NURCHA

CONSTRUCTION FINANCE AND PROGRAMME MANAGEMENT

An Agency of the National Department of Human Settlements

Annual Report 2019

Contents

Mission

NURCHA initiates programmes and takes considered risks to ensure a sustainable flow of finance for the construction of low-income and affordable housing, community facilities and infrastructure. NURCHA works in partnership with all roleplayers in these market to maximise the developments of sustainable Human Settlements.

Vision

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

Development Principles

In fulfilling its mission of releasing finance for housing and related infrastructure, NURCHA seeks to act in a manner that maximises the developmental impact of its work.

As we implement our programmes, we test them against our development principles, which are to:

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

Values

P **Prudent** use of resources entrusted to us.

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

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

D **Development** of individuals, communities and the country.

E **Excellence** in everything we do.

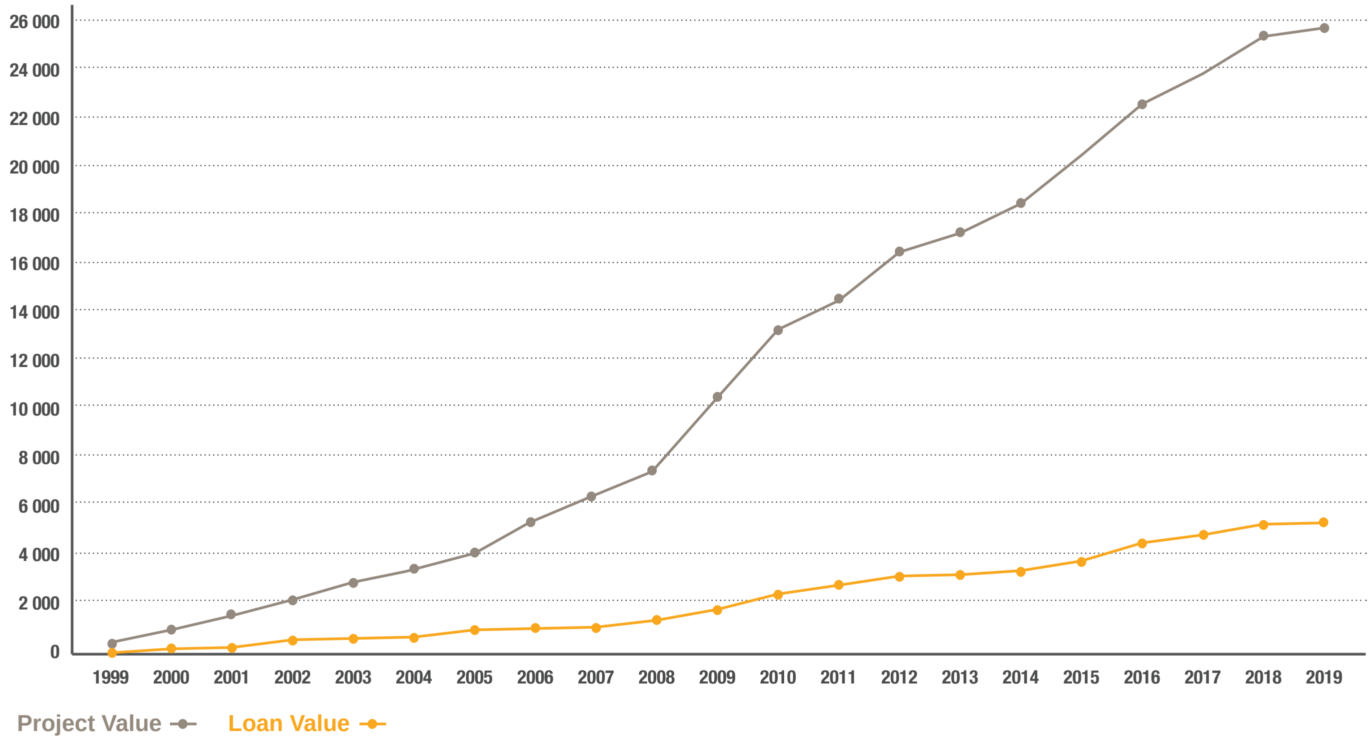
Affordable Housing Programme

Subsidy Housing Programme

Infrastructure and Community Facilities Programme

Programme and Fund Management

Project and Loan Value Timeline



Nurcha Outputs Since Inception to 30 September 2018

Programme	Subsidy Housing	Affordable Housing	Infrastructure Community Facilities	Total
Number of loans signed	1,047	232	293	1,572
Houses in loan signed	376,290	44,590	N/A	420,880
Houses/projects completed	267,486	37,118	189	304,793
Value of loans	1.719 billion	2.707 billion	677.7 million	5.104 billion
Value of projects	12.241 billion	9.500 billion	4.070 billion	25.811 billion

Organisational Structure

Department of Human Settlements (Members)

NURCHA (NPC)
PBO exemption
No. 18/11/13/1383

LEVERAGED FINANCE
• Capital Markets
• Development Institutions

NURCHA 100%-OWNED SUBSIDIARIES

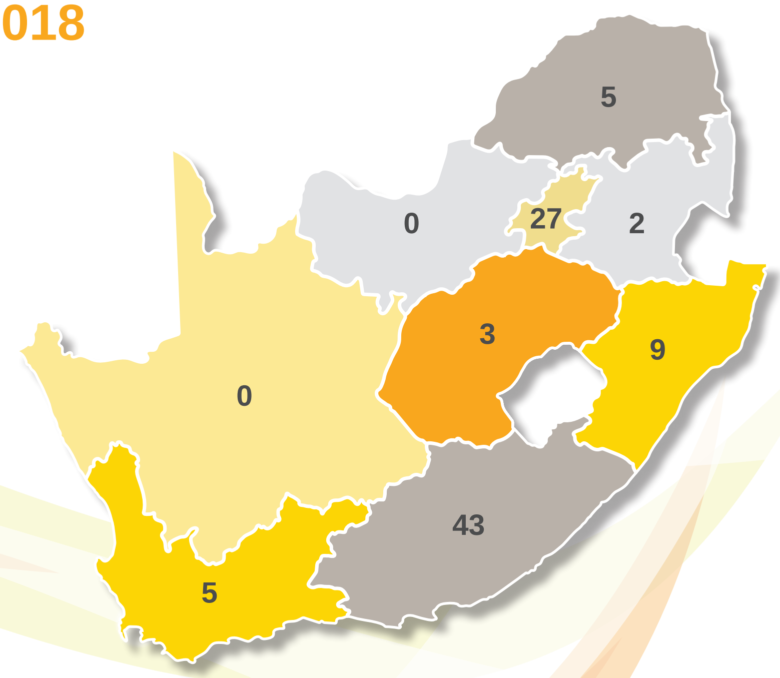
- NURCHA Loan Fund (Pty) Ltd (NLF) Affordable Housing Developer (PIC)
- NURCHA Bridging Fund (Pty) Ltd (NBF) Affordable Housing Developer (NURCHA)
- NURCHA Equity Services (Pty) Ltd (NES) Affordable Housing Developer (NURCHA)
- NURCHA Finance Company (Pty) Ltd (NFC) Subsidy Housing Contractors (NURCHA)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

NURCHA Direct Financing

* Previously Joint Equity Investment in Housing (JEIH)

Number of Active Projects by Province as at 30 September 2018

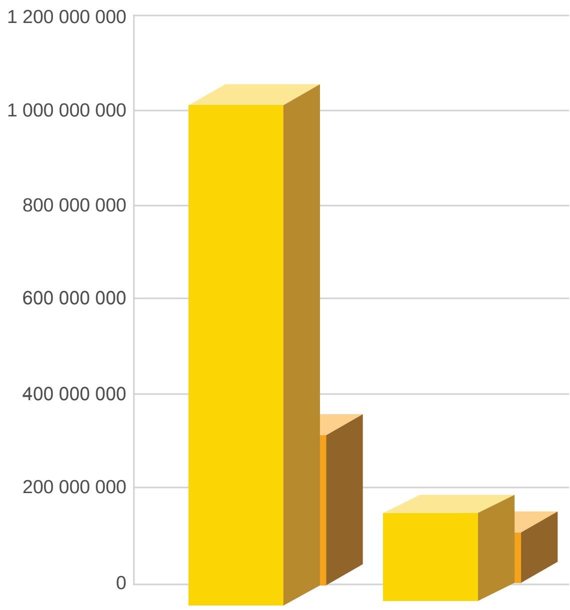
Province	Number
Eastern Cape	43
Freestate	3
Gauteng	27
KwaZulu Natal	9
Limpopo	5
Mpumalanga	2
Northen Cape	0
North West	0
Western Cape	5
Total	**94**



Facts and Figures

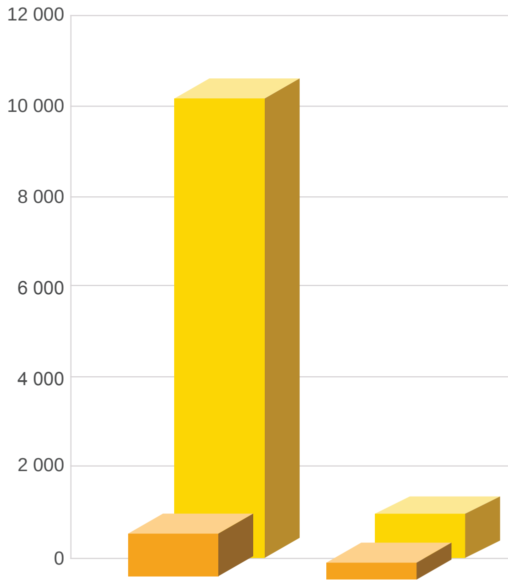
For the year ended 30 September 2018

Loan and Project Values (R' milllions)



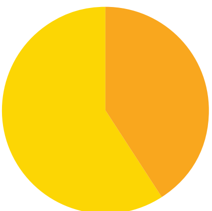
	Project Value	Loan Value
Budget	1,430,000,000	276,000,000
Actual	302,583,795	74,035,987

Number of Houses in Signed Contracts and Completed Houses



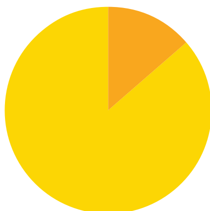
	Approved	Completed
Budget	11,060	5,633
Actual	1,792	1,182

Number of completed houses/sites



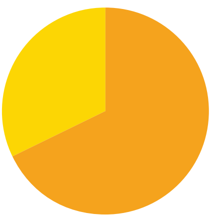
	Actual
Affordable Housing	484
Subsidy Housing	698
Total	**1,182**
Infrastructure & Community Facilities	0

Number of houses/sites in signed contracts



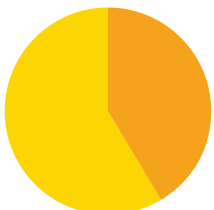
	Actual
Affordable Housing	244
Subsidy Housing	1,548
Total	**1,792**
Infrastructure & Community Facilities	0

Value of loans financed (R' millions)



	Actual
Affordable Housing	50,3
Subsidy Housing	23,7
Infrastructure & Community Facilities	0
Total	**74,0**

Value of projects financed (R' millions)



	Actual
Affordable Housing	125,2
Subsidy Housing	177,3
Infrastructure & Community Facilities	0
Total	**302,5**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Our Story

1996-1997

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

1998

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

1999

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

2000

- AWARD: Impumelelo "Top 300 Black Empowered Companies".
- AWARD: SABC 2 Lebone Women of the Award.

2002

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

2003

- NURCHA stops issuing Guarantees.
- January 2003, start of OPIC/FNB relationship ($20 million) to finance emerging contractors.

2005

- Nonhlanhla Mjoli-Mcube becomes NURCHA's first woman Chairperson after resigning from her position as Deputy CEO of NURCHA in 2004.
- NURCHA celebrates 10 years in operation.
- End of National Savings Programme.
- Start of FMO relationship (R45 million).

2006

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

2007

- NURCHA appoints Kehla Shubane as third Chairman.

2009

- NURCHA's first Managing Director, Cedric de Beers resigns after 14 years in office.
- February 2009, start of Futuregrowth Asset Management relationship, (R135 million).
- November 2009, end of FMO relationship (R45 million).

2010

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

2012

- Viwe Gqwetha is appointed as NURCHA's Managing Director.
- NURCHA's relationship with intermediaries ends.
- The introduction of Programme and Fund Management Portfolio.
- NURCHA introduces provincial office in the EC.
- April 2012, start of Public Investment Corporation (PIC) relationship (R100 million).

2013

- NURCHA mourns the death of Nelson Mandela, a national Icon, an inspiration to the establishment of NURCHA, 4 December 2013.

2014

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

2015

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

2016

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

2017

- NURCHA moves to Parktown, August 2017 as part of DFI consolidation.
- AWARD: SAIBPP "Demonstrating outstanding commitment to the transformation in the property sector".

2018

- Nomaindia Mfeketo is appointed as Minister of Human Settlements who was once NURCHA's Board member.
- NURCHA celebrated the centenary of the birth of former President Nelson Mandela by sponsoring the painting of MURALS in Mthatha.
- NURCHA & RHLF consolidate into NHFC as part of a process towards the establishment of a new Human Settlements Development Bank (HSDB) with effect from 1 October 2018.

Members of The Board

Chairman and executive directors

1. Khehla Shubane

Board Chairman
Independent non-executive director
BA (Hons), MBA, Social Science
Date of appointment: 16 May 1995

2. Viwe Gqwetha

Managing Director
BA, Masters in Town and Regional Planning, Strategic Leadership, Operations, Programme Management
Date of appointment: 22 August 2007

3. Sindisa Nxusani

Financial Director
BCom, CTA, CA(SA), Financial Management, B.Compt (Hon)
Date of appointment: 14 March 2007

Non-executive directors

4. Zyda Rylands

Human Capital and Transformation Committee chairperson, Independent non-executive director
BCom (Hons), CA(SA), Executive Education, Financial Management, Human Resource/Management, Transformation
Date of appointment: 16 August 2006

5. Thulani Nzimakwe

Audit Committee chairman, Independent non-executive director
BCom, BAcc, CA(SA), Financial Management
Date of appointment: 4 July 2001

6. Linda Sing

Independent non-executive director
BCom (Hons), MBA, MPhil, CAIB, Banking Finance
Date of appointment: 18 August 2009

7. Cedric de Beer

Independent Non-executive director (SEDF nominee)
BA, Strategic Leadership
Date of appointment: 26 June 1997

8. Maleho Nkomo

Independent non-executive director
BCom (Hons), Senior Executive Programme, MCom, Financial Management, HR Management, Corporate Governance, Procurement, Public Sector Management
Date of appointment: 16 August 2006

9. Hendrik Petrus Prinsloo

Independent non-executive director
BSc Agricultural Economics, MBA, Diploma in Solvency Law, Certificate of Financial Markets, Financial Management, Strategic Planning
Date of appointment: 12 March 2014

Foreword by The Chairman

The Minister of Human Settlements made an announcement in 2011 to the effect that the three Development Finance Institutions (DFIs) that fall under the Department of Human Settlements will form a Human Settlements Development Bank (HSDB) that will address the following:

- Transformation in the sector;
- Bridging and development finance;
- End-user finance for a range of housing circumstances; and
- Mobilisation of the private sector partnerships.

The decision was made based on recommendations that came out of a study conducted and concluded in 2007 by National Treasury focusing on Development Financing Institutions in the national sphere. The transaction was formally processed for prescribed approvals by the Ministers of Human Settlements, Finance, and Trade and Industry as outlined below.

Since the Minister's announcement, the Board and management of the National Urban Reconstruction and Housing Agency (NURCHA) worked tirelessly with the Department of Human Settlements, National Housing Finance Corporation (NHFC) and Rural Housing Loan Fund (RHLF) to ensure that the set objectives are met. The necessary resolutions to effect the DFI consolidation were approved by the NURCHA Board. The Memorandum of Incorporation (MOI) was amended in order to permit the transfer of assets, liabilities and commitments to NHFC. The NURCHA founding partner – Soros Economic Development Foundation – was consulted and the relationship was terminated amicably in 2015 to give way to the consolidation processes. The funding partner, the Public Investment Corporation (PIC), was also consulted with regard to the proposed consolidation of the three DFIs. The PIC consented to the merger and the replacement of NURCHA with the NHFC as the surety and shareholder of the borrower, NURCHA Loan Fund (NLF). NURCHA moved premises to be under the same roof as NHFC in July 2017.

"On behalf of the Board, I am pleased that the date and time we all have been looking forward to have finally come."

In April 2017, the Companies Tribunal of South Africa approved the transfer of assets and liabilities from the non-profit companies NURCHA and RHLF to a profit company, namely NHFC. It was agreed that the transfer would be done at no consideration as the underlying transaction would take the form of a donation agreement. After the transfer of assets and liabilities of the two non-profit companies, NURCHA will dissolve, deregister and delist in terms of the Public Finance Management Act (PFMA).

