



**PRESENTATION TO PORTFOLIO  
COMMITTEE ON HUMAN  
SETTLEMENTS**

**OCTOBER 2017**

**INTEGRATED ANNUAL REPORT  
2017**



# CONTENTS

- ❑ NHFC Overview
- ❑ Business Model
- ❑ Corporate Governance & Risk Management
- ❑ Business Performance
- ❑ Financial Performance
- ❑ Forecast contribution to MTSF
- ❑ DFI Consolidation

# NHFC OVERVIEW

- ❑ **Established:** 1996
- ❑ **Type of Organisation:** Development Finance Institution (DFI)
- ❑ **Ownership:** State Owned Company, 100% SA government
- ❑ **Total Assets:** R3,3 billion (31 Mar 2017 – group)
- ❑ **Total liabilities:** R358 million (31 Mar 2017 – group)
- ❑ **Funding Status:** Self sustaining
- ❑ **Credit Rating:** Long term A+, short term A1
- ❑ **Main business:** Broadening and deepening access to affordable housing finance for the low-to-middle income SA households
- ❑ **Geographic activities:** National
- ❑ **Number of Employees:** Group 71                      Company 54

# NHFC MANDATE

The **National Housing Finance Corporation Soc Ltd** (NHFC) is a state owned Development Finance Institution with a principal mandate to **broaden and deepen access to affordable housing finance** for the low- and middle-income households.

## Target Market:

- The low- to middle-income housing market is any South African household with a regular **monthly income between R1 500 and R15 000**.
- The **market segment** is able to contribute towards its housing costs, but unable **to access housing finance from Financial Institutions**.

## Strategic Objectives

Expand housing finance activities, through the effective **provision of housing finance solutions**, thus enabling low-to-middle income households to have choice of renting or owning or incrementally building, to meet their housing needs;

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

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

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

Provide robust, timely and relevant **market research**

# VALUES, MISSION, VISION



## VALUES

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



## MISSION

*Provide innovative and affordable housing finance solutions to the low-to middle-income market*



