NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

Celebrating 25 years of building and growing stronger together

INTEGRATED ANNUAL REPORT 2021

Celebrating 25 years of building together, and becoming stronger together

Our theme for the **NHFC 2020/21 Integrated Annual Report** is taken from the **humble ant**. Working together, without ceasing, for the well-being of the community … there can be no greater or nobler cause.

We also take great comfort in looking to the ant's relentless drive that embodies the **NHFC ethos**. Therefore our theme for this year is so apt and close to home. Because we have certainly **built together**, and we have become **stronger together**.

The adage that **many hands make lighter work** holds true, as does the sentiment of working **towards a common goal** – which is consistent with building something that is greater than the individual. The result of such building is two-fold – the individuals engaged in the act each become tougher themselves, and the group as a whole is **infinitely stronger as a result**.

This Integrated Annual Report is dedicated to the **spirit of togetherness and building**, personified in what the NHFC has managed to accomplish, even in the face of great adversity and uncertainty.

If beauty is in the **eye of the beholder**, then strength must surely be in the **hands of the builders**.

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IN CELEBRATION OF OUR 25TH ANNIVERSARY – A LOOK BACK IN TIME

The NHFC's historic timeline

1996

- **Housing rights** enshrined in the **Constitution.**

1996 - 2001

- The National Housing Finance Corporation **(NHFC) established**, with initial capitalisation of **R880 million**, as a wholesale finance institution to provide **housing finance facilities** for **incremental housing**.
- **Social Housing Foundation** (SHF) established under the auspices of the NHFC to support, capacitate and establish a **viable social housing sector**.
- The NHFC and City of Cape Town form a **50/50 joint venture** (Cape Town Community Housing Company (CTCHC) for the provision of **social housing**.
- Gateway Home Loans (Pty) Ltd established as a **subsidiary** to deliver **housing at scale**, for the gap market (income earners earning a salary ranging from **R25 000 to R60 000** per annum) and promotes the **secondary home loan market**.
- Sponsors and co-founds the **Micro Finance Regulatory Council**.

2003 - 2005

- Sets up the **Trust for Urban Housing Finance** (TUHF) with other partners and provides **start-up capital**.
- Implementing agent for the **Kliptown project**, which formed part of the **50-year anniversary** of the **Freedom Charter**.
- Participated in the **National Credit Bill** process development and the formation of the **Regulatory Institution** in terms of the National Credit Act, Act No. 34 of 2005.

2006 - 2012

- Establishes, in partnership with **Old Mutual**, **Housing Investment Partners** (HIP), which designed and developed the innovative **income-linked home loan** product.
- The NHFC acquires **100% shareholding** of CTCHC.
- Establishes a **retail division** (Home Front) to accelerate the provision of access to **affordable housing** through providing **mortgage loans** to the target market.
- Enters into a **co-funding agreement** with the Gauteng Partnership Fund (GPF) to enhance access to housing finance for **historically-disadvantaged entrepreneurs** who otherwise, would be excluded from participating in the residential property market.

2015 - 2021

- The NHFC is re-classified as a **non-tax paying company**, effective from 1 April 2016.
- The Companies Tribunal **approves an administrative order** exempting the NHFC from NPC restrictions as contained in the Companies Act; and the NURCHA and RHLF memoranda of incorporation (such that the applicants may conclude and implement the consolidation on the basis that **NHFC remains a for-profit company**) is drawn up and signed.
- The NHFC merger with the **Rural Housing Loan Fund** NPC (RHLF), and the **National Urban Reconstruction and Housing Agency** NPC (NURCHA) into a single entity is accomplished in October 2018 as the first step towards **establishing** the Human Settlements Development Bank (HSDB).
- Process to establish the HSDB **gets underway**.

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Developpement
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
APP	Annual Performance Plan
B-BBEE	Broad-based Black Economic Empowerment
BCIC	Board Credit and Investment Committee
BRC	Board Risk Committee
CEO	Chief Executive Officer
CFDP	Contractor Finance and Development Programme
Companies Act	Companies Act No 71, 2008
CTCHC	Cape Town Community Housing Company (Pty) Limited
CBO	Community based Organisation
CIDB	Construction Industry Development Board
CIO	Chief Information Officer
CoGHSTA	Cooperative Governance, Human Settlements and Traditional Affairs
DFI	Developmental Finance Institution
DHS	Department of Human Settlements
DISC	Development Impact and Strategy Committee
EE	Employment Equity
EIB	European Investment Bank
EWR	Enterprise-wide Risk Management
EXCOM	Executive Committee
FLISP	Financed Linked Individual Subsidy Programme
Futuregrowth	Futuregrowth Asset Management (Pty) Ltd
GPF	Gauteng Partnership Fund
GRI	Global Reporting Initiative
HIP	Housing Investment Partners (Pty) Limited
HDA	Housing Development Agency
HSDB	Human Settlements Development Bank
ICT	Information and Communications Technology

IHS	International Housing Solutions (Pty) Limited
ILO	International Labour Organisation
ISA	Instalment Sales Agreement
ISA	Infrastructure South Africa
IT	Information Technology
ITMC	Information Technology Management Committee
KING IV	KING IV Code on Corporate Governance
MCIC	Management Credit and Investment Committee
MOI	Memorandum of Incorporation
MTSF	Medium Term Strategic Framework
NDoHS	National Department of Human Settlements
NHFC	National Housing Finance Corporation SOC Limited
NURCHA	National Urban Reconstruction and Housing Agency NPC
ODA	Other Delivery Agents
OMCH	Old Mutual Capital Holdings (Pty) Limited
PFMA	Public Finance Management Act 1 of 1999
RHLF	Rural Housing Loan Fund NPC
RFI	Retail Finance Intermediary
NMS	NHFC Management Services (Pty) Ltd
NLF	NURCHA Loan Fund (Pty) Ltd
PIC	Public Investment Corporation SOC Limited
SACCAWU	South African Commercial, Catering, and Allied Workers Union
SASBO	South African Society of Bank Officials
SASC	Safety and Security Committee
SEC	Social and Ethics Committee
SHI	Social Housing Institutions
SLIM	Systematic Loan Information Management System
SOC	State-owned company
SHRA	Social Housing Regulatory Authority
TUHF	TUHF Holdings Limited

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

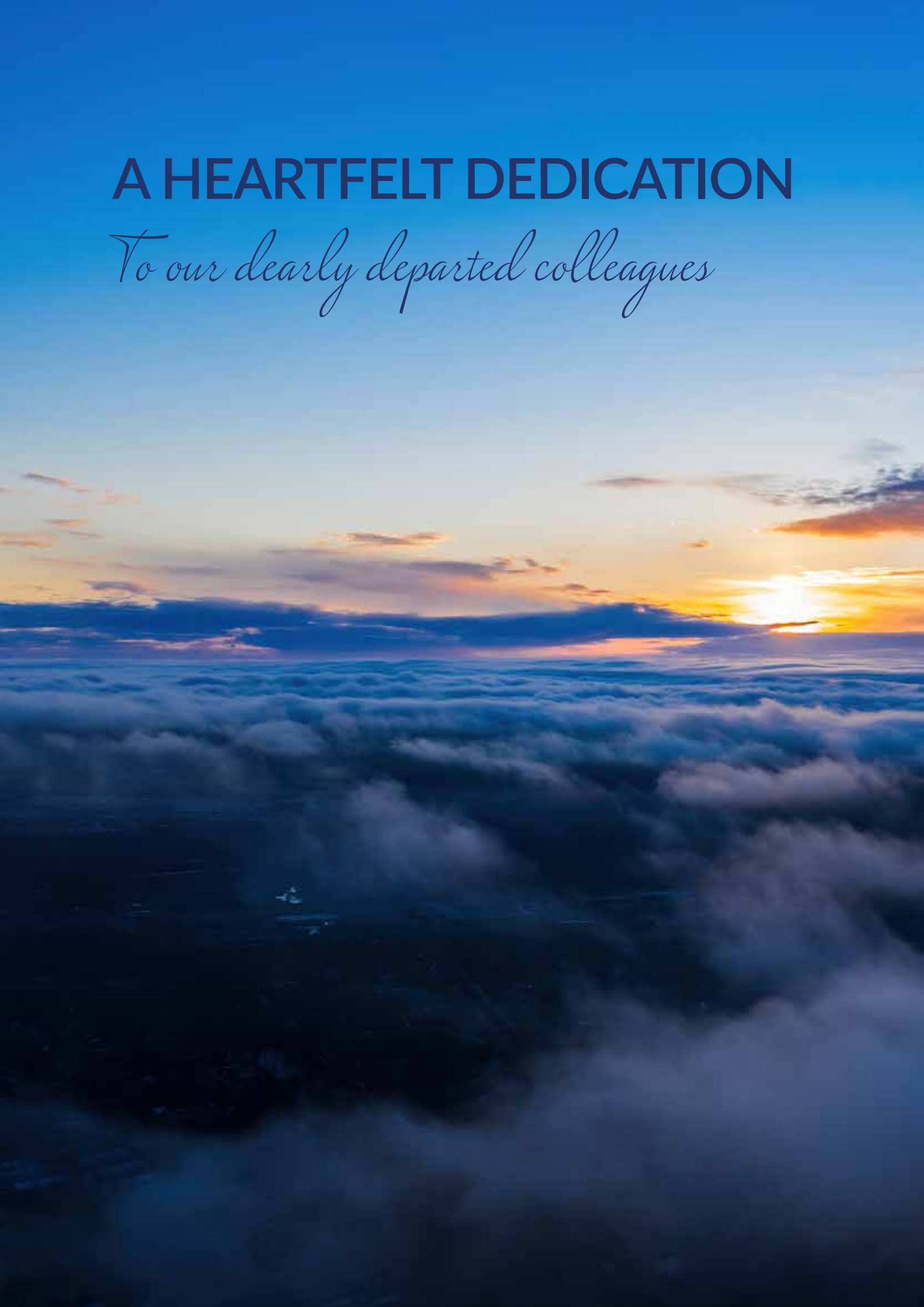
NAVIGATING THE REPORT

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

CONTENTS

A HEARTFELT DEDICATION

To our dearly departed colleagues



This Integrated Annual Report is dedicated to the loving memory of our colleagues who have passed from this life into heavenly glory. The memories that they have left behind will be cherished forever. May their souls rest in peace.

BENEDICTA 'BERNIE' PHINZI

Born: 12 July
Passed: 27 July 2020
Position: Office Administrator

Bernie began her career as an outsourced employee while she worked at the NURCHA office. In January 2009, she joined the company as a receptionist and moved up the ranks, becoming an Office Administrator. Her vibrant personality and professional outlook soon had her becoming a firm favourite among our clients to such a point, that if she was absent, they would enquire after her. She was neat and clean, her workstation reflected this. She was affectionately known as 'Mam B' or 'Ma B' to her colleagues. In response to being addressed by a female colleague, she'd affectionately call them 'baby girl'. Indeed, she was a loving mother-figure to all, always giving good guidance, yet quick to reprimand with a stern tone when she didn't approve of something. We all have lost a colleague, a friend, a sister, a mother and a cherished confidante.

CHERYL 'CHEZ' ABRAHAMS

Born: 21 April
Passed: 18 January 2021
Position: Personal Assistant ***to*** Executive Manager: Programme Management and Strategic Partnerships

Cheryl Abrahams joined NURCHA in April 2010 and worked as a Personal Assistant for the former NURCHA MD. She was an extremely diligent and meticulous person in her professional career and completed all work assigned to her with the utmost integrity. Chez was a shining light, and she made an indelible contribution to the company, her kind heart touching people in many unique ways. To all, she was an open book with countless strengths and talents. She drew energy and personal fulfilment from helping colleagues on work-related matters in any way she could. Her warmly-extended helping hand was backed by amazing creative abilities and the many skills she possessed.

She had an unshakable strength of character and fortitude that was most pronounced in her five-year battle against cancer, which she finally succumbed to. She was an inspiration until her last days, and she will be dearly missed.