Management was mandated by the Board to negotiate a donation agreement with NHFC and get it signed on behalf of the Board of Directors. The donation agreement was crafted on a going concern basis and allowed for the business of NURCHA to be transferred to the NHFC as it is and for NURCHA to become a division of the NHFC. The agreement was drafted in consultation with all key stakeholders, including staff. The final document was signed in March 2017. Delays were experienced in meeting the conditions precedent and this impacted the final implementation of the merger.

The conditions precedent, including the approval in terms of Section 66 of the PFMA, which were received from the Finance Minister in September 2018, were met. The consolidation of the three entities (NURCHA, NHFC and RHLF) was finally effected on 1 October 2018. NURCHA transferred its business activities, including its assets, liabilities and commitments to NHFC with effect from 1 October 2018.

NURCHA will cease to exist as an entity when the following two conditions have been fulfilled. Firstly, when all the statutory requirements for dissolution have been met, and, secondly, when all securities bonds registered in NURCHA's name have been transferred to NHFC.

The audited report on operations and financial statements was presented to the Board for approval on 8 April 2019. The non-executive Board members will resign their positions after wrapping up all outstanding matters, including the approval of the financial statements up to the effective date. The executive directors will remain as directors of NURCHA to ensure that all statutory reporting requirements are met and the company is dissolved, de-registered with the Companies and Intellectual Properties Commission (CIPC) and the South African Revenue Services (SARS), and de-listed as a schedule 3 (a) PFMA company. The Directors' liability insurance, still in place at this stage, will kick into run-off period for a period of three years once the current Board has wrapped up all outstanding business.

On behalf of the Board, I am pleased that the date and time we all have been looking forward to have finally come. NURCHA has made an impact in the Human Settlements sector since its formation in 1995. Over the years, the focus was always on emerging contractors, and the scope was later expanded to include developers. I am confident that the relationship established with the emerging contractors and developers, and the opportunities for financing this category of the market, will grow from strength to strength in the consolidated NHFC and the HSDB.

Khehla Shubane
Chairman

Managing Director's Report

The period under review was the most challenging for NURCHA. The volume of loans signed was low and the size of projects approved was smaller compared to prior years. The economic climate and operating environment have been very volatile during the six-months period starting from April 2018, which has raised more uncertainties in terms of meeting medium- to long-term targets. This outlook is compared with the performance from the previous financial years in which the company had reported a series of good results in operations and surpluses after impairments, in spite of the high-risk nature of the products.

Despite the low business volumes, risk-mitigation measures during the six months under review have not resulted in any improvements, as the impairments for the period under review remain high. NURCHA has reported a surplus of R757 000 before impairments and a deficit of R12.3 million after impairments. The total accumulated impairments for the period under review is reported at R85.5 million, which is 20% of the total loan book.

"It has been gratifying to work with dedicated and professional colleagues who demonstrated their capabilities and hard work in contributing to the mandate of NURCHA over the years."

The level of impairments increased by R12.2 million during the reporting period. The impairments figure is split over the three programmes as follows: R3.0 million (Affordable Housing); R7.3 million (Subsidy Housing); and R1.9 million (Infrastructure & Community Facilities). The increased impairments in the Affordable Housing Programme relate mainly to emerging developers that have limited experience in running projects, while having to adapt to significantly changing economic circumstances, in particular. As a result, the emerging developers continue to apply for extension of loan terms due to a much slower rate of sales than was projected at the time of the loan approval. In some instances, NURCHA was left with no option but to apply for the liquidation of developers that could not recover from project distress.

In respect of the Subsidy Housing Programme, the increase in impairments emanates mainly from the delayed payment of contractors by the employers, as well as the interest charged on the non-performing book already under legal processes, in some cases. Four projects funded by NURCHA experienced diversion of funds in 2017/18. Legal action has been initiated on projects that have run into difficulties and where there are no chances of completing them profitably. The legal process for recovering NURCHA funds is taking longer than expected. During the period under review no diversion of funds was experienced.

There is, however, an emerging risk that NURCHA is experiencing. There was a contractor who falsified the certificates of completion in order to be allowed to make further drawdowns from NURCHA. The contractor is now being sued for R3.6 million that was received illegally. The contract has also been terminated. The verification process of certificates received has helped management to detect that the certificates have been falsified.

The Subsidy Housing Programme is also operating in an ever changing environment with the implementation and rollout of the Centralised Supplier Database (CSD) by Government which allows contractors to change their banking details on the system, without NURCHA's knowledge. This puts NURCHA's main form of security, the Irrevocable Payment Undertaking by the employer, at risk, as well as the sustainability of this lending stream to contractors.

NURCHA has notified National Treasury of this risk. Interventions led by National Treasury are underway to explore ways in which the risk of diversion of funds can be reduced. This includes interactions with other financiers affected by the CSD who have also brought this risk to National Treasury's attention.

There needs to be strong and predictable internal administrative, monitoring and control mechanisms with counter parties in order to have the full benefit of the funding models as developed by NURCHA.

Figure 1: Distribution of Accumulated Impairment Losses Across Programmes – 30 September 2018

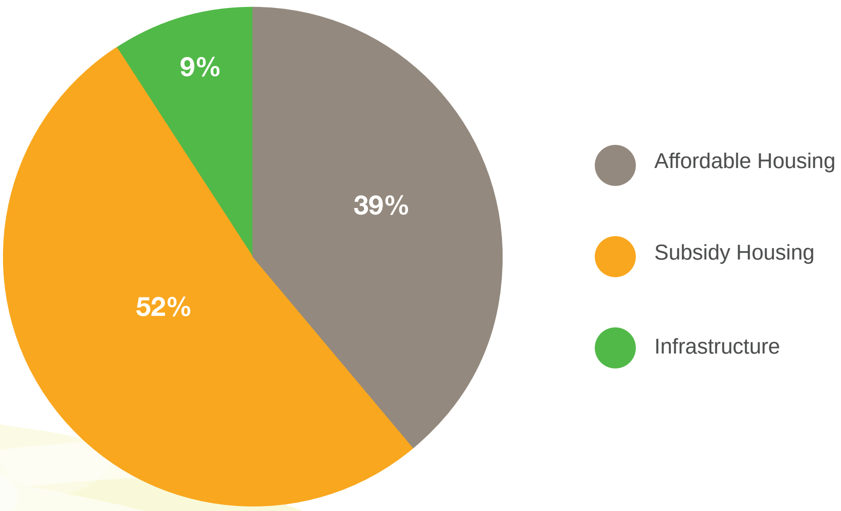


Figure 1 above demonstrates that the biggest portion of the total cumulative impairments as at 30 September 2018 relates to the Subsidy Housing Programme (52%), followed by the Affordable Housing Programme (39%) and the Infrastructure & Community Facilities Programme (9%). NURCHA management will continue to monitor the implementation of internal controls in loan management.

Figure 2: Sources of Income

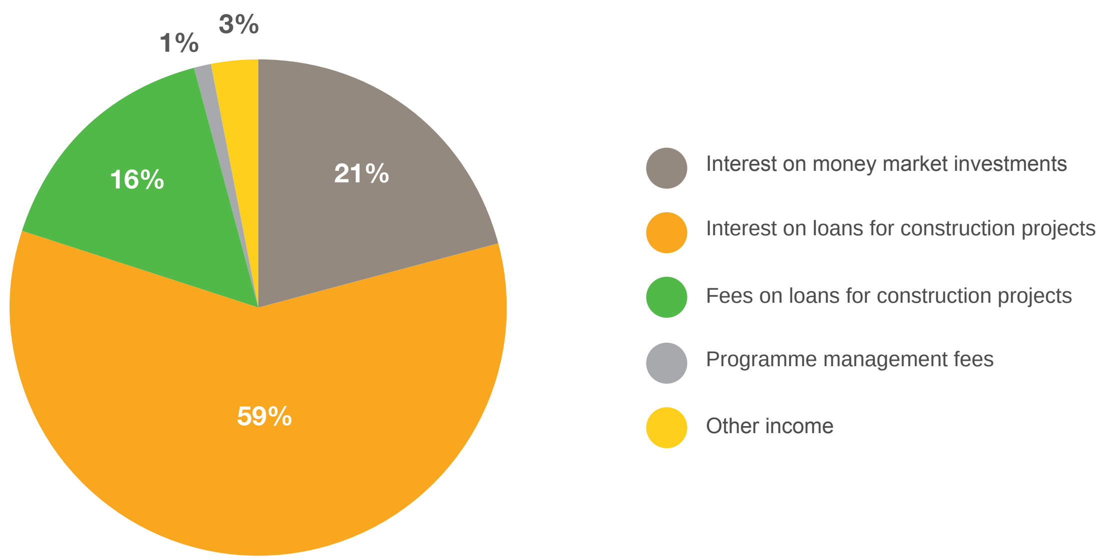


Figure 2 above demonstrates that NURCHA derived its income from diversified core business activities. The main sources are:

- Interest on loans for construction projects – 59%;
- Interest on money market investments – 21%;
- Fees on loans for construction projects – 16%;
- Other income – 3%; and
- Programme management fees – 1%.

Management is pleased with the fact that NURCHA funds are invested in the core business of lending instead of money market investments because income totalling 80% is derived from the core business.

While the Programme Management Portfolio performed well in prior years, this performance tapered off in the six-months period under review. The main reasons for the reduced performance were the delays in signing Memorandum of Agreements (MOAs) on projects secured in the Western Cape, namely the Kuyasa and Drakenstein Retrofit projects. The hiccups that were identified have been addressed and the MOAs were eventually signed by both parties. NURCHA is proceeding with the rollout of the projects in terms of the agreements.

Staff Turnover

During the period under review NURCHA experienced a high staff turnover in core business areas and critical posts. The Lending Portfolio was the most affected, with senior management leaving the employ of NURCHA. This happened at the most critical time of NURCHA's operations when experience was considered most important. With the transition to the Human Settlements Development Bank (HSDB), most of these positions may not be filled until the structure of the consolidated NHFC has been finalised. Management has appointed the next most qualified individuals to act in the vacant positions during this transitional period of the consolidation. Much focus and investment have also gone into supporting staff to deal with high levels of anxiety associated with the consolidation and resultant low staff morale levels.

Last Year of Operation

This is the last year of NURCHA's operation as a separate entity. Effective from 1 October 2018, NURCHA started operating as a division of the consolidated NHFC, and it will continue to operate as part of the HSDB once it is established.

It has been gratifying to work with dedicated and professional colleagues who demonstrated their capabilities and hard work in contributing to the mandate of NURCHA over the years. The level of commitment and the quality of work demonstrated since NURCHA's inception have been of immense satisfaction.

On behalf of the Board of Directors, management and staff, I would like to thank all our stakeholders for the support they have provided to the company since NURCHA's establishment in 1995. We count on your continued support as we progress towards the realisation of the HSDB.

Viwe Gqwetha
Managing Director

Review of Operations: Lending Portfolio

Lending Portfolio Report as at 30 September 2018

The lending portfolio continued with its traditional three lending programmes: Affordable Housing Programme, Subsidy Housing Programme and the currently inactive Infrastructure & Community Facilities Programme.

Performance against Targets

Affordable Housing Programme:

The nature of the programme is as follows:
- It is focused on bridging finance for servicing of sites, top structures and sectional titles;
- Typically 70% of loans are allocated to established developers;
- It relies on approved end-user mortgages for repayment; and
- It contains construction and marketing/sales risks as loans are only recovered once developed properties are sold.

The programme experienced human resource challenges since the beginning of the year and has mainly new staff in its complement. This is reflected in the main performance indicators which are follows:

Performance against targets for the period ended 30 September 2018 are as follows:
- Number of loans signed – 56%;
- Number of units in loans signed – 27%;
- Value of loans signed – 44%;
- Value of projects signed – 35%; and
- Number of houses completed and stands serviced – 83%.

The opportunities identified to grow this programme include:
- Mobilisation of private and public sector grants to strengthen the ‘handholding’ processes for emerging developers;
- Collaboration between established and emerging developers;
- Development and implementation of a property development management system to support emerging developers (a grant is required for development of the system);
- Assembly of capabilities to rescue projects in distress;
- Co-funding opportunities on catalytic and other projects;
- Potential for core-funding instruments and de-risking, such as the Santam guarantee;
- Cross-selling of products with emerging contractor/developers; and
- Financing incentives to promote energy-efficient developments.

Subsidy Housing Programme:

The nature of the programme is as follows:
- Certificate-based lending whereby 80% of approved certificates are advanced (invoice discounting);
- Irrevocable payment undertaking from the employer;
- Crucial stakeholder relationship between NURCHA and the employer;

- Provision of access to building materials by way of a payment undertaking to material suppliers to create a credit line for relatively new entrants; and
- The risk is fraudulent diversion of funds.

The Subsidy Housing Programme is a major contributor to economic transformation, with 82% of the current value of loans being disbursed to black-owned enterprises. The number of loans signed was substantially lower due to the low volume of business and issues relating to signing of the irrevocable payment undertaking, which has since been resolved, particularly with the Eastern Cape Department of Human Settlements.

There is a concerted effort among the industry players to standardise the lending principles in the sector in order to ensure that all relevant stakeholders are aware of the lending instruments and processes (irrevocable payment undertaking). This is being driven through National Treasury and the Department of Human Settlements (nationally).

Contractor Finance and Development Programme (CFDP)

A fair amount of focus is being placed on the Contractor Finance and Development Programme (CFDP). The 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 a project value of R2 million. Despite the intensive effort required to maintain the programme, it contributes very little to housing delivery output.

The programme's performance against targets for the period ended 30 September 2018 was as follows:

- Number of applications approved – 41%;
- Number of units in approved loans – 17%;
- Number of contracts signed – 39%;
- Number of houses in contracts signed – 15%;
- Value of loans signed – 26%; and
- Value of projects financed – 17%.

The opportunities identified to grow this programme include:

- The team is currently working with the National Department of Human Settlements in rolling out the irrevocable payment instruction to all Provincial Departments of Human Settlements;
- Collaboration has been embarked on with National Treasury and other lenders/financiers in the standardisation of financing protocols;
- Civil and criminal cases are being pursued in the case of diverted funds;
- Repayment plans have been entered into with employers and contractors in cases where accounts are in arrears as a result of late payments, in order to regularise the accounts; and
- Other provinces have been targeted so as to spread risk. The current allocations of three-year budgets in the various provinces demonstrate the potential pipeline of business in the provinces, with even a conservative 10% of the market share being sufficient for the programme to thrive.

Lending Portfolio Report as at 30 September 2018

Infrastructure & Community Facilities Programme:

The nature of the programme is as follows:

- Certificate-based lending whereby 80% of approved certificates are advanced;
- Irrevocable payment undertaking from the employer;
- Crucial stakeholder relationship between NURCHA and the employer; and
- The risk is fraudulent diversion of funds.

Due to losses suffered on this portfolio, NURCHA's Board took a decision to scale down this programme. This programme is not actively marketed and new loan contracts are only signed up where NURCHA has a strong established relationship with the employer.

Historically, this programme suffered significant losses, resulting in NURCHA adopting a certificate-based lending approach as part of its credit criteria. It was prudent for NURCHA to implement the business model changes in an attempt to mitigate loan default risks arising from a range of construction risks, including contract management weaknesses on the part of departments and municipalities that employ the services of contractors. Due to the risk associated with this lending programme, NURCHA's Board continuously appraises further lending to contractors undertaking infrastructure and community facilities.

There were no new applications signed for infrastructure in the second quarter of 2018/19.

Loan Book

Table 1: Regular Loan Book as at 30 September 2018

LENDING PROGRAMME	TOTAL ACTIVE PROJECTS		LOAN VALUE COMMITMENT		LOAN EXPOSURE	
	No.	(%)	(R'M)	(%)	(R'M)	(%)
Affordable Housing	33	32,7%	591,92	70,3%	340,24	81%
Subsidy Housing	63	62,4%	226,59	26,9%	72,34	17%
Infrastructure	5	5,0%	23,83	2,8%	7,86	2%
TOTAL	101	100%	842,34	100%	420,44	100%

Table 1 above shows the composition of the regular book with 101 active projects across the three different lending programmes.

