NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

2021/22 INTEGRATED ANNUAL REPORT

Building dreams, keeping Hope alive

PERFORMANCE **HIGHLIGHTS**

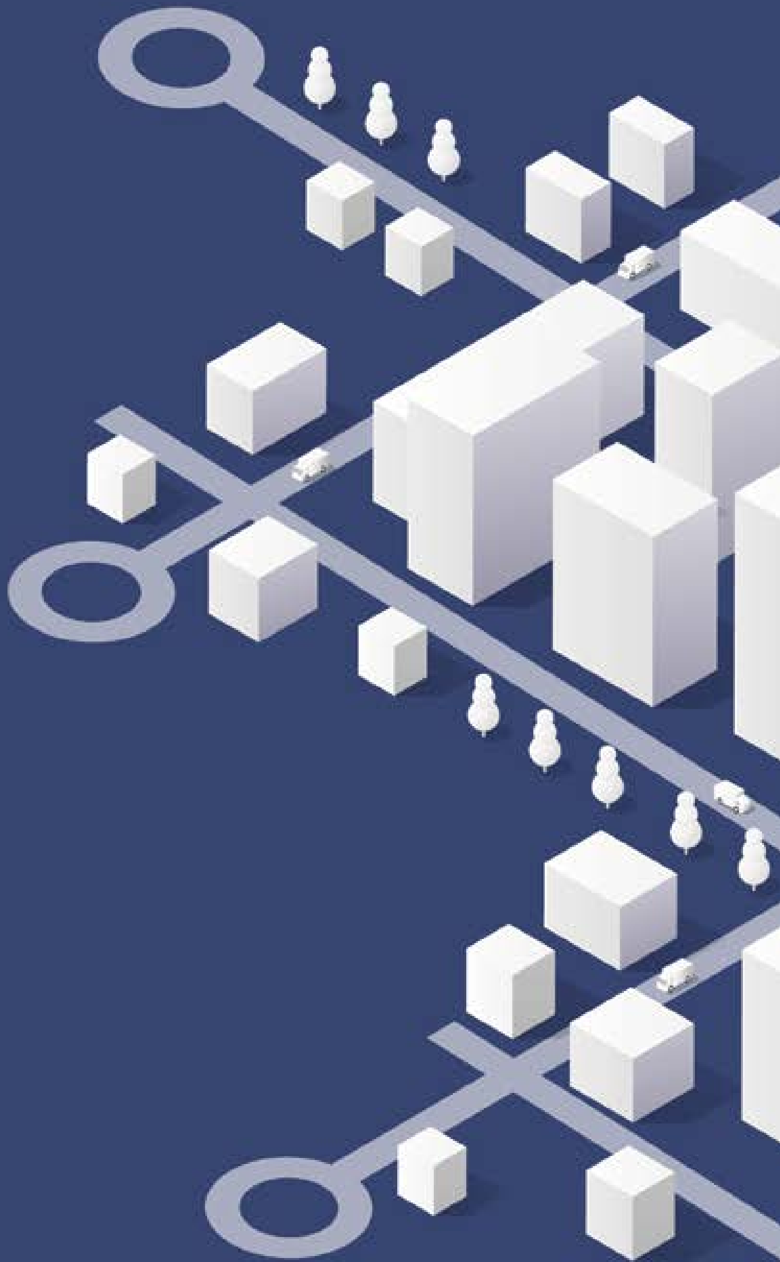
OPERATIONAL PERFORMANCE

26 330
INCREMENTAL HOUSING OPPORTUNITIES THROUGH DISBURSEMENTS

R1.488 BILLION
VALUE OF APPROVED LOANS

5 264
HOUSING UNITS THROUGH DISBURSEMENTS

R960 MILLION
VALUE OF DISBURSED FUNDS



DEVELOPMENTAL IMPACT

R284 MILLION
DISBURSEMENTS TO BEE ENTREPRENEURS, INCLUDING WOMEN AND YOUTH

ENTERPRISE DEVELOPMENT

123
LOCAL CONTRACTORS (SMMEs)

R90,3M
WORK PACKAGES FOR SMMEs

42
PARTICIPATING WOMEN-OWNED ENTITIES

15
YOUTH-OWNED ENTITIES

FINANCED LINKED INDIVIDUAL SUBSIDY PROGRAMME

3 268
NUMBER OF SUBSIDIES DISBURSED

R173 MILLION
VALUE OF SUBSIDY APPLICATIONS APPROVED

2 935
NUMBER OF SUBSIDY APPLICATIONS APPROVED

R166 MILLION
VALUE OF SUBSIDIES DISBURSED

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

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

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

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

Dedication:
This Integrated Annual Report is dedicated with thanks to the outgoing Board of Directors of the NHFC. The outgoing Board, under the leadership of Ms Phekane Ramarumo, steered the Company through a most challenging period and ensured sustained operations. This, given the challenges of operating through a pandemic, civil unrest, unprecedented natural disasters, is a feat which deserves the utmost respect and acknowledgment. The NHFC has sustained its business and continued to effectively execute its mandate under the steadfast leadership of the Board, enabling sustained support of the country's ambition towards equitable housing for all.

To the incoming Board, we share our unwavering support and assurance to continue building upon the solid foundation that has been laid to date. As a company, and indeed as a country, we look forward to reporting another successful year ahead under your sound guidance.

LIST OF ACRONYMS

Acronym	Description
AC	Audit Committee
AFS	Annual Financial Statements
AGM	Annual General Meeting
AGSA	Auditor-General of South Africa
ALCO	Assets and Liabilities Committee
APP	Annual Performance Plan
B-BBEE	Broad-Based Black Economic Empowerment
BBC	Black Business Council
BBCBE	Black Business Council in the Built Environment
BCIC	Board Credit and Investment Committee
BPM	Business Process Mapping
BRC	Board Risk Committee
CBO	Community-Based Organisation
CCG	Consolidated Capital Grants
CEO	Chief Executive Officer
CIDB	Construction Industry Development Board
CPI	Consumer Price Index
CRM	Customer Relationship Management
CSI	Corporate Social Investment
CTCHC	Cape Town Community Housing Company (Pty) Ltd
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DHS	Department of Human Settlements
DISC	Development Impact and Strategy Committee
DRP	Debt Relief Programme
EAHS	Employer Assisted Housing Schemes
ECDHS	Eastern Cape Department of Human Settlements
EE	Employment Equity
EOT	Extension of Time
EPHP	Enhanced People's Housing Project
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ESG	Environmental, Social and Governance
EXCOM	Executive Committee
FLISP	Financed Linked Individual Subsidy Programme
HCM	Human Capital Management
HDA	Housing Development Agency
HIP	Housing Investment Partners (Pty) Ltd
HR	Human Resource
HRER	Human Resource, Ethics, and Remuneration
HSDB	Human Settlements Development Bank
IAR	Integrated Annual Report
ICT	Information and Communications Technology
IF	Infrastructure Fund
IFC	International Finance Corporation
IHS	International Housing Solutions (Pty) Ltd

Acronym	Description
IIA SA	Institute of Internal Auditors of South Africa
ILO	International Labour Organisation
IMF	International Monetary Fund
IRDP	Integrated Residential Development Projects
ISA	Instalment Sales Agreement
IT	Information Technology
ITMC	Information Technology Management Committee
KING IV	KING IV Code on Corporate Governance
KPI	Key Performance Indicator
LCC	Loss Control Committee
MCIC	Management Credit and Investment Committee
MINMEC	Ministers and Members of Executive Councils
MOA	Memorandum of Agreement
MOI	Memorandum of Incorporation
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee
MTSF	Medium Term Strategic Framework
NDoHS	National Department of Human Settlements
NDP	National Development Plan
NED	Non-Executive Director
NHFC	National Housing Finance Corporation SOC Limited
NHSDB	National Housing Subsidy Database
NICD	National Institute for Communicable Disease
NURCHA	National Urban Reconstruction and Housing Agency NPC
ODA	Other Delivery Agents
PA	Prudential Authority
PFMA	Public Finance Management Act 1 of 1999
PRC	Programme Review Committee
RFI	Retail Finance Intermediary
RMB	Rand Merchant Bank
POPI	Protection of Personal Information Act
SACCAWU	South African Commercial, Catering and Allied Workers Union
SACCI	South African Chamber of Commerce and Industry
SARB	South African Reserve Bank
SASBO	South African Society of Bank Officials
SASC	Safety and Security Committee
SAWIC&BE	South African Women in Construction and Built Environment
SCM	Supply Chain Management
SDG	Sustainable Development Goals
SEC	Social and Ethics Committee
SHI	Social Housing Institutions
SEMS	Social and Environmental Management System
SHRA	Social Housing Regulatory Authority
SIP	Strategic Infrastructure Project
SMME	Small, Medium, Micro Enterprises
SOE	State-owned Entity
TUHF	TUHF Holdings Limited
UGHDA	Umzi waseGqebera Housing Development Association

FOREWORD BY THE MINISTER

Ms Mmamoloko Kubayi, MP

The previous review period presented many challenges in the face of the COVID-19 pandemic, which negatively impacted upon the construction industry. NHFC's business has seen an improvement and provided a brighter outlook for the future in terms of human settlements compared to the previous financial year. The economy continues to battle its way out of a recession, and though the overall performance of the economy has reached pre-pandemic levels, the construction industry is still battling to recover.

The housing backlog continued to increase due to the housing delivery that was halted by the pandemic and a number of people having a reduced income or loosing their jobs. What is clear is that government's funding will not be sufficient in meeting the housing needs of South Africans. It is therefore critical for the sector to mobilise funding from development funding institutions and private sector funding so that the housing funding pool can have sufficient resources. The NHFC is a critical institution in forging partnerships with other funding institutions. The affordable housing sector, including rental and social housing is a sector in which the NHFC can make a much bigger impact in the coming years. In the financial year under review, the NHFC started working with SHRA and multilateral agencies to create an off-balance sheet financing instrument that will continue to leverage private sector participation on the strength of the social housing grant in the MTSF and beyond. The initiative is envisaged to mobilize R1.5 billion to finance 35% of developments through ODA equity investment and debt portion and yielding approximate 8000 to 10000 new social housing units in the next 8 years.

The Finance Linked Individual Subsidy Programme (FLISP) will, as of the 2022/2023 Financial Year, extend to non-mortgage housing finance facilities. It is pleasing to note that, during the review period, the FLISP benefitted a high percentage of women – supporting objectives of the National Development Plan in this regard. The digitisation of the FLISP and Customer Relationship Management (CRM) systems have been fully implemented during the period, enabling beneficiaries to submit online applications for subsidy. This development means that we are able to reach an extended gap market by availing the services in a more convenient manner.

The governance of the NHFC has been closely monitored by the Board, who have provided sufficient assurance that the necessary mitigations and actions plans are in place following the previous year's findings by the Auditor-General. The reconstitution of the NHFC Board was concluded on 29 March 2022, and saw many new appointments being made. I trust that the newly appointed Board will provide the necessary guidance and oversight needed to direct the NHFC towards success.

I am particularly pleased with some of the performance highlights achieved by the NHFC during the period under review. In this regard, NHFC approved loans of R1.488 billion and has already disbursed about 65% of the approvals. The approved loans provided 26,300 incremental finance opportunities with 5,264 housing units. The empowerment of women, youth and people with disabilities is a key socio-economic transformation impact target of government. In this regard, NHFC must be applauded for disbursing R284 million of approved loans to women beneficiaries.

The work towards the establishment of the Human Settlements Development Bank remains on course though at a slow place. This is an area that we need to pick up pace and improve on to support the much needed institution that is classified correctly to support the demands of the sector. I am confident that, with diligent and focused efforts, we will achieve the objective of restoring the dignity of the people of our country through the provision of sustainable human settlements. I will continue to provide support to the NHFC and work closely with all human settlement entities to ensure that we deliver on our promises.

I extend my sincere appreciation to the NHFC Board, Executive Management, and staff for their tireless commitment to the achievement of the mandate over the past year. I look forward to the upcoming year in which I am certain that we can continue our trajectory of improvement within the sector.

I thank you.

Mmamoloko Kubayi, MP

Minister of Human Settlements

South Hills project, Johannesburg, Gauteng

Gauteng Fleurhof project

CONTENTS

PART A:

GENERAL INFORMATION

Anchorage Glenhaven Project, Western Cape

ABOUT THIS REPORT

This report provides information about the performance of the National Housing Finance Corporation for the period 01 April 2021 to 31 March 2022. It is produced in good faith and guided by the principles of King IV and the Integrated Reporting Framework. The report focuses on the insight into the effects of the company's business on its internal and external environments. The report also includes financial performance information relevant to all stakeholders and shareholders.

INTRODUCTION

The National Housing Finance Corporation (NHFC) is pleased to present its Integrated Annual Report (IAR) for the period 01 April 2021 to 31 March 2022 Financial Year. The report is structured to present a balanced and comprehensive overview of the NHFC's activities as they relate to the financial, social, and environmental impacts resulting from its value-creating activities during the reporting period. This report contains the Annual Financial Statements for the year ended 31 March 2022, as approved by the Board of Directors on 31 August 2022.

The report intends to communicate the business activities to all shareholders, stakeholders and any parties that may have an interest in the Company's conduct, its effect on its micro- and macro-environments, as well as its ability to create value in the short, medium, and long term. The information reported herein offers assurance to all stakeholders of the Company's ability to remain sustainable and to cater to the gap market – defined as South African households with a combined income range of between R880 and R22 000.

The NHFC is registered in terms of the Companies Act of 2008 and is listed as a Schedule 3A entity in the Public Finance Management Act 1999 (PFMA). The National Department of Human Settlements established the entity as a Development Finance Institution (DFI) in 1996, when it was mandated to broaden access to affordable housing finance for low- to middle-income households in South Africa.

REPORT SCOPE, BOUNDARY AND FRAMEWORKS

The information in this report refers to the performance of the company over the 2021/2022 period, which includes the core business functionality of the NHFC, operating in South Africa, and its major operating subsidiaries, unless stated otherwise. For a comprehensive overview of the company's financial performance and position, please refer to the full set of consolidated annual financial statements, which can be found from page 113 of this report.

BASIS OF PREPARATION

This report reflects the adoption by the NHFC of integrated thinking and the application of the process. In determining the content provided, issues that materially impact the Company's ability to create and maintain value for its stakeholders are considered. Such information is drawn from the Company's records, and includes details of the operating context, strategic performance, risks and associated mitigation measures, stakeholder engagement and identified business opportunities. Inputs from the Executive Management team are also included in this report, and all information was approved by various committees and ultimately by the Board of Directors (the Board).

To the best of its ability, the NHFC provides an accurate and transparent account of the Company's performance for the reporting period, as expanded upon per the various capitals recommended under the King IV code.

FORWARD-LOOKING STATEMENTS

Contained in this report are various forward-looking statements. Such statements may relate to the possible future financial position, business operation and strategy, or management plans. Forward-looking statements are not, at this time, considered fact as they are based on current estimations, assumptions, and expectations for the Company and are dependent on circumstances that may or may not be realised in the future.

The NHFC does not undertake to update or revise such statements publicly, whether to reflect new information, future events, or otherwise.

ASSURANCE

The NHFC's IAR for FY2021/22 is compiled in accordance with the ethical values of the Company, statutory legislative frameworks, and reporting best practices. The Board has reviewed the report and is satisfied that the information contained in this report, to the best of its knowledge, is an accurate and true representation of the NHFC's position. Financial statements contained herein have been assured via the audit conducted by the Auditor-General of South Africa (AGSA).

BOARD STATEMENT OF RESPONSIBILITY

The Board encourages and supports the concept of integrated thinking, which underpins good corporate citizenship, stakeholder inclusivity, sustainable development, and integrated reporting. The Board has a clear understanding of the Company's strategy, resources, system of control, internal and external reporting process, and its stakeholders. The Board directs the NHFC in its oversight of material and potential risks, as well as its opportunities, and it ensures that the Company is sustainable, responsive, and relevant.

The Board is accountable for the integrity and completeness of the NHFC's Integrated Annual Report. The Board has assessed the content presented in the report. It confirms that it addresses all material matters, the Company's integrated performance, strategy, and short, medium, and long-term prospects. As such, the 2021/22 IAR was unanimously approved by the Board on 30 August 2022.

> *"The report intends to communicate the business activities to all shareholders, stakeholders and any parties that may have an interest in the Company's conduct, its effect on its micro- and macro-environments, as well as its ability to create value in the short, medium, and long term."*

NHFC ETHOS

The Company strives to provide access to financing and to assist the development of sustainable human settlements for the low- to middle-income households in South Africa.

OUR VISION

Serving the household's evolving needs of access and affordability to adequate housing in support of developing quality living environments.

OUR PURPOSE

To serve South African households' evolving need for access to, and affordability of, adequate housing in a sustainable and quality living environment.

OUR VALUES

To excel in all that we do.

- A- accountability - We commit to delivering our products and services in a responsible manner; recognising the public's right to responsive, adequate, and effective service delivery.
- C- collaboration - We pledge to collaborate with stakeholders to improve the housing needs of South Africans through effective communication.
- E- excellence - Deliver excellent customer service and quality products to all stakeholders, supporting transformation in the housing sector.

To innovate and lead with integrity.

- L- leadership - We are devoted to placing the stakeholder's and public's first, and to lead by taking responsibility for our actions and making decisions that support sustainability.
- I- integrity - We commit to being honest, trustworthy, and ethical in our decision and investment making; serving the best interest of our stakeholders.
- I- innovation - We commit to foster a forward-thinking environment that enables creative thinking and improved products and service delivery.

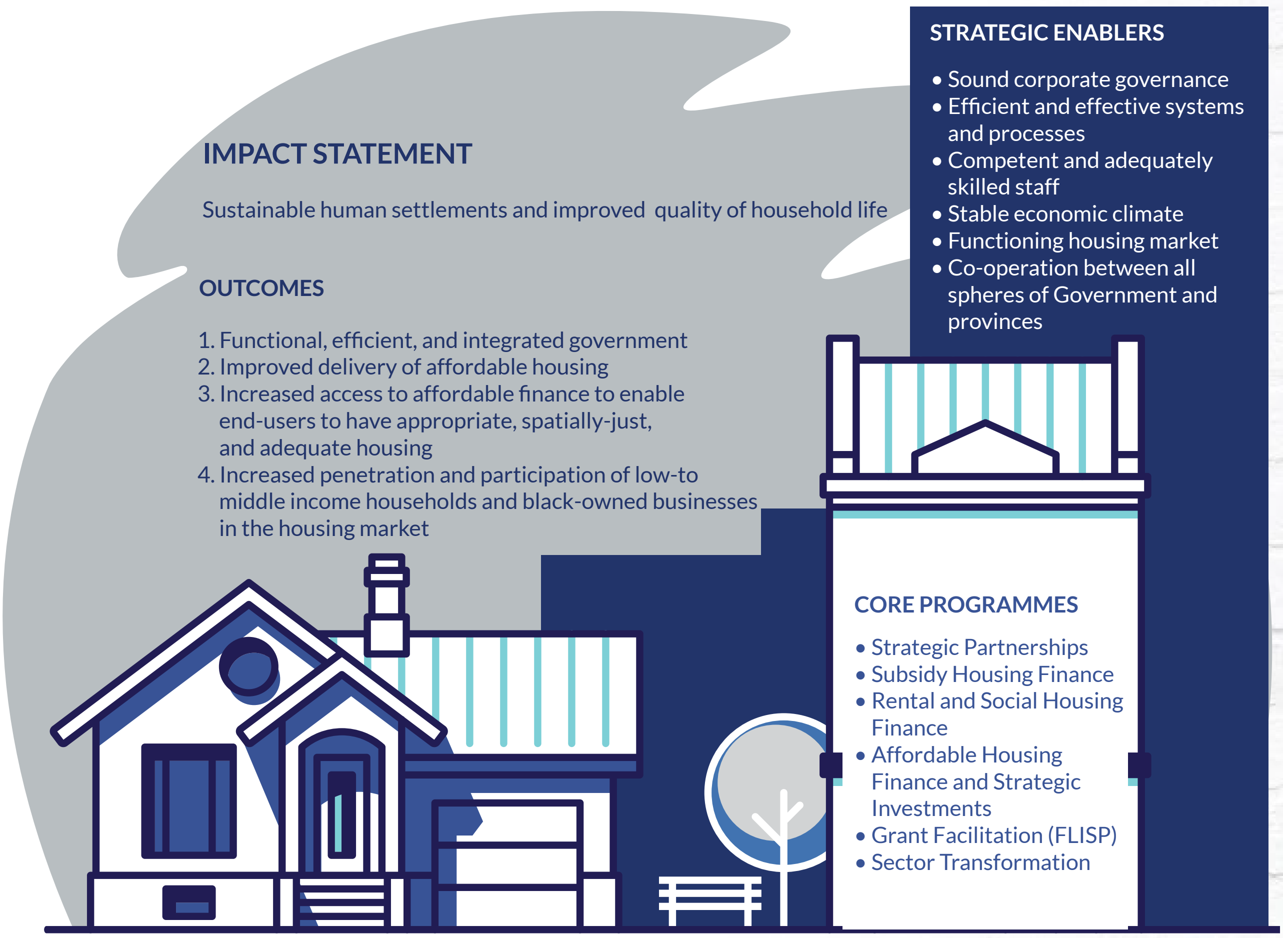
To be respectful and professional in all our dealings.

- D- diversity - We nurture a culture of diversity by respecting one another's differences, responding to divergent customer needs, and giving rise to innovative thinking.
- U- ubuntu - We respect all stakeholders, show compassion, empathy, and humility in the diversified communities we serve.
- P- professionalism - We commit to being reliable, consistent, and competent in our interaction with stakeholders and in the delivery of the housing products and services to the public.

OUR STRATEGIC FOCUS

The NHFC, in the execution of its mandate, strives to transform the human settlements sector, the spatial economy and the quality of household life in South Africa. This entails increasing access to affordable housing finance, enabling intermediaries to produce affordable housing near to economic opportunities and basic services – ultimately supporting the government's goal of providing appropriate and adequate housing for all.

The NHFC strategy seeks to make positive impacts toward the achievement of Outcome 8 of the National Development Plan (NDP). In accordance with the Theory of Change Framework, the NHFC has designed its strategy to include programmes that drive the achievement of its strategic goals. The programmes are detailed in the NHFC's Annual Performance Plan (APP) and provided at a high level below.



RISK TAKING

The NHFC is not a particularly risk-averse corporation, however, the Company does not undertake reckless investment behaviour. The risks that are encountered often occur as we bring new opportunities into the affordable housing market, and our pricing is set in accordance with our mandate to be a sustainable Company. As a development finance institution, the NHFC needs to constantly and consistently strike the right balance between its developmental mandate and its financial sustainability.

MAKING MARKETS WORK

The NHFC is mandated to close the gap between traditional lending institutions who either deem it unfeasible or excessively difficult to serve the 'gap market' (please see definition below). Their decision is based on risk modelling that assess the investment of risk capital which may typically assume first loss, so as to encourage private sector investment.

DEFINITIONS

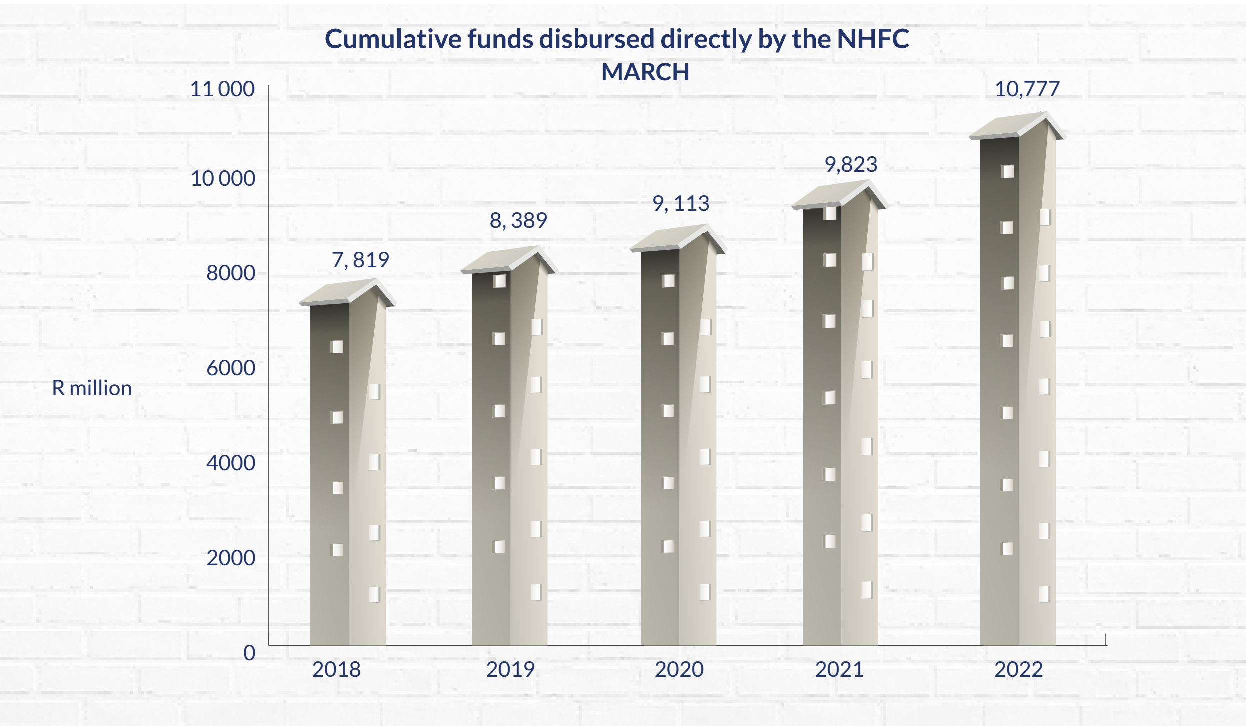
GAP MARKET

The market that we primarily serve is referred to as the 'gap market'. This market comprises South African households who earn a combined monthly income of between R3 501 and R22 000. This places this specific market in an income bracket that is often excluded from obtaining credit for mortgages from mainstream financial institutions and fully subsidised government housing which is available to households earning R3 500 per month and below.

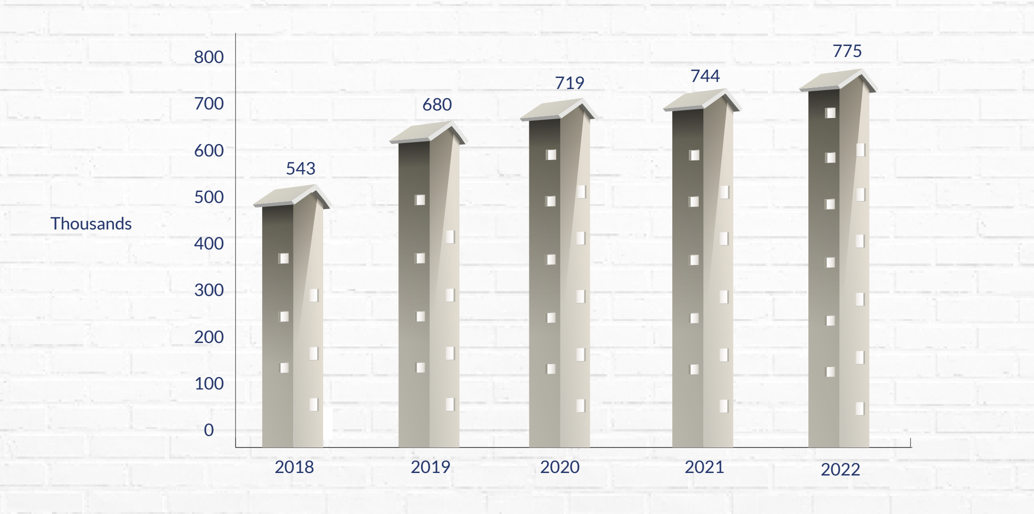
THE NHFC TARGET MARKET

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

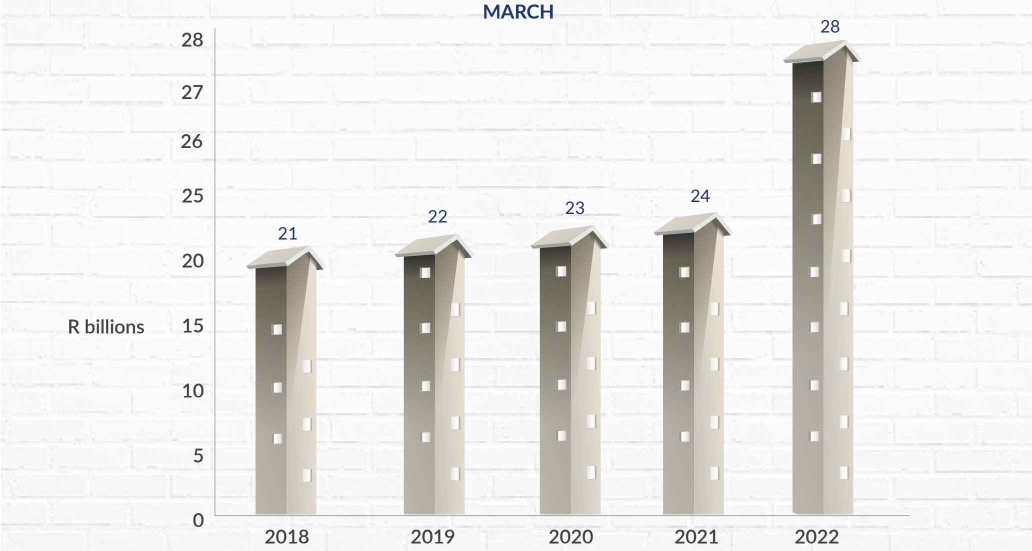
CUMULATIVE DEVELOPMENT IMPACT



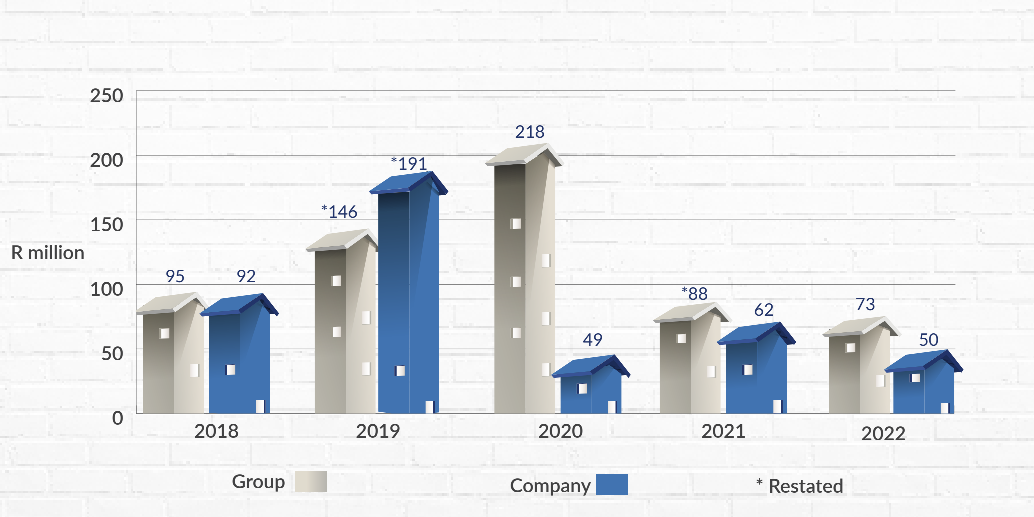
Cumulative housing opportunities facilitated through Lending Disbursements and Leveraged Funds
MARCH



Private-sector funds leveraged through our funding, interventions and partnerships
MARCH



Financial performance - annual surplus
MARCH



PART B:

OUR BUSINESS

WHO WE ARE

The NHFC is a state-owned entity in the human settlements sector, supporting housing delivery through the provision of affordable housing finance. The Company has been in existence since 1996, operating on a national level, providing wholesale funding to the affordable housing market. Our funding focus has primarily been social housing institutions, non-banking retail intermediaries, privately owned property developers, construction companies, and investors. The secondary focus had been loan origination and other forms of wholesale funding (equity and quasi-equity) that was made available to intermediaries that operate within the affordable housing market sector. With the merger of RHLF and NURCHA into NHFC, our mandate has since expanded to include rural housing as well as supplying bridging finance to developers and construction companies in the subsidy housing market.

COVID-19 DEBT RELIEF PROGRAMME

To relieve the financial burden incurred by customers as a consequence of the economic impacts of COVID-19, the Minister of Human Settlements allocated R300 million for use to off-set against customer debt. Whilst the impact was largely incurred during the previous reporting period, the funds could only be allocated during the current reporting period due to the timing of fund allocation.

More detail in regard to the COVID-19 debt relief programme can be read on page 36.

THE NHFC MANDATE

The NHFC exists to ultimately serve low- to middle-income households by providing the opportunity for such households to live with dignity. The NHFC is mandated to facilitate the end-to-end solution that addresses the financing and human settlement needs in South Africa. This is to be achieved through the provision of various funding instruments which seek to address specific intervention requirements.

HOW WE ACHIEVE OUR MANDATE

The NHFC executes its mandate by offering the following finance and service solutions:

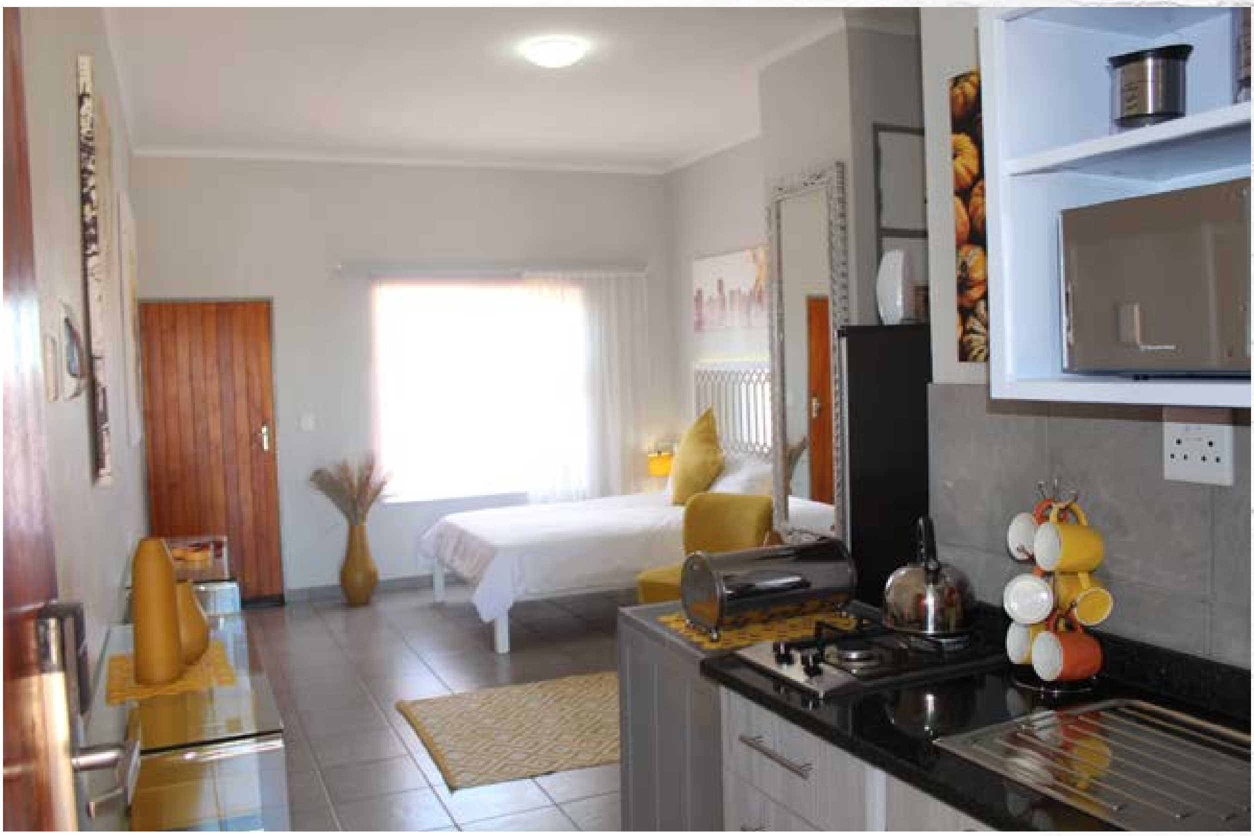
Rental Housing Finance

SOCIAL HOUSING

Social housing is accommodation that is subsidised through initiatives driven by Social Housing Institutions (SHI), Other Delivery Agents (ODA), the Social Housing Regulatory Authority (SHRA) and the Provincial Human Settlement Departments, together with Local Municipalities. Social Housing projects aim to provide subsidised rental accommodation for the low- to middle-income rental market sector. The NHFC aids such initiatives by providing top-up funding of approximately 30% as secured debt, and the SHRA provides the balance of the funding to accredited SHIs and ODAs that qualify for Consolidated Capital Grants (CCG).

PRIVATE RENTALS

The NHFC provides medium- to long-term debt funding to development finance programmes that enable property owners to develop or refurbish properties to make them fit for lease to tenants.



Fochville Project Unit, Gauteng

The NHFC mandate makes further inclusion to support incremental, affordable and subsidy housing by providing various financing options. These include:

Incremental housing

By offering wholesale funding in the form of structured loans to Retail Finance Intermediaries (RFI), the NHFC fulfils this portion of its mandate. Such financing is provided to low- and middle-income homeowners (both rural and urban) to improve their housing conditions on an incremental basis.

Subsidy housing

The NHFC provides subsidy bridging finance or development finance and products to offer short-term revolving loan facilities. Finance is provided to contractors who are appointed for the construction of subsidised housing–either by an organ of the State or from the private sector–and is directly linked to the value of approved certificates.

Affordable housing

Short-term development finance is extended to developers who build affordable housing to sell to the low- to middle-income earning group. Finance assists in the servicing of sites and construction of homes. The NHFC manages the grants provided by the National Department of Human Settlement.

Strategic Investments

Working closely with investors, developers, housing development agencies, and funding institutions, the NHFC can leverage private sector and development funders to finance and create affordable housing stock. Strategic Investments includes entities in the NHFCs target market that are providing scale and innovation in the market place in which the NHFC has invested equity or quasi equity funding to attract other funders to the sector.

Grant facilitation

The NHFC facilitates access to FLISP for the benefit of first-time home buyers whose monthly household income ranges between R3 501 and R22 000. This role is distinct from provincial departments responsible for human settlements that are mandated to implement the programme in its Integrated Residential Development Projects (IRDPs). While provinces are allowed to appoint an implementing agent to assist in FLISP implementation in IRDPs, only the Gauteng province has appointed NHFC as its implementing agent. However, it must be pointed out that the programme performance reported in this IAR only includes subsidies processed by the NHFC and excludes subsidies reported by provinces, including the Gauteng province.

HOW THE MACRO ENVIRONMENT AFFECTS US

The way in which the NHFC approaches its business operations, is akin to the approach for housing development. At the core of both of these functions is a focus on long-term value creation – value for the people and communities that are in any way impacted by NHFC's operations. The approach taken ensures that a sustainable business model is maintained in order to move South Africa forward.

POLITICAL AND SOCIAL ENVIRONMENT

The 2021/22 political landscape proved, for the most part, to be stable. It was, however, severely impacted by the civil unrest and riots that plagued both the KZN and Gauteng provinces during July 2021. Furthermore, severe weather conditions in the form of floods experienced in KZN threatened the political stability and negatively affected the social economy too. Many citizens were left stranded in the face of the storms and turned to the leading party seeking solutions.

South Africa has continued to balance the economic recovery from COVID-19, the increased unemployment rate, and address the rise in criminal activity as an unintended result of the economic downturn noted in the past two years. Despite its challenges, South Africa boasts one of the most coveted constitutions across the globe. The constitution, under Section 26, provision is made that every citizen has the right to adequate housing. As such, the state strives to achieve the provision of sufficient shelter to all citizens through the ideals of vision 2030 of the NDP. To restore dignity and reaffirm the right to a better life, government seeks to eradicate informal settlements and provide urban establishments.