NONTOBEKO 'NONTI' NGONO

Born: 3 September
Passed: 8 July 2021
Position: Senior Manager: Stakeholder Relationship

Nontobeko Nonti Ngono was with the NHFC for 4 years. Prior to that, she worked for NURCHA for 23 years since June 1998, and was the longest serving employee the company has had. She had a deep and abiding love for the organisation, which was demonstrated by her willingness to always go the proverbial extra mile in carrying out numerous tasks, from working as a Customer Care Specialist to being appointed as Senior Manager: Stakeholder Relationship Management. Nonti engaged in diverse projects effortlessly, and tackled her tasks with her exuberant energy. She was a world class marketer, and an equally outstanding person.

A ball of energy, always full of light, laughter and life, she epitomised the qualities of a good leader, involving her subordinates wherever she could. Nonti was authentic, her personality served the purposes of her soul, and she was never pretentious. She will be missed for her conversations, her laugher, smile, the pet names that she called everyone and for the immensely positive impact that she had within the company.

FOREWORD BY THE MINISTER

MT KUBAYI, MP
MINISTER OF HUMAN SETTLEMENTS

> *"I am looking forward to working with the organisation in the pursuit of this important mandate so that we not only deliver houses but help to create a better South Africa for all."*

The financial year under review began barely a month after the Covid-19 virus was detected in our country. The necessary measures our country took to contain the spread of the pandemic, in effect, drove our country's economy to a recession. The Covid-19 pandemic has had a devastating impact on businesses owing to the unavoidable business operations stoppages and in some cases permanent closures. The induced reduction in economic activities led to the loss of jobs, recording the highest unemployment in the first half of the 2021 calendar year, and devastated household's income. This translated to an increase in non-performing loans caused by lower debt service levels, depreciation in the currency, increase in bond yields, and lower share prices and ultimately an increase in cost of funding.

As the Covid-19 pandemic continues to dampen efforts to restore economic growth, most of NHFC clients are battling to resume operations and the gap market households, which is the target market, continue to struggle with affordability. Most concerning is the fact that the mandatory lockdown resulted on clients experiencing loss of revenue thus unable to service debt, and potential breach of loan covenants. It is pleasing to report that in the year under review, the NHFC devised a Covid-19 relief package aimed at providing relief to our clients.

The relief package, benchmarked with what other private financial institutions were offering as COVID-19 relief to their clients, provided for our client portfolio of Retail Finance Intermediaries, Developers, Contractors, Private Rental Owners, and Social Housing Institutions. The package entailed: A 4-month repayment moratorium, with interest due capitalised to the loan extension of the loan repayment period, waiving breaches of loan covenants for a period of up to 12 months – this meant that no penalty interest would be imposed for breaching loan covenants.

We welcome the good news that this relief has also filtered down towards a wide range of end user beneficiaries who benefitted both directly and indirectly. In this regard, landlords and Intermediaries were able to make payment arrangements and concessions with the beneficiaries, developers and contractors were also able to complete developments to be occupied by the beneficiaries.

The overall performance of the organisation was also impacted upon by the fact that Real estate and construction came to a complete standstill as a result of the hard lockdown during the first quarter of the financial year. The deeds office was closed and conveyancers were required to remove all lodged transactions. This created a backlog of registrations which resulted in delays of approximately eight weeks in expected cash flows for most NHFC's clients. However, towards the end of the financial year the construction sector saw an improvement with more business activity being noted. Approved building plans on residential and non-residential buildings saw a decline from the previous year. Though it will take time for the construction levels to return to pre-pandemic levels, we are pleased to see a steady improvement in the sector.

For the NHFC to continue to improve on the delivery of its mandate it needs continuous improvement on its governance and its systems. The board has reassured me that measures have been put in place to address the governance challenges that have been raised by the auditor general. To streamline its processes the NHFC has implemented a Business Modernisation Strategy that was rapidly executed at the onset of the COVID-19 pandemic.

Most importantly, the modernisation also includes the digitisation of the Finance Linked Individual Subsidy Program (FLISP) Customer Relationship Management (CRM) system, processes, and the introduction of efficient workflows for improved turn-around times, improved service delivery and new client experience. In the end, an online portal will introduce a new, improved, and empowering experience to all FLISP clients. Clients will be able to apply online at the comfort of their homes, as and when they want to apply for a FLISP subsidy.

More broadly, NHFC's programmes aimed at broadening access to housing for the gap market are an important pillar in the revival of the construction sector and the economy as a whole. In this regard, the South African Economic Reconstruction and Recovery Plan (ERRP) has identified aggressive investment in infrastructure as one of the important pillars of country's economic recovery efforts. The establishment of the Human Settlements Development Bank to, amongst others, assist first time homebuyers, fund social housing institutions and people who have lower incomes, to purchase or build their own houses will play an instrumental role in crowding-in investments in infrastructure.

NHFC's mandate is to devise accessible funding instruments for the creation of an inclusive spatial development and in the pursuit of this mandate, the NHFC has an opportunity to contribute to the creation of an inclusive and transformed economy that will create enough jobs for all who seek employment, provide equitable distribution of income amongst all South Africans and create a better life for all.

I am looking forward to working with the organisation in the pursuit of this important mandate so that we not only deliver houses but help to create a better South Africa for all.

I would like to convey my appreciation for the oversight work done by the national housing finance corporation Board, the dedication and hard work of the NHFC executive team and the entire staff under the difficult conditions of the Covid-19 pandemic.

MT Kubayi, MP
Minister of Human Settlements

PART A

General Information

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Celebrating 25 years of building together,
and becoming stronger together

ABOUT THIS REPORT

This Integrated Annual Report is a review of our financial, operational, environmental, social, and governance performance for the year, from 1 April 2020 to 31 March 2021, and follows on from our 2019/20 Integrated Annual Report. It examines our use of and the impacts on the six capitals, and our performance in relation to our strategy.

INTRODUCTION

This Integrated Annual Report is the National Housing Finance Corporation's (NHFC) annual communication to the shareholder, stakeholders and other interested parties, contains financial results, business outlook, strategy, and other relevant information. It seeks to set out, in a concise, comparable (where appropriate), and consistent manner how our strategy and performance for the year under review have materially impacted our stakeholders.

The report content is based on (2020/21) performance, as well as information aimed at providing stakeholders with a view of the sustainability of the business, and the impact the NHFC has on catering to the gap market (see definition of 'Gap Market' on page 14). The NHFC is listed as a Schedule 3A entity in the Public Finance Management Act, of 1999 (PFMA) and registered in terms of the Companies Act of 2008. Thus, it is obliged to align all reporting to the requirements of the PFMA and the Companies Act, while ensuring compliance with the King IV Report on Corporate Governance in its continued commitment to report and operate ethically and honestly with stakeholders.

REPORT SCOPE, BOUNDARY AND FRAMEWORKS

The information in this report refers to the performance of the company over the 2020/2021 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 119 of this report.

BASIS OF PREPARATION

This Integrated Annual Report is based on the principles contained in the King IV Report on Corporate Governance. The King IV codes, principles and practices are linked to desired outcomes, therefore articulating the benefits of good corporate governance.

This report seeks to provide a balanced and transparent account of how we create value through the use of the various capitals, and the resultant impacts of such use.

ASSURANCE APPROACH

The NHFC Integrated Annual Report has been assessed and reviewed by the Board of Directors who are satisfied that the information contained in this report has followed reasonable assurance for all subject matter, and is, to the Board's best knowledge, accurate and true. All financial statements have been externally assured through audit conducted by the Auditor-General.

FORWARD-LOOKING STATEMENTS

Certain statements in this report regarding the NHFC's business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans and objectives for future operations. Forward-looking statements constitute our current expectations based on reasonable assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised and, as such, are not intended to be a guarantee of future results. Actual results could differ materially from those projected in any forward-looking statements due to various events, risks, uncertainties and other factors. The NHFC neither intends nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BOARD STATEMENT OF RESPONSIBILITY

The Board is accountable for the integrity and completeness of the Integrated Annual Report and any supplementary information and is assisted by the Audit Committee, Risk Committee as well as the Social and Ethics and Committee.

The Board has applied its collective mind to the preparation and presentation of the Integrated Annual Report and has concluded that it is presented in accordance with the King IV Corporate Governance Framework guidelines, as well as the Standards of Generally Recognised Accounting Practice (GRAP) Framework. Considering the completeness of the material items dealt with and the reliability of information presented, the Board approved the 2020/21 Integrated Annual Report, annual financial statements and supplementary information on 30 August 2021.

> *"The Board is accountable for the integrity and completeness of the Integrated Annual Report and any supplementary information and is assisted by the Audit Committee, Risk Committee as well as the Social and Ethics and Committee."*

NHFC ETHOS

NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

MANDATE

The NHFC's principal mandate is to broaden and deepen access to the financing and development of sustainable Human Settlements in the low- to middle- income segment of the South African household market. The deepening of access spans across the entire country including rural areas, which are broadly defined to include communal land and small towns 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 prioritise the development impact through Transformation and Sustainability.

OUR VALUES A.C.E, L.I.I, D.U.P.

ACE
- Accountability
- Collaboration
- Excellence

"We excel at what we do."

LII
- Leadership
- Integrity
- Innovation

"We Innovate and Lead with Integrity."

DUP
- Diversity
- Ubuntu
- Professionalism

"We appreciate our Diverse backgrounds and skillset, we treat and respect others, we are professional in our dealings with each other and the public."

OUR STRATEGIC FOCUS

The NHFC, as mandated by the NDoHS under the leadership of the Minister of Human Settlements, strives to transform the human settlements sector and the spatial economy in South Africa and to improve the quality of household life. The transformation of human settlements entails increasing access to affordable housing finance to enable households to have appropriate and adequate housing and enable intermediaries to help improve the delivery of affordable housing which is linked to basic services and in close proximity to economic opportunities.

The NHFC has designed its strategy with the intention of contributing to making positive impacts in relation to Outcome 8 of the NDP and has identified the core outcomes below as key towards achieving its aim of creating a sustainable human settlements, and improved quality of household life. Specific indicators have been selected to adequately reflect the measures of success related to the stated outcome of improved delivery of affordable housing. The indicators are wide-ranging to ensure all affordable housing solutions are considered.

	THE OUTCOMES	STRATEGIC ENABLERS
Impact Statement: **Sustainable human settlements and improved quality of household life.**	1. Functional, efficient, and integrated government.	• Sound corporate governance. • Efficient and effective systems and processes. • Competent and adequately skilled staff. • Stable economic climate. • Functioning housing market. • Co-operation between all spheres of government and provinces.
	2. Improved delivery of affordable housing.	
	3. Increased access to affordable finance to enable end-users to have appropriate, spatially-ust, and adequate housing.	
	4. Increased penetration and participation of low-to middle income households and businesses owned by PDIs in the housing market.	

RISK TAKING

The NHFC is not a particularly risk-averse corporation, however, the organisation 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 organisation. As a developmental 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 in risk capital which may typically assume first loss, so as to encourage private sector investment.