Figure 3: Ageing of Regular Book as at 30 September 2018

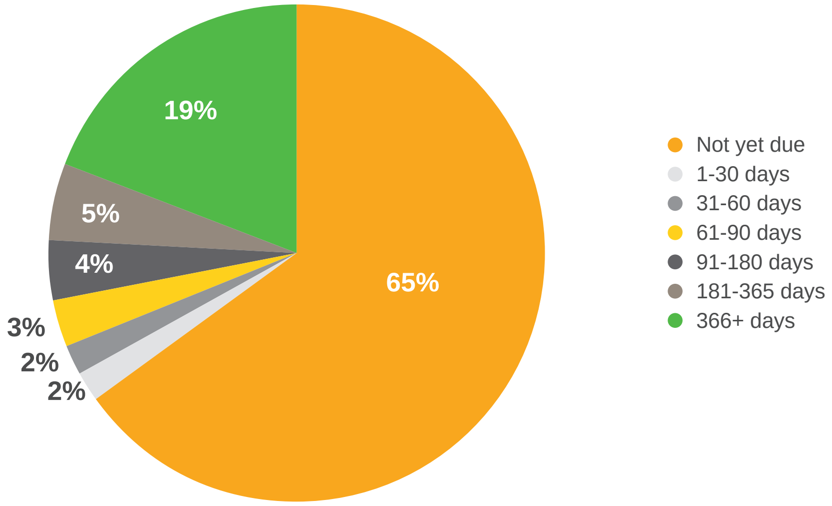


Figure 3 above illustrates the health of the loan book by number of days overdue. Of the R420 million loan book, 65% falls within the 'not yet due' category. The remainder of the book (R142 million) is overdue, with an impairment of R87 million against these overdue loans.

The overdue amount is spread across the three programmes as follows: 65% in Affordable Housing, 31% in Subsidy Housing and 4% in Infrastructure & Community Facilities. The distribution above also demonstrates the relationship between the overdue debts and funding capacity allocated to each programme. Funding capacity allocated to Affordable Housing is 70%, while Subsidy Housing has been allocated 27% and Infrastructure & Community Facilities 3%.

The Affordable Housing Programme holds most of the overdue debts, with 28% of the debt outstanding under this programme being overdue. The Emerging Developer Programme is accountable for 71% of such overdue loans within the programme. The reasons for these overdue debts include the inability of contractors to meet completion deadlines, and slow sales. Legal proceedings have been instituted on projects deemed to be unviable.

Overdue debts in the Subsidy Housing Programme account for 79% of the outstanding debt on this programme. The main contributors to this overdue debt are late payments by employers and diversion of funds by one client who is funding four projects through NURCHA. Legal proceedings aimed at recovering funds have been initiated.

Lending Portfolio Report as at 30 September 2018

Table 2: Distribution of Debt between Regular and Non-Performing Loans as at 30 September 2018

	Total Debtors Outstanding	Total Debtors Overdue	Impairments
Regular Portfolio			
Affordable Housing	R340 676 794	R95 985 302	R33 695 335
Subsidy Housing	R72 357 831	R45 487 616	R45 095 774
Infrastructure	R7 864 077	R5 778 994	R7 864 047
NURCHA Rental Housing	R0	-	-
Sub-Total	**R420 900 702**	**R147 251912**	**R86 655 156**
Non-Performing Loans			
Affordable Housing	R2	R2	R2
Subsidy Housing	R31	R31	R31
Infrastructure	R5	R5	R5
Sub-Total	**R38**	**R38**	**R38**
Total	**R420 900 740**	**R147 251 950**	**R86 655 184**

The table 2 above illustrates that R38 of the loan is non-performing loan. This relates to debtors that were written off to R1 or R2.

Overdue debts on the Infrastructure & Community Facilities Programme are mainly as a result of a diversion of funds by one debtor and late payments by the employer. Legal action has been instituted against the debtor. The programme's overdue debt in relation to total outstanding debt is 80%.

Current Economic Outlook

The continued economic downturn and the resultant impact on household affordability levels have a profound effect on developers and NURCHA's current business performance. This will affect NURCHA's pricing structures, with related effects on the already high-risk and economically stressed clients.

Moreover, this will impact negatively on the annual performance of NURCHA as is evident in the six-months performance against targets.

Management will continue to manage the risks that are within the control of NURCHA.

Programme and Fund Management Portfolio:

The Programme and Fund Management Portfolio at NURCHA was established in 2012 with a strategic intent to support the development of project and programme management capacity and enhance service delivery in the human settlement sector. 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 under way to consolidate NURCHA, NHFC and RHLF to form a Human Settlements Development Bank (HSDB) and business development phase.

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 8001 units with electricity and Rhinoboard ceilings. NURCHA was appointed in May 2005 as programme managers for Phase 1 compromising 4 387 units in Wesbank (837), Kalkfontein (300), Lwandle (400), Vrygrond 1600 and Eureka (250). Phase 2 of the programme comprises 3 614 units in Heinz Park (1142), Silver City (363), Sir Lowry's Pass Village (640), Wesbank (1000), Phumlani (209), Macassar (100), Gordon's Bay (60) and Chris Nissen Park (100). The contract for Phase 2 was for 18 months, with R68 million to be disbursed. Phases 1 and 2 were completed, with 8001 units delivered to beneficiaries. A number of SMMEs benefited from the programme. In terms of the contracts awarded, 25% is disbursed to local SMMEs and 5% to local labour.

Kuyasa Retrofit Project

NURCHA has been approved by the Western Cape Department of Human Settlements to be programme managers for the retrofitting of ceiling, electricity and minor roofs seals consequent to the ceilings retrofit. The programme will run for three years for a total of 2 373 units. 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

NURCHA has been approved by the Western Cape Department of Human Settlements for the removal of asbestos roofs, retrofitting of ceilings and supplying of electricity to 477 units in Phola Park, Thembani Square and Silvertown in Mbekweni, Paarl. 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 and develops 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. A total of 60 contractors were allocated to the Nelson Mandela Metro for the financial year 2017-2018. NURCHA is financing 13 contractors, 12 SMMEs (20 units) and one established contractor (50 units), of the 60 contractors allocated. NURCHA provides mentorship to contractors on-site and off-site. NURCHA also provides technical support and business development to contractors, as well as facilitating the Material Supplier Undertaking agreement. Various contractors have progressed past the halfway stage in their contracts.

Human Resources

Employee Wellness Programme

A number of interventions were scheduled to boost employee morale in the organisation as a result of the DFI consolidation. This included individualised interventions which were customised to restore professional relationships where there were dysfunctions. There were interventions at departmental level to deal with team dynamics. At management level, managers and executives were empowered to deal with the current state of staff morale and enhance emotional intelligence.

Over and above this, staff were encouraged to contact the EWP (Employee Wellness Programme) to assist them with other matters that could affect their productivity and overall wellbeing. The EWP also offers a variety of services such as life management services, telephone counselling, e-Care and face-to-face counselling.

Skills Development

In order to equip staff with better knowledge on labour-related matters after the signing of the recognition agreement, all employees were trained on relevant aspects of the Labour Relations Act.

Managers and executives were trained on negotiation skills to enhance their inter-personal, intergroup and structural conflicts settlement through negotiations as well as deepen their understanding thus enabling them to improve their ability in managing conflict professionally.

Job evaluation was undertaken to train managers on the Patterson job evaluation rules to help managers make better decisions and provide a rational basis when it comes to job evaluation.

Communication

The Communication and Change Management Committee was formed to guide change agents on the DFI consolidation and the change management progress. The committee also facilitated the implementation of the change management framework that was approved by the Board. Bi-weekly meetings were convened with the change agents and executives where robust discussions were held in trying to find solutions with regard to issues that rose as a result of the consolidation and to discuss issues that related to the DFI consolidation. These matters would be discussed further in staff meetings that were held monthly to give an update on the consolidation.

Social Responsibility

NURCHA participate in social responsibility programmes where it assists students with in-service training for a period of a year or more to complete a qualification in their chosen field of study and also to gain practical working experience in the construction industry.

Over the years, NURCHA has assisted students with experiential training with the developers and contractors that it finances. A student from the National Human Settlements Youth Brigade Programme in Port Elizabeth was appointed after receiving a certificate in construction management. The student has since been employed by the organisation on a fixed-term contract.

Corporate Governance

Corporate Governance Statement

The Board of Directors of NURCHA and its management are pleased to present the corporate governance statement for the six months ended 30 September 2018.

In its role the Board has always ensured that NURCHA does not only survive and succeed through tough economic times, but that it has does so through an open and transparent governance process. We have been committed to:

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

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

We are satisfied that, during the six months ended 30 September 2018, we performed the company's activities and discharged our responsibilities in accordance with the above principles. Any non-compliance with the principles of King III is explained accordingly in this report.

Stakeholder Relationships

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

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

In its decision-making, the Board takes account of and responds to the legitimate interests and expectations of stakeholders linked to NURCHA. Stakeholders that could materially affect the operations of the company have been identified and assessed as part of the risk management process.

The Board chairperson, on behalf of the Board, signed the shareholder agreement between the NURCHA Board of Directors and the Executive Authority of the Department of Human Settlements for the 2018/19 financial year. The purpose of the agreement is to agree on performance expectations and parameters to ensure that the relationship, roles and responsibilities between the parties are clearly defined and that there are no actual or perceived conflicts of interest that would impede the achievement of Government's broad policy objectives and the efficient management of NURCHA.

In its reporting to stakeholders, the Board presents a balanced and understandable assessment of the company's position. During the period under review, complete, accurate, relevant and reliable reports were delivered timely to major stakeholders. Other information is accessible to stakeholders on request in terms of the Promotion of Access to Information Act No. 2 of 2000 (PAIA).

NURCHA will cease to exist by the middle of 2019 as the consolidation of NURCHA and Rural Housing Loan Finance (RHLF) into the National Housing Finance Corporation (NHFC) was effected on 1 October 2018.

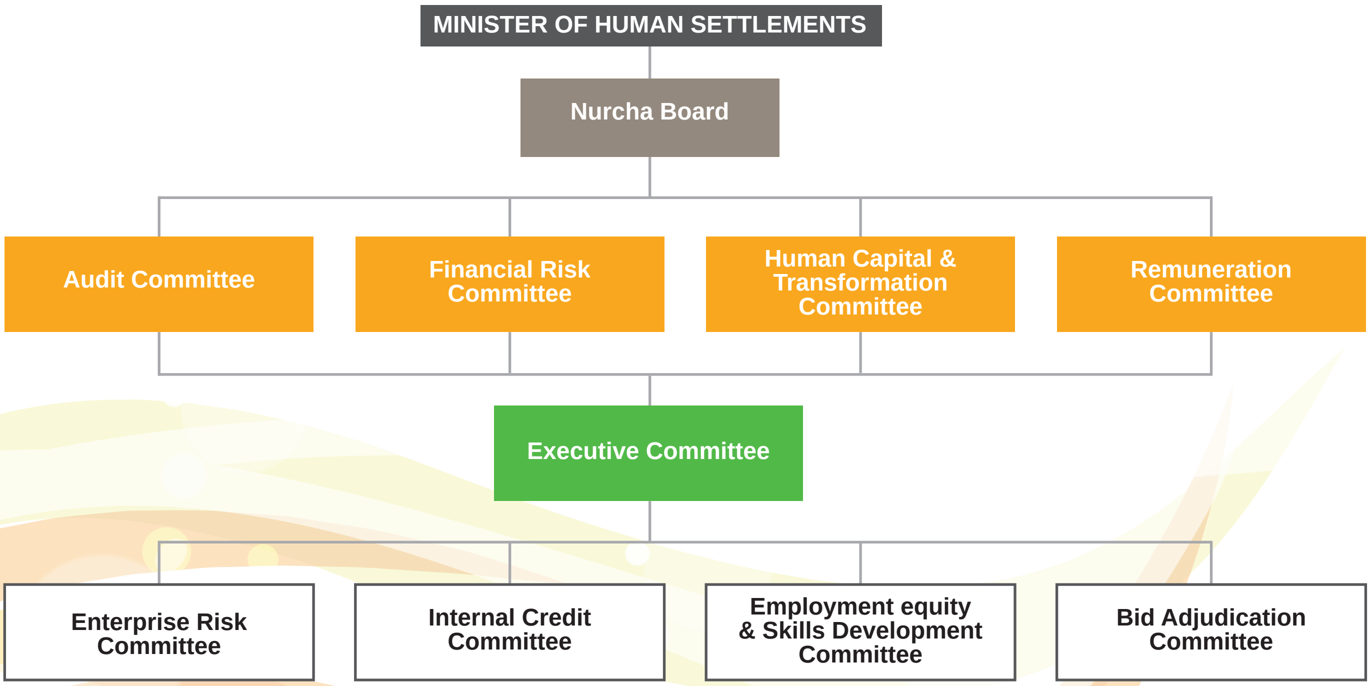
Corporate Code of Conduct and Ethics

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

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

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

Organisational Structure



The Board

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

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

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

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

The Board is satisfied that, during the six months under review, it carried out its responsibilities according to its charter. Amongst other things, the Board has approved and monitored annual performance plans and budgets; monitored strategy implementation; assessed the performance of the whole Board, the committees and individual directors; reviewed committee membership; and re-appointed Board members by rotation.

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

Strategic Objectives, Business Planning, and Performance Management

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

The Board continued to monitor NURCHA's performance against budgets through quarterly reporting. The company performance for the period under review is reflected under pages 4 to 23.

Board Charter

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

During the six months under review, the Board met two times in accordance with its charter and is satisfied that it has carried out its duties in accordance with its mandate.

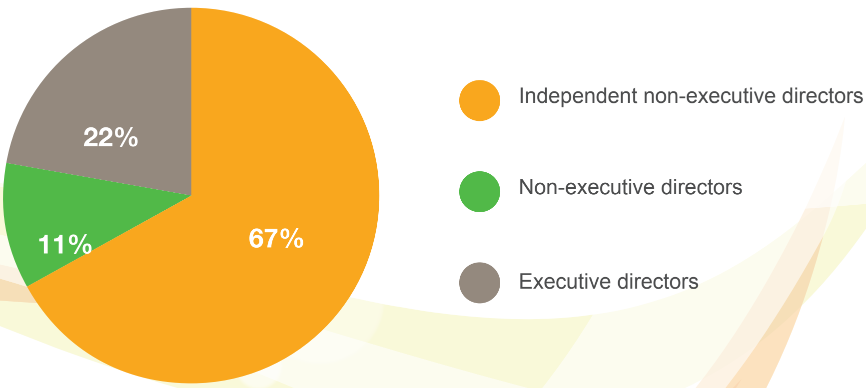
Board Composition

Board members	Mr K Shubane1		Board Chairperson
	Mr C de Beer[3] Mr V Gqwetha[2] Mr W Ndodana[1] Ms M Nkomo[1] Mr S Nxusani[2] Mr T Nzimakwe[1]	Mr H Prinsloo[1] Ms Z Rylands[1] Ms L Sing[1] Ms A Struwig[2]	1. Independent non-executive director 2. Executive director 3. Non-executive director

Ms Struwig resigned on 1 September 2018.
Mr Ndodana resigned on 2 May 2018.

The NURCHA Board has a unitary structure that comprises a majority of independent non-executive directors. This is to ensure independence and objectivity in decision-making. The Board charter allows for a maximum of 16 directors. As at 30 September 2018, there were nine board members of which seven were non-executive directors. Six of the seven non-executive directors were independent of management and free from any relationship that could materially interfere with the execution of their independent judgement. One non-executive director was considered not to be independent and two directors were executive directors who were involved in the day-to-day running of the business.

Board Composition



The Board Chairperson

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

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

Independence

The majority of directors are independent non-executive directors and an independent non-executive director chairs each Board and each of its committees. The Board strives for the highest standards of integrity and accountability, and each director brings independence of character and judgement to their role. The policy of disclosure of interests and recusal from discussions in which a director has an interest is followed to mitigate any conflict of interests and to preserve independence.

The independence of Board members who have served on the Board for more than three terms is evaluated by the Board each year. Independence is determined against the criteria set out in King IV (the King Code). The majority of Board members have served on the Board for more than three terms. This situation arose as a result of the DFI consolidation plans in the past few years. It became unnecessary to disrupt the Board during the last few years of NURCHA's existence. After due consideration of each Board member's individual circumstances and contributions, the Board concluded that the individual directors are able to act independently and fulfil their duties irrespective of their tenure. Mr de Beer is not considered to be independent as he previously represented one of the funders on the Board of NURCHA.

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

Knowledge, Skills and Expertise

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

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

Appointment, Retirement, and Rotation of Directors

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

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

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

Board and Director Evaluation

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

The performance of the Board, its committees, and individual directors was evaluated and no major areas of concern were raised.

Succession Planning

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

Management succession planning is an ongoing consideration, ensuring that effective management is in place to implement NURCHA's strategy. As at the end of September 2018, there were two vacancies for executive directors. The vacancies were not filled as the DFI consolidation was imminent.

Delegation of Authority

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

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

Board Committees

The Board delegated some of its duties to the following specialist committees to ensure that the Board operates effectively and efficiently:

- Audit Committee;
- Financial Risk Committee;
- Human Capital and Transformation Committee; and
- Remuneration Committee

The Audit Committee

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

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

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

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

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

The committee reviewed and recommended the quarterly reports and the previous year's annual financial statements to the Board. It ensured that these reports were produced in terms of Generally Recognised Accounting Practice (GRAP) and the Companies Act. Closed meetings between the Audit Committee members and auditors were held without management. The assessment of NURCHA's finance function was conducted by the committee.