The challenges faced in pursuit of the achievement of informal settlement eradication include land dispossession, areas being detached from economic activity, little to no social amenities, a lack of service delivery, and many more. These are inherited challenges brought about by historic injustice in South Africa. The President has made clear his vision for the future, and this includes the integration of sustainable human settlements within a smart Gauteng City Region.

In August 2021, Minister Mmamoloko Kubayi assumed her position as the Minister of Human Settlements and moved to restore stability across human settlement entities. Minister Kubayi also issued a strong warning to all implementing agents and contractors who perform poorly and do not deliver on housing projects.

The Minister also took part in the Women's month commemorations where 97 title deeds were handed over to qualifying beneficiaries. The majority of the beneficiaries were women, and the celebration was collaboratively hosted by MEC for Human Settlements, Urban Planning and CoGTA at the West Rand District Municipality. Several ministerial measures were undertaken during the reporting period, including the Elijah Barayi Village, one of the Mega Human Settlement projects, that will result in the delivery of 12 799 mixed housing units. This number is made up of 5 000 Breaking New Ground (BNG) units, 3 500 social housing units, 2 200 affordable housing units, 1 500 FLISP units, and 599 bonded houses.

The Dan Tloome Mega Project in Randfontein consists of 924 units. Concerted efforts are being made to ensure that the number of qualifying beneficiaries are increased. Thus far, 504 units have been allocated and through the FLISP programme, efforts are ongoing to increase the beneficiary base.

TECHNOLOGICAL ADVANCEMENTS

In an ever-changing world that rapidly ushers in new and innovative means of operations, the digital and technological landscape continues to advance and affect the way in which the financial services industry conducts its business. The NHFC is no exception and remains cognisant of both its micro and macro environments. With this in mind, the Company strives towards innovation and advancement to ensure successful delivery of its mandate. The digital economy, in particular, presents a unique opportunity for the NHFC to extend its product range and geographic reach. However, technological advancement is not immune to speedy rise of internet-based offences and cyber-crime that, if unmitigated, pose a serious threat to the operations of all stakeholders in the financial sector.

The NHFC remains vigilant to the implications of cyber-crimes and threats, and is implementing a Business Modernisation Strategy (initiated in the previous year) that is underpinned by a robust ICT platform. Future-proofing the Company in this way will ensure that the Company continues to provide an uninterrupted service that meets clients' expectations. Within the past year, many technological advancements, greatly benefiting the NHFC, have been noted. The NHFC has realised both tangible and intangible benefits from technological advancement, with positive effects being realised on efficiencies, culture, and on its stakeholder relations.

The technological advancement process has ensured that the Company's information is secure, available, and reliable. The greatest advantage that has been derived from the technological transformation and implementation journey is improved communication services, enhanced delivery of value to stakeholders, and operational efficiencies. The Company can successfully connect virtually with employees, clients, and stakeholders through video or voice calls. Additionally, the Company has implemented the provision of online communication services providing online communication services.

Priority continued to be given to the protection of privacy and information, with greater security measures being taken in the implementation of the POPI Act. This enabled the Company to regulate how information is organised, stored, secured, and discarded.

MICRO- AND MACROECONOMIC ENVIRONMENT

In the year under review, the SA economy rebounded from the COVID-19 lockdowns. Much of the thrust came from increased consumer spending and strong export growth, supported by robust global demand for commodities.

In contrast, government spending was subdued and fixed investment remained depressed. The recovery has also been uneven among sectors and income groups. Sectors that were most impacted by the various levels of COVID-19-related lockdowns, such as tourism and airlines, recorded turnover levels that are still below 2019.

Low-income earners were the hardest hit by the lockdowns, with employment lagging far behind economic growth, exacerbating already high levels of unemployment, poverty and inequality. Due to the benefits of a low-interest-rate environment, we continue to witness solid demand for credit.

Looking to the future, South African economic recovery is expected to moderate off the higher base of 2021 in the coming years, and the economy is expected to recover to pre-2019 levels on a sustainable basis only in 2023. Consumer spending is expected to increase, underpinned by firmer income growth and relatively favourable interest rates. Fragile consumer confidence, hurt by a weak job market, will still limit the upside.

Fixed investment spending is forecast to rise off a low base but faces ongoing headwinds. In contrast, government spending will likely remain weak. At the same time, softer global demand and commodity prices will weigh on exports, particularly in the context of geological uncertainty. Real GDP growth is forecast to grow by 1,7% in 2022 and remain muted in the coming years. Accelerated structural reforms, policy certainty and energy security remain key to unlocking faster economic growth over the medium-to-longer term.

THE IMPACT ON OUR BUSINESS MODEL

The exceptionally high levels of unemployment remain a concern, especially with respect to the NHFC's target market being the low- to middle-income earners. The subdued economic outlook affects both investor and consumer sentiment with respect to demand and supply of accommodation/housing whether rentals or mortgage loans.

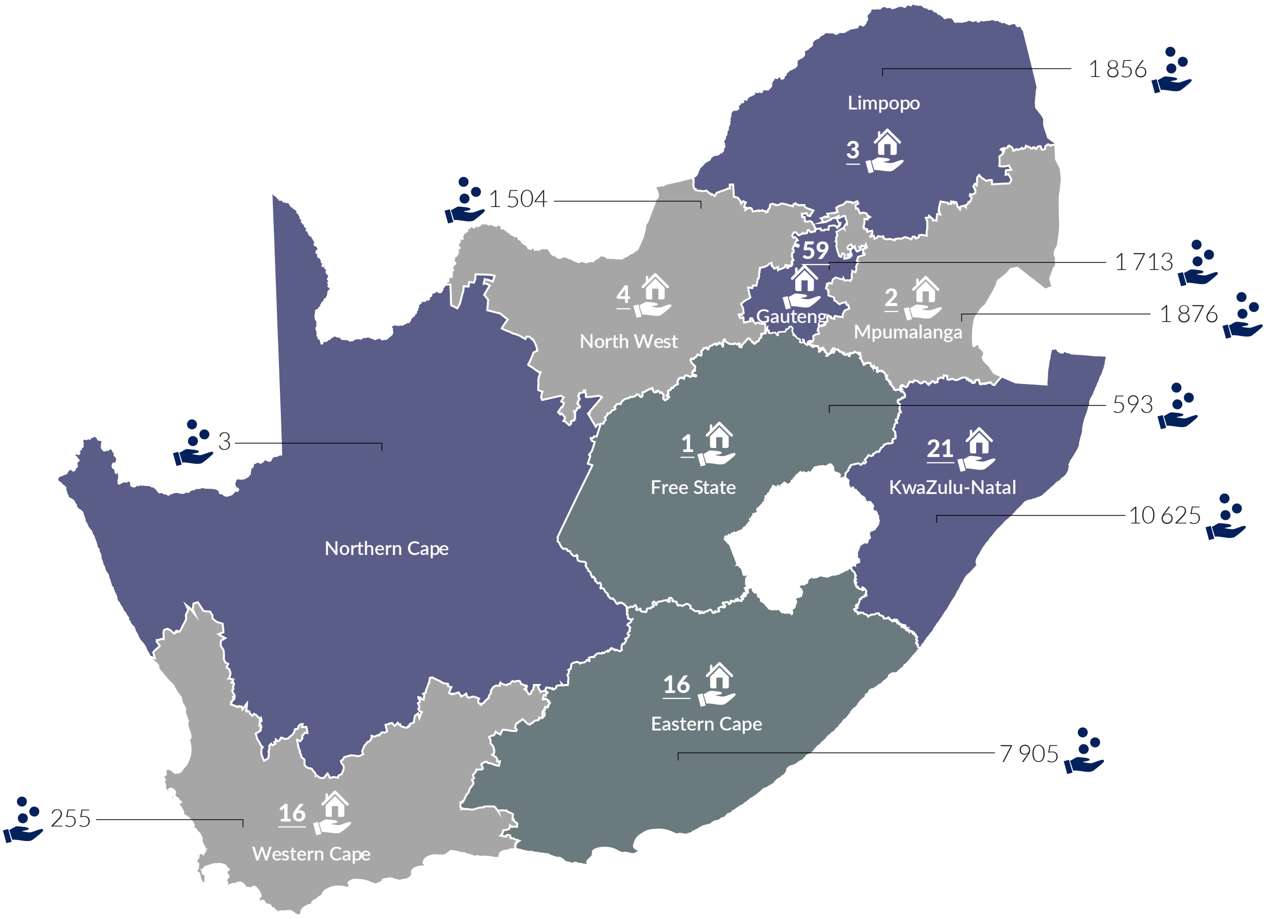
Inflation is projected to be above the South African Reserve Bank's target range of 3% to 6% with headline inflation forecast at 5.9% in 2022 primarily due to higher food and fuel prices. The resultant rising trajectory of interest rates over the next six months will need to be monitored with respect to its impact on consumer pockets. The NHFC has noted the elevated vacancies in rental projects in the last six to nine months which we expect will subside from last year's highs as the economy recovers.

Kyle's Place Project, Gauteng

308 Karen's Place Project, Cape Town

THE NHFC FOOTPRINT

This map represents the NHFC's national footprint, illustrating its active projects and disbursed loans for the review period.



Active project loans footprint

NHFC funded projects per province 2021/2022	Number of projects*	Number of loans per province for incremental housing**
Gauteng	59	1 713
Eastern Cape	16	7 905
Western Cape	16	255
Free State	1	593
Northern Cape	0	3
KwaZulu-Natal	21	10 625
Limpopo	3	1 856
North West	4	1 504
Mpumalanga	2	1 876
Total	122	26 330

Notes

** Number of projects (approved, disbursing and servicing loans)*

*** Number of loans per province disbursed by intermediaries for the 2021/22 Financial Year*

PROGRAMME PERFORMANCE OVERVIEW

LENDING

PRIVATE RENTAL FINANCE

The private rental portfolio continues to experience challenges in a tough economic climate, which can be attributed to uncertainty in the property markets brought about by the COVID-19 pandemic and subsequent slow economic recovery. The interest rate drop of the past two years has had an unintended consequence of increased availability of rental stock in the market (leading to high vacancy levels), as tenants moved out to opt for sales.

The resulting high rental vacancies and low rental escalations has had a negative effect on profit figures, which resulted in developers being reluctant to invest in the market until improvements are noted.

A positive, albeit slow, recovery has been noted for the year under review. Despite the optimistic outlook, developers, asset managers, and investors showed little appetite for investment in the market. Balancing the vacancies, escalations, market strength and rent collection trends remains key to the feasibility of private rental transactions.

During the year under review, a total of R173 million in loans were approved against a target of R120 million – an achievement of 145% of the targeted.

The loan disbursement figure was recorded at R45 million against a target of R125 million, a 36% achievement rate. This was downcast as a result of delays in the fulfilment of conditions precedent to unlock disbursements.

OUTLOOK

A muted rental escalation was a key indicator of a challenged market, and outlook on growth is expected to remain muted. Some of the reasons for this are listed below.

- Due to an oversupply of stock, the demand decreased affecting the rental escalation, in what has been a tenant's market for some time;
- After experiencing a rather sharp decline in tourism, the short-term rentals and leisure-rental properties moved onto the long-term rental market. This led to an oversupply of housing that placed further downward pressure on rental prices; and
- In 2020, many tenants chose to take advantage of lower interest rates by purchasing property. This exit of tenants from the rental market meant an additional oversupply of rental properties, further pressuring the rental price.

Fochville Project, Gauteng

The year under review has seen an encouraging, yet slow, recovery. This promises to resuscitate private rental in the upcoming year. The outlook is also informed by client interactions, and the NHFC is confident that private rental will return to its former glory in due course.

Private rental also includes the student housing sector and, as such, NHFC's increased participation in student housing has demonstrated a relatively stable income and strong above-inflation rental growth.

Developers Profile: Featured Project

Developer Name: Jema Property Investments (Pty) Ltd

Project Name: Brixton Student Accommodation

Size of Project: 72 Bed Student Accommodation

Province: Gauteng

Loan Amount: R10 million

Jema Investments (Pty) Ltd (Jema), is a majority female-owned developer, and an emerging player in the private rental space. The company provides both accommodation and property management services, albeit on a small scale. Brixton student accommodation is a green field development of 36 rental units, which has yielded 72 student accommodation beds. The development is located at 12 Morltake Street, Brixton, Johannesburg and will service students from the various campuses of both the University of Johannesburg and Wits.

Brixton Student Accommodation Project, Gauteng

SOCIAL HOUSING FINANCE

The NHFC is the biggest debt provider in social housing, and offers funding to qualifying, accredited SHIs and ODAs who are subsidised by Government to provide social housing developments for households earning between R1 500 and R15 000. The portfolio's performance is significant as it is one of the largest portfolios of the NHFC, and a priority housing programme of the DoHS.

The rate of loan approvals has increased in comparison to recent years, where the NHFC's participation was managed through a tightened lending criterion resulting from a strained non-performing loan book. The improvement is as a result of a strategic shift to focus on ODAs that provide a far better risk profile as equity providers. Slowed performance by the Social Housing portfolio has been primarily a result of a strained social housing financing model, poor commercial viability, and a challenged regulatory oversight. The grant quantum has remained stagnant with no inflationary increases since 2017, while construction and land costs continue to rise. Added to this, several external factors (including criminal acts of organised rental boycotts and hijacking of developments under construction) have exacerbated an already grave situation.

The result of these circumstances has led to the deterioration of the loan book, which recorded almost 50% of the social housing book being in the non-performing loan category. Loans approved made up R216 million against a planned target of R301 million, which is a 72% achievement rate. Disbursement performance improved considerably from the previous year with R70 million achieved against a target of R95 million – an achievement of 74%. Low disbursement figures were informed by a decision to tighten the lending criteria for social housing, as the performance of the book was managed.

OUTLOOK

In July 2021, NDoHSs Ministers, and Members of the Executive Council meeting approved a grant quantum and income band increase. This will substantially improve the social housing financial model and outlook. The Consolidated Capital Grant (CCG) will increase by 20% from R271 867 per unit to R 328 687, and the rental band will increase from between R1 500 to R15 000, to a band of between R1 850 to R22 000. These changes, which will come into effect in the next financial year, were much needed in the sector and will help accelerate delivery and performance in this space. Crowding in other funders into social housing is necessary, and so through collaborations with the DBSA, the NHFC envisages an increase in interest and activity in the sector.

Social Housing Institution profile - Featured Project

SHI Name: Own Haven Housing Association NPC "Own Haven"

Project Name: Conradie Park Phase 1 Social Housing Project

Size of Project: 432 Social Housing units

Province: Western Cape

Loan Amount: R45 million

Own Haven Housing Association NPC, is a SHRA accredited SHI that provides affordable rental accommodation. The NPC has been operational since 2001 and has consistently delivered and managed quality units. The development is part of the greater Conradie Better Living Model Exemplar Project in Pinelands, Cape Town. The precinct development will include school facilities, retail, commercial, and 3 500 mixed residential units, incorporating FLISP units, social housing, rent-to-buy, as well as units for the open market. The development addresses apartheid's special transformation, as it is extremely well located and is within walking distance to work opportunities and amenities. The target market is households earning between R1 850 and R22 000, as per the updated SHRA regulations.

Cape Town Own Haven – Conradie Park Phase 1

AFFORDABLE HOUSING FINANCE

The NHFC's affordable housing programme provides bridging development finance to developers who build housing units or provide serviced stands in the affordable housing market. The target market served is those households with a combined monthly income of R22 000. In spite the effects of COVID-19 and a challenged economy, performance was pleasing. The loans approved amounted to R 613 million against a target of R456 million, while disbursements reached R467 million against target of R180 million. Disbursements have begun to translate into completed units as construction programs reach completion.

OUTLOOK

The sales market in the affordable housing space was favourable. This was a result of the low interest rate environment, which improved affordability. Developments that cater to first-time homeowners have been on the rise since the decrease in interest rates. The FLISP, which assist first-time home buyers with subsidies to increase affordability, has contributed greatly to this new first-time home buyer's market, and the portfolio finances the supply side of FLISP units. There has been an increase in the purchase of commercial properties, so that these may be converted to affordable housing residential stock, and an increase in such transactions is anticipated to continue for some time.

The NHFC has strategically increased participation in mixed-income developments within the portfolio, which has positively affected spatial transformation as it locates affordable housing in prime areas which are close to work opportunities. This will cross subsidise revenue to maintain financial feasibility of the development. The strategy is aligned to the NHFC's risk appetite statement, however, as the company moves forward, it envisions co-funding arrangements with commercial banks within the portfolio. This aims to further encourage the mixed-income model.

The boom experienced in the portfolio is slowing down as the repo-rate continues to rise. End-user affordability will be affected as mortgage lenders (commercial banks) will be more cautious, however, the NHFC will – in the short– to medium term – continue to grow its contribution in this space.

Developers Profile - Featured Project

Developer Name: Linked Thoughts Consulting (Pty) Ltd

Project Name: Ivy Park Extension 54

Size of Project: 95 Affordable Housing Units

Province: Limpopo

Loan Amount: R36 million

Total Approved Disbursement: R51 million

The developer, Linked Thoughts Consulting (Pty) Ltd, is a company owned 100% by Mr Rakgogo Mokete, a black male living with a disability. The company was established in 2008, as a contractor primarily focused on government-funded projects. It has subsequently grown into a private developer. This development is the developer's first private property development, which includes the installation of services to 95 stands, as well as the construction of 95 top-structure units in Ivy Park Extension 54 in Polokwane. The development is attractive to buyers as it is within a 2.5km radius of amenities, such as the casino and the Peter Mokaba Stadium. The facility was approved in March 2021, and as at March 2022, NHFC has disbursed R35 million, with the units at various stages of completion

SUBSIDY HOUSING FINANCE

The NHFC's subsidy bridging finance is a finance product that offers short-term revolving facilities, typically taken out for a period of 60 days or longer to bridge contractor's cash flows, pending payment by the respective employer. NHFC provides bridging finance to contractors who have been appointed for the construction of subsidised houses either by an organ of the government or the private sector.

Performance of subsidy housing for the FY2021/22 was challenged due to contractors who closed their facilities because contracts with the provincial department of human settlements expired, with some being terminated. This has had an effect on portfolio's performance, which is closely linked to the expenditure and delivery of provincial departments. During the period, loans to the value of R114 million were approved against a target of R154 million, and the disbursements reached R136 million against a target of R228 million.

OUTLOOK

The outlook is informed by the performance of the HSDG and USDG grant allocations to provincial human settlements. In the NDoHS's July Minister's and Members of Executive Councils meeting, the subsidy quantum was revised upwards, which will positively contribute to the financial viability of the model.

The revision of the subsidy quantum, which will come into effect in the next financial year, is expected to boost the performance of subsidy housing as it is anticipated that the NDoHS will be issuing more tenders and appointing new contractors during FY2022/23. The NDoHS is working with provinces towards implementing recovery plans to ensure that planned targets, as per the Annual Performance and Business Plans are met. Subsidy financing will, therefore, become an integral part of the success of these recovery plans.

> *Balancing the vacancies, escalations, market strength and rent collection trends remains key to the feasibility of private rental transactions.*

Contactors Profile - Featured Project

Contractor Name: MMS Developments (Pty) Ltd

Project Name: Indwe Mavuya 462 ePHP housing project

Size of Project: PHASE 1: 200 Houses

Province: Eastern Cape

Municipality: Emalahleni Local Municipality

Loan Amount: R12,5 million

Total Approved Disbursement: R51 million

MMS Developments (Pty) Ltd (MMS) was established in 1987, and is a full-service general contractor specialising in road, earthworks, and building construction. The company is successful, as it re-invests its earnings to fund the company's activities. This has resulted in the financial ability to sustain future growth and self-fund multiple projects at any one time.

The project was financed through the subsidy housing programme, for BNG beneficiaries who applied for state subsidies and will yield 200 housing units.

INCREMENTAL HOUSING

The NHFC advances loans to retail finance intermediaries who on-lend to end-users, so that they may build their housing on an incremental basis. A total of R61,4 million in loan facilities was approved under the sub-programme. This represents a 15% achievement of the target of R398 million, while R224 million (122%) was disbursed against a target of R183 million.

The intermediaries who serve the lower end of the market, typically in the rural and township markets, have been fighting a tough battle to make the low-income, incremental mortgage model work in SA's current economic environment. The end-users are being affected at multiple levels (COVID-19 job losses, food inflation, ever-increasing fuel and transport costs) and have less in their pocket at the end of the month. Intermediaries have, therefore, experienced increased bad debts and lower collection rates. The rising unemployment rate is of great concern to the incremental housing product, as the statistics SA quarterly labour force report (released 29 March 2022) demonstrates that the unemployment rate has maintained its increase, climbing to 35.3% in the fourth quarter from 34.9% in the third quarter of 2021.

OUTLOOK

The Incremental product provides the largest amount of impact through the number of loans originated by intermediaries; therefore, it remains a critical delivery platform for the NHFC.

Given the challenges experienced by intermediaries, the outlook will be informed by partnerships with industry bodies and co-funders, as the NHFC explores restructuring opportunities and instruments to better serve the market needs.

> *NHFC provides bridging finance to contractors who have been appointed for the construction of subsidised houses either by an organ of the government or the private sector.*

Incremental Housing Beneficiary Profile - Featured Project

Beneficiary Name: Ms Masabatha Godongwane

Province: North West

Municipality: Mahikeng Local Municipality

Village: Seweding Village, Mahikeng

Ms Masabatha Godongwane, resides in Seweding village in Mahikeng. She took a loan of R48 638 on 20 September 2021 from one of the NHFC Intermediaries through Ya Batho Bothle Building Material Suppliers. Augmenting the family savings, the applicant used the loan to build a new five-roomed family home for her children, who currently reside with their grandparents.

SECTOR TRANSFORMATION

The NHFC remains highly committed to economic transformation in the housing sector as well as the property sector at large. It further recognises the value of transforming the sector and its associated value chain in a meaningful and impactful manner, as outlined in the transformation objectives of the Strategic and Annual Performance Plans (APP).

Various channels are utilised to promote economic transformation, one of which being through direct lending activities to B-BBEE compliant entities, with a focus on ownership by black entrepreneurs, women, youth, people with disabilities, and military veterans. The NHFC further aims to support start-ups. The transformation activities and performance are defined in the APP – with clear and measurable Lending targets. Through the output indicators, direct lending disbursed R367 million, against a target of R284 million (a 129% achievement). Disbursement to women and youth entrepreneurs was recorded at R124 million, against a target of R243 million (51% achievement). During year under review, a drive to ensure that at least 30% of disbursements are transformational deals , which is in line with the NHFC's transformation framework.

OUTLOOK

The outlook on disbursements to transformed entities is informed by overall lending activities that are expected to grow steadily in most of the lending products. The strategic aim is to broaden the performance by leveraging the newly established NHFC incubation programme, which will have a specific focus on empowering designated groups. During the period, B-BBEE lending and investment guidelines were developed and approved. These guidelines provide concessionary pricing to >51% black-owned entities, as well as entities owned by women, youth, people with disabilities, as well as start-ups. The pricing improves the financial viability of projects which will stimulate and encourage more black-owned transactions.

Through collaborative efforts with sector stakeholders, who contribute to the lending pipeline, such as the SHRA and Provincial Human Settlements departments, the NHFC can advocate for a more diverse and inclusive pipeline that will directly enable lending activities to designated groups.

GRANT FACILITATION

National Housing Finance Corporation is mandated by the National Department of Human Settlements to facilitate the implementation of two government programmes, namely the Finance Linked Individual Subsidy Programme (FLISP) and the COVID-19 DRP.

FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAMME

The NHFC was appointed by the NDoHS as the FLISP National Implementing Agent with effect from FY2019/20. This role entails that the NHFC facilitate access to FLISP for the benefit of first-time home buyers whose monthly household income ranges between R3 501 and R22 000. This role is distinct from provincial departments responsible for human settlements that are mandated to implement the programme in its Integrated Residential Development Projects (IRDPs). While provinces are allowed to appoint an implementing agent to assist in FLISP implementation in IRDPs, only the Gauteng province has appointed NHFC as its implementing agent. However, it must be pointed out that the programme performance reported in this IAR only includes subsidies processed by the NHFC and excludes subsidies reported by provinces, including the Gauteng province.

Mogale City Junction, West Rand, Gauteng

The FLISP Operating Environment

The programme is heavily affected by various conditions that prevail in the business environment. Some of these conditions pertain to the policy environment, while others are related to the socio-economic or business environment. The internal NHFC environment is also critical for the delivery of the programme subsidies.

The Policy Environment

Since the inception of the FLISP in 2005, it has been implemented only with mortgage finance. When planning for FY2021/22, targets were set with the understanding that the revised FLISP Policy would be approved in March 2021. This revised policy was expected to codify the inclusion of non-mortgage products to increase the uptake of the programme. The inclusion of non-mortgage products in FLISP implementation is intended to enable the reach of the programme to the households in the lower-income segments of FLISP, as there was evidence that households in the lower-income segments are not able to access mortgage finance and were, therefore, not able to benefit from the programme. As a result of the delay in finalising the revised FLISP policy for Ministers and Members of Executive Councils (MINMEC) approval, FLISP was only implemented with mortgage finance – thus adversely affecting programme performance as targets were set high on the assumption that non-mortgage products would be implemented during FY2021/22. The revised FLISP policy was presented to, and approved by, the Human Settlements MINMEC in February 2022, being too late in the financial year for its implementation in the year under review.

The FLISP Business Environment

The state of the domestic economy remained subdued during FY2021/22 on the back of the global economy that was ravaged by the COVID-19 pandemic. The pandemic resulted in many business closures, job losses, and a significant reduction of income in many households. Although the economy improved somewhat during the year, it did not return to pre-COVID-19 levels, with a continued rise in unemployment being noted in South Africa. This means that many households saw their total incomes reduced as some members had lost their jobs. As an illustration, some households have only one member working who is expected to cater for the needs of the entire household; whereas in other cases, there could have been situations where all members of a household lost their jobs.

Given the steady increase of the unemployment rate in South Africa and the corresponding reduction of household incomes, the ability to access housing credit would have been impossible for many households.

The reduction of household income has an adverse effect on loan affordability assessments that lenders must conduct in terms of the National Credit Act (NCA) and its regulations. The decline of home loan applications adversely affected FLISP, as the programme is linked to home loans.

In this context, interest remained at the lowest levels seen in decades. The market served by the NHFC did not access home loans and subsidies in the greater numbers expected. Although some first-time home buyers took advantage of low-interest rates, many of these were not in the FLISP market. Many developers that partner with the NHFC in FLISP implementation shared this observation even during FY2020/21.

> *The inclusion of non-mortgage products in FLISP implementation is intended to enable the reach of the programme to the households in the lower-income segments...*

308 Karen's Place Project, Cape Town

The NHFC Internal Environment

During the year under review, the NHFC focused on improving its capacity to deliver the programme as the programme has previously been characterised by inefficiencies and long turnaround times in subsidy applications processing. Historically, FLISP applications were processed manually, and no IT systems were in place to ensure the efficient processing of applications. Improving FLISP implementation capacity entailed addressing both human resources capacity as well as IT systems.

When the NHFC assumed the role of National Implementing Agent, FLISP applications were processed manually, with the assistance of a few personnel undertaking this function. During the review period, the NHFC continued with the project to enhance the Customer Relationship Management (CRM) System that is used for subsidy processing throughout the value chain. The system enhancement project was concluded towards the end of the year, thus enabling online submission of subsidy applications by various business partners such as developers, lenders, and bond originators. These partners were trained on the enhanced system and onboarded to enable online submission of subsidy applications. The automated registration of approved subsidies onto the National Housing Subsidy Database (NHSDB) was concluded during the fourth quarter of FY2021/22.

The enhancement of the CRM System will enable the automation of the FLISP applications from online submission, automated database searches, automated approvals registration onto the NHSDB, and subsidy payments. At each stage of processing, the system has the capability to, via SMS or emails, update applicants on their applications.

As a critical part of enhancing the internal subsidy processing capacity, the NHFC approved a new Company structure. The new structure provides for additional personnel to support the automated processing of applications. In addition, a call centre was established to ensure that staff are available to respond to enquiries about the programme, as well as to beneficiaries enquiring about the status of their applications. Additional staff members were appointed (three in each FLISP section) during the third quarter of FY2021/22.

As the programme grows, the NHFC will continue to monitor capacity and further improvements to ensure the maintenance of efficient processing of applications. Regarding the IT systems, the NHFC is in the process of implementing an Enterprise Resource Planning (ERP) Solution for the Company, which will take FLISP processing to an even greater efficiency level.

FLISP Provincial Outcomes In 2021/22

FLISP is a national programme, therefore, it must be delivered in all nine provinces. However, as the table below shows, the programme was mainly accessed by households in the Gauteng province. The challenge that the NHFC must address in FY2022/23 is to spread the reach of the programme to other provinces as well.

FLISP APPROVALS AND DISBURSEMENTS							
PROVINCES	RECEIVED	APPROVALS		REJECTIONS	DISBURSEMENTS		AMOUNT LEVERAGED
	Number	Number	Value R'000	Number	Number	Value R'000	Value R'000
Eastern Cape	67	54	R3 452 900	18	71	R4 208 885	R21 271 647
Free State	31	31	R1 694 148	8	17	R4 208 885	R14 938 701
Gauteng	3 341	2 669	R150 649 573	826	1 926	R106 525 181	R1 395 160 561
KZN	66	47	R2 513 060	27	29	R1 526 286	R26 836 310
Limpopo	8	8	R458 868	2	10	R518 007	R4 209 400
Mpumalanga	17	19	R1 139 269	4	9	R411 169	R8 511 350
North-West	27	21	R1 290 700	4	15	R853 247	R8 874 903
Northern Cape	3	7	R443 415	0	2	R143 282	R3 165 000
Western Cape	72	79	R4 705 150	20	1 189	R58 309 214	R36 972 128
TOTAL	3 632	2 935	R166 347 083.80	909	3 268	R173 364 585.00	R1 519 940 00.00

Table 2: FLISP Provincial Outcomes 2021/22

The performance of the programme, in all indicators, was below the respective targets during the period under review. However, it must be noted that (as mentioned above) targets were set high compared to the previous financial year. This was due to the assumption that the revised FLISP policy would be approved in March 2021 and be implemented in FY2021/22. No significant increase in subsidy applications was noted, as many individuals in the FLISP market could not access mortgage finance and apply for the subsidy, either because of low-income levels or living in rural areas where the land title is unavailable. Also attributable to the low rate of subsidy applications was the poor state of the market conditions (as discussed above).

Although performance in FY2020/21 was largely affected by the onset of the COVID-19 pandemic, a slight improvement in the performance of the programme during FY2021/22 was noted. Undoubtedly, performance would have been higher if non-mortgage products were implemented during the year under review. The annual and cumulative programme performance since the NHFC assumed the role of National Implementing Agent is shown in the table below.

Annual and cumulative programme performance since 2019/20					
Output	Output indicators	2019/20	2020/21	2021/22	Total
Disbursement of FLISP subsidies	Number of applications received and captured	3 712	2 411	3 632	9 755
	Number of applications approved	2 212	2 120	2 935	7 267
	Number of subsidies disbursed	1 167	1 136	3 268	5 571
	Value of approvals (R million)	123	111.2	166	400
	Value of Disbursements (R million)	60	60.9	173	294
	Amount leveraged from financial institutions (R million)	943	1 030.6	1 519.4	3 493

Of note, as shown in the above table, is that even though cumulatively R400 million in subsidies was approved during the last three financial years, this amount has leveraged R3.5 billion in private financial institutions' lending in the affordable housing market. The programme has a high leveraging factor (8.75) — which shows that for the first three years of the programme, for every R1 of subsidy, private financial institutions have provided R8.75 in the affordable housing market.

Plans to Grow the Programme

The NHFC has lined up various actions to improve the performance of the programme from FY2022/23 and increase the reach of the programme to all provinces. Buoyed by the approval of the Help Me Buy a Home Programme, highlighted below, specific actions are being taken to grow the programme and deepen its reach to beneficiaries in all provinces–including rural areas. The actions include, but are not limited to:

- Signing and implementing the Memorandum of Agreement (MOA) with the Banking Association of South Africa and Service Level Agreements with individual banks and other housing finance lenders. Achieving these agreements was kept abeyance pending the formal approval of the revised FLISP policy, which is formally approved.
- Implementing the Memorandum Of Understanding (MOU) with the Department of Public Service Agreement on the Government Employees Housing Scheme. This MOU is intended to facilitate seamless access to FLISP by government employees, buying or building their homes. It is estimated that more than 135 000 government employees are in the FLISP income category of R3 501 to R22 000 monthly income, and possibly a large proportion would qualify for FLISP.
- Concluding MOA with various private sector employers with Employer Assisted Housing Schemes (EAHS). In this area, negotiations with at least five mining companies and one commercial bank are at an advanced stage and should be concluded within the first half of the FY2022/23. It is expected that more private sector companies with EAHS will be identified during the new year.
- NHFC has signed a MOU with a leading bond originator that has a national footprint. The MOU entailed piloting submissions of applications from its Cape Town regional office, and the arrangement will be rolled out to all national offices.
- NHFC has signed a MOU with a leading building materials supplier that has a national footprint. This building merchant is piloting its project in the Vaal Triangle area, with plans in place to roll out the project to all its more than 300 stores in South Africa.

Programme Future Outlook

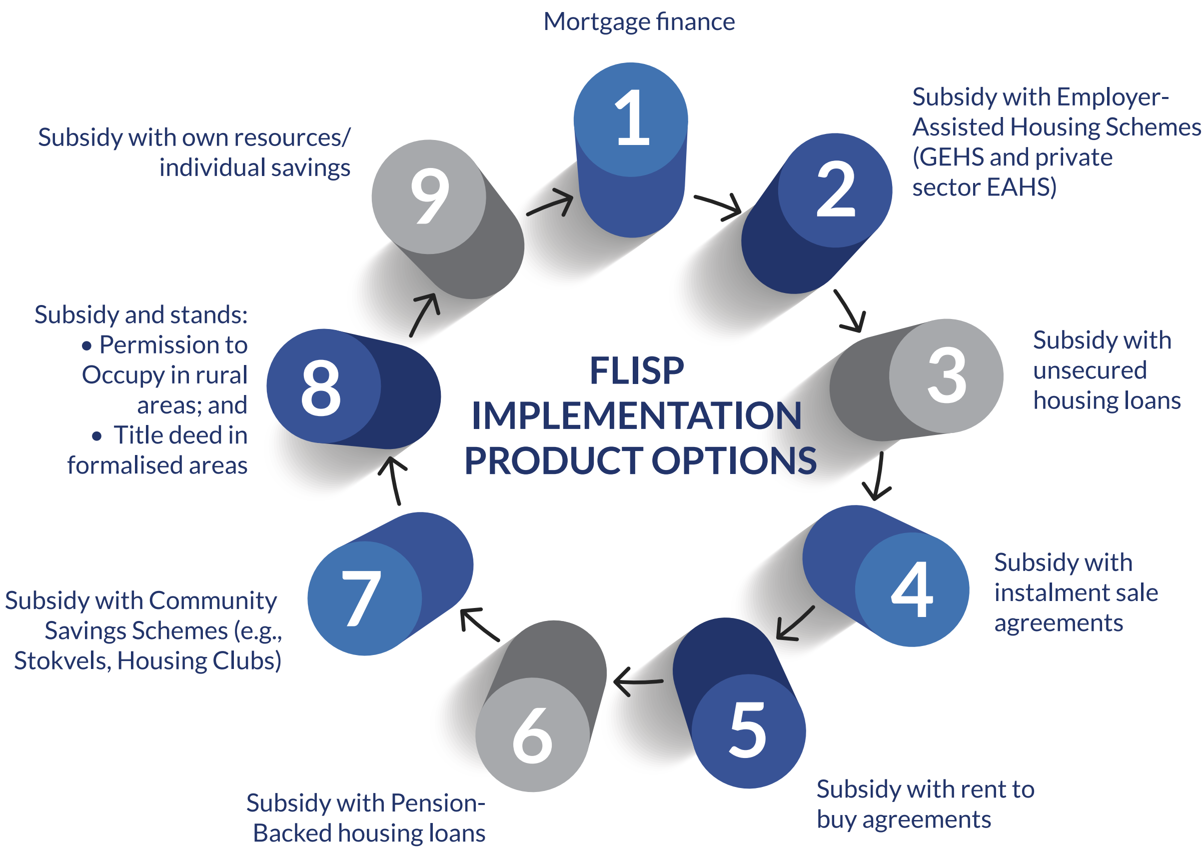
On 22 February 2022, the Human Settlements MINMEC approved the revised FLISP policy, which will be promoted in the marketplace as Help-Me-Buy A Home Subsidy to emphasise the objective of the programme. The Minister of Human Settlements held a media briefing on 25 March 2022, at which she announced that the new policy would be implemented from 1 April 2022. Critical for the programme's performance is that it will also be implemented with both mortgage finance and non-mortgage products. This change will significantly broaden the reach of the subsidy to the target market – especially households in the lower-income segments of the FLISP market and those households who want to access subsidy to build their homes in rural areas where title to land does not exist.

The subsidy quantum will increase by 7.2% to 10%. The quantum increase will further enhance the affordability of buying or building homes for many households who are acquiring their first homes. These changes are expected to lead to the rise in the uptake of the subsidy. However, it must be stated that changes will result in an increase in the average subsidy because:

- Non-mortgage products are mainly accessed by the households in the lower-income segments of the FLISP market and this will lead to an increase in the average subsidy amount granted.
- The increase of the subsidy quantum means that with the confirmed budget allocation, the allocated will buy less subsidy as the average subsidy amount will increase.

Taking the points mentioned above into account, it is important that the NHFC raise awareness and uptake of the subsidy nationally. The increased uptake of the subsidy will motivate the increased subsidy budget allocation for the years ahead. Also of significance is that given the leveraging effect of this subsidy, there will be increased lending by the private financial institutions into the affordable market.

> *The Minister of Human Settlements held a media briefing on 25 March 2022, at which she announced that the new policy would be implemented from 1 April 2022.*



The National Department of Human Settlements, together with the NHFC and provincial departments responsible for human settlements, is finalising the implementation guidelines of the programme for the roll-out of non-mortgage finance options, which will:

- Sketch out an executable business process flow to effectively implement the Help Me Buy a Home Programme.
- Provide a step-by-step business process for each product offering and option, as outlined in the approved Help Me Buy a Home Policy.
- Create clear implementation modalities supporting the new policy framework and programme.
- Ensure that the applied Business Process model is aligned correctly and consistent with the approved policy principles.
- Make recommendations in the case of NHFC regarding the necessary changes to the CRM system to support the processing of applications for the new products.

It must be noted that the beginning of FY2022/23 reflects that consumers will continue to be heavily affected by economic headwinds. Inflation is on the upside risk, resulting mainly from increasing oil prices, driven mainly by geopolitical events in Eastern Europe and food prices. Unemployment remains high as the economic growth remains stubbornly low for the South African economy. Despite these business environment challenges, the programme is expected to perform better than in the previous financial year as new products are incorporated in FLISP implementation, thereby increasing the pool of programme beneficiaries to access the subsidy.

COVID-19 DEBT RELIEF PROGRAMME

The NHFC is mandated to implement the COVID-19 DRP for its clients who were unable to service their debt with the NHFC due to hardships caused by the impact of the COVID-19 pandemic. Funds for this programme were transferred to the NHFC on 31 March 2021. As a result, the DRP funds were not utilised in FY2020/21, the year in which funds were allocated. The Company, therefore, had to make a request to the National Treasury for the retention and utilisation of these funds in line with the PFMA section 53(3). The request was made in September 2021, following the conclusion of the NHFC audit. The National Treasury approved the retention and utilisation of funds during November 2021.

There was a delay in the implementation of this programme, because even though the NHFC Board had approved the NHFC internal COVID-19 DRP Policy in August 2021, the NHFC could not begin the implementation of the programme. This was because the National Framework for the NHFC DRP had not yet been approved by the national Minister of Human Settlements. Implementation of the DRP before formal approval of the policy by the Minister would have resulted in an audit finding. Approval of the National DRP Policy Framework was achieved on 9 February 2022, resulting in the NHFC having approximately six weeks to implement the DRP before the end of FY2021/22.