DEFINITIONS

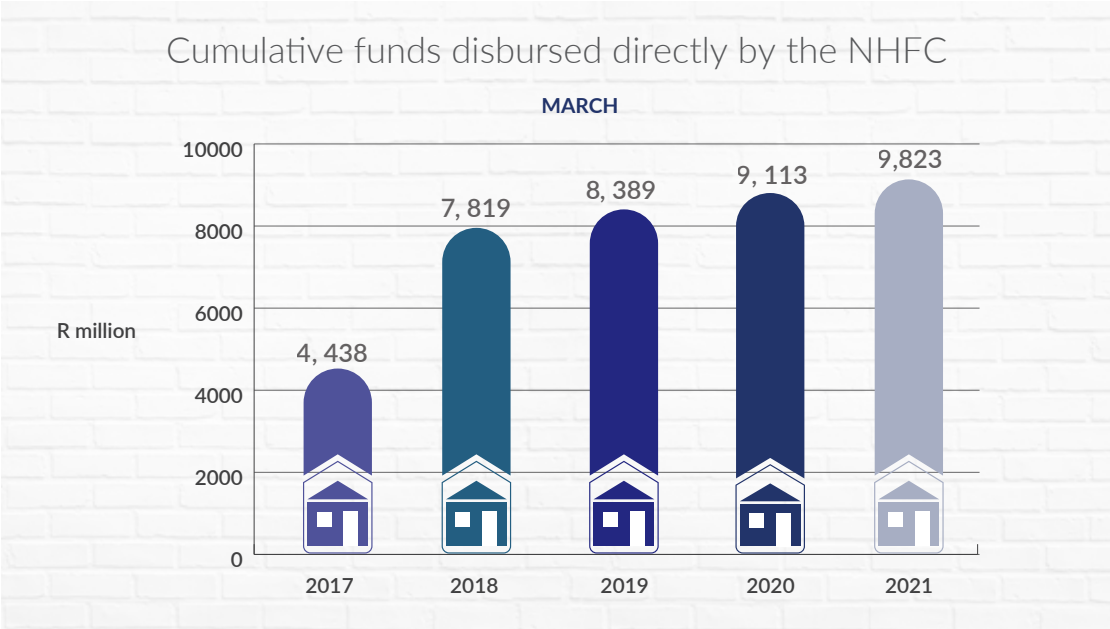
GAP MARKET

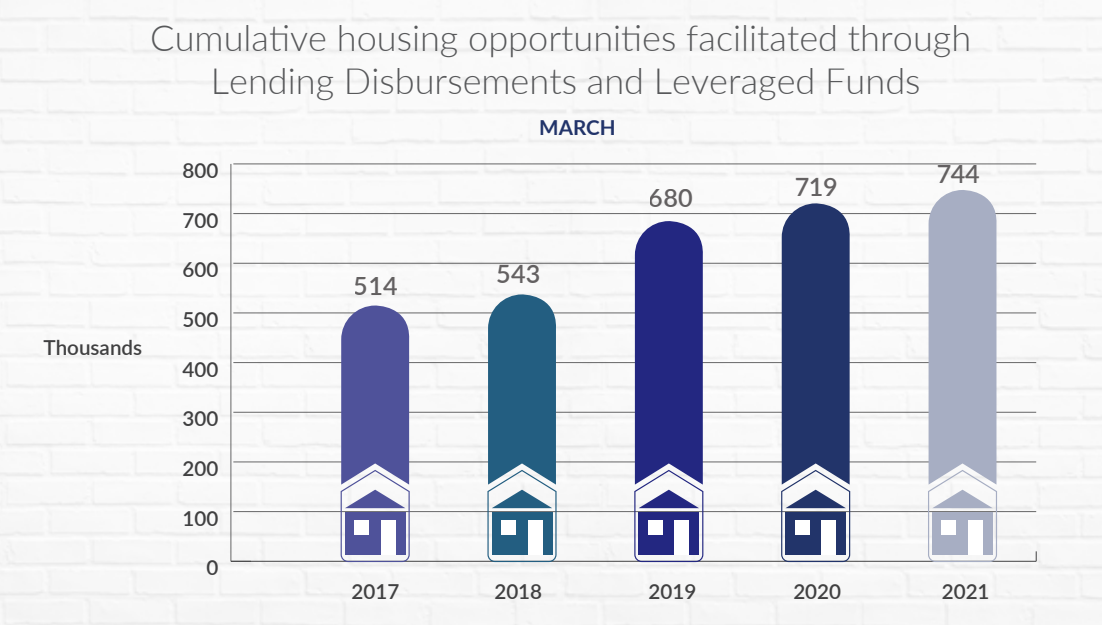
The market that we primarily serve is referred to as the 'gap market'. This market comprises South African households who earn a combined monthly income of between R3 501 and R22 000. This places this specific market in an income bracket that is often excluded from obtaining credit for mortgages from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

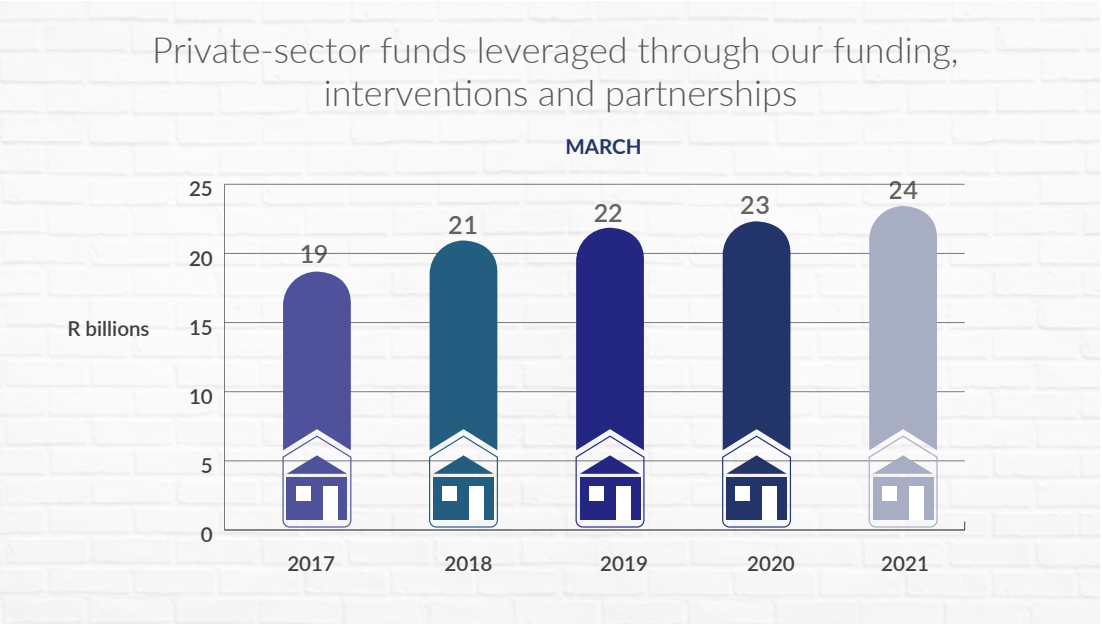
THE NHFC TARGET MARKET

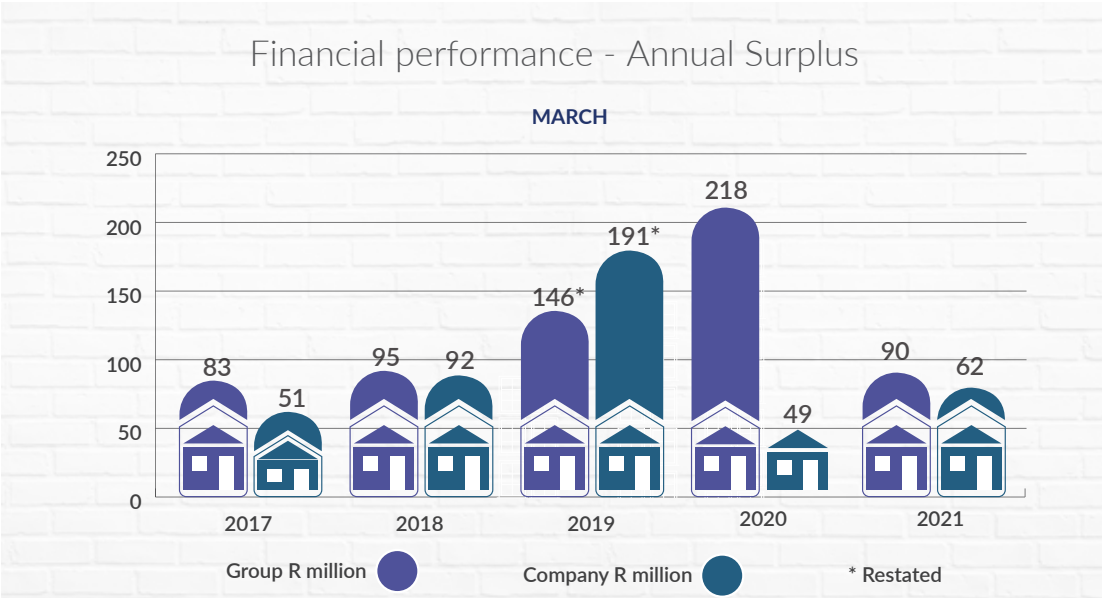
Our product offering targets South African households with a monthly income of between R800 to R22 000.

CUMULATIVE DEVELOPMENT IMPACT




Cumulative housing opportunities facilitated through Lending Disbursements and Leveraged Funds
MARCH
Thousands
800
700
600
500
400
300
200
100
0
514
543
680
719
744
2017
2018
2019
2020
2021


Private-sector funds leveraged through our funding, interventions and partnerships
MARCH
R billions
25
20
15
10
5
0
19
21
22
23
24
2017
2018
2019
2020
2021


Financial performance - Annual Surplus
MARCH
250
200
150
100
50
0
83
51
95
92
146*
191*
218
49
90
62
2017
2018
2019
2020
2021
Group R million
Company R million
* Restated

PART B

Our Business

Celebrating 25 years of building together,

and becoming stronger together


NATIONAL HOUSING FINANCE CORPORATION SOUTH
FINANCIER
INNOVATOR
FACILITATOR
NHFC
WEBSITE: WWW.NHFC.CO.ZA
TEL (011) 644 9800
FAX: (011) 484 0202

ABOUT THE NHFC

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 organisation 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.

OUR RESPONSE TO THE COVID-19 PANDEMIC

The advent of the COVID-19 pandemic and its continued impact has not only tested societies, businesses, and countries to breaking point, but the pressure heightened the ability to adapt as a leading indicator for future global success.

AS A DFI

The Minister of Human Settlements has made an allocation of R300 million to the NHFC for the Debt Relief Programme which is intended to be used to offset debt incurred by the NHFC's clients ailing portfolio. The timing of the receipt of the funds, has meant that the implementation will occur in the new financial year during 2021/22.

COVID-19 CLIENT RELIEF MEASURES

The COVID-19 and the associated lockdown measures imposed under the Disaster Management Act from 26 March 2020 had resulted in the NHFC business operations reducing quite significantly until the lockdown measures were eased, and operations could recommence. This also had an impact on all NHFC clients who also had to stop operations. The effects of the lockdown on clients were in the form of loss of revenue, inability to service debt, and potential breach of loan covenants.

The NHFC Board took these impacts into consideration and tasked management to put a relief package in place, considering the negative financial impacts to clients. Towards this end, applications were invited from NHFC clients which were assessed against a means-test criterion, to ensure that clients were indeed negatively impacted and suffered losses.

A relief package (benchmarked with what other private financial institutions were offering as COVID-19 relief to their clients) was approved by the Board.

The relief package provided for our client portfolio of Retail Finance Intermediaries, Developers, Contractors, Private Rental Owners, and Social Housing Institutions entailed:

A 4-month repayment moratorium, with interest due capitalised to the loan extension of the loan repayment period, waiving breaches of loan covenants for a period of up to 12 months – this meant that no penalty interest would be imposed for breaching loan covenants.

The intervention has been a welcome relief for NHFC clients as no demand for debt payments were made for a period of four months, and client credit records will also not be impaired. This relief has also filtered down towards a wide range of end user beneficiaries who benefitted both directly and indirectly. Landlords and Intermediaries were able to make payment arrangements and concessions with the beneficiaries, developers and contractors were able to complete developments to be occupied by the beneficiaries. Most of our clients have since re-commenced their business operations, albeit at a much slower pace than anticipated.

> *"The NHFC is a state owned entity in the human settlements sector, supporting housing delivery through the provision of affordable housing finance."*

Programme/Sub Programme	Intervention	Geographic location (Province/District/local municipality) (where applicable)	No. of Beneficiaries (where applicable)	
Social Housing	Capital and Interest moratorium	Gauteng, KwaZulu-Natal, Eastern Cape, and Western Cape	By providing assistance to the NHFC client (being the SHI's) a wide range of tenants benefitted directly and indirectly as there was a no expectation of debt repayment, therefore SHI's were able to make payment arrangements and concessions with their tenants	
Private Rental	Capital and Interest moratorium	Mpumalanga, Gauteng, KwaZulu-Natal, Western Cape, Free State, Eastern Cape	By providing assistance to the NHFC client being the Landlords, a wide range of tenants benefitted directly and indirectly as there was a no expectation of debt repayment, therefore Landlords were able to make payment arrangements and concessions with their tenants	
Bridging Affordable	Capital and Interest moratorium including waiver of fees	Gauteng	By providing assistance, the NHFC clients were able to complete the projects; deliver homes and serviced stands to the beneficiaries.	
Bridging Subsidy	Extension Fee reduction including extension of terms	KwaZulu-Natal	By providing an extension and relief to the NHFC client being the Contractor, enabled delivery of approximately 187 units to beneficiaries (completions) in the period.	
Incremental Housing	Capital and Interest moratorium including waiver of covenants	Western Cape, Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape, North West	Capital and interest moratorium was granted to one intermediary operating in the Western Cape to pass the benefit to its end-users. Intermediaries were given a waiver of covenants so that there is no breach of covenants during the waiver period.	