The committee met two times during the six months and is satisfied that its activities for the period were in compliance with its terms of reference.

The Financial Risk Committee (FINCOM)

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

FINCOM has been established to help the Board to discharge its fiduciary duties as regards the credit and investment functions within NURCHA, and to give advice with regard to the funding and capital structure of the company. The committee has been charged with the responsibility of overseeing the programme and fund management portfolio.

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

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

The Human Capital and Transformation Committee (HCTC)

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

The purpose of the committee is to ensure that NURCHA maximises the effectiveness, energy and commitment of staff, management and directors with respect to NURCHA's mission.

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

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

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

The committee met two times during the period under review in accordance with its charter.

The Remuneration Committee

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

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

The committee comprises the chairpersons of the various committees of the Board and is chaired by the chairperson of the Board. The decision to have the chairman of the Board chairing the Remuneration Committee was agreed to by the Board as they felt he is the best person to perform this duty.

Board members are paid on the basis of their attendance at meetings. The Board chairperson and the committee chairpersons are paid a monthly retainer in addition to the attendance fees. The remuneration of each director is disclosed on pages 80 to 81 of the mid-year financial statements.

The committee met two times during the six months under review in accordance with its charter.

Attendance at Meetings Held for the Period 1 April 2018 – 30 September 2018

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

A shows the number of meetings attended by the director.
B shows the number of meetings held during the year.

Company Secretary

The Company Secretary is empowered to properly fulfil her duties. The functions of the Company Secretary are in line with the requirements of the Companies Act. The Company Secretary is a source of guidance and advice to the Board, and within the company, on matters of ethics and good governance. The Company Secretary oversees the induction of new directors and the ongoing education of directors. NURCHA has submitted all returns as required of public entities in terms of the PFMA, Treasury Regulations and other relevant legislation, and ensures that all such returns are accurate, correct and up to date.

Prescribed Officers

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

Enterprise Risk Management

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

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

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

The annual strategic risk assessment was done and the strategic risk register was reviewed during the six months to 30 September 2018. The process was not completed due to the DFI consolidation that was effected on 30 September 2018. Training and the first session of the review of the annual risk register had already kicked off when the consolidation was finalised. NURCHA has since adopted all NHFC enterprise risk management policies and processes.

The top ten risks that were identified during the period under review were:

- Performance or output targets – Unable to meet output targets. NURCHA has experienced capacity issues where staff members are leaving the organisation due to the uncertainty of the DFI consolidation. During this period, the organisation is left with limited resources to deliver on the targets;
- Credit risk – This refers to the borrower defaults on loan repayments;
- Compliance – Inadequate compliance with applicable legislation, regulations and codes;
- Fraud – This is wrongful or criminal deception intended to result in financial or personal gain;
- IT governance compliance - Inability to direct, coordinate and measure application of internal and external resources;

- ICT Infrastructure and systems – Non-availability and inadequate ICT services (substandard systems and services);
- Funding – This refers to the inability to attract and retain funding with external parties, and the resulting inability to meet targets;
- Procurement Regulation & Processes – Failure to comply with SCM regulations and applicable laws;
- Collection process (delinquent book) – Ineffective collection of overdue debt and poor collection process on the delinquent book;
- Skills and capacity – Critical leadership gaps at executive level and senior management. This could affect pro-activity, problem-solving and decision-making; and
- DFI consolidation – The DFI consolidation can result in the duplication of roles in the new DFI structure. This may cause uncertainty amongst employees and difficulty to retain and/or recruit new employees. The consolidation process was finalised during this period and the merger was concluded on 30 September 2018.

These risks are monitored on a monthly basis and reported to the Audit Committee on a quarterly basis. Control measures have been identified where there are gaps to reduce or mitigate the risks. Each risk has been assigned a risk owner and a responsible person suitable to respond to the risks. A wide variety of risk mitigation strategies are used to address risks, including alignment of risk reports to the internal and external audit reports and changes to legislation.

Regulatory Environment and Statutory Compliance

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

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

The Financial Intelligence Centre Act, No. 38 of 2001 (FICA) amendments were prioritised during the period under review. FICA training was provided to all staff members, including management. A Compliance Risk Management Plan (CRMP) for FICA was developed and internal control gaps were identified. The policy was amended accordingly but could not be approved and adopted on time due to the DFI consolidation that was finalised on 30 September 2018. All reports and returns were submitted to stakeholders on time during the financial year.

Internal Audit

NURCHA has an effective risk-based internal audit function. The internal audit function is outsourced to an outside company that provides an independent assurance to the Audit Committee. The internal audit work is governed by the internal audit charter and informed by NURCHA's strategy. The internal audit charter defines the role, entity status, authority, responsibilities and scope of activities of the internal audit function. It also includes the principles underlying the realisation of the objectives of the function and the translation thereof into operational activities.

The internal auditors continuously give assurance to the Audit Committee by providing written assessments of the effectiveness of NURCHA's systems of internal control and risk management. The performance of the internal auditors was evaluated and the Audit Committee is satisfied with their performance.

Internal Controls

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

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

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

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

The Board is satisfied that management is attuned to the major aspects of business risk and believes that NURCHA is operating an adequate system of internal control to identify and manage operational and financial risks.

Information Technology (IT) Governance

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

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

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

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

In the process of moving offices to Houghton, a new telephone system was implemented and the IT infrastructure was upgraded. The upgrade is meant to facilitate seamless communication between three entities, NURCHA, RHLF and NHFC, in preparation of the DFI consolidation. The ICT environment is adequately resourced and this ensures minimum downtime. Data is successfully being backed up onsite and offsite for business continuity and disaster recovery assurance. The ICT environment is adequately secure and geared to subdue any malicious threats.

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

Going concern

On 1 October 2018, NURCHA and RHLF were consolidated into NHFC to form one entity. All NURCHA's assets, rights and obligations were donated to NHFC in accordance with the Donation Agreement signed between the parties. NURCHA was transferred to NHFC as a going concern and NURCHA's business operations will continue as a division under NHFC. On the effective date of the consolidation, NURCHA became a shell company with no assets and liabilities. Once the mid-year financial statements are approved, the Board members will resign within a reasonable time and NURCHA will be deregistered and cease to exist. The executive directors will remain as directors of NURCHA in order to ensure that all statutory reporting requirements are met and the company is dissolved, de-registered with the Companies and Intellectual Properties Commission (CIPC) and the South African Revenue Services (SARS), and de-listed as a schedule 3 (a) PFMA company.

Sustainability

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

- **Black Economic Empowerment**

  NURCHA's policies are in line with the Broad Based Black Economic Empowerment Act No. 53 of 2003 (BBBEE Act). The policy guides NURCHA's activities in the area of social transformation. NURCHA's BBBEE score was at level 5 as at 30 September 2018.

- **Procurement of Goods and Services**

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

  The overall objectives of the procurement policy are:

  - To optimise NURCHA's utilisation of its financial and administrative resources and to avoid fruitless and wasteful expenditure;
  - To ensure that NURCHA's strategic objectives are achieved and its service delivery mandate fulfilled;
  - To ensure the efficient, effective procurement of all goods and/or services, required for the proper functioning of NURCHA and that the procurement conforms to constitutional and legislative requirements;
  - To promote, develop and support historically disadvantaged individuals, black economic empowerment, small, medium and micro enterprises, and preferential procurement goals; and
  - To ensure good governance through its procurement processes.

- **Employment Equity**

  NURCHA is committed to maximising the potential and performance of all staff members and makes a special effort to maximise the role and contribution of historically disadvantaged people. The company complies with the relevant provisions of the Employment Equity Act No. 55 of 1998 (EE Act) and it continuously strives to achieve a diverse workforce that is broadly representative of all South Africans. The Employment Equity Committee ensures that NURCHA supports the concept of equal opportunity without regard to race, colour, religion, gender, sexual orientation, national origin, or disability.

- **Skills Development**

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

  NURCHA is committed to Black Economic Empowerment by supporting entrepreneurial development and the promotion of small and medium businesses as set out in the BBBEE Act.

- **Corporate Social Responsibility**

  NURCHA is involved in various social responsibility programmes.

Annual Financial Statements

The reports and statements set out below comprise the consolidated and separate annual financial statements presented to the parliament:

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Development Finance Institution (DFI) .The main business of this public entity is to facilitate the delivery of housing and related community facilities and infrastructure to low and middle income communities, together with programme and fund management in the same sector.
Members	Mr K Shubane (Chairman) Mr V Gqwetha (Managing Director) Mr S Nxusani (Financial Director) Mr C de Beer Ms M Nkomo Mr T Nzimakwe Mr H Prinsloo Ms Z Rylands Ms L Sing
Registered office	3rd Floor, Old Trafford 3 Isle of Houghton 11 Boundary Road Houghton 2198
Business address	3rd Floor, Old Trafford 3 Isle of Houghton 11 Boundary Road Houghton 2198
Postal address	P.O. Box 2452 Saxonworld 2132
Auditors	Ngubane and Co. (Johannesburg) Inc. Chartered Accountants (S.A.) Registered Auditors
Company secretary	Ms N Ndzimbomvu
Company registration number	1995/004248/08
Level of assurance	These consolidated and separate annual financial statements have been prepared in compliance with the applicable requirements of the Companies Act 71 of 2008 and the Public Financial Management Act.
Preparer	The consolidated and separate annual financial statements were internally compiled by: Mr S Nxusani (CA) SA
Published	8 April 2019

Certificate by Company Secretary

It is hereby certified, in terms of the Companies Act, that for the six months ended 30 September 2018 the Company has lodged with the Registrar of Companies all such returns as are required of a company incorporated as a Non-Profit Company, in terms of this Act, and that all such returns are true, correct and up to date.

Ntsiki Ndzimbomvu
Company Secretary

8 April 2019

Audit Committee Report

The Audit Committee hereby presents the mid-year report for the six months ended 30 September 2018 in accordance with Treasury Regulations and the PFMA.

Audit Committee's Responsibility

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

Section 51 (1) (a) of the PFMA states that:
The accounting authority must ensure that the public entity has and maintains:

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

The Audit Committee reports that it has performed its duties as delegated by the Board and that it has a majority of independent non-executive directors who are financially literate, as recommended by the King IV Report on Corporate Governance. The committee met two times during the six-months period under review to evaluate its performance and address matters of conflict of interest within the company. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities as contained therein. The committee's chairman attended the annual general meeting during the six months under review.

1. Appointment and oversight of the external auditors

The committee maintains a professional relationship with the external auditors and coordinates activities between the external auditors and internal auditors.

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

The committee has reviewed the public entity's implementation plan for audit issues raised in the prior year and is satisfied that the said matters have been adequately resolved.

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

The committee has continued to monitor and confirm that management complies with legislative, regulatory and other contractual obligations.

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

The committee has approved the internal audit plan.

The committee is satisfied with the cooperation between the internal auditors and external auditors and that the combined assurance addresses all significant risks facing NURCHA.

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

The committee has reviewed the findings of the internal audit work, based on the risk assessments conducted in the organisation, and has noted all weaknesses reported in internal controls. The aforementioned areas of concern have been raised with management and are being monitored for improvements.

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

The committee is aware of, and has monitored, the risks that affect the organisation. The ongoing internal audit process provides the Audit Committee with the assurance that all major issues regarding the appropriateness and effectiveness of internal controls are reported.

5. Examination and review of the six-months financial statements and accompanying reports

During the six months under review, the committee examined and reviewed the quarterly reports on the operational and financial performance of the company. The committee also reviewed the mid-year financial statements for the six months ended 30 September 2018.

The committee confirms that the mid-year financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) and the Companies Act. All provisions and contingencies have been reviewed and disclosed. The external auditors' management letter has been reviewed and the Audit Committee is satisfied with management's responses.

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

T Nzimakwe
Chairperson – Audit Committee

8 April 2019

Independant Auditor’s Report to Parliament

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of the National Urban Reconstruction and Housing Agency and its subsidiaries (the group) set out on pages 3 to 45, which comprise the consolidated and separate statement of financial position as at 30 September 2018, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the 6 month period then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies and explanatory notes.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the National Urban Reconstruction and Housing Agency (NURCHA) and its subsidiaries (the group) as at 30 September 2018, and their financial performance and cash flows for the six month period then ended in accordance with Generally Recognised Accounting Practices in South Africa and the requirements of Public Finance Management Act of South Africa, Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the consolidated and separate financial statements section of this auditor’s report.

We are independent of the public entity in accordance with the Independent Regulatory Board for Auditors’ Code of professional conduct of registered auditors (IRBA code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IESBA code and in accordance other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants’ Code of ethics for professional accountants (parts A and B).

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

Emphasis of matters

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

Transfer of functions between entities under common control

As disclosed in note 39, to the consolidated and separate financial statements, the effective date for the transfer of function for NURCHA to the National Housing Finance Company (NHFC) is 30 September 2018. The Group transferred all of its assets and liabilities as a function to the National Housing Finance Company with the assumption of a going concern effective on 1 October 2018.

Material increase in asset provisions – loan for construction projects

As disclosed in note 3, to the financial statements, material impairment of R85 518 000 (31 March 2018: R73 291 000) was incurred as a result of impairment recognised on the loans for construction projects.

Fruitless and Wasteful expenditure

As disclosed in note 33 to the financial statements, irregular expenditure of R1 925 000 (31 March 2018: R48 425) was incurred as a result of a settlement amount that was paid to the material supplier to avoid litigation and penalties on under estimation of provisional tax.

Irregular expenditure

As disclosed in note 34 to the financial statements, irregular expenditure of R96 000 (31 March 2018: R1 452 073) was incurred as a result of non-compliance to the National Treasury Regulations and Supply Chain Management processes.

Other matter

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

Budget comparison variances

As disclosed in note 38 to the financial statements, the budget comparison variances analysis was based on 6 months figures due to the transfer of function that occurred during the year under review. A 6 months budget estimation was used as a comparison for the analysis.

Responsibilities of Accounting Authority for the consolidated and separate financial statements

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 General Recognised Accounting Practices in South Africa (GRAP) and the requirements of the Public Finance Management Act, Act 1 of 1999 (PFMA) and the Companies Act, 71 of 2008, 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.

In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the National Urban Reconstruction and Housing Agency and its subsidiaries ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the Public Entity or to cease operations, or has no realistic alternative but to do so.

Independant Auditor's Report to Parliament (continued)

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

Our 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 our 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.

A further description of our 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

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, we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information, which must be based on the approved performance planning documents of National Urban Reconstruction and Housing Agency. We have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our 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, our findings do not extend to these matters.

We 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 half year performance report of the public entity for the six months period 30 September 2018:

Programmes	Pages in the annual performance report
Programme 1– Affordable Housing	18
Programme 2 – Subsidy Housing	18 - 19
Programme 3 – Infrastructure and Community Facilities	20
Programme 4 - Programme and Fund Management	22 - 23

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We 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.

Other matters

We draw attention to the matters below. Our opinions are not modified in respect of this matter.

Reporting period for the performance audit

Due to the changes as a result of the transfer of functions as disclosed on note 39. The entity reported using 6 month performance information.

Achievement of planned targets

Refer to the half year performance report on pages 4 to 23 for information on the achievement of planned targets for the period and explanations provided for the 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 this report.

Adjustment of material misstatements

We identified material misstatements in the annual performance report submitted for auditing. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Expenditure Management

Irregular expenditure

Effective steps were not taken to prevent irregular expenditure amounting to R96 000, as disclosed in note 34 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The irregular expenditure was caused by non-compliance to the National Treasury Regulations and Supply Chain Management processes.

Fruitless and wasteful expenditure

Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 925 000, as disclosed in note 33 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by a settlement fee to a supplier that was offering material to contractors.

Revenue Management

Effective and appropriate steps were not taken to collect all revenue due relating to long overdue loans, as required by section 51(1)(b)(i) of the PFMA.

Annual Financial Statements

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) (a) and (b) of the PFMA.

Material misstatements of commitments identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Income Tax Act

The entity did not submit the income tax returns as a public benefit organization, as required by section 28 of the Tax Exemption Guide for Public Benefit Organisations in South Africa (Issue 5) by the South African Revenue Services (SARS).

Other information

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 of South Africa, 2008 (Act No. 71 of 2008). 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.

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

In connection with our audit, our 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 our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

Internal control deficiencies

We considered internal control relevant to our audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, our 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 basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- Limited effective leadership was provided to ensure that the financial and performance information reported was accurate.
- Limited oversight responsibility over the financial and performance reporting and compliance and related internal controls.

Financial and performance management

- Management did not ensure that adequate record keeping is in place and available in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Insufficient design and implementation of formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Auditor tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ngubane & Co. (Jhb) Incorporated has been the auditor of National Urban Reconstruction and Housing Agency (NURCHA) and its subsidiaries (the group) for six years.