The Company commenced the programme implementation during the review period but could not complete the implementation for all clients who had applied to the programme. In line with the Delegation of Authority, applications were to be approved at appropriate sanctioning committees of the NHFC – namely the MCIC, the BCIC, and the Board. Before the financial year ended, the MCIC had approved all applications within its delegated authority and recommended applications to the BCIC that had to be approved by the BCIC and those that the BCIC had to recommend to the Board for approval. The BCIC and the Board could not consider the applications recommended to them for approval due to the changes in the Board in late March 2022. This resulted in the outgoing Board having stopped deferring approvals to the new Board.

The table below shows the status of the DRP Fund account at year-end. The DRP Funds include interest, and amounts committed to offsetting the debt of clients in respect of applications considered and approved by the MCIC and those that were recommended to upper sanctioning committees for approval, are also included.

COVID-19 DRP FUNDS			
	Capital received	Interest earned	Cash available
Investment Account Balance	299 999 000	8 296 401	**308 290 401**
Grand Total			**308 290 401**

COVID-19 DRP IMPLEMENTATION - FY2021/22	
1. Value of applications approved by MCIC	36 788 841
2. Value of applications recommended to BCIC	11 198 515
3. Value of applications recommended to Board	24 889 044
4. Uncommitted DRP Funds at year-end	235 413 999

As the DRP Funds have not been fully utilised in FY2021/22, further requests will be made to the National Treasury for the retention and utilisation of funds. Funds continue to be required to assist clients who experienced difficulty in paying their debts to NHFC during FY2021/22, as the impact of the COVID-19 pandemic persisted beyond the initial period of FY2020/21. In addition, the Department/Ministry has given a directive that the DRP be amended to include the utilisation of funds to support struggling SHIs.

Belhar Project, Cape Town

Anchorage Glenhaven Bellville Project, Western Cape

PROGRAMME AND FUND MANAGEMENT

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

The thread that runs through all programmes in which the NHFC is involved is the determination to strengthen the localisation of development benefits arising from each programme. This, therefore, requires innovative ways in which to optimise community participation, buy-in, and optimal participation of small and medium contractors, accompanied by other spin-offs. This developmental endeavour recognises the socio-economic conditions prevalent in the areas to which the programmes are implemented. The endeavour is also keenly focused on optimising benefits beyond the physical asset delivered, and to ensure ongoing value for the communities.

The performance of the portfolio has given extra delivery capacity and value to the sector and advanced the achievement of transformation objectives. In the year under review, this portfolio has had one major project to execute in the form of repairs and maintenance of Public Housing Rental Stock in Cape Town and the Enhanced People's Housing Programme (EPHP) in Walmer, Gqeberha.

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

RENTAL STOCK PROGRAMME

The City of Cape Town planned to repair and maintain the 57 519 rental stock C3 notifications across the city and develop a significant number of local enterprises through an Enterprise Development Programme. The programme provides integrated and composite enterprise development services in the city while delivering the pressing targets to repair and maintain the rental stock units.

The NHFC was appointed as the implementing agent to oversee the implementation of the entire programme and facilitate material supply for contractors. In addition, the NHFC is to provide technical and business mentorship to SMMEs and to ensure that accredited training is delivered through partnerships with NHBRC and Construction Industry Development Board (CIDB).

The project duration is three years, starting September 2020 and ending June 2023, with a fund allocation to the amount of R150 million over this duration.

Progress achieved to date

- 123 local contractors (CIDB grade 1-3) were appointed to the programme.
- To date, R90,3 million worth of work packages have been committed towards repairs.
- Over 750 jobs have been created since the implementation of the programme.
- Women-owned entities participating – 42 contractors.
- Youth-owned entities participating – 15 contractors.
- People living with disabilities–one contractor.
- 20 contractors have upgraded on the CIDB to date.
- Contractors are provided with technical mentorship on-site through the NHFC team.
- Established a transparent roster system that enables every contractor equal work opportunity on the programme.

PROJECT SUCCESS STORIES

- Reduction in service request (C3) notification register on certification of units as complete.
- All 123 local contractors received a work package through the roster system with a minimum allocation of R100 000 per package.
- Contractors use the services of local labourers for unskilled job activities, which create job opportunities in those communities.
- Contractors are able to access more work opportunities in the market and have since been awarded tenders through their participation in this programme.
- All contractors have access to material through the provisions of the NHFC's material supply undertakings product.

WALMER ENHANCED PEOPLE'S HOUSING PROJECT (EPHP)

Umzi waseGqebera Housing Development Association (UGHDA) is a Community Based Company (CBO) in Walmer Gqebera located in Port Elizabeth. UGHDA applied for funding in terms of the EPHP, which was then approved by the Eastern Cape Department of Human Settlements, and a Funding Agreement was signed between the Department and the Umzi waseGqebera for the construction of 2209 units over a period of five years. The programme is designed along the lines of the Zenzeleni Programme (PHP), which the NHFC has prior experience in managing.

Umzi wase Gqebera then appointed the NHFC to be the fund managers on the project since the CBO, as a non-government entity in terms of the PFMA, cannot hold government funds in advance. To date, the CBO has managed to complete a total of 94 units which have been handed over to beneficiaries.

It has been noted over the past two years (since the signing of the SLA,) that the slow delivery of the project, was initially linked to delayed availability of funds once a value was created on-site. At the engagement with the NHFC, the expectation was that this would improve as funds were now readily available and no longer an issue, but minimal progress was achieved. The NHFC has since raised concerns in relation to the continued poor performance of the project, based on the project expenditure and problems around the project management by the then Community Resource Company that led to the slow delivery of units.

Due to the number of challenges faced by the CBO that led to poor performance and slow delivery of the project, the NHFC presented to the ECDHS a proposal to remodel the implementation and accelerate the delivery of the remaining units by December 2023.

On 3 March 2022, the NHFC received a letter of appointment from the Eastern Cape Department of Human Settlements extending the NHFC's current scope of fund manager to include the services of Community Resource Company.

Progress achieved to date

- The NHFC has disbursed a total of R9 978 564.41 and delivered 94 complete units.
- Total fees claimed to date are R474 693.01.
- Letter of appointment for scope extension received on 3 March 2022.
- Managing contractor:
  * Upon approval from the Eastern Cape Department of Human Settlements (ECDoHS) to utilise the existing contractor database, to be tabled at BAC.
- Professional Service Providers:
  * Contracting of these service providers to be ratified through SCM. A memo was being reviewed at the time of writing this report.

RESIDENTIAL DEVELOPERS' INCUBATOR PROGRAMME

With transformation being one of the pillars of the NHFC's mandate, there is a new initiative to create channels to ease access to finance for emerging black-owned developers, particularly owned by designated groups. such as women, youth, and people living with disabilities. The NHFC continues to make significant strides to initiate an incubator/accelerator programme for residentials as defined above. This will target developers who have viable projects but have so far been unsuccessful in accessing finance due to high qualification criteria set to achieve financing of their projects. The programme seeks to ease access to finance for entrepreneurs selected to participate in the programme through structured support of business operations and directs them on a path to acquire good practices and business maturity. The programme seeks to balance three imperatives: developmental mandate, economic impact, and financial sustainability.

The NHFC is in the process of building operational capabilities, some of which will be in-sourced to establish the programme in its first two to five years. Negotiations are underway to collaborate with key stakeholders and advocacy groups in the industry.

Featured Project

Contractor: Arise In Style

Location: Western Cape, City of Cape Town, Retreat

This project is part of the Rental Stock and Maintenance programme that is project led by a black female contractor. The project was funded by NHFC for the facility value of R585 787.78 to enable letting of the property to qualifying tenants. The project was completed in four months, starting in July and ending in October, 2021.

Before

After

Refurbished Building, Cape Town

STRATEGIC PARTNERSHIPS

Progress on Establishing Collaborations with Key Stakeholders

The current operating environment is dynamic and characterised by a few game-changing initiatives. Coupled with these changes, management continues to strengthen critical relationships with key players in the sector. The highlights of the year under review are outlined below.

Housing Development Agency

The relationship seeks to align NHFC's mandate with that of the Housing Development Agency (HDA) as a state developer that has a responsibility to mobilise and host land earmarked for housing and facilitate the planning and delivery of housing developments. NHFC, on the other hand seeks to bring financial structuring and mobilise housing finance for the delivery of affordable housing in general and particularly priority IRDPs.

The collaboration also seeks to establish a platform to use mandate levers available to the two entities, such as land, finance, and project structuring, to advance transformation both spatially and economically. It offers an opportunity to advance and mainstream participation of black-owned and women-owned businesses in the human settlements value chain.

A MOU was signed between the two parties and outlined the areas of collaboration. To give life to the MOU, six of the gazetted IRDPs and priority mining towns were identified to receive attention and test the collaboration in practice. The parties are mobilising teams to interface at operational and project levels. There have been various interactions with anchor developers at Lufhereng and Matlosana catalytic projects, both of which were Gazetted in 2020 through the Instalment Sales Agreement (ISA) process. Similar interactions are taking place to mobilise collaborations with mining towns and other sister institutions around project planning, the establishment of appropriate institutional arrangements, land donations and financial contributions and structuring.

> *The current operating environment is dynamic and characterised by a few game-changing initiatives. Coupled with these changes, management continues to strengthen critical relationships with key players in the sector.*

Infrastructure South Africa (ISA) and Infrastructure Fund (IF)

There have been several interactions with the ecosystem of public sector players, particularly ISA, IF and DBSA. The new institutional arrangements emerging under the leadership of ISA are directed at co-ordinating the Infrastructure Development Programme. Therefore, it is important for key players to understand their various mandates and areas of complementarity. These interactions are directed at improving collaboration and effectiveness in financing projects and programmes in the sector.

ISA has established several sectoral technical working groups and the NHFC is actively participating in the group responsible for supporting, assessing and prioritising human settlement related projects. Further, the NHFC has also participated in a reference group to guide the development of a National Infrastructure Plan 2050 for human settlements which is at advanced stages of development. The scope of the plan is commuter transport, housing, municipal infrastructure, and social infrastructure.

Black Business Council in the Built Environment (BBCBE)

NHFC has signed a MOU with BBCBE which seeks to formalise consultative channels with this important stakeholder. Areas of collaboration will include product development consultations and market activation for the NHFC's transformative initiatives. The two parties held their first webinar with the members of the BBC. It was well received and generated a few inquiries by members seeking project financing opportunities.

French Development Agency

There have been good engagements with the Agence Francaise de Developpement (AFD) to align on priority areas for cooperation. These include technical cooperation, particularly on matters of climate change and knowledge exchange, and development impact related to social housing, backyard rental and urban development challenges. This will be taken forward with the signing of a cooperation agreement in the current financial year.

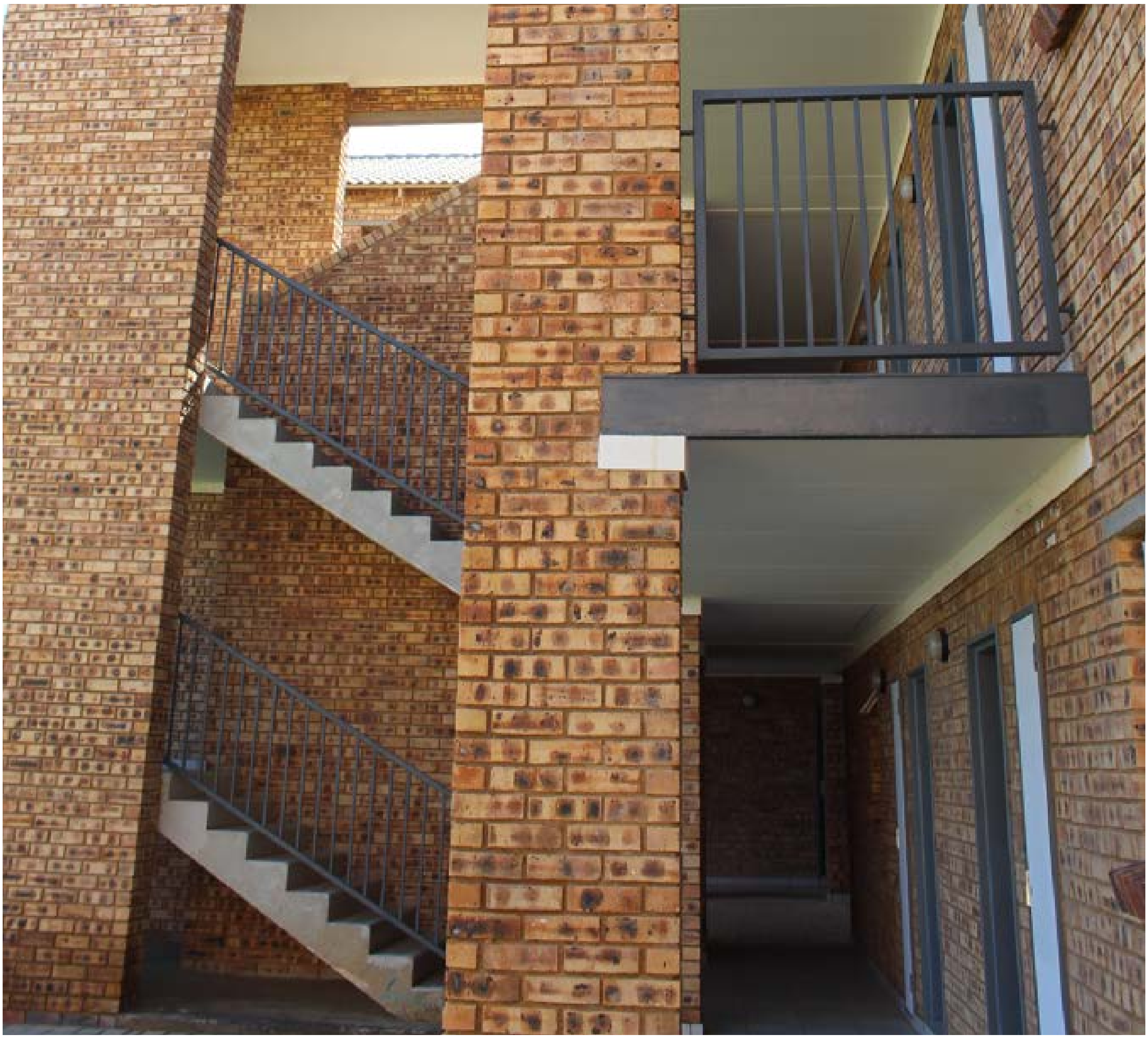
Sector Collaboration with Private Developers

Under the sponsorship of ISA, the sector adopted processes for identification, appraisal, recommendation, and ultimately approval of Strategic Infrastructure Projects (SIPs). This is part of streamlining the SIPs pipeline, the developing processes and establishing standardisation and predictability into the future.

A sector technical working group was established and formalised with adoption of the standard terms of reference (TOR) developed by ISA. Its role is to oversee the intake, appraisal, and selection of a new set of priority housing projects that will be approved for collaboration between the public and the private sectors and pool investments from both sectors to support project development.

Arising from the formalisation of the SIPs process outlined above are two related processes that are receiving priority attention to strengthen the new institutional arrangements and rules of engagement:

- The first, is the adoption of a common framework for business case development and associated project appraisal processes. This is the UK based Five Case Model, and training is being rolled out across sectors, focusing on people who directly participate in project development, appraisal, or approval.
- The second, and in line with the above framework, is the framework developed by the NDHS aimed at guiding the processes of partnering with private developers in financing and developing priority IRDPs. The framework will, furthermore, guide the sector investments decisions, sharing of risks, and achievement of developmental and transformation outcomes. The framework also clarifies future expectations of the NHFC, the Human Settlements Development Bank (HSDB) and its role as the apex financier in the sector. As the NHFC gravitates toward these additional roles and upstream project preparation work, it will also invest more in developing new capabilities, including enhancing finance structuring capabilities.



Mogale City Junction, West Rand, Gauteng

STRATEGIC INVESTMENTS

Our strategic partners, through an economically and socially, challenging trading environment, continued to deliver increased scale through leveraging much needed private sector funding in the delivery of houses and home improvements.

TUHF Holdings Limited (TUHF)

The NHFC owns 32.6% of the ordinary shares in TUHF which is a well-established financial intermediary in the affordable housing market providing loans to property investors and entrepreneurs investing in affordable housing stock predominantly in the inner-city areas of the metropolitan area in South Africa. As a wholesale funder, TUHF has enabled an investment of more than R4 billion in inner city affordable rental accommodation.

TUHF is currently the NHFC's single largest client with exposure at R456 million in the form of equity, preference shares and debt capital exposure.

While the previous financial year of TUHF (2020/21) was characterised by a focus on liquidity and recapitalisation of the business, the past year (2021/22) was focused on rebuilding the business pipeline. In that regard, disbursements for the year ended 31 March 2022 were below targets due to low business confidence in the country. TUHF was affected by higher than budgeted settlements, with some of the long-standing and more established clients securing better priced funding from one of the listed banking institutions. A priority area for TUHF will also be adopting a strategy for client retention with the increased competition in the marketplace.

> *"Finance is not merely about making money. It's about achieving our deep goals and protecting the fruits of our labour. It's about stewardship and, therefore, about achieving the good society."* – Robert Shiller

Housing Investment Partners (HIP)

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

The fund manager, HIP, has developed policies and systems that have allowed it to maintain a high-quality housing loan book in spite of the recent challenging economic environment and rising unemployment. The fund management company is running at slightly above break even and needs to substantially grow its current loan book of about R1,35 billion to achieve a sufficient return of equity. The target is a total loan book under the management of at least R4 billion. That process of attracting mortgage loan assets has been an ongoing challenge which management is addressing through targeting a broad range of potential investors such as multi-lateral agencies and other institutional investors who need to provide much needed risk capital to HIP. Capital is a serious growth constraint which affects a number of our other investee companies and has been exacerbated by the current recession and poor business confidence. In May 2021, HIP was able to achieve financial closure on R300 million of additional funding, of which the NHFC committed R80 million through a subordinated debt instrument.

The NHFC's capital investment of R270 million has so far attracted an additional R1,3 billion from various institutional investors.

International Housing Solutions (IHS)

IHS is an established private equity investor who has earned a reputation as an investment destination for institutional investors in the affordable housing market in Sub-Saharan Africa.

With a commitment of R300 million in the second fund of IHS, the company had fully drawn on this facility at year-end. This capital has been matched by an additional R1,8 billion of equity and quasi equity capital from other institutional investors. The fund has adopted a dual strategy of focusing on the rental market (held for the life of the fund) as well as units that are being developed for selling once completed. The fund is expected to deliver about 12 000 housing units over its ten-year lifespan (2014 to 2024).

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

Cape Town Community Housing Company (CTCHC)

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

The NHFC is both a debt and equity investor in CTCHC. CTCHC, after a realignment of operating costs in 2019, is now contributes to the profit line of the NHFC.

Lendcor

The NHFC is a 20% equity investor in Lendcor which is a provider of incremental housing loans to low-income borrowers via its network of building merchants with a national reach.

As with many entities in the housing micro-lending sector, the loss of income of its target market resultant from COVID-19 lockdowns and slower business activity, was a significant constraint on its revenue line and credit losses. However, as a result of a release of prior year impairments and debt recoveries, the company was able to report a profit in the year ended February 2022.

In view of the lethargic growth of the South African economy and the negative effects on consumer and business confidence, it is challenging to predict the level of trading activity for the remainder of the current year (2022).

Thuthukani Housing Finance

In the financial year 2019/20, the NHFC concluded a transaction of buying a 30% equity stake in Thuthukani, a Gauteng based housing micro-lender. The NHFC is also a substantial debt investor in Thuthukani. The strategic intent is to support this business to achieve financial sustainability and provide much-needed funding for incremental loans (for home improvement and incremental building) in the target market. Like Lendcor, 2021/22 was characterised by lethargic business volumes and high impairments. While operating losses have been reduced in FY2021/22 (from those of the previous year), the long-term financial sustainability of Thuthukani remains unclear with its inability to attract a diverse range of funders and to turn around its losses.

Fochville Project, Gauteng

INFORMATION AND COMMUNICATIONS TECHNOLOGY

BACKGROUND

During the year under review, the ICT division has adapted its technological competence, enablement and engagement platforms to align and influence the evolving business processes and objectives as the Company gears up for HSDB. These are all done in line with the Business Modernisation Strategy (ICT Strategy) that is currently being rolled out. The focus of the ICT strategy is to introduce a new, unique, improved and empowering client experience.

Information, Cyber Security, Records Management and Privacy have become critical and key focus points as new applications are deployed to enable remote business operations. ICT services availability, reliability, privacy, quality and security continue to be a priority.

The ICT division has strategically partnered with all the business units to enable, influence and support business operations.

ICT human capital empowerment through formal and informal education was a priority to build strong ICT capabilities that will assist enable the current and future positioning of the business.

IT governance and Risk Management was prioritised and has been key in establishing a strong foundation of the ICT service.

The Company is currently gearing all its efforts to overhaul and refresh the current aged application systems and replace them with an ERP solution. This is a enterprise wide project that will be implemented following the successful completion of an Enterprise Architecture and Business Process Mapping exercise. Implementation of the ERP solution will take into consideration the artefacts of the EA and BPM exercise.

ICT GOVERNANCE, RISK MANAGE-MENT AND COMPLIANCE

IT governance continues to be the key focus in ensuring proper alignment of ICT with business by implementing enabling and effective policies that will assist in mitigating ICT and business risks. To ensure effective and responsive IT governance, Risk Management and Compliance, the ICT division held monthly ITMC meetings that were aimed at prioritising all ICT related initiatives, monitoring its execution and providing support to ensure effective delivery of the initiatives in line with business expectations.

The division successfully reviewed all the policies, addressed most ICT risks and audit findings. Also, the ICT organisation has established the following additional governance structures in preparation for the implementation of the ERP solution:

- Change Leadership Committee; and
- Change Advisory Board.

Belhar Project, Cape Town

These governance structures will assist with change management as the Company is introducing new and improved online solutions. Also, the same structures will assist with facilitating initiatives that will be introduced to manage buy-in and support from the internal and external stakeholders.

The Company appointed two general managers in an effort to build more capability and capacity in the ICT division to ensure successful execution of the Business Modernization Strategy.

ICT SECURITY THREAT

Information and Cyber Security has become a critical and key focus point as we deploy new applications and enabling remote business operations. The ICT division continue to monitor all internal and externally facing systems and infrastructure to limit, prevent and detect any security breach from the internal and external environments.

There were few phishing attempts that were detected during the period under review but there were no breaches. Communication, awareness and training to all staff is done continuously to empower all about the risks of cyber and information security. We continue to heighten information security measures on all the ICT systems and in particular Microsoft Outlook. Key focus is on user education, awareness and empowerment about information, cyber security and privacy matters.

ICT STRATEGY IMPLEMENTATION IN-LINE WITH BUSINESS PRIORITIES

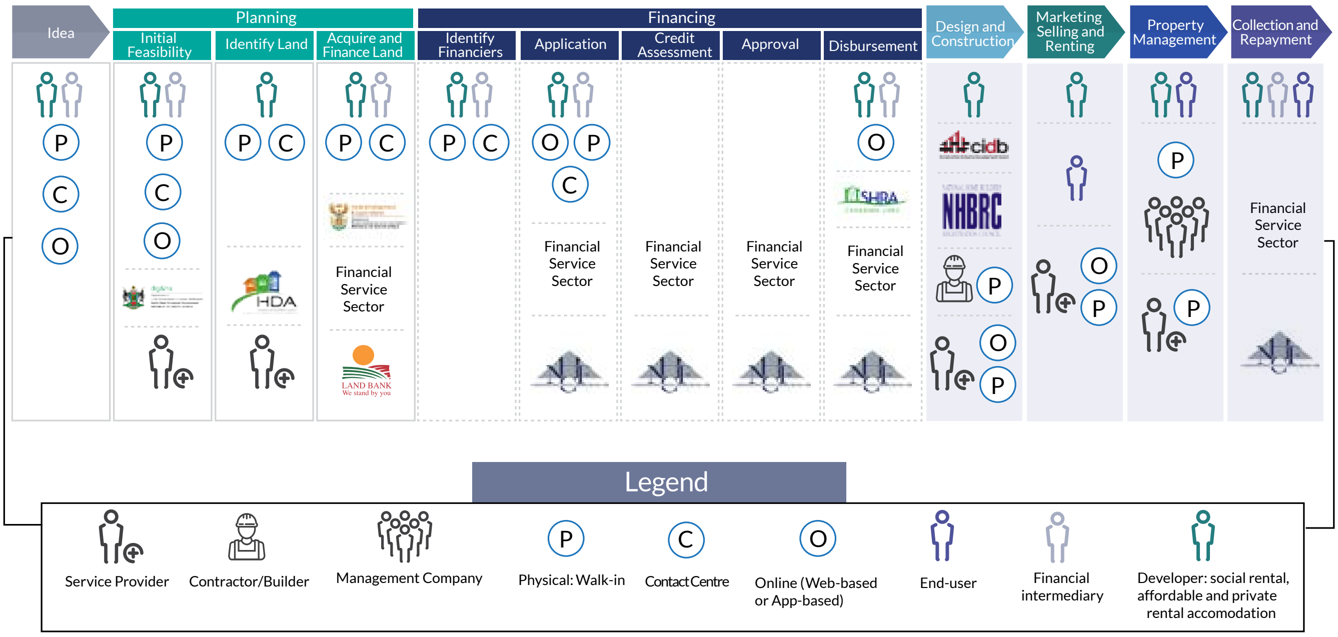
The dashboard below indicates the status of all ICT projects implemented and currently underway:

Completed Projects		
	Project Name	**Completion Date**
1.	Enterprise Architecture and Business Process Mapping	October 2021
2.	POPI Implementation	November 2021
3.	Contract Management System	April 2021
4.	FLISP Enhancement	March 2022

Projects Underway			
	Project Name	**Progress**	**Status**
1.	Business Process Mapping and Enterprise Architecture Tool	Implementation is underway and the target date is July 2022	80%
Projects Initiated			
	Project Name	**Progress**	**Timelines – Duration**
1.	Invoice and Payments Tracking Solution	BAC considered and approved solution proposal Drafting of the Service Level Agreement underway.	3 Months
2.	Enterprise Resource Planning	Undergoing Bids Evaluation considerations and approval	18-24 Months
3.	Vulnerability Assessment and Penetration Tests (Cyber security Tools)	Briefing session held on 07 June 2022 Undergoing Bids Evaluations	3 Years
4.	Enterprise Content Management solution	Briefing session held on 07 June 2022 Undergoing Bids Evaluations	6-8 Months
5.	Encryption of End-users devices (Laptops and Desktops)	Research underway to ensure alignment with POPIA requirements.	3 Months

OUR BUSINESS MODEL

The current delivery model is to make housing finance available to wholesale intermediaries, developers, rental landlords, contractors, and strategic partnerships for the facilitation of housing opportunities for households earning below R22 000 a month. The NHFC financing delivery model considers evolving policy frameworks on the need for integration and the development of sustainable settlements that are located within close proximity to work and amenities. This requires a greater level of flexibility in the household income definition to enable integration of households of both low and high incomes.



Financing of the NHFC interventions will be largely from reserves, other financial institutions, and government grants. The main sources of income include interest on funding and dividends on investment. Currently, dividend income is not a major contributor to revenue but will increase with investment portfolio growth.

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

Demand and Supply-side Products

Supply Side Products

- Private Developer Financing
- Social Housing Financing
- Subsidy Housing Developer Financing
- Developer Bridging Finance and Guarantees
- Rapid Land Release Financing
- Fund Management
- Guarantees

Demand Side Products

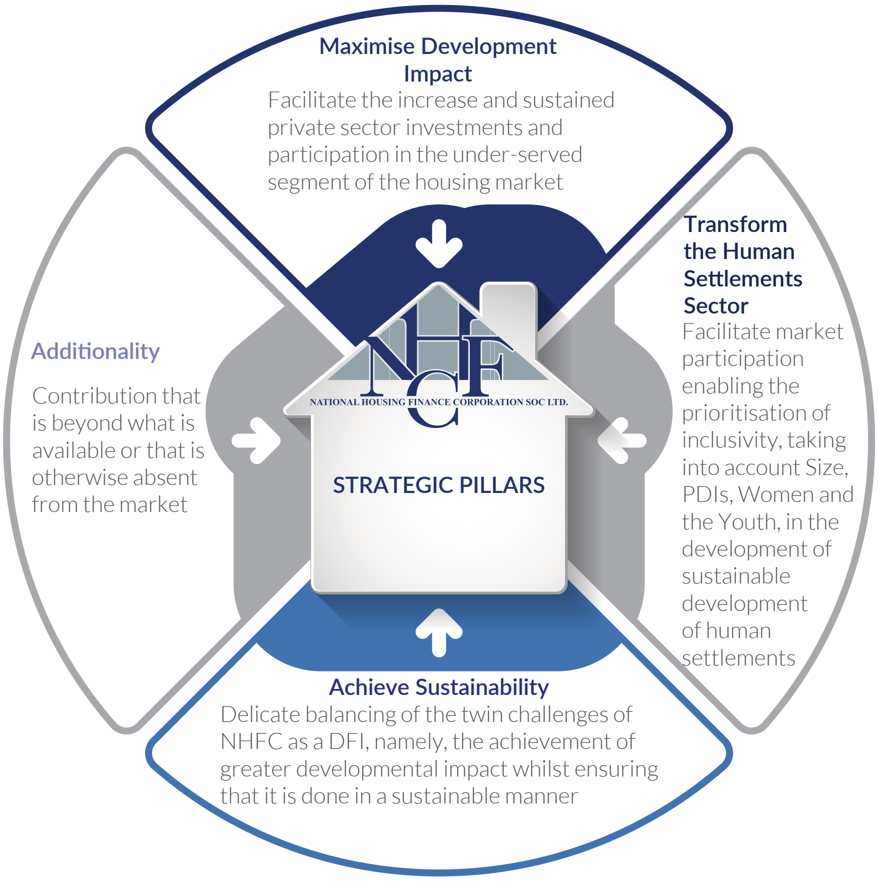
- Incremental Financing
- Finance Linked Individual Subsidy Programme
- Mortgage Default Insurance (WIP)
- Mortgage Guarantees

OUR STRATEGY

Demonstrated by the results of the year under review, is that the NHFC is firmly on track to become an HSDB that holds a long-term view, whilst achieving gains during the short and medium terms.

The NHFC Strategic Pillars

Transformation of the human settlements sector is central to the NHFC's mandate. The following pillars were determined as significant in developing the strategy to achieve the NHFC's mandate and value proposition to its stakeholders. For each strategic pillar, the Company has defined what success will look like, and has developed strategies that are critical to achieving that success. The following strategic pillars underpin and guide the Company's operations:



To align with its mandate imperative, the NHFC has adopted a unique approach to doing business. While the Company is primarily anchored as a development finance institution, with a predominant wholesale offering, it implements a flexible, hybrid model through its strategic partnerships to grow the markets through the pursuit of an inclusive approach that leverages partner funding, infrastructure, skills, competencies, systems, innovation, and entrepreneurial process.

The choice of strategic partners is critical in all instances and is determined by both the desired outcomes and the development objectives of the NHFC. With an increased risk appetite, the NHFC seeks to invest or provide finance in areas where banks typically would not participate because of the much longer term to achieve acceptable returns on investment or providing financial support which enables related projects to be fundable.

These areas include:

- Addressing missing or unserved segments of the housing market;
- Entering new markets such as unlocking the township residential property market, student accommodation, backyard rental (small-scale landlords), and micro-living solutions;
- Addressing severe liquidity constraints or perceived commercial risk;
- Facilitating financial closure (longer tenure to improve viability) or taking equity stakes; and
- Support project preparation, including scoping, pre-feasibility and feasibility work on bankable projects.

Our Strategy in Action

The NHFC's value proposition is to fill the proverbial "gap" in the human settlement's financing market. The NHFC will predominantly provide finance to catalyse, attract and mobilise the involvement of the private sector, by:

- Attracting like-minded strategic partners;
- Incentivising and encouraging reluctant partners;
- Assuming the role of 'bank of first choice in human settlements financing'; and
- Using blended finance solutions to bridge gaps and address market barriers in strategic important and high development impact areas.

In addition to its core functions, the NHFC will utilise grant funding (through its proposed Development Fund to be established with capitalisation from establishment of the HSDB) to:

- Contribute beyond what is available or otherwise absent from the market (Additionality);
- Contribute to catalyse market development and mobilisation of private sector resources; and
- Achieve impact that is sustainable and promotes commercial viability.
- Address market failure effectively and efficiently and minimise the risk of market distortion (crowding out private finance); and
- Promote adherence to high standards, in areas of Corporate Governance, Environmental impact, Integrity, Transparency, and Disclosure.

OUR PRIORITIES FOR THE YEAR UNDER REVIEW

Unwavering support to our clients as they face the 'new normal' and rebuild their businesses:

- Enterprise Architecture and Business Process Mapping;
- Implementation of a robust information and cyber security strategy;
- POPI Act Implementation;
- Support for our clients through the implementation of the COVID-19 Debt Relief Fund;
- Intensified employee leadership training and development to gear for HSDB; and
- Intensified transformation agenda through enterprise development programme: A total of 123 black contractors were trained and benefited through work packages, 42 were women and 15 youth owned entities. 20 of the contractors CIDB upgraded.

OUTLOOK 2023

- Reviewing the strategy to embed HSDB as a catalyst in the affordable housing market;
- Engage strategic partners in regards to the HSDB Optimal Capital Structure; and
- Implementing the Enterprise Resource Planning (ERP).

Roodepoort Project, Gauteng

Capital	How resources are used to support the business model	Output and outcomes	Impact
FINANCIAL CAPITAL			
• Shareholder equity • Dividends from investments • Interest income, fees and capital repayments from loans provided • Debt funding	• Securing new equity investments • Disbursing new loans • Managing operational expenditure • Repayment of borrowings	• Loan approvals of R1,488 billion • Disbursements achieved R960 million • FLISP disbursements R346 million • Achieved Cost to Income ratio of 64.3% • Growth in net loans and advances of 2.8%	• Project packaging supported by sustainable, effective, and efficient Development Finance Institution (NHFC) • Serving the evolving needs of households for different types of tenure (rental, ownership etc.)
HUMAN CAPITAL			
• The collective knowledge, skills, and experience of the NHFC staff complement enables value creation for its stakeholders	• Appraising funding applications • Monitoring and evaluation of the portfolio • Managing all other operational business areas • Training and skills development	• Employee turnover 1.82% • R3,5 million spent on training and development	• 95% of skills development target met • 94.87% of female, and 96.13% male staff trained
SOCIAL CAPITAL			
• Government • Public and Private sector partnerships • Other funders and development partners • Clients and project co-funders	• Advocacy in policy formulation • Private sector leveraging • Business development investing in projects to support social development	• Disbursements to designated groups R124 million • Disbursements to designated groups R31 million (managed on behalf of the City of Cape Town) • Partnered with National Home Builders' Registration Council (NHBRC) to train 123 contractors • CSI programmes • Learnership programme • FLISP disbursed to women amounted to R124,1 million	• Contributing meaningful towards shareholder priority • SMME development • Contribution towards social development goals • Empowered designated groups to participate and contribute to the economy • Historically disadvantaged property entrepreneurs supported • Employed 5 youth technical professional for exposure and professional growth • Leveraged R993,8 million from the private sector, in order to create value for stakeholders
INTELLECTUAL CAPITAL			
• Industry-specific knowledge and experience • Knowledge gained from project development • Credit granting and post-monitoring investment	• Managing risk in the business • Strategies developed for project funding • Programme planning and execution	• Crowding in private sector: • Leveraged financing (Excluding FLISP) R403 million • Leveraged financing FLISP (R1,519 billion)	• Serving the evolving needs of households for different types of tenure (rental, ownership etc.) • Continued achievement of mandate to make housing finance accessible • Project packaging supported
NATURAL CAPITAL			
• Land under development/ building space converted to housing m^2	• Built environment compliance standards • NHBRC technical requirements • Environmental Impact Assessment (EIA) regulation	• Affordable housing units	• Sustainable development of human settlements • Adequate housing and improved living conditions • Good quality and safe houses • Efficient use of energy, water and other resources • Jobs created

Fleurhof Project, Gauteng

PART C:

LEADERSHIP REVIEW

LEADERSHIP REVIEW

Much like a home, a team requires a steadfast and dependable foundation. The NHFC leadership has built a foundation of shared commitment to the achievement of its strategy, and delivery of its mandate, by constructing an environment based on integrity, collaboration, and accountability.

Ms Phekane Ramarumo
Chairperson

CHAIRPERSON'S OVERVIEW

OPERATING ENVIRONMENT

The South African economy has slowly recovered from the profound impact of COVID-19 which had significant social, health and economic ramifications here and abroad. The tourism, manufacturing, and broader commercial sectors were severely affected.

The Russian and Ukraine war has also affected the global supply chain with respect to crucial commodities (like fuel and food) which have seen rising inflation globally and supply chain ructions. Most countries in the developed world are currently experiencing inflation increases that were last seen thirty to forty years ago which have placed policy makers and central banks in an invidious position of managing inflation in a rapidly slowing economic environment.

In the calendar year of 2021, the South African economy showed recovery with an expansion of 4.9% from the extremely challenging previous year (a recessionary year). In the first quarter of this year, the economy is expected to grow by 3.6% quarter on quarter (seasonally adjusted). In (calendar year) 2022, the South African Reserve Bank expects economic growth of 1.7% and 1.9% in the following year.

These growth levels remain well below the potential of the economy and are impacted by load shedding, infrastructure challenges and policy constraints (e.g. in the energy and ICT sectors). The exceptionally high levels of unemployment are also a concern, especially with respect to the NHFC's target market being the low to middle income earners.

The subdued economic outlook affects both investor and consumer sentiment with respect to demand and supply of accommodation/housing whether rentals or mortgage loans. Inflation is projected to be above the South African Reserve Bank's target range of 3% to 6% with headline inflation forecast at 5.9% in 2022, primarily due to higher food and fuel prices. The resultant rising trajectory of interest rates over the next six months will need to be monitored with respect to its impact on consumer pockets. The NHFC has noted the elevated vacancies in rental projects in the last six to nine months which we expect will subside from last year's highs as the economy recovers.

Much still needs to be done with respect to structural reforms if South Africa is to achieve a higher level of sustainable growth and to address the exceptionally high levels of unemployment and poverty. The reforms are needed in the areas of electricity, transport (ports and rail), telecommunications (spectrum) and water so that

Belhar View Project, Cape Town

companies can operate in a more conducive environment. One other area of importance is to address the capacity constraints at municipal entities which are extremely important in delivering basic services to the public.

The next six to 12 months will require the NHFC, and other funders/financiers, to be innovative with respect to sourcing and structuring bankable housing projects.

Improved Living Conditions and Implications on the NHFC

For several years, South Africa has experienced unrest associated with challenging living conditions. But July 2021 was a pivotal point in this regard, with devastating social unrest which resulted in the loss of lives and property. Over 350 people were reported dead in KwaZulu-Natal and Gauteng, and damage to property, other assets, and reduced economic activity of over R40 billion occurred. In addition, some businesses have closed permanently or not returned to pre-unrest operations, resulting in job losses.

The impact this will have on investor confidence concerning long-term investment decisions in KwaZulu-Natal and the broader South Africa remains unclear.

For the NHFC, social unrest brought acute urgency to ensuring that we respond to the demand for better living conditions in the broader society.

The strategy of the NHFC (which is aligned with the NDP) has the key focus areas:

- Addressing missing/unserved segment of the housing market;
- Entering new markets such as unlocking the township residential property market, student accommodation, backyard rental (small scale landlords) and micro living solutions;
- Addressing severe liquidity constraints or perceived commercial risk;
- Facilitating financial closure (longer tenure to improve viability) or take equity stakes; and
- Support project preparation, including scoping, pre-feasibility, and feasibility work to bankable projects.

During the year, the NHFC explored several initiatives of collaboration and partnerships with various entities and is pleased to report that these initiatives will yield results in the coming years concerning increased delivery and impact of our housing projects.

BOARD, MANAGEMENT, AND STAFF

Bruce Gordon's appointment as Acting Chief Executive Officer in January 2022, will allow continuity and alignment as we continue on our journey to become a housing development bank and the NHFC begins its search for the next Chief Executive Officer.

