bad debts written off	**(47 693)**	**(20 832)**	**(47 693)**	**(88 466)**
Bad debts written off - other	-	(1 489)	-	-
Bad debts written off on loans and advances	(47 693)	(19 343)	(47 693)	(88 466)
5. Finance costs				
Interest on other financial liabilities	23 581	18 532	20 032	18 532
6. Taxation				
Income tax receivable: statement of financial position				
Balance at the beginning of the year	33 912	32 554	33 912	32 554
Interest earned	1 257	1 358	1 257	1 358
Balance at the end of the year	**35 169**	**33 912**	**35 169**	**33 912**

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.

Notes to the Annual Financial Statements | continued

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
7. Loans and receivables - advances				
Gross advances				
Opening balances	2 215 453	1 908 170	2 339 586	2 117 775
Acquisition from merger	922 277	-	924 601	-
Disbursements	557 671	381 260	547 220	381 260
Repayments	(440 137)	(54 635)	(418 232)	(70 983)
Amounts previously impaired, written off	-	(14 055)	-	(70 858)
Amounts never impaired but written off	(47 693)	(5 287)	(47 693)	(17 608)
Balance at the end of the year	**3 207 571**	**2 215 453**	**3 345 482**	**2 339 586**
Impairments on advances				
Balances at the beginning of the year	(130 079)	(89 186)	(130 079)	(145 989)
Acquisition from merger	(164 402)	-	(230 266)	-
Adjusted opening balance	**(294 481)**	**(89 186)**	**(360 345)**	**(145 989)**
Amounts impaired in previous years and written off during the year	-	14 055	-	70 858
Increase in impairments on advances	(38 227)	(54 948)	(58 251)	(54 948)
Impairments reversed during the year*	2 219	-	2 219	-
Net impairments (raised)/reversed	**(36 008)**	**(40 893)**	**(56 032)**	**15 910**
Balance at the end of the year	**(330 489)**	**(130 079)**	**(416 377)**	**(130 079)**
Comprising:				
Specific impairments	(290 956)	(93 016)	(376 844)	(93 016)
General impairments	(39 533)	(37 063)	(39 533)	(37 063)
Net advances	**2 877 082**	**2 085 374**	**2 929 105**	**2 209 507**
Maturity analysis^				
Receivable within one year	586 397	129 991	495 587	168 124
Receivable within one to two years	371 299	135 628	361 141	156 043
Receivable within two to three years	238 197	210 753	241 630	214 315
Receivable beyond three years	1 681 189	1 609 002	1 830 747	1 671 025
Net advances	**2 877 082**	**2 085 374**	**2 929 105**	**2 209 507**
Non-current assets	2 290 685	1 955 383	2 433 518	2 041 383
Current assets	586 397	129 991	495 587	168 124
	2 877 082	**2 085 374**	**2 929 105**	**2 209 507**

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

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

Notes to the Annual Financial Statements | continued

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
8. 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 adjustment	(30 000)	(30 000)	(30 000)	(30 000)
Carrying amount of shares at 31 March 2019	**-**	**-**	**-**	**-**

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 2019 R '000	Company 2018 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 2019	**-**	**-**

NHFC 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.

NURCHA Finance Company (Pty) Ltd

NURCHA Finance Company (Pty) Ltd is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.

	Company 2019 R '000	Company 2018 R '000
Shares at fair value - ordinary shares		
Opening balance	-	-
Impairment	-	-
Carrying amount of shares at 31 March 2019	**-**	**-**

Notes to the Annual Financial Statements | continued

9. Investments in Subsidiaries | continued

NURCHA Equity Services (Pty) Ltd

NURCHA Equity Services (Pty) Ltd is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
Shares at fair value - ordinary shares				
Opening balance			-	-
Impairment			-	-
Carrying amount of shares at 31 March 2019			**-**	**-**

NURCHA Developement Finance (Pty) Ltd

NURCHA Developement Finance (Pty) Ltd is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
Shares at fair value - ordinary shares				
Opening balance			-	-
Impairment			-	-
Carrying amount of shares at 31 March 2019			**-**	**-**

NURCHA Management services (Pty) Ltd

NURCHA Management services (Pty) Ltd is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
Shares at fair value - ordinary shares				
Opening balance			-	-
Impairment			-	-
Carrying amount of shares at 31 March 2019			**-**	**-**

NURCHA Bridging Finance (Pty) Ltd

NURCHA Bridging Finance (Pty) Ltd is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
Shares at fair value - ordinary shares				
Opening balance			-	-
Impairment			-	-
Carrying amount of shares at 31 March 2019			**-**	**-**

NURCHA Loan Fund (Pty) Ltd

NURCHA Loan Fund (Pty) Ltd is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited.

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
Shares at fair value - ordinary shares				
Opening balance			-	-
Impairment			-	-
Carrying amount of shares at 31 March 2019			**-**	**-**

Notes to the Annual Financial Statements | continued

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
10. Investment in debentures - Cape Town Community Housing Company (Proprietary) Limited				
Debentures				
Non-convertible debentures at cost - issued prior to 31 March 2004	-	-	18 000	18 000
Non-convertible debentures at cost - issued prior to 31 March 2005	-	-	2 654	2 654
Non-convertible debentures at cost - issued prior to 31 March 2006	-	-	543	543
	-	-	21 197	21 197
Accumulated impairment	-	-	(21 197)	(21 197)
Convertible debentures acquired at cost	-	-	3 000	3 000
	-	-	(3 000)	(3 000)
Carrying amount of debentures at 31 March 2019	-	-	-	-

The NHFC has subordinated its claims against CTCHC in respect of the debentures in favour of R24 million interest on debentures has been suspended (2018: R24 million) .

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
11. Investment in preference shares				
Greenstart Proprietary Limited				
Opening balance	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 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 | continued

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	
	2019 R '000	2018 R '000
Share of the associate's balance sheet		
Total assets	1 066 377	893 916
Total liabilities	(916 472)	(754 440)
Net asset	**149 905**	**139 476**
Investment at cost	33 282	33 282
Accumulated share of profits of associate	58 051	43 332
Accumulated share of reserves in associate	47 349	55 057
	138 682	131 671
Current year share of the associate's profit	12 672	14 719
Other reserves	(1 449)	(7 708)
Carrying amount of the investment in TUHF	**149 905**	**138 682**
Share of the associate's revenue	128 452	116 227
Investment in C class ordinary shares	6 533	6 533
Investment in preference shares		
Opening balance	35 000	35 000
Acquisition of preference shares	-	-
Carrying amount of investment preference shares	35 000	35 000
Carrying amount of investment in TUHF	**191 438**	**180 215**

Notes to the Annual Financial Statements | continued

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	
	2019 R '000	2018 R '000
Share of the associate's balance sheet		
Current assets	3 075	2 968
Non-current assets	8 327	2 059
Current liabilities	(644)	(725)
Non-current liabilities	(37 375)	(35 249)
Net asset	**(26 617)**	**(30 947)**
Share of the associate's revenue	8 617	7 389
Share of profit/(losses)	2 601	(3 023)

The Group's share of cumulative losses amounts to R33.165 million above in 2019 (R28.544 million in 2018) 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 cost of the investment, being R7.233 million.

The investee has a different reporting date of 31 December. There has not been any material impact for the current year as all losses have been written off against the investment at group level. The different reporting date has however been considered when preparing the valuation of the investment.

Notes to the Annual Financial Statements | continued

12. Investments in associates | continued

12.3 Investment in associate - Lendcor (Proprietary) Limited (Lendcor)

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

	Group	
	2019 R '000	2018 R '000
Share of the associate's balance sheet		
Total assets	41 997	-
Total liabilities	(31 852)	-
Net asset	**10 145**	**-**
Investment at cost	350	-
Accumulated share of profit of associate	9 603	-
Accumulated share of reserves in associate	-	-
	9 953	-
Current year share of profit in associate	192	-
Other reserves	-	-
Carrying amount of the investment in Lendcor	**10 145**	**-**
Share of the associate's revenue	16 712	-

The group's share of cumulative equity amounts to R 10,33 million.

12.4 Investment in associate - Norufin Housing (Proprietary) Limited (Norufin)

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

Share of the associate's balance sheet		
Total assets	8 992	-
Total liabilities	(10 935)	-
Net asset	**(1 943)**	**-**
Investment at cost	5 288	-
Accumulated share of profit of associate	(3 926)	-
	1 362	-
Current year share of profit in associate	(515)	-
Carrying amount of the investment in Norufin	**847**	**-**
Share of the associate's revenue	-	-

Notes to the Annual Financial Statements | continued

12. Investments in associates | continued

12.5 Investment in associate - Kabo Financial Enterprise (Proprietary) Limited (Kabo)

The Entity has a 20% interest in Kabo Financial Enterprise (Pty) Ltd and has the right to appoint a director.
The following table illustrates summarised financial information of the Entity's investment in Kabo.

	Group	
	2019 R '000	2018 R '000
Share of associates balance sheet		
Total assets	639	-
Total liabilities	-766	-
Total carrying amount of the investment in associates - Group	**127**	-
Investment at Cost	-	-
Acumulated share of profits/(losses)	193	-
	-193	-
Current year share of losses	-43	-
Carrying amount of the investment in Kabo	**-236**	-

12.6 Investment in associate - Lehae Housing (Proprietary) Limited (Lehae)

The Entity has a 20% interest in Lehae Housing (Pty) Ltd and has the right to appoint a director.
The following table illustrates summarised financial information of the Entity's investment in Lehae.