	Disaggregation of Beneficiaries (Where possible)	Budget spent per intervention	Contribution to the Outputs in the APP (where applicable)	Immediate outcome
	N/A	R5 999 072	N/A	No demand for debt payments during the moratorium period and client credit records will also not be impaired. This relief has also filtered down to tenants as our clients withheld any actions to evict those tenants that lost income for the period of the hard lockdown.
	N/A	R 81 651 523	N/A	No demand for debt payments during the moratorium period and client credit records will also not be impaired. This relief has also filtered down to tenants as our clients withheld any actions to evict those tenants that lost income for the period of the hard lockdown.
	N/A	R36 476 925	N/A	Repayments on the loan facilities were deferred to later periods and clients were allowed to continue with drawdowns on the facilities to complete projects.
	N/A	R87 500	N/A	No blocking or cancellation of facility during the financial year. The relief enabled the contractor to resume work on site and deliver more units during the financial period.
	N/A	R1 064 505	N/A	No expectation for debt repayment from the intermediary given the moratorium, and no covenant breach reported for Intermediaries-granted waivers for the duration of the granted waiver period.

INFORMATION TECHNOLOGY

Information Technology remains one of the key influencers and strategic enablers at the NHFC. The focal point in adapting to the COVID-19 impact became automation, digitisation, and agility. The NHFC had to be agile in adapting its technological competence and engagement platforms to reinvent its business. During the period under review, the NHFC implemented a Business Modernisation Strategy that was rapidly executed at the onset of the COVID-19 pandemic. Globally, the trend fast became one where businesses began turning to digital solutions, just to survive. The NHFC had to immediately respond to the 'new normal' by introducing and implementing digital transformation initiatives and measures that will enable the business to achieve its strategic and operational objectives through ICT. Full details are outlined under the ICT section in the body of the report.

MANAGING COVID-19 IN THE WORKPLACE

The President announced a Risk Adjusted Strategy for Economic Activity (RASEA) through which a deliberate and cautious approach was taken to ease the current lockdown restrictions to control and curb the spread of COVID-19. In line with directives under RASEA, the NHFC was categorised under 'All Professional and Financial Services' (See Alert System Level diagram below). The RASEA further classifies the Professional and Financial Services as a sector of business considered to have a Low Risk of Transmission, a major reason for financial services to be considered low-risk is because most of their work can be performed from home.

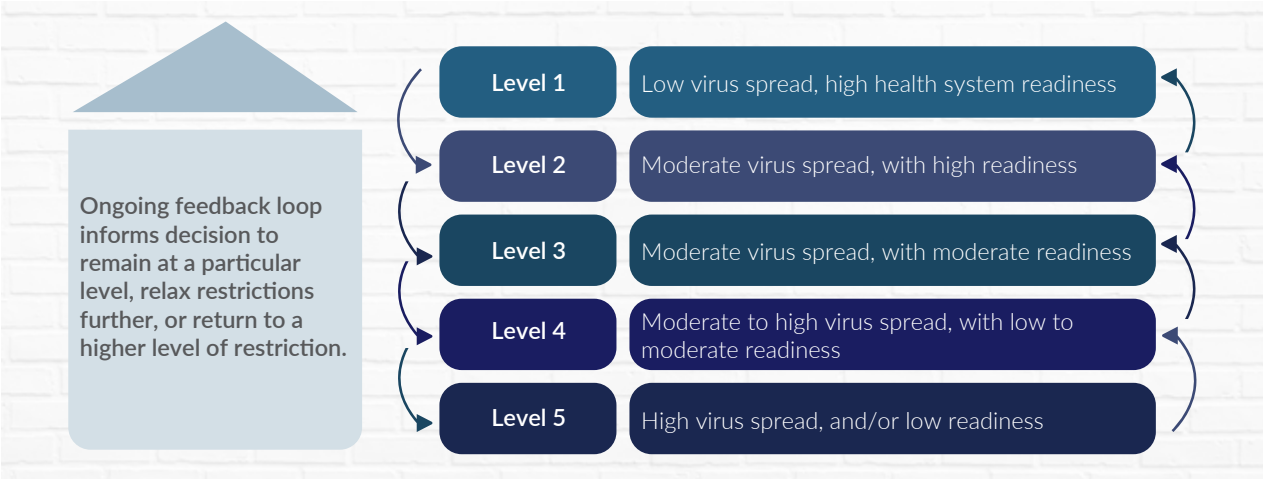


Figure: 1 Risk Adjusted Strategy for Economic Activity (RASEA)

FLISP Beneficiaries at the Ministerial site visit at Sky City

The former Minister of Human Settlement, Hon. Lindiwe Sisulu, with the NHFC Board Acting Chairperson and Stakeholders at the Ministerial visit at FLISP Sky City project

Even though the NHFC was, according to the Alert System Level, considered a Low Risk of Transmission sector, a Work-from-Home strategy was proposed and approved by the NHFC Board. When unavoidable, a small fraction of the NHFC business continues to take place onsite.

To manage COVID-19 protocols in the workplace and to flatten the infection curve, the NHFC has instituted the following protocols:

- COVID-19 Operational Readiness Plan
- COVID-19 Risk Assessment Plan
- COVID-19 and Workmen's Compensation
- Compliance Monitoring Report
- Work from Home Guidelines; and
- Procedures for Staff

Additionally, the following governance structures and systems are in place to ensure compliance to the protocols mentioned above:

1. SAFETY AND SECURITY COMMITTEE (SASC):
   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.

2. 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).

> *"Even though the NHFC was, according to the Alert System Level, considered a Low Risk of Transmission vector, a Work-from-Home strategy was proposed and approved by the NHFC Board."*

HOW WE ACHIEVE OUR MANDATE

RENTAL HOUSING

The NHFC mandate incorporates the provision of loans to institutions that offer rental accommodation. The types of rental accommodation offered are:

- SOCIAL HOUSING

Social Housing, by definition, is subsidised rental accommodation which is driven by Social Housing Institutions (SHIs), Other Delivery Agents (ODA), the Social Housing Regulatory Authority (SHRA), and Provincial Human Settlement Departments in conjunction with Local Municipalities. The NHFC provides top-up funding of approximately 30% as secured debt and the balance of which is provided for by the SHRA to accredited SHI's and ODA's that qualify for Consolidated Capital Grants (CCG) to complete the project. Social Housing projects are aimed at providing subsidised rental housing to accommodate the low- to middle-income rental market sector.

- PRIVATE RENTAL

Private rental is a project or development finance programme which enables properties owned by landlords to be developed or refurbished for purposes of leasing properties to tenants. The NHFC provides medium- to long-term debt funding to such property practitioners (Developers or Landlords) to refurbish existing buildings or for greenfield housing development projects.

INCREMENTAL HOUSING

The NHFC offers wholesale funding in a form of structured loans to Retail Finance Intermediaries. These RFI's on-lend to qualifying low- and middle-income homeowners to improve their housing condition on an incremental or gradual basis. The loans are provided by the RFIs to homeowners via the purchase, on credit, of building materials via established builders' merchants. Acceptable end-user loan usage includes the building of a new house, extensions to homes, fixed improvement to a house, connecting to utilities (water, sewerage and electricity), energy efficient retrofits (including solar energy, insulation and other energy-generating or energy-saving solutions), water harvesting, fencing and productive housing. Incremental Housing Finance is facilitated to empower both rural and urban low-income earners to improve their living conditions. Therefore, the NHFC aspires to see RFIs grow to such a level where they can access funding from other institutions, thus crowding in the private sector as a funding partner to the NHFC.

SUBSIDY HOUSING PROGRAMME

Subsidy bridging finance is a project or development finance product that offers short-term revolving facility. The term is typically taken out over a period of around 60 days to bridge contractor's cash flows between the service provider and pending payment by the respective employer.

The NHFC provides bridging finance to contractors who have been appointed for the construction of subsidised houses either by an organ of State or from the private sector. This bridging finance product is directly linked to the value of approved certificates, known as Invoice or Certificate Discounting. The Certificate Lending Product aims to assist Contractors with cash flow between the issue and payment of the monthly Payment Certificate. The product also offers material supplier undertakings where the NHFC agrees to pay the material supplier for the goods delivered on behalf of the contractor once a certificate of a completed milestone is certified and approved by the Employer.

AFFORDABLE HOUSING PROGRAMME

The NHFC provides project development finance to developers involved in building affordable housing for sale to the low- to middle-income earning group. This is a short-term development finance for the purpose of servicing sites, construction of top structures either free-standing or sectional titles. Loans are provided to developers who are actively involved in providing affordable housing, in service of this market.

STRATEGIC INVESTMENTS

We work closely with investors, developers, housing development agencies and funding institutions to leverage private sector and development funding. This is used to finance and create affordable housing that caters to the market that we serve. In this case, the NHFC will typically invest through a range of instruments which can be equity, quasi-equity, and even secured debt instruments in these entities.

FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAMME

FLISP was developed by the National Department of Human Settlements. The objective of FLISP is to facilitate sustainable and affordable first-time home-ownership to South African citizens and legal permanent residents who earn between R3 501 and R22 000 per month. FLISP offers qualifying applicants, with approved mortgage loans, a measurable opportunity to reduce the eventual monthly loan repayment instalments to an affordable amount over the loan repayment term.

PARTNERSHIP WITH BANKS

The NHFC actively partners with banks and traditional lending institutions through co-financing agreements and risk-enhancement mechanisms. Bank lending in this segment of the market is increased and supplemented through leveraged funding provided by the NHFC.

HOW THE MACRO ENVIRONMENT AFFECTS US

POLITICAL AND SOCIAL ENVIRONMENT

The 2020-21 political landscape was faced with a balancing act of saving lives from the Coronavirus and stimulating the economy by the President and his ministry. South Africa has one of the most respected and admired constitutions in the world, and it enshrines the rights of individuals to decent shelter.

The state is constitutionally mandated to use resources entrusted to it to ensure that this basic right is enjoyed by all its citizens. Based on the ideals of vision 2030 of the National Development Plan (NDP), government has instituted measures and mechanisms aimed at the absolute eradication of informal settlements and to build urban settlements that will restore its people's dignity and reaffirm their right to a better life.

Struggles against land dispossession, against living in places that are detached from economic activity, with little or no social amenities and total neglect of service delivery are key challenges. The eradication of these historical injustices remains one of the greatest tasks of our time.

The President, at the state of the nation address, shared his vision to create integrated and sustainable human settlements within a smart Gauteng City Region. The Human settlements is therefore tasked with facilitating the delivery of "sustainable human settlements, new towns and smart cities in partnership with relevant role players."
Minister Lindiwe Sisulu called on developers, contractors and professionals in the built environment to ensure that all construction sites and workplaces comply with the required occupational health and safety protocols, to curtail the rapid spread of the COVID-19 pandemic.

The minister took measures to deliver delayed housing projects and provide water and sanitation to the most vulnerable and destitute amid COVID-19 pressures. A new policy was developed with a focus on the missing middle (income greater than R3 500, and less than R22 000) to ensure that there are more beneficiaries who qualify and are working in tandem with the FLISP programme to expand the beneficiary base.

MACROECONOMIC ENVIRONMENT

The year under review proved to be one of the most challenging economic environments since the 2008 global meltdown. The global impact of the health crisis saw sharp volatility in financial markets and immediate and substantial relief measures being implemented as a response from central banks and government worldwide.

The shock caused by the COVID-19 pandemic affected the health sector and its citizens, business continuity for financial services activity and their clients, and resulted in a sharp decline in economic activity. This translated to an increase in non-performing loans caused by lower debt service levels, depreciation in the currency, increase in bond yields, and lower share prices and ultimately an increase in cost of funding.