Effective from 29 March 2022, new Board members were appointed to bolster the leadership as the company prepares for its transition to the Human Settlements Development Bank. These included the following appointments:

- Mr Luthando Vutula (Chairperson);
- Mr Tembinkosi Bonakele;
- Ms Seithati Bolipombo;
- Ms Thembi Chiliza (re-appointment);
- Ms Palesa Kadi
- Ms Philisiwe Mthethwa (re-appointment);
- Mr Thulani Mabaso;
- Mr Paul Heeger;
- Mr Velile Dube;
- Ms Tshepiso Kobile; and
- Ms Aeysha Seedat.

I would also like to take this opportunity to thank the following Board members who retired on the 29 March 2022 after serving with diligence and utmost commitment:

- Mr Adrian Harris;
- Mr Khehla Shubane; and
- Mr Sizwe Tati.

The outgoing Board of the NHFC faced significant headwinds and work pressure due to the diminished size of the Board over the period from end of 2020 until 29 March 2022. Their tireless efforts and energy throughout their term, exceeded expectations in very trying circumstances is appreciated.

In Ms Mmamoloko Kubayi, the NHFC has a supporting and engaging shareholder representative whose passion for development has been recognised in the ANC with her recent appointment as the head of the economic transformation of the party. We would like to thank her for her passion and unwavering support of the NHFC.

Finally, I wish to thank the management and staff of the NHFC for remaining focused and committed in the drive towards transformation of the NHFC to the HSDB.

LOOKING AHEAD

As this is also my last integrated annual report for the NHFC, I want to take this time to also bid farewell to the entire NHFC family, I look back on a fulfilling journey and all the achievements and the ability to achieve them with the help of the Board, Exco and employees. I also leave the NHFC in the hands of a new Board. As the future is what we make of it, and I am ready for new adventures ahead of me, I know that I leave the NHFC in good hands.

Farewell.

Ms Phekane Ramarumo
Chairperson of the Board

The Russian and Ukraine war has also affected the global supply chain with respect to crucial commodities (like fuel and food) which have seen rising inflation globally and supply chain reactions.

Eden Heights Project, Cape Town

REPORT BY THE ACTING CEO

Mr Bruce Gordon
Acting Chief Executive Officer

> *It is pleasing to see younger people joining our executive team, and an increased representation of women in the executive team mix.*

A TIME OF CHANGE

This has been a year of change for the Company. We have had changes in the acting Chief Executive Officer role, and I must thank Sizwe Tati for the base he built for us to take the NHFC forward to the Human Settlements Development Bank. In August 2021, the Honourable Mmamoloko Kubayi was appointed as Minister of Human Settlements. On 29 March, nine new board members were appointed, while two existing board members were reappointed. Our long-serving outgoing board members, Phekane Ramarumo, Kehla Shubane, Adrian Harris, and Sizwe Tati served the NHFC well and I wish them the best in their future endeavours. We have had two permanent Chief Financial Officers, and two acting ones. After many years at the NHFC, Lawrence Lehabe, decided to take early retirement and Tsholofelo Ramosehoa was promoted to Lending Executive. Mogotsi Oepeng was promoted to Credit Executive. It is pleasing to see younger people joining our executive team, and an increased representation of women in the executive team mix. Change, and especially unexpected change, can be unsettling and it has been no different for the NHFC. Nonetheless without change we cannot move forward and the NHFC team has embraced these changes to ensure that in future we are able to massively increase the delivery of homes into the affordable housing sector.

For many years, the NHFC has struggled with outdated information technology systems throughout our operations. During the year our Chief Information Officer, Vuyokazi Menye, finalised our enterprise architecture project ensuring that we were able to issue a tender for an ERP system in January. This change is one we have all looked forward to ever since the merger in 2018. As with any such system, the planning process is critical and should not be rushed. I am confident that this new system will substantially enhance the ability of the NHFC to deliver decent affordable homes.

Our supply chain processes have been a concern for years. The process of improving them continued, and I'm pleased to report that the Auditor-General did note some improvements in their report to management for the first time. This improvement process will continue into the new year, and I have no doubt that the new ERP system will ensure that this area ceases to be a problem.

DEVELOPMENTAL INDICATORS

The NHFC has two purposes for existing:

- To improve peoples' lives through ensuring they have decent homes; and
- To transform the ownership of the industry delivering homes to align with the demographics of our country.

I am pleased to say that the NFHC achieved 99.9% of its targeted housing opportunities – 31 594 out of 31 635. At a recent strategy meeting between our new Board members and the executives, we decided this target was not enough. We need to massively increase the target to ensure that the goals of the National Development Plan are achieved, if not on time, then very soon thereafter.

Our FLISP programme did not meet our expectations this year for various reasons. Working with the Department of Human Settlements, we have implemented new measures to ensure that delivery here is enhanced. To this end, a new policy was approved in February of this year that will enable people not taking out mortgages to access the FLISP subsidy. Our systems are currently being upgraded to cater for this, and we are in discussions with various non-mortgage partners to ensure that we can deliver to the markets they serve.

We exceeded our target of lending R284 million to companies with B-BBEE levels of 1 to 4 by 29,2%. The NHFC lent R367 million to this market. While making our decision to explode delivery of affordable homes, we realised that the industry to deliver these homes is currently inadequate. We are therefore looking at ways to develop this industry and, by doing so, transform the ownership structures of the housing delivery industry.

We targeted spending 70% of our procurement with suppliers who are B-BBEE with gradings from Levels 1 to 4. We exceeded this target by spending 83%. We note the constitutional judgement in February that will make this target harder to achieve. We are committed to ensuring that we still achieve these goals within the requirements of the Constitution of the Republic of South Africa.

Non-development indicators

The NHFC is a development finance institution, meaning that we use finance to address the development needs of the country that are not being met by the market. To do this sustainably we need to ensure that our long-term return on equity exceeds the long-term inflation rate. Currently we are not achieving this.

This is in spite of exceeding our budgeted net operating profit by more than 300%. The major contributors to this were the substantially lower than budgeted operating expenses and credit losses. Our aim is to carry these improvements forward into the future, and improve on them to ensure that we achieve the necessary return on equity.

LOOKING FORWARD

As has been spoken about for many years, the National Housing Finance Corporation is to be changed to the Human Settlements Development Bank (HSDB).

This name change carries a considerable increase in what we are required to deliver. No longer can we merely look at the delivery of houses. Human settlements are a much larger mandate. We need to deliver adequate homes, which I'll expand upon below.

As we work on these future goals, we consider the following to be the requirements for a house to be called a home:

- Water must be available indoors – community taps and outdoor taps are not acceptable;
- There must be water-borne sewerage – the era of ventilated improved pits (VIPs) being considered satisfactory must come to an end, wherever the NHFC or HSDB is present;
- It's 2022 – how can we consider delivery of decent accommodation to have occurred if the house does not have access to adequate bandwidth - currently, we're thinking at least 5 megs/second unshaped, but this is subject to improvement.
- People must have access to decent transport. In discussions with another role-player, they are looking at a definition that says no one should need more than one taxi trip to reach work, shops and schools.
- What is the purpose of having a house if you cannot earn an income? We must make sure that homes are built close to income-earning opportunities, and we must note that we do not say jobs – entrepreneurs and employees need to be catered for.

It has been a privilege to act as CEO these past few months, and I am excited by the changes coming to the NHFC. I look forward to being part of these. The NHFC has a wonderful team of employees passionate about our mandate. Too many people think that the Board and executives make the Company succeed. At the NHFC, we realise that it is a team effort with different team members having different responsibilities, each of which is essential. This message was powerfully brought home to us during COVID-19. Our clients, facing operations, would have ground to a halt without the work of our cleaners being available to ensure a virus-free environment. The pandemic drove home to anyone who was not convinced that every employee is an essential part of our team.

Mr Bruce Gordon
Acting Chief Executive Officer

REPORT OF THE ACTING CFO

Ms Viola Moraswi
Acting Chief Financial Officer

> *The NHFC's financial performance is heavily dependent on the growth of its loan book and the prevailing interest rates.*

FINANCIAL RESULTS

We are reporting a consolidated surplus for the year of R73.9 million against a budgeted surplus of R16.6 million. The primary contributors to this positive variance were lower than budgeted impairments and operating costs.

The NHFC's financial performance is heavily dependent on the growth of its loan book and the prevailing interest rates. The total group interest on advances for the 2021/22 financial year is at R377.3 million which is under budget by R60m and has decreased by 6% from the 2020/21 financial year, this is due to:

- Disbursements being primarily in short-term products, leading to a lower book budgeted from the start of the year and continuing throughout the year;
- Lower interest rates throughout the year, budgeted interest rates were projected to increase from the beginning of the year. Unfortunately, they only actually started increasing from November 2021.

The impairments are lower than budgeted mainly due to our impairment policy now more realistically calculating the security held against our products.

The budgeted company cost to income ratio of 71.8% included the costs of transitioning into the HSDB. As the legislation has not been presented to Parliament, many of these expenses were not incurred resulting in the positive variance with actual cost to income ratio of 63.0%.

Balance sheet results

The book has grown by 6.7%, mainly due to a large amount of investment in to short term products, which are repaid quickly and therefore do not contribute much to the overall loan book growth. These short-term products are imperative for our developmental mandate and therefore there is a need to balance between developmental mandate and growth. The group loan book growth is at 2.8% which is affected by the performance in the controlled entities and subsidiaries. The subsidiaries are no longer disbursing and only collecting resulting in the decrease in the loan book.

The liquidity ratio is 3.16% which is high due to the slower growth in the loan book from reduced bankable projects over the last few years. The cash reserves buffer will only sustain us for a short period and capitalisation is required in the next few years in order have enough cash to meet the objective of the HSDB.

The credit rating of the NHFC has maintained a stable outlook for both short and long term instruments and for the National and International ratings. The key rating strengths are cited as high liquidity with low gearing. On the downside, the rating balances a vulnerable target market characterised by high non-performing loans, leading to a lower long term rating. National rating of A (ZA) for long term and A1 (ZA) for short term and international rating of B+ in the long term and B in the short term.

Key financial indicators

			Actual March 2022	Budget March 2022	Actual March 2021
Return on equity	%	Group	1.5%	0.4%	1.9%
		Company	1.1%	0.5%	1.4%
Return on assets	%	Group	1.2%	0.3%	1.4%
		Company	1.0%	0.4%	1.3%
Cost to income ratio	%	Group	64.3%	73.0%	57.7%
		Company	63.0%	71.8%	59.7%
Credit loss ration (incl. bad debts)	%	Group	1.3%	2.2%	0.9%
		Company	1.6%	2.8%	1.0%
Debt to equity	%	Group	28%	31%	29%
		Company	5%	5%	6.0%
Growth in net loans and advances	%	Group	2.8%	8.0%	5.2%
		Company	6.7%	7.0%	8.5%

308 Karen's Place Project, Cape Town

The steps we are taking towards gearing up for the HSDB in terms of financial sustainability:

- Enhancing our capital structure by raising debt and equity funding over the medium to long term. Key to any funding programme is an optimal level of capitalisation that will ensure that we achieve the overall objective of the HSDB;
- Investing in the right product mix that will achieve both the growth on the loan book and meeting the impact in the market;
- Reviewing our pricing policy, and credit and investment policies to better reflect the true cost of doing business and the associated risks; and
- Enhancing our credit collection and monitoring strategies to ensure that funds we invest is collected. In addition, we are working to rehabilitate old legacy accounts that have a material effect on the non-performing loan book.

OUTLOOK

The majority of the NHFC client base have floating rates that are linked to the prime rate. There are projected increases in the interest rates which will increase our revenue, though as a downside we anticipate collection challenges to increase.

Ms Viola Moraswi
Acting Chief Financial Officer

Gauteng Alberton Kyle's Place Project

STAKEHOLDER ENGAGEMENT

STAKEHOLDER ENGAGEMENT AND MANAGEMENT

The NHFC holds in high regard the importance of its stakeholders, as the success (or failure) of the Company directly impacts them. The importance of a symbiotic relationship between the Company and its stakeholders is important as the conduct of one has an impact on the other. An overview of the NHFC's core and external stakeholders is illustrated below.

	NAME	FUNCTION IN VALUE CHAIN	ROLE
CORE STAKEHOLDERS	Board of Directors	Governance.	Strategic direction and oversight of the entity.
	Executive Committee	Management.	Strategy Implementation and Operations of the entity.
	Employees	Disbursement/ Collection/ Management.	Source of income and career development.
EXTERNAL STAKEHOLDERS	National Credit Regulator Financial Sector Conduct Authority Financial Intelligence Centre	Financing.	Regulator.
	National Treasury	Capital Provision.	The finance provided is used in accordance with the mandate.
	Department of Human Settlements(DHS)	Capital Provision /Management.	Entity delivers on the mandate and transforms the human settlement sector.
	Civil Society	Property Management and Community Development.	Advocacy.
	National Home Builders Registration Council	Planning, Land and Tenure and Essential Infrastructure.	Regulator.
	Provincial Government	Planning, Land and Tenure and Essential Infrastructure.	Partner.
	Local Government	Planning, Land and Tenure and Essential Infrastructure.	Partner.
	Private Sector Financial Institutions	Financing.	Supplier.
	Private Rental Developers	All Functions except financing.	Intermediary Customer.
	Social Housing Institutions	All Functions except financing.	Intermediary Customer.
	Short term Financers	Financing.	Intermediary Customer.
	Provincial Development Financials Institutions	Financing.	Intermediary Customer.
	Department of Public Services and Administration	Management.	Ensures the entity maintains a compliant and functioning public service.
	Private Sector Financers	Capital Provision.	The financing provided generates adequate returns.
	Housing Finance Institutions	All Functions except financing.	Intermediary Customer.
	Low Income Households	Property Management and Community Development.	Beneficiary.
	Housing Development Agency	Planning, Land and Tenure and Essential Infrastructure.	Partner.
	Social Housing Regulation Authority	Planning, Land and Tenure and Essential Infrastructure.	Partner.
	Research Institutions	Across Value Chain.	Partner.

PART D:

GOVERNANCE

Fleurhof Project, South Hills, Johannesburg, Gauteng

NHFC BOARD OF DIRECTORS

Mr Luthando Vutula (Chairperson)

Profession/Skills/ Expertise
- Masters Degree in Development Finance
- Skills: Accounting and Development Finance

Ms Aeysha Seedat

Profession/Skills/ Expertise
- Bachelor of Science in Quantity Surveying
- Skills: Budgeting and Governance

Ms Palesa Kadi

Profession/Skills/ Expertise
- Master of Business Administration
- Skills: Developmental Studies, Public Sector Management and Governance

Mr Paul Heeger

Profession/Skills/ Expertise
- Bachelor of Construction Management Technology
- Chartered Building Consultant
- Skills: Construction Technology, Engineering, Governance and Demographics

Ms Philisiwe Mthethwa

Profession/Skills/ Expertise
- Master of Business Administration (Corporate Finance and Economics)
- Bachelor of Administration (Economics)
- Skills: Corporate Finance, Governance and Continuity

Ms Seithati Bolimpobo

Profession/Skills/ Expertise
- Bachelor of Business Science Finance Honors
- Qualified CA(SA)
- Skills: Accounting, Auditing, Finance and Governance

Mr Tembinkosi Bonakele

Profession/Skills/ Expertise
- Master of Business Administration
- Bachelors of Law
- Skills: Legal, Compliance and Governance, ITC Governance

Ms Thembi Chiliza

Profession/Skills/ Expertise
- Bachelor of Administration
- Diploma in Business Management
- Skills: Leadership, Governance: Continuity

Mr Thulani Mabaso

Profession/Skills/ Expertise
- Master of Business Leadership
- Bachelor of Technology Architectural Technology
- Skills: Architectural Technology and Governance

Ms Tshepiso Kobile

Profession/Skills/ Expertise
- BSc (Honours) in Property Studies
- Certificate in Company Direction (with Distinction)
- Skills: Property Finance, Infrastructure Finance, Programme Management, Governance

Mr Velile Dube

Profession/Skills/ Expertise
- Bachelor of Administration (English) Honors
- Skills: Communications and Governance

NHFC EXECUTIVE TEAM

Mr Bruce Gordon
Acting Chief Executive Officer

Ms Viola Moraswi
Acting Chief Financial Officer

Mr Andrew Higgs*
Company Secretary

Mr Jabulani Fakazi
Executive Grant Facilitation

Ms Mandu Mamatela
Executive Corporate Strategy

Mr Mogotsi Oepeng
Executive Credit

*Retired

Dr Nomsa Ntshingila
Executive Human Resources

Mr Sindisa Nxusani*
Executive Corporate Support Services

Ms Tsholofelo Ramotsehoa
Executive Lending

Mr Viwe Gqwetha
Executive Strategic Partnership & Programme Management

Ms Vuyokazi Menye
Chief Information Officer

Mr Zola Lupondwana
Executive Corporate Finance

GOVERNANCE

The current structure of NHFC is that the various Board committees report to the Board of Directors, who then report to the Minister of Human Settlements.

Scottesdene Project, Cape Town

CORPORATE GOVERNANCE

This report provides information on the performance and management relating to the governance, economic, sustainability, regulatory, social, and ethical impacts of the Company and its operating subsidiary's activities.

The NHFC fulfils its mandate in a manner consistent with the principles of integrity, fairness, transparency, ethical leadership, efficiency, and accountability. The Board of Directors and Executive Management of the NHFC remain committed to applying the principles of the King IV Code, the Global Reporting Index (GRI) for sustainability reporting, the PFMA, the Companies Act, as well as all other related legislation within its corporate governance structures and processes to:

The King IV reporting principles advocate an outcome-based approach, and define corporate governance as the exercise of ethical and effective leadership towards the achievement of the following governance outcomes:

- Ethical culture.
- Good performance.
- Effective control.
- Legitimacy.

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

COMBINED ASSURANCE

Combined assurance receives deliberate and focused attention from the NHFC Board. The Audit Committee (AC) ensures that the Combined Assurance Model addresses the NHFC's risks and material matters in a way that avoids duplication of effort, rationalises collaboration among assurance providers, and manages costs.

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

STATUTORY FORM

The NHFC was incorporated under the Companies Act 1973 and is subject to the Companies Act 2008. It is a Schedule 3A State-Owned Entity (SOE) under the PFMA. It is wholly owned by the government of South Africa, as represented by the Minister of Human Settlements, who is also the executive authority.

ACCOUNTABILITY TO THE SHAREHOLDER

The Board is accountable to the executive authority, which is embodied in the Shareholder's Compact. This key document determines the NHFC's mandate and holds the Board accountable for managing its operations according to the APP and Strategic Business Plan.

The Board reports formally to the NDOHS each quarter and the (acting) Chief Executive Officer, as well as the (Acting) Chairperson, meet periodically with the Minister. Certain governance documents are shared with the NDOHS annually, per the Protocol on Corporate Governance in the Public Sector.

THE NHFC BOARD

BOARD GOVERNANCE, STRUCTURES, AND FRAMEWORK

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

The Board discharges this responsibility within the powers set out in the Memorandum of Incorporation (MOI) and through the Board committees. Although the Board delegates operational responsibilities to its committees and executive management, it remains accountable to the NDOHS. The Board delegates management of day-to-day operations to the (acting) CEO, who is assisted by the Executive Committee (EXCOM) and its subcommittees.

BOARD COMPOSITION

The Minister of Human Settlements appoints the Non-Executive Directors (NEDs) of the Board. The MOI provides for a maximum of 12 members. During the period under review, the Board comprised of six members– including the (Acting) Chairperson.

Over the period, the former (acting) CEO, Mr Sizwe Tati, stepped down from his appointment on 31 January 2022 and Mr Bruce Gordon was appointed (having been part of the executive management team) under a six-month contract on 1 February 2022. This is part of a reconstitution of the Board under the direction of the Minister.

At the Annual General Meeting (AGM) held on 29 March 2022, Mr Sizwe Tati, Mr Adrian Harris, Mr Khehla Shubane (also former Chairperson of the National Urban Reconstruction and Housing Agency (NURCHA), and Ms Phekane Ramamuro, who was the (Acting) Chairperson, stepped down from the Board. All these members provided many years of service to the Company. Two existing members were reappointed, Ms Thembi Chiliza and Ms Philisiwe Mthethwa. In addition, nine new independent NEDs were appointed being Mr Luthando Vutula (Chairperson), Mr Tembinkosi Bonakele, Ms Seithati Bolipombo, Ms Palesa Kadi, Mr Thulani Mabaso, Mr Paul Heeger, Mr Velile Dube, Ms Tshepiso Kobile and Ms Aeysha Seedat.

The Board members' extensive qualifications, experience, and specialist skills across the industry, as well as their knowledge and skill within their own spheres of competence, enable them to provide balanced, independent advice and judgement in the decision-making process.

Succession planning ensures continuity and maintaining the correct mix of expertise. As a result, the composition of the Board and its committees is reviewed annually to ensure that intellectual capacity and experience is continued at all levels.

The MOI provides that one-third in number of the longest-serving NEDs automatically retire at the Company's AGM. These Directors may allow themselves to be nominated for re-election for a further period of three years. The Minister confirms such re-appointment as a shareholder.

SHAREHOLDER'S COMPACT

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

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

NON-EXECUTIVE DIRECTOR REMUNERATION

The shareholder reviews and approves the remuneration for NEDs for attending Board and Board committee meetings at the AGM.

BOARD EVALUATION

It is the policy of the Board to arrange annual evaluations on its performance and effectiveness, as well as that of the Board committees. An internal evaluation was conducted in September 2021 and there were no significant findings other than noting the need for the Board constitution to be dealt with as soon as possible. As indicated above, this matter has been addressed.

BOARD MEETINGS

The Board meets quarterly for formally scheduled meetings. In addition to the scheduled meetings, the Board meets to approve the Annual Financial Statements (AFS). The shareholder may also call further meetings. The chairpersons of the respective Board committees report back to the Board at the quarterly Board meetings. The attendance record at Board meetings for the period under review is reflected further in this section.

COMPANY SECRETARY

In terms of the Companies Act and the PFMA, the NHFC must appoint a company secretary, who is accountable to the Board. The company secretary plays a pivotal role in the corporate governance of the Company. The company secretary maintains an arm's length relationship with the Board Members and assists with matters of ethics, good governance, and the provision of information required by the directors to fully accomplish their fiduciary responsibilities. Directors have unrestricted access to the advice and services of the company secretary in all aspects of the Board's mandate and operations of the NHFC.

The Company Secretary, Mr Andrew Higgs, formally retired from the Company on 31 January 2022, but has been retained on a fixed-term contract until the recruitment of a replacement is concluded.

ETHICS AND MANAGING CONFLICTS OF INTEREST

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

The declaration of any interest is a standing item on meeting agendas for all Board committee, management committee, and committees of subsidiary companies. In addition, all Board members, executive managers, general managers, and prescribed officers are requested annually to provide a full declaration of all internal and external interests, which is kept on record in the company secretary's office.

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

The Board and Exco in a strategy session

ACCESS TO INFORMATION AND PROFESSIONAL ADVICE

All directors have unrestricted access to the (acting) chairperson of the Board, the (acting) CEO, the company secretary, and executive management, should they require any additional information (outside of that provided in meeting packs) in discharging their duties.

Directors may further seek additional independent professional advice concerning the affairs of the Company by arrangement with the company secretary or Board (Acting) chairperson.

BOARD AND STATUTORY COMMITTEES

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

Executive management attends Committee meetings by invitation. Such attendance provides committees with an additional perspective on agenda items where necessary. It enables the NEDs to make well-informed decisions, give clear and strategic direction, or receive further information where required. Guidance is also taken from external professional institutions and service providers, which collectively issue position papers, professional opinions, research findings, and guidelines that are used to assist the NHFC with the implementation and compliance with various relevant statutes.

Following the reconstitution of the Board on 29 March 2022, a decision was made to review various Board committees and their mandates. This will be undertaken in the new financial year. The commentary that follows reflects the Board committees for the financial period under review.

AUDIT COMMITTEE

The AC, comprises three independent NEDs, Ms P Mthethwa (Chairperson), Mr A Harris, and Ms T Chiliza. The (acting) CEO, the chief financial officer (CFO), executive managers, external auditors, as well as internal auditors attend all meetings. During the review period, the committee held additional in-camera (virtual) sessions to consider the performance of the CFO and finance division, the performance and relationships with both the internal and external auditors, and the underlying support of the executive management. The Audit committee meets a minimum of six times per year, with the primary objective of assisting the Board in discharging its duties as described hereafter.

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

The current external auditor is the (AGSA). The AGSA's appointment is confirmed annually by the shareholder at the AGM.

In line with the NHFC's Whistle-blowing Policy, a service provider has been appointed to manage reports of unethical behaviour by providing a safe and anonymous space for staff to blow the whistle on perpetrators. Matters may be reported to the external independent party, which records and categorises the items. These are directed to the chairperson of the AC for investigation, recommendation, or subsequent action.

The NHFC's internal audit function is outsourced to an external service provider. The service is independent of the external audit function. The appointed auditing service provider, Ngubane and Co, was appointed on a three-year contract that concluded in January 2022. A tender has been placed for the appointment of a new internal auditing service provider.

Based on a review of the APP and risk register, the internal auditor prepares an annual programme to review the key processes of the Company, as well as the subsidiary company, Cape Town Community Housing Company (CTCHC). The auditor also provides independent assurance to the Board and management on the effectiveness of the NHFC'S internal control systems. The AC reviews the work of the internal auditors and the lead auditor of this function has direct unhindered access to the chairperson of the AC. This ensures that should there be any significant audit findings or matters that require the immediate attention of the Board, these are dealt with expeditiously.

The internal audit function conforms to the International Standards for the Professional Practice of Internal Auditors, published by the Institute of Internal Auditors of South Africa (IIA SA).

BOARD CREDIT AND INVESTMENT COMMITTEE (BCIC)

The BCIC comprises independent NEDs and the (acting) CEO. Meetings are attended by members of the executive management and professional staff responsible for various portfolios.

The primary objective of the committee is to assist the Board in fulfilling its credit and investment responsibilities, such as:

- The annual review of the Credit Philosophy, Risk Framework and policy, Risk Appetite, and long-term investment strategy (and any related policies) for recommendation to the Board for approval.
- The review and discharge of the Board's functions as prescribed by the Treasury Management Policy. The review of quarterly reports such as legal, treasury, strategic investment, credit, performance, and cash positions. Recommendations are made to the Board and its relevant sub-committees in relation to legal action, impairments, bad debt write-offs, or revaluation of investments (where applicable).
- Consideration and approval of loan applications for facilities, as per the Delegation of Authority, upon recommendation by the MCIC. Investments and facilities that exceed R160 million are referred to the Board for approval.
- Consideration and approval of long-term retail debt investments up to R100 million. Investments that exceed R100 million are recommended to the Board.
- Consideration of annual and post-investment reviews of strategic as well as major clients of the NHFC.

The committee meets monthly to review the various diverse funding applications received in respect of the key business divisions.

HUMAN RESOURCES, ETHICS AND REMUNERATION COMMITTEE (HRER)

The HRER comprises independent NEDs and is attended by the (acting) CEO, as well as the Executive Manager: Human Resources.

The HRER meets four times per year, and its responsibilities include:

- Annual reviews of the Human Resources Policy and Strategy, the Remuneration Policy, the Balance Scorecard Remuneration Framework, and making recommendations to the Board for approval.
- Reviewing and monitoring the top (high) Human Resource (HR) risks.
- Considering and approving salary increases for all staff.
- Approving the implementation of bonus and incentive initiatives for all staff.
- Reviewing and recommending executive managers' salary increases and incentive bonuses to the Board for approval.
- Reviewing the terms and conditions of executive managers' service agreements.
- Annually reviewing and approving succession planning.
- Monitoring and implementing the Ethics Policy.

In discharging its duties, the committee gives due cognisance to the NHFC's remuneration philosophy, to offer remuneration that will attract, incentivise, retain, and reward employees with the appropriate and required skills that will best enable the NHFC to deliver on its strategic objectives. The NHFC's HR policy complies with the International Labour Protocol that promotes gender- and payment-equality standards and does not allow the employment of children.

The NHFC has a zero-tolerance approach to dishonest, corrupt, and illegal conduct. This is central to the Code of Conduct. Criminal behaviour will not be permitted and formal charges may be laid against perpetrators, who are dismissed if found to have participated in unacceptable behaviour. No instances of dishonest, corrupt, or illegal conduct were reported during the review period.

SOCIAL AND ETHICS COMMITTEE (SEC)

The SEC is a mandatory committee of the Board, as laid down in terms of section 72 (4) of the Companies Act. Its mandate is to report to the shareholder on its monitoring of the Company's activities in response to principles and standards as highlighted in the Companies Act, which include the Company for Economic Cooperation and Development, the International Labour Company, and the United Nations Global Compact. The committee is guided by the principles of King IV, the PFMA, and various other relevant legislations.

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

The SEC comprises independent NEDs and the (acting) CEO. Executive management attends meetings by invitation. The committee meets four times per year, and its responsibilities include:

- Ensuring that the Company conducts its business in an ethical and socially responsible manner.
- Oversight of the social and economic development of NHFC employees and other stakeholders.
- Promotion of transformation, equality, and prevention of unfair discrimination.
- Ensuring that the Company has established a Code of Ethics that outlines and prescribes the prevention of fraud, bribery, and corrupt practices, as well as the protection of human rights as enshrined in the South African Constitution.
- Contributing to the development of the communities in which the NHFC's business activities are predominantly conducted. This includes the likes of poverty alleviation and supporting the start-up of wealth creation.
- Ensuring that appropriate labour and employment practices are adhered to, both in terms of local legislation and the protocols specified in the Companies Act.
- Reviewing the framework and strategy for stakeholder engagement.

BOARD RISK COMMITTEE (BRC)

The BRC comprises the chairpersons of the various board committees and meetings are attended by the (acting) CEO and executive managers. The BRC meets six times per year, and its primary objective is to assist the Board in its execution of responsibility with respect to risk and fraud management.

The committee, in fulfilling its mandate, ensures that it:

- Reviews, on an annual basis, the Enterprise Risk Management (ERM) Strategy and Framework, as well as the Fraud Prevention Plan. The committee monitors the implementation and management of these.
- Reviews on a bi-annual basis and makes inputs to the Risk Appetite Statement and Policy for approval by the Board.
- Evaluates the effectiveness of risk management systems, processes, and control measures.
- Reviews, on an annual basis, all risk management policies and makes inputs which are submitted to the Board for approval.
- Approves financial risk management strategies, as recommended by the BCIC.

DEVELOPMENTAL IMPACT AND STRATEGY COMMITTEE (DISC)

The DISC comprises independent NEDs and the (acting) CEO. Committee meetings may, by invitation, be attended by the executive management.

The primary objectives and responsibilities of the committee are to:

- Review strategy discussions arising from other Board committees.
- Review and recommend the company strategy to the Board and to ensure that it is both relevant and responsive to the broader housing market.
- Give the Board assurance that the strategic objectives are aligned with the NDOHS strategy.
- Review the strategic direction in relation to both the economy and the supply and demand imperatives within the market.
- Recommend amendments to the Company's strategic direction, policy, and operational structures, ensuring that the desired developmental impact is achieved.
- Monitor the Company's performance against the objectives set for developmental impact.
- Monitor the impact of developmental activities per the financial strategy.
- Coordinate oversight towards the establishment of the Human Settlements Development Bank.

NOMINATION COMMITTEE (NOMCOM)

NOMCOM comprises independent NEDs. The (acting) CEO may attend committee meetings by invitation.

This committee focuses on Board matters and is independent of the HRER, which focuses on staff matters. The committee's mandate includes:

- Upon request from the shareholder, the consideration and recommendation of potential NED candidates to the shareholder for possible appointment to the roles of Board or CEO.
- The review of the NED performance and recommendation for re-appointment/s to the shareholder for consideration at the AGM.
- The review of the annual performance of the (acting) CEO.
- The review of the annual Board evaluation.
- The review and confirmation of recommendations for appointments (both internal and external) to represent the NHFC on external company boards, where the NHFC has made a significant strategic investment and desires to have governance insight of the investment.
- The review of the performance of external appointees to strategic investment companies.

GOVERNANCE OVER SUBSIDIARY COMPANIES

The NHFC is the sole shareholder of the CTCHC, the NHFC Management Services (Pty) Ltd, and has control over Abahlali No. 2 Social Housing Institution. These are all active subsidiary companies of the NHFC.

These companies are subject to the guiding corporate governance principles of the NHFC, which ensures that their business is conducted in a proper, ethical, and responsible manner.

Each subsidiary has its own Board of Directors, which meets periodically to review quarterly performance, the annual financial statements, and the risk register. Oversight of these subsidiary companies is the responsibility of the Corporate Finance and Strategic Partnerships divisions.

In the financial statements, the NHFC further consolidates the activities of Housing Investment Partners, TUHF and International Housing Solutions. Direct control, as well as oversight, is exercised by those companies' boards and management, and the NHFC has accordingly appointed representatives to the boards of those entities.

Belhar Project, Cape Town

MANAGEMENT COMMITTEES

Executive Committee (EXCOM)

EXCOM comprises the company executive managers and (acting) CEO. The committee is involved in managing the NHFC's day-to-day business. The EXCOM has its own terms of reference.

The core functions of EXCOM include formulating and implementing the NHFC's Board-approved strategy, preparing the APP, as well as the key performance indicators (KPIs) for the Strategic Plan, preparation of the budget, policies, procedures, and internal controls of the Company, risk assessment, information technology (IT), procurement oversight, quarterly reports, and all investment applications. Management committee decisions are reviewed at EXCO before being taken forward to the relevant Board committees.

Management Credit and Investment Committee (MCIC)

The MCIC is an executive management-controlled subcommittee of the BCIC and EXCOM. It meets regularly to make funding approvals within its mandate or to make recommendations to the BCIC. It has its own terms of reference and is responsible for approving loan facilities up to R50 million per client (reviewed annually under the Delegation of Authority). Amounts exceeding R50 million are referred to the BCIC.

The MCIC further reviews and makes recommendations on all strategic investment proposals and new possible investment mechanisms to the BCIC, DISC, and Board (where appropriate).

> *A real leader uses every issue, no matter how serious and sensitive, to ensure that at the end of the debate we should emerge stronger and more united than ever before."*
> – Nelson Mandela

Assets and Liabilities Committee (ALCO)

The ALCO is chaired by an executive manager.

The committee's objectives are to:

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

Information Technology Management Committee (ITMC)

The ITMC is chaired by an executive manager.

Its main objectives are to:

- Review the Information and Communications Technology (ICT) strategy to ensure that it is aligned with the APP.
- Oversee the development and implementation of an ICT Governance Framework and IT policies.
- Obtain independent assurance that the ICT Internal Framework is effective.
- Monitor all ICT risks and controls to determine whether they are addressed effectively and to ensure that the relevant plans and controls are in place.
- Review all ICT major capital expenditure proposals.
- Oversee and implement adherence to the POPI Act.

Bid Adjudication Committee

The Procurement Committee is chaired by the CFO.

The Procurement Committee's main objectives are to:

- Monitor and ensure the implementation of the procurement policy, procedure, and code of conduct.
- Investigate all reports of non-compliance to the aforementioned policy, procedure, and code.
- Oversee the adjudication and appointment of service providers to the Company to ensure that the procurement process is fair, equitable, transparent, and cost-effective. To this end, preference is given to previously disadvantaged service providers and market sectors.

- Take all reasonable steps to prevent the abuse of the supply chain management system, as provided for by the PFMA and National Treasury Regulations.
- Enact decision-making processes for procurement to avoid unbudgeted, irregular, fruitless, and wasteful expenditure.
- Maintain a register of unbudgeted, irregular, fruitless, and wasteful expenditures.

Safety and Security Committee (SASC)

The SASC is chaired by the General Manager: Human Resources.

The committee's core objective is to monitor, evaluate, advise on, and make decisions regarding health, safety, and security matters, and to report on these matters to the SEC. The committee is further responsible for monitoring and implementing the Safety and Security Policy.

With the onset of the COVID -19 pandemic, the SASC appointed a Compliance Officer, who is responsible to monitor, control, and report on all company COVID-19 protocols, as well as staff compliance during the National Lockdown conditions as prescribed under the Disaster Management Regulations.

Loss Control Committee (LCC)

The LCC is chaired by an Executive Manager.

The committee gives effect to Sections 51 (1)(b)(ii), 51 (1)(e)(ii), and Section 55 (2)(b)(i) and (ii) of the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999) together with the National Treasury Regulations and the Framework on Irregular Expenditure, as well as the Framework on Fruitless and Wasteful Expenditure issued by National Treasury in terms of Section 76 of the PFMA.

This committee forms part of the system of controls established to prevent the occurrence of misuse, abuse, losses, and wastage of NHFC resources, as well as irregular, fruitless, and wasteful expenditure.

Programme Review Committee (PRC)

The PRC is chaired by an Executive Manager.

The committee is responsible for various activities that include the identification of opportunities, oversight of change control mechanisms, and is the first line of defence and dependence in contract dispute resolution.

Roodepoort Project, Gauteng

The core duties are provided below, per their respective sections.

- Opportunities:
  * Assist NHFC oversight of opportunities for consideration by the Company.
  * Ensure strategic alignment of the opportunities considered to the NHFC strategic direction.
  * Review opportunities in line with the mandate and strategic fit in the order of preference.
  * Review proposals to ensure they are properly packaged for consideration by the client, and to ensure benefits are adequately stated (no over-promising).
  * Ensure the prospective project is adequately packaged and meets the minimum requirement of the next investment committees.
  * Assesses the technical investment readiness of programmes.

CAPE TOWN COMMUNITY HOUSING COMPANY (PTY) LTD

The NHFC is the sole shareholder of the Cape Town Community Housing Company (Pty) Ltd (CTCHC), which is the only operating subsidiary company, and is involved in collecting outstanding dues on the installment sales legacy book. It has completed the sale of the last units of its Upington housing development.

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

The CTCHC has its own Board of two directors, which meets quarterly. In addition, this company has its own Audit Committee which meets quarterly and reviews the annual financial statements, annual report, annual audit plan, and annual internal audit function, risk register, and quarterly performance. Oversight of CTCHC is exercised by the NHFC Corporate Finance Division, and it is managed by a General Manager.

Belhar Project, Cape Town

MEETING ATTENDANCE REGISTER

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

Director name	Board	Audit	Risk	Credit and Investment	Development Impact and Strategy	Social and Ethics	HRER	Nomination	Joint
Ms P Ramarumo (Acting) Chairperson	9/9		6/6		3/3			2/2	1/1
Mr S Tati	8/9	4/6	5/6	9/11	3/3	3/3	5/6	0/1	1/1
Mr A Harris	9/9	6/6	6/6	11/11	3/3	3/3		2/2	1/1
Ms P Mthethwa	8/9	6/6	5/6	10/11					1/1
Ms T Chiliza	9/9	6/6	6/6	11/11	2/2	3/3	6/6		1/1
Mr K Shubane	9/9		6/6	11/11			6/6	1/1	1/1

CHANGE CONTROL

- Review and approve contract schedule re-baselining and extension of time (EOT), with or without costs.
- Review and approve all cost variations within the committee's mandate.
- To consider all project contract variations to be approved by Chief Executive (CE) or National Treasury, as per the Supply Chain Management (SCM) policy.

FIRST-LINE CONTRACT DISPUTE MEDIATION

- To assist in resolving project contract disputes.
- Consider and recommend contract terminations.
- Consider and recommend emergency procurement as per SCM policy.

Eden Heights Project, Cape Town

SOCIAL AND ETHICS COMMITTEE (SEC) REPORT

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

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

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

The King IV Report has acknowledged the increased oversight role of Social and Ethics committees concerning Companyal ethics, responsible corporate citizenship, sustainable development, and stakeholder relationships, as well as its statutory and regulatory duties. There is also a focus on transformation, B-BBEE, and the roles of women and children. Consequently, the Board committees for Risk, Credit and Investment, Development Impact and Strategy, Human Resources, Ethics and Remuneration Report on it accordingly, highlighting the activities and the impact for each quarter and compliance against the principles highlighted in paragraph 1 above.