Ngubane & Co.

Ngubane and Company (Johannesburg Incorporated)
Edwin Chapanduka
Director
Registered Auditor

08 April 2019
Midrand

Independant Auditor’s Report to Parliament (continued)

Annexure – Auditor’s responsibility for the audit

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected programmes and on the public entity’s compliance with respect to the selected subject matters.

Financial statements

In addition to our responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, we also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity’s internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority;

- Conclude on the appropriateness of the board of directors, which constitutes the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NURCHA and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a public entity to cease continuing as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Communication with those charged with governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we determine those matters that were of the most significance in the audit of the consolidated and separate financial statements of the current period and are therefore key audit matters. We describe these matters in this auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in this auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Directors' Report

For the Period Ended 30 September 2018

The directors hereby present their report for the period ended 30 September 2018.

Nature of Business

The National Urban Reconstruction and Housing Agency (NURCHA) was incorporated in the Republic of South Africa as a non-profit company in terms of the Companies Act, 2008. The company is listed as a Schedule 3A public entity in terms of the Public Finance Management Act (PFMA). It was established in 1995 as a partnership between the South African Government, which was represented by the National Department of Human Settlements, and the Soros Economic Development Fund (SEDF). The NURCHA founding partner, SEDF, was consulted and the relationship was terminated amicably in 2015 to give way to the consolidation processes. The South African National Department of Human Settlements is, therefore, the only shareholder as at 30 September 2018.

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

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

The Programme and Fund Management Portfolio, which was established in April 2012, has continued to function during the period under review. Details of programmes conducted during the year are provided fully from pages 22 to 23.

Development Finance Institution Consolidation

During the 2007/2008 fiscal year, National Treasury undertook a review of the mandates of South Africa's Development Finance Institutions (DFIs) in consultation with the national departments responsible for them. The Treasury review recommended amalgamating the three housing sector entities, namely the RHLF, the NHFC and NURCHA into a single institution as a way of enhancing housing delivery.

Thereafter the National Department of Human Settlements reviewed the finance delivery mechanisms in the sector. This review found the following:

- The existing expertise and capacity need to be preserved; and
- Even when functioning together, the entities operate at too small a scale to impact significantly on the needs of South Africa's disadvantaged communities.

The then Minister of Human Settlements committed herself to the establishment of the Human Settlements Development Bank (HSDB) in support of the entire human settlements delivery value-chain, which will address:

- The lack of transformation in the sector;
- Inadequate bridging and developer finance;
- Insufficient end-user finance for a range of housing circumstances;
- Mobilisation of private sector partnerships; and
- The 'crowding in' of private sector funding.

This merger process is being undertaken in two phases. The first phase consists of NURCHA and the RHLF donating their businesses, assets and liabilities to the NHFC. Thereafter, the Department of Human Settlements will present Parliament with legislation to convert the NHFC to the HSDB.

Progress on Phase One

During the period under review, all the activities under phase one were achieved, including the authority for the NHFC to take on the commitments of NURCHA and RHLF. This is the subject of a PFMA Section 66 application that the NHFC obtained from the Minister of Finance on 17 September 2018. Subsequent to this, both NURCHA and RHLF transferred all assets, liabilities and commitments to NHFC, with effect from 1 October 2018. Going forward, NURCHA and RHLF will operate as divisions of the consolidated entity until the HSDB has been established.

Progress on Phase Two

The HSBD Policy Framework was approved by the Ministers and Members of the Executive Committee (MINMEC) during the previous financial year. The business case and enabling legislation are in the process of review and engagement. The first round of public consultations was conducted during the reporting period. Plans for the finalisation of the business case and consultations with private and other relevant stakeholders are currently under way. HSDB will be operational once the Bill for its establishment has been promulgated by Parliament. Any delay in the latter will negatively impact the capitalisation of the HSDB.

Change in Reporting Period

The effective date for the merger of the three entities as previously reported was 1 October 2018 as all conditions precedent were met. The assets and liabilities of NURCHA were transferred to NHFC with effect from this date. Refer to note 39 for details of assets and liabilities transferred to NHFC. NURCHA is, therefore, reporting for the six months period ended on 30 September 2018.

Subsidiary Companies

NURCHA has subsidiary companies which were established to ring-fence funds provided by various funders. These companies are 100% owned by NURCHA. Details of these companies are provided on page 5.

Directors, Prescribed Officers and Company Secretary

The names of the directors, prescribed officers and company secretary are stated on pages 80 to 81.

Material Resolutions

During the year under review, the company and its subsidiary companies made no material resolutions.

Directors' Report (continued)

For the Period Ended 30 September 2018

Directors' Responsibility for Financial Statements

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

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

The financial statements were approved by the directors on 8 April 2019.

Internal Controls

Establishing and maintaining an effective internal control environment is the responsibility of the Board. NURCHA management is committed to building a controls-based environment that is conducive to accurate, complete and valid financial reporting. No significant weaknesses in controls were identified during the current reporting period.

Directors' Statement on Going Concern Assumption

The going concern assumption has been adopted in preparing the financial statements. The directors have no reason to believe that the company will not be a going concern in the foreseeable future, based on the approved budget for the 2018/19 financial year, cash flow forecasts and available resources. NURCHA ceases to exist as a separate entity as all assets, liabilities and commitments have been transferred to NHFC at carrying value with effect from 1 October 2018. NURCHA will continue to operate as a division of NHFC in the foreseeable future and will meet all its statutory obligations after the transfer. The subsidiary companies will continue doing business as separate entities under NHFC. Shares previously held by NURCHA have been transferred to NHFC as part of NURCHA assets.

Property, Plant and Equipment

Furniture and equipment were acquired at a cost of R165 000 (31 March 2018: R1 509 000). There were no changes in the nature of property, plant and equipment, nor in the policy regarding their use during the year under review.

Group Construction Finance Facilities (30 September 2018 vs 31 March 2018)

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

	SEP 2018 R'000	MAR 2018 R'000
Construction finance capital received in the form of cash deposits	**468 409**	**481 238**
Public Investment Corporation (PIC) loan for construction finance	**70 000**	70 000
Total capacity before contingent liabilities	**538 409**	**551 238**
Commitments relating to loans signed and issued by NURCHA	**217 155**	**453 360**

Project Losses

There were no project losses for the group (NURCHA and its subsidiary companies) during the period under review. However, project losses amounting to R97 727 had been incurred as at 31 March 2018 as a result of defaults on loans to construction projects. The group will pursue legal action on some of the loans written off in prior years as these may be recovered from the contractors and/or employers. Some contractors have assets in the background and NURCHA's claims against these assets would be considered valid. In future, the project losses will be pursued under the NHFC group as they were transferred on the effective date.

Allowance for Impairment of Loans

During the period under review, the allowance for impairment of loans for the group increased by R12.2 million (31 March 2018: R56.2 million). The increase is mainly due to project loans that are in default. Diversion of funds by contractors and late payments by employers also contributed to this increase.

Delays in payment of contractor claims by other organs of state are still being experienced. These are worsened by diversion of funds when payments are eventually made. These risks have been brought to the attention of the Department of Human Settlements and National Treasury for their intervention. The intervention by the shareholder and National Treasury is needed because employees of other government departments are involved when funds are diverted. This is more common in instances where the government department does not verify client information loaded on the Central Supplier Database (CSD) as there are cases where contractors change their banking details on CSD without NURCHA's knowledge.

NURCHA has notified National Treasury of this risk. Interventions led by National Treasury are under way to explore ways in which the risk of diversion of funds can be reduced.

Loans to Subsidiary Companies

During the period under review, management took a decision to impair intercompany loans by an amount of R77.9 million because the recoverability of these loans is doubtful. The decision was informed by the fact that the financial position of these companies is very weak. Four of these companies are dormant and there are slim chances that their business growth will be significant in future. The intercompany loans have not been written off during the period under review. The impairments referred to above have no effect on the group results.

Subsidy Housing Programme

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

The loan values committed under the Subsidy Housing Programme as at 30 September 2018, using the direct lending method, amount to R43,3 million (31 March 2018: R147.1 million). The use of the direct lending model is in line with the decision of the Board in the 2012 financial year regarding the termination of the relationship with intermediaries to manage aspects of the loan book on NURCHA's behalf.

Tusk Construction and Support Services (Pty) Ltd (Tusk), however, has continued supporting projects that were signed through them to their completion, but all new projects are signed directly with NURCHA.

Fruitless and Wasteful Expenditure

During the year under review, NURCHA incurred fruitless and wasteful expenditure amounting to R1.925 million (31 March 2018: R48 425). The expenditure is classified as fruitless and wasteful because of non-compliance with the National Treasury Regulations and Supply Chain Management policy and procedures.

Refer to note 33 of the financial statements for details of fruitless and wasteful expenditure.

Irregular Expenditure

Irregular expenditure amounting to R96 436 (March 2018: R1.2 million) is reported during the period under review. The expenditure is classified as irregular because of non-compliance with the National Treasury Regulations and Supply Chain Management policy and procedures. There is evidence that value for money was derived from the list of irregular expenses since the services in question were rendered.

Refer to note 34 for details of the irregular expenditure and action taken against wrongdoers.

Auditors

The auditors of NURCHA and its subsidiary companies are Ngubane and Company. Their service contract was extended by an additional six-months period in order to perform the audit during the last six months of NURCHA's existence. They have carried out an independent examination of the financial statements in accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA), the General Notice issued in terms thereof and the International Standards on Auditing and have reported their findings in the audit report on pages 45 to 48.

Post-Balance Sheet Events

Mr Viwe Gqwetha, the Managing Director of NURCHA was seconded to the Housing Development Agency as an Administrator, from 15 February 2019.

The merger of the three entities (NURCHA, NHFC and RHLF) came into effect on 1 October 2018.

De-registration and Delisting of NURCHA

Once the financial statements are approved by the Board, management will proceed with the de-registration of NURCHA through the Companies and Intellectual Property Commission (CIPC) and South African Revenue Services (SARS) and will de-list NURCHA with National Treasury in terms of the PFMA.

Development Outputs

The following table provides development outputs for the six-months period ended 30 September 2018:

	Contracts signed		Houses/sites in contracts		Houses/sites/ projects completed		Loans signed (R million)		Project values (R million)	
	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**	Budget	**Actual**
Subsidy housing	28	**11**	10 160	**1 548**	5 048	**698**	92,0	**23,8**	1,020,0	**177,3**
Affordable housing	9	**4**	900	**244**	585	**484**	180,0	**50,3**	360,0	**125,3**
Infrastructure/ community facilities (projects)	1	**0**	N/A	**N/A**	1	**0**	4,0	**00**	50,0	**0**

NURCHA could not meet the performance targets for six months as demonstrated above. The under-performance is due to a number of factors, including the consolidation of the three DFIs which impacted the attention of senior management and, to some extent, the resignation of key staff members within the lending portfolio, as well as the delays experienced in signing the Irrevocable Payment Undertaking instrument by some employer departments.

The annual financial statements as set out on pages 42 to 90 have been approved by the directors on 8 April 2019 and are signed on their behalf by Mr K Shubane and Mr V Gqwetha.

Khehla Shubane	**Viwe Gqwetha**
Chairperson – Board	Managing Director

Statement of Financial Position as at 30 September 2018

		Group		Company	
Figures in R'000	Notes	30 September 2018	31 March 2018	30 September 2018	31 March 2018
Assets					
Current Assets					
Loans for construction projects	3	270,548	231,919	175,411	149,782
Receivables from exchange transactions	4	2,114	2,175	117	1,863
VAT receivable		29	-	-	-
Non-current assets held for sale	5	-	1,300	-	1,300
Cash and cash equivalents	6	252,593	338,819	242,386	283,470
		525,284	**574,213**	**417,914**	**436,415**
Non-Current Assets					
Property, plant and equipment	7	1,581	1,770	1,581	1,770
Intangible assets	8	98	185	98	185
Investments in controlled entities	9	-	-	1	1
Investments in associates	10	-	-	-	-
Loans to economic entities	11	-	-	78,055	96,842
Loans for construction projects	3	65,062	30,114	17,898	12,753
		66,741	**32,069**	**97,633**	**111,551**
Total Assets		**592,025**	**606,282**	**515,547**	**547,966**
Liabilities					
Current Liabilities					
Current tax payable	13	-	1,887	-	-
Payables from exchange transactions	12	12,186	12,983	2,432	3,747
Provisions	14	5,159	1,904	4,849	1,904
		17,345	**16,774**	**7,281**	**5,651**
Non-Current Liabilities					
PIC loan	15	**69,976**	**69,976**	**-**	**-**
Total Liabilities		**87,321**	**86,750**	**7,281**	**5,651**
Net Assets		**504,704**	**519,532**	**508,266**	**542,315**
Capital contributed by Government	16	361,000	361,000	361,000	361,000
Other reserves		199,284	199,284	199,284	199,284
Formation grants	17	38,300	38,300	38,300	38,300
Accumulated surplus		(93,880)	(79,046)	(90,318)	(56,265)
Total Net Assets		**504,704**	**519,538**	**508,266**	**542,319**

Statement of Financial Performance

		Group		Company	
Figures in R'000	**Notes**	**6 months ended 30 September 2018**	**31 March 2018**	**6 months ended 30 September 2018**	**31 March 2018**
Revenue					
Revenue from exchange transactions					
Fees on loans for construction projects		2,800	11,922	1,959	7,943
Fees charged to controlled entities		-	-	6,937	22,829
Interest on loans for construction projects		23,394	42,719	15,559	31,327
Other income		1,418	4,770	115	965
Programme management fees	18	2,481	52,654	-	-
Interest received from Investments		9,701	23,825	8,765	18,325
Interest on loans to controlled entities	19	-	-	2,331	5,099
Total revenue from exchange transactions		**39,794**	**135,890**	**35,666**	**86,488**
Expenditure					
Employee related costs	20	(24,059)	(41,725)	(24,059)	(41,726)
Depreciation and amortisation		(442)	(1,212)	(442)	(1,212)
Finance costs	21	(3,508)	(7,224)	-	-
Lease rentals on operating lease		(1,438)	(2,768)	(1,251)	(2,179)
Bad debts written off	22	-	(98)	-	(98)
Repairs and maintenance		(86)	(206)	(71)	(196)
Other operating expenses	23	(9,553)	(45,125)	(7,533)	(11,490)
Total expenditure		**(39,086)**	**(98,358)**	**(33,356)**	**(56,901)**
Operating surplus		**708**	**37,532**	**2,310**	**29,587**
Gain on disposal of property, plant and equipment		-	26	-	26
Gain / (loss) on fair value adjustment		(837)	2,296	(780)	2,084
Movements in impairments - loans		(12,226)	(56,182)	(35,583)	(56,954)
		(13,063)	**(53,860)**	**(36,363)**	**(54,844)**
Deficit before taxation		**(12,355)**	**(16,328)**	**(34,053)**	**(25,257)**
Taxation	13	(232)	(1,887)	-	-
Deficit for the 6 months		**(12,587)**	**(18,215)**	**(34,053)**	**(25,257)**

Statement of Changes in Net Assets

Figures in R'000	Capital contributed by Government	Other reserves	Formation grants	Total reserves	Accumulated surplus	Total net assets
Group						
Balance at 01 April 2017	**361,000**	**199,284**	**38,300**	**237,584**	**(60,831)**	**537,753**
Changes in net assets						
Deficit for the year	-	-	-	-	(18,215)	(18,215)
Total changes	-	-	-	-	(18,215)	(18,215)
Opening balance as previously reported	361,000	199,284	38,300	237,584	(79,046)	519,538
Adjustments	-	-	-	-	(2,247)	(2,247)
Correction of errors						
Balance at 01 April 2018 as restated*	**361,000**	**199,284**	**38,300**	**237,584**	**(81,293)**	**517,291**
Changes in net assets						
Deficit for the 6 months	-	-	-	-	(12,587)	(12,587)
Total changes	-	-	-	-	(12,587)	(12,587)
Balance at 30 September 2018	**361,000**	**199,284**	**38,300**	**237,584**	**(93,880)**	**504,704**
Note(s)	16		17			
Company						
Balance at 01 April 2017	**361,000**	**199,284**	**38,300**	**237,584**	**(31,008)**	**567,576**
Changes in net assets						
Deficit for the year	-	-	-	-	(25,257)	(25,257)
Total changes	-	-	-	-	(25,257)	(25,257)
Balance at 01 April 2018	**361,000**	**199,284**	**38,300**	**237,584**	**(56,265)**	**542,319**
Changes in net assets						
Deficit for the 6 months	-	-	-	-	(34,053)	(34,053)
Total changes	-	-	-	-	(34,053)	(34,053)
Balance at 30 September 2018	**361,000**	**199,284**	**38,300**	**237,584**	**(90,318)**	**508,266**
Notes	16		17			