Economies were brought to their knees from the widespread effects of the COVID-19 pandemic, forcing entire sectors to shut down completely to curb the spread of this virus. Supply chains of various goods were severely affected especially across borders.

Domestically, this pandemic added to the vulnerable state of low economic growth and downgrades by rating agencies to non-investment grade of South Africa's sovereign credit rating. The SA Monetary policy complemented fiscal policy in efforts to contain negative feedback loops that resulted through relief measures by providing a 275 basis points cut in interest rates -resulting in lowest interest rates in five decades.

Fiscal deficit remained a high concern for the sovereign as revenue shortfalls continued to impact GDP growth as the sovereign continued to balance stimulating economic growth and saving lives. Slow economic growth, accelerated rate of job losses, as well as demotivated business and consumer confidence impacting revenue collections proved worrisome.

Although the country has, over the months, moved to lighter lockdown levels, allowing more economic activity, and allowing most sectors to re-open, there has been recurrences of COVID-19 threats causing the country to move between high alert lockdown levels. These interruptions on economic activity has prevented an impactful recovery of the economy. South Africa has, in the first half half of the 2021 calendar year, recorded one of its highest levels of unemployment on record which remains a significant concern considering the high levels of inequality in our society.

Real estate and construction came to a complete standstill as a result of the hard lockdown during the first quarter of the financial year. The deeds office was closed and conveyancers were required to remove all lodged transactions. This created a backlog of registrations which resulted in delays of approximately eight weeks in expected cash flows for our clients. The NHFC provided debt relief to its vulnerable clients through a moratorium and a restructuring of loans on expected repayments. This translated to a decrease in lending income, an increase in the non-performing loan book and lower returns due to the low interest rate environment.

The NHFC expects to continue to experience suppressed enthusiasm and prospects for new business as clients conservatively attempt to navigate through these trying times. With the economy slowly recovering and the general business outlook improving, there is the possibility of clients no longer seeking debt relief as they had done in the previous financial year. However, it may still prove challenging for them to meet expectations and commitments.

Consumer confidence remained low as well, with fewer households having discretionary income available. With an increase in job losses and salary cuts for many, households have had to focus their spending on absolute necessities. The housing market, although equally affected by the pandemic, seemed to have been the sector least affected. With record low interest rates, the industry saw a massive surge in first time home buyers, (mostly women). Those who still had income and the appetite to in invest in homes seemed to opt for homes in the mid- to high-value bands, ranging between R70 000 and R1.5 million. Interestingly, due to the subdued economy, more homeowners in the luxury value band were seen to be selling their properties and opting to downgrade to the lower mid-to-high value bands. The heightened interest in property purchases has suppressed the rental market in the affordable housing market with increased vacancies noted by some of our property-owning clients.

The construction sector, which was adversely affected, saw an improvement towards the end of the financial year with more business activity being noted. Construction levels were still far from pre-pandemic levels, though there has been steady improvement. Approved building plans on residential and non-residential buildings saw a decline from the previous year.

By the end of the financial year, it was clear that the government had to refocus their energies and resources on securing vaccinations. Government immediately implemented vaccine rollouts as a matter of urgency to try and restore parity to the economy.

The NHFC has made a major impact on the FLISP programme and continues to accommodate the rising number of first-time home buyers seeking subsidy support. As increased awareness is created around the FLISP programme, the impact of the NHFC in providing support to qualifying individuals with homes they can call their own will increase. The soon-to-be approved revised FLISP Policy includes non-mortgage products and this change is expected to enable many households in the lower income segments of the FLISP market, especially those with monthly income of between R3 501 to R15 000, to also access the subsidy.

TECHNOLOGICAL ADVANCEMENTS

As the world moves and evolves within the Digital Age, technological advancement will continue to affect the way in which the financial services industry operates. Being cognisant of this and ensuring that the organisation is at the leading edge of such advancement is critical to delivering on our mandate.

An area of particular interest is the rise of the digital economy, which brings with it the opportunity to innovate and to extend our geographic reach. However, technological advancement is somewhat countered by the equal rise in cyber-crime that, if unmitigated, poses a serious threat to the operations of all players within the financial sector. The NHFC has perceived the possibility of this threat materialising and has initiated a Business Modernisation Strategy that is underpinned by a robust ICT platform. Future-proofing the organisation in this way will ensure that we continue to enable staff to provide an uninterrupted service that meets our client's expectations.

Within the past year, there have been numerous technological advancements that greatly benefited the NHFC. The NHFC has realised both tangible and intangible benefits from technological advancement. Technology advancement has had a positive effect on efficiency, culture, and the relationship of the NHFC business. Throughout our technological advancement process advancement process, we have ensured that our information is more secure, available, and reliable.

> *"Within the past year, there have been numerous technological advancements that benefited the NHFC."*

The greatest advantage that has been derived from the technological transformation and implementation journey is better communication services, improved value delivery and operational efficiencies. The organisation can successfully connect with virtual employees, clients, and stakeholders through video or voice calls. Additionally, the organisation has elevated to the next level by providing online communication services. Employees can connect with each other easily through software such as Microsoft Teams or Zoom. One can conduct most business operations and meetings with one's clients and employees even by just sitting at home.

Priority and focus was given to the protection of privacy and information, with greater security measures being taken in the implementation of the POPIA Act. This enabled the organisation to regulate how information is organised, stored, secured, and discarded.

PROGRAMME PERFORMANCE OVERVIEW

Operational Performance

20 973 Incremental Housing Opportunities through disbursements

R111.2 MILLION
Value of approved loans

4 232 Housing units and stands

R710 MILLION
Value of disbursed funds

Developmental Impact

R519 MILLION
Disbursed to BEE entrepreneurs including women and youth

Finance Linked Individual Subsidy Programme

1 136
Number of subsidies disbursed

R111.2 MILLION
Value of subsidy applications approved

1 136
Number of subsidy applications approved

R60.7 MILLION
Value of subsidies disbursed

R1.04 BILLION
Amount leveraged from financial institutions, especially banks

LENDING

PRIVATE RENTAL

The Private Rental portfolio continues to experience challenges in a tough economic climate which can be attributed to the national lockdown and the uncertainty it brought to the property and rental markets. The lockdown accelerated an already challenged economy, which had been in recession since the third quarter of 2019. The unintended consequences stemming from the decline in interest rates to the rental market has been an increase of available stock and vacancies, as tenants moved out, opting to purchase homes and stop renting.

The resulting high rental vacancies and low rental escalations has had a direct and negative effect on profitability figures which has made developers reluctant to invest until market improvement is seen. A balancing act between 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 **R43 million** in loans was approved against a target of **R66 million**, an achievement of **65%** of the targeted figure and an indication of a subdued outlook. The loan disbursement figure was **R40 million** against a target of **R31 million**, a **129%** achievement rate.

FUTURE OUTLOOK

Average rental growth was already under pressure coming into the year, slowing even before the pandemic took hold. Due to the various lockdown stages, the outlook on rental growth is expected to remain muted for the following reasons:

- Tenants have experienced a loss of income and could therefore not afford rental escalations
- After experiencing a rather sharp decline in tourism, the short-term and leisure rental properties moved into the long-term rental market. This led to an oversupply of housing, creating 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

The first quarter of 2021 saw early signs of recovery in the South African residential rental sector, however a substantial increase in the foreseeable future remains unlikely. The exit of creditworthy tenants from the rental market, together with the ongoing financial constraints experienced by other tenants, will continue to put downward pressure on rental prices, which will unfortunately impact overall yields.

There are positives however, as the growth in the student housing sector is expected to continue, as it is seen to have relatively stable income and strong above-inflation rental growth prospects. Here, we showcase one of the multiple private rental institutions that the NHFC has funded, based in Gauteng Province, in the City of Tshwane.

NHFC FUNDED PRIVATE RENTAL DEVELOPMENT BY BILLION GROUP INTERNATIONAL (PTY) LTD, LOCATED IN PRETORIA, GAUTENG.

- **NAME OF PROJECT:** EATON HALL STUDENT ACCOMMODATION

DEVELOPER'S PROFILE

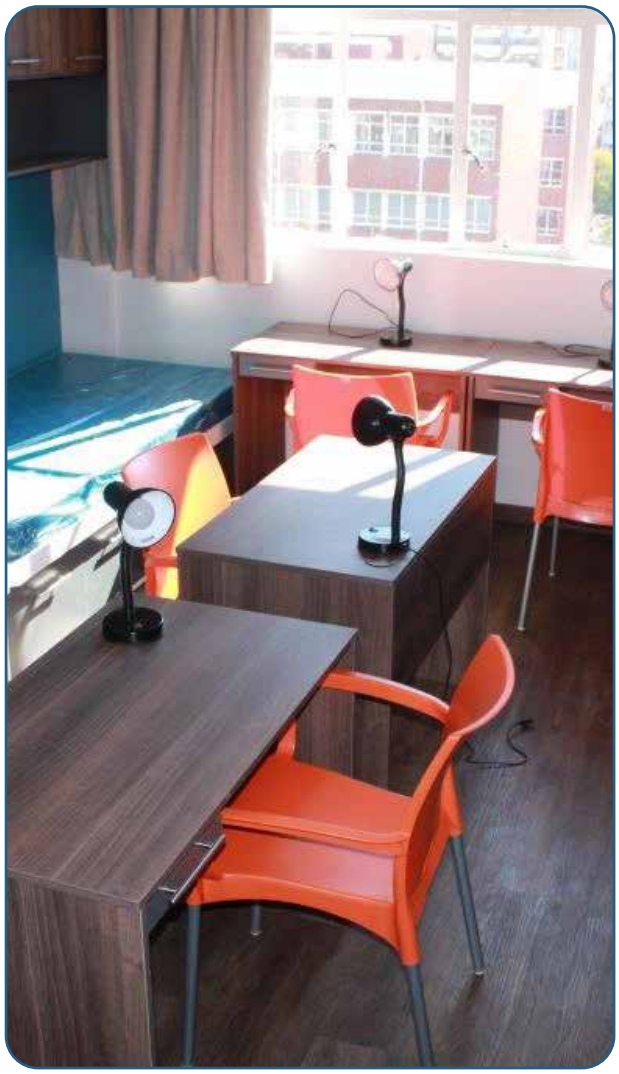
Billion Group International (Pty) Limited (referred to as 'Billion') is a 100% black-owned company. The directors of Billion have specialist skills in developing and managing commercial properties for leasing, primarily to national retailers, including residential units in upmarket areas for outright sale and rental.

The company was engaged to redevelop Eaton Hall - a brownfield development project that currently is being converted from an old hotel, into student accommodation for a 456-bed dormitory. The project is centrally located within the Pretoria CBD, located on the corner of Visagie and Thabo Sehume Streets. It is easily within reach of the various tertiary institutions located in the capital city. It comprises 246 rooms and is a seven-storey building.

Eaton Hall's project inception date was March 2020, with a total development cost of R95,8 million.

The target market is students attending the various higher education institutions in and around Tshwane. Eaton Hall is a private student housing development and can therefore assume a hybrid approach which includes both non-NSFAS and NSFAS accredited students. The pricing of the rentals were based on the student rental prices in the area.

Project completion is expected to be reached within the first few months of the following financial year.



SOCIAL HOUSING

The NHFC provides funding to qualifying, accredited Social Housing Institutions and Other Delivery Agents for the purposes of developing social housing, subsidised by government for households earning from R1 500 to R15 000 per month. Accelerating Social Housing performance is extremely significant to the NHFC, as it is one of the biggest portfolios of the organisation, and a priority housing programme of the Department of Human Settlements.

Even in the face of the COVID-19 pandemic and various national lockdown restrictions being imposed, the Social Housing portfolio over the 2020/2021 fiscal year, saw a vast improvement in the rate of approvals in comparison to the previous year. The improvement is attributed to a strategic shift of focus to Other Delivery Agents, that provide a far better risk profile as equity providers in projects which allow for better alignment with the NHFC as a debt investor. The subdued performance by the Social Housing portfolio has primarily been the 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 exponentially. Adding to the complexity of the situation, several external factors, including criminal acts of organised rental boycotts and hijacking of developments under construction have exacerbated an already grave situation, which the NHFC has successfully managed by tightening the lending criteria.