The SEC additionally notes the NHFC risk profile, various policies and committee charters, staff ethics management and training, marketing and communications activities, stakeholder interaction, transformation, environmental impact, BBBEE compliance, fraud management, supply chain management, ICT Framework, POPI compliance, and controls to prevent corruption.

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

MONITORING AND SUSTAINABLE DEVELOPMENT

COVID–19 Virus Impact

On 26 March 2020 South Africa was placed in Lockdown 5 under the Covid Disaster Management Regulations. This single act, in an effort for the government to prepare the country for the effects of the virus in the months ahead, and based on the experiences of many overseas countries, has profoundly changed the lives of many. Since March 2020, the Lockdown levels have eased; at times going back to higher levels as efforts are being made to deal with the virus - including a mass vaccination programme.

The NHFC as a company has also been affected. With the assistance of the ICT department, all administrative staff members were provided with the means to work from home in the form of electronic and communications equipment and software. During 2021 the NHFC undertook a survey of staff with the purpose of adopting a hybrid model of working from home where possible, but access to the office as and when necessary. Ancillary related policies to give effect to this working process have also been approved.

The company has an approved policy and protocol for all staff concerning COVID management and behaviour. It is reviewed regularly to ensure it remains up to date with the national Regulations both under the NICD and Department of Health, and there was weekly reporting to the authorities (when required) and within the company. A Compliance Officer has been appointed to monitor all staff movements and necessary PPE equipment has been made available. In the past year approximately 8 staff have been affected by the virus, quarantined and recovered. Unfortunately, there has also been one death of a staff member, and some staff members have lost loved ones. Our sympathies go out to the families involved.

With respect to clients, a moratorium programme on loan repayments was introduced to aid those who were particularly affected in 2020, due to the negative knock-on effect on their tenants. However, as the Lockdowns eased, it was pleasing to note that there has been a turnaround in operational performance in general and a slow return to normality. However fluctuating lockdown levels have impacted on clients own performance, which is reliant on end-user ability to pay.

For the 2021-2022 financial year the NHFC reported a good financial performance. Savings were achieved in a number of cost areas but income continued to be affected by lower than anticipated SARB Repo interest rates, which affected both income from clients (linked to the interest rates) and on investments.

United Nations Global Compact:

- In consideration of the National Environment Management Act, there has been an ongoing review of the provision of housing through intermediaries, as a result of funding various housing mechanisms in the human settlements sector. The housing provided includes affordable housing, incremental housing, social rental and private rental housing. The FLISP programme has been remodelled, and new specialised Programmes such as the Debt Relief Programme developed. Assistance for developers and contractors has been stepped up. In all cases the environmental, transformational, gender and infrastructural issues are reviewed.
- SEC has noted the ongoing success of a number of environment impact assessments and development programmes for various projects. These approvals are also interrogated and approved by local authorities.
- The supply chain evaluations ensure that there are no violations of freedom of association or collective bargaining with suppliers and clients. In addition, it is clarified that no child labour is utilised, nor is there discrimination bargaining with clients.
- In terms of the SANS environmental regulations, assurance is obtained to confirm compliance with building regulations and standards, environment standards, use of environmentally friendly materials, and adherence to heritage and fauna standards. The SEC continues to monitor the framework assessment methodology used by the NHFC when looking at such issues for funding applications.
- In terms of National Treasury Frameworks on Combating Crime and Fraud and associated legislation, it was noted that there have been no incidences of financial loss due to fraud or fines imposed, despite several attempted frauds that arose during the year at CIPC and with clients and financial investments. In all cases the effects of the attempted frauds have been reversed and reported to the Hawks division of SAPS.
- SEC has further noted the application of the Politically Exposed Persons policy, which is also being used to monitor key players in funding applicants.

> *A Compliance Officer has been appointed to monitor all staff movements and necessary PPE equipment has been made available. In the past year approximately 8 staff have been affected by the virus, quarantined and recovered.*

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

- During 2021-2022 much attention has been given to revising the developmental and transformation B-BBEE guidelines, policy and strategy, and it is pleasing to note that new internally funded programme has been structured. This operates across all business units.
- For the NHFC itself, there has been significant policy movement to improve the NHFC own B-BBEE rating and this is being monitored by all board and executive committees, as well as being a KPI for the company and management members.

Stakeholder Engagement and Management:

- Progress on the related legislation for HSDB has been slow, and an update is awaited from the NDoHS, for taking through various stages and to Cabinet. Challenges have been noted in the proposed disestablishment of the NHFC and a new model is being looked into. The NDoHS has confirmed their role and commitment in other support as well as legislative processes over the name and PFMA scheduling status and negotiations with national Treasury to capitalize the HSDB and its operations.
- The SEC has reviewed various policies related to the Corporate Social Investment policy, social media, marketing, communications, ICT ethics and values, and risk policies.
- A number of new programmes have been finalized and successfully tested including the Business Continuity Plan, ICT architecture plan, Disaster Recovery Plan, movement of data storage to the cloud and others.
- POPI has been successfully rolled out in the company.
- Due to the Covid-19 situation, participation in human settlements events has been constrained. However, the company has been part of several new project launches, especially in the Johannesburg inner-city, where new exciting partnerships have been established with private sector developers for scale delivery of affordable housing.

ILO Protocol and South African labour legislation:

- The NHFC continues to be compliant to ILO protocol dictates, in terms of gender equality, salary payment parity and the non-use of child labour.
- Bursaries have been awarded to successful candidates.
- All Employment Equity reporting requirements are in place.

Corporate Governance:

- All the required legislative and regulatory corporate governance protocols are in place, the Annual Performance Plan and Shareholder's Compact for 2022-2023 has been submitted to and approved by the shareholder, in accordance with the Medium Term Strategic Plan and PFMA requirements.
- All CIPC compliance is in place, codes on ethics and employee's values, key risk, ICT and remuneration frameworks, and the annual meeting calendar is in place.
- Whistle-blowing reports to the external service provider have declined significantly, and those received have been investigated by external service providers. It is pleasing to note that the external service provider investigators found no basis to the matters raised. However, the company remains committed to the highest levels of corporate governance, compliance and integrity.

Gauteng Fleurhof project

PART E:

RISK MANAGEMENT

Cape Town Scottesdene Project

ENTERPRISE RISK MANAGEMENT

Risk comes with the territory when breaking new ground. The NHFC strives to be fluid and continue to learn how to better evaluate and mitigate risks, rather than removing the people's autonomy – they are, after all, the building blocks of the business.

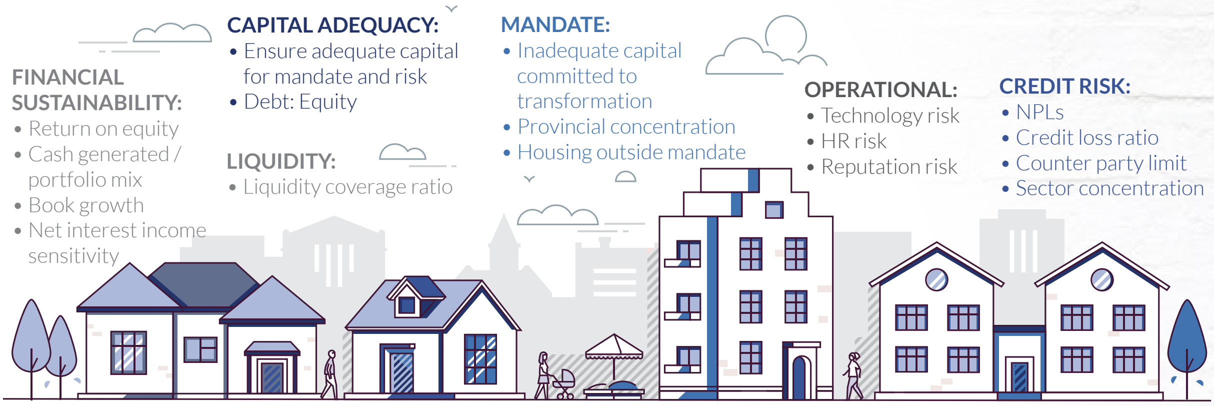
NHFC'S Risk Universe

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

RISK APPETITE STATEMENT

The NHFC's Risk Appetite Statement (RAS) sets the tolerance for risk-taking in the NHFC's operations within its risk-bearing capacity. Risk limits and risk profile assessment are other key elements in the implementation of the risk appetite framework. It is an acknowledgement that the risk appetite sets out a long-term strategy for the NHFC, particularly as it moves towards the HSDB, with a path to achieving this strategy. In general, the risks of the NHFC were managed within this appetite throughout the financial year ending in March 2022 and where thresholds were exceeded momentarily, action plan were put in place.

Risk Appetite



COMPLIANCE MANAGEMENT REPORT

Overall, during the year under review NHFC has complied with all the applicable laws of the country including Public Finance Management Act (PFMA) and Treasury Regulation. Where assurance cannot be fully provided, plans are in place to improve in those arrears. This includes compliance with Section 13 (G) of the B-BBEE Act.

> *The NHFC's Risk Appetite Statement (RAS) sets the tolerance for risk-taking in the NHFC's operations within its risk-bearing capacity.*

BUSINESS CONTINUITY MANAGEMENT (BCM)

NHFC is committed in ensuring business continuity when facing major business disruptions. This will ensure that users remain productive while maintaining the highest level of security and control over user access to NHFC resources. NHFC is committed in ensuring business continuity when facing major business disruptions. This ensures that the Company is able to provide continued value to its stakeholders through sustainable business processes.

The business continuity policy, framework, and plan have been reviewed, finalised, and approved. The EWRM team ensure that business continuity management is successfully implemented throughout the NHFC.

COMBINED RISK

Combined risks are approved and monitored throughout the year, and adjustments are made as issues emerge. In the year under review, significant changes in the operating context, brought on by the global spread of COVID-19 and subsequent lockdowns, continued to affect the NHFC's operations during the year under review.

The NHFC Board and management team continually review the principal risks to ensure an appropriate understanding of the overall operating environment.

The Strategic Risk Register

As demonstrated throughout this section, the NHFC remains cognisant of business risks and has in place various mitigation measures to ensure the continued success of the Organisation.

Below, the strategic risk register is provided to give an overview of actively monitored risk and offer assurance to all stakeholders of the organisation's efforts toward risk mitigation.

Risk Id No	Risk Type	Risk/ Threat in Achieving Objectives
1	Mandate Risk	• Funding the market that is not aligned to the mandate. • Failure of the NHFC to deliver on the shareholder's (NDoHS) mandate
2	Financial Sustainability Risk	• Challenge in balancing developmental mandate with financial sustainability leading to APP targets not being met.
3	Credit Risk	• Challenge in granting quality loans resulting in unsuccessful collections or credit risk in excess of risk tolerance
4	Investment Risk	• Inability to attract suitable funding partners (Attrition of partners, emerging partners) • Not realising expected returns from strategic investments
5	Funding Risk	• Challenge to mobilise sustainable funding, raise debt at the appropriate price from DFI's, Debt Market and Shareholder equity.
6	HR Risk	• Challenge in attracting, engaging rewarding and retaining talent. • Skilled and talented staff may be unsettled by the DFI Consolidation
7	Reputational Risk	• Loss of reputation (due to negative publicity)
8	Compliance Risk	• Non-compliance to legislation, regulations and policies
9	Governance Risk	• Possibility of adverse audit opinion • Dysfunctional Board • Lack of approved policies and procedures
10	IT Risk	• Misalignment of IT and Business Strategy • Inappropriate or failed internal Processes • Inappropriate IT platform
11	Market Risk	• Limited ability to provide thought leadership to the low - medium housing market (advocacy, insights and foresights, innovation)

Mitigation Plans	Inherent Risk	Residual Risk
• APP approved by shareholder (NDoHS) • Re-alignment of the strategic plan due to the impact of COVID-19 on the business • NHFC operating within approved mandate. • Development Monitoring Team established for unsecured lending to ensure that funds are used as per approved mandate.	H	M
• Ensure that there is alignment of strategy to market conditions. • NHFC risk appetite aligned to existing financial markets. • Continuous tracking of financial sustainability ratios (i.e. Return on equity, Return on assets, Gross profit margin, Bad Debts) • Business performance objectives aligned to corporate strategy.	H	M
• Ensure compliance to credit policy (risk based pricing, collection processes, credit assessment criteria) • Regular credit reviews done • Ongoing monitoring of account performance • Strengthen post investment process.	H	M
• Attract funders through incentives included in the value proposition • Offering attractive Risk sharing options. • Align investments to NHFC Investment Policy and Risk appetite.	H	M
• Align NHFC risk appetite statement to ever changing financial markets and sustainability. • Optimal Shareholder Funding in support of debt capacity to enable blended funding model. • Designing new product offerings	H	M
• Ensure compliance to HR policies • Continue to embed change management into everyday business • Staff turnover rate managed within the target of 2% • Target Operating Model in the process of being implemented. • Consequence management	H	M
• Continuous implementation of Code of Conduct. • Adherence to good corporate governance practice. • Adoption of a customer centric approach. • Implementation of consequence Management • Proactively manage the COVID-19 pandemic	**H**	**M**
• Complies with PFMA and National Treasury Regulations continue to monitored • B- BBEE -Plans put in place to improve NHFC B-BBEE level gradually each year. NHFC currently at level 8 • Compliance to all COVID-19 protocols	H	M
• Regular meetings held as per meeting schedules • Quarterly Board Updates • Annual Board evaluation conducted	H	M
• ITMC continue to function as per TOR • IT Governance structure and policies in place. • IT Controls reviewed by Internal Auditors annually. • IT platform and business applications regularly reviewed and implemented accordingly. • IT strategy aligned to business strategy	H	M
• NHFC continues to influence affordable housing market through a variety of communication channels; i.e. regular meetings with SHRA, NDOHS and BASA • Retaining strong capital adequacy levels	H	M

CREDIT RISK MANAGEMENT

HOW NHFC MANAGES CREDIT RISK

DEPARTMENT STRUCTURE

During the 2021/2022 financial year, the new Credit Risk Division became effective, following a number of changes which were aimed at enabling it to be in a position to manage the growth in the book that will result from the conversion to the Human Settlements Development Bank in the near future. The structure was changed from a sector specific structure to one with the following sections, each staffed with specialists in these roles:

- New Business (On-boarding)
- Credit Risk monitoring and Reporting
- Turnaround and Workout
- Retail (curtailed)

POLICIES AND PROCEDURES

A process of updating the various credit policies was also started with the main Credit Policy being under review. The revised Policy will be submitted for approval in the new financial year. The Impairment Policy was also reviewed, approved and implemented during the financial year. The revised and improved changes to the Impairment Policy now result in the financial implications of non-performing loans being reported sooner, thus creating a more responsive Credit team. The Pricing Policy will be updated submitted for approval in the new financial year. Each of these substantial changes have been initiated with a view to streamlining the processes of approving credit, monitoring credit on an ongoing basis, and turning around non-performing clients as quickly as possible.

RISK APPETITE

The long-term target for a credit loss ratio as set in the Risk Appetite Statement is 1.25% which is well below the trend experienced in the past. With the changes that have been implemented the Credit Risk Division will be working towards ensuring that this ratio is achieved.

THE EFFECTS OF COVID-19

This financial year marked the second year of the COVID-19 pandemic under which the country was still observing the eased COVID-19 protocols. Credit risks however remained as our borrowers' cash flows were still recovering from the initial interruption of their operations.

In the 2021 Budget Speech the Honourable Minister of Human Settlements, Water and Sanitation pronounced that NHFC would be allocated funds to provide relief to its clients who faced difficulties due to challenging market and economic conditions brought about COVID-19 and the relief was to be provided under a programme referred to as "Debt Relief Programme" (DRP). The Debt Relief Programme has a two-pronged purpose, namely:

To provide a once-off financial relief to offset the debt incurred by the clients of the NHFC as a result of the clients' inability to honour loan obligations due to COVID-19.

To provide a special recovery intervention that will stabilize the functioning of the affordable housing programme.

The NHFC was allocated R300 million to administer, under the DRP, and provide relief to NHFC clients who were affected by the COVID-19 pandemic during the financial year from 1 April 2020 to 31 March 2021. The DRP could however only be implemented during the 2021/2022 financial year to allow for the necessary Policy approvals which would enable implementation. Approximately seventeen (17) clients, with the total value of arrears amounting to R11.2 million, were assisted under this programme, with more to be assisted in the 2022/2023 financial year.

LOAN BOOK ANALYSIS – COMPANY

	2022					2021				
	# of loans	Gross Loan R'000	Impair-ment R'000	Net Loan R'000	% of total %	# of loans	Gross Loan R'000	Impair-ment R'000	Net Loan R'000	% of total %
Impaired book	17	529 496	267 352	262 144	9,3%	16	512 412	221 657	290 755	11,0%
Past due but not impaired	14	594 986	0	594 986	21,0%	17	399 973	0	399 973	15,1%
Restruc-tured due to COVID	0	0	0	0	0,0%	11	741 591	0	741 591	28,0%
Other re-structured	4	446 015	0	446 015	15,8%	0	0	0	0	0,0%
Total non-per-forming loans	35	1 570 497	267 352	1 303 145	46.1%	44	1 653 976	221 657	1 432 319	54,0%
Performing loans	44	1 525 861	0	1 525 861	53.9%	37	1 219 229	0	1 219 229	46,0%
TOTALS	79	3 096 358	267 352	2 829 006	100%	81	2 873 205	221 657	2 651 548	100.0%

CREDIT LOSSES – COMPANY

While the table below shows a general downward trend in credit losses, there remains a strong need to ensure that this continues as the pace of new disbursements increases. The business case for the Human Settlements Development Bank indicates that the book needs to increase substantially.

The credit risk profile is proactively managed through periodic monitoring of loans to ensure optimised performance. Despite the ongoing negative impact of the global COVID-19 pandemic, the credit portfolio performance proved resilient to the challenges with only R49 million impairments and write-offs incurred against a budget of R 87.4 million.

	2022	2021	2020	2019	2018
	R'000	R'000	R'000	R'000	R'000
Total gross book	3 096 358	2 873 205	2 642 651	2 919 914	2 339 586
Credit losses	49 699	23 207	46 773	57 264	72 556
Credit loss ratio	1,6%	1,0%	1,7%	2,0%	3,1%
Bad debts written-off	4 005	393	138 539	0	70 858

OUTLOOK

The establishment of the HSDB will fundamentally change the overall balance sheet risk of the entity, with the on-boarding of new products that present new credit risk and also maturity profiles that will require concerted effort in underwriting, collection, liquidity management and capital allocation.

Low recoveries have been realised in the last three years. With most of the arrears sitting in the social housing book, a combined effort is required from the NHFC, with the SHRA and the NDHOS in simplify solutions for turning around non-performing book projects.

Bearing in mind the challenging economic and property cycle that is forecast for the next 24 months or so, management will focus on efforts on extracting value from the underlying loan book through proactive loan/investment management processes which may entail restructuring and recapitalising certain viable projects.

PART F:

HUMAN CAPITAL

Eden Heights Project, Cape Town

HUMAN CAPITAL

Human Capital Management (HCM) is about how we are maximizing our employee productivity, shaping their skill set, their attitudes, and behaviours through our value system and policies. The interaction and harmony in NHFC's employee skills set, attitudes, and behaviours is key to the achievement of the performance of the Company (Ostroff & Bowen, 2000). Just like an orchestra conductor, Human Capital Management is tasked with the responsibility of ensuring the balance in the sequence.

The HCM strives to ensure that NHFC/HSDB has the capability to deliver and meet its mandate.

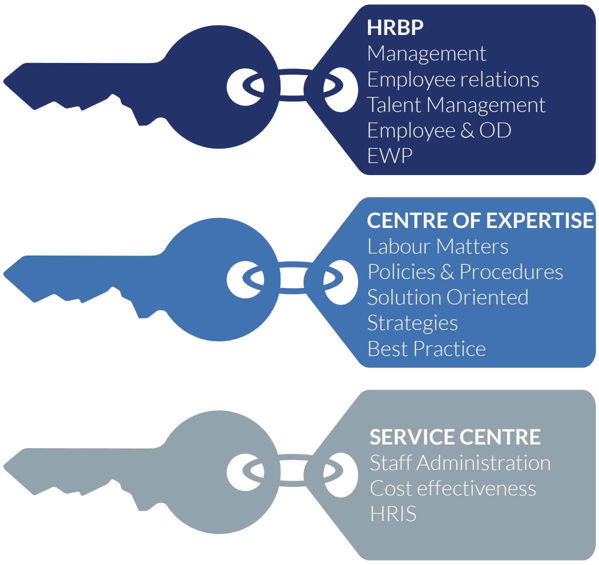
Achieving the HCM objective is managed by utilising systems and processes that attract, select, and retain employees who will take the NHFC/HSDB to the next level. The Value System is the driver to ensure all members live the purpose, fulfil the mandate, and nurture a culture of accountability, collaboration, leadership diversity, integrity, innovation, ubuntu and professionalism.

Employees, the Most Valued Assets

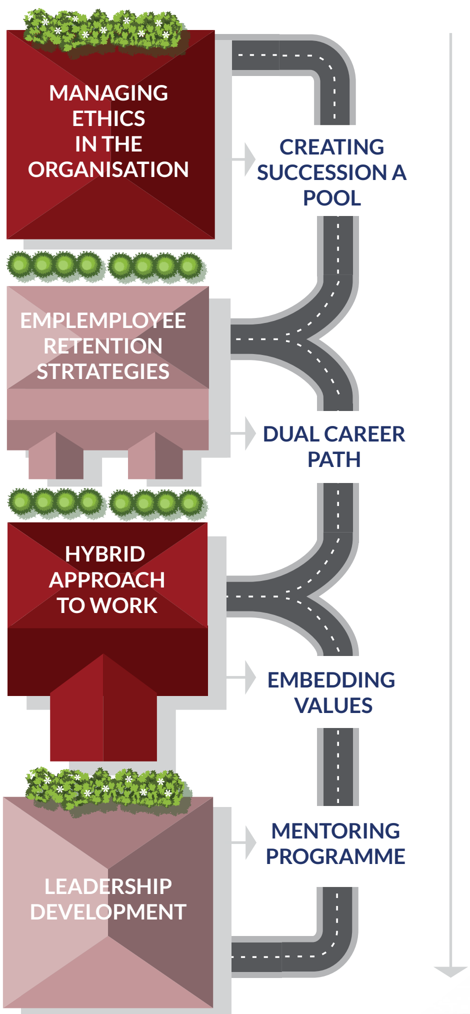
The NHFC's Value proposition and strategic response are to ensure that it creates an environment where employees deliver excellence to its customers and are able to fulfil their own potential and career ambitions. The Talent Management Framework outlined below illustrates how value is delivered to the NHFC/HSDB.

NHFC TALENT MANAGEMENT FRAMEWORK

During 2021, continued focus was maintained on enhancing the employee experience by delivering the Organisational offering through a partnership with management and employees. The NHFC's three organisational touchpoints are illustrated below.



The following themes and strategic initiatives were pursued during FY2021/22.



In pursuit of the themes, the following transformative human capital projects were undertaken:

Leadership Pipeline Strength

In line with the Company's strategic goal to build a strong leadership pipeline, strong technical depth and youth development, a strong 24% of our staff were nominated into a succession pool. A Mentorship Programme was put in place to nurture candidates in the succession pool. Career plans were put in place for all candidates based on the assessment results undertaken to determine their strengths, potential and development areas. To date, 28 employees are still in the pool and Mentorship Programme. Two from the pool were promoted. Ongoing bi-annual check-in sessions are undertaken.

INVESTING IN EMPLOYEE DEVELOPMENT

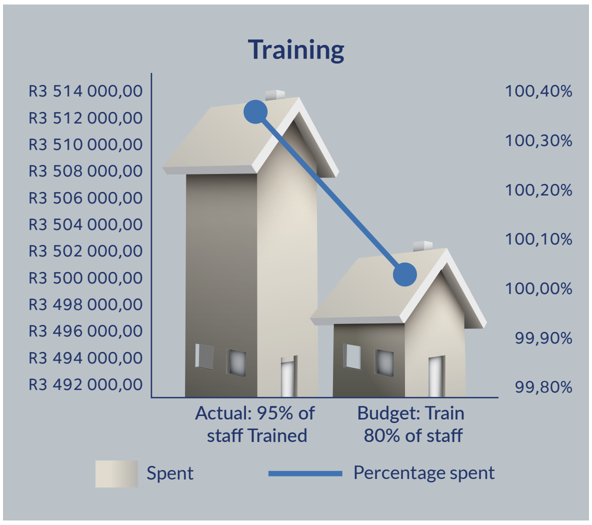
NHFC's learning and career development practices rest on three pillars: funding the pipeline, through funding students from previously disadvantaged higher institutions of learning; experiential learning, which entails onboarding the graduates as learners and interns for a year, followed by their absorption to fill existing vacancies, where necessary. At a company level, our performance reviews offer another opportunity for employee development through individual development plans which are agreed upon between manager and employee to address technical competency gaps. With consistence performance, employees are able to register for aspirational training.

The objective of leadership training and development is two-fold: to support high-potential individual growth and development, as well as to upskill current leadership to remain relevant.

EMPLOYEE DEVELOPMENT 2021/22 KEY HIGHLIGHTS

1. 95 % employees were trained on technical skills
2. 94% females were trained
3. 82% general staff were trained on technical skills
4. Over a quarter (27%) of leadership management is registered in various development
5. 100 % training budget was spent
6. 14 % of training budget was spent on learners

For the period under review, the training spent and a number of the staff exceeded the set target. The graph below indicates the budget versus actual training.



EMBEDDING VALUES

As employees of the NHFC, through a process of value creation, the Company identified a set of behavioural standards which are expected and which would drive the Company's actions and attitude as it strives to achieve its set goals. These values will guide the way in which all members of the Company relate to one another. Customers are also expected to hold the NHFC's service to the same value. The NHFC'S values are shown on page 12 of this report.

In embedding the values, the executive managers were requested to champion a value and to write a blog on the chosen value. Consequently, a monthly executive blog, which educates the Company about the value, is distributed amongst employees, who are encouraged to participate by responding to a short survey question concerning the value. To date, four out of nine values blogs have been shared, and a participation rate of 26% was recorded for the period (up from 12% in the previous period).

Staff participation in relation to the survey has been implemented as a means of early detection of any staff matters, with the purpose of intervening before these become insurmountable.

MANAGING ETHICS IN THE WORKPLACE

The NHFC's organisational values are a testament to its commitment to an ethical culture. The values are aligned to the King IV principles of good corporate citizenship, with reference to ethical leadership. With the Ethics Framework in place, the process of embedding the organisational values continues, with monitoring and evaluation is underway as at the time of reporting.

Highlights

- Undertook climate survey and shared results with staff
- Drew up an implementation plan to address issues raised in the survey
- Drew up and got approved forms for staff to report on external NHFC remuneration
- Drew up and got approval for a gift register, for staff to report

Hybrid Approach to Work

With COVID-19 most organisations which survived were forced to work remotely. As the country developed better ways of managing the pandemic, most organisations adopted a hybrid approach to work. This model allows flexibility between remote and office-based work.

The NHFC's policy on hybrid working was approved by the Board, and an implementation plan is underway at the time of reporting.

Approximately 80% of the NHFC's business activities continue to be conducted remotely. On average, approximately 19% to 20% of employees work from the office. Predominantly, the Grant Facilitation Division, Facility, and ICT staff work on a rotational basis from the office. Once fully implemented, divisional rotation will be considered.

Fair and equitable remuneration

The NHFC believes in the administration of fair and equitable remuneration. Linked to this is the principle of equal remuneration for equal work. Some of the legacy issues emanating from merging the three entities were the use of different grading systems and role naming conventions. To achieve alignment, a job evaluation process and grading were undertaken. Accordingly, a pay scale was designed to deal with anomalies that surfaced due to the job evaluation and grading exercise. Ultimately, the anomalies were addressed and pay scales and strategies for managing remuneration decisions within the Company, going forward, were developed.

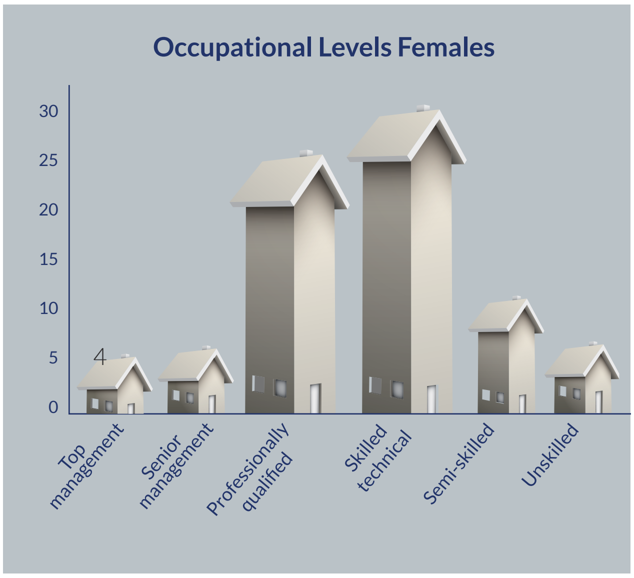
Employment Equity

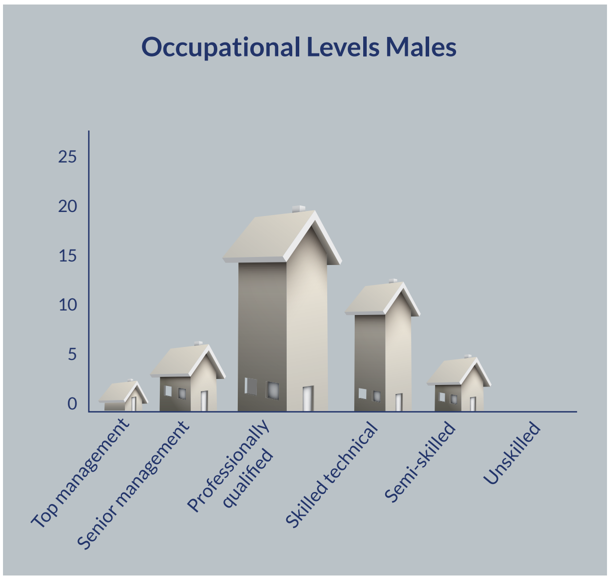
In 2020, 22 years after the democratic government was put in place, the share of employed individuals is still higher among men than women at 41.5%and 30.4 %, respectively. According to a report on "Building back better from COVID-19, with a special focus on jobs", the report found that South Africa entered the COVID-19 pandemic with low levels of employment and a decade of weak job creation which was far below that of most upper middle-income countries. As a result, despite the government's solid response to the pandemic, jobs have been severely impacted, and recovery was slow.

Reports like these bring the reality of and purpose of the Employment Equity Act, No. 55 of 1998 back to life. With a history of being disadvantaged, the NHFC is sensitive to the need to achieve parity to promote equal opportunity for South African women.

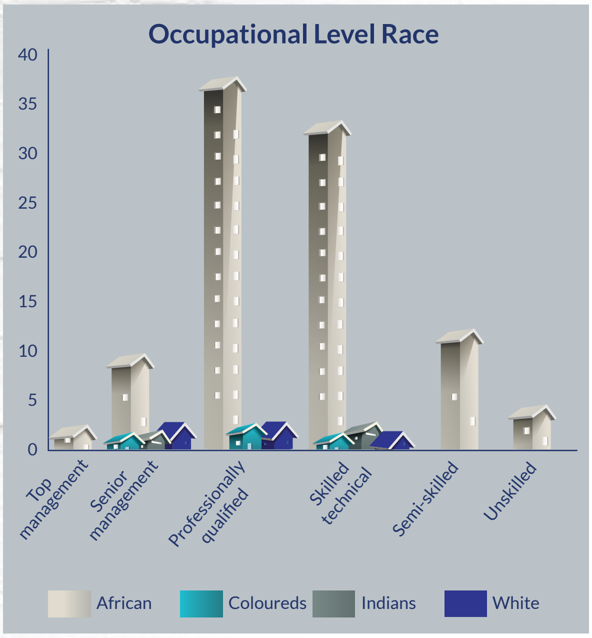
Steady strides are made to redress the imbalance. In the reporting period two female employees were promoted to executive and senior management, and one female was appointed at senior management level for the period under review. The appointment of females in senior management roles is slowly improving.

The graphs below depict the NHFC total workforce per occupational level and the ratio between males and females.



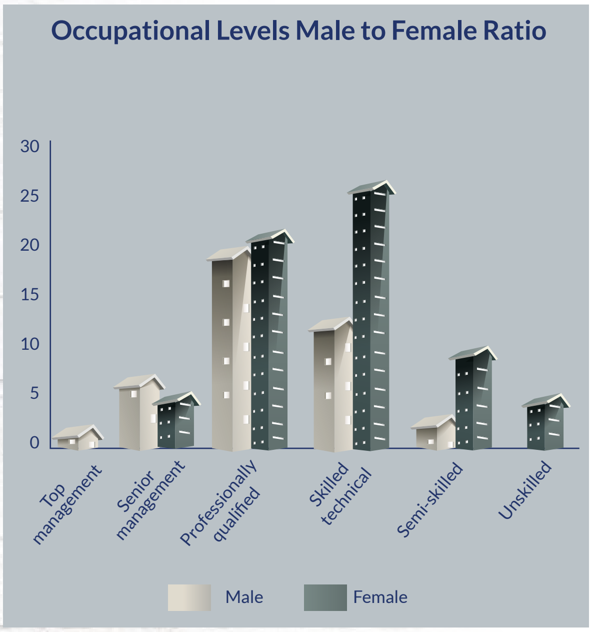


Kyle's Place Project, Gauteng



Employment Diversity

The transformation agenda of the NHFC focuses on ensuring a fair representation of females in senior management and at professional levels of the Company. As a result, in the 2021/22 financial year, two senior female employees have been appointed. A concerted effort is made to ensure a gender balance at the semi-skilled employee levels.



Health and Safety

The purpose of the Occupational Health and Safety Act, 1993 (Act 85, 1993) is to provide for the health and safety of employees in the work environment, with four main functions: train employees and provide information on how to carry out work processes safely, ensure a safe working environment, develop a health and safety policy, and undertake risk assessments. In line with the requirements of the Health and Safety Act, the NHFC is compliant in all four areas. During the year under review, new health and safety representatives were appointed and trained. With the onset of COVID-19, an extended Safety and Security Committee was put in place to manage and monitor the implementation of the Health and Safety organisational protocols. The compliance officer was appointed to ensure compliance with all requirements, including those of the Disaster Management Act, 2002 (Regulations), during the two years of managing COVID-19 in the workplace.

The majority of the NHFC's operations are conducted remotely in compliance with the regulations issued in terms of section 27(2) of the Disaster Management Act, 2002 (Regulations) and the COVID-19 Direction on Health and Safety.

As a result of the expansion of the Health and Safety Committee mandate to include other functions such as legal, unions, ICT, the NHFC has successfully managed the COVID-19 rate infection of its employees. During the period of review, five employees reported having been infected in the workplace.

Labour Relations

The NHFC has two employee representative unions, the South African Society of Bank Officials (SASBO) and the South African SA Worker's Union). In the year being reviewed, SASBO is the union with the most NHFC members. Therefore, SASBO is the recognised union in the workplace, with a Recognition Agreement (RA) in place, which affords the union organisational rights, which include their access to the workplace, deductions from employees' wages for trade union subscriptions by the employer, holding trade union elections for union representatives in the workplace and being allowed leave of absence to organise trade union activities during working hours. All five employees subsequently recovered from COVID-19 and were back at work. Follow-ups were done with the employees who were in contact with the five employees. All employees who were in contact with them were tested.

In the previous financial year, salary negotiations with SASBO were settled at the Commission for Conciliation, Mediation and Arbitration (CCMA). In August 2021, as a result of the conciliation process, an additional once off gratuity of 1% was given to the staff in the bargaining unit.

With shop steward participation, cordial relations exist in the workplace between the NHFC and its partners, and employee representatives.

In managing employee/employer relations, two disciplinary proceedings and three grievance processes were noted in the year under review. The three grievances, related to misconduct, and the other two matters were referred to and resolved at the CCMA. This performance represents 3% out of a target of 5% the company set in dealing with labour matters.

Leave management

Employees leave management includes the processes and policies of managing employee time-off requests, such as annual leave, sick leave, and parental leave, to ensure mutual fairness and that the Company is running smoothly while employees enjoy the benefits they are entitled to. To ensure this happens, the NHFC has put in place the leave forfeiture policy, which is available to management to ensure that employees take leave as expected and that leave liability is managed down. With the effective use of the leave forfeiture policy, leave liability has decreased 17% in the last two months of FY2021/22.

SAFETY AND SECURITY COMMITTEE

Composed of Facilities Management, ICT, Legal, EWR, Communications, Finance, and the unions. The SASC serves as the NHFC implementation agent and reports weekly to the executive committee on the implementation of COVID-19 Protocols. The Committee also identifies challenges, risks, and communicates to staff periodically on compliance to the NHFC Protocols.

THE HEALTH AND SAFETY COMMITTEE (HSC)

Comprised of both staff and management-elected staff members, who monitor the day-to-day activities and compliance in the workplace, and on a weekly basis, reports to the SASC. The Compliance Officer checks that all compliance measures are in place and being followed, and also reports findings to the SASC.

On a quarterly basis, the NHFC management reports to the Board and its respective Committees on the management of COVID-19 in the workplace and compliance, in line with the Disaster Management Act, 2002 (Regulations) and the COVID-19 Direction on Health and Safety in the Workplace issued by the Department of Employment and Labour (Directive).

Anchorage Glenhaven Project, Belville, Western Cape

PART G:

THE ANNUAL FINANCIAL STATEMENTS

Cape Town Own Haven – Conradie Park Phase 1

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The NHFC provides housing finance to retail intermediaries, Property developers and Social housing Institutions; as well as supports and capacitate emerging housing intermediaries through strategic partnerships
Directors	Mr L Vutula (Board Chairperson) (appointed 29 March 2022) Mr T Bonakele (appointed 29 March 2022) Ms T Chiliza Ms P Mthethwa Mr P Heeger (appointed 29 March 2022) Ms A Seedat (appointed 29 March 2022) Ms S Bolipombo (appointed 29 March 2022) Mr V Dube (appointed 29 March 2022) Mr T Mabaso (appointed 29 March 2022) Ms P Kadi (appointed 29 March 2022) Ms T Kobile (appointed 29 March 2022) Ms P Ramarumo (resigned 29 March 2022) Mr S Tati (resigned 29 March 2022) Mr K Shubane (resigned 29 March 2022) Mr A Harris (resigned 29 March 2022)
Registered office	Old Trafford 3 Isle of Houghton 11 Boundary Road Houghton 2193
Postal address	PO Box 31376 Braamfontein Johannesburg 2017
Bankers	The Standard Bank of South Africa Limited First National Bank Limited
Auditors	Auditor General of South Africa Chartered Accountants (S.A.) Registered Auditors
Company registration number	1996/005577/30
Level of assurance	These annual financial statements have been prepared in compliance with the applicable requirements of the Companies Act 71 of 2008.

INDEX

The reports and statements set out below comprise the Annual Financial Statements presented to the Parliament:

The financial statements were prepared by Mr Silvan Moon CA(SA) and reviewed by Ms Viola Moraswi CA (SA).

STATEMENT OF RESPONSIBILITY BY THE BOARD

The Board of Directors, which constitutes the Accounting Authority, is required in terms of the Companies Act, 2008 (Act No.71 of 2008) (Companies Act) and Public Finance Management Act of 1999 (Act 1 of 1999) (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the National Housing Finance Corporation SOC Limited (NHFC) at 31 March 2022, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the annual financial statements and have been given unrestricted access to all financial records and related data.

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

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

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

The focus of the NHFC's enterprise-wide risk management is on identifying, assessing, managing and monitoring all forms of risk across the company. While operating risk will always exist, the NHFC endeavours to mitigate it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Independent internal auditors assist the Board in their task of ensuring that internal controls are adequate and operate as intended throughout the financial year under review. The company was without internal auditors for February and March 2022 following the expiry of the previous outsourced internal auditor's contract.