Cash Flow Statement

		Group		Company	
Figures in R'000	Notes	6 months ended 30 September 2018	31 March 2018	6 months ended 30 September 2018	31 March 2018
Cash flows from operating activities					
Receipts					
Loan fees and interest from loans		27,095	89,819	17,597	29,482
Loan repayments		-	66,544	-	49,651
Interest income - bank		13,090	-	10,620	-
Other reciepts		1,554	4,770	138	965
		41,739	161,133	28,355	80,098
Payments					
Employee costs		(21,709)	(41,726)	(21,709)	(41,726)
Suppliers		(12,318)	(116,261)	(8,021)	(11,228)
Finance costs		(3,508)	(7,224)	-	-
Other payments		(2,968)	-	-	-
		(40,503)	(165,211)	(29,730)	(52,954)
Net cash flows from operating activities	25	**1,236**	**(4,078)**	**(1,375)**	**27,144**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(166)	(1,509)	(166)	(1,509)
Proceeds from sale of property, plant and equipment	7	8	33	8	33
Loans repayments from controlled entities		-	-	14,320	-
Loan repayments for construction projects		147,851	-	138,196	-
Loan advanced to economic entities		-	-	(12,170)	29,020
Loan disbursements for construction projects		(235,618)	60,641	(182,945)	-
Proceeds from sale of held for sale investments		1,300	-	1,300	-
Net cash flows from investing activities		**(86,625)**	**59,165**	**(38,929)**	**98,543**
Net increase/(decrease) in cash and cash equivalents		**(85,389)**	**55,087**	**(40,304)**	**125,687**
Cash and cash equivalents at the beginning of the year		338,819	281,436	283,470	155,699
Gain / (loss) on fair value adjustment		(837)	2,296	(780)	2,084
Cash and cash equivalents at the end of the period	6	**252,593**	**338,819**	**242,386**	**283,470**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in R'000	Budget for 6 months	Adjustments	Budget for 6 months	Actual amounts for 6 months	Difference between budget and actual	Reference: Note 38
Group						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Fees on loans for construction projects	5,655	-	**5,655**	2,800	**(2,855)**	(d)
Interest on loans for construction projects	23,383	-	**23,383**	23,394	**11**	
Other income	60	-	**60**	1,418	**1,358**	
Programme management fees	4,423	-	**4,423**	2,481	**(1,942)**	(f)
Interest received - investment and controlled enti	6,890	-	**6,890**	9,701	**2,811**	
Total revenue from exchange transactions	**40,411**	-	**40,411**	**39,794**	**(617)**	
Expenditure						
Personnel	(22,249)	-	**(22,249)**	(24,059)	**(1,810)**	(a)
Depreciation and amortisation	(607)	-	**(607)**	(442)	**165**	
Finance costs	(3,499)	-	**(3,499)**	(3,508)	**(9)**	
Lease rentals on operating lease	(630)	-	**(630)**	(1,438)	**(808)**	(b)
Repairs and maintenance	(56)	-	**(56)**	(86)	**(30)**	
General expenses	(11,445)	-	**(11,445)**	(9,553)	**1,892**	
Total expenditure	**(38,486)**		**(38,486)**	**(39,086)**	**(600)**	
Operating surplus	**1,925**	-	**1,925**	**708**	**(1,217)**	
Gain / (loss) on fair value adjustment	-	-	**-**	(837)	**(837)**	
Movements in impairments - loans	857	-	**857**	(12,226)	**(13,083)**	(c)
	857	-	**857**	**(13,063)**	**(13,920)**	
Deficit before taxation	**2,782**	-	**2,782**	**(12,355)**	**(15,137)**	
Taxation	-	-	**-**	232	**232**	
Surplus / (deficit) for the year	**2,782**	-	**2,782**	**(12,587)**	**(15,369)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in R'000	Budget for 6 months	Adjustments	Budget for 6 months	Actual amounts for 6 months	Difference between budget and actual	Reference: Note 38
Statement of Financial Position						
Assets						
Current Assets						
Loans for construction projects	371,178	-	**371,178**	270,548	**(100,630)**	(d)
Receivables from exchange transactions	9,347	-	**9,347**	2,114	**(7,233)**	
VAT receivable	-	-	**-**	29	**29**	
Cash and cash equivalents	255,401	-	**255,401**	252,593	**(2,808)**	
	635,926	**-**	**635,926**	**525,284**	**(110,642)**	
Non-Current Assets						
Property, plant and equipment	1,202	-	**1,202**	1,581	**379**	
Intangible assets	768	-	**768**	98	**(670)**	
Loans for construction projects	28,000	-	**28,000**	65,062	**37,062**	(d)
	29,970	**-**	**29,970**	**66,741**	**36,771**	
Total Assets	**665,896**	**-**	**665,896**	**592,025**	**(73,871)**	
Liabilities						
Current Liabilities						
Payables from exchange	41,619	-	**41,619**	12,186	**(29,433)**	
transactions Provisions	2,602	-	**2,602**	5,159	**2,557**	(e)
Managed funds	5,286	-	**5,286**	-	**(5,286)**	(f)
	49,507	**-**	**49,507**	**17,345**	**(32,162)**	
Non-Current Liabilities						
PIC loan	69,976	-	**69,976**	69,976	**-**	
Total Liabilities	**119,483**	**-**	**119,483**	**87,321**	**(32,162)**	
Net Assets	**546,413**	**-**	**546,413**	**504,704**	**(41,709)**	
Net Assets						
Capital contributed by Government	361,000	-	**361,000**	361,000	**-**	
Reserves						
Other reserves	199,284	-	**199,284**	199,284	**-**	
Formation grants	38,300	-	**38,300**	38,300	**-**	
Accumulated surplus	(52,171)	-	**(52,171)**	(93,880)	**(41,709)**	
Total Net Assets	**546,413**	**-**	**546,413**	**504,704**	**(41,709)**	

Accounting Policies

1. Presentation of Consolidated And Separate Annual Financial Statements

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

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

The going concern assumption has been adopted in preparing these consolidated and separate financial statements. The directors have no reason to believe that the function of NURCHA will not be a going concern in the foreseeable future based on the 2018/19 budget, cash flow forecasts and available cash resources. The going concern issues faced by the group are further explained in note 40.

1.3 Consolidation Basis of consolidation

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

The consolidated and separate financial statements incorporate consolidated and separate financial statements of the company and all controlled entity, which are controlled by the company.

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

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

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

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

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

Investment in associates

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

1.3 Consolidation (continued)

An investment in associate is accounted for using the cost method. Under the cost method, investments in associates are carried in the consolidated statement of financial position at cost less any impairment losses.

1.4 Significant judgements and sources of estimation uncertainty

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

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

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

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

Provisions

Provisions were raised and management determined an estimate based on the latest information available.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Receivables from exchange transactions

Trade receivables is a legally enforceable claim for payment held by a business for goods and services rendered that customer/clients have ordered but not paid for. These are generally in the form of invoices raised by a business and delivered to the customer for payment within agreed time frame.

An exchange transaction is one in which NURCHA receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primary in the form of goods, services or the use of assets) to other party in exchange.

Trade receivables are initially measured at the fair value of the consideration receivable.

Payables from exchange transactions

Trade payables is the aggregate amount of the entity's short-term obligations to pay suppliers for products and services which the entity purchased on credit.

Trade payables are initially measured at the fair value, net of trade discounts.

1.5 Property, plant and equipment

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

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

- it is probable that future economic benefits or service potential associated with the item will flow to the group; and
- the cost of the item can be measured reliably. Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

1.6 Intangible assets

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

An asset is identifiable if it either:

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

Accounting Policies (continued)

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

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

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

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

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

Internally generated goodwill is not recognised as an intangible asset.

Item	**Useful life**
Computer software, internally generated	3 years
Computer software, other	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

1.7 Investments in controlled entities
Group consolidated and separate annual financial statements
The group financial statements include those of a company and its controlled entities. The revenue and expenses of the controlled entities are included from the effective date of acquisition.

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

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

1.8 Investments in associates
Group consolidated and separate annual financial statements
An investment in an associate is accounted for using the cost method.
Any impairment losses are deducted from the carrying amount of the investment in associate.
Distributions received from the associate are recorded as dividends and does not reduce the carrying amount of the investment.
Company consolidated and separate annual financial statements
An investment in an associate is carried at cost less accumulated impairment.

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

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

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

1.9 Non-current assets held for sale (continued)
Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

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

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

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

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

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

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

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

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions. Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Accounting Policies (continued)

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

Financial instruments at amortised cost are financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

Classification
entity has the following types of financial assets and financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans for construction projects	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Payables from exchange transactions	Financial asset measured at amortised cost
Loans to economic entities	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value
PIC loan, provisions and other payables	Financial liability measured at fair value

Initial recognition
The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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

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

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

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

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

Tax expenses
Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

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

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

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

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

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

The capital contributed by government are measured at cost.

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 28.

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

Disclosures are required in respect of unrecognised contractual commitments.

Accounting Policies (continued)

1.16 Commitments (continued)
Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions. The loan commitment is determined using the approved loan amount. This is adjusted with any amendment / addendum to the approved amounts where applicable.

The supplier commitment is determined using the approved contract amount adjusted with payment made to date.

Lease commitment is derived from the signed lease agreement based on the future lease premiums.

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

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

Gains and losses arising from a change in the fair value of financial investments are included in net surplus or deficit in the period in which they arise.

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

Rendering of services
When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the group;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Initiation fees are raised when the loan agreement is signed by the two parties. Other fees that are charged by the entity for servicing the loan are recognised as revenue as the services are provided.

Interest
Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method. Interest is calculated on the outstanding capital amount.

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

Gains or losses arising from changes in the fair value of investment are included in surplus or deficit for the period in which it arises.

1.19 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 6 months that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 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.

1.20 Irregular expenditure (continued)

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.

1.21 Budget information

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

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

The approved budget is prepared on an accrual basis and presented by programmes linked to performance outcome objectives.
The budget for the economic entity includes all the entities approved budgets under its control.

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

1.22 Related parties

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

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

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

All transactions with related parties are disclosed.

1.23 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.

1.24 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.

Accounting Policies (continued)

1.24 Transfer of functions between entities under common control (continued)
Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

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

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

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

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an group's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole group. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:
- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

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

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

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

1.25 Loans to/(from) economic entities
The loans to economic entities are recognised at amortised cost, using the effective interest method.

Where controlled entities find themselves in financial distress, the interest rate on the loans from NURCHA may be reduced to zero percent as the controlled entity is unable to pay any interest due to NURCHA as a result of that distress.

1.26 Loans for construction projects
Loans for construction projects are recognised when all the conditions precedent are met and the contract is signed by both parties.

Notes to the Consolidated and Separate Annual Financial Statements

Notes to the Consolidated And Separate Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The group has not applied the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 October 2018 or later periods:

Standard/ Interpretation:	Effective date:	Expected impact:
Years beginning on or after	No effective date has been determined.	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statemets	No effective date has been determined.	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statments	No effective date has been determined.	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	No effective date has been determined.	Unlikely there will be a material impact
• GRAP 37: Joint Arrangemets	No effective date has been determined.	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	No effective date has been determined	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	No effective date has been determined	Unable to reliably estimate the impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	30 September 2018	31 March 2018	30 September 2018	31 March 2018
3. Loans for construction projects				
Designated at fair value				
Loans for construction projects	421,128	335,324	269,428	228,548
Impairments of loans	(85,518)	(73,291)	(76,119)	(66,013)
	335,610	**262,033**	**193,309**	**162,535**
Non-current assets				
Loans for construction projects	65,062	30,114	17,898	12,753
Current assets				
Loans for construction projects	270,548	231,919	175,411	149,782
Repayment schedule:				
31 March 2019	255,394	305,209	182,944	215,795
31 March 2020	122,459	29,947	70,617	12,585
31 March 2021	27,522	124	114	124
31 March 2022	15,753	44	15,753	44
	421,128	**335,324**	**269,428**	**228,548**

The loans are secured by subordination or cession of shareholders' loans in the borrowing entities; cession of book debts; work in progress in projects; mortgage bonds over properties; pledges of cash balances and personal suretyships from the borrowing entities' shareholders (where applicable). These securities are ceded to funders where applicable. In respect of subsidy housing approved loans in excess of R10 million, tangible security is required. As at 30 September 2018 the available tangible securities were aggregated at R660 million (March 2018: R756 million) for affordable housing loans and R2.3 million (March 2018: R2.3 million) for subsidy housing loans.

Allowance for impairment of loans

Reconciliation of changes in allowance for impairment of loans - Group - September 2018

	Opening balance	Contributions	Reversals	Written off	Closing balance
Impairments of loans	73,290	13,495	(1,267)	-	85,518

Reconciliation of changes in allowance for impairment of loans - Group - March 2018

	Opening balance	Contributions	Reversals	Written off	Closing balance
Impairment of loans	17,108	57,924	(1,644)	(98)	73,290

Reconciliation of changes in allowance for impairment of loans - Company - September 2018

	Opening balance	Contributions	Reversals	Written off	Closing balance
Impairment of loans	66,012	11,188	(1,081)	-	76,119

Reconciliation of changes in allowance for impairment of loans - Company - March 2018

	Opening balance	Contributions	Reversals	Written off	Closing balance
Impairment of loans	11,754	55,374	(1,018)	(98)	66,012

Impairments are raised after applying the security value of the property over which the mortgage bond is registered. The security value is arrived at based on initial valuation done by an independent and registered valuator.

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	30 September 2018	31 March 2018	30 September 2018	31 March 2018
4. Receivables from exchange transactions				
Prepayments	-	1	-	1
Deposits	41	38	-	-
Interest and other receivables	117	2,113	117	1,862
Programme management receivables	1,939	-	-	-
VAT receivable	17	23	-	-
	2,114	**2,175**	**117**	**1,863**

5. Non-current assets held for sale

A decision was taken to sell an associate and a buyer was identified. The sale agreement was signed by the two parties. The price of the investment was fixed at R1.3 million which was based on a valuation that was done by an independent valuator. The sale was finalised and payment from the buyer was received on 13 April 2018.

	Group		Company	
Reconciliation of changes in non-current assets held for sale				
Opening balance	1,300	1,300	1,300	1,300
Sale of shares	(1,300)	-	(1,300)	-
	-	**1,300**	**-**	**1,300**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	Group		Company	
Cash on hand	3	3	3	3
Bank balances	11,580	56,081	1,460	816
Short-term deposits	241,010	282,735	240,923	282,651
	252,593	**338,819**	**242,386**	**283,470**

7. Property, plant and equipment

Group	September 2018			March 2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold property	852	(192)	660	852	(107)	745
Furniture and fixtures	784	(649)	135	784	(626)	158
Computer equipment	2,348	(1,562)	786	2,183	(1,315)	868
Total	**3,984**	**(2,403)**	**1,581**	**3,819**	**(2,048)**	**1,771**

Company	September 2018			March 2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold property	852	(192)	660	852	(107)	745
Furniture and fixtures	784	(649)	135	784	(626)	158
Computer equipment	2,348	(1,562)	786	2,183	(1,315)	868
Total	**3,984**	**(2,403)**	**1,581**	**3,819**	**(2,048)**	**1,771**

Notes to the Consolidated And Separate Annual Financial Statements

Figures in R'000

Reconciliation of property, plant and equipment - Group - September 2018

	Opening balance	Additions	Depreciation	Total
Leasehold property	745	-	(85)	660
Furniture and fixtures	158	-	(23)	135
Computer equipment	868	165	(247)	786
	1,771	**165**	**(355)**	**1,581**

Reconciliation of property, plant and equipment - Group - March 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	-	852	-	(107)	745
Furniture and fixtures	74	116	-	(32)	158
Computer equipment	819	541	(7)	(485)	868
	893	**1,509**	**(7)**	**(624)**	**1,771**

Reconciliation of property, plant and equipment - Company - September 2018

	Opening balance	Additions	Depreciation	Total
Leasehold property	745	-	(85)	660
Furniture and fixtures	158	-	(23)	135
Computer equipment	868	165	(247)	786
	1,771	**165**	**(355)**	**1,581**

Reconciliation of property, plant and equipment - Company - March 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	-	852	-	(107)	745
Furniture and fixtures	74	116	-	(32)	158
Computer equipment	819	541	(7)	(485)	868
	893	**1,509**	**(7)**	**(624)**	**1,771**

Notes to the Consolidated And Separate Annual Financial Statements

Figures in R'000

8. Intangible assets

Group

	September 2018			March 2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	4,022	(4,022)	-	4,022	(4,022)	-
Computer software, other	2,643	(2,545)	98	2,643	(2,458)	185
Total	**6,665**	**(6,567)**	**98**	**6,665**	**(6,480)**	**185**

Company

	September 2018			March 2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	4,022	(4,022)	-	4,022	(4,022)	-
Computer software, other	2,643	(2,545)	98	2,643	(2,458)	185
Total	**6,665**	**(6,567)**	**98**	**6,665**	**(6,480)**	**185**

Reconciliation of intangible assets - Group - September 2018

	Opening balance	Disposals	Amortisation	Total
Computer software, other	185	-	(87)	98

Reconciliation of intangible assets - Group - March 2018

	Opening balance	Amortisation	Total
Computer software, internally generated	320	(320)	-
Computer software, other	450	(265)	185
	770	**(585)**	**185**

Reconciliation of intangible assets - Company - September 2018

	Opening balance	Disposals	Amortisation	Total
Computer software, other	185	-	(87)	98

Reconciliation of intangible assets - Company - March 2018

	Opening balance	Amortisation	Total
Computer software, internally generated	320	(320)	-
Computer software, other	450	(265)	185
	770	**(585)**	**185**

Notes to the Consolidated And Separate Annual Financial Statements

Figures in R'000

9. Investments in controlled entities

Name of subsidiary	% holding September 2018	% holding March 2018	Carrying amount September 2018	Carrying amount March 2018
NURCHA Finance Company (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Equity Services (Pty) Ltd	100.00 %	100.00 %	1	1
NURCHA Development Finance (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Management Services (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Bridging Finance (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Loan Fund (Pty) Ltd	100.00 %	100.00 %	-	-
			1	**1**

The carrying amounts of controlled entities are shown at cost.