Additionally, the result of these circumstances has led to the deterioration of the loan book that saw close to **50%** of the social housing book classified as non-performing loans. The loans approved made up **R219 million** against a planned target of **R254 million**, which was a meagre **86%** achievement rate. Disbursement performance improved considerably from the previous year with **R89 million** being achieved against a target of **R48 million,** a **185%** achievement.

In the previous year, independent research on the challenges of the Social Housing Financing mechanisms was commissioned by the NHFC. This research sought to establish a definitive method to adequately service this sector. Currently, a review of the Rental Policy inclusive of social housing mechanisms is underway, being executed by the National Department of Human Settlements, and will assist stakeholders to design a better financing mechanism and to improve commercial viability that will pull in more private sector players into the Social Housing sector.

With these amendments, the future outlook on social housing looks promising and becomes positive. This will further enable the NHFC to increase active participation within this space, as well as leverage private sector investment into the sector to gain greater economies of scale.

NHFC FUNDED SOCIAL HOUSING DEVELOPMENT BY POVICOM COMMUNITY HOUSING SOLUTIONS (NPC), LOCATED IN MITCHELLS PLAIN, WESTERN CAPE.

- **NAME OF PROJECT:** REGENT VILLAS

SOCIAL HOUSING INSTITUTION'S PROFILE

Povicom NPC is a 100% black managed Non-Profit Company (NPC) which comprises of a team that is extremely well-versed in the property development and property management space. Prior to this development, key individuals had been involved in the development of residential units in the medium-to high-income areas of Mitchells Plain and surrounding areas.

Regent Villas is a greenfield development that comprises 104 social housing rental units. Of the 104 units, a total of 31 units will serve the primary market, which is aimed at family income levels that range from R 1 500 to R 5 500 per month. The balance of 73 units will serve the secondary market, comprising of family income levels that range from R5 501 and R 15 000 per month.

The inception date of the development was March 2018, and currently, the development has reached final completion of the first phase. The second phase of development is expected to launch in 2022. All units are provided with prepaid electricity and post-paid water meters for both hot and cold water supply. The development consists of a combination of one, two and three bedroom open plan units, all equipped with a separate bathroom.

The development was co-founded by NHFC debt funding, as well as SHRA and the Western Cape Province through Consolidated Capital Grant funding. As construction is complete, tenanting of the 104 units is ongoing and at a very advanced stage. Having successfully completed Phase 1, Povicom has commenced with development activities as well as raising funding for Phase 2 of the development.

BRIDGING AFFORDABLE HOUSING PROGRAMME

The NHFC's Bridging Affordable Housing Programme provides bridging development finance to developers who build housing units that sell at an average cost of approximately R650 000, which also includes the option of purchasing serviced stands. The target market that affordable housing is targeted at, comprises of households with a combined monthly income of R22 000.

During the fiscal under review, it is somewhat pleasing to note that even in the face of a global COVID-19 pandemic and the resulting negative impact that it has had on the economy, the Affordable Housing Programme product performance was exceptional, under these circumstances. The loan approvals that were granted, totalled **R532 million** against a target of **R490 million**, while disbursements reached **R321 million** against a projected target of **R97 million**. A total of **588** housing opportunities were reported, comprising of **98** housing units, and **490** serviced stands. The housing opportunities output was relatively low since most of the active projects or loans are at either the inception or construction phase, an improvement on this indicator is expected to occur in the following financial year.

FUTURE OUTLOOK

The Affordable Housing market is currently experiencing renewed interest from first-time home buyers. Although the advent of the COVID-19 pandemic presented negative impacts to the economy at large, the reduction of interest rates has presented additional opportunities for the affordable housing market. The combination of low-interest rates and FLISP Funding has enabled first-time home buyers to afford their very own homes. Future projection seem to suggest that there will be continuous growth within this programme, and recent observations by market players confirm that the focus in the property market will be placed on affordability basics. Therefore, more developments towards the more affordable end of the market are likely to be a key theme in the near future. The programme is responding well to this positive market shift with a collaborative effort involving the Business Development Unit, we are pleased to note good performance in the year under review. Business development efforts have yielded pipeline leads that suggest the continued success of the programme over the next financial year.

The programme's greatest highlight of the current year was signing funding agreements with two of the most prominent JSE-listed property developers. The outputs of these two facilities will reflect positively in the next financial year.

NHFC FUNDED BRIDGING AFFORDABLE HOUSING DEVELOPMENT BY BARZANI 53 (PTY) LTD, LOCATED IN WITFIELD, BOKSBURG.

- **PROJECT NAME:** WITFIELD RIDGE

DEVELOPER'S PROFILE

The development company has been focused on servicing the gap and affordable housing market for many years across South Africa and is 60% owned by a Black woman. The company is a level 2 B-BBEE Contributor and has delivered over 3 220 units over the years.

Barzani has had a successful track record with NHFC with 5 loan applications having been granted to the entity, totalling over R107 million, of which 3 have been settled yielding 246 units.

The total development in Witfield consists of 448 units being delivered over four phases. Phase 1 was for the construction of 82 units and was completed in 2017, while Phase 2 saw the construction of 114 units completed in 2019. Currently, 180 units are under construction for Phase 3.

The successful relationship formed with the NHFC will continue yielding impactful results in the affordable housing market in the foreseeable future.

SUBSIDY HOUSING

The NHFC grants bridging loans to Subsidy Housing contractors that are awarded housing tenders by Municipalities and Provincial Housing Departments but who lack sufficient liquidity to finance these contracts. Under the programme, loans to the value of R98 million were approved against the COVID-19 adjusted target of R70 million, with the disbursements totalling R133 million against a target of R109 million. In terms of B-BBEE disbursements, R84 million was disbursed to B-BBEE entrepreneurs against a target of R38 million. Housing opportunities that were facilitated from these disbursements resulted in a total of 718 units being built, against a target of 800 units, indicating a 90% target achievement rate.

The performance of Subsidy Housing for the year under review had improved, although the challenges posed by COVID-19 had resulted in slow activity within the construction industry as a result of lockdown restrictions. There were a number of repeat business opportunities from existing clients which secured business via cession agreements from non-performing contractors, particularly in the Eastern Cape Province. The programme remains a major contributor to economic empowerment as most of the contractors funded under the programme are mainly B-BBEE complaint and Level **1** and **4** Contributors.

"The NHFC grants bridging loans to Subsidy Housing contractors that are awarded housing tenders by Municipalities and Provincial Housing Departments but who lack sufficient liquidity to finance these contracts."

FUTURE OUTLOOK

The recent directive from the National Department of Human Settlements (NDoHS) regarding serviced stands and Upgrading of Informal Settlements (UISP) indicates the need to relook the current funding model in order to align the NHFC Subsidy Housing Programme to the various NDoHS programmes. The department is moving away from top structure to serviced stands except in cases of existing contracts and priority groups such elderly people, military veterans, people living with disability, and child-headed households. This restructuring requires that we review the APP and Strategic Plans and request special amendments in order to ensure that we align with new departmental plans going forward.

One of the Subsidy Housing projects that the NHFC has granted bridging finance to is based in the KwaZulu-Natal, and was awarded to the contractor, Basfour 170 CC (Pty) Ltd. The company provides a full range of turnkey services to its clients, from a needs assessment analysis phase, through to project identification and justification phases, the design of the project, its implementation through procurement and construction, project management, maintenance, operation, and management.

The project is for the construction of RDP housing units in Edendale Section EE, which falls under the auspices of the Msunduzi Municipality in KwaZulu-Natal. The project is placed under the Subsidy Housing programme, namely, the construction of BNGs/RDPs for beneficiaries who had applied for State housing subsidies. Beneficiaries who qualified, benefitted from State-funded Ownership Housing Units. The Programme targets low-income individuals and households who earn under R3 500 a month, and who, as a result, subsequently cannot enter the formal private rental and social housing market.

NHFC FUNDED SUBSIDY HOUSING PROJECT, BASED IN PIETERMARITZBURG, KWAZULU-NATAL.

- **PROJECT NAME:** EDENDALE UNIT S PHASE 8

CONTRACTOR'S PROFILE

Fairfield Developments handles, among others, social facilitation, beneficiary administration, the appointment of professional teams, such as engineers, town planners, and surveyors, and oversee the development all the way through to construction and the final transfer of sites. They install services to sites where required, and construct all houses using labour and small sub-contractor teams, which are as far as possible taken from the communities where the houses are being built.

The projects were awarded to an Implementing Agent for two projects. The contracts are a tri-partite agreement between the municipality as the Developer and the Department of Human Settlements as the fund provider. The projects are spread over eight different areas of Edendale and is the first project to provide housing for 2 086 beneficiaries, while the second project is earmarked to house 428 beneficiaries. Both projects are expected to be completed within the next 12 months. There are three types of houses being constructed – a double story house with external staircases, pairs of semi-detached single-story houses and single-story free-standing houses.

INCREMENTAL HOUSING

The NHFC advances loans to retail finance intermediaries under this programme, who then on-lend to end-users to build their housing on an incremental basis. A total of R100 million in loan facilities was approved under the sub-programme, representing 100% of target acquisition against the COVID-19 adjusted target of R100 million. R53 million (51.9%) was disbursed against a target of R102 million. Retail Finance Intermediaries have, however, held back on disbursements due to the lower demand resulting from higher unemployment and constrained disposable income during the period under review.

The South African economy was under severe constraint, with deteriorating growth trends, difficult economic conditions and worrying high unemployment levels. During the financial year under review, the COVID-19 pandemic-induced lockdowns resulted in extreme pressure being placed on the industry, and as a result, significant financial distress was experienced among the-lower income consumers who are the customers of this programme. There were all-round industry layoffs, pay cuts, and a lack of sufficient savings for consumers to deal with the financial and social shock that the pandemic brought with it. Many retail intermediaries and end-users were also affected by these factors. There was a visible increase in the level of Non-Performing Loans across the property industry.

The programme was behind on B-BBEE disbursements for the year under review, with only R2.7 million being disbursed to B-BBEE entrepreneurs from the R53 million total disbursements. The programme's intermediaries that fall under this category are rather small and have limited distribution channels. Most tend to still operate in localised markets, rather than serving national markets. Therefore, they cannot absorb larger disbursements.

A total of **20 973** incremental loans against a target of **12 000** were facilitated from disbursements – a **174,77%** performance against target. This performance reflects that in the incremental housing programme, many borrowers, due to low affordability levels, access smaller loans to effect improvement to improve their housing conditions. Clearly, the incremental housing programme touches many households who are able to access loans.

FUTURE OUTLOOK

The pandemic has created major economic and financial distress to both consumers and business alike. The results have been catastrophic.

Jobs were lost, pay cuts effected in some cases, and it is most likely that the impact will still be felt in the next financial year. Many South Africans were adversely impacted financially, and as a result this has affected the Incremental Housing portfolio and the subsequent performance on disbursements.

However, in the midst of the doom and gloom, a positive indicator is that disbursements are likely to increase in the next financial year as one of our big intermediaries have signed an agreement for a facility that was approved in the last financial year, with drawdowns likely to occur in the next financial year.

The NHFC has also concluded a facility with an intermediary that will catalyse substantial impact on a number of loans, and is likely to be drawn down in the next financial year. This will have a knock-on effect that will greatly improve our disbursements and increase the number of loans granted.

To improve the overall financial health of the Incremental Housing portfolio, the NHFC has engaged and held a workshop with a representative body of registered and legal micro-finance credit providers. The workshop was also held with the members to market and introduce the Incremental Housing product to the rest of the organisation. We are receiving enquiries and holding virtual meetings with some of the members, subsequent to the workshop.

ONE OF THE BENEFICIARIES OF THE INCREMENTAL HOUSING PROGRAMME, THE NHFC IS CREATING IMPACT THROUGH ITS VARIOUS NATIONAL RETAIL PARTNERS.

- **LOAN PURPOSE:** BUILDING A NEW HOUSE

BENEFICIARY PROFILE

A black male who resides in Kwaggafontein is employed in the private sector and earns an income that places him in the R3 501 and R6 000 per month income bracket. He had desired to build a new house for his family of four. He lives with his wife and two children. He further stated that he used his savings, together with the loan accessed from Lendcor to build the house for his family. The individual is a local builder as well, and is undertaking the construction of the house himself when not on duty.