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

The Directors have reviewed the NHFC's cash flow forecast 31 March 2023, and in light of this review and the current financial position, it is satisfied that the NHFC has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the NHFC's annual financial statements and their report is presented on pages 106 to 108.

The annual financial statements, set out on pages 113 to 201, which have been prepared on the going concern basis, were approved by the Board of Directors on 10 August 2022 and were signed on their behalf by:

Ms Phekane Ramarumo
Non Executive Chairperson

Ms P Mthethwa
Chairperson Audit Committee

COMPANY SECRETARY'S CERTIFICATION

Declaration by the Company Secretary in respect of Section 88(2)(e) of the Companies Act

I hereby confirm in terms of Section 88(2)(e) of the Companies Act, Act 71 of 2008, that the NHFC lodged with the Commissioner of Intellectual Property and Companies, all such returns and notices as are required of a State Owned Company in terms of the Act for the financial year ending 31 March 2022, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

Mr Andrew Higgs
Company Secretary

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the National Housing Finance Corporation SOC Limited and its subsidiaries (the group) set out on pages 113 to 201, which comprise the consolidated and separate statement of financial position as at 31 March 2022, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the National Housing Finance Corporation SOC Limited as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (the Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.

4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matter

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

Restatement of corresponding amounts

7. As disclosed in note 36 to the financial statements, the corresponding figures for 31 March 2021 were restated as a result of an error in the financial statements of the group at, and for the year ended, 31 March 2022.

Responsibilities of the board of directors for the financial statements

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

9. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

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

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

11. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT OF THE AUDITOR-GENERAL CONTINUED

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LIMITED

Report on the audit of the annual performance report

Introduction and scope

12. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programme presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

13. My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the public entity's annual performance report for the year ended 31 March 2022:

Programme	Pages in the annual performance report
Programme 5: Affordable housing programme	196 - 199

15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. I did not raise any material findings on the usefulness and reliability of the reported performance information for this programme:

- Programme 5: Affordable housing programme

Other matter

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 196 to 199 for information on the achievement of planned targets for the year and management's explanations provided for the under/overachievement of targets.

Report on the audit of compliance with legislation

Introduction and scope

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

20. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

21. The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements of current assets and disclosure items identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

22. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R16 114 000 as disclosed in note 37 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.

REPORT OF THE AUDITOR-GENERAL CONTINUED

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LIMITED

Consequence management

23. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against an official who had incurred and/or permitted irregular expenditure in prior years, as required by section 51(1)(e)(iii) of the PFMA.

Procurement and contract management

24. Some of the contracts were extended or modified without the approval of a properly delegated official, as required by section 44 of the PFMA and treasury regulations 8.2.1 and 8.2.2. Similar non-compliance was also reported in the prior year.

Other information

25. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

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

27. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

28. The other information I obtained prior to the date of this auditor's report is in the audit committee report and the directors' report. The human capital report and other information which forms part of the integrated annual report are expected to be made available to us after 31 August 2022.

29. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

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

Internal control deficiencies

31. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

32. Management did not adequately implement reviews around processing and reconciling of underlying supporting documents that support the amounts disclosed in the annual financial statements submitted for audit. Management subsequently corrected material misstatements identified in the financial statements. This could be prevented by ensuring that quality reviews are performed on the consolidated and separate financial statements before submission for audit and making use of the internal audit function when it has been established to provide an additional level of assurance on the consolidated and separate financial statements.

33. A credible action plan was devised to address the root causes of the findings identified; however, it was not effectively implemented and monitored to avoid repeat compliance findings which resulted in irregular expenditure and findings on procurement and contract management as well as consequence management. The public entity continues to incur significant amounts of irregular expenditure, which is attributable to the continued use of contracts that have ended and not approved for extensions.

Auditor-General

Pretoria
31 July 2022

AUDITOR-GENERAL SOUTH AFRICA
Auditing to build public confidence

AUDIT COMMITTEE REPORT

The Audit Committee is pleased to submit its report in compliance with the Public Finance Management Act of 1999 and the Companies Act of 2008 of South Africa. Details on the composition and role of the Audit Committee, frequency of meetings and attendance at meetings are set out in the Corporate Governance Section on pages 72 to 73 and 79 of the Integrated Report.

Execution of the Functions of the Audit Committee

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

External Auditors

The Audit Committee approved the external auditors' terms of engagement, scope of work, the annual fee and noted the applicable levels of materiality. Based on written reports submitted, the Audit Committee reviewed, with the external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved. The Audit Committee is satisfied that the external auditors are independent of the group, as defined by the Companies Act No.71 of 2008 and the Public Finance Management Act No.1 of 1999 and as per the standard stipulated by the auditing profession.

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

Internal Audit

The Audit Committee has satisfied itself that findings by the Internal Auditors are followed up and implemented by management.

Systems of internal controls

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

Based on the reports and explanations given by management, the Internal Auditors and External Auditors during the year under review, the Audit Committee is of the opinion that the system of internal controls implemented by NHFC is effective.

Nothing has come to the attention of the Audit Committee to indicate that a material breakdown in the functioning of internal controls, procedures and systems has occurred during the year under review.

Financial and regulatory reporting

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

Going Concern

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

Evaluation of Annual Financial Statements and Accounting Policies

The Audit Committee has reviewed principles, policies and practices adopted in the preparation of annual financial statements for the 2022 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the 2022 annual financial statements. The Audit Committee is satisfied that they are adequate and appropriate and that the 2022 annual financial statements comply in all material respects with the Public Finance Management Act, the Companies Act of South Africa and Generally Recognised Accounting Practice.

The Audit Committee recommended the 2022 annual financial statements to the Board for approval.

PMtewa

Ms P Mthethwa
Chairperson of the Audit Committee

03 August 2022

DIRECTORS' REPORT

Mandate and Principal Activities

The National Housing Finance Corporation SOC Limited (NHFC) was established by the National Department of Human Settlements as a Development Finance Institution (DFI) with the principal mandate of broadening and deepening access to affordable housing finance, for low to middle income South African households. The NHFC is listed as a Schedule 3A public entity in terms of the Public Finance Management Act. Details of the NHFC's principal activities are described on pages 20 to 21.

Corporate Governance

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

Financial Highlights

The financial highlights are set out in the CFO report on page 58 to 60.

Financial Results

The financial results of the NHFC for the year under review are set out on pages 113 to 185.

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

As a developmental finance institution and as a response to the COVID 19 pandemic, the NHFC has granted various interventions on challenges encountered by its clients. These include amongst others, capital and interest moratoria, extended loan terms, and the waiving of any breaches of key financial covenants for an extended period of time. Any shortfalls in collections will be restructured and collected over the remaining loan terms. All other NHFC rights remain in place and enforceable. From a cashflow and liquidity point of view, the NHFC Group remains in a strong position to absorb the anticipated short term irregular collections.

Credit Rating

In February 2022, Global Credit Ratings rated the NHFC at national scale ratings of A and A1 in the long and short term respectively, with the outlook as stable.

Furthermore, Global Credit Ratings rated the NHFC's international scale long term local currency rating of B+, with the outlook as stable. Despite the credit downgrades on sovereign debt, as well as in private sector companies, the NHFC credit rating is well received, as this places us on a stable footing for any possible fundraising efforts.

Business Performance Results

The business performance against predetermined objectives for the year under review is set out on pages 188 to 201.

Share Capital and Shareholder

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

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

Dividends

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

Going Concern

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

Directorate and Secretariat

Details pertaining to the directors and company secretary appear on pages 64 to 65 and 70 to 75.

DIRECTORS' REPORT CONTINUED

External Auditor

The auditor is The Auditor General of South Africa and were originally appointed in the 2018 financial year. The ongoing appointment is confirmed by the shareholder at the annual general meeting for each succeeding year.

Human Settlements Development Bank (HSDB)

The process towards the establishment of the HSDB is ongoing. The business case is with National Treasury for consideration of the capitalisation of the HSDB but all matters are subject to the preparation of the draft legislation. The concept for the HSDB has been approved by the Socio Economic Impact Assessment System (SEIAS) Cluster, but there is ongoing work as indicated below before it can be taken to cabinet.

The outstanding steps to achieve the HSDB establishment which are under the control of the Department of Human Settlements are as follows:

- Draft Legislation
- Secure funding
- Secure SA Reserve Bank approval for proposed name
- Promulgate the Act
- Confirm PFMA scheduling
- Ensure tax free status of the NHFC carries to HSDB

The Board remains committed to concluding this strategic process towards the establishment of the HSDB.

Remuneration of Directors and Members of Board Committees

The Directors' emoluments are set out on pages 179 to 180 of these financial statements.

Audit Committee Members of Board Committees

The Audit Committee members and External Auditors are appointed in line with the Companies Act, Act 71 of 2008. The External Auditors do not perform non-audit services for the company.

Internal Controls

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

Information Technology

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

The implementation of the IT Governance Framework is delegated to an IT Management Committee.

Events after the reporting date

There are no events after the reporting date.

Subsidiaries and Associates

The NHFC's investments are disclosed in notes 11 to 15 of the Annual Financial Statements.

Information required by the Public Finance Management Act

Performance

The performance of the NHFC against the Shareholder's Compact with the Minister of Human Settlements is set out on pages 188 to 201.

Irregular, Fruitless & Wasteful Expenditure

During the year, the NHFC incurred R16 million of irregular expenditure and R5.3 million of fruitless and wasteful expenditure was incurred in the current year due to non-compliance with our National Treasury Regulations and Supply Chain Management Policies. R4.0 million of the fruitless and wasteful expenditure in the current year has been recovered.

Certain of the determinations required by the Frameworks on Irregular Expenditure and Fruitless and Wasteful Expenditure have been completed, and where appropriate, disciplinary action will be taken. Other determinations are still in progress. None of the completed determinations have indicated any need for criminal charges and no losses were incurred by the company on irregular expenditure.

The expenditure is disclosed in note 38 of Annual Financial Statements.

DIRECTORS' REPORT CONTINUED

Accounting Authority Changes

The Shareholder requested that a new Acting CEO of the company should be appointed from the executive management, until a decision can be taken on a permanent appointment. As a result Mr Bruce Gordon has been appointed as Acting CEO for 6 months from 1 February 2022, and Mr Sizwe Tati stepped down. The Board thanks Mr Tati for his dedicated support and contribution to the company during his tenure.

The Shareholder appointed new directors at a general meeting on 29 March 2022. Ms Phekane Ramarumo (Acting Board Chairperson), Mr Khehla Shubane, Mr Adrian Harris and Mr Sizwe Tati stepped down as directors. The Board wishes to thank them all for their tireless contribution over many years to the NHFC. The following new non-executive independent directors were appointed: Mr Luthando Vutula (Chairperson), Mr Tembinkosi Bonakele, Ms Seithathi Bolipombo, Ms Palesa Kadi, Mr Thulani Mabaso, Mr Paul Heeger, Ms Tshepiso Kobile, Mr Velile Dube, and Ms Aeysha Seedat. The following board members were reappointed: Ms Thembi Chiliza and Ms Philisiwe Mthethwa.

The Company Secretary, Mr Andrew Higgs, retired from the company on 31 January 2022, but has been retained on a fixed term contract until a new Company Secretary is appointed.

Losses from criminal conduct

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

The Directors' Report for the year ended 31 March 2022 was approved by the Board of Directors on 10 August 2022 and is signed on their behalf by:

Ms P Ramarumo
Non Executive Chairperson

PMtetwa

Ms P Mthethwa
Chairperson Audit Committee

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2022

		Group		Company	
	Note(s)	2022 R'000	Restated* 2021 R'000	2022 R'000	2021 R'000
Assets					
Non-Current Assets					
Loans and advances	10	3 208 413	3 228 260	2 159 753	2 145 876
Investments in controlled entities	13	–	–	376 184	355 330
Investment in debentures	14	–	–	–	–
Investment preference shares	15	–	–	–	–
Loans to subsidiaries	11	–	–	18 893	1 593
Investments in associates	13.1	249 021	243 018	149 607	163 155
Property, plant and equipment	16	3 000	2 400	2 993	2 338
Intangible assets	17	1 309	2 331	1 309	2 326
Finance lease receivables	18	70 952	98 796	–	–
Investment property	19	58 718	81 099	48 000	70 780
Investment in non-controlled entities	12	243 042	241 022	243 042	241 022
Held to maturity investments	22	53 547	–	53 547	–
		3 888 002	**3 896 926**	**3 053 328**	**2 982 420**
Current Assets					
Loans and advances	10	853 224	723 901	669 253	505 672
Properties developed for sale	20	11 238	11 288	–	–
Finance lease receivables	18	36 748	11 710	–	–
Other receivables and prepayments	21	23 413	50 412	15 268	27 459
Held to maturity investments	22	515 411	671 630	515 411	671 630
Cash and cash equivalents	23	1 862 073	1 463 403	1 517 116	1 276 503
Income tax receivable	9	38 000	37 336	38 000	37 336
		3 340 107	**2 969 680**	**2 755 048**	**2 518 600**
Total Assets		**7 228 109**	**6 866 606**	**5 808 376**	**5 501 020**
Liabilities					
Non-Current Liabilities					
Other financial liabilities	27	1 305 344	1 314 198	170 538	222 379
Long term payables	30	9 054	9 937	–	–
		1 314 398	**1 324 135**	**170 538**	**222 379**
Current Liabilities					
Funds under management	26	991 348	675 721	981 466	665 854
Other financial liabilities	27	42 985	44 213	40 400	41 799
Provisions	28	51 232	49 032	44 044	42 641
Trade and other payables	29	40 442	59 258	13 202	19 991
		1 126 007	**828 224**	**1 079 112**	**770 285**
Total Liabilities		**2 440 405**	**2 152 359**	**1 249 650**	**992 664**
Net Assets		**4 787 704**	**4 714 247**	**4 558 726**	**4 508 356**
Issued capital	24	842	842	842	842
Share premium	24	879 158	879 158	879 158	879 158
Grant capital	25	1 656 698	1 656 698	1 656 698	1 656 698
Accumulated surplus		2 061 646	1 988 189	1 884 404	1 834 034
Non distributable and other reserves		189 360	189 360	137 624	137 624
Total Net Assets		**4 787 704**	**4 714 247**	**4 558 726**	**4 508 356**
Total net assets and liabilities		**7 228 109**	**6 866 606**	**5 808 376**	**5 501 019**

** Refer to Note 36*

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2022

		Group		Company	
	Note(s)	2022 R'000	Restated* 2021 R'000	2022 R'000	2021 R'000
Interest on advances	2	377 330	401 262	201 489	190 789
Interest received on investments	2	54 032	64 032	52 168	62 989
Rental income	2	14 879	14 249	13 230	12 209
Dividends received	2	1 498	5 585	1 498	5 585
Sale of houses	2	2 649	28 712	–	–
Management fees	2	76 121	22 254	39 889	24 336
Share of residual interest in controlled entities	2	–	–	44 411	41 559
Fees on advances	2	2 942	8 413	2 695	7 048
Revenue		**529 451**	**544 507**	**355 380**	**344 515**
Cost of sales	3	(2 572)	(29 940)	–	–
Net impairments and write offs	5	(61 707)	(57 171)	(49 857)	(55 186)
Programme implementation costs		(32 117)	(94)	–	–
Gross surplus		**433 055**	**457 302**	**305 523**	**289 329**
Other operating income	4	14 889	18 617	9 771	15 331
Operating expenses	5	(266 936)	(248 540)	(222 073)	(203 889)
Operating surplus		**181 008**	**227 379**	**93 222**	**100 771**
Investments fair value and impairments	7 & 19	(20 400)	(47 745)	(30 431)	(20 476)
Income/(loss) from an associate	6	7 521	12 638	–	–
Finance costs	8	(94 668)	(104 524)	(12 420)	(18 482)
Surplus for the year		**73 458**	**87 748**	**50 371**	**61 813**

** Refer to Note 36*

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2022

	Issued capital R'000	Share premium R'000	Total share capital R'000	Non-distributable reserves R'000	Grant Capital R'000	Total reserves R'000	Accumulated surplus R'000	Total net assets R'000
Group								
Opening balance as previously reported	842	879 158	880 000	189 360	1 656 698	1 846 058	1 903 155	4 629 213
Correction of error CTCHC*	–	–	–	–	–	–	(2 714)	(2 714)
Balance at 01 April 2020 as restated*	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**1 900 441**	**4 626 499**
Surplus for the year	–	–	–	–	–	–	87 748	87 748
Restated* Balance at 01 April 2021	842	879 158	880 000	189 360	1 656 698	1 846 058	1 988 188	4 714 246
Surplus for the year	–	–	–	–	–	–	73 458	73 458
Balance at 31 March 2022	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**2 061 646**	**4 787 704**
Note(s)	24	24	24		25			
Company								
Balance at 01 April 2020	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 772 221**	**4 446 543**
Surplus for the year	–	–	–	–	–	–	61 813	61 813
Restated* Balance at 01 April 2021	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 834 033**	**4 508 355**
Surplus for the year	–	–	–	–	–	–	50 371	50 371
Balance at 31 March 2022	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 884 404**	**4 558 726**
Note(s)	24	24	24		25			

** Refer to Note 36*

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2022

		Group		Company	
	Note(s)	2022 R'000	Restated* 2021 R'000	2022 R'000	2021 R'000
Cash flows from operating activities					
Receipts					
Sale of houses		2 649	28 712	–	–
Interest, rental and dividend income		553 762	468 262	367 571	322 642
Other income		14 224	15 317	9 106	13 164
		570 635	512 291	376 677	335 806
Payments					
Employee costs		(145 752)	(139 098)	(142 887)	(136 447)
Net cash payment to suppliers		(129 821)	(114 161)	(137 343)	(64 802)
Finance costs		(99 364)	(102 674)	(13 294)	(20 017)
Net cash payment to customers		(162 101)	(226 017)	(224 574)	(223 899)
		(537 038)	(581 950)	(518 098)	(445 165)
Net cash flows from operating activities	31	**33 597**	**(69 658)**	**(141 421)**	**(109 359)**
Cash flows from investing activities					
Additions to property, plant and equipment	16	(2 133)	(1 236)	(2 133)	(782)
Disposal of property, plant and equipment	16	–	786	–	–
Purchase of investment property	19	–	(4 707)	–	–
Addition of other intangible assets	17	–	(2 467)	–	(2 467)
Decrease in Held to Maturity Investment		102 672	14 429	102 672	14 429
Movement in Investment in controlled entities		–	(46 771)	16 977	(46 771)
Net cash flows from investing activities		**100 539**	**(35 256)**	**117 516**	**(35 592)**
Cash flows from financing activities					
Net movement in borrowings		(51 094)	(105 746)	(51 094)	(36 742)
Movement in funds under management		315 627	568 175	315 612	568 759
Net cash flows from financing activities		**264 533**	**462 429**	**264 518**	**532 017**
Net increase/(decrease) in cash and cash equivalents		**398 669**	**357 515**	**240 613**	**387 066**
Cash and cash equivalents at the beginning of the year		1 463 404	1 105 890	1 276 503	889 437
Cash and cash equivalents at the end of the year	23	**1 862 073**	**1 463 405**	**1 517 116**	**1 276 503**

** Refer to Note 36*

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2022

Corporate Information

1.1 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000), except as otherwise indicated. The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements for the year ended 31 March 2022 comprise the NHFC, its subsidiaries and the Group's interest in associates (referred to as the Group). The financial year-end for all its subsidiaries is 31 March. Similar accounting policies are applied across the Group.

1.2 Statement of compliance

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

1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2022.

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

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

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

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

1.4 Changes in accounting policy and disclosure

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

1.5 Summary of significant judgements, estimates and assumptions

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

Bonus provision

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

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

Investment properties

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

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

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

Fair value of financial instruments

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

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

1.6 Summary of significant accounting policies

(A) BUSINESS COMBINATIONS AND GOODWILL

i) Business combinations from 1 January 2010

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled in equity.

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

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

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

ii) Business combinations prior to 1 January 2010

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

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.
- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

- When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that would otherwise have been required under the contract.
- Contingent consideration was recognised only if the Group had a present obligation, the economic outflow of which was more likely than not, and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

(B) INVESTMENT IN SUBSIDIARIES

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

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

(C) INTEREST IN ASSOCIATES

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

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

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

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

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

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

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

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

(D) PROPERTY, PLANT AND EQUIPMENT

i) Measurement

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

ii) Subsequent cost

The Group recognises the cost of replacing part of such an item of property, plant and equipment

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

in carrying amount when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably.

iii) Depreciation

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

Item	Average useful life
Furniture and fittings	6 years
Motor vehicles	4 years
Office equipment	6 years
Computer equipment	3 years
Leasehold improvements	period of lease

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

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

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

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

iv) De-recognition

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

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

(E) Properties developed for sale

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

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

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

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

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

Work-in-progress

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

(F) INTANGIBLE ASSETS

(i) Recognition and measurement

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

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

(ii) Derecognition

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

(G) FINANCIAL INSTRUMENTS

i) Financial assets

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

a) Financial instruments at fair value, comprising both derivative and non-derivative financial assets and financial liabilities;
b) Financial instruments at amortised cost comprising only non-derivative financial assets and financial liabilities; or
c) Financial instruments at cost, comprising investments in residual interests where the fair value cannot be reliably determined.

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

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

This includes financial assets and liabilities that are:

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

Financial instruments held at amortised cost

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

Recognition and measurement

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

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

Equity investments

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

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

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

Held-to-maturity investments

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowances for impairment. Gains and losses are recognised in the statement of financial performance when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

Amortised cost

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

Trade and other receivables

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

Cash and short-term deposits

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

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

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

ii) Impairment of financial assets Assets carried at amortised cost

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

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

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

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

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

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

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

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

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

Finance lease receivables

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

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

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

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

Financial liabilities comprise the following:

Other payables

Other payables are recognised at fair value.

Interest-bearing loans and borrowings

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

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

iv) De-recognition of financial assets and liabilities
Financial assets
A financial asset is de-recognised when:

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

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

Financial liabilities

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

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

(H) PROVISIONS

Provisions are recognised when:

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

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

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

Provisions are not recognised for future operating losses.

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

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note 32.

(I) BORROWING COSTS

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

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

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

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

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

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

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

(J) LEASES

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

Finance leases - Group as lessor

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

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

Finance leases - Group as lessee

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

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

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

(K) CONTINGENT LIABILITIES AND COMMITMENTS CONTINGENT LIABILITIES

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

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

Commitments

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

(L) REVENUE RECOGNITION

i) Revenue from exchange transactions

Revenue comprises interest received on advances, interest on investments, revenue from sale of houses, and dividends received.

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

Sale of houses

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

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

Rental income

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

Interest income

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

Dividends

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

Fees

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

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

Share of residual interest in controlled entities

Residual income/(loss) derived from equity investments.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

ii) Revenue from non-exchange transactions

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

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

(M) TAXATION

i) Current taxation

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

ii) Deferred taxation

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

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

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

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

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

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

(N) RETIREMENT BENEFITS

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

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

(O) INVESTMENT PROPERTY

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

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

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

(P) RELATED PARTY DISCLOSURES

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

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

1.7 Events after reporting date

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

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

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

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

(Q) PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

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

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

(R) DETERMINATION OF FAIR VALUES

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

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

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

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

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

Non-derivative financial liabilities

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

(S) EMPLOYEE BENEFITS

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

1.8 Irregular expenditure

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

(a) this Act; or

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

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

National Treasury practice note No. 1 of 2018/2019 on Irregular Expenditure Framework (effective from 1 December 2018)

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned.

If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

1.9 Transfer of functions between entities under common control

DEFINITIONS

An acquirer is the economic entity 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 economic entity 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 economic entity's objectives, either by providing economic benefits or service potential.

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

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

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

A transferor is the economic entity 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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

capable of being conducted and managed for purposes of achieving an economic entity'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 economic entity. 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 economic entity to the transaction or event is the transferor(s) and which economic entity 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 economic entity is the acquirer and which economic entity is the transferor.

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

1.10 Fruitless and wasteful expenditure

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

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

1.11 Properties developed for sale

Properties developed for sale are initially measured at cost except where properties developed for sale are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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

Properties developed for sale are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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

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

The cost of properties developed for sale of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of properties developed for sale is assigned using the formula. The same cost formula is used for all properties developed for sale having a similar nature and use to the economic entity.

When properties developed for sale are sold, the carrying amounts of those properties developed for sale are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

The amount of any write-down of properties developed for sale to net realisable value or current replacement cost and all losses of properties developed for sale are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of properties developed for sale, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of properties developed for sale recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use. Useful life is either:

(a) the period of time over which an asset is expected to be used by the economic entity; or

(b) the number of production or similar units expected to be obtained from the asset by the economic entity.

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

1.13 Share capital/ contributed capital

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

1.14 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 economic entity; 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.

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value. Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows: The depreciable amount of an asset is allocated on a systematic basis over its useful life.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2022

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 method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the economic entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The economic entity assesses at each reporting date whether there is any indication that the economic entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the economic entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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.

Assets which the economic entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The economic entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 16).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
2. REVENUE				
Interest on advances				
Interest on performing advances	177 963	205 028	177 896	171 036
Interest on impaired advances	23 593	19 753	23 593	19 753
Interest on finance leases receivable	8 759	7 578	–	–
Interest on advances from controlled entities	167 015	168 903	–	–
	377 330	**401 262**	**201 489**	**190 789**
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	54 032	64 032	52 168	62 989
Rental income				
Rental income from investment property	14 879	14 249	13 230	12 209
Dividend received				
Dividend income from TUHF	1 340	1 831	1 340	1 831
Dividend income from IHS	–	3 596	–	3 596
Dividend income from Greenstart	158	158	158	158
	1 498	**5 585**	**1 498**	**5 585**
Sale of houses				
CTCHC sale of houses	2 548	28 712	–	–
Abahlali sale of houses	101	–	–	–
	2 649	**28 712**	**–**	**–**
Management Fees				
Fees charged to controlled entities	–	–	17 490	17 578
Programme management fees	53 722	15 496	–	–
FLISP recovery	22 399	6 758	22 399	6 758
	76 121	**22 254**	**39 889**	**24 336**
Share of residual interest in controlled entities				
Housing Investment Partners	–	–	44 411	41 559
Fees on advances	2 942	8 413	2 695	7 048
3. COST OF SALES				
CTCHC cost of sale of houses	2 522	29 940	–	–
Abahlali cost of sale of houses	50	–	–	–
	2 572	**29 940**	**–**	**–**
4. OTHER OPERATING INCOME				
Other operating income is made up as follows:				
Levies from finance lease receivable	1 893	1 814	–	–
Recoveries and refunds	7 629	13 249	5 537	13 025
Other interest received	2 545	757	2 545	698
Sundry income	2 822	2 797	1 689	1 608
	14 889	**18 617**	**9 771**	**15 331**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
5. OPERATING SURPLUS				
Included in operating surplus are the following items:				
Staff costs	101 065	99 322	98 321	96 936
Salaries	78 635	81 143	75 891	78 998
Medical aid	2 188	1 021	2 188	1 021
Provident fund	8 584	5 879	8 584	5 638
Bonus provision	11 658	11 279	11 658	11 279
Executive costs (refer to note 35)	45 970	46 518	45 970	46 518
Salaries	28 282	28 560	28 282	28 560
Medical aid	1 287	1 079	1 287	1 079
Provident fund	3 092	3 195	3 092	3 195
Bonus provision	13 309	13 684	13 309	13 684
Administration	5 919	5 382	5 235	4 745
Marketing	1 553	1 734	1 553	1 734
Consultancy	6 630	7 681	6 618	7 587
Directors' fees	3 960	5 127	3 960	5 127
Legal fees	8 257	7 477	7 809	5 688
Auditors' fees	8 586	5 677	7 964	5 483
Travel and entertainment	482	628	241	536
Communication	1 318	1 682	1 165	1 593
Computer expenses	14 925	–	14 616	–
Training and development	2 538	1 469	2 537	1 469
Office expenses	2 246	4 900	1 760	2 336
Depreciation and armotisation	2 554	1 495	2 495	1 427
Sundry & Investment property expenses	14 859	14 804	14 627	14 896
Operating lease expense	9 831	10 028	7 202	7 814
	230 693	**213 924**	**222 073**	**203 889**
Management fees incurred in controlled entities	36 243	34 616	–	–
Total operating expenses	**266 936**	**248 540**	**222 073**	**203 889**
Impairments	**(55 219)**	**(54 330)**	**(45 852)**	**(11 535)**
Net impairment raised on loans and advances	(54 557)	(22 909)	(45 694)	(22 814)
Impairment from controlled entities	(504)	(15 771)	–	–
Impairment of held to maturity investment	–	(15 583)	–	(15 583)
Impairment of dividend accrued Greenstart	(158)	(158)	(158)	(158)
Net impairment on loans to subsidiaries	–	–	–	27 020
Net impairment reversed on housing stock	–	91	–	–
Bad debts written off	**(6 488)**	**(2 841)**	**(4 005)**	**(43 651)**
Bad debts written off on loans and advances	(4 005)	(393)	(4 005)	(393)
Bad debts written off on loans to subsidiaries	–	–	–	(43 258)
Bad debts written off on housing stock	(2 483)	(2 448)	–	–
Total net impairments and bad debts written off	**(61 707)**	**(57 171)**	**(49 857)**	**(55 186)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
6. INCOME/(LOSS) FROM ASSOCIATE				
Trust for Urban Housing Finance Holdings Proprietary Limited	6 970	12 139	–	–
Housing Investment Partners Proprietary Limited	1 515	485	–	–
Lendcor Proprietary Limited	704	1 167	–	–
Thuthukani Housing Finance Proprietary Limited	(1 668)	(1 153)	–	–
	7 521	**12 638**	**–**	**–**
7. INVESTMENT FAIR VALUE AND IMPAIRMENT				
Investment property (Fair value model)	(22 420)	12 459	(22 780)	8 480
Fair value changes on investments				
Unlisted investments				
Trust for Urban Housing Finance Holdings Proprietary Limited	–	–	(16 146)	16 051
International Housing Solutions Proprietary Limited	34 210	(56 281)	34 210	(56 281)
Evolution Credit Limited (Real People Holdings Limited)	(32 190)	(3 923)	(32 190)	(3 923)
Housing Investment Partners Trusts	–	–	3 877	14 160
Thuthukani Housing Finance Proprietary Limited	–	–	–	(3 963)
Lendcor Proprietary Limited	–	–	2 598	5 000
	2 020	**(60 204)**	**(7 651)**	**(28 956)**
Total	**(20 400)**	**(47 745)**	**(30 431)**	**(20 476)**
8. FINANCE COSTS				
Interest on other financial liabilities	94 668	104 524	12 420	18 482
9. TAXATION				
Income tax receivable: statement of financial position				
Balance at the beginning of the year	37 336	35 169	37 336	35 169
Interest earned	664	2 167	664	2 167
Balance at the end of the year	**38 000**	**37 336**	**38 000**	**37 336**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
10. LOANS AND RECEIVABLES - ADVANCES				
Gross advances				
Opening balances	4 232 636	3 999 648	2 873 205	2 642 651
Disbursements	1 016 484	726 758	922 536	625 202
Interest charged	380 790	361 147	201 378	190 788
Repayments	(1 231 674)	(861 887)	(899 451)	(592 091)
Amounts written off	(4 005)	(393)	(4 005)	(393)
Fees	2 942	7 363	2 695	7 048
Balance at the end of the year	**4 397 173**	**4 232 636**	**3 096 358**	**2 873 205**
Impairments on advances				
Balances at the beginning of the year	(280 475)	(241 795)	(221 657)	(198 843)
Increase in impairments on advances	(125 771)	(38 680)	(125 123)	(22 814)
Impairments reversed during the year	70 710	–	79 428	–
Net impairments (raised)/reversed	**(55 061)**	**(38 680)**	**(45 695)**	**(22 814)**
Balance at the end of the year	**(335 536)**	**(280 475)**	**(267 352)**	**(221 657)**
Comprising:				
Specific impairments	(295 325)	(239 316)	(227 141)	(180 498)
General impairments	(40 211)	(41 159)	(40 211)	(41 159)
Net advances	**4 061 637**	**3 952 161**	**2 829 006**	**2 651 548**
Maturity analysis				
Receivable within one year	853 224	723 901	669 253	505 672
Receivable within one to two years	811 310	567 369	628 754	392 352
Receivable within two to three years	659 464	550 875	465 954	364 137
Receivable beyond three years	1 737 639	2 110 016	1 065 045	1 389 387
Net advances	**4 061 637**	**3 952 161**	**2 829 006**	**2 651 548**
Loans and advances - NHFC	2 735 955	2 578 252	2 829 006	2 651 548
Loans and advances - Subsidiaries	11 749	58 384	–	–
Loans and advances - Controlled entities HiP	1 313 933	1 315 525	–	–
Total Loans and advances	**4 061 637**	**3 952 161**	**2 829 006**	**2 651 548**
Non-current assets	3 208 413	3 228 260	2 159 753	2 145 876
Current assets	853 224	723 901	669 253	505 672
	4 061 637	**3 952 161**	**2 829 006**	**2 651 548**

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
11. LOANS TO SUBSIDIARIES				
Gross advances				
Opening balance	–	–	68 593	94 021
Intercompany fees charged	–	–	17 489	17 578
Disbursements	–	–	–	252
Repayments	–	–	(189)	–
Bad debts written off	–	–	–	(43 258)
Balance at the end of the year	**–**	**–**	**85 893**	**68 593**
Impairments on advances				
Opening balance	–	–	(67 000)	(94 021)
Current year impairments	–	–	–	(16 267)
Amounts previously impaired and now written off	–	–	–	43 288
Balance at the end of the year	**–**	**–**	**(67 000)**	**(67 000)**
Net advances	**–**	**–**	**18 893**	**1 593**

Loans to subsidiaries have been reclassified from loans and advances.

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
12. INVESTMENTS IN NON-CONTROLLED ENTITIES				
Blue Financial Services Limited Shares at cost – ordinary shares				
Investments in shares at cost	30 000	30 000	30 000	30 000
Fair value adjustment	(30 000)	(30 000)	(30 000)	(30 000)
Carrying amount of shares at 31 March	**–**	**–**	**–**	**–**

As part of a debt restructuring agreement, the NHFC acquired 67 415 730 ordinary shares by converting a R30 million interest bearing loan owed by Blue Financial Services Limited to equity. This was equivalent to 0.88% of the issued capital. The conversion took place in July 2012 at an agreed share price of 44.5 cents per share. The equity investment in Blue Financial Services was devalued during July 2013 following a significant decrease in the share price to 13 cents, a further devaluation was taken in March 2016 as a prudent measure given the uncertainties surrounding the company's underlying performance in its operations, the prolonged suspension from the JSE and the lack of audited financial statements. Other factors that inherently affect the company's future prospects include the raising of funding and the settlement of the Debt Restructuring Agreement lenders.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

12. INVESTMENTS IN NON-CONTROLLED ENTITIES CONTINUED

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Evolution Credit Limited (formerly Real People Investment Holdings Limited)				
Investment at cost	56 590	56 590	56 590	56 590
Amounts disbursed during the year	–	–	–	–
	56 590	**56 590**	**56 590**	**56 590**
Fair value changes	**(38 432)**	**(6 242)**	**(38 432)**	**(6 242)**
Cumulative changes	(6 242)	(2 319)	(6 242)	(2 319)
Current year changes	(32 190)	(3 923)	(32 190)	(3 923)
Carrying amount at 31 March	**18 158**	**50 348**	**18 158**	**50 348**

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

The ordinary shares held in Real People Investment Holdings by the NHFC equated to 6.69% of the issued ordinary shares in the company which was acquired at a nominal amount of R80.4. As at March 2018 bulk of the equity and quasi-equity exposure was held in the E PIK Notes at a gross value of R52.8 million. An amount of R31.5 million previously impaired of the exposure in E PIK notes in financial year 31 March 2017. An additional impairment of R 4.2 million was incurred in the 31 March 2018 financial year, which has now been reclassified from impairments to fair value adjustments in equity instruments. The gross balance of R 56.6 million has been reclassified from loans and advances to investments in non controlled entities in the statement of financial position for the 31 March 2019 year.

	Group 2022	Group 2021	Company 2022	Company 2021
International Housing Solutions				
Investment at cost	300 889	254 119	300 889	254 119
Amounts disbursed in current year	–	46 770	–	46 770
	300 889	**300 889**	**300 889**	**300 889**
Cumulative fair value changes since inception	(76 005)	(110 215)	(76 005)	(110 215)
Cumulative changes from prior years	(110 215)	(53 934)	(110 215)	(53 934)
Current year changes	34 210	(56 281)	34 210	(56 281)
Carrying value at 31 March	**224 884**	**190 674**	**224 884**	**190 674**

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

The Fund made distribution to NHFC as a Limited Partners (LPs) of R nil (R3.6 million in 2021).

The investment in IHS was reclassified from loans and advances to investment in non controlled entities on the statement of financial position in the 2020 financial year.

	Group 2022	Group 2021	Company 2022	Company 2021
Total investment in non-controlling entities	**243 042**	**241 022**	**243 042**	**241 022**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13. INVESTMENTS IN CONTROLLED ENTITIES

Investment in Abahlali Housing Association (No 2) NPC

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

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Abahlali Housing Association (No 2) NPC				
Investment at cost	–	–	–	–
Accumulated impairments	–	–	–	–
Carrying amount of the investment in Abahlali	**–**	**–**	**–**	**–**

Investment in Gateway Home Loans (Proprietary) Limited

Gateway Home Loans (Proprietary) Limited is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited and is currently not trading.

Gateway Home Loans (Proprietary) Limited				
Investment at cost	–	–	50 000	50 000
Accumulated impairments	–	–	(50 000)	(50 000)
Carrying amount of the Investment in Gateway Home Loans	–	–	–	–

Investment in Gateway Home Loans 001 (Proprietary) Limited

Gateway Home Loans 001 (Proprietary) Limited is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited and is currently not trading.

Gateway Home Loans 001 (Proprietary) Limited				
Investment at cost	–	–	–	–
Accumulated impairments	–	–	–	–
Carrying amount of the investment in Gateway Home Loans 001	–	–	–	–

Investment in Mortgage Default Insurance Company (Proprietary) Limited (MDIC)

Mortgage Default Insurance Company (Proprietary) Limited is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited and is currently not trading.

Mortgage Default Insurance Company (Proprietary) Limited				
Investment at cost	–	–	–	–
Accumulated impairments	–	–	–	–
Carrying amount of the investment in MDIC	–	–	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13. INVESTMENTS IN CONTROLLED ENTITIES CONTINUED

Cape Town Community Housing Company (Proprietary) Limited

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

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Investment at cost	–	–	28 816	28 816
	–	**–**	**28 816**	**28 816**
Accumulated fair values from prior years	–	–	(28 816)	(28 816)
Current year fair value adjustment	–	–	–	–
Carrying amount of the investment in CTCHC	–	–	–	–

A total of 43 577 707 debentures are being substituted for 43 577 707 ordinary no par value shares in the share capital of Cape Town Community Housing Company (Proprietary) Limited for a gross value total premium of R51 518 225.81 in 2020.

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

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

Housing Investment Partnership Trust				
Opening balance	–	–	270 159	270 159
Disbursements in the current year	–	–	16 977	-
			287 136	**270 159**
Accumulated fair values	–	–	**89 048**	**85 171**
Accumulated fair value from prior years	–	–	85 171	71 011
Fair value for the current year	–	–	3 877	14 160
Carrying amount of the investment in HIP	–	–	376 184	355 330

Other subsidiaries

The following wholly owned subsidiaries of National Housing Finance Company are held at cost, the value of the individual subsidiaries equals to the share capital which is less than a R1 000:

- NHFC Management Services (Proprietary) Limited
- NURCHA Loan Fund (Proprietary) Limited
- NURCHA Development Finance (Proprietary) Limited
- NURCHA Equity Services (Proprietary) Limited
- NURCHA Bridging Finance (Proprietary) Limited
- NURCHA Finance Company (Proprietary) Limited

Total Investment in Controlled Entities	**–**	**–**	**376 184**	**355 330**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES

13.1.1 Investment in associate - TUHF Holdings Limited

The company is involved in the provision of commercial property finance in the form of bridging finance and long-term loans for the regeneration of South African inner city precincts and surrounding suburbs. The NHFC effectively owns 32.65% of the issued share capital consisting of ordinary shares.