## VISION

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

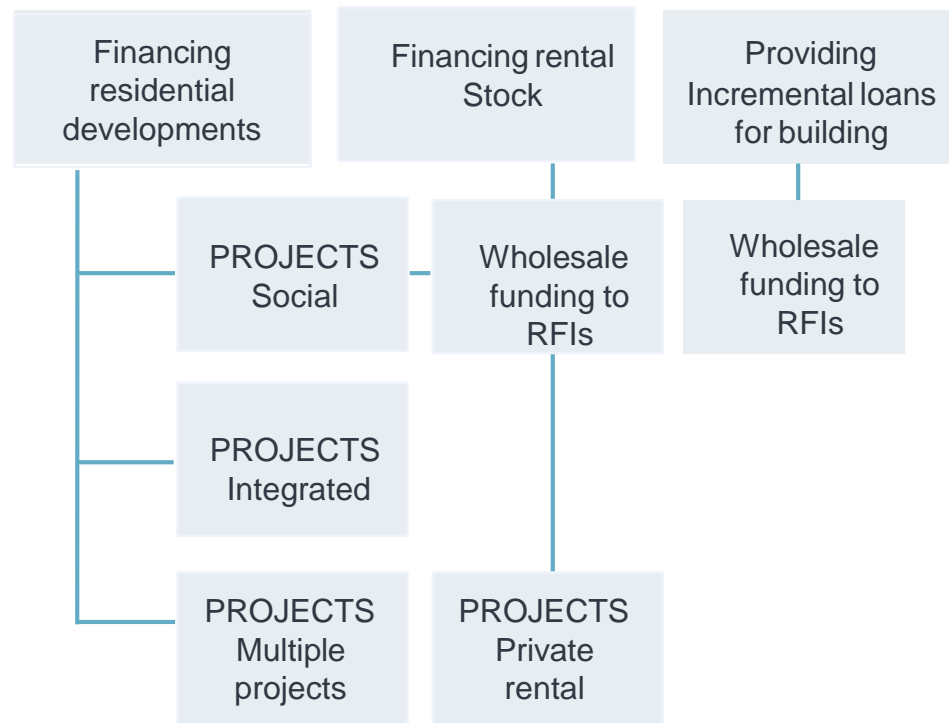
# BUSINESS MODEL

## DEMAND SIDE

Promoting private sector provisions of end-user finance to the target market



## SUPPLY SIDE



# HOW WE CREATE VALUE



## SOCIAL HOUSING - RENTAL

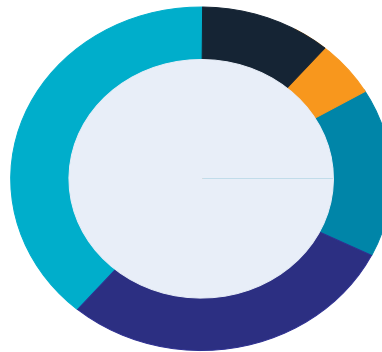
This is subsidised rental housing made available by social housing institutions which are registered with the Social Housing Regulatory Authority (SHRA). Rentals are at below market rates due to the grants and subsidies provided as initial project funding by various spheres of government via SHRA. Typically,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



## STRATEGIC PARTNERSHIPS

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

*How our funding portfolio is deployed by sector*



## INCREMENTAL HOUSING

We provide funding to non-banking intermediaries who on-lend funding to home owners for incremental improvements including building additional living space. Loans average R15 000.



## PRIVATELY-OWNED RENTAL HOUSING

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



## HOME OWNERSHIP

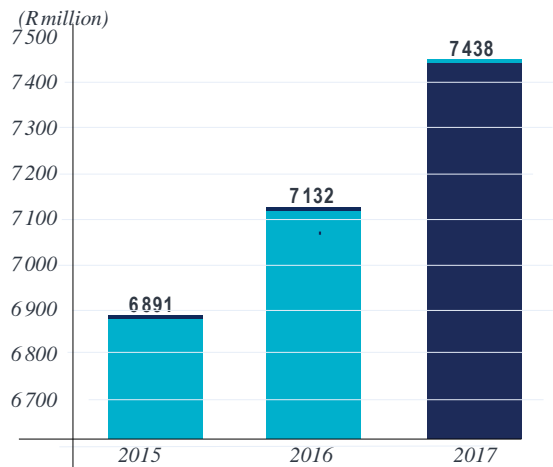
We invest in developments where individuals buy completed units through mortgages (with a value not exceeding R500 000). Loans are provided to homeowners via NHFC clients who are non-banking retail intermediaries.

-  Social housing 39%
-  Privately-owned rental housing 29%
-  Home ownership 16%
-  Incremental housing 6%
-  Strategic partnerships 10%

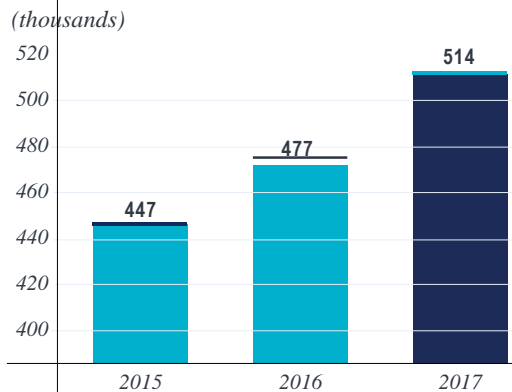
# CUMULATIVE DEVELOPMENTAL IMPACT

## CUMULATIVE DEVELOPMENT IMPACT

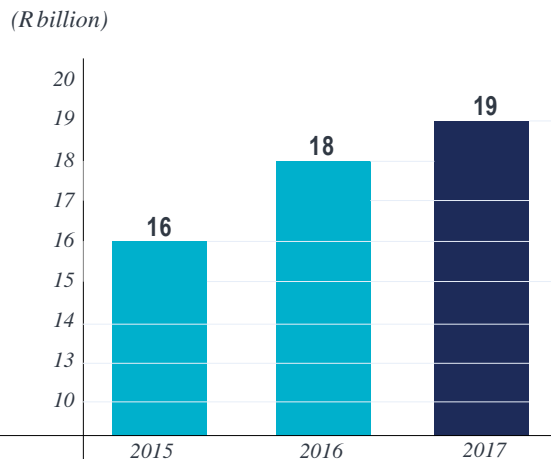
Cumulative funds disbursed directly by NHFC since 1996