	Group	
	2019 R '000	2018 R '000
Share of associates balance sheet		
Total assets	-	-
Total liabilities	-	-
Net Assets	-	-
Investment at Cost	-	-
Acumulated share of profits/(losses)	-	-
	-	-
Current year share of losses	-	-
Carrying amount of the investment in Lehae	-	-

Notes to the Annual Financial Statements | continued

12. Investments in associates | continued

	Group	
	2019 R '000	2018 R '000
Total carrying amount of the investment in associates - Group	**202 194**	**176 290**

12.7 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	
	2019 R '000	2018 R '000
Investment in equity shares		
Original investment in TUHF	114 971	96 370
Fair value adjustment in investment in TUHF	8 693	18 601
Carrying amount of the equity	**123 664**	**114 971**
Investment in C class ordinary shares		
	6 533	6 533
	-	-
Carrying amount of the investment in C class ordinary shares	**6 533**	**6 533**
Investment in preference shares		
Opening balance	35 000	35 000
Acquisition of preference shares	-	-
Carrying amount of investment in preference shares	**35 000**	**35 000**
Total investment in associates TUHF	**165 197**	**156 504**

The investment in TUHF has been valued at fair value, except for preference shares which are carried at cost. Constraints in the capital markets in the short to medium term are expected to cause some challenges in sustaining the growth momentum achieved in the past few years. NHFC has applied a discounted cash flow (DCF) method in arriving at the valuation of TUHF. Company projections have been reviewed to understand the reasonableness of projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represent the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in TUHF.

NHFC's shareholders loans to the value of R6.5 million were converted to C ordinary shares in the prior financial years.

The investment in redeemable cumulative preference shares consists of 35 000 shares at a par value of R1 000 per share. The total value of the preference shares in TUHF is R35 million. Dividends in terms of the shareholders' agreement are set at the prevailing prime lending rate less corporate tax of 28%.

Notes to the Annual Financial Statements | continued

12. Investments in associates | continued

12.8 Investment in associate - Housing Investment Partners (Proprietary) Limited (HIP)

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

	Company	
	2019 R'000	2018 R'000
Share of the associate's balance sheet		
Investment in shares opening balance	7 232	7 232
Movement in investment in associate	(7 232)	(7 232)
Carrying amount of the investment HIP	-	-

HIP is an entity established to operate as a fund manager that designed and developed the innovative income linked retail home loans product. HIP originates, manages and administers the debt funds that provide the mortgage loan funding. NHFC has applied a discounted cash flow (DCF) method in arriving at the valuation of HIP. Company projections have been reviewed to understand the reasonableness in projected earnings along with the working capital changes. Due consideration has been given to the revenue prospects of the company, as well as whether the cost structures reasonably represents the required platform to achieve projected revenues. Cost of equity was computed using a risk free rate subjectively adjusted with company and market risk. The PE multiple valuation method has been used for the purpose of calculating the residual value for the DCF model. A market based PE ratio has been adopted and where appropriate subjectively adjusted to reflect the inherent risks in HIP. No fair value adjustment was processed in the current financial year. HIP as a fund manager, needs to significantly raise the funds under management (loan book) for the business to be financial sustainable. It continues to generate operating losses.

The investee has a different reporting date of 31 December. The different reporting date has however been considered when preparing the valuation of the investment.

12.9 Investment in associate - Lendcor (Proprietary) Limited (Lendcor)

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

Investment in equity shares		
Original investment at cost	350	-
Cumulative fair value adjustments	9 603	-
Transfer from RHLF	9 953	-
Fair value adjustments	(8 033)	-
Carrying amount of the equity	**1 920**	**-**

NHFC has a 20% interest in Lendcor (Pty) Ltd and has a right to appoint a director. The equity investment in Lendcor has been fairly valued in the 31 March 2019 year. Management used a market adjusted price earning multiple approach. Management applied discount to the average market multiple Price earnings ratio after adjusting risk factors e.g. liquidity risk (the fact that Lendcor is an unlisted entity or not tradeable on a stock exchange). The investee company has a February year end, adjustments have been processed to align the financials to the NHFC year end of March.

Notes to the Annual Financial Statements | continued

12. Investments in associates | continued

12.10 Investment in associate - Norufin (Proprietary) Limited (Norufin)

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

	Company	
	2019 R '000	2018 R '000
Investment in equity shares		
Original investment at cost	5 288	-
Fair value adjustment	(5 288)	-
Carrying amount of the equity	-	-
Total carrying amount of the investment in asscociates - Company	**167 117**	**156 504**

13. Property, plant and equipment

	2019			2018		
	Cost / Valuation R '000	Accumulated depreciation and accumulated impairment R '000	Carrying value R '000	Cost / Valuation R '000	Accumulated depreciation and accumulated impairment R '000	Carrying value R '000
Group						
Furniture and fittings	3 244	(3 042)	202	2 590	(2 577)	13
Motor vehicles	557	(444)	113	556	(353)	203
Office equipment	602	(551)	51	546	(493)	53
Computer equipment	9 807	(8 835)	972	6 990	(6 395)	595
Leasehold improvements	2 987	(2 275)	712	1 847	(1 442)	405
Total	**17 197**	**(15 147)**	**2 050**	**12 529**	**(11 260)**	**1 269**
Company						
Furniture and fittings	2 966	(2 829)	137	2 373	(2 367)	6
Motor vehicles	436	(409)	27	436	(348)	88
Office equipment	488	(444)	44	432	(390)	42
Computer equipment	9 590	(8 554)	1 036	6 610	(6 023)	587
Leasehold improvements	2 578	(1 872)	706	1 431	(1 033)	398
Total	**16 058**	**(14 108)**	**1 950**	**11 282**	**(10 161)**	**1 121**

Notes to the Annual Financial Statements | continued

13. Property, plant and equipment | continued

Reconciliation of property, plant and equipment - Group - 2019

	Opening balance R '000	Additions R '000	Disposals R '000	Depreciation R '000	Total R '000
Furniture and fittings	13	226	-	(37)	202
Motor vehicles	203	-	-	(90)	113
Office equipment	53	15	-	(17)	51
Computer equipment	595	1 057	(9)	(671)	972
Leasehold improvements	405	759	-	(452)	712
	1 269	**2 057**	**(9)**	**(1 267)**	**2 050**

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 - Company - 2019

	Opening balance R '000	Additions R '000	Disposals R '000	Depreciation R '000	Total R '000
Furniture and fittings	5	166	-	(34)	137
Motor vehicles	88	-	-	(60)	27
Office equipment	42	15	-	(13)	44
Computer equipment	587	1 118	(9)	(660)	1 036
Leasehold improvements	399	759	-	(452)	706
	1 121	**2 058**	**(9)**	**(1 220)**	**1 950**

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**

The cost of fully depreciated assets that are still in use amount to R14.9 million (2018: R12.8 million), and for the Group R16 million (2018: R14 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 | continued

14. Intangible assets

	2019			2018		
	Cost / Valuation R '000	Accumulated depreciation and accumulated impairment R '000	Carrying value R '000	Cost / Valuation R '000	Accumulated depreciation and accumulated impairment R '000	Carrying value R '000
Group						
Computer software	11 229	(10 943)	286	4 312	(3 477)	835
Total	**11 229**	**(10 943)**	**286**	**4 312**	**(3 477)**	**835**
Company						
Computer software	10 905	(10 622)	283	3 974	(3 141)	833
Total	**10 905**	**(10 622)**	**283**	**3 974**	**(3 141)**	**833**

Reconciliation of intangible assets - Group - 2019

	Opening balance R '000	Additions R '000	Amortisation R '000	Total R '000
Computer software	835	259	(808)	286

Reconciliation of intangible assets - Group - 2018

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

Reconciliation of intangible assets - Company - 2019

	Opening balance R '000	Additions R '000	Amortisation R '000	Total R '000
Computer software	833	258	(808)	283

Reconciliation of intangible assets - Company - 2018

	Opening balance R '000	Additions R '000	Amortisation R '000	Total R '000
Computer software	811	356	(334)	833

Notes to the Annual Financial Statements | continued

15. Finance lease receivables

	Group 2019 R '000	Group Restated 2018 R '000	Company 2019 R '000	Company Restated 2018 R '000
Gross investment in the lease due				
- within one year	252 766	285 673	-	-
	252 766	285 673	-	-
less: Unearned finance revenue	(98 861)	(120 354)	-	-
	153 905	**165 319**	-	-
Non-current assets	100 553	160 719	-	-
Current assets	53 352	4 600	-	-
	153 905	**165 319**	**-**	**-**

The average term on the finance lease receivable is 16 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest was 10,5% (2018: 10,5%) per annum. NHFC considers that the fair values of the finance lease receivables does not differ materially from the carrying value.

The amount of R153.905 million (2018: R165.319 million) is the maximum exposure to credit risk.

16. Investment property

	2019			Restated 2018		
	Cost / Valuation R '000	Accumulated impairment R '000	Carrying value R '000	Cost / Valuation R '000	Accumulated impairment R '000	Carrying value R '000
Group						
Investment property	66 000	-	66 000	60 000	-	60 000
Company						
Investment property	66 000	-	66 000	60 000	-	60 000

Reconciliation of investment property - Group - 2019

	Opening balance R '000	Fair value adjustments R '000	Total R '000
Investment property	60 000	6 000	66 000

Reconciliation of investment property - Group - 2018

	Opening balance R '000	Reclassified R '000	Fair value adjustments R '000	Total R '000
Investment property	91 124	(32 724)	1 600	60 000

Notes to the Annual Financial Statements | continued

16. Investment property | continued

Reconciliation of investment property - Company - 2019

	Opening balance R '000	Fair value adjustments R '000	Total R '000
Investment property	60 000	6 000	66 000

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

Investment property for the Company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, A Balme (Registered Professional Valuer at Balme Van Wyk & Tugman (Pty) Ltd) on 01 April 2019. Mr A Balme is not connected to the Company and has experience in property valuation. The capitalisation of net income method of valuation was used, based on a capitalisation rate of 11,5%. The capitalisation rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised net operating income by the purchase price. This yield is based on information derived from market analysis. The capitalisation rate for the subject area is 11,5%.