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

	Group	
	2022 R'000	2021 R'000
Share of the associate's balance sheet		
Total assets	1 385 568	1 495 938
Total liabilities	(1 192 257)	(1 309 596)
Net asset	**193 311**	**186 342**
Investment at cost	33 282	33 282
Accumulated share of the associate's profit	86 454	74 754
Accumulated share of the associate's reserves	66 605	66 167
Current year share of the associates profits	186 341	174 203
Other reserves*	10 129	11 700
Carrying amount of the investment in TUHF	(3 159)	439
	193 311	**186 342**
Share of the associate's revenue	117 302	135 454
Investment in C class ordinary shares		
Carrying amount of the investment in C class ordinary shares	6 533	6 533
Investment in preference shares		
Carrying amount of investment preference shares	35 000	35 000
Carrying amount of investment in TUHF	**234 844**	**227 874**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES CONTINUED

13.1.2 Investment in associate – TUHF Holdings Limited

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

	Company	
	2022 R'000	2021 R'000
Investment in ordinary shares at cost	33 282	33 282
Investment in C class ordinary shares at cost	6 533	6 533
Total cost of acquisition	**39 815**	**39 815**
Opening fair value changes	83 341	67 289
Current fair value changes	(16 146)	16 051
Cumulative fair value changes - Inception to date	**67 195**	**83 341**
Net carrying value	**107 010**	**123 156**
Investment in preference shares		
Carrying amount of the investment in preference shares	**35 000**	**35 000**
Carrying amount of the investment in TUHF	**142 010**	**158 156**

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES CONTINUED

13.1.3 Investment in associate - Housing Investment Partners (Proprietary) Limited (HiP)

The NHFC has a 33.33% equity shareholding in HiP, the fund management company that developed the income linked mortgage loan product and arranges and manages the debt funds that provide the mortgage loan funding.

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

	Group	
	2022 R'000	2021 R'000
Share of the associate's balance sheet		
Total assets	13 281	15 323
Total liabilities	(37 096)	(40 366)
Net asset	**(23 815)**	**(25 043)**
Share of the associate's revenue	9 287	9 091
Share of profit/(loss)	1 515	485

The Group's share of cumulative losses amounts to R33.165 million in 2022 (R33.165 million in 2021) which have been recognised in Shareholder loan investment account.

The Group's share of cumulative losses in the associate HiP have been recognised up to the cost of the investment, being R7.233 million.

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

13.1.4 Investment in associate - Housing Investment Partners (Proprietary) Limited (HiP)

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

	Company	
	2022 R'000	2021 R'000
Investment in shares opening balance	7 232	7 232
Accumulated fair value adjustments in prior years	(7 232)	(7 232)
Carrying amount of the investment HiP	**–**	**–**

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES CONTINUED

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

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

	Group	
	2022 R'000	2021 R'000
Share of the associate's balance sheet		
Total assets	49 043	40 918
Total liabilities	(37 412)	(29 509)
Net asset	**11 631**	**11 409**
Investment at cost	350	350
Accumulated share of profits	11 373	10 206
	11 723	10 556
Current year share of profits	704	1 167
Carrying amount of the investment in Lendcor	**12 427**	**11 723**
Share of the associate's revenue	17 090	14 415

The groups share of cumulative equity amounts to R12.4 million.

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

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

	Company	
	2022 R'000	2021 R'000
Investment in equity shares		
Investment in ordinary shares at cost	350	350
Total cost of acquisition	**350**	**350**
Opening accumulated fair values from prior years	4 650	(350)
Current year fair value changes	2 600	5 000
Cumulative accumulated fair value - inception to date	**7 250**	**4 650**
Carrying amount of the investment in Lendcor	**7 600**	**5 000**

NHFC has a 20% interest in Lendcor (Proprietary) Limited and has a right to appoint a director. The investee company has a February year end, adjustments have been processed to align the financials to the NHFC year end of March.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES CONTINUED

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

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

	Group	
	2022 R'000	2021 R'000
Share of the associate's balance sheet		
Total assets	–	–
Total liabilities	–	–
Net asset	**–**	**–**
Investment at cost	5 288	5 288
Accumulated share of profits	(4 441)	(4 441)
	847	847
Current year share of profits	–	–
Carrying amount of the investment in Norufin	**847**	**847**
Share of the associate's revenue	–	–

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

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

	Company	
	2022 R'000	2021 R'000
Investment in ordinary shares at cost	5 286	5 286
	5 286	**5 286**
Opening accumulated impairment from prior years	(5 286)	(5 286)
Accumulated impairment	-	-
Cumulative impairments - Inception to date	**(5 286)**	**(5 286)**
Carrying amount of the investment in Norufin	**–**	**–**

As there is no quoted share price or reliable financial information, the investment in Norufin is measured at cost less accumulated impairments in accordance with GRAP.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES CONTINUED

13.1.9 Investment in Kabo Financial Enterprise (Proprietary) Limited

The Entity has a 20% interest in Kabo Financial Enterprise (Proprietary) Limited and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Kabo Financial Enterprise (Proprietary) Limited.

	Group	
	2022 R'000	2021 R'000
Accumulated share of profits/(losses)	(236)	(236)
Current year share of losses	–	–
Carrying amount of the investment in Kabo	**(236)**	**(236)**

As part of NHFC's commitment to transforming the incremental housing industry, took up equity in Kabo. This is done to assist the company with the initial losses that a start-up will incur. As a consequence of these losses, the share capital is fully provided for. Other than NHFC's shares, Kabo is 80% black woman owned.

13.1.10 Investment in Kabo Financial Enterprise (Proprietary) Limited

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

	Company	
	2022 R'000	2021 R'000
Investment in equity shares		
Original investment in Kabo	129	129
Accumulated impairment	(129)	(129)
Carrying amount of the investment in Kabo	**–**	**–**
Investment in preference shares		
Investment at cost	121	121
Cumulative impairments	(121)	(121)
Investment in preference shares in Kabo	**–**	**–**

As there is no quoted share price or reliable financial information, the investment in Kabo is measured at cost less accumulated impairments in accordance with GRAP.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES CONTINUED

13.1.11 Investment in Lehae Housing (Proprietary) Limited

The Entity has a 20% interest in Lehae Housing (Proprietary) Limited and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Lehae Housing (Proprietary) Limited.

	Group	
	2022 R'000	2021 R'000
Investment at Cost	800	800
Accumulated share of profits/(losses)	(800)	(800)
Carrying amount of the investment in Lehae	**–**	**–**

13.1.12 Investment in Lehae Housing (Proprietary) Limited

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

	Company	
	2022 R'000	2021 R'000
Investment in equity shares		
Carrying amount investment in Lehae	41	41
Fair value adjustment in investment in Lehae	(41)	(41)
Carrying amount of the investment in Lehae	**–**	**–**
Investment in preference shares		
Investment at cost	754	754
Cumulative impairments	(754)	(754)
Investment in preference shares in Lehae	**–**	**–**

As there is no quoted share price or reliable financial information, the investment in Lehae is measured at cost less accumulated impairments in accordance with GRAP.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

13.1 INVESTMENTS IN ASSOCIATES CONTINUED

13.1.13 Investment in Thuthukani Housing Finance (Proprietary) Limited

The Entity has a 30% interest in Thuthukani Housing Finance (Proprietary) Limited and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Thuthukani Housing Finance (Proprietary) Limited.

	Group	
	2022 R'000	2021 R'000
Share of associates balance sheet		
Total assets	26 313	26 780
Total liabilities	(306)	(27 995)
Net assets	**26 007**	**(1 215)**
Investment at cost	3 963	3 963
Accumulated share of profits/(losses)	(1 153)	–
	2 810	3 963
Current year share of profit/(losses)	(1 668)	(1 153)
Carrying amount of the investment in Thuthukani	**1 142**	**2 810**

Share of associates revenue is R10 316 000 (2021: R4 147 000).

13.1.14 Investment in Thuthukani Housing Finance (Proprietary) Limited

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

	Company	
	2022 R'000	2021 R'000
Investment in equity shares		
Carrying amount investment in Thuthukani	3 963	3 963
Fair value adjustment in investment in Thuthukani	(3 963)	(3 963)
Carrying amount of the investment in Thuthukani	**–**	**–**

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Total Investment in associates	**249 021**	**243 018**	**149 607**	**163 155**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
14. INVESTMENT IN DEBENTURES - CAPE TOWN COMMUNITY HOUSING COMPANY (PROPRIETARY) LIMITED				
Debentures				
Non-convertible debentures at cost - issued prior to 31 March 2004	–	–	18 000	18 000
Non-convertible debentures at cost - issued prior to 31 March 2005	–	–	2 654	2 654
Non-convertible debentures at cost - issued prior to 31 March 2006	–	–	543	543
	–	–	21 197	21 197
Accumulated impairment	–	–	(21 197)	(21 197)
Convertible debentures acquired at cost	–	–	3 000	3 000
	–	–	(3 000)	(3 000)
Carrying amount of debentures at 31 March	**–**	**–**	**–**	**–**

The CTCHC balance sheet was restructured during the 2020 financial year. Part of the restructuring included the conversion of debentures to equity. A total of 577 707 ordinary no par value shares, at a total premium value of R51 518 225.81 were issued in respect of the substitution of 43 577 707 debentures to shares.

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
15. INVESTMENT IN PREFERENCE SHARES				
Greenstart Homeloans (Proprietary) Limited				
Investment at cost	2 500	2 500	2 500	2 500
Cumulative impairments	(2 500)	(2 500)	(2 500)	(2 500)
Dividends accrued	158	158	158	158
Dividends impaired	(158)	(158)	(158)	(158)
Investment in preference shares at fair value	**–**	**–**	**–**	**–**

Investment in Greenstart – These are redeemable cumulative preference shares redeemable at the option of the issuer. The investment consists of 100 shares at a par value of R1 and a share premium of R24 999 per share. The total of the preference shares in Greenstart Homeloans (Proprietary) Limited is R2.5 million. Dividends in terms of the shareholders' agreement are set at 6.3% per annum on the aggregate subscription price of R2.5 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

16. PROPERTY, PLANT AND EQUIPMENT

	Group					
	2022			2021		
	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Land	490	–	490	–	–	–
Furniture and fixtures	3 355	(3 253)	102	3 352	(3 191)	161
Motor vehicles	556	(556)	–	556	(531)	25
Office equipment	1 437	(945)	492	1 437	(795)	642
IT equipment	13 331	(11 478)	1 853	11 691	(10 363)	1 328
Leasehold improvements	2 702	(2 639)	63	2 702	(2 458)	244
Total	**21 871**	**(18 871)**	**3 000**	**19 738**	**(17 338)**	**2 400**

	Company					
	2022			2021		
	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Land	490	–	490	–	–	–
Furniture and fixtures	3 138	(3 036)	102	3 135	(2 974)	161
Motor vehicles	436	(436)	–	436	(436)	–
Office equipment	1 323	(831)	492	1 323	(683)	640
IT equipment	13 004	(11 158)	1 846	11 364	(10 071)	1 293
Leasehold improvements	2 702	(2 640)	63	2 702	(2 458)	244
Total	**21 093**	**(18 101)**	**2 993**	**18 960**	**(16 622)**	**2 338**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

16. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Reconciliation of property, plant and equipment - Group - 2022

	Group			
	Opening balance R'000	Additions R'000	Depre-ciation R'000	Total R'000
Land	–	490	–	490
Furniture and fixtures	161	3	(62)	102
Motor vehicles	25	–	(25)	–
Office equipment	642	–	(150)	492
IT equipment	1 328	1 640	(1 115)	1 853
Leasehold improvements	244	–	(181)	63
Total	**2 400**	**2 133**	**(1 533)**	**3 000**

Reconciliation of property, plant and equipment - Group - 2021

	Group				
	Opening balance R'000	Additions R'000	Disposals R'000	Depre-ciation R'000	Total R'000
Furniture and fixtures	200	31	–	(70)	161
Motor vehicles	55	–	–	(30)	25
Office equipment	796	–	–	(154)	642
IT equipment	1 374	755	–	(801)	1 328
Leasehold improvements	26	–	450	(232)	244
Total	**2 451**	**786**	**450**	**(1 287)**	**2 400**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

16. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Reconciliation of property, plant and equipment - Company - 2022

	Company			
	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Land	–	490	–	490
Furniture and fixtures	161	3	(62)	102
Office equipment	640	–	(148)	492
IT equipment	1 293	1 640	(1 087)	1 846
Leasehold improvements	244	–	(181)	63
Total	**2 338**	**2 133**	**(1 478)**	**2 993**

Reconciliation of property, plant and equipment - Company - 2021

	Company				
	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fixtures	199	31	–	(69)	161
Office equipment	792	–	–	(152)	640
IT equipment	1 314	751	–	(772)	1 293
Leasehold improvements	26	–	450	(232)	244
Total	**2 331**	**782**	**450**	**(1 225)**	**2 338**

The cost of fully depreciated assets that are still in use amounts to R14.6 million (2021: R14.1 million), and for the Group R15.0 million (2021: R14.6 million).

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

17. INTANGIBLE ASSETS

	Group					
	2022			2021		
	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Computer software	14 206	(12 897)	1 309	14 206	(11 875)	2 331

	Company					
	2022			2021		
	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Computer software	13 956	(12 647)	1 309	13 956	(11 630)	2 326

Reconciliation of intangible assets – Group - 2022

	Group		
	Opening balance R'000	Amortisation R'000	Total R'000
Computer software	2 331	(1 022)	1 309

Reconciliation of intangible assets – Group - 2021

	Group			
	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software	522	2 467	(658)	2 331

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

17. INTANGIBLE ASSETS CONTINUED

Reconciliation of intangible assets – Company - 2022

	Company		
	Opening balance R'000	Amortisation R'000	Total R'000
Computer software	2 326	(1 017)	1 309

Reconciliation of intangible assets – Company - 2021

	Company			
	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software	512	2 467	(653)	2 326

18. FINANCE LEASE RECEIVABLES

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Gross investment in the lease due				
Gross investment in instalment sales	263 435	193 534	–	–
Less: Unearned finance income	(69 078)	(79 858)	–	–
Receipts and Add Debits	(86 657)	–	–	–
Prior year adjustment (refer to note 36)	–	(3 170)	–	–
	107 700	**110 506**	**–**	**–**
Non-current assets	70 952	98 796	–	–
Current assets	36 748	11 710	–	–
	107 700	**110 506**	**–**	**–**

The average term on the finance lease receivable is 16 years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest was 10.5% (2021: 10.5%) per annum. NHFC considers that the fair values of the finance lease receivables does not differ materially from the carrying value.

The amount of R107.7 million (2021: R110.5 million) is the maximum exposure to credit risk.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

19. INVESTMENT PROPERTY

	Group					
	2022			2021		
	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	58 718	–	58 718	81 099	–	81 099

	Company					
	2022			2021		
	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	48 000	–	48 000	70 780	–	70 780

Reconciliation of investment property – Group - 2022

	Group			
	Opening balance R'000	Transfers R'000	Fair value adjustments R'000	Total R'000
Investment property	81 099	39	(22 420)	58 718

Reconciliation of investment property – Group - 2021

	Group				
	Opening balance R'000	Additions resulting from capitalised subsequent expenditure R'000	Prior year adjustment R'000	Fair value adjustments R'000	Total R'000
Investment property	62 300	4 707	1 633	12 459	81 099

Reconciliation of investment property – Company - 2022

	Company		
	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	70 780	(22 780)	48 000

Reconciliation of investment property – Company - 2021

	Company		
	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	62 300	8 480	70 780

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

19. INVESTMENT PROPERTY CONTINUED

Nature and impact of the valuation

Investment property for the Company is stated at Fair value determined, based on a valuation performed by an accredited independent valuers, Mr Ashton Eckler and Tebogo Digoamaje (Registered Professional Valuer at DDP Valuation & Advisory Services (Proprietary) Limited) on 30 April 2022. Mr Ashton Eckler and Tebogo Digoamaje are not connected to the Company and have experience in property valuations.

To determine which method or combination of methods applies to the Subject Property, cognisance was taken of the fact that the Subject Unit is an income-producing property/sectional title unit. Taking this into account, a combination of the Income Capitalisation Method of Valuation and the Direct Comparable Method of Valuations was considered to be most appropriate for the Subject Unit. In the end the final method of valuation used by the Independent Valuer was the Income Capitalisation method (similar to the previous year), which determines the net normalised annual income of the property. This assumes the property is full let at market related rentals, with market escalations, and allowances made for vacancies and bad debts. To this income, an adjustment is made to deduct operating expenses associated to arrive at a net operating income which is capitalised at a market related rate (being the yield/return that investors would require for a similar property, in a similar location and condition).

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	(22 420)	12 459	(22 780)	8 480
Net rental income	14 879	14 249	13 230	12 209
	(7 541)	**26 708**	**(9 550)**	**20 689**
Details of investment property				
– Purchase price: 1 December 2008	26 361	26 361	21 654	21 654
– Additions since purchase or valuation	32 357	53 105	26 346	49 126
	58 718	**79 466**	**48 000**	**70 780**

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

20. PROPERTIES DEVELOPED FOR SALE

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Production supplies*	11 238	11 288	–	–

**This is housing stock from Abahlali*

21. OTHER RECEIVABLES AND PREPAYMENTS

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Staff debtors	3 081	2 711	3 081	2 711
Deposits and prepayments	588	22 281	588	21 128
Other debtors receivables	19 744	22 905	11 599	1 105
Dividends receivable	–	2 515	–	2 515
	23 413	**50 412**	**15 268**	**27 459**

Deposits and prepayments mainly relate to office rental deposits.

Study loans included in staff debtors are non-interest bearing and are bursaries or recovered when studies are completed.

Other staff debtors are charged interest at the prime lending rate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
22. HELD TO MATURITY INVESTMENTS				
Development Bank of Southern Africa Limited	–	60 237	–	60 237
Industrial Development Corporation SOC Limited	–	40 260	–	40 260
Standard Bank of South Africa Limited	40 201	–	40 201	–
ABSA Bank Limited	–	101 039	–	101 039
Investec Bank Limited	60 299	–	60 299	–
Nedbank Limited	80 378	60 381	80 378	60 381
Rand Merchant Bank, a division of First Rand Bank	40 152	–	40 152	–
Land and Agricultural Bank of South Africa SOC Ltd*	–	73 694	–	73 694
First National Bank Limited	61 379	90 339	61 379	90 339
National Treasury	233 002	245 680	233 002	245 680
Held-to-maturity money market investments Current	**515 411**	**671 630**	**515 411**	**671 630**
Land and Agricultural Bank of South Africa SOC Ltd*	53 547	–	53 547	–
Held-to-maturity money market investments Non-current	**53 547**	**–**	**53 547**	**–**
Total held-to-maturity money market investments	**568 958**	**671 630**	**568 958**	**671 630**

Held-to-maturity money market investments are made for varying periods up to twelve months in line with the cash flow requirements of the NHFC and earn interest at the respective money market rates.

Investments bought in line with NHFC investment policy counter party risk, refer to Financial risk note.

* *The notes held in the counterpart were partially impaired in the 31 March 2020 financial year following significant challenges experienced by the counterparty with the honouring the maturity values, management have determined that there is an increased default risk associated with the counterparty and as such raised additional impairments in the 2021 year, discussions are currently underway on a possible liability solution.*

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
23. CASH AND CASH EQUIVALENTS				
Short-term deposits – NHFC				
ABSA Bank Limited	1 688	55 931	–	54 294
Investec Bank Limited	8 674	8 024	8 674	8 024
Nedbank Limited	196 801	169 288	196 801	169 288
Standard Bank of South Africa Limited	8 203	7 954	8 203	7 954
Rand Merchant Bank, a division of First Rand Bank Limited	9 045	9 041	9 045	9 041
Stanlib Limited	58 153	76 218	58 153	76 218
CPD	262 114	271 375	205 035	254 952
First National Bank Limited	29 141	14 179	29 040	14 179
	573 819	**612 010**	**514 951**	**593 950**
Cash at bank and in hand – NHFC				
Cash on Hand	7	10	–	3
Standard Bank of South Africa Limited	37 615	335 345	15 569	308 843
First National Bank Limited	62 601	16 666	5 135	7 852
Nedbank Limited	193 814	120 803	–	–
	294 037	**472 824**	**20 704**	**316 698**
Total cash and short-term deposits	**867 856**	**1 084 834**	**535 655**	**910 648**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
23. CASH AND CASH EQUIVALENTS CONTINUED				
Short term deposit -third party funds				
Reserve Bank – FLISP	668 996	353 401	668 996	353 401
Standard Bank – FLISP	9	9	9	9
Reserve Bank – Rental Relief fund	308 290	–	308 290	–
First National Bank – CFDP	2 877	2 847	–	–
	980 172	**356 257**	**977 295**	**353 410**
Cash at bank and in hand-third party funds				
Standard Bank – FLISP	4 166	12 445	4 166	12 445
First National Bank – Gqebera	9 882	9 867	–	–
	14 048	**22 312**	**4 166**	**12 445**
Total third party funds	**994 220**	**378 569**	**981 461**	**365 855**
Total Cash and cash equivalents	**1 862 076**	**1 463 403**	**1 517 116**	**1 276 503**
NHFC				
Short-term deposits	573 819	612 010	514 951	593 950
Cash at Bank	294 037	472 824	20 704	316 698
	867 856	**1 084 834**	**535 655**	**910 648**
FLISP				
Short term deposits	669 005	353 410	669 005	353 410
Cash on hand and at bank	4 166	12 445	4 166	12 445
	673 171	**365 855**	**673 171**	**365 855**
COVID Debt Relief Fund				
Short term deposits	308 290	–	308 290	–
CFDP				
Short term deposits	2 877	2 847		
Gqebera				
Cash on hand and at bank	9 882	9 867		
Total Cash and cash equivalents	**1 862 073**	**1 463 403**	**1 517 116**	**1 276 503**

**Funds under management refer to note 26.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
24. ISSUED CAPITAL AND SHARE PREMIUM				
Issued and fully paid				
84 187 332 ordinary shares of R0.01 each	842	842	842	842
Share premium	879 158	879 158	879 158	879 158
	880 000	**880 000**	**880 000**	**880 000**

The unissued shares are under the control of the shareholder.

25. GRANT CAPITAL

Grants received	1 656 698	1 656 698	1 656 698	1 656 698

The initial grant of R200 million arose as a result of the merger of the Housing Equity Fund and the Housing Institutions Development Fund in the 2002 financial year. They are considered to be permanent and are therefore included in Shareholder's Equity. There are no conditions attached to these grants. During previous financial years additional grant capital amounting to R530 million was received from the shareholder and a further R80m was received during the 31 March 2019 year and R50 million in the 31 March 2020 year.

A total of R381 million Government Grants [R20 million from the Department of Housing and R361 million from the National Department of Human Settlements] has been transferred to the NHFC from NURCHA, these are considered to be permanent and are therefore included in Shareholder's equity. In addition, R18.3 million grant from the Open Society Institution of New York has transferred to the NHFC.

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

26. FUNDS UNDER MANAGEMENT

FLISP[(a)]	673 171	365 854	673 171	365 854
Gqebera[(b)]	9 882	9 867	–	–
COVID Debt Relief fund[(c)]	308 295	300 000	308 295	300 000
	991 348	**675 721**	**981 466**	**665 854**

(a) The NHFC is managing funds on behalf of the various provincial government human settlements departments for the Finance Link Individual Subsidy Programme.
(b) The NHFC is managing funds on behalf of the Gqebera Housing Development
(c) Covid debt relief fund.

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

Funds under management are invested in held-to-maturity investments (note 22) and short-term deposits (note 23).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
27. FINANCIAL LIABILITIES				
At amortised cost				
Old Mutual Capital Holding Proprietary Limited Trust 1 - the loan bears interest at prime + 0.25% payable monthly with a bullet payment for capital in March 2027 of R80m. Trust 2 -The loan bears interest at prime + 1.1% payable monthly with a bullet payment for capital in March 2026 of R350m.	486 889	443 732	–	–
Future Growth Asset Management Proprietary Limited The loan bears interest at jibar + 2.9% payable quarterly with a bullet payment for capital in March 2026 of R650m.	650 002	650 000	–	–
Agence Francaise de Developpement (AFD) This loan bears interest at a fixed rate of 6.078% per annum and is repayable in equal semi-annual capital installments of R7 888 692 (2021: R7 888 692) exclusive of interest. Interest and capital is paid biannually on 31 May and 30 November of each year. The final installment is payable on 24 November 2024.	34 003	64 443	34 003	64 443
European Investment Bank (EIB) This loan bears interest at a quarterly variable rate of 3M Jibar with a maximum margin of 0.40% per annum and is repayable in semi-annual equal capital installments of R8 308 077 (2021: R8 308 077) exclusive of interest. Interest and capital is paid biannually on 15 June and 15 December of each year. The final installment is payable on 15 December 2025.	67 303	85 068	67 303	85 067
Development Bank of South Africa The loan bears interest at a fixed rate of 7.56% per annum payable half yearly on 15 June and 15 December. Repayment of the 41 half yearly installment commenced on 14 December 2014.	109 632	114 668	109 632	114 668
City of Cape Town The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town to the Cape Town Community Housing Company (Proprietary) Limited. The loan is payable as and when the company ("CTCHC") becomes profitable.	500	500	–	–
	1 348 329	**1 358 411**	**210 938**	**264 178**
Non-current liabilities				
At amortised cost	1 305 344	1 314 198	170 538	222 379
Current liabilities				
At amortised cost	42 985	44 213	40 400	41 799

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
28. PROVISIONS				
Provision for leave pay				
Opening balance as at 1 April 2021/2020	10 690	10 099	10 564	9 949
Additional provision raised	–	591	–	615
Utilised during the year	(640)	–	(645)	–
Closing balance as at 31 March	**10 050**	**10 690**	**9 919**	**10 564**
Provision for incentive bonus				
Opening balance as at 1 April 2021/2020	32 077	25 846	32 077	25 846
Provision utilised for the year	(22 918)	(18 731)	(22 918)	(18 731)
Additional provision raised	24 962	24 962	24 966	24 962
Closing balance as at 31 March	**34 121**	**32 077**	**34 125**	**32 077**
Provision for municipal rates				
Opening balance as at 1 April 2021/2020	1 664	305	–	–
Provision utilised during the year	(47)	(6)	–	–
Additional provision raised	696	187	–	–
Prior year adjustment	–	1 178	–	–
Closing balance as at 31 March	**2 313**	**1 664**	**–**	**–**
Provision for Lease Payments				
Opening balance as at 1 April 2021/2020	4 600	–	–	–
Additional provision raised	–	4 600	–	–
Closing balance as at 31 March	**4 600**	**4 600**	**–**	**–**
Rental smoothing				
Additional provision raised	148	–	–	–
Total provisions	**51 232**	**49 032**	**44 044**	**42 641**

Leave pay provision is realised when employees take leave or terminate employment.

Provision for incentive bonus is expected to be realised when bonuses are paid in the 2022 financial year. Provision for incentive bonus includes the three year rolling incentive scheme for some of executives.

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

Provision for lease payments relates to the purchase price for CTCHC piece of land which was allocated by the Upington Municipality of which the purchase price will only be paid when the last house is transferred to the owner.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
29. TRADE AND OTHER PAYABLES				
Trade payables	5 094	2 065	2 838	2 017
Payments received in advance	7 135	17 981	7 135	10 710
Accrued expense	28 213	39 212	3 229	7 264
	40 442	**59 258**	**13 202**	**19 991**

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

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
30. LONG TERM PAYABLES				
VAT Payable	9 054	9 937	–	–

The VAT payable arises from CTCHC on the Harmony Village project and will be paid to SARS on annual installments to match the manner in which revenue is received from customers.

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
31. CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit before tax	73 458	87 748	50 371	61 813
Non-cash and separately presented items	148 761	82 222	23 917	58 638
Working capital changes	(26 521)	(15 863)	8 865	(5 911)
Prior year adjustment	–	2 252	–	–
Increase in advances	(162 101)	(226 017)	(224 574)	(223 899)
Net cash flows generated from/(used in) operations	**33 597**	**(69 658)**	**(141 421)**	**(109 359)**
Non-cash and separately presented items				
Depreciation and amortisation	2 554	1 495	2 495	1 427
Dividends accrued	–	(2 515)	–	(2 515)
Impairments and bad debts	61 707	60 856	49 857	55 185
Share of profit of an associate	(7 521)	(12 638)	–	–
Fair value adjustment on equity investments	(2 017)	56 145	(51 486)	28 876
Fair value adjustment on property investment	22 420	(8 400)	22 780	(8 400)
Accrued interest income	(8 407)	(5 482)	(8 407)	(5 482)
Inter-company fees	–	–	(17 490)	(17 578)
Non-cash items from controlled entities	–	4 661	–	3 693
Accrued finance cost	–	7 109	3 822	4 696
Interest on SARS asset	(665)	(2 167)	(665)	(2 167)
Other non-cash items	83 290	–	23 011	–
Provision for leave	–	903	–	903
Programme management fees	(2 600)	(17 745)	–	–
Net cash flows used in operations	**148 761**	**82 222**	**23 917**	**58 638**
Working capital changes				
(Increase)/decrease in properties developed for sale	50	(6 418)	–	–
(Increase)/decrease in finance lease receivable	3 615	(102)	–	–
(Increase)/decrease in accounts receivable	(15 006)	(46 171)	14 247	(17 976)
Increase/(decrease) in accounts payables	(18 757)	25 226	(6 785)	5 219
Increase/(decrease) in provisions	3 577	11 602	1 403	6 846
	(26 521)	**(15 863)**	**8 865**	**(5 911)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

32. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

Surrender of Surplus

Legislation requires schedule 3A public entities to surrender any surpluses to the National Treasury. The NHFC applies for the retention of surplus which is subject to the National Treasury's approval.

The current estimated surplus for the financial year ended 31 March 2022 is R453 million.

Commitments

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Commitments in respect of lending activities				
Loans approved and contracted for:	–	4 280	–	4 280
Exceeding availability	1 815 706	1 958 003	1 815 706	1 958 003
Still within availability period	1 815 706	1 962 283	1 815 706	1 962 283
Approved but not yet contracted for	548 178	235 662	548 178	235 662
	2 363 884	**2 197 945**	**2 363 884**	**2 197 945**
Operational contracts	9 356	22 559	9 356	22 559
	9 356	**22 559**	**9 356**	**22 559**

Operating lease commitment – Group as lessee

The Group entered into a commercial lease on the property from which it operates. The lease was effective from 1 April 2012 to 31 March 2017. The lease had an escalation clause of 8% per annum. The lease has been extended for eighteen months from 1 April 2019 to 30 September 2020 with a deposit guarantee of R533 500 and the lease was further extended by another 2 years from 1 October 2020 to 30 September 2022.

Future minimum rentals payable under current operating lease as at 31 March 2022:

National Housing Finance Corporation SOC Limited	2 669	5 172	2 669	5 172
Cape Town Community Housing Proprietary Limited	627	627	–	–
NHFC Management Services	29	349	–	–
Within one year	3 325	6 148	2 669	5 172
National Housing Finance Corporation SOC Limited	–	2 669	–	2 669
Cape Town Community Housing Proprietary Limited	783	1 409	–	–
NHFC Management Services	–	29	–	–
After one year but not more than five years	783	4 107	–	2 669
Total office operating lease commitments – office buildings	**4 108**	**10 255**	**2 669**	**7 841**

Operating lease commitments – office photocopiers

The Group entered into operating leases for photocopiers. The leases have different lease periods

Within one year	254	278	254	278
After one year but not more than five years	84	347	84	347
	338	625	338	625
Total Group commitments	**4 446**	**10 880**	**3 007**	**8 466**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

Given the risk profile of this investment, only a maximum of 12% of the NHFC's net asset value can be invested to this asset class (in total) based on the Board approved Risk Appetite Statement.

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

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

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

In order to avoid excessive concentrations of risk, the risk appetite statement includes specific guidelines to focus on maintaining a diversified portfolio. Provision is also made for prudential limits. Identified concentrations of credit risks are controlled and managed accordingly. Advances are presented net of the allowance for impairment. The requirement for an impairment is analysed at regular intervals guided by an impairment policy.

Advances are presented net of the allowance for impairment. The requirement for an impairment is analysed at regular intervals guided by an impairment policy.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

Financial instruments and cash deposits

The credit risk arising from financial instruments is managed within the Treasury department. The Treasury Policy and Risk Appetite Statement of the Group provides a framework that regulates the treasury management activities, operations conducted, management and control of risk.

Short-term deposits and held-to-maturity money market investments are placed with financial institutions rated at least P-3 or better in terms of short-term credit ratings by a reputable rating agency. Counterparty limits are reviewed by the Board of Directors on an annual basis. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group exposure at year-end is within approved counterparty limits.

Financial assets exposed to credit risk at year end were as follows:

Maximum exposure to credit risk

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Loans and receivables – advances	4 061 637	3 952 161	2 829 006	2 651 548
Finance lease receivables	107 700	110 506	–	–
Held-to-maturity investments	568 958	671 630	568 958	671 630
Cash and short-term deposits	1 862 073	1 463 404	1 517 116	1 276 503
Other receivables and prepayments	23 413	50 412	15 268	27 459
Investment in preference shares	35 000	35 000	35 000	35 000
	6 658 781	**6 283 113**	**4 965 348**	**4 662 140**

Collateral and other credit enhancements – loans and receivables advances

To mitigate credit risk, the Group endeavours to obtain collateral or other security against all advances made, dependent on the assessed risk inherent in the particular advance and in line with the NHFC's approved credit policy.

The main types of collateral taken against loans and receivables – advances subject to credit risk are:
- Mortgage bonds over properties;
- Cession of debtors book;
- Cession of income and bank account;
- Guarantees;
- Personal suretyship of principals;
- Pledge of call account or fixed deposits; and
- Cession of shares.

Credit risk mitigation policies and procedures ensure that the credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Credit quality of loans and receivables				
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to aging.				
Neither past due nor impaired	2 648 205	2 394 629	1 525 861	1 219 229
Past due but not impaired*	591 308	400 348	594 986	399 973
Impaired**	709 604	675 961	529 496	512 412
12 months Turnaround period	448 056	761 698	446 015	741 591
	4 397 173	4 232 636	3 096 358	2 873 205
Less: Specific impairments	(295 325)	(239 316)	(227 141)	(180 498)
General impairments	(40 211)	(41 159)	(40 211)	(41 159)
Net advances	**4 061 637**	**3 952 161**	**2 829 006**	**2 651 548**

* *Past due but not impaired balance is the full outstanding capital as at the date on which the client defaulted.*
** *Impaired balance is not equal to specific impairments as some advances are not fully impaired after considering the value of security.*

		Group					
		Aging of amounts due					
		Total balance R'000	Capital in-stallment R'000	Current to 30 days R'000	31 to 60 days R'000	61 to 90 days R'000	91 to 180+ days R'000
Aging analysis of advances that are past due, but not impaired:	2022	636 214	446 679	6 470	5 593	5 533	171 939
Aging analysis of advances that are past due, but not impaired:	2021	400 349	300 891	6 099	3 145	3 032	87 182

		Company					
		Aging of amounts due					
		Total balance R'000	Capital in-stallment R'000	Current to 30 days R'000	31 to 60 days R'000	61 to 90 days R'000	91 to 180+ days R'000
Aging analysis of advances that are past due, but not impaired:	2022	636 214	446 679	6 470	5 593	5 533	171 939
Aging analysis of advances that are past due, but not impaired:	2021	399 973	280 432	7 080	3 623	3 551	105 287

The Group's credit process considers the following to be key indicators of default:

- Evidence of financial distress when it is considered that the borrower is unlikely to pay its credit obligation in full; and
- The debt is more than 90 days in arrears.

The fair value of collateral that the Group holds relating to past due or impaired loans and receivables at 31 March 2022 amounts to R1 550 million (2021: R1 562 million).

During the current and previous year the Group did not take possession of any guarantees and debtors books.

The carrying amounts of advances that would otherwise be past due whose terms have been renegotiated amounts to R448.1 million (2021: R762.6 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Credit quality of loans and receivables				
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least F1				
– Held-to-maturity investments – money market	568 958	671 630	568 958	671 630
– Cash and short term deposits	1 862 073	1 463 403	1 517 116	1 276 503
Counterparties assessed by reference to historical information about counterparty default rates				
– Finance lease receivables	107 700	110 506	–	–

Other receivables and prepayments are considered current and are not considered impaired.

The investment in preference shares is not considered impaired.

Concentration risk of loans and receivables by operation

	Group	Company
	2022 R'000	2022 R'000
Strategic investment	11%	15%
Incremental housing loans	10%	14%
Home ownership	32%	5%
Private Rental Housing	16%	22%
Social Rental Housing	19%	28%
Affordable Housing	11%	15%
Subsidy Housing	0%	0%

Interest rate risk

Interest rate risk is the exposure of the Group to increased financing cost and reduced revenue due to adverse changes in interest rates.

The objectives of managing interest rate risk are to:

- identify and quantify interest rate risk and to structure assets and liabilities to reduce the impact of changes in interest rates;
- minimise the negative impact of adverse interest rate movement on the Group's returns within an acceptable risk profile;
- reduce the cost of capital and minimise the effect of interest rate volatility on funding cost;
- manage exposures by ensuring an appropriate ratio of floating rate exposures to fixed rate exposures; and
- take advantage of interest rate cycles.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

	Group			
	Fixed rate 2022 R'000	Prime linked rate 2022 R'000	Fixed rate 2021 R'000	Prime linked rate 2021 R'000
The Group is exposed to interest rate risk on the following assets and liabilities:				
Assets				
Loan and receivables – advances rates vary between 5.00% and 14.00% p.a.	195 357	3 866 280	190 975	3 761 186
Finance lease receivables average interest rate of 10.50% p.a.	107 700	–	110 506	–
Held-to-maturity investment rates vary between 3.54% and 8.20% p.a.	–	568 958	–	671 630
Cash and short-term deposits rates vary between 2.95% and 7.86% p.a.	–	1 862 073	–	1 463 404
Liabilities				
Funds under management vary between 2.00% to 5.78%	–	991 348	–	675 721
AFD loan – the rate is fixed at 6.078%	34 003	–	64 443	–
EIB loan– the rate varies between 3.758% and 6.783%	–	67 303	–	85 068
DBSA loan -the rate is fixed at 7.56% p.a.	109 632	–	114 668	–
Future Growth Asset Management Proprietary Limited	–	650 002	–	650 000
Old Mutual Capital Holding Proprietary Limited	–	486 889	–	443 732

	Company			
	Fixed rate 2022 R'000	Prime Linked rate 2022 R'000	Fixed rate 2021 R'000	Prime Linked rate 2021 R'000
The Group is exposed to interest rate risk on the following assets and liabilities:				
Assets				
Loan and receivables – advances rates vary between 5.00% and 14.00% p.a.	195 357	2 633 649	190 975	2 460 573
Held-to-maturity investment rates vary between 3.54% and 8.20% p.a.	–	568 958	–	671 630
Cash and short-term deposits rates vary between 2.95% and 7,86% p.a.	–	1 517 116	–	1 276 503
Liabilities				
Funds under management vary between 2.0% to 5.78%	–	981 466	–	665 854
AFD loan – the rate is fixed at 6.078%	34 003	–	64 443	–
EIB loan– the rate varies between 3.758% and 6.783%	–	67 303	–	85 067
DBSA loan -the rate is fixed at 7.56% p.a.	109 632	–	114 668	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

Interest rate risk management strategy is as follows:

1. Clients who access variable interest rate facilities are subject to interest rates that reset on a change in prime interest rate or on a quarterly basis in accordance with various market indices.

. The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.

2. Investments are aligned to the cash flow requirements and strategy of the core business. The portfolio is diversified utilising a mix of fixed and floating rate instruments within the policy framework and is continually monitored to adapt to changing dynamics.