Cumulative units/housing opportunities delivered through our funding, interventions and partnerships since 1996

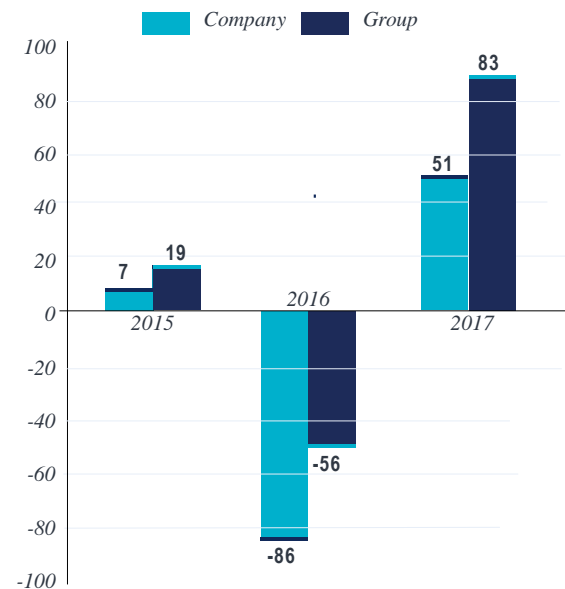


Private-sector funds leveraged through our funding, interventions and partnerships since 1996