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	6 000	1 600	6 000	1 600
Net rental income	15 860	13 548	14 007	10 961
	21 860	**15 148**	**20 007**	**12 561**

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Details of investment property				
Investment Properties				
- Purchase price: 1 December 2008	21 654	21 654	21 654	21 654
- Additions since purchase or valuation	44 346	38 346	44 346	38 346
	66 000	**60 000**	**66 000**	**60 000**

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

Notes to the Annual Financial Statements | continued

17. Properties developed for sale

	Group		Company	
	2019 R '000	Restated 2018 R '000	2019 R '000	Restated 2018 R '000
Work in progress	2 262	2 276	-	-
Carrying value of repossessed properties	12 422	15 397	-	-
	14 684	**17 673**	**-**	**-**

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 instalment sale.

18. Other receivables and prepayments

	Group		Company	
	2019 R '000	Restated 2018 R '000	2019 R '000	Restated 2018 R '000
Commitment and guarantee fee	851	-	851	-
Staff debtors	1 592	2 203	1 592	2 203
Deposits and prepayments	894	674	535	536
Other debtors receivables	10 580	10 886	11 480	18 354
Dividends receivable	8 351	2 356	8 351	2 356
	22 268	**16 119**	**22 809**	**23 449**

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.

Commitments and guarantee fee is a raising fee for the DBSA loan.

Notes to the Annual Financial Statements | continued

19. Held-to-maturity investments

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Development Bank of Southern Africa SOC Limited	-	40 000	-	40 000
Industrial Development Corporation SOC Limited	40 000	-	40 000	-
Telkom SA SOC Limited	29 000	32 000	29 000	32 000
ABSA Bank Limited	60 000	60 000	60 000	60 000
Investec Bank Limited	-	40 000	-	40 000
Standard Bank of South Africa Limited	-	20 000	-	20 000
Nedbank Limited	40 000	60 000	40 000	60 000
Land and Agricultural Bank of South Africa SOC Limited	107 630	76 295	107 630	76 295
Eskom Holdings SOC Limited	-	74 386	-	74 386
Trans-Caledon Tunnel Authority (TCTA)	104 326	56 938	104 326	56 938
Transnet SOC Limited	-	74 413	-	74 413
South African Reserve Bank SOC Limited	107 489	-	107 489	-
Total held-to-maturity money market investments	**488 445**	**534 032**	**488 445**	**534 032**

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.

20. Cash and cash equivalents

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
Short-term deposits - NHFC				
ABSA Bank Limited	48 423	46 880	48 423	46 880
Investec Bank Limited	10 579	5 480	10 579	5 480
Nedbank Limited	9 552	1 119	9 552	1 119
Standard Bank of South Africa Limited	3 371	3 550	3 371	3 550
Rand Merchant Bank, a division of First Rand Bank Limited	11 411	2 836	11 411	2 836
Stanlib Limited	42 992	44 964	42 992	44 964
South African Reserve Bank	209 357	150 588	209 357	150 588
SARB CPD Call account	240 446	-	240 446	-
South African Reserve Bank	166 744	-	166 744	-
Bank FNB-call account	24 494	-	24 494	-
NDF cheque account	635	-	-	-
CRP Ceilings cheque account	171	-	-	-
CFDP cheque account	2	-	-	-
NDF call account	89	-	-	-
	768 266	**255 417**	**767 369**	**255 417**

Notes to the Annual Financial Statements | continued

20. Cash and cash equivalents CONTINUED

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Short-term deposits - Abahlali and Contractor Finance Development Programme*				
ABSA Bank Limited (Abahlali)	1 497	1 409	1 497	1 409
First National Bank (CFDP)	4 331	-	-	-
	5 828	**1 409**	**1 497**	**1 409**
Short-term deposits - FLISP and Gqebera*				
First National Bank (Gqebera)	10 484	-	-	-
Reserve Bank (FLISP)	20 457	46 497	20 457	46 497
	30 941	**46 497**	**20 457**	**46 497**
Cash at bank and in hand				
Cash on hand	13	15	6	3
Standard Bank of South Africa Limited	166 281	22 339	122 760	5 588
FLISP - Standard Bank of South Africa Limited	238	91	238	91
Abahlali - Standard Bank of South Africa Limited	4 764	4 675	4 764	4 675
Drakenstein - First National Bank Limited	2	-	-	-
Kuyasa - First National Bank Limited	2	-	-	-
	171 300	**27 120**	**127 768**	**10 357**
Total cash and short-term deposits	**976 335**	**330 443**	**917 091**	**313 680**
NHFC				
Short-term deposits	768 266	255 417	767 369	255 417
Cash at Bank	166 294	22 354	122 766	5 591
	934 560	**277 771**	**890 135**	**261 008**
Contractor Finance Development Programme*				
Short term deposit	4 333	-	-	-
	-	-	-	-
Abahlali*				
Short-term deposits	6 261	6 084	6 261	6 084
FLISP and Gqebera*				
Short-term deposits	31 181	46 588	20 695	46 588
	976 335	**330 443**	**917 091**	**313 680**

* Funds under management refer to note 23.

Notes to the Annual Financial Statements | continued

21. Issued capital and share premium

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
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	**730 000**	**630 000**	**730 000**	**630 000**
NDHOS	80 000	100 000	80 000	100 000
Tranfers from NURCHA	381 000	-	381 000	-
Tranfers from RHLF	180 975	-	180 975	-
Additions from government	**641 975**	**730 000**	**641 975**	**730 000**
Tranfers from NURCHA - Open society Institution of New York	18 300	-	18 300	-
Transfer from RHLF -KFW	154 763	-	154 763	-
Additions from Non SA government Institutions	**173 063**	**-**	**173 063**	**-**
	1 545 038	**730 000**	**1 545 038**	**730 000**

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 previous financial years additional grant capital amounting to R430 million was received from the shareholder and a further R100m was received during the 31 March 2018 year and R80 million in the current year.

A total of R 381 million Government Grants [R20 million from the Department of housing and R361 million from the National Department of Human Settlements] has been transferred to the NHFC from NURCHA, these are considered to be permanent and are therefore included in Shareholder's equity. In addition, R18.3 million grant from the Open Society Institution of New York has transferred to the NHFC.

A total of R181.0 million Government Grants has been transferred to the NHFC from RHLF, these are considered to be permanent and are therefore included in Shareholder's equity. In addition, R154.8 million grant from KFW has transferred to the NHFC, the terms of the grant from the KFW require that these funds, and any interest earned on them, are used for loans to retail lenders who may only use these funds to grant housing loans to poor rural families.

Notes to the Annual Financial Statements | continued

23. Funds under management

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Abahlali[(a)]	6 261	6 084	6 261	6 084
FLISP[(b)]	32 637	46 588	32 637	46 588
Gqebera [(c)]	10 484	-	-	-
	49 382	**52 672**	**38 898**	**52 672**

(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 for the Finance Link Individual Subsidy Programme. All uncommitted budgetary allocations were returned to the provinces.

(c) The NHFC is managing funds on behalf of the Gqebera Housing Development.

The net income on these funds is capitalised. The cost of managing the implementation of FLISP is recovered on an annual basis.

Funds under management are invested in held-to-maturity investments (note19) and short-term deposits (note 20).

Notes to the Annual Financial Statements | continued

24. Other financial liabilities

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
At amortised cost				
Agence Francaise de Developpement (AFD)	96 572	112 667	96 572	112 667
This loan bears interest at a fixed rate of 6,078% per annum and is repayable in equal semi-annual capital instalments of R7 888 692 (2018: R7 888 692) exclusive of interest. Interest and capital is paid bi- annually on 31 May and 30 November of each year.The final instalment is payable on 24 November 2024.				
European Investment Bank (EIB)	118 839	135 813	118 839	135 813
This loan bears interest at a quarterly variable rate of 3M Jibar with a maximum margin of 0,40% per annum and is repayable in semi-annual equal capital instalments of R8 308 077 (2018: 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.				
Development Bank of South Africa (DBSA)	123 104	-	123 104	-
The loan bears interest at a fixed rate of 7,56% per annum payable half yearly on 15 June and 15 December.Repayment of the 41 half yearly instalment commenced on 14 December 2014.				
Public Investment Corporation (PIC)	69 976	-	-	-
The loan bears interest at the prime interest rate and interest is serviced monthly.The capital is repayable in eight equal quarterly instalments of R8 747 000 commencing in 1 July 2021.				
City of Cape Town	500	500	-	-
The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town to the Cape Town Community Housing Company (Proprietary) Limited. The loan is payable as and when the company ("CTCHC") becomes profitable.				
	408 991	**248 980**	**338 515**	**248 480**
Total other financial liabilities	**408 991**	**248 980**	**338 515**	**248 480**
Non-current liabilities				
At amortised cost	370 746	216 586	300 270	216 086
Current liabilities				
At amortised cost	38 245	32 394	38 245	32 394

Notes to the Annual Financial Statements | continued

25. Provisions

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Total provisions	**32 942**	**18 004**	**32 487**	**17 436**
Provision for leave pay				
Opening balance as at 1 April 2018	4 765	4 729	4 502	4 483
Acquisition from merger	3 004	-	3 004	-
Additional provision raised	1 140	36	1 253	19
Closing balance as at 31 March 2019	**8 909**	**4 765**	**8 759**	**4 502**
Provision for incentive bonus				
Opening balance as at 1 April 2018	12 934	14 000	12 934	14 000
Provision utilised for the year	(12 934)	(14 000)	(12 934)	(14 000)
Additional provision raised	18 612	12 934	18 612	12 934
Acquisition from merger	1 828	-	1 828	-
Closing balance as at 31 March 2019	**20 440**	**12 934**	**20 440**	**12 934**
Provision for retention reward				
Opening balance as at 1 April 2018	-	-	-	-
Acquisition from merger	3 288	-	3 288	-
Closing balance as at 31 March 2019	**3 288**	**-**	**3 288**	**-**
Provision for municipal rates				
Opening balance as at 1 April 2018	305	305	-	-
Closing balance as at 31 March 2019	**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 2020 financial year. Provision for incentive bonus includes the three year rolling incentive scheme for some of executives.