10. Investments in associates

Name of associate	% holding September 2018	% holding March 2018	Carrying amount September 2018	Carrying amount March 2018
SEBRA (Pty) Ltd	0 %	30.00 %	-	1,044
			-	1,044
Investments in associate written off			-	(1,044)
			-	-

The company was liquidated on 08 August 2017 and the investment was written off.

11. Loans to (from) economic entities

Controlled entities - Subsidiaries				
NURCHA Management Services (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	22,087	18,249
NURCHA Finance Company (Proprietary) Limited The loan is unsecured and has no fixed term. The loan is interest free.	-	-	13,270	13,479
NURCHA Equity Services (Proprietary) Limited The loan is unsecured and has no fixed term. The loan is interest free.	-	-	12,917	12,878

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	**30 September 2018**	**31 March 2018**	**30 September 2018**	**31 March 2018**
NURCHA Development Finance (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	18,309	25,130
NURCHA Bridging Finance (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	24,726	18,278
NURCHA Loan Fund (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	64,654	61,259
	-	-	155,963	149,273
Impairment of loans to controlled entities	-	-	(77,908)	(52,431)
	-	**-**	**78,055**	**96,842**

The net impairments of loans raised for the year is R 25.4 million. These loans are classified as non-current loans because the Board does not intend to request repayment of the loans in the next 12 months. All loans to controlled entities will be transferred to NHFC. Refer to note 29 for detailed transactions with the subsidiaries.

Reconciliation of provision for impairment of loans to economic entities

Opening balance	-	-	52,431	49,735
Provision for impairment	-	-	25,686	5,720
Unused amounts reversed	-	-	(209)	(3,024)
	-	**-**	**77,908**	**52,431**

12. Payables from exchange transactions

Trade payables	2,761	1,704	1,626	1,675
CFDP Grant	5,862	7,780	-	-
Other payables	-	325	-	305
Payroll related liabilities	127	232	127	232
Other accrued expenses	1,160	2,824	679	1,535
Deferred revenue	2,276	-	-	-
VAT payables	-	117	-	-
	12,186	**12,983**	**2,432**	**3,747**

13. Taxation

Major components of the tax expense

Current

Local income tax - current year	-	1,887	-	-
Local income tax - current 6 months	232	-	-	-
	232	**1,887**	**-**	**-**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	30 September 2018	31 March 2018	30 September 2018	31 March 2018
Reconciliation of the tax expense				
Reconciliation between accounting surplus and tax expense:				
Accounting deficit	(12,355)	(16,328)	-	-
Tax at the applicable tax rate of September 2018: 28% (March 2018: 28%)	(3,526)	(4,572)	-	-
Tax effect of adjustments on taxable income				
Tax losses carried forward	(889)	(613)	-	-
Non taxable income	4,647	7,072	-	-
	232	1,887	-	-

14. Provisions

Reconciliation of provisions - Group - September 2018

	Opening Balance	Additions	Utilised during the year	Total
Transfer of functions provision	-	1,251	-	1,251
Leave provision	1,904	609	(321)	2,192
13th cheque provision	-	234	-	234
Performance bonus provision	-	1,482	-	1,482
	1,904	**3,576**	**(321)**	**5,159**

Reconciliation of provisions - Group - March 2018

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	2,228	139	(463)	1,904

Reconciliation of provisions - Company - September 2018

	Opening Balance	Additions	Utilised during the year	Total
Transfer of functions provision	-	941	-	941
Leave provision	1,904	609	(321)	2,192
13th cheque provision	-	234	-	234
Performance bonus provision	-	1,482	-	1,482
	1,904	**3,266**	**(321)**	**4,849**

Reconciliation of provisions - Company - March 2018

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	2,228	139	(463)	1,904

15. PIC loan

PIC Loan	69,976	69,976	-	-

The loan bears interest at prime interest rate and interest is serviced monthly. The capital is repayable in eight equal quarterly instalments commencing on 1 July 2021. The loan is secured by subordination of shareholder's loan account; pledge and cession of bank account, shares and book debts; and cession of developer securities.

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	**30 September 2018**	**31 March 2018**	**30 September 2018**	**31 March 2018**
16. Capital contributed by Government				
Capital grants received	361,000	361,000	361,000	361,000
17. Formation grants				
Open Society Institute of New York	18,300	18,300	18,300	18,300
SA Government - Department of Human Settlements	20,000	20,000	20,000	20,000
	38,300	**38,300**	**38,300**	**38,300**
18. Programme management fees				
Fees earned on various support programmes	2,481	52,654	-	-
19. Interest received from investments				
Controlled entities	-	-	2,331	5,099
Interest revenue				
Money markets	7,578	22,348	6,944	18,184
Current accounts	2,123	1,477	1,821	141
	9,701	**23,825**	**8,765**	**18,325**
	9,701	**23,825**	**11,096**	**23,424**
20. Employee related costs				
Basic pay	17,278	33,849	17,278	33,849
Performance bonus	3,132	2,796	3,132	2,796
Unemployment insurance fund	45	89	45	89
Workmen's compensation fund	2	24	2	24
Skills development levy	184	360	184	361
Leave pay provision charge	609	134	609	134
Travel, motor car, accommodation, subsistence and other allowances	56	223	56	223
Group life insurance	233	475	233	475
Temporary staff	2,520	3,775	2,520	3,775
	24,059	**41,725**	**24,059**	**41,726**
21. Finance costs				
Interest paid on borrowings	3,508	7,224	-	-
22. Bad debts written off				
Bad debts written off - other loans	-	98	-	98

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

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
	30 September 2018	31 March 2018	30 September 2018	31 March 2018
23. Other operating expenses				
Auditors remuneration	2,100	2,257	1,447	1,844
Bank charges	76	116	28	16
Cleaning	104	185	104	185
Consulting and professional fees	2,983	4,675	2,658	3,665
Consumables	43	68	31	53
Debt collection	134	2,609	134	354
Entertainment	-	5	-	5
Fines and penalties	319	1	-	-
Insurance	141	240	141	215
Marketing	311	551	311	430
Annual report	222	124	222	124
Placement fees	539	278	539	278
Postage and courier	32	72	30	62
Printing and stationery	236	420	212	372
Secretarial fees (refunds)	(4)	50	3	49
Software expenses	91	728	48	702
Staff welfare	19	2	19	2
Subscription and membership fees	88	127	66	102
Telephone and fax	240	508	229	471
Training	571	816	571	816
Travel - local	677	1,092	295	730
Assets expensed	-	3	-	3
Electricity	369	673	369	673
General expenses	76	334	76	339
Progamme implementation expenses	186	29,191	-	-
	9,553	**45,125**	**7,533**	**11,490**
24. Auditors' remuneration				
Fees	1,960	2,155	1,317	1,742
Expenses	140	102	130	102
	2,100	**2,257**	**1,447**	**1,844**
25. Cash generated from (used in) operations				
Deficit	(12,587)	(18,215)	(34,053)	(25,257)
Adjustments for:				
Depreciation and amortisation	442	1,212	442	1,212
Increase in impairments of loans	12,226	56,182	35,583	54,258
Gain on disposal of property, plant and equipment	-	(26)	-	(26)
Fair value loss on investments	837	(2,296)	780	(2,084)
Interest from controlled entities	-	-	(2,331)	-
Fees from controlled entities	-	-	(6,937)	-
Movements in provisions	3,255	(324)	2,711	(324)
Changes in working capital:				
Receivables from exchange transactions	539	25,246	2,254	(1,291)
Payables from exchange transactions	(3,476)	(15,995)	1,176	656
Managed funds	-	(49,862)	-	-
	1,236	**(4,078)**	**(1,375)**	**27,144**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	**30 September 2018**	**31 March 2018**	**30 September 2018**	**31 March 2018**
26. Tax paid				
Balance at beginning of the year	-	(641)	-	-
Balance at beginning of the 6 months	(1,887)	-	-	-
Current tax for the period recognised in surplus or deficit	(232)	(1,887)	-	-
Under/(over) provision prior year	-	(104)	-	-
Balance at end of the 6 months	232	1,887	-	-
	(1,887)	**(745)**	**-**	**-**
27. Commitments				
(a) Commitments in respect of lending operational requirements				
Loans for construction projects				
Approved and contracted for				
• Affordable housing loans	89,318	293,901	34,564	186,145
• Subsidy housing loans	43,329	147,095	43,329	147,095
• Infrastructure loans	-	12,543	-	-
	132,647	**453,539**	**77,893**	**333,240**
Approved but not yet contracted for				
• Affordable housing loans	-	104,870	-	-
• Subsidy housing loans	-	37,450	-	37,450
	-	**142,320**	**-**	**37,450**
Total lending operational commitments	132,647	595,859	77,893	370,690

Refer to note 31 for risk management measures that are implemented by the group.

(b) Commitments in respect of operational contracts				
Total commitments				
Operational contracts	4,644	3,893	4,644	3,893
Programme management contracts	1,643	820	-	-
Total operational contracts	**6,287**	**4,713**	**4,644**	**3,893**
(c) Operating leases - as lessee (expense)				
Minimum lease payments due				
- within one year	-	1,654	-	1,654
- in second to fifth year inclusive	-	596	-	596
	-	**2,250**	**-**	**2,250**

The commitments that were previously reported were for the lease rental at the premises of the NHFC, in which the entity has now transferred its function thereby no further commitment are reportable.

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	30 September 2018	31 March 2018	30 September 2018	31 March 2018

28. Contingencies

Contingent liabilities
A few months before the expiry of a contract, a former service provider offered NURCHA to upgrade pots for office plants at no additional cost. To prove that there would be no additional cost, the service provider asked a junior staff member (a trainee administrator) to sign a price list confirming that the price had not changed. At the time of expiry of the contract the service provider brought an unsigned contract attached as a first page to the signed price list and claimed that the contract had been extended for 36 months. The service provider, however, failed to produce a signed contract and instituted legal action when NURCHA disputed the unsigned contract. The service provider is claiming R153,450 plus costs.

The legal opinion that NURCHA obtained is that this claim is not valid and NURCHA should continue to defend the matter in court.

Contingent assets
In terms of the collection process after a court judgement has been passed against a debtor that has defaulted, the debt is written off to a maximun amount of R2.There are a few of these matters that are still being pursued for further collection; and there is a possible estimated recovery of R2,5 million that can be collected through the current collection process.

29. Related parties

Relationships	Reference
Member	South African Government through the Department of Human Settlements. Refer to note 35
Holding company	
Controlled entities	Refer to note 9
Associates	Refer to note 10
Shareholder with significant influence	Refer to note 35
Members' and prescribed officers' emoluments	Refer to note 30
Loans to controlled entities (subsidiaries)	Refer to note 11

Balances and transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation. All of the transactions between the group and other related parties are at arms' length and are disclosed below:

Related party transactions	September 2018	March 2018
NURCHA Management Services (Proprietary) Limited		
- Administration fees	3,815	10,448
- Interest	-	138
- Loan repayments	31	49,512
- Loan disbursements	(53)	(9,700)
NURCHA Finance Company (Proprietary) Limited		
- Administration fees	10	20
- Loan repayments	1,500	3,164
- Loan disbursements	(1,281)	(300)
NURCHA Equity Services (Proprietary) Limited		
- Administration fees	10	20
- Loan repayments	29	-
NURCHA Development Finance (Proprietary) Limited		
- Administration fees	25	50
- Interest	653	1,506
- Loan repayments	7,500	200

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	**30 September 2018**	**31 March 2018**	**30 September 2018**	**31 March 2018**
NURCHA Bridging Finance (Proprietary) Limited				
- Administration fees			1,057	6,119
- Interest			133	-
- Loan repayments			259	17,300
- Loan disbursements			(5,517)	(23,534)
NURCHA Loan Fund (Proprietary) Limited				
- Administration fees			2,019	6,172
- Interest			1,545	3,455
- Loan repayments			7,703	4,000
- Loan disbursements			(7,274)	-
			12,164	**68,570**

30. Members' and prescribed officers' emoluments

Executive members

September 2018

	Salary	Bonus	Provident	Other benefits *	Total
Mr V Gqwetha (Managing Director)	1,069	159	233	33	1,494
Mr S Nxusani (Financial Director)	896	101	177	26	1,200
Ms A Struwig (Executive Director: Lending Portfolio) ^	766	96	85	23	970
	2,731	**356**	**495**	**82**	**3,664**

March 2018

	Salary	Bonus	Pension paid or receivable	Other benefits *	Total
Mr V Gqwetha (Managing Director)	2,216	267	438	66	2,987
Mr S Nxusani (Financial Director)	1,686	203	333	50	2,272
Ms A Struwig (Executive Director: Lending Portfolio)	1,729	246	192	50	2,217
	5,631	**716**	**963**	**166**	**7,476**

* Other benefits comprise of Unemployement Insurance Fund (UIF), Skills Development Levy (SDL) and group risk insurance.

^ Ms A Struwig resigned from the position of Lending Director on 31 August 2018.

Notes to the Consolidated And Separate Annual Financial Statements

Figures in R'000

Non-executive members

September 2018

	Members' fees	Total
Mr K Shubane (Chairman)	333	333
Mr C de Beer	46	46
Ms M Nkomo	120	120
Mr T Nzimakwe	222	222
Mr H Prinsloo	57	57
Ms Z Rylands	151	151
Ms L Sing	203	203
	1,132	**1,132**

March 2018

	Members' fees	Total
Mr K Shubane (Chairman)	348	348
Mr C de Beer	78	78
Mr W Ndodana ^	35	35
Ms M Nkomo	129	129
Mr T Nzimakwe	266	266
Mr H Prinsloo	103	103
Ms Z Rylands	178	178
Ms L Sing	208	208
	1,345	1,345

^ Mr W Ndodana resigned from the Board on 02 May 2018.

Prescribed officers

September 2018

	Salary	Bonus	Provident	Other benefits *	Total
Mr Y Chitsime #	286	-	35	8	329
Ms N Ndzimbomvu	574	60	64	17	715
Mr Q Mangqalaza ^	650	108	66	18	842
	1,510	**168**	**165**	**43**	**1,886**

March 2018

	Salary	Bonus	Provident	Other benefits *	Total
Ms T Jali #	1,043	89	149	32	1,313
Ms N Ndzimbomvu	1,076	120	120	31	1,347
	2,119	**209**	**269**	**63**	**2,660**

* Other benefits comprise UIF, SDL and group risk insurance.

Ms T Jali retired on 31 March 2018 and Mr Y Chitsime was appointed as Acting Lending Director on 23 July 2018.

^ Mr Q Mangqalaza was appointed Acting General Manager: Program and Fund Management on 01 March 2018.

Notes to the Consolidated And Separate Annual Financial Statements

Figures in R'000

31. Risk management Financial risk management

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

The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the board. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability of funding under committed credit lines.

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and utilised borrowing facilities are monitored to ensure that a sufficient credit buffer throughout the year is kept. A buffer of R100 million is set to trigger suspension of approving new lending commitments. The group performs an intensive cash flow assessment and capacity available assessment periodically in order to establish whether the group has sufficient cash resources to finance new loan applications. If funds are not available to accommodate new loan applications, the applications are declined. The two lending systems are continuously updated with new loans approved and loans fully settled in order to continuously monitor lending operational commitments.