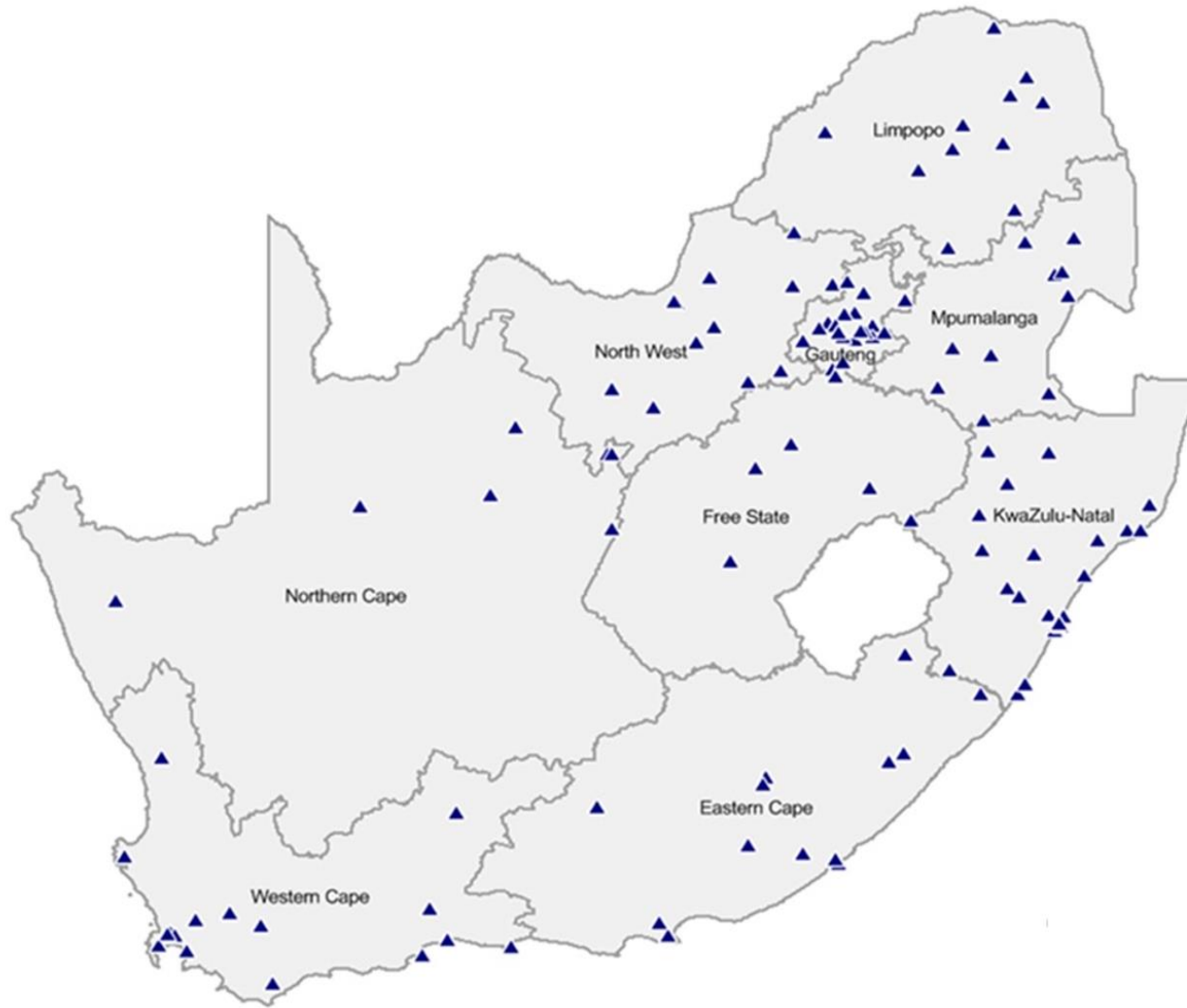
## FINANCIAL PERFORMANCE

Profit before taxation (R Million)