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

Provision for retention reward is the final payment payable 12 months after the merger is completed. The payments are all calculated and payable based on the salary at September 2016. The merger was completed on 01 October 2018 making the amount payable on 30 September 2019.

Notes to the Annual Financial Statements | continued

26. Trade and other payables

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Trade payables	4 344	2 040	4 120	5 001
Payments received in advanced	601	9	-	-
Accrued expense	15 266	1 955	10 053	-
Accrued audit fees	960	300	510	-
	21 171	**4 304**	**14 683**	**5 001**

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

27. Long term Payables

Vat payable	10 850	10 990	-	-
	10 850	**10 990**	**-**	**-**

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

Notes to the Annual Financial Statements | continued

28. Cash flows from operating activities

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Net profit before tax	108 403	94 699	71 558	91 925
Non-cash and separately presented items	63 525	39 795	95 372	36 071
Working capital changes	17 820	23 324	4 569	8 526
Increase in advances	(116 174)	(331 149)	(119 706)	(310 275)
Net cash flows generated from (used in) operations	**73 574**	**(173 331)**	**51 793**	**(173 753)**
Non-cash and separately presented items				
Depreciation and amortisation	2 074	1 060	2 028	1 014
Inter company fees	-	-	(6 216)	-
Dividends accrued	(2 535)	(2 356)	(2 535)	(2 356)
Interest accrued on investment	3 328	(1 132)	3 328	(1 132)
Share of profit of an associate	(13 457)	(3 988)	-	-
Fair value adjustment on equity investments	27	-	4 655	(18 601)
Fair value adjustment on investment property	(6 000)	(1 600)	(6 000)	(1 600)
Impairment on advances	35 776	40 893	55 800	(15 910)
Bad debts written off	47 693	20 832	47 693	88 466
FLISP recovery	(2 040)	(1 991)	(2 040)	(1 991)
Unrealised rental income on investment property	(84)	(10 461)	(84)	(10 461)
Proceeds from sale property,plant and equipment	-	(104)	-	-
Interest accrued - other	(1 257)	(1 358)	(1 257)	(1 358)
	63 525	**39 795**	**95 372**	**36 071**
Working capital changes				
(Increase)/decrease in properties developed for sale	50 855	7 305	-	-
(Increase)/decrease in finance lease receivable	(35 429)	13 706	-	-
(Increase)/decrease in accounts receivable	(7 925)	5 485	(8 438)	9 812
Increase/(decrease) in accounts payables	3 501	(2 142)	6 076	(239)
Increase/(decrease) in provisions	6 818	(1 030)	6 931	(1 047)
	17 820	**23 324**	**4 569**	**8 526**

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	166 294	24 151	122 766	6 803
Short-term deposits	810 041	306 292	794 327	306 877
	976 335	**330 443**	**917 091**	**313 680**

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 R132 000 (2018: R1 420 000). 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 R132 000 (2018: R1 289 000). None of the additions were acquired by means of government grants.

Notes to the Annual Financial Statements | continued

29. Contingent liabilities and commitments

Contingencies

At 31 March 2019 the Group did not have any contingent liability in respect of bank guarantees (2018: R0), arising in the ordinary course of business from which it is anticipated that no material liability will arise.

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Commitments in respect of lending activities				
Approved and contracted for:				
Exceeded availability but disbursing	32 754	1 460	32 754	1 460
Still within availability period	525 892	347 897	471 718	347 897
Subtotal	558 646	349 357	504 472	349 357
Approved but not yet contracted for:	171 807	-	171 807	-
	730 453	**349 357**	**676 279**	**349 357**
Operational contracts	7 382	-	7 382	-
	7 382	**-**	**7 382**	**-**

Operating lease commitment - Group as lessee

The Group entered into a commercial lease on the property from which it operates. The lease was effective from 1 April 2012 to 31 March 2019. The lease was effective from 1 April 2012 to 31 March 2017. The lease had an escalation clause of 8% per annum. The lease has been extended for eighteen months from 1 April 2019 to 30 September 2020 with a deposit guarantee of R533 500.

Future minimum rentals payable under current operating lease as at 31 March 2019:

National Housing Finance Corporation SOC Limited	6 367	6 757	6 367	6 757
Cape Town Community Housing Proprietary Limited	-	872	-	-
Within one year	**6 367**	**7 629**	**6 367**	**6 757**
National Housing Finance Corporation SOC Limited	3 422	-	3 422	-
After one year but not more than five years	**3 422**	**-**	**3 422**	**-**
Total office operating lease commitments - office buildings	**9 789**	**7 629**	**9 789**	**6 757**
Total commitments	**747 624**	**356 986**	**693 450**	**356 114**

Notes to the Annual Financial Statements | continued

30. Financial risk management

The Group has various financial assets such as loans and receivables, Finance lease receivables, other receivables, investment in preference shares, cash and short-term deposits and held-to-maturity investments which arise directly from its operations.

The Group's principal financial liabilities comprise funds under management, debentures, other financial liabilities and trade and other payables.

The main risks arising from the Group's financial instruments are credit risk, equity and quasi equity investment risk, interest rate risk and liquidity risk.

The Board is ultimately responsible for the overall risk management process and reviews and approves policies for the managing of each of these risks. The Board has delegated certain matters to the Audit Committee, the Board Risk Committee and the Board Credit and Investment Committee.

The Group's senior management oversees the management of these risks and is supported by a Management Assets and Liabilities Committee, Management Credit and Investment Committee and Enterprise Risk Management Framework.

These committees provide assurance that risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. It is the Group's policy that no trading for speculative purposes shall be undertaken.

Credit risk

Credit risk is the risk of an economic loss arising from the failure of a counterparty to fulfil its contractual obligations. The Group is exposed to credit risk from its operating activities, primarily advances in the form of senior debt, sub-ordinated debt and investments (short term deposits and money market instruments).

Equity risk

Investment in equity and quasi equity instruments such as ordinary shares, preference shares, junior and mezzanine debt is regulated through the Board approved policy. This is typically done for entities that are start-ups and providing innovative funding solutions in the affordable housing market. Compared to our core business of secured loans with first covering mortgage bonds, these kinds of instruments are unsecured and high risk in nature. It is used for leveraging private sector funding and 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.

Loans and receivables – advances

The credit risk arising from advances and the credit value chain is managed by the Credit Division and is subject to the Group's established policy, procedures and controls as well as the risk appetite of the Group. The risk appetite statement and credit policy are reviewed and approved by the Board annually.

The credit policy provides for comprehensive sanctioning structures and credit risk acceptance processes including robust assessment and monitoring procedures at individual counterparty level, to generate quality credit assets, relative to the risk/reward inherent in the transaction.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

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.

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:

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
Maximum exposure to credit risk				
Loans and receivables - advances	2 877 082	2 085 374	2 929 105	2 209 507
Finance lease receivables	153 905	165 319	-	-
Held-to-maturity investments	488 445	534 032	488 445	534 032
Cash and short-term deposits	976 335	330 443	917 091	313 680
Other receivables and prepayments	22 268	16 119	22 809	23 449
Investment in preference shares	35 000	35 000	35 000	35 000
Total	**4 553 035**	**3 166 287**	**4 392 450**	**3 115 668**

Notes to the Annual Financial Statements | continued

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	
	2019 R '000	2018 R '000	2019 R '000	2018 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	2 308 015	1 882 531	2 246 929	1 884 725
Past due but not impaired*	445 197	122 329	553 344	244 268
Impaired**	454 359	210 593	545 209	210 593
	3 207 571	2 215 453	3 345 482	2 339 586
Less: Specific impairments	(290 956)	(93 016)	(376 844)	(93 016)
General impairments	(39 533)	(37 063)	(39 533)	(37 063)
Net advances	**2 877 082**	**2 085 374**	**2 929 105**	**2 209 507**

* 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.

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

	Ageing of amounts due					
	Total balance R'000	Capital instalment R'000	Current to 30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 180+ days R'000
Group 2019						
Ageing analysis of advances that are past due, but not impaired:	445 197	401 363	9 968	4 978	4 820	24 068
Group 2018						
Ageing analysis of advances that are past due, but not impaired:	122 328	51 324	1 694	850	848	67 612

	Ageing of amounts due					
	Total balance R'000	Capital instalment R'000	Current to 30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 180+ days R'000
Company 2019						
Ageing analysis of advances that are past due, but not impaired:	553 344	438 980	13 121	9 413	6 403	85 427
Company 2018						
Ageing analysis of advances that are past due, but not impaired:	244 268	126 155	4 611	2 338	2 325	108 839

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 2019 amounts to R1 534 million (2018: R1 091 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 R116.97 million (2018: R60 million).