B-BBEE – SECTOR TRANSFORMATION

The NHFC is committed to economic transformation in the housing sector and actively supports the national transformation agenda. The company 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 Plan (SP) and Annual Performance plans (APP).

To accomplish this objective, the NHFC utilises various channels to promote economic transformation, one of which being through direct lending activities to B-BBBEE businesses with black ownership and black participation, as well as those that include women and youth participation. B-BBEE is aimed at restructuring the economy in a way that seeks to increase the participation of black people through entrepreneurial activity and in the workplace. The primary driver for this directive within the NHFC is direct lending, which is measured through the APP's Programme 4 which is focused on Sector Transformation. The purpose of the programme is to expand participation of previously disadvantaged individuals (particularly women, and youth) and to support the establishment of start-ups.

Utilising the output indicators, direct lending performance achieved disbursements targeted towards B-BBEE entrepreneurs of R519 million, against a targeted R135 million, which is a 384% achievement. Similarly, the value achieved of disbursements targeted towards women and youth entrepreneurs was R68 million against R116 million, a 59% achievement. In the year under review, there was a drive to ensure that at least 35% of the transactions sourced are transformational deals in line with the NHFC transformation policy. The performance of disbursements to B-BBEE entrepreneurs was notably impressive, however, disbursements towards women and youth continues to be an ongoing challenge. This is as a result of a sector which generally has fewer women-owned contractors, property developers, intermediaries, and women-managed Social Housing Institutions.

FUTURE OUTLOOK

The outlook on sector transformation disbursements is informed by overall lending activities which are expected to grow steadily in most of the lending product arenas. The strategic aim is to broaden the direct lending transformation performance by leveraging the newly-established NHFC incubation programme which has a specific focus on empowering disadvantaged groups. Furthermore, informed by a new zeal to champion transformation, a new lending framework is under development to be launched in the new financial year. This new lending framework, with concessionary pricing, is in an effort to encourage black participation in the sector as well as empower designated groups.

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 which will directly enable the NHFC to lend to designated groups. With these strategic positions in mind, accelerated and sustained economic growth, will remain the key driver to enabling social and economic transformation at large.

FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAMME

Following the Human Settlements MINMEC decision in July 2018, the NHFC was appointed by the national government as a National Implementing Agent for FLISP, effective from 1 April 2019. To enable the NHFC to effectively execute this role, the National Department of Human Settlements makes FLISP budget allocation directly to the NHFC, which is then disbursed to qualifying beneficiaries who are accessing home loans from various financial institutions, these primarily being the banks. However, it must be noted that while the NHFC delivers FLISP in the open market nationally, Provincial Departments of Human Settlements are allowed to implement FLISP in their Integrated Residential Development Programmes (IRDPs). Therefore, the FLISP performance reported in this Integrated Annual Report does not include FLISP performance as reported by the Provincial Departments of Human Settlements.

THE FLISP OPERATING ENVIRONMENT

The 2020/21 financial year was found to be very challenging for FLISP implementation. On the back of an economy that was already in recession, the COVID-19 pandemic exacerbated the financial situation being faced by this market. As a result, actual performance against all set indicator targets were well below set thresholds. The non-performance can be attributed to the following factors:

- The South African economy was under total lockdown at the start of the 2020/21 financial year. The construction and estate agent industries only re-opened on 1 June 2020.
- As a result of the COVID-19 pandemic, many companies closed down, leading to massive job losses and high unemployment rates.
- In many instances since the advent of the pandemic, some employees who still retained their jobs were not paid full salaries or wages as some companies adopted to implement a staff rotational policy to observe and adhere to social distancing protocols.
- Household incomes were seriously compromised as some members of households lost whole incomes or experienced a reduction in their incomes, thus making it difficult to apply and qualify for home loans. This increased the dependency ratio as the few members of households still working had to use their income to sustain their families. As a result, the pandemic served to only worsen the dependency ratio, as prior to the onset of the pandemic, was already dangerously high in South Africa. This is attributed to the high unemployment rate and the negative impacts of inequality that still prevail.

FLISP is linked to housing credit, specifically mortgage finance offered mainly by the banks. At the advent of the COVID-19 pandemic, some banks elected to significantly reduce their lending targets, against the backdrop of a gloomy, non-performing economic environment. This has adversely affected overall FLISP performance.

The South African Reserve Bank reduced interest rates to levels last seen over five years or so ago. It was expected that this will trigger most first-time home buyers to purchase houses. However, we did not see this having positive impacts on FLISP performance, primarily for the following reasons, among others:

- The erosion of disposable income within households in the FLISP target market, which subsequently had a negative impact on housing loan affordability levels, thus reducing prospects of this market accessing loan facilities

- The FLISP requirement that beneficiaries of the Programme must have dependents, did not help in improving overall FLISP performance. Research findings indicate that many first-time home buyers did, however, take advantage of the prevailing low interest rates to apply for home loans. Unfortunately, most of these first-time home buyers were applicants who were single or had no dependents, and most were female. The banks and developers highlighted this fact to the NHFC and requested that the qualifying criterion for FLISP applicants that exclude applicants without dependents to be relaxed. The NHFC could not honour this request on its own as the company only implements policy as approved by the shareholder. However, to facilitate the requested change in policy, the NHFC submitted a motivation for the relaxation of this requirement to the shareholder for consideration. By the end of the financial year, this request had not been addressed. It is expected that the Revised FLISP Policy will remove the qualifying criterion for 'single with dependant' applicants, as this subject has also been raised by the various Provinces and Metros as a key constraining factor to the uptake of FLISP

Following the advisory by the DPME, the entity revised downwards the indicator targets for the 2020/21 financial year as shown in the performance information report. It is noteworthy that despite revising the targets downwards for the 2020/21 financial year, these targets were still not achieved. This is attributable to the factors already highlighted above. It must be noted that at the time of revising the Annual Performance Plan, the COVID-19 pandemic and the subsequent impacts and the pandemic's duration could not be accurately predicted. What became obvious during the year was that the recovery of the domestic economy would take a long time, especially because the economy was already in recession would COVID-19 pandemic had impacted our our country.

Apart from the adverse socio-economic conditions, the Finance Linked Individual Subsidy Programme was also adversely affected by the internal factors such as the inadequacy of IT systems to handle FLISP applications with quick turnaround times. The processing of FLISP applications have been done manually, resulting in longer turnaround times both on FLISP outcomes and subsidy payments. As a result of this manual operation, by the end of the year, there were applications and payments already in the system that could not be completed before the year-end.

In addition, and because of longer turnaround times, partners such as banks and developers became reluctant to submit FLISP applications on behalf of their clients who would have qualified for FLISP. Additionally, this who did receive full loans, including on-lenders, elected to not submit their FLISP applications due to the long turnaround times brought on by the manual capturing of client data. The NHFC had planned to upgrade the existing CRM system during the first quarter of the 2020/21 financial year. Unfortunately, this process was severely hampered by a moratorium on tenders that National Treasury imposed during the hard lockdown period. This resulted in irretrievable delays in the procurement of suitable service providers to effect the CRM upgrade, which had it been implemented would have enabled automated FLISP application processing.

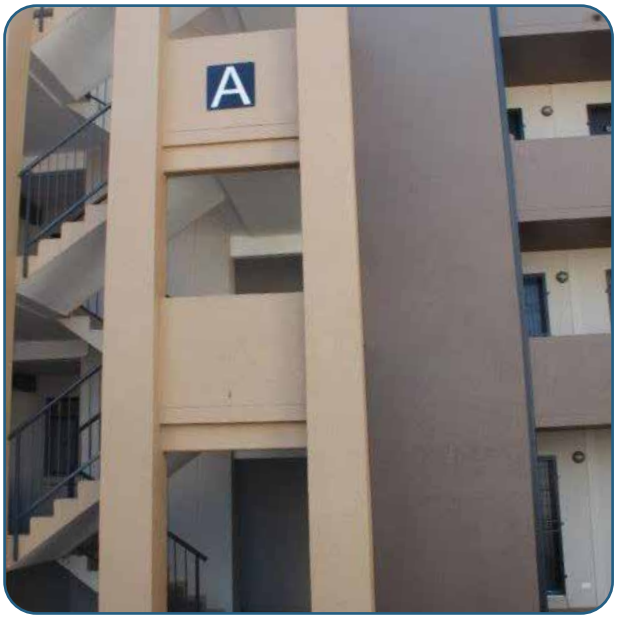
Therefore, the poor performance of FLISP in 2020/21 can be attributed to both external socio-economic conditions and a lack of internal capacity to process FLISP applications with quick turnaround times, both in application outcomes and in FLISP disbursements.

FUTURE OUTLOOK

The domestic economy will unfortunately remain subdued over the 2021/22 financial year as the COVID-19 pandemic continues to take its toll on the country's businesses and workforce and high unemployment rates prevail. and high unemployment remains. However, the NHFC is embarking on various efforts to improve the performance of the Programme. These efforts, among others, include the following:

- The FLISP Five-Year Business Plan to grow the Programme was approved by the NHFC Board in March 2021 and will be implemented over the 2021/22 financial year. The business plan presents many areas for FLISP growth such as the Rapid Land Release Programme, Human Settlements Strategic Infrastructure Projects and inclusion of households in rural areas
- Marketing of FLISP will be intensified to raise awareness on a national scale to increase the pool of FLISP applicants in all provinces. FLISP reach has been mainly concentrated in the Gauteng Province with negligible impact being observed in other provinces
- Closely linked to the FLISP marketing initiative is FLISP rebranding. It has been noted that the Programme name is rather convoluted and not easily understood by the intended target market, thus failing to spark interest for individuals to apply for the subsidy

  The NHFC has been mandated by the shareholder to re-name and rebrand FLISP. The NHFC will conceptualise a new name for the Programme that will make it easy for the target market to dentify with and remember, with the primary objective being to spark interest and uptake of the FLISP offering
- Formal approval of the Revised FLISP Policy will be achieved by the National Department of Human Settlements, thereby enabling non-mortgage products to be implemented with FLISP. FLISP has been, since its inception, implemented with mortgage finance, yet many households in the FLISP market are not able to access mortgage product either because of low-income levels or because of lack of title to land because they live in rural areas. The Revised FLISP Policy accommodates non-mortgage products that are accessible to low-income segments of the FLISP market and those intending to build their homes in rural areas. The FLISP Five-Year Business Plan had assumed that the Revised FLISP Policy will be approved early in 2021/22 financial year
- NHFC will ensure that internal capacity is in place to process expected high volumes of FLISP applications. In this regard, FLISP organisational structure has been reviewed, and additional staff members will be appointed. In addition, the CRM enhancement project will be completed and implemented to ensure that FLISP applications processing is automated throughout the value chain from applications stage to disbursement stage, and this will bring about efficiencies as turnaround times will be significantly reduced
- An intensive training programme plan will be put in place to introduce the enhanced CRM system to our home loan origination partners such as developers, estate agents, banks and non-bank lenders as well as the public. This will ensure that system users are able to submit the FLISP applications via the CRM System portal. The CRM system will also have a capability to provide client communication and automated updates, via SMS or email, to clients at each stage of FLISP applications processing



FLISP: WHO BENEFITTED

- **SUBURB:** FLEURHOF, FLORIDA
- **PROVINCE:** GAUTENG

BENEFICIARY PROFILE

This beneficiary is a black female. She qualified for a FLISP subsidy for the house she had purchased for herself and her family. The beneficiary stated that she is very grateful for the subsidy as it reduces her monthly bond repayments. According to the beneficiary, she heard about FLISP from her estate agent and this alone has changed the living conditions of her household. The family was previously living in a small one room house, but they now live in a two-bedroom house with enough space and privacy for the entire family.

PROGRAMME AND FUND MANAGEMENT PORTFOLIO

The Programme and Fund Management portfolio was established with the strategic intent of complimenting delivery capacity in the human settlements sector. This portfolio aims to provide programme management services under two distinct areas, the first being to support self-help housing programmes, (i.e. Enhanced People's Housing Programme/Zenzeleni), and secondly, to plan and manage enterprise development (enterprise incubation) programmes in the human settlements sector. These programmes involve a grant management component on funds that are transferred to the NHFC to administer as part of delivering these programmes on an agency basis, on behalf of client departments and municipalities.