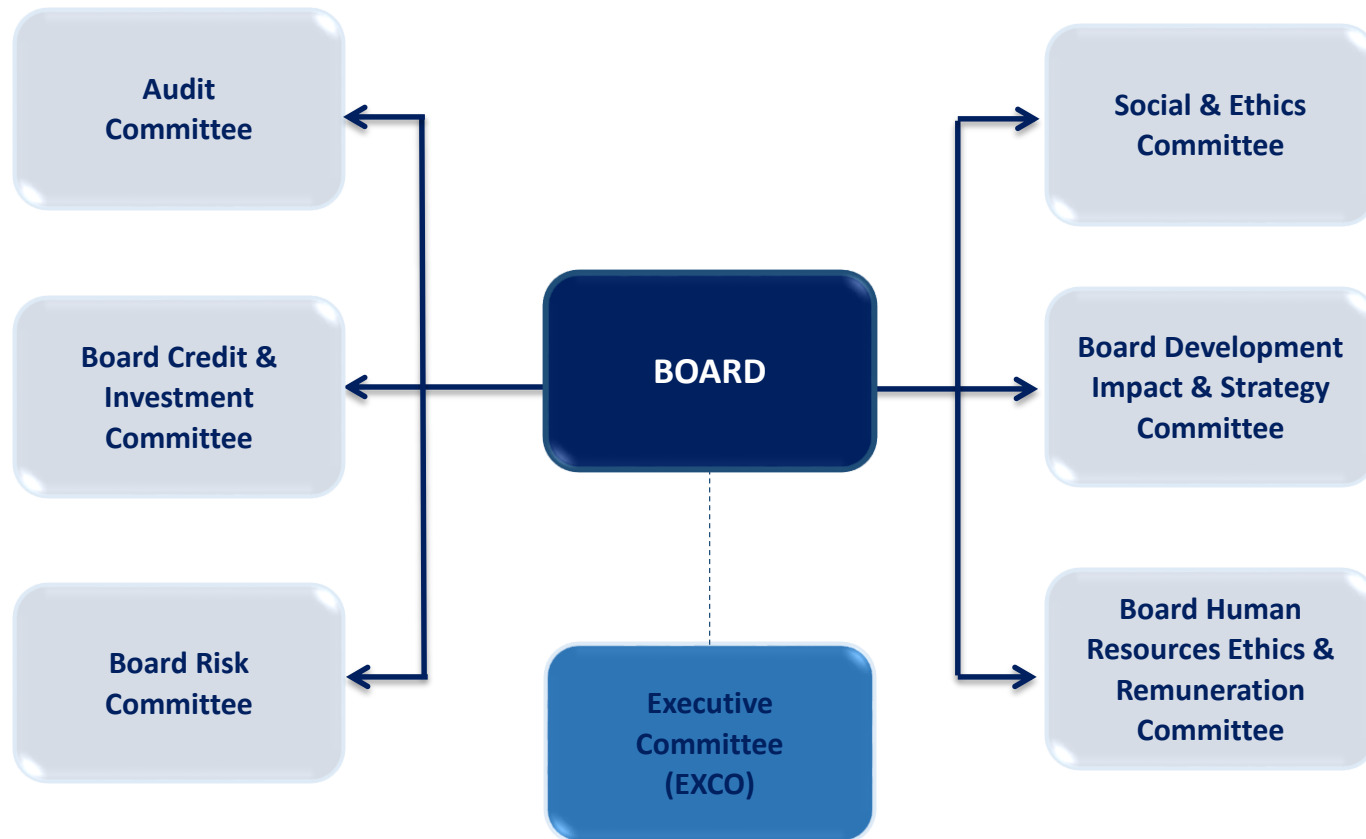




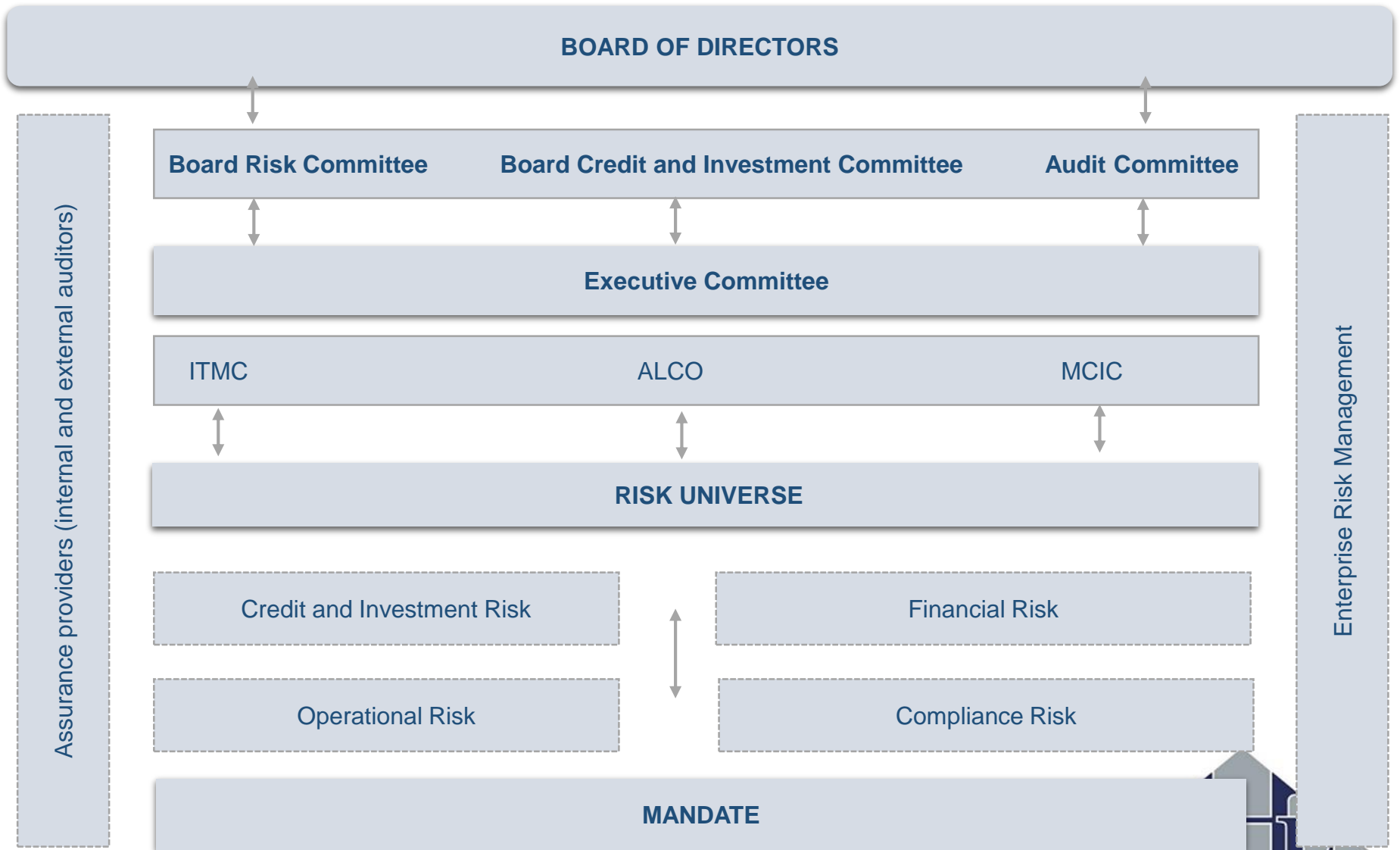
# NHFC'S REACH



# CORPORATE GOVERNANCE



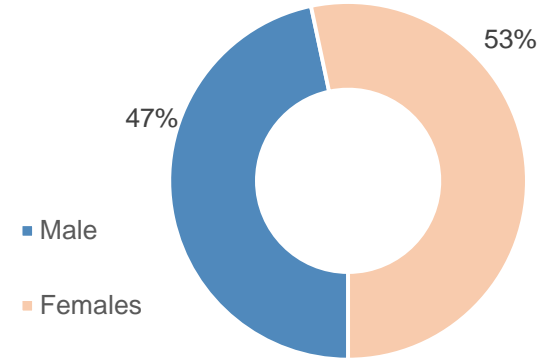
# RISK UNIVERSE AND SUPPORTING GOVERNANCE STRUCTURES



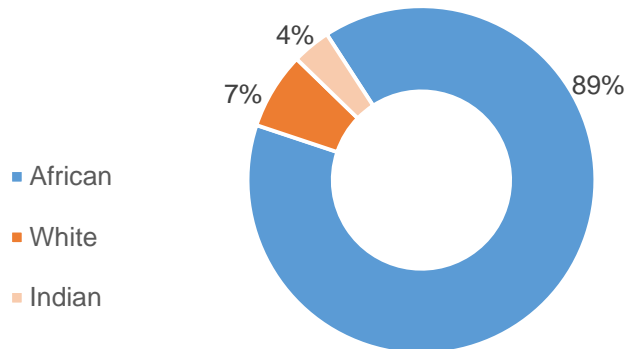
# OUR PEOPLE



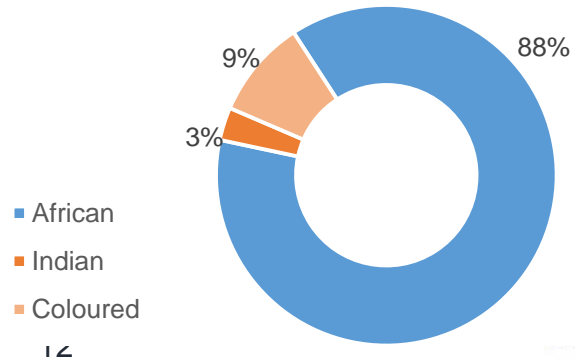
### Male Versus Female Employees



### Male Employees



### Female Employees



# MARCH 2016/17 IN PERSPECTIVE



## Highlights

- Creation of **36 153 housing opportunities**, transforming the lives of **137 381 beneficiaries**. Creation of **8 802 job opportunities**.
- Strategic partnerships to leverage **private sector funding** and achieve scale **mobilised R1.6 billion** into the sector.
- **Improved liquidity**
- Efficiencies - **cost to income ratio of 43%**.
- Market maker : **New players (banks and real estate investment trusts) that are investing in affordable rental housing** (including inner city housing) and social housing.
- **Committed strategic funding partners.**

## Challenges

- **Economic and market conditions** negatively affecting both the households and clients of NHFC.
- **Quality of the pipeline**, adjustments in subsidy quantum and capped rentals in Social housing.
- **Quality of projects**. More start-up or emerging clients need to come on board as the seasoned graduate to be funded by Banks.
- Stubbornly high level of **Non Performing Portfolio**.
- **Credit Rating downgraded** by Global Credit Ratings.

# AUDIT OUTCOMES

Audit opinion of financial statements	Unqualified
Predetermined Objectives	No material findings on usefulness and reliability of the reported performance information.
Compliance with laws and regulations	Did not identify any instances of material non-compliance.