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

	Group 2019 R '000	Group 2018 R '000	Company 2019 R '000	Company 2018 R '000
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least F1				
- Held-to-maturity investments – money market	488 445	534 032	488 445	534 032
- Cash and short term deposits	976 335	330 443	917 091	313 680
Counterparties assessed by reference to historical information about counterparty default rates				
- Finance lease receivables	153 905	165 319	-	-

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	13%
Incremental housing loans	16%
Home ownership	6%
Private rental housing	27%
Social rental housing	27%
Affordable housing	9%
Subsidy housing	2%

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 | continued

30. Financial risk management | continued

	Strategy	Group 2019 Fixed rate R '000	Group 2019 Prime linked rate R '000	Group 2018 Fixed rate R '000	Group 2018 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	606 879	2 270 203	426 129	1 659 245
Finance lease receivables average interest rate of 10,50% p.a.	1	153 905	-	165 319	-
Held-to-maturity investment rates vary between 7,09% and 8,90% p.a.	2	-	488 445	-	534 032
Cash and short-term deposits rates vary between 6,00% and 7,94% p.a.	2	-	976 335	-	330 443
Liabilities					
Funds under management vary between 6,00% to 7,65%	-	-	38 898	-	52 672
AFD loan - the rate is fixed at 6,078%	-	96 572	-	112 667	-
EIB loan - the rate varies between 7,43% and 7.72%	-	-	118 839	-	135 813
DBSA loan - the rate varies between 7,43% and 7,72%	-	123 104	-	-	-
PIC loan - the rate is at prime	-	-	69 975	-	-
Other financial liabilities - the rate is fixed at 7,09% and 884%	-	-	-	875	-

	Strategy	Company 2019 Fixed rate R '000	Company 2019 Linked rate R '000	Company 2018 Fixed rate R '000	Company 2018 Linked rate R '000
Assets					
Loan and receivables – advances rates vary between 5,00% and 14,00% p.a.	1	606 879	2 322 226	426 129	1 783 378
Held-to-maturity investments rates vary between 7,09% and 8,90% p.a.	2	-	488 445	-	534 032
Cash and short-term deposits rates vary between 6,00% and 7,94% p.a.	2	-	917 091	-	313 680
Liabilities					
Funds under management vary from 6,00% to 7,65%	-	-	38 898	-	52 672
AFD loan – the rate is fixed at 6,078%	-	96 572	-	112 667	-
EIB loan– the rate varies between 7,43% and 7,53%	-	-	118 839	-	135 813
DBSA loan -the rate varies between 7,43% and 7,72%	-	123 104	-	-	-

Interest rate risk management strategy is as follows:

1. Clients who access variable interest rate facilities are subject to interest rates that reset on a change in prime interest rate or on a quarterly basis in accordance with various market indices. The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.
2. Investments are aligned to the cash flow requirements and strategy of the core business. The portfolio is diversified utilising a mix of fixed and floating rate instruments within the policy framework and is continually monitored to adapt to changing dynamics.

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

Interest rate sensitivity

The impact of 1% move in interest rates, which is deemed reasonable based on the interest rate forecasts, with all other variables held constant is reflected below.

		Group		Company	
	Increase/ decrease %	Effect on profit 2019 R '000	Effect on profit 2018 R '000	Effect on profit 2019 R '000	Effect on profit 2018 R '000
Loans and receivables – advances	1	22 702	16 592	23 222	17 834
	(1)	(22 702)	(16 592)	(23 222)	(17 834)
Held-to-maturity investments	1	4 884	5 340	4 884	5 340
	(1)	(4 884)	(5 340)	(4 884)	(5 340)
Cash and short-term deposits	1	9 763	3 304	9 171	3 137
	(1)	(9 763)	(3 304)	(9 171)	(3 137)
Other financial liabilities	1	(3 119)	(1 358)	(2 420)	(1 358)
	(1)	3 119	1 358	2 420	1 358

The Group earns interest as follows:

Interest on advances	242 357	181 786	223 981	172 954
Interest on investment	77 008	70 325	76 295	69 700
	319 365	**252 111**	**300 276**	**242 654**

The Group's interest obligations are as follows:

Interest on other financial liabilities	23 581	18 532	20 032	18 532

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.

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 March based on contractual undiscounted payments.

	Less than 3 months R '000	3 to 12 months R '000	>1 year R '000	Total R '000
As at 31 March 2019				
Trade and other payables	21 171	-	-	21 171
Funds under management	-	-	49 382	49 382
Long term payables	-	-	10 850	10 850
Other financial liabilities	-	38 245	370 746	408 991
	21 171	**38 245**	**430 978**	**490 394**
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**

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	408 991	248 980
Total equity	4 315 082	3 086 316
Group Debt to equity ratio	9 %	8%

Notes to the Annual Financial Statements | continued

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
Outlook	Stable

The above ratings were affirmed in this financial year and were also placed on ratings watch due to the merger.

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
2019				
Unlisted equity investments	-	167 194	-	167 194
2018				
Unlisted equity investments	-	141 290	-	141 290

	Company			
	Level 1 R '000	Level 2 R '000	Level 3 R '000	Total R '000
2019				
Unlisted equity investments	-	132 117	-	132 117
2018				
Unlisted equity investments	-	121 504	-	121 504

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

Financial assets by category

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

	Fair value through profit and loss R '000	Loans and receivables R '000	Held to maturity investments R '000	Total R '000
Group 2019				
Investment in unlisted equity investments	167 194	-	-	167 194
Loans and receivables – advances	-	2 877 082	-	2 877 082
Finance lease receivables	-	-	153 905	153 905
Held-to-maturity investments	-	-	488 445	488 445
Cash and short-term deposits	-	976 335	-	976 335
Other receivables	-	22 268	-	22 268
Investment in preference shares	-	-	35 000	35 000
	167 194	**3 875 685**	**677 350**	**4 720 229**
Group 2018				
Investment in unlisted equity investments	141 290	-	-	141 290
Loans and receivables – advances	-	2 085 374	-	2 085 374
Finance lease receivables	-	-	165 319	165 319
Held-to-maturity investments	-	-	534 032	534 032
Cash and short-term deposits	-	330 443	-	330 443
Other receivables	-	16 119	-	16 119
Investment in preference shares	-	-	35 000	35 000
	141 290	**2 431 936**	**734 351**	**3 307 577**

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

	Fair value through profit and loss R '000	Loans and receivables R '000	Held to maturity investments R '000	Total R '000
Company 2019				
Investment in unlisted equity investments	132 117	-	-	132 117
Loans and receivables – advances	-	2 929 105	-	2 929 105
Held-to-maturity investments	-	-	488 445	488 445
Cash and short-term deposits	-	917 091	-	917 091
Other receivables	-	22 809	-	22 809
Investment in preference shares	-	-	35 000	35 000
	132 117	**3 869 005**	**523 445**	**4 524 567**
Company 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	-	23 449	-	23 449
Investment in preference shares	-	-	35 000	35 000
	121 504	**2 546 636**	**569 032**	**3 237 172**

Financial liabilities by category

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

	Financial liabilities at amortised cost R '000
Group 2019	
Other financial liabilities	408 991
Trade and other payables	21 171
Funds under management	49 382
	479 544
Group 2018	
Other financial liabilities	248 980
Trade and other payables	4 305
Funds under management	52 672
	305 957

Notes to the Annual Financial Statements | continued

30. Financial risk management | continued

	Financial liabilities at amortised cost R '000
Company 2019	
Other financial liabilities	338 515
Trade and other payables	14 684
Funds under management	38 898
	392 097

Company 2018	
Other financial liabilities	248 480
Trade and other payables	5 001
Funds under management	52 672
	306 153

Equity Risk

Equity risk is defined as the risk of loss arising from the decline in the value of an equity or quasi-equity type instrument held by the NHFC, whether caused by deterioration in the underlying operating asset performance, net asset value (NAV), its enterprise value or decline in the market price of the equity or instrument itself.

As the NHFC typically invests in early stage start-up business and other unlisted investments the primary risk identified is the liquidity risk. This is the inability to redeem an investment within a reasonable time frame. This may exist due to private equity investors being "locked-in" for a period of five to ten years in a private equity vehicle or a lack of an active trading market for the underlying investment (by its very nature of being unlisted).

Another risk of equity investments is capital risk which is closely linked to market risk. Capital risk is the risk of realising a loss of the original capital invested in equity at the point of exit or selling the investment. Market risk in private equity encompasses many risks such as commodity risks, foreign exchange, and broad equity market risk (with the listed stock market being a proxy for the valutation in the unlisted market). The other risks affecting equity investments includes operational risk, which can include tax, legal, environmental, human resource, information technology, and fraud risks.

Notes to the Annual Financial Statements | continued

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	2019 % equity interest	2018 % 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
TUHF Holdings (Proprietary) Limited	RSA	33	33
Housing Investment Partners (Proprietary) Limited	RSA	33	33
Mortgage Default Insurance Company (Proprietary) Limited	RSA	100	-
NURCHA Management Services (Proprietary) Limited	RSA	100	-
NURCHA Finance Company (Proprietary) Limited	RSA	100	-
NURCHA Equity Services (Proprietary) Limited	RSA	100	-
NURCHA Development Finance (Proprietary) Limited	RSA	100	-
NURCHA Bridging Finance (Proprietary) Limited	RSA	100	-
NURCHA Loan Fund (Proprietary) Limited	RSA	100	-
Lendcor (Proprietary) Limited	RSA	20	-
Norufin Housing (Proprietary) Limited	RSA	20	-
Kabo Financial Investments Ltd	RSA	20	-
Lehae Housing (Pty) Ltd	RSA	20	-

Notes to the Annual Financial Statements | continued

31. Related parties | continued

The following table provides the total amounts of transactions and outstanding balances which have been entered into with related parties for the relevant financial years:

	Group		Company	
	Amounts owed by/ to related parties 2019 R '000	Transactions with related parties 2019 R '000	Amounts owed by/ to related parties 2018 R '000	Transactions with related parties 2018 R '000
Cape Town Community Housing Company ((Pty) Ltd				
- Advances	227 472	-	-	220 797
- Interest received	-	21 007	-	3 483
Housing Investment Partners (Pty) Ltd				
- Working capital loan	33 165	-	33 165	-
- Disbursements	-	-	-	4 620
Housing Investment Partners Trust 1				
- Advances	4 019	-	7 703	-
Housing Investment Partners Trust 2				
- Disbursements	-	22 206	-	42 198
- Advances	208 993	-	192 274	-
TUHF Holdings (Pty) Ltd				
- Conversion to C Class ordinary shares	6 533	-	6 533	-
- Disbursement	-	100 521	-	100 000
- Interest received	-	38 366	-	21 699
- Dividend income	-	2 535	-	8 348
- Advances	403 276	-	327 138	-
- Equity investment	121 504	-	121 504	-
NURCHA Management Services (Pty) Ltd				
Loan repayments	-	235	-	-
Interest received	-	9	-	-
Administrative fees	-	3 815	-	-
Loans	26 146	-	-	-
NURCHA Finance Company (Pty) Ltd				
Loan repayments	-	144	-	-
Administrative fees	-	10	-	-
Loan disbursements	13 425	-	-	-
NURCHA Equity Services (Pty) Ltd				
Loan repayments	-	29	-	-
Administrative fees	-	10	-	-
Loans	12 956	-	-	-
NURCHA Development Finance (Pty) Ltd				
Interest received	-	519	-	-
Administrative fees	-	25	-	-
Loans	18 852	-	-	-

Notes to the Annual Financial Statements | continued

31. Related parties | continued

	Group		Company	
	Amounts owed by/ to related parties 2019 R '000	Transactions with related parties 2019 R '000	Amounts owed by/ to related parties 2018 R '000	Transactions with related parties 2018 R '000
NURCHA Bridging Finance (Pty) Ltd				
Interest received	-	188	-	-
Administrative fees	-	1 057	-	-
Loan disbursements	-	6 500	-	-
Loans	19 471	-	-	-
NURCHA Loan Fund (Pty) Ltd				
Loan repayments	-	170	-	-
Interest received	-	1 627	-	-
Administrative fees	-	2 010	-	-
Loans	68 461	-	-	-
Lendcor (Pty) Ltd				
Loans	7 289	-	-	-
Norufin Housing (Pty) Ltd	-	-	-	-
Loans	5 288	-	-	-

Terms and conditions with related parties

Transactions with related parties are done on terms equivalent to those that prevail in arm's length transactions which would occur in the ordinary course of business.

Except for advances, accounts receivable are interest free and settlement occurs in cash within 30 days. There have been no guarantees provided or received for any related receivables.

Although the NHFC has a relationship with our sole shareholder, the Department of Human Settlements, and acts as agent in certain instances, due to IPSAS 20 the NHFC need not disclose balances or the value of transactions between the parties.

Transactions with key management personnel are disclosed under note 32.

Notes to the Annual Financial Statements | continued

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	Committees Fees	Total 2019	Total 2018
Non-executive Chairman							
Prof.MKatz[1]	-	-	-	-	-	-	-
Directors - independent non-executives							
Mr J Coetzee[2]	580	-	-	-	151	731	658
Ms AW Houston[3]	187	-	-	-	-	187	216
Mr SS Ntsaluba	527	-	-	-	-	527	495
Ms PV Ramarumo	522	-	-	-	-	522	449
Mr SA Tati[4]	677	-	-	-	-	677	542
Ms T Chiliza	555	-	-	-	-	555	453
Mr K Shubane	586	-	-	-	-	586	473
Mr E Godongwana	306	-	-	-	-	306	286
Mr A Harris	394	-	-	-	-	394	303
Directors' fees	**4 334**	**-**	**-**	**-**	**151**	**4 485**	**3 875**
Chief Executive Officer and executive director							
Mr SS Moraba[6]	-	4 577	4 067	430	-	9 074	8 855
Executive managers / and Prescribed officers							
Z Lupondwana	-	1 572	1 014	224	-	2 810	2 485
N Ntshingila	-	1 365	998	357	-	2 720	2 556
L Lehabe	-	1 995	1 305	351	-	3 651	3 546
S Mogane[5]	-	1 286	-	261	-	1 547	2 649
M Mamatela	-	1 724	1 130	231	-	3 085	2 910
Z Adams	-	-	-	-	-	-	1 998
A Higgs	-	1 418	912	138	-	2 468	2 403
J Fakazi[7]	-	1 078	761	250	-	2 089	-
B Gordon[7]	-	786	564	131	-	1 481	-
V Gqwetha[7]	-	1 126	787	282	-	2 195	-
S Nxusani[7]	-	955	584	237	-	1 776	-
Management costs	**-**	**17 882**	**12 122**	**2 892**	**-**	**32 896**	**27 402**

1 Prof Katz has waived his right to fees, Prof Katz resigned as chairperson on 31 July 2018.
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 NPC.
4 Mr S Tati appointed Acting Board chairperson from 1 August 2018 to10 February 2019 and as a Board chairperson from 11 February 2019.
5 Mr S Mogane retired on 31 January 2019.
6 The CEO is the only director with a service contract with NHFC. The notice period does not exceed one year.
7 Remuneration since merger effective date 01 October 2018.

Notes to the Annual Financial Statements | continued

32. Directors'and prescribed officers' / executive managers'emoluments | continued

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

	Fees*	Salaries	Bonuses	Post-employment pension and medical benefits	Committees Fees	Total 2019	Total 2018
Chairman							
Mr SS Moraba	-	-	-	-	-	-	-
Directors - Non-executives							
Dr N Ntshingila	-	-	-	-	-	-	-
Directors' fees	-	-	-	-	-	-	-
Key members of management							
PJ ones	-	1551	-	90	-	1 641	1 423
W Jurgens		2 695	-	164	-	2 859	1 635
F Moos	-	664	-	42	-	706	678
Management costs	**-**	**4 910**	**-**	**296**	**-**	**5 206**	**3 736**

Mr SS Moraba and Dr N Ntshingila are executives of the holding company and currently serve on the subsidiary's board. However they receive no remuneration as board members.

* No remuneration was paid for services as director for the 2019 and 2018 financial year

33. Events after the statement of financial position date

Subsequent to year end, the European Investment Bank "EIB" asset quality financial covenant has been revised, the NHFC is in compliance with the amended thresholds.

Notes to the Annual Financial Statements | continued

	Group		Company	
	2019 R '000	2018 R '000	2019 R '000	2018 R '000
34. Irregular expenditure				
Irregular expenditure incurred in previous financial years (R'000)	2 950	2 950	2 950	2 950
Irregular expenditure incurred in the current financial year (R'000)	2 437	-	2 437	-
Closing balance	**5 387**	**2 950**	**5 387**	**2 950**

During the current year, an existing contract for debt collection was found to have been awarded without a tender.In addition ,an existing contract for a property management was renewed without undergoing a tender process.The investigations are being conducted by the internal auditors.

In the prior 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. Instead a focus on enhancing the internal controls was initiated.

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

35. Restatement of prior year

Instalment sale receivables and inventory reclassified to finance lease receivables

On 28 November 2018 the Constitutional Court delivered a judgement in the case between CTCHC and 12 Woodridge clients in which the cancellation of Instalment Agreements was set aside due to processes in terms of Alienation of land Act and the National Credit Act were not adequately adhered to by CTCHC when issuing the cancellation letters. Repossessed instalment sale purchase properties have historically been reflected as inventory, with around 10% of the inventory reclassified to investment properties which has over the year required revaluation adjustments as prescribed by GRAP, this treatment has been consistently accepted by the company's External Auditors. The Constitutional court ruling has effectively reinstated the Instalment Purchase Agreements on the repossessed properties that were historically classified as inventory and Investment Property. Upon review, the AGSA found that the historical treatment does not meet the requirements of GRAP 12 [Inventory accounting standard] on the inventories asset class and the requirements of GRAP 16 on the investment property asset class. Given the incorrect application of the two accounting standards, the CTCHC company financial statements need to be restated with the two asset classes now being classified as Finance Lease Receivables.

Correctly classifying these assets has implications on previously reported results. These have now been adjusted in the 31 March 2019 Annual Financial Statements, with the 31 march 2018 comparatives in the Statement of Financial Position and the relevant notes reflecting the corrected amounts. The change in the accounting treatment has changed the Net asset base and Equity by R35.1 million with R29.1 million increased in Assessed Losses. Total reclassification from investment property of R36.2m and from Inventory R47.8 million.

Recognition of dividend income

An amount of R 5.8 million relating to dividend income from TUHF Holdings Ltd, an associate company, has been derecognised in the 31 March 2018 financial year and now recognised in the 31 March 2019 financial year in order to align to the declaration date as required by GRAP.

Notes to the Annual Financial Statements | continued

36. DFI Consolidation

The merger of the National Housing Finance Corporation (NHFC) with the National Urban Reconstruction and Housing Agency (NURCHA) and the Rural Housing Loan Fund (RHLF) took place on 1 October 2018. This was structured as a donation of the businesses of NURCHA and RHLF to the NHFC. This resulted in all assets, liabilities, employees and contracts of these two entities becoming those of NHFC from 1 October 2018. NHFC, RHLF and NURCHA are, and always have been, under the common control of the National Department of Human Settlements. This did not change with the transaction.

Accounting Standards

GRAP 105 applies in the following circumstances:

- there is a function that is being acquired;
- an acquirer can clearly be identified; and
- the transaction is being undertaken by entities under common control.

All three entities are under the common control of the Department of Human Settlements (before and after the transaction).

The assets and liabilities have been recognised at their carrying value as required by GRAP 105. In that regard, the assets and liabilities were taken on at their carrying values with the net asset values (grant capital, other reserves and retained earnings) as reflected in the accounts of RHLF and NURCHA being reflected in the accounts of the NHFC.