The table below analyses the group's financial liabilities and assets into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Group

At 30 September 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans for construction projects	269,120	65,062	-	-
Receivables from exchange transactions	2,026	-	-	-
Cash and cash equivalents	252,593	-	-	-
Payables from exchange transactions	9,121	-	-	-
PIC loan	-	43,735	26,241	-

At 31 March 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans for construction projects	231,918	29,947	124	44
Receivables from exchange transactions	2,176	-	-	-
Cash and cash equivalents	338,818	-	-	-
Non-current assets held for sale	1,300	-	-	-
Payables from exchange transactions	12,983	-	-	-
PIC loan	-	-	69,976	-

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Credit risk
Credit risk is managed on a group basis. Credit risk consists mainly of cash deposits, cash equivalents and loans for construction projects. The entity only deposits cash with major banks with high quality credit rating and limits exposure to any one counter-party.

Receivables comprise mainly construction contractors and property developers. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The group establishes an allowance for doubtful loans based on factors surrounding the general and specific credit risk of the customers, historical trends and other information. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period. Refer to note 3 for loans for construction projects.

The group takes tangible security for all affordable housing approved loans. These rules apply to subsidy housing approved loans that are in excess of R10 million. As at 30 September 2018 the available tangible securities were aggregated at R660 million (March 2018: R756 million) for the affordable housing loans and R2.3 million (March 2018: R2.3 million) for the subsidy housing loans. NURCHA uses debt collectors to recover debts that are in default.

Market risk Interest rate risk
Interest rate risk is the potential impact on earnings or the value of the group's holdings of financial instruments and on the future cash flow of financial instrument due to changes in the interest rate.

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

Fair value hierarchy
The following table details the fair value hierarchy for financial assets and liabilities in the financial statements. The carrying values of financial assets and liabilities approximates their fair values. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

Group - 30 September 2018

Financial assets	Level 1	Level 2	Level 3	Total
Loans for construction projects	-	-	335,610	335,610
Receivables from exchange transactions	-	-	2,114	2,114
Cash and cash equivalents	-	252,593	-	252,593
	-	**252,593**	**337,724**	**590,317**

Financial liabilities				
Payables from exchange transactions	-	-	12,596	12,596
PIC loan	-	69,976	-	69,976
	-	**69,976**	**12,596**	**82,572**

Company - 30 September 2018

Financial assets				
Loans for construction projects	-	-	193,309	193,309
Receivables from exchange transactions	-	-	117	117
Cash and cash equivalents	-	242,386	-	242,386
	-	**242,386**	**193,426**	**435,812**

Financial liabilities				
Payables from exchange transactions	-	-	2,648	2,648

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Figures in R'000

Group - 31 March 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Loans for construction projects	-	-	262,033	262,033
Receivables from exchange transactions	-	-	2,175	2,175
Cash and cash equivalents	-	338,819	-	338,819
Non-current assets held for sale	-	1,300	-	1,300
	-	**340,119**	**264,208**	**604,327**
Financial liabilities				
Payables from exchange transactions	-	-	12,878	12,878
PIC loan	-	69,976	-	69,976
	-	**69,976**	**12,878**	**82,854**
Company - 31 March 2018				
Financial assets				
Loans for construction projects	-	-	162,535	162,535
Company				
Receivables from exchange transactions	-	-	1,863	1,863
Cash and cash equivalents	-	283,470	-	283,470
	-	**283,470**	**164,398**	**447,868**
Financial liabilities				
Payables from exchange transactions	-	-	3,747	3,747

Valuation based on the observable inputs.

Level 1
Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where quoted price is readily available and the price represents actual and regular occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2
Financial instruments valued using inputs other than prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly.

Level 3
Financial instruments valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions about market participants in pricing the asset or liability.

32. Events after the reporting date

a) Mr V Gqwetha, the Managing Director of NURCHA was seconded to the Housing Development Agency (HDA) as an Administrator, from 15 February 2019.
b) The merger of the three DFIs being NHFC,NURCHA and Rural Housing Loan Fund (RHLF), came into effect on 1 October 2018. Refer to note 38 for further details.

Notes to the Consolidated And Separate Annual Financial Statements

Figures in R'000

33. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	1,925	49	-	-

Details of fruitless and wasteful expenditure - current 6 months - 30 September 2018

Incident	Action taken	Amount
NURCHA was providing finance to emerging contractors under the Contractor Finance Development Programme (CFDP), in Port Elizabeth. As part of the programme and support for the contractors, NURCHA provided material suppliers with Material Payment Undertakings, whereby NURCHA committed to pay the material suppliers within 14 days upon receipt of the certificate for the milestone. There were some disagreements between the contractors who took building material from a certain material supplier and the supplier took legal action against the said contractors and NURCHA totalling to a claim of R3.6 million. An out of court settlement of R1.9 million was reached between NURCHA and the material supplier to avoid costly legal action.	An investigation will be conducted and recommendations of the investigation will be implemented.	1,917
The South African Revenue Service (SARS) raised under estimation penalties and interest for the 2017/18 financial year on the final tax returns for NURCHA Management Services (NMS) of R153,867. NMS' income fluctuates quite often because of the nature of the business and it is difficult to estimate its income and tax liability during the financial year. So NIL provisional tax returns were submitted during the financial year. Previously when SARS raised these charges, an objection would be lodged with them and these would be reversed. An objection was lodged with SARS and the penalty was reversed; however the interest of R7,557 was not reversed.	Corrective action will be taken once the appeal process is finalised with SARS on a similar matter.	8
Total - 30 September 2018		1,925

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	30 September 2018	31 March 2018	30 September 2018	31 March 2018
34. Irregular expenditure				
Opening balance	-	-	-	-
Add: Irregular Expenditure - current year	96	1,162	-	-
Less: Amounts condoned	(96)	(1,162)	-	-
	-	-	-	-

Details of irregular expenditure – current 6 months - 30 September 2018

Incident	Action taken	Amount
An RFQ (request for quotation) process was followed to secure a venue for a contractor workshop in Port Elizabeth. Contractors were requested to RSVP before the event. On the day of the event, there were contractors who attended and had not confirmed. A variation order was approved to accommodate more contractors at the workshop.	No action was taken as there was no wrong doing.	7
A duplicated telephone line was identified and the contract relating to the line has since been cancelled. This relates to the telephone line that NURCHA had subscribed to.	No action was taken because the person responsible is no longer with the company.	2
A service provider's contract for virtual offices expired. The service provider was tax compliant at the time of original appointment but did not renew their tax clearance certificate when it expired. At the expiry of the contract an RFQ was sent out to appoint a new service provider. However, only the same service provider, without a valid tax certificate, responded according to NURCHA's specification. This same service provider was appointed to render office space for the duration of three months whilst looking for an alternative office space. It was cost-effective to rent the same small virtual office while the tendering process was in progress for normal office space.	No action was taken as there was no wrong doing.	78
NURCHA sent out requests for quotation to two service providers for the provision of project management training. The third request for quotation was sought telephonically. The telephonic request was not followed up with a written request for quotation and this resulted in an audit finding. However three written quotations were received, including one from the telephonic request and the lowest supplier who met the training specification was appointed.	The employee was offered refresher training on Supply Chain Management (SCM) processes. NURCHA management also took a decision to centralise the SCM function.	9
Total - 30 September 2018		**96**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	30 September 2018	31 March 2018	30 September 2018	31 March 2018

Details of irregular expenditure – previous year - 31 March 2018

Incident	Action taken	Amount
The then planned merger of the three DFIs posed some operational challenges for NURCHA. Due to uncertainty of the effective date of the merger, planning for contracts that were approaching their end dates became difficult; and in some instances this resulted in irregular expenditure, as out lined below: (a) A number of debt collection Service Level Agreements (SLAs) signed with debt collectors expired on 31 March 2017. Due to the uncertainty regarding the effective date of the merger, the contracts were extended for a further 12 months, effective from 1 April 2017 to 31 March 2018. The Bid Adjudication Committee (BAC) approval for the contract extensions was obtained in June 2017, which led to irregular expenditure for the first three months of the extension period. (b) Due to uncertainty around the effective date of the merger, a contract for data back-up services expired in November 2017. The contract was extended for the second time from 01 December 2017 to 30 June 2018 and this led the 15% threshold being exceeded. The extension was to allow management to initiate a new procurement process of appointing a service provider for the back-up services. The extension was approved by the BAC on 17 January 2017.	No action was taken as the approval had been obtained from the Executive Committee (EXCO) and BAC before the expenditure was incurred.	1,062
The SCM RFQ process was not followed for the appointment of a service provider for an emotional impact workshop, tax advisory services and courier services. The deviations were approved by the relevant authority before the costs were incurred.	No action was taken as the approval was obtained before the expenditure was incurred.	54
In terms of SLAs signed between NURCHA and debt collectors, NURCHA is responsible for the payment of legal service fees incurred during the collection process. Per the SLA, the debt collectors appoint the legal service providers for litigation of matters under their collection. A debt collector had appointed a legal service provider that NURCHA paid directly. This led to irregular expenditure because the legal service provider that was paid directly did not have an SLA with NURCHA.	No further action was taken as the approval was obtained from NURCHA management before the expenditure was incurred. A decision was also taken by management to stop paying the legal srevice providers directly.	11
NURCHA's procurement policy requires that the 80/20 evaluation process be followed for transactions above R30,000. The 80/20 evaluation process was not followed and as a result the second highest service provider was appointed for the delivery of stationery. The appointed service provider submitted the cheapest in quotation. The error occurred as a result of miscommunication between NURCHA's internal departments.	Staff have been warned to work on written instructions only to avoid miscommunication.	35
Total - 31 March 2018		**1,162**

A total of R1.1 million of the above irregular expenditure emanates from contract extensions because of the continued postponement of the DFI consolidation. The effective date had been postponed frequently for more than two years.

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	Group		Company	
Figures in R'000	30 September 2018	31 March 2018	30 September 2018	31 March 2018
35. Cumulative support by South African Goverment through National Department of Human Settlements since inception				
Formation grant	20,000	20,000	20,000	20,000
Specialised lending grant	61,660	61,660	61,660	61,660
Recapitalisation grant	361,000	361,000	361,000	361,000
Interest on loan grant	3,500	3,500	3,500	3,500
Contractor Finance Development Programme grant	20,000	20,000	20,000	20,000
	466,160	**466,160**	**466,160**	**466,160**
36. Key Performance indicators				
Value of loans signed (R'million)	Budget	Actual		
Subsidy housing	92.0	23.8	-	-
Affordable housing (including services sites)	180.0	50.3	-	-
Infrastructure and Community Facilities	4.0	-	-	-
Houses/Sites & Infrastructure project completed (units)				
Subsidy housing	5,048	698	-	-
Affordable housing (including services sites)	585	484	-	-
Infrastructure and Community Facilities	1	-	-	-
Loan defaults (R'million)				
Impairments of loans for construction projects	85	87	-	-
37. Amount available for construction finance				
Accumulated surplus and reserves	466,404	481,238	469,966	504,019
PIC facility available for construction finance	70,000	70,000	-	-
Shortfall transferred to NURCHA	-	-	-	(104,093)
	536,404	551,238	469,966	399,926
Less: Construction finance facility committed				
Loans granted and committed	(132,647)	(543,360)	(77,893)	(376,039)
	(132,647)	(543,360)	(77,893)	(376,039)
	403,757	**7,878**	**392,073**	**23,887**

Loans granted and committed are reflected at 100% (2018: 50%) of the loan amount approved because of the pattern in which loans are drawn. For the affordable housing loans, the disbursements are per the projected cash flows and for the subsidy and infrastructure loans, the cash flows are of a revolving nature. Each facility is ring-fenced to cater for the facility specific requirements. Excess funds from one facility cannot be used to cover shortages on another facility.

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	**30 September 2018**	**31 March 2018**	**30 September 2018**	**31 March 2018**

38. Budget differences

Material differences between budget and actual amounts
The budget that is reflected on the statements is not for the full financial year, it is for the first six months of the financial year. The balance of the budget will be transfered to NHFC, the entity that NURCHA will be merging with.

(a) The variance relates mainly to extensions of contracts for non-permanent employees because of the imminent merger of the three DFIs and a provision for perfomance bonuses that was raised.
(b) The variance is mainly due to incorrect values that were supplied by the landlord when the budget was drafted. This resulted in an insufficient budget.
(c) Impairment of loans has increased due to a myriad of factors, including clients that have defrauded the entity by diverting loan payments from approved dedicated bank accounts into other bank accounts.
(d) The negative variance on the loan book reflects the slowing down of activity in the lending business stream. The current economic climate is having an impact on the fiscus which results in fewer subsidy houses being built and fewer middle income earners are qualifying for mortgaged bonds to purchase affordable housing.
(e) The provisions increased in order to account for winding down expenses as NURCHA will cease to exist as a separate entity on 30 September 2018 because of the merger with the other three DFIs.
(f) No fund management programme was implemented during the reporting period.

39. Transfer of functions between entities under common control

Although the effective date of the consolidation in the donation agreement is 30 September 2018, NURCHA will transfer all its assets and liabilities as a function to NHFC on 1 October 2018.
The Minister of Human Settlements took a decision to merge three DFIs under the ministry, being NHFC, NURCHA and RHLF, in order to form a Human Settlements Development Bank (HSDB) that will be able to deliver in the human settlement sector at a larger scale than the three DFIs are able to do individually. In May 2017, the Minister of Human Settlements announced the establishment of the Human Settlements Development Bank. The three merging DFIs will ultimately form part of this new bank.
The formation of the HSD bank will happen in two phases; the first of which NURCHA and RHLF will transfer their assets, liabilities and commitments to NHFC as a transfer of functions. After that, the second phase will be the formation of the Human Settlements Development Bank once all the legislative requirements have been fulfilled.
All conditions of the first phase of the transfer have been fulfilled, including the PFMA Section 66 approval by the Minister of Finance.
All assets and liabilities will be donated at a value of Rnil and transferred to NHFC at their carrying amounts. All loan covenants, commitments, salaries of employees and employment contracts will be transferred to NHFC as they are.
As at 30 September 2018, the carrying amounts of the assets to be transferred and liabilities to be relinquished are as follows;

Value of assets and liabilities				
Assets transferred				
Property, plant and equipment	1,581	1,770	1,581	1,770
Intangible assets	98	185	98	185
Loans for construction projects	335,610	262,033	193,309	162,535
Receivables from exchange transactions	2,114	2,175	117	1,863
Non-current held for sale	-	1,300	-	1,300
Investments in controlled entities	-	-	1	1
Loans to controlled entities	-	-	78,055	96,842
Cash and cash equivalents	252,593	338,819	242,386	283,470
VAT Receivables	29	12	-	-
	592,025	**606,294**	**515,547**	**547,966**
Liabilities relinquished				
Current tax payable	-	1,887	-	-
Payables from exchange transactions	12,186	12,983	2,432	3,747
Provisions	5,159	1,904	4,849	1,904
PIC loan	69,976	69,976	-	-
VAT payable	-	117	-	-
	87,321	**86,867**	**7,281**	**5,651**
Difference between the carrying amounts of the assets acquired, the liabilities assumed	**504,704**	**519,538**	**508,266**	**542,315**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in R'000	**30 September 2018**	**31 March 2018**	**30 September 2018**	**31 March 2018**

40. Going concern

The going concern assumption has been adopted in the preparation of the financial statements. The directors have no reason to believe that NURCHA operations in its new form will not continue in the future in its new form as there is available cash to meet its obligations. The function of NURCHA has been transferred into NHFC as explained in note 39 of the financial statements. The donation agreement as mentioned in note 39, was crafted on a going concern basis and allowed for the business of NURCHA to be transferred to the NHFC as it was and for NURCHA to become a division of the NHFC. NURCHA transferred its business activities, including its assets, liabilities, contingencies and commitments to NHFC with effect from 1 October 2018.

NURCHA (the entity) will cease to exist as an entity when the following two conditions below have been fulfilled.
a) When all the statutory requirements for dissolution have been met, and,
b) When all securities bonds registered in NURCHA's name have been transferred to NHFC.

The non-executive Board members will resign from their positions after wrapping up all outstanding matters, including the approval of the financial statements up to the effective date. The executive directors will remain as directors of NURCHA in order to ensure that all statutory reporting requirements are met and the company is dissolved, de-registered with the Companies and Intellectual Properties Commission (CIPC) and the South African Revenue Services (SARS), and de-listed as a schedule 3 (a) PFMA company.

41. Prior period errors

The initiation fees income was overstated in the prior year. The error is not material quantitavely, however it was corrected in the current financial year retrospectively.

The correction of the error(s) results in adjustments as follows:

Statement of financial position				
Trade and other payables	-	2,276	-	-
Accumulated surplus	-	(2,247)	-	-
Statement of Financial Performance				
Fees on loans for construction projects	-	(29)	-	-

Acronyms

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

Notes

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NURCHA
CONSTRUCTION FINANCE AND
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An Agency of the National Department of Human Settlements

www.nhfc.co.za

The Isle of Houghton | Old Trafford 3
11 Boundary Road | Houghton
PO Box 31376 | Braamfontein | 2017