# BUSINESS PERFORMANCE

Performance indicator	Actual 2016/17	Budget 2016/17	Variance	Comments
Estimated number of housing opportunities facilitated through disbursements and leveraged funds	36 153	22 270	13 883	Target exceeded
Number of beneficiaries benefitting (factor of 3.8 applied)	137 381	84 626	52 755	Target exceeded
Value of funds disbursed (R'm)	306	503	(197)	<ul style="list-style-type: none"> <li>Economic and market conditions negatively affecting both the households and clients of NHFC.</li> <li>Quality and quantity of pipeline.</li> <li>Seasoned graduate to be funded by Banks.</li> <li>Project delays of committed funds.</li> </ul>
Value of approvals (R'm)	302	489	(187)	
Value of leveraged funds from the Private sector (R'm)	1 634	1 380	254	Target exceeded

Other developmental impact				
Performance indicator	Actual 2016/17	Budget 2016/17	Variance	Comments
Estimated number of jobs facilitated*	8 802	7 282	1 520	Target exceeded
Value of disbursements targetted towards women, youth and emerging BEE entrepreneurs (R'm)**	217	376	(159)	Few private rental clients disbursed during the year.

\* Formula applied: 11.13 jobs created for every R1 million spent in a project. (Based on outcome of research by NDOHS).

\*\* Funds disbursed through NHFC & Strategic Partners, TUHF and GPF/NHFC Entrepreneur Empowerment Property co-funding agreement.

# PERFORMANCE AGAINST MTSF TARGETS

	NDOHS MTSF 5 year Target	NHFC MTSF 5 year Target Approved Strategic Plan	NHFC MTSF Target to date 2014/15 to 2016/17	% MTSF	NHFC MTSF Actual to date 2014/15 to 2016/17	% MTSF
Social Housing Units	27 000	5 899	3 400	58%	3 556	60%
Private Rental Housing Units	25 000	15 390	8 851	58%	13 801	90%
<b>Total Rental</b>	<b>52 000</b>	<b>21 289</b>	<b>12 251</b>		<b>17 357</b>	
Affordable Housing Units		9 110	5 777		7 326	
Incremental Housing Loans		17 498	8 240		50 968	
<b>Total Affordable Housing</b>	<b>110 000</b>	<b>26 608</b>	<b>14 017</b>	<b>53%</b>	<b>58 294</b>	<b>219%</b>
<b>Total</b>		<b>47 897</b>	<b>26 268</b>		<b>75 651</b>	

All programs either on or ahead of target.

Above budgeted performance mainly as a result of leveraged contribution from a retail intermediary and the strategic partnership with TUHF.



# STATEMENT OF FINANCIAL PERFORMANCE

	Actual	Budget	Variance to budget		
R'000					
				<i>Net impairments and bad debts</i>	<i>Reflective of tough trading conditions. Remains vulnerable to impact of key clients.</i>
Lending income	174 770	173 489	1 281	<i>Operating expenses</i>	<i>Continued benefits of prior rationalisation and concerted cost containment efforts.</i>
Sale of houses	34 783	46 110	(11 327)		
<b>Operating income</b>	<b>209 553</b>	<b>219 599</b>	<b>(10 046)</b>		
Cost of sales	(31 814)	(43 246)	11 432	<i>Investment income</i>	<i>Lower than budgeted disbursements, early settlements.</i>
Net impairments and bad debts	(58 611)	(81 568)	22 957		
<b>Net operating income</b>	<b>119 128</b>	<b>94 784</b>	<b>24 343</b>		
Operating expenses	(103 933)	(114 938)	11 005	<i>Taxation</i>	<i>Unwinding of the deferred tax asset following change in tax status.</i>
<b>Net operating surplus</b>	<b>15 195</b>	<b>(20 154)</b>	<b>35 348</b>		
Investment income	62 519	22 327	40 193		
Sundry income	20 289	24 159	(3 870)		
Share of profit of associates	5 180	-	5 180		
Interest paid	(19 770)	(20 601)	831		
<b>Surplus before tax</b>	<b>83 413</b>	<b>5 732</b>	<b>77 681</b>		
Taxation	(37 837)	(3 216)	(34 621)		
<b>Surplus after tax</b>	<b>45 576</b>	<b>2 516</b>	<b>43 060</b>		