The carrying value of the assets and liabilities of NURCHA (consolidated) and RHLF were audited at 30 September 2018 and the following values confirmed for take on by the NHFC:

Notes to the Annual Financial Statements | continued

	Group			Company		
	RHLF NPC	NURCHA NPC	Total	RHLF NPC	NURCHA NPC	Total
	R'000			R'000		
Statement of financial position						
Current assets	370 316	525 284	895 600	370 316	417 914	788 230
Loans for construction projects	-	270 548	270 548	-	175 411	175 411
Cash and cash equivalents	232 524	252 593	485 117	232 524	242 386	474 910
Short term portion of intermediary loans	136 828	-	136 828	136 828	-	136 828
Receivables	2	2 143	2 145	2	117	119
Prepayments	962	-	962	962	-	962
Non current assets	**296 530**	**66 741**	**363 271**	**296 530**	**97 632**	**394 162**
Long term portion of intermediary loans	282 307	-	282 307	282 307	-	282 307
Intercompany loans	-	-	-	-	78 055	-
Loans for construction projects	-	65 062	65 062	-	17 898	17 898
Investments in associates	9 953	-	9 953	9 953	-	9 953
Unlisted investments	3 836	-	3 836	3 836	-	3 836
Property, plant and equipment	394	1 581	1 975	394	1 581	1 975
Intangible assets	40	98	138	40	98	138
Total assets	**666 846**	**592 025**	**1 258 871**	**666 846**	**515 546**	**1 182 392**
Liabilities						
Current liabilities	**12 128**	**17 345**	**29 473**	**12 128**	**7 281**	**19 409**
Trade creditors	1 177	12 186	13 363	1 177	2 432	3 609
Current portion of long term borrowings	5 915	-	5 915	5 915	-	5 915
Provisions	4 627	5 159	9 786	4 627	4 849	9 476
Taxation	409	-	409	409	-	409
Non current liabilities	**120 596**	**69 976**	**190 572**	**120 596**	**-**	**120 596**
Borrowings	120 596	69 976	190 572	120 596	-	120 596
Total liabilities	**132 724**	**87 321**	**220 045**	**132 724**	**7 281**	**140 005**
Net assets	**534 122**	**504 704**	**1 038 825**	**534 122**	**508 266**	**1 042 387**
Represented by						
Grant capital	180 975	399 300	580 275	180 975	399 300	580 275
Other reserves	-	199 284	199 284	-	199 284	199 284
Kfw grant	154 763	-	154 763	154 763	-	154 763
Retained earnings	198 384	(93 880)	104 504	198 384	(90 318)	108 066
Total equity	**534 122**	**504 704**	**1 038 825**	**534 122**	**508 266**	**1 042 387**

Notes to the Annual Financial Statements | continued

Impact on borrowings

The letter of approval of the transfer of the long term borrowings of NURCHA and RHLF from the Minister of Finance, specified the following debt limits on the NHFC, which, in essence, is a requirement to wind down the combined debt levels. These borrowing limits are set out below: 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.

Interest bearing debt limits (including those that were raised by the NHFC itself):

- R450 million for the period ending 31 March 2019;
- R350 million for the period ending 31 March 2020; and
- R331 million for the period ending 31 March 2021.

The following Statement of comprehensive income for depicts revenue and expenditure attributable to transferred functions subsequent to 1 October 2018 [effective date]

		Group			Company		
		RHLF	NURCHA	Total	RHLF	NURCHA	Total
	Notes	Period 01 October 2018 - 31 March 2019			Period 01 October 2018 - 31 March 2019		
		R'000			R'000		
Interest on advances	1	23 006	26 404	49 410	23 006	16 900	39 906
Interest on investments	1	8 033	8 776	16 809	8 033	8 776	16 809
Rental income	1	-	-	-	-	-	-
Dividends received	1	-	-	-	-	-	-
Sale of houses	1	-	-	-	-	-	-
Fees Received	1	-	3 153	3 153	-	9 369	9 369
Revenue		**31 039**	**38 333**	**69 372**	**3 039**	**35 045**	**66 084**
Cost of sales	2	-	-	-	-	-	-
Net Impairments	4	(18 460)	(4 481)	(22 94)	(18 460)	(24 505)	(42 965)
Bad debts	4	-	-	-	-	-	-
Gross surplus		**12 580**	**33 852**	**46 432**	**12 580**	**10 540**	23 120
Other operating income	3	77	2 125	2 202	77	2 941	3 018
Administrative expenses	4	(9 186)	(26 798)	(35 984)	(9 186)	(26 594)	(35 780)
Other operating expenses	3	(1 675)	(2 574)	(4 249)	(1 675)	(1 643)	(3 318)
Operating income	**4**	**1 795**	**6 605**	**8 400**	**1 795**	**(14 756)**	**(12 961)**
Fair value adjustment	4	(8 034)	27	(8 007)	(8 034)	27	(8 007)
Finance cost	5	(4 602)	(3 548)	(8 150)	(4 602)	-	(4 602)
Share of profit of an associate		(366)	-	(366)	-	-	-
Surplus for the year		**(11 207)**	**3 084**	**(8 123**	**(10 841)**	**(14 729)**	**(25 570)**

Statement of Comparison of Budget and Actual Amounts

	Approved budget R '000	Adjustments R '000	Final Budget R '000	Actual amounts on comparable basis R '000	Difference betweenfinal budget and actual R '000	Reference
Group Statement of Financial Performance						
Revenue						
Sale of goods	2 657	-	**2 657**	3 381	**724**	Note 1
Interest on advances	231 209	-	**231 209**	242 357	**11 148**	Note 1
Fees	6 810	-	**6 810**	3 153	**(3 657)**	Note 1
Interest on investments	75 000	-	**75 000**	77 008	**2 008**	Note 1
Dividends received	1 257	-	**1 257**	8 350	**7 093**	Note 1
Rental income	11 196	-	**11 196**	15 860	**4 664**	Note 1
Other income	27 189	-	**27 189**	16 315	**(10 874)**	Note 3
Total revenue	**355 318**	-	**355 318**	**366 424**	**11 106**	
Expenditure						
Impairments and bad debts	(128 000)	-	**(128 000)**	(83 469)	**44 531**	Note 4
Cost of sales	(2 446)	-	**(2 446)**	(3 014)	**(568)**	Note 2
Operating expenses	(174 288)	-	**(174 288)**	(161 387)	**12 901**	Note 4
Total expenditure	**(304 734)**	-	**(304 734)**	**(247 870)**	**56 864**	
Operating surplus	**50 584**	-	**50 584**	118 554	**67 970**	
Finance costs	(23 499)	-	**(23 499)**	(23 581)	**(82)**	Note 4
Fair value adjustment	-	-	**-**	(27)	**(27)**	Note 4
Share of surpluses or deficits from associates	4 387	-	**4 387**	13 457	**9 070**	Note 4
Surplus for the year	**31 472**	-	**31 472**	**108 403**	**76 931**	

Statement of Comparison of Budget and Actual Amounts | continued

	Approved budget R '000	Adjustments R '000	Final Budget R '000	Actual amounts on comparable basis R '000	Difference betweenfinal budget and actual R '000	Reference
Company Statement of Financial Performance						
Revenue						
Interest on advances	231 209	-	**231 209**	223 981	**(7 228)**	Note 1
Interest on Investments	75 000	-	**75 000**	76 295	**1 295**	Note 1
Fees	-	-	**-**	9 369	**9 369**	Note 1
Dividends received	1 257	-	**1 257**	8 350	**7 093**	Note 1
Rental income	11 196	-	**11 196**	14 007	**2 811**	Note 1
Other income	5 621	-	**5 621**	12 611	**6 990**	Note 3
Total revenue	**331 092**	-	**331 092**	**344 613**	**20 330**	
Expenditure						
Impairments and bad debts	(128 000)	-	**(128 000)**	(103 493)	**24 507**	Note 4
Operating expenses	(163 824)	-	**(163 824)**	(144 875)	**18 949**	Note 4
Total expenditure	**(291 824)**	-	**(291 824)**	**(248 368)**	**43 456**	
Finance costs	(23 499)	-	**(23 499)**	(20 032)	**3 467**	Note 4
Fair value adjustment	-	-	**-**	(4 655)	**(4 655)**	Note 4
Surplus for the year	**15 769**	-	**15 769**	**71 558**	**55 787**	

Statement of Comparison of Budget and Actual Amounts

The results group financial performance includes the following subsidiaries:

- Cape Town Community Housing Company (Proprietary) Limited (CTCHC),
- Mortgage Default Insurance Company (Proprietary) Limited (MDIC),
- Gateway Homeloans (Proprietary) Limited,
- Gateway Homeloans 001 (Proprietary) Limited,
- NURCHA Loan Fund (Proprietary) Limited (NLF),
- NURCHA Finance Company (Proprietary) Limited,
- NURCHA Equity Services (Proprietary) Limited,
- NURCHA Development Finance (Proprietary) Limited,
- NURCHA Management Services (Proprietary) Limited, and
- NURCHA Bridging Finance (Proprietary) Limited

Most of the above listed subsidiaries are dormant and thus have no material impact of the financial statements below.

The effective date of the merger of the three Department of Human Settlements development finance institutions was 1 October 2018.The results and budget include six months performance resulting from the businesses, assets and liabilities of the National Urban and Reconstruction Agency NPC (NURCHA) and the Rural Housing Loan Fund NPC (RHLF) acquired as a consequence of the merger.

In addition the financial statements have included the results of associate companies being Trust for Urban Housing Finance Holdings (Proprietary) Limited (TUHF), Housing Investment Partners (Proprietary) Limited (HIP) and Lendcor (Proprietary) Limited.

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

The Group and Company financial performance of the NHFC was impacted by the following:

Interest on advances fairly in line with the budget at group and company mainly due to strong disbursements in the private rental book.