Interest rate sensitivity

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

		Group		Company	
	Increase/ decrease %	Effect on profit 2022 R'000	2021 R'000	Effect on profit 2022 R'000	2021 R'000
Loans and receivables – advances	1	38 662	37 612	26 336	24 606
	(1)	(38 662)	(37 612)	(26 336)	(24 606)
Held-to-maturity investments	1	5 689	6 716	5 689	6 716
	(1)	(5 689)	(6 716)	(5 689)	(6 716)
Cash and short-term deposits	1	18 620	14 634	15 171	12 765
	(1)	(18 620)	(14 634)	(15 171)	(12 765)
Financial liabilities and Funds under management	(1)	(21 955)	(18 545)	(10 488)	(7 509)
	(1)	21 955	18 545	10 488	7 509
The Group earns interest as follows:					
Interest on advances		377 330	401 262	201 489	190 789
Interest on investment		54 032	64 032	52 168	62 989
		431 362	**465 294**	**253 657**	**253 778**
The Group's interest obligations are as follows:					
Interest on other financial liabilities		94 668	104 524	12 420	18 482

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to honour its financial commitments on a cost effective and timeous basis.

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:

- short- and long-term cash flow management;
- diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- at least 60% of money market portfolio to mature within six months;
- limiting capital market investments to 30% of the portfolio; and
- mobilisation of funding.

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

	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
As at 31 March 2022				
Trade and other payables	40 443	–	–	40 443
Funds under management	–	991 348	–	991 348
Long-term payables	–	–	9 054	9 054
Financial liabilities	–	42 985	1 305 344	1 348 329
	40 443	**1 034 333**	**1 314 398**	**2 389 173**
As at 31 March 2021				
Trade and other payables	59 258	–	–	59 258
Funds under management	–	–	675 721	675 721
Long-term payables	–	–	9 937	9 937
Financial liabilities	–	44 213	1 314 198	1 358 411
	59 258	**44 213**	**1 999 856**	**2 103 327**

Fair value of financial instruments

The carrying value of financial assets and financial liabilities for both years approximated their fair values.

Capital management

The objective of the Group's capital management is to ensure that it maintains a strong credit rating and generates sufficient capital to support its business objectives and maximise shareholder value.

The Group monitors capital using the debt to equity ratio, which is the interest-bearing debt divided by the equity. The Group's policy is to keep the ratio at 35% and below.

Total interest bearing debt	1 348 329	1 358 411
Total equity	4 787 704	4 714 246
Debt to equity ratio	28%	29%

Credit rating

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

National

Long term	A (ZA)
Short term	A1 (ZA)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

International

Long term	B+
Short term	B

Positive Influences: Strong capitalisation and excellent liquidity.

Negative Influences: Weak asset quality and above average strategic investment risk.

The outlook for both National and International rating is Stable.

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- Level 1: Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.
- Level 2: Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the financial position date. The valuation techniques or models are periodically reviewed and the outputs validated.
- Level 3: Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

	Group			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2022				
Unlisted equity investments in non-controlling entities			243 042	243 042
2021				
Unlisted equity investments in non-controlling entities			241 022	241 022

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2022				
Unlisted equity investments in non-controlling entities	–	–	243 042	243 042
Unlisted equity investments in associates	–	–	114 607	114 607
Unlisted equity investments in controlling entities	–	–	376 184	376 184
Total	–	–	733 833	733 833
2021				
Unlisted equity investments in non-controlling entities	–	–	241 022	241 022
Unlisted equity investments in associates	–	–	128 155	128 155
Unlisted equity investments in controlling entities	–	–	355 330	355 330
Total	–	–	724 507	724 507

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

	Company		
	Investment in non-controlled entities R'000	Investment in controlled entities R'000	Investment in associates R'000
Level 3 additional disclosure			
Opening balance	254 456	341 170	107 104
Disbursements	46 770	–	–
Fair value movement (IS)	(60 204)	14 160	21 051
Carrying value March 2021	241 022	355 330	128 155
Disbursements	–	16 977	–
Fair value movement (IS)	2 020	3 877	(13 546)
Carrying value at 31 March 2022	**243 042**	**376 184**	**114 609**

	Group
	Investment in non-controlled entities R'000
Level 3 additional disclosure	
Opening balance	254 456
Movement in gross balance	46 770
Fair value movement (IS)	(60 204)
Carrying value March 2021	241 022
Fair value movement (IS)	2 020
Carrying value at 31 March 2022	**243 042**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

Financial assets by category

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

	Group			
	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
2022				
Unlisted equity investments in non-controlling entities	243 042	–	–	243 042
Loans and receivables – advances	–	4 061 637	–	4 061 637
Finance lease receivables	–	–	107 700	107 700
Held-to-maturity investments	–	–	568 958	568 958
Cash and short-term deposits	–	1 862 073	–	1 862 073
Other receivables	–	23 413	–	23 413
Investment in preference shares	–	–	35 000	35 000
	243 042	**5 947 123**	**711 658**	**6 901 823**
2021				
Unlisted equity investments in non-controlling entities	241 022	–	–	241 022
Loans and receivables – advances	–	3 952 161	–	3 952 161
Finance lease receivables	–	–	110 506	110 506
Held-to-maturity investments	–	–	671 630	671 630
Cash and short-term deposits	–	1 463 404	–	1 463 404
Other receivables	–	50 412	–	50 412
Investment in preference shares	–	–	35 000	35 000
	241 022	**5 465 977**	**817 136**	**6 524 135**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

Financial assets by category continued

	Company			
	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
2022				
Unlisted equity investments in non-controlling entities	243 042	–	–	243 042
Unlisted equity investments in associates	114 607	–	–	114 607
Unlisted equity investments in controlling entities	376 184	–	–	376 184
Loans and receivables – advances	–	2 829 006	–	2 829 006
Loans to subsidiaries	–	18 893	–	18 893
Held-to-maturity investments	–	–	568 958	568 958
Cash and short-term deposits	–	1 517 116	–	1 517 116
Other receivables	–	15 268	–	15 268
Investment in preference shares	–	–	35 000	35 000
	733 833	**4 380 283**	**603 958**	**5 718 074**
2021				
Unlisted equity investments in non-controlling entities	241 022	–	–	241 022
Unlisted equity investments in associates	128 155	–	–	128 155
Unlisted equity investments in controlling entities	355 330	–	–	355 330
Loans and receivables – advances	–	2 651 548	–	2 651 548
Loans to subsidiaries	–	1 592	–	1 592
Held-to-maturity investments	–	–	671 630	671 630
Cash and short-term deposits	–	1 276 503	–	1 276 503
Other receivables	–	27 459	–	27 459
Investment in preference shares	–	–	35 000	35 000
	724 507	**3 957 102**	**706 630**	**5 388 239**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

33. FINANCIAL RISK MANAGEMENT CONTINUED

Financial assets by category continued

	Group Financial liabilities at amortised cost R'000
2022	
Financial liabilities	1 348 329
Trade and other payables	40 442
Funds under management	991 348
	2 380 119
2021	
Financial liabilities	1 358 411
Trade and other payables	59 258
Funds under management	675 721
	2 093 390

	Company Financial liabilities at amortised cost R'000
2022	
Financial liabilities	210 938
Trade and other payables	13 202
Funds under management	981 466
	1 205 606
2021	
Financial liabilities	264 178
Trade and other payables	19 991
Funds under management	665 854
	950 023

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

34. RELATED PARTIES

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

	% equity interest 2022	% equity interest 2021
Gateway Home Loans (Proprietary) Limited	100	100
Gateway Home Loans 001 (Proprietary) Limited	100	100
Cape Town Community Housing Company (Proprietary) Limited	100	100
Mortgage Default Insurance Company (Proprietary) Limited	100	100
NHFC Management Services (Proprietary) Limited	100	100
NURCHA Finance Company (Proprietary) Limited	100	100
NURCHA Equity Services (Proprietary) Limited	100	100
NURCHA Development Finance (Proprietary) Limited	100	100
NURCHA Bridging Finance (Proprietary) Limited	100	100
NURCHA Loan Fund (Proprietary) Limited	100	100
TUHF Holdings Limited	33	33
Housing Investment Partners (Proprietary) Limited	33	33
Lendcor (Proprietary) Limited	20	20
Norufin Housing (Proprietary) Limited	20	20
Kabo Financial Investments Limited	20	20
Lehae Housing (Proprietary) Limited	20	20
Thuthukani Housing Finance (Proprietary) Limited	30	30
Housing Investment Partners Trust 1*	–	–
Housing Investment Partners Trus 2*	–	–
Abahlali Housing Association (No 2) NPC^	–	–

** NHFC is invested in Junior debt facility.*
^ NHFC controls Abahlali Housing Association and its bank account.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

34. RELATED PARTIES

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

	Company			
	Amounts owed by/ to related parties 2022 R'000	Transactions with related parties 2022 R'000	Amounts owed by/ to related parties 2021 R'000	Transactions with related parties 2021 R'000
Cape Town Community Housing Company (Proprietary) Limited				
– Advances	44 615	–	57 365	–
– Payroll administration	–	–	294	7 946
Housing Investment Partners (Proprietary) Limited				
– Working capital loan	33 165	–	33 165	–
Housing Investment Partners Trust 1				
– Equity	53 497	–	31 735	–
Housing Investment Partners Trust 2				
– Equity	322 688	–	323 593	–
Abahlali Housing Association No 2 NPC				
– Advances	36 460	–	46 155	–
TUHF Holdings Limited				
– C Class ordinary shares	6 533	–	6 533	–
– Shareholder loan	–	–	40 000	–
– Preference shares	35 000	–	35 000	–
– Dividend income	–	1 340	–	1 831
– Interest received	–	25 048	–	30 399
– Loans	315 389	–	425 907	–
– Equity investment	107 010	–	123 156	–
NHFC Management Services (Proprietary) Limited				
– Administrative fees	–	15 221	–	15 223
– Loan disbursements	–	–	–	157
– Loans	61 389	–	46 169	–
NURCHA Finance Company (Proprietary) Limited				
– Administrative fees	–	–	–	20
– Loan disbursements	–	–	–	219
– Loans	13 893	–	13 863	–
NURCHA Equity Services (Proprietary) Limited				
– Loan repayments	–	–	–	10
– Administrative fees	–	–	–	20
– Loans	13 014	–	13 014	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

34. RELATED PARTIES CONTINUED

	Company			
	Amounts owed by/ to related parties 2022 R'000	Transactions with related parties 2022 R'000	Amounts owed by/ to related parties 2021 R'000	Transactions with related parties 2021 R'000
NURCHA Development Finance (Proprietary) Limited				
– Interest received	–	–	–	537
– Administrative fees	–	–	–	50
– Loan disbursements	–	–	–	16
– Loans	16 314	–	16 410	–
NURCHA Bridging Finance (Proprietary) Limited				
– Administrative fees	–	50	–	50
– Loan disbursements	–	–	–	3
– Loans	15 731	–	15 674	–
NURCHA Loan Fund (Proprietary) Limited				
– Interest received	–	2 674	–	2 456
– Administrative fees	–	2 215	–	2 215
– Loan disbursements	–	–	–	1 100
– Loans	86 337	–	81 148	–
Lendcor (Proprietary) Limited				
– Loans	–	–	143 714	–
– Interest received	–	–	–	992
Norufin Housing (Proprietary) Limited				
– Loans	5 286	–	5 286	–
Thuthukani Housing Finance (Proprietary) Limited				
– Equity	–	–	3 963	–
– Interest received	–	9 229	–	306
– Loans	98 397	–	89 232	–

Terms and conditions with related parties

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

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

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

Transactions with key management personnel are disclosed under note 35.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

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

The amounts disclosed in the table below are the amounts recognised as an expense during the reporting period related to key management personnel.

National Housing Finance Corporation SOC Limited

	Fees R'000	Salaries R'000	Bonuses R'000	Post-employment pension and medical benefits R'000	Committees fees R'000	Total 2022 R'000	Total 2021 R'000
Acting non-executive Chairman							
Ms PV Ramarumo[1]	1 047	–	–	–	–	1 047	754
Directors - independent non-executives							
Mr J Coetzee[2]	–	–	–	–	124	124	633
Ms AW Houston[3]	–	–	–	–	–	–	90
Mr SS Ntsaluba[4]	–	–	–	–	–	–	759
Mr SA Tati[5]	51	–	–	–	–	51	426
Ms T Chiliza	811	–	–	–	–	811	789
Mr K Shubane	721	–	–	–	–	721	741
Mr A Harris	1 070	–	–	–	–	1 070	843
Ms P Mthetwa[6]	–	–	–	–	–	–	–
Mr S Moraba[7]	–	–	–	–	136	136	93
Directors' fees	**3 700**	**–**	**–**	**–**	**260**	**3 960**	**5 128**
Acting Chief Executive Officer and executive director			–				
Mr SA Tati[5]	–	4 577	–		–	4 577	5 616
Executive managers / and Prescribed officers							
Mr S Moraba	–	–	–	–	–	–	3 986
Ms M Mamatela	–	1 990	1 323	285	–	3 598	3 359
Mr L Lehabe	–	1 164	–	202	–	1 366	3 640
Ms N Ntshigila	–	1 745	1 230	482	–	3 457	3 008
Mr M Oepeng	–	1 432	527	207	–	2 166	–
Mr Z Lupondwana	–	1 851	1 124	316	–	3 291	2 837
Mr A Higgs	–	1 964	1 358	168	–	3 490	2 957
Mr J Fakazi	–	2 303	1 270	531	–	4 104	2 717
Mr B Gordon	–	1 913	1 316	406	–	3 635	2 997
Mr V Gqwetha	–	2 657	1 593	641	–	4 891	4 640
Mr S Nxusani	–	1 968	1 221	536	–	3 725	3 572
Ms V Menye	–	2 188	1 649	315	–	4 152	3 981
Ms K Vundla[8]	–	1 094	–	120	–	1 214	3 208
Ms T Ramotsehoa	–	1 436	698	170	–	2 304	–
Management costs	**-**	**28 282**	**13 309**	**4 379**	**-**	**45 970**	**46 518**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

35. DIRECTORS' AND PRESCRIBED OFFICERS'/EXECUTIVE MANAGERS' EMOLUMENTS CONTINUED

National Housing Finance Corporation SOC Limited continued

1. *Ms P Ramarumo was appointed as Acting Chairperson on 1 September 2020.*
2. *Mr J Coetzee retired from the Board on 26 November 2020 and was nominated by the NHFC to its strategic investments and continues to represent the NHFC in HIP Management company and on HIP Trust 1 and 2 .*
3. *Ms AW Houston retired from the Board on 26 November 2020.*
4. *Mr SS Ntsaluba retired from the Board on 26 November 2020 .*
5. *Mr SA Tati is the former Chairperson of the Board, was appointed Acting Chief Executive Officer by the Minister, with effect from 1 September 2020. Per the Minister's instruction, once a permanent CEO is appointed, Mr Tati will resume his duties as a member of the board from February 2022.*
6. *Ms P Mthethwa was appointed to the Board on 26 November 2020 and does not earn fees.*
7. *Mr S Moraba retired from the NHFC on 31 August 2020. As nominated by the NHFC to its strategic investment, he continues to represent the NHFC in HIP management company, HIP Trust 1 and 2, and on various companies in the TUHF Holdings group.*
8. *Ms K Vundla was appointed as CFO on 1 May 2020 and has resigned as of 31 July 2021.*
9. *A new board of directors has been appointed with effect from 29 March 2022.*

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

	Fees R'000	Salaries R'000	Bonuses R'000	Post-employment pension and medical benefits R'000	Committees fees R'000	Total 2022 R'000	Total 2021 R'000
Chairman							
Mr S Tati	–	–	–	–	–	–	–
Directors - Non-executives							
Ms N Ntshingila	–	–	–	–	–	–	–
Directors' fees	–	–	–	–	–	–	–
Key members of management	–	–	–	–	–	–	–
Management costs	–	–	–	–	–	–	–

Mr S Tati and Ms N Ntshingila are executives of the holding company and currently serve on the subsidiary's board. However they receive no remuneration as board members. Mr S Moraba retired on 31 August 2020.
Mr S Tati was appointed on 11 February 2021.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

36. RESTATEMENT OF PRIOR PERIOD ERROR

Instalment sales and investment properties – CTCHC

Prior year adjustment is due to legal fees, transfer fees and security charges being capitalised in the 2012 - 2014 period when houses were repossessed. The repossession was set aside by Constitutional Court judgement in 2018 and contracts were restored. These cost was in error again capitalised in IPA Receivable accounts.

Provision for municipal rates - CTCHC

The prior year adjustment on provisions is for the property rates and taxes for the unserviced sites in the Upington development. CTCHC was supposed to build 276 houses but only 236 was build. Management decided to stop the project due to slow sales trends experience and also the long distance between the office and the project. The unused sites must be returned to the municipality.

Revenue misstated by VAT portion - NMS

In the prior year NMS has incorrectly overstated revenues by a VAT portion, this was for revenue accrual provided for a Rental Stock programme.

Statement of Financial Position

	Group			Company		
	31 March 2021					
	Previously Reported R'000	Correction R'000	Restated R'000	Previously Reported R'000	Correction R'000	Restated R'000
Assets						
Investment property	79 466	1 633	81 099	–	–	–
Finance lease receivable	113 677	(3 169)	110 508	–	–	–
Liabilities				–	–	–
Trade and other payables	57 010	2 248	59 258	–	–	–
Provision for municipal rates	486	1 178	1 664	–	–	–
Net assets						
Accumulated surplus	1 993 154	(4 963)	1 988 191	–	–	–
Statement of Financial Performance				–	–	–
Management fees	24 503	(2 248)	22 255	–	–	–
Surplus for the year	89 999	(2 248)	87 751	–	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

37. IRREGULAR EXPENDITURE

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Opening balance	16 038	10 745	16 038	10 745
Add Irregular expenditure incurred in the current year	16 114	8 523	16 114	8 523
Add irregular expenditure incurred in prior years but identified in current year	–	–	–	–
Less irregular expenditure written off	–	–	–	–
Less irregular expenditure recovered	–	–	–	–
Less irregular expenditure condoned	–	(3 230)	–	(3 230)
Closing balance*	**32 152**	**16 038**	**32 152**	**16 038**

** The entity is in the process of applying for condonation for the 2021 and 2022 period.*

At year end, expenditure of R0.28 million was identified as non-compliant and a determination test is still to be conducted to determine whether it is irregular.

38. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	1 153	1 153	1 153	1 153
Add: Expenditure identified - current	5 284	–	5 284	–
Less: Amounts recoverable - current	(4 019)	–	(4 019)	–
Closing balance	**2 418**	**1 153**	**2 418**	**1 153**

39. NEW STANDARDS AND INTERPRETATIONS

39.1 Standards and interpretations effective and adopted in the current year

There were no new standards and interpretations effective and adopted in the current year.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2022

	Group				
	Approved budget R'000	Adjust-ments R'000	Final Budget R'000	Actual amounts on compa-rable basis R'000	Difference between final budget and actual R'000
Statement of Financial Performance					
Revenue					
Interest on advances	437 516	–	**437 516**	377 330	**(60 186)**
Interest received on investments	57 175	–	**57 175**	54 032	**(3 143)**
Rental income	13 409	–	**13 409**	14 879	**1 470**
Dividends received	17 766	–	**17 766**	1 498	**(16 268)**
Sale of houses	–	–	**–**	2 649	**2 649**
Management fees	41 022	–	**41 022**	76 121	**35 099**
Other income	8 936	–	**8 936**	14 889	**5 953**
Dividends received (trading)	–	–	**–**	2 942	**2 942**
Fees on advances	5 638	–	**5 638**	–	**(5 638)**
Total revenue	**581 462**	**–**	**581 462**	**544 340**	**(37 122)**
Expenditure					
Impairments and bad debts	(106 647)	–	**(106 647)**	(61 707)	**44 940**
Cost of sales	–	–	**–**	(2 572)	**(2 572)**
Programme implementation cost	–	–	**–**	(32 117)	**(32 117)**
Operating expenses	(313 084)	–	**(313 084)**	(266 936)	**46 148**
Total expenditure	**(419 731)**	**–**	**(419 731)**	**(363 332)**	**56 399**
Finance costs	(149 884)	–	**(149 884)**	(94 668)	**55 216**
Fair value adjustment	–	–	**–**	(20 403)	**(20 403)**
Share of surpluses or deficits from associates	4 791	–	**4 791**	7 521	**2 730**
Surplus for the year	**16 638**	**–**	**16 638**	**73 458**	**56 820**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2022

The group financial performance includes the following subsidiaries:

Active entities:

- Cape Town Community Housing Company (Proprietary) Limited (CTCHC),
- Housing Investment Partners Trust 1
- Housing Investment Partners Trust 2
- NHFC Management Services (Proprietary) Limited
- NURCHA Bridging Finance (Proprietary) Limited, and
- NURCHA Loan Fund (Proprietary) Limited,
- Abahlali Housing Association (No 2) NPC

Dormant entities:

- Mortgage Default Insurance Company (Proprietary) Limited (MDIC),
- Gateway Homeloans (Proprietary) Limited,
- Gateway Homeloans 001 (Proprietary) Limited,
- NURCHA Finance Company (Proprietary) Limited,
- NURCHA Equity Services (Proprietary) Limited, and
- NURCHA Development Finance (Proprietary) Limited

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

Consolidation process

The main difference between NHFC group and NHFC company results is the inclusion of the subsidiaries results in the Group account to reflect their underlying economic performance, funding arrangements and asset performance. Intercompany finding arrangements and management fees are eliminated. Interest revenue from CTCHC facilities has been suspended in the books of the NHFC company performance. The Groups associate companies have been including using the equity accounting method as prescribed by the GRAP standards.

Economic overview

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

Budget

The budget reflected is as submitted to the NDOHS and the APP was tabled and approved in Parliament.

Controlled and non-controlled entities impact on group and company performance

The group has a residual interest in some of the quasi equity investments. This impacts the manner and the timing in which the revenue from these investments is recognised in the statement of comprehensive income, the GRAP requirements are driven by the extent of the residual interest and therefore required different inclusion of the economic performance differs at group and company level.

- **Statement of Comprehensive income impact in the Group Financial statements**

  The following additional amounts have been included in the group statement of comprehensive income for the 31 March 2022 financial year:
  - Interest on loans and advances R167 million
  - Impairments and bad debts R0.504 million
  - Operating expenses R36 million
  - Finance cost R81 million

- **Statement of Comprehensive Income in the Company Financial Statements**

  The following additional amounts have been included in the company statement of comprehensive income for the 31 March 2022 financial year:
  - Share of residual income in controlled entities R44.4 million
  - Dividends received R1.5 million

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2022

Current year performance

FLISP is treated as a division within the NHFC company and group accounts, with the operating costs expected to be reimbursable on a proportionate basis from the respective Provinces that are in the partnership with the NHFC. R22.4 million has been recouped for the current financial year.

Key drivers of business performance for the NHFC group as a lending institution business are the loan book growth, quality of the loan book that impacting the level of impairments and write offs and the operational efficiency.

On the asset growth, the group

- Achieved disbursements of R960 million against a budget of R844 million for the financial year disbursement
- Incurred net bad debts and impairments of R52.9 million, R49.8 million at a company level.

On the equity investments

The group incurred fair value adjustments of R20.4 million at a group level to reflect reduced growth outlook in some of the strategic partners.

In the operating expenses a positive variance of R46 million is due to the budget including the cost of transitioning into the HSDB and many of these expenses were not incurred as the legislation has not been presented to Parliament.

	Company				
	Approved budget R'000	Adjust-ments R'000	Final Budget R'000	Actual amounts on compa-rable basis R'000	Difference between final budget and actual R'000
Statement of Financial Performance					
Revenue					
Interest on advances	225 421	–	**225 421**	201 489	**(23 932)**
Interest received on investments	57 000	–	**57 000**	52 168	**(4 832)**
Rental income	13 409	–	**13 409**	13 230	**(179)**
Dividends received	17 766	–	**17 766**	1 498	**(16 268)**
Management fees	43 251	–	**43 251**	39 889	**(3 362)**
Other income	–	–	**–**	9 771	**9 771**
Share of residual interest in controlled entities	36 794	–	**36 794**	44 411	**7 617**
Fees on advances	5 638		**5 638**	2 695	**(2 943)**
Total revenue	**399 279**	**–**	**399 279**	**365 151**	**(34 128)**
Expenditure					
Impairments and bad debts	(87 442)	–	**(87 442)**	(49 857)	**37 585**
Operating expenses	(276 252)	–	**(276 252)**	(222 072)	**54 180**
Total expenditure	**(363 694)**	**–**	**(363 694)**	**(271 929)**	**91 765**
Finance costs	(14 560)	–	**(14 560)**	(12 420)	**2 140**
Fair value adjustment from associates	–	–	**–**	(30 431)	**(30 431)**
Surplus for the year	**21 025**	**–**	**21 025**	**50 371**	**29 346**

PART H:

ANNUAL PERFORMANCE REPORT

ANNUAL PERFORMANCE REPORT

Achievement against the 2021/2022 Annual Performance Plan

During the year under review, the NHFC implemented service delivery under the below Programmes.

Programme 1: Administration

Purpose: To provide strategic leadership, management and support services to the entity.

Outcome	Output	Output Indicator	Audited Actual Performance 2019/2020	Audited Actual Performance 2020/2021
Functional, efficient and integrated government	Unqualified audit	Audit outcome	Unqualified audit opinion (2018/19)	Unqualified audit opinion (2019/20)
	Compliant Statutory Reports	Percentage of compliance with statutory tabling and prescripts	100% compliant with statute and prescripts	100% compliant with statute and prescripts
	Internal audit reports	Percentage implementation of the approved internal audit plan	New indicator	100% implementation of the approved internal audit plan
	Anti-Fraud and Corruption Reports	Percentage of the approved Anti-Fraud and Corruption Implementation Plan implemented	New indicator	100% implementation of the approved anti-fraud and corruption implementation plan
	Risk Management Report	Percentage implementation of the approved risk management plan	New indicator	100% Percentage implementation of the approved risk management plan
	Credit losses manageable	Credit loss ratio (annualised quarterly)	New indicator	New indicator
		Non-performing loans within long term covenants	New indicator	New indicator

Planned Annual Target 2021/2022	Actual Achievement 2021/2022	Deviation from planned target to Actual Achievement 2021/2022	Reasons for deviations
Unqualified audit opinion with no material findings	Unqualified audit opinion overall (2020/21).	Material adjustments to financial statement disclosure notes and compliance findings on supply chain management.	Target not met due to misstatements in the disclosure notes to the financial statements submitted for audit and compliance findings resulting from not following supply chain processes. The misstatements were corrected prior to finalising the financial statements.
100 % compliance with statutory tabling and prescripts	100% compliant with statute & Prescripts	None	Target met.
100% implementation of the approved internal audit plan	100% Percentage implementation of the approved internal audit plan	None	Target met.
100% implementation of the approved anti-fraud and corruption implementation plan	100% implementation of the approved anti-fraud and corruption implementation plan	None	Target met.
100% Percentage implementation of the approved risk management plan	100% Percentage implementation of the approved risk management plan	None	Target met.
2.8%	1.6%	None	Target met.
36.2%	36.0%	None	Target met.

ANNUAL PERFORMANCE REPORT

Programme 2: Integrated Human Settlements Planning and Development Programme

Programme purpose: Contribute to the development of policy, planning and research in the creation of sustainable and integrated human settlements, oversee the delivery of the integrated residential development programme, and participate in coordination of intergovernmental partnerships with stakeholders.

Subprogramme 2(a): Strategic Partnerships

Outcome	Output	Output Indicator	Audited Actual Performance 2019/2020	Audited Actual Performance 2020/2021
Increased access to affordable finance to enable end-users to have appropriate, spatially just and adequate housing	Growing participation of private sector financing in affordable housing	Value of NHFC's contribution to strategic partnerships (R'm)	New indicator	0
		Value leveraged from NHFC's strategic partnerships (R'm)	New indicator	New indicator
		Incremental year on year alignment of future financing activities to PHSHDAs	New indicator	New indicator
		Participate in the development of a partnership framework between private sector developer and the NDHS and its entities	New indicator	New indicator

Planned Annual Target 2021/2022	Actual Achievement 2021/2022	Deviation from planned target to Actual Achievement 2021/2022	Reasons for deviations
50	0	(50)	Target not met. No deals have been closed to allow for investment to flow. Potential deals are at relationship building and MOU stages.
150	0	(150)	Target not met. No deals have been closed to allow for investment to flow. Potential deals are at relationship building and MOU stages.
10%	0%	(10%)	Target not met. The baseline could not be established due deferred GIS establishment and challenges of doing the exercise manually.
Approved Framework	Framework was approved during the year.	None	Target met.

ANNUAL PERFORMANCE REPORT

Subprogramme 2(b): Lending (Subsidy Housing Finance)

Outcome	Output	Output Indicator	Audited Actual Performance 2019/2020	Audited Actual Performance 2020/2021
Improved delivery of affordable housing	Disbursements of approved loans	Value of disbursements (R'm)		
		Subsidy Housing - Bridging Finance (R'm)	236	133
		Value of approvals (R'm)		
		Subsidy Housing - Bridging Finance (R'm)	64	98

Planned Annual Target 2021/2022	Actual Achievement 2021/2022	Deviation from planned target to Actual Achievement 2021/2022	Reasons for deviations
228	136	(92)	Target not met. YTD disbursement is R136 million which is 59% against a YTD target of R228 million. This was because of lower-than-expected disbursements for Q2, Q3 and Q4 since several contractors exited the programme during the year, citing financial distress. Additionally, some clients that were approved during the financial year were unable to meet the Conditions Precedent on time to unlock disbursements, while some facilities were repaid before maturity date and consequently closed which had a huge impact on disbursement numbers.
154	114	(40)	Target not met. The YTD approvals were R114 million against a target of R154 million (74%) due to the fact there were no approvals in Q2 and Q3 because of a challenged pipeline from a business development perspective. As a result of COVID-19 several contractors have exited the programme citing financial distress, therefore we have not managed to capture repeat business from these clients as was forecast. Furthermore, provincial appointments of contractors have been slow, and this was demonstrated by The National Department of Human Settlements in its quarterly reviews, where it was highlighted that several provinces were non performing. This has a direct impact on the Subsidy product approvals and performance. Provinces are implementing recovery plans, however the process are long as as existing non-performing contracts have to first be cancelled followed by appointment of new contractors to complete projects. Scheduled engagements held in Q4 with provincial offices and ongoing meetings with NDoHS rendered some positive results as there were 5 new projects approved in the latter part of the year (4 in KZN and 1 in North West).

ANNUAL PERFORMANCE REPORT

Programme 4: Rental and Social Housing Programme

Programme purpose: Promote the provision of affordable rental housing, and develop capabilities in the rental housing sector through intergovernmental collaboration.

Outcome	Output	Output Indicator	Audited Actual Performance 2019/2020	Audited Actual Performance 2020/2021
Improved delivery of affordable housing	Disbursements of approved loans	**Value of disbursements (R'm)**		
		Social Housing Finance (R'm)	36	89
		Private Rental Housing Finance (R'm)	109	40
		Value of approvals (R'm)		
		Social Housing Finance (R'm)	35	219
		Private Rental Housing Finance (R'm)	215	43

Planned Annual Target 2021/2022	Actual Achievement 2021/2022	Deviation from planned target to Actual Achievement 2021/2022	Reasons for deviations
95	70	(25)	Target not met by R25 million. Target was not met due to an Eastern Cape SHI which was expected to disburse its entire facility in 2021/22 FY, however, managed to disburse 89% of the facility in the previous financial year, resulting in a disbursement shortfall in the current year. A Gauteng - West Rand development was expected to have begun disbursements in Q1 but it experienced administrative delays in meeting Conditions Precedent prior to disbursements, and only began disbursing in Q3, which had an impact on the quantum disbursed to that project.
124	45	(79)	Target not met by R79 million. Target was not met due to a large portion of the Q4 targeted disbursement was expected to come from current year Q1 and Q2 early approvals. However, 70% of Private Rental approvals occurred in Q3 and Q4, therefore due to the lag between approvals and disbursements, those disbursements will only occur in Q1 and Q2 of the next financial year.
301	216	(85)	Target not met by R85 million. YTD target not met due to two applications being pended in Q2 and Q3, with matters unresolved by the client. One JHB based application with a loan amount of R90 million had to be pended due to ongoing social facilitation processes which are yet to be resolved by the client, and the second Germiston based application, with a loan amount of R 40 Million was pended as client was not submitting information in spite several interventions. The financial model of Social Housing remains challenged, until the Minmec approved grant quantum increases are gazetted and implemented. This has an effect on approvals.
119	173	54	Target exceeded by R54 million. Target exceeded as two private rental applications (Vaal based and Mabopane based) which had been pended in previous quarters due to concerns raised with the financial models, have been resolved in conjunction with the client, corporate finance and credit, and therefore re-assessed and approved. These previously pended applications contributed to the increased performance.

ANNUAL PERFORMANCE REPORT

Programme 5: Affordable Housing Programme

Programme purpose: Provision of affordable housing finance.

Subprogramme 5(a): Affordable Housing Finance and Investments

Outcome	Output	Output Indicator	Audited Actual Performance 2019/2020	Audited Actual Performance 2020/2021
Improved delivery of affordable housing	Disbursements of approved loans	Value of disbursements (R'm)		
		Affordable Housing - Bridging Finance (R'm)	68	321
		Incremental Housing Finance (R'm)	184	53
		Affordable Housing -Strategic Investments (R'm)	91	73.2
		Value of approvals (R'm)		
		Affordable Housing - Bridging Finance (R'm)	215	532
		Incremental Housing Finance (R'm)	409	100
		Affordable Housing -Strategic Investments (R'm)	0	0

	Planned Annual Target 2021/2022	Actual Achievement 2021/2022	Deviation from planned target to Actual Achievement 2021/2022	Reasons for deviations
	180	467	287	Target exceeded, achieved disbursements of R 467 million against a R 180 million target year to date , recording 259% performance. All of the loans approved in the previous financial year are at construction stage with high cashflow requirements since most developers accelerated construction activities on site to make up for the time lost during the various lockdown levels. The acceleration on construction activities informs the good achievement on this indicator.
	183	224	41	Target exceeded by R41 million. Two facility agreements of R100 million and R120 million approved in the previous financial years have drawn down more than initial disbursement forecasts. The indication had been that the clients would have drawn part of the approved facilities in this financial year and the balance in the next financial year, however with increased business activities by intermediaries about 88% of both facilities were drawn.
	143	17	(126)	Target not met by R 126 million due to low deal pipeline.
	456	613	157	Target exceeded, achieved approvals of R 613 million against a target of R 456 million, a 135% performance. There is currently high demand to purchase affordable housing units, mostly informed by low interest rates that have improved purchaser's affordability. The portfolio leveraged on this market and targeted developers who are focused on producing affordable housing.
	398	61	(337)	Target not met by R337 million. A pipeline of about R 326 million was assessed during the year under review, however, 19% of that pipeline was approved, 15% is still undergoing credit assessment, and about 66% was not feasible upon assessment as a result of the quality of the Intermediaries' debtors book, where collections and non-performing loans have increased substantially due to the impact of COVID-19 on the lower end of the market. Intermediaries are therefore under financial distress which affects approvals.
	242	310	68	Target met.

ANNUAL PERFORMANCE REPORT

Subprogramme 5(b): Grant facilitation (FLISP)

Outcome	Output	Output Indicator	Audited Actual Performance 2019/2020	Audited Actual Performance 2020/2021
Improved delivery of affordable housing	Disbursements of FLISP subsidies	Number of subsidy applications received	New indicator	New indicator
		Number of subsidy applications approved	3 712	2 411
		Number of subsidies disbursed	2 212	1 136
		Value of approvals – FLISP grants (R'm)	122.6	111.2
Increased access to affordable finance to enable end-users to have appropriate, spatially just and adequate housing		Value of disbursements (R'm)	60	60.8
		Amount leveraged from Financial institutions (R'm)	942	1,030.6

Planned Annual Target 2021/2022	Actual Achievement 2021/2022	Deviation from planned target to Actual Achievement 2021/2022	Reasons for deviations
7 188	3 632	(3 556)	Target not achieved because Revised FLISP Policy was not approved to enable inclusion of non-mortgage products in 2021/22 as planned. FLISP marketing did not result in an increased of applications with mortgage finance, the delayed CRM enhancement to deliver quick turnaround times.
7 100	2 935	(4 165)	Target not achieved due to lower number of applications received as only mortgage finance was implemented with FLISP; and because of rejections and declines due to incomplete applications or applications not meeting qualifying criteria.
5 762	3 268	(2 494)	Target not achieved because of the delayed automation of registration of approvals on National Housing Subsidy Database (NHSDB) to enable disbursements; normal lag between approval and disbursements as disbursements are made on transfer of the property to beneficiaries; and no disbursement requisitions made of approved applications beyond normal lag.
460	166	(294)	Target not achieved due to lower number of applications received as only mortgage finance was implemented with FLISP; and because of rejections and declines due to incomplete applications or applications not meeting qualifying criteria.
346	173	(173)	Target not achieved due to delayed automation of registration of approvals on NHSDB to enable disbursements, and due to normal lag between approval and disbursements as disbursements are made on transfer of the property to beneficiaries.
3,220	1,519	(1,701)	Target not achieved due to lower number of applications received and approved as only mortgage finance was implemented with FLISP, and because some applications being rejected and declined due to incomplete applications not approved in the year. The indicator is influenced by the value of subsidy applications approved.

ANNUAL PERFORMANCE REPORT

Programme 6: Sector Transformation

Programme purpose: To expand participation of previously disadvantaged individuals (particularly women, and youth) and support the establishment of start-ups.

Outcome	Output	Output Indicator	Audited Actual Performance 2019/2020	Audited Actual Performance 2020/2021
Increased penetration and participation of low-to middle income households and black-owned businesses in the housing market	Increased focus on extension of funding to previously disadvantaged intermediaries	Value of disbursements targeted towards B-BBEE compliant companies - Level 4, 3, 2, 1 Contributor (R'm)	566	519
		Value of disbursements targeted towards designated groups, included in above total (R'm)	83	68
		Value of disbursements to black-owned enterprises on managed programmes-Programme Management (R'm)	New indicator	New indicator
		Total value of projects managed - programme management (R'm)	New indicator	3.4
		Value of funds managed (R'm)	New indicator	10
		Facilitate two funding entrepreneur incubator programmes in partnership with key stakeholders in the sector	New indicator	New indicator

Planned Annual Target 2021/2022	Actual Achievement 2021/2022	Deviation from planned target to Actual Achievement 2021/2022	Reasons for deviations
284	367	83	Target exceeded by R83 million. Target exceeded due to an increase in BEE compliance levels by NHFC clients. As a result a significant portion of total disbursements were to BBBEE compliant companies of Levels 1 - 4, which are the preferred compliance levels by the NHFC.
243	124	(119)	Target not met by R119 million. Target not met due to the fact that designated groups, make up a small percentage of the already approved pipeline, therefore affecting disbursements to these groups. However the current BEE Lending and investment guidelines will stimulate participation of designated groups in the sector and in the NHFC pipeline.
220	31	(189)	Target not met. Delays in construction site due to few challenges. 1. In relation to the City of Cape Town programme, the challenges were delays in onboarding contractors for incubation and participation in the programme. Further, it was issuing of signed contracts to contractors, delays in material supplies due to shortage of material from the supplier. This affected the expected delivery and completion of units on sites and therefore the disbursements were also affected. 2. Only one of two programme management contracts signed with NHFC, was active in the year under review. A contract for fund management services in Walmer-Gqeberha came to a halt for reason related to the Technical CRO. Revival of the programme took longer and did not register expenditure in the year under review.
245	116	(129)	Target not met. To Date, Programme Management is managing two projects. One in Western Cape (WC) and the other in the Eastern Cape (EC). The EC contract value is R59 million, while the WC one the first phase is R57 million. The anticipated volume of business deals was not reached.
278	101	(177)	Target not met. The funds held and managed by NHFC on behalf of clients on an agency basis fell short of the target. This also co-relates with business deals that did not meet the target.
Two incubator programmes	One funding incubator programme implemented in partnership with key stakeholders in the sector	(1)	Target not met. The contractor incubator programme is underway in the programme managed for the City of Cape Town. Other incubator programmes are at concept stage or negotiation stages with other parties such as, South African Affordable Residential Developers' Association (SAARDA) and Social Housing Regulatory Authority,(SHRA).

NOTES

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