# STATEMENT OF FINANCIAL POSITION

	<b>Mar-17</b>	<b>Mar-16</b>	<i>Key movements - Overall increase of 4% in total assets</i>	
<b>Assets</b>	<b>Actual</b>	<b>Actual</b>		
	<b>R'000</b>	<b>R'000</b>		
Loan assets	1 818 984	1 808 724	<i>Loan assets Increase of 1%</i>	• <i>Early settlements and level of disbursements. In absence of early settlements would have been 8%.</i>
Equity investments	173 204	134 045		
Instalment sale receivables	122 485	129 075		
Investment property	91 124	88 402	<i>Equity investments Increase of 29%</i>	• <i>Increase in fair value of investment in TUHF (Jobs Fund)</i>
Other non-current assets	1 744	39 971		
<b>Non-current assets</b>	<b>2 207 541</b>	<b>2 200 217</b>	<i>Instalment sale agreements Decrease of 5%</i>	• <i>Overall reduction in construction activities of CTCHC. No new investment.</i>
Properties developed for sale	72 844	95 694	<i>Properties developed for sale - Decrease of 24%</i>	
Money market investments	959 342	814 855		
Other current assets	43 204	31 641	<i>Other non-current assets Decrease of 96%</i>	• <i>Unwinding of deferred tax asset following change in tax status.</i>
<b>Total</b>	<b>3 282 931</b>	<b>3 142 407</b>		
<b>Net Assets and Liabilities</b>			<i>Net assets Increase of 6%</i>	• <i>Capital injection of R100 million.</i>
Net Assets	<b>2 924 690</b>	<b>2 755 903</b>	<i>Funds under management Decrease of 13%</i>	• <i>Driven by FLISP disbursements.</i>
Funds under management	39 225	44 883		
Other financial liabilities	249 274	283 360		
Current liabilities	69 742	58 261	<i>Other financial liabilities Decrease of 12%</i>	• <i>In line with repayment schedule, no new borrowings.</i>
<b>Total</b>	<b>3 282 931</b>	<b>3 142 407</b>		



# DFI CONSOLIDATION SIGNIFICANT MILESTONES

- The **required resolutions** to enable the transfer of Assets and Liabilities from NURCHA and RHLF to the NHFC have been passed by the respective Board Committees and the **shareholder of the NHFC**.
- The **Taxation Laws Amendment Act** No 15 of 2016, published in the Government Gazette on 19 January 2017 under notice 40562. **NHFC exempt from normal tax.**
- **Restructure of the NHFC Board by the Minister** to oversee the operational integration and legislative establishment of the HSDB.
- **Setting up of a Management Committee** (Manco) comprising of the executive management of the three entities.
- **Administrative Order obtained from Company Tribunal** exempting the Consolidation from the NPC Restrictions as contained in the Companies Act and the NURCHA and RHLF MOIs.

# DFI CONSOLIDATION WAY FORWARD

- Required approvals impacting **the effective date of the consolidation** – National Treasury and some funders.
- **Operational integration** continues
  - Physical migration: All entities now residing at NHFC offices.
  - Change management programme underway.
  - Governance – Alignment of Management Committees, Policies etc.
  - Managed at respective functional areas, eg. Business, Finance, Credit.
- The key focus is now on the completion and approval of **key HSDB establishment** documents such as Policy, Enabling Legislation, Business Case (including OD) and Capitalisation towards a fully integrated HSDB.

# *A new dawn for people's housing*



*In 2017/18 the NHFC, its partners and beneficiaries look towards an exciting new chapter in the corporation's history. Of course this chapter has yet to be written but we know that it will entail an enlarged new entity, the Human Settlements Development Bank (HSDB), which will be able to draw on greater human and financial resources – to put even more people into decent housing in which they can raise their families and prosper.*

*Our business has never been about bricks, mortar or plumbing; rather it has always been about people, those South African citizens who deserve the opportunity to live in dignified, secure spaces.*