- Operational expenses reflected savings with expenses of R161.4 million against a budget of R174.3 million at group level and R144.9 million against budget of R163.8 million at company level. It should be noted that the actual performance figures include the ("grossed up") income and expenses relating to an investment property.
- Lower than budgeted impairments and write offs (at R83.5 million compared to a budget of R128.0 million at group level and R103.5 million compared to budget of R128.0 million at group level).
    - After a significant spike to R188 million (2015/16), impairments have stabilised, with R61.7 incurred in the (2017/18) financial year and R58.6 million in the (2016/17) financial year.
- Cape Town Community Housing Company (Pty) Ltd, is largely a property developer, which affects the financial statements above through the sale of houses, associated cost of sales as well as interest earned on instalment sale agreements (which are included interest on advances).
    - All development activities have been curtailed, with the operations aligned to the long term sustainability requirements of the business.
    - The sales of housing units reflected above relates to residual sales from projects completed in the prior years contributing a net margin of R0.4 million in the 31 March 2019 financial year.

Statement of Comparison of Budget and Actual Amounts

- While the NHFC group achieved a pleasing surplus, the future performance will be driven by a diversified portfolio consisting of long term, medium term and long term products. The merger has geared the company for growth while enabling a better spread of risk among products of varying terms and risk profiles.
- On the revenue side, more volatility is expected in the medium as the some of the strategic investments enter second generation of growth.
- A concerning feature encountered in the second half of the year has been the poor performance of virtually the entire debtors book related to social housing lending. Action is being taken to resolve this.

Annual Performance Report

PROGRAMME #1: Expand housing finance activities through effective provision of housing finance opportunities						
STRATEGIC OUTCOME: Expand housing finance activities through effective provision of housing finance opportunities						
Performance indicator	Actual Achievement 2017/18	Planned Target 2018/19	Actual Achievement 2018/19	Variance		Comment on deviation
Number of housing opportunities facilitated through disbursements					%	
Number of Social Affordable Housing Units	2 242	1 630	289	(1 341)	-82,3%	Target not met. Delays in construction and municipal approvals has impacted completion of construction of certain approved developments which would have yielded substantial housing opportunities.
Number of Private Rental Housing Units	579	826	275	(551)	-66,7%	
Total Rental	2 821	2 456	564	(1 892)	-77,0%	
Number of Affordable Housing Units: NHFC	230	205	44	(161)	-78,5%	Target not achieved due to low disbursements to International Housing Solutions and Housing Investment Partners (clients). For IHS, impact is recognised on delivery.
Bridging Finance: Affordable Housing	NA	780	394	(386)	-49,5%	Target not met. Fewer units delivered are a direct outcome of low approvals & disbursements reflective of low business confidence and a weak economy.
Bridging Finance: Subsidy Housing	NA	5 072	940	(4 132)	-81,5%	Target not met. Inability to obtain all backup information to account for units delivered.
Infrastructure & Community Facilities	NA	2	-	(2)	-100,0%	Target not met, Strategic change in business focus due to losses incurred previously on this product.
Incremental Housing Loans: RHLF	NA	20 932	14 698	(6 234)	-29,8%	Target not met due to tough market conditions and facilities approved late in the year to be disbursed and on-lent during the year.
Total	**3 051**	**29 447**	**16 640**	**(12 807)**	**-43,5%**	

Annual Performance Report | continued

PROGRAMME #1: Expand housing finance activities through effective provision of housing finance opportunities						
STRATEGIC OUTCOME: Expand housing finance activities through effective provision of housing finance opportunities						
Performance Indicator Value of Disbursements (R'm)	Actual Achievement 2017/18	Planned Target 2018/19	Actual Achievement 2018/19	Variance		Comment on deviation
					%	
Social Affordable Housing: NHFC	110	127	77	(50)	-39,4%	Target not met. Certain approved developments did not break ground in this financial year due to delays in obtaining municipal approvals and construction delays.
Private Rental Housing: NHFC	152	198	188	(10)	-5,1%	
Total Rental Housing	**262**	**325**	**265**	**(60)**	**-18,5%**	
Affordable Housing: NHFC	120	102	98	(4)	-3,9%	96% of target met, as the 4% shortfall is as a result of IHS not drawing funds as expected.
Bridging Finance: Affordable Housing	NA	240	42	(198)	-82,6%	Target not met due to weak deal flow reflective of the weak state of the economy.
Bridging Finance: Subsidy Housing	NA	98	102	4	4,3%	Target exceeded by R4 Million as clients drew more from bridging loans as projects were performing better than expected.
Infrastructure & Community Facilities	NA	4	-	(4)	-100,0%	Target not met, strategic change in business focus due to losees incurred prviously on this product.
Incremental Loans (inc moratoria): RHLF	NA	80	63	(17)	-21,3%	Target not met due to slow drawdowns reflective of the weak state of the economy.
Total	**382**	**849**	**570**	**(279)**	**-32,9%**	

Annual Performance Report | continued

PROGRAMME #1: Expand housing finance activities through effective provision of housing finance opportunities						
STRATEGIC OUTCOME: Expand housing finance activities through effective provision of housing finance opportunities						
Performance Indicator Value of approvals (R'm)	**Actual Achievement 2017/18**	**Planned Target 2018/19**	**Actual Achievement 2018/19**	**Variance**		**Comment on deviation**
Social Affordable Housing: NHFC***	82	90	232	142	157,8%	Target exceeded by R142m as total approvals for the year comprised of a growing SHI pipeline which was not anticipated, and therefore yielded approvals for projects such as Povicon (R11m), Golden West (R66 Million), DCI (R99m), as well as USR (R54m)
Private Rental Housing: NHFC	311	135	33	-102	-75,6%	Target not met. Slowing growth in the residential rental market with supply of rental units exceeding demand
Total Rental Housing	**393**	**225**	**265**	**40**	**17,8%**	
Affordable Housing: NHFC***	5	-	-	-	-	
Bridging Finance: Affordable Housing: NURCHA	NA	240	96	(145)	-60,2%	Target not met due to weak deal flow reflective of the weak state of the economy.
Bridging Finance: Subsidy Housing: NURCHA	NA	98	76	(22)	-22,4%	Target not met due to difficulties securing new business in other provinces other than the Eastern Cape to mitigate against concentarion risk.
Infrastructure & Community Facilities: NURCHA	NA	4	2	(2)	-50,0%	Target not met, Strategic change in business focus due to losses incurred previously on this product.
Incremental Loans: RHLF	NA	80	135	55	68,8%	Target exceeded by R55m. Target value of facilities approval for the six months to year-end after merger of RHLF with NHFC was exceeded as facilities for Umuzi (R75 million, IBuild (R50 million) and Vecto (R10 million) were all approved in the period. Umuzi application was in the pipeline for some time in the second half of the financial year and was approved in quarter 4 of the year. IBuild application was received sooner than expected as client had piloted micro-mortgage product in Cape Town and applied for additional facility to enable expansion in both Cape Town and other provinces. Vecto, a new client, applied for R10 million facility to start lending to the market. Note: Before the merger, RHLF did not have this indicator in its Annual Performance Plan."
Total	**398**	**647**	**574**	**(74)**	**-11,4%**	

NA: Not a product of NHFC in the prior year

Annual Performance Report | continued

PROGRAMME #2: Facilitate the increased and sustained lending by financial institutions						
STRATEGIC OUTCOME: Facilitate the increased and sustained lending by financial institutions						
Performance indicator	Actual Achievement 2017/18	Planned Target 2018/19	Actual Achievement 2018/19	Variance		Comment on deviation
Number of housing opportunities facilitated through leveraged funds					%	
Number of Private Rental Housing Units	2 629	3 154	1 237	(1 917)	-60,8%	Target no met. Fewer greenfield projects delivering new units.
Number of Affordable Housing Units	669	819	1 546	727	88,8%	Target exceeded by 727 units as more units were delivered by 'IHS and HIP than was anticipated.
Number of Incremental Housing Loans: NHFC	22 468	NA	-			
Bridging Finance: Affordable Housing#	NA	NA	-			
Bridging Finance: Subsidy Housing#	NA	NA	-			
Infrastructure & Community Facilities#	NA	NA	-			
Incremental housing: RHLF#	NA	NA	-			
Total	**25 766**	**3 973**	**2 783**	**(1 190)**	**-30,0%**	

Annual Performance Report | continued

PROGRAMME #2: Facilitate the increased and sustained lending by financial institutions						
STRATEGIC OUTCOME: Facilitate the increased and sustained lending by financial institutions						
Performance Indicator Value of leveraged funds from the private sector (R'M)	Actual Achievement 2017/18	Planned Target 2018/19	Actual Achievement 2018/19	Variance		Comment on deviation
					%	
Rental Housing	514	372	796	424	114,0%	Target exceeded by R424 m in the main due to TUHF's ability to raise more funding than was anticipated.
Affordable Housing	1 206	410	89	(321)	-78,3%	Target not met due to delays in projects being rolled out by IHS resulting in low capital calls from investors.
Incremental Housing: NHFC	456	NA	-			
Bridging Finance: Affordable Housing	NA	240	118	(122)	-50,8%	Target not met due to weak deal flow.
Incremental housing: RHLF	NA	NA	-			
Value of total leveraged	**2 176**	**1 022**	**1 003**	**(19)**	**-1,9%**	

OTHER DEVELOPMENT IMPACT						
STRATEGIC OUTCOME: Conduct business activities of the NHFC in an ethical manner to ensure continued sustainability of the NHFC						
Performance Indicator	Actual Achievement 2017/18	Planned Target 2018/19	Actual Achievement 2018/19	Variance		Comment on deviation
					%	
Value of disbursements targeted towards women, youth & emerging BEE entrepreneurs (R'M)	329	269	446	177	65,8%	Target exceeded by R177 Million due to the high number of disbursements by BEE clients such as Alley Roads.

Abbreviations and Acronyms

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

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