The thread that runs through all programmes that the NHFC is involved in is a strong endeavour to strengthen localisation of development benefits arising from each programme. Also, the programmes are designed to elicit the participation of small and local enterprises to bolster local economies. This objective, therefore, requires innovative ways that need to be conceptualised in order to optimise community participation and obtain their buy-in. Additionally, strategies that need to engage and encourage optimal participation of small and medium contractors are paramount, together with any other required spin-offs being initiated. This is a developmental endeavour that recognises the socio-economic conditions where these programmes are implemented, and seeks to enhance benefits derived by the community beyond the physical asset delivered.

The portfolio provides extra delivery capacity and adds value to the sector and advances the achievement of governmental transformation objectives. In the year under review, this portfolio unfortunately contracted, due largely to the effects of COVID-19 and the associated national lockdowns. Further reasons that were unearthed were organisational transitional arrangements, delays in existing projects, fewer projects secured and or slower contracting arrangements with clients. Several programme commitments were withdrawn as a result of the reprioritisation of budgets by clients in response to sector-wide COVID-19 interventions. The active programmes that suffered due to reprioritisations were contractor incubator programmes signed with the Gauteng, Northern Cape, and Western Cape Provincial departments of Human Settlements which resulted in a total of four programme's cancellations. These programmes had proved to be a good strategic fit, aligning with the newly-defined focus of the NHFC business portfolio. These programmes promised great potential to have evolved into sectoral flagship programmes in mainstreaming contractor development.

FUTURE OUTLOOK

The President has sounded a clarion call to all sectors to revitalise the economy adopting transformative and inclusive strategies, models and approaches. This comes with an expressed recognition that pre-COVID models and gross inequalities has rendered the SA economy extremely vulnerable and ill-equipped to adapt to negative economic shocks.

The sector has accordingly re-looked at its programme and re-engineered them to support inclusion of the marginalised sectors of society to advance transformation. This includes prominence given to enterprises owned by designated groups and by blacks in general, including the Set-Aside budgets for this category of targeted beneficiaries. The NHFC Programme Management capability is a direct response to this mandate. It recognises that small enterprises require deliberate strategies to create opportunities and further design enabling mechanisms to support enterprises to respond to these opportunities. These strategies include, design and packaging of work for contractors, procurement strategies, support on- and off-site, training and elongated access to work to entrench learning and experience, and access to finance. This holistic outlook to enterprise development is fresh and transformative and requires wider adoption and mainstreaming. It is an approach that anchors the NHFC's approach to enterprise incubation programmes and those that are currently at planning stages.

FEATURED BELOW IS A SNIPPET OF A TYPICAL PROGRAMME AND PROOF OF CONCEPT OF THE CAPABILITIES THE NHFC IS BRINGING TO THE MARKET.

RENTAL STOCK PROGRAMME

The City of Cape Town had plans to repair and maintain its public rental stock through a contractor development programme. The repair instruction is drawn from the City's system of repair notification called C3 notifications which has approximately 57 519 notifications (repair requests) across the city. Through this programme, the Metro wants to develop a significant number of local enterprises through an Enterprise Development programme. The programme will provide structure and enterprise development intervention for contractors between CIDB Grades 1 - 3 in the city while delivering on the urgent repairs and maintain the rental stock units.

On the basis of the NHFC's value proposition on contractor development and strategic fit, the City of Cape Town has appointed the NHFC as the Implementing Agent to oversee the implementation of the entire programme. In addition, the NHFC will provide technical and business mentorship to SMMEs and accredited training through partnerships with NHBRC and CIDB, etc. Since the signing of the SLA in September 2020, the NHFC has undertaken project initiation and community mobilisation, has developed an implementation plan that has been approved by the local Council and has initiated procurement of qualifying contractors to form a database of participants that will benefit from the programme.

The project duration is set at three years, and will end in June, 2023. The funds that are allocated to this programme amount to R150 million and will span the duration of the project. At the end of the reporting period, the NHFC had procured 32 small contractors and targeted an optimal number of approximately 90 contractors to benefit in the programme. The pictorial illustrations, were taken after the reporting period of the initial work done by the contractors in this programme to improve the lives of tenant households, and concurrently make the most of opportunities to improve the capabilities, and track-record of their fledgling enterprises.

Before the refurbishment work was started.

The refurbishment work in progress.

After the refurbishment work was completed.

STRATEGIC PARTNERSHIPS

OVERVIEW

This is a relatively new function that covers a critical aspect of the NHFC strategy going forward. It elevates strategic partnerships as a critical part of the future of the NHFC as a Human Settlements apex financier. Strengthening the area of strategic partnerships is key to the market orchestration role that the NHFC is expected to play within the sector, going forward.

As a DFI, the NHFC has to bolster and leverage successful partnerships with banks and traditional lending institutions to facilitate private sector financing, precipitate innovation, and to foster the adoption of new financing instruments towards housing projects. The NHFC does not monopolise the sector, as there are other SOEs and DFIs that play key roles within the human settlements value chain, especially where financing, in general, is concerned. A part of the NHFC mandate is to collaborate and appropriately attract these key players into housing delivery initiatives.

Listed below are a few of the potential collaborative relationships that the NHFC is pursuing, and is, by no means, an exhaustive list. These examples serve to provide a contextual outlook on types of partnerships that could support the fulfilment of our mandate and enable achievement of sector priority projects:

1. SECTOR PARTNERSHIP FOR STRATEGIC INFRASTRUCTURE PROJECTS (SIPS)

   Infrastructure South Africa (ISA) is energising the sector through formalisation, identification, appraisal, recommendation and the approval of Strategic Infrastructure Projects. Towards this end, a sector Technical Working Group (TWG) was established to facilitate the adoption of the standard Terms of Reference which were developed by ISA. The key objective of the TWG is to oversee the intake, appraisal, and selection of a new set of priority housing projects earmarked for collaboration between the public and the private sectors, and to pool investments from both sectors to support project development.

   The SIPs process outlined above incorporate two intrinsic, and related processes that strengthen the new institutional arrangements and define rules of engagement:

   a. The first process involves the adoption of a common framework for business case development and the associated project appraisal processes. Thus, a UK-based 5 Case Model and training approach is being rolled out across the various sectors and focusses on people who directly participate in project development, the appraisal, or approval processes

   b. Secondly, a process to create the framework that facilitates effective partnerships between private developers in financing and developing priority IRDP projects. The framework will further serve to guide sector investment decisions, the sharing of risks and the successful achievement of developmental and transformational outcomes. The NHFC's future role is clearly defined within this framework, giving concrete meaning to the company's role as an apex financier, and clarifying its mandate to provide finance to the gap market

2. HOUSING DEVELOPMENT AGENCY

   This relationship seeks to align the mandates of the HDA as a State Developer that mobilises, and makes available suitable land that has been earmarked for housing. The partnership will seek to facilitate planning and delivery of housing developments. The NHFC, on the other hand, brings in financial structuring and mobilisation of housing finance for implementation of sector priority Integrated Residential Development Projects. The collaboration will also be a platform to use mandated 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 the participation of black-owned and women-owned enterprises in the human settlements value chain.

   The HDA also houses the Geographic Information System that services the sector. This platform's role in tracking metrices around spatial transformation and investment patterns is growing in significance.

> *"The HDA also houses the Geographic Information System that services the sector. This platform's role in tracking metrices around spatial transformation and investment patterns is growing in significance."*

3. DEVELOPMENT BANK OF SOUTH AFRICA (DBSA)
The DBSA has always been a critical player in financing infrastructure and is seen as an enabler of human settlements development. They are also a key player in establishing new institutional arrangements to support government's infrastructural development drives for economic revitalisation. A relationship between the NHFC and DBSA is critical and is being cultivated into a structured and formalised partnership.

4. NATIONAL EMPOWERMENT FUND (NEF)
The department has engaged in bilateral discussions with the NEF on strengthening collaborations with the sector, particularly on matters related to transformation. Similar bilateral discussions were held between the NHFC and the NDoHS. The department is working towards formalising a partnership between the sector and the NEF, and collaborating on financing transformative initiatives.

5. BLACK BUSINESS COUNCIL – BUILT ENVIRONMENT (BBC-BE)
The NHFC is pursuing a relationship with BBC-BE which seeks to formalise consultative channels with this important stakeholder. Areas of collaboration will include product development consultations and market activation for NHFC's transformative initiatives.

SELF-HELP HOUSING SOLUTIONS

The other area receiving attention is within the sphere of self-help housing solutions. The stakeholders within this sector are currently exploring strategies to initiate and mainstream the up-scale of household-led housing solutions with appropriate support mechanisms received from the state. Through partnerships with community-based organisations and collaborations with government, the NHFC has a significant role to play in supporting and nourishing these important self-help housing solutions.

STRATEGIC INVESTMENTS

Our strategic partners, in the face of one of the most difficult economic recessions that the country has faced in recent history, continued to deliver increased scale through leveraging much-needed private sector funding in the delivery of houses as well as home improvements.

TUHF HOLDINGS LIMITED

The NHFC owns 32.6% of 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 in mainly 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 largest single client with our exposure at R584 million in the form of equity, preference shares and debt capital exposure.

After experiencing financial distress in the period from April to June 2020 related to funding and short-term liquidity challenges, TUHF was able to raise equity funding from two key investors (including the NHFC), to bolster its equity base. This, together with improving trading conditions (including normalisation of collections after the initial severe COVID-19 related lockdowns in April to June 2020), allowed the company to raise debt funding from various institutional investors and financial institutions. This included TUHF raising over R600 million March 2021 through one of the first social bonds to be listed on the JSE in its Sustainability Segment. The management team of TUHF and the NHFC are excited by the broadening of the capital base including the securitisation model which was adopted for the social bond.

After a disappointing performance over the financial year ended 31 March 2020 (due to rising impairments and operating costs above budget), the period from 1 April 2020 to 31 March 2021 continued to reflect under-performance (with respect to disbursements) primarily due to the impact of COVID-19 on the economy and subsequent business activity. The focus has been on steadying the financial health of the NHFC with respect to collections, managing liquidity and enhancing operational efficiency.

> *"TUHF is currently the NHFC's largest single client with our exposure at R584 million in the form of equity, preference shares and debt capital exposure."*

HOUSING INVESTMENT PARTNERS (PTY) LIMITED

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, Housing Investment Partners (Pty) Ltd has developed policies and systems that have allowed it to maintain a high-quality housing loan book in spite of the recession that South Africa experienced during 2020/21. The fund management company is running at slightly above the break-even threshold and needs to substantially grow its current loan book by approximately R1.35 billion to achieve a sufficient return of equity. That process of attracting mortgage loan assets has been an ongoing challenge that management are 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 we have noted affects a number of our other investor companies and has been exacerbated by the current recession and poor business confidence. Post year-end, HIP was able to secure R300 million in funding to further capitalise its business pipeline. The NHFC was a participant in this capital raising, providing R80 million of sub-ordinated debt funding.

The NHFC's capital investment of R270 million has so far attracted an additional R1.1 billion from various institutional investors.

INTERNATIONAL HOUSING SOLUTIONS (PTY) LIMITED

IHS is an established private equity investor that has earned a reputation as a preferred investment partner for institutional investors in the affordable housing market.

With a commitment of R300 million in the second fund of IHS, IHS 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 approximately 12,000 housing units over its ten-year lifespan (2014 to 2024).

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

CAPE TOWN COMMUNITY HOUSING COMPANY (PTY) LIMITED

CTCHC is a wholly-owned subsidiary of the NHFC that has undergone a major restructuring of its operations in order to ensure it achieves a turn-around 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 sale of its development portfolio. The ISA is a structured instalment sale agreement which entitles 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 contributing to the profit growth of the NHFC.

LENDCOR (PTY) LIMITED

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 in the case of most entities in the housing micro-lending sector, the loss of income of its target market from COVID-19 lockdowns and slower business activity was a significant constraint on its revenue-generating abilities. 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 2021.

Trading activity during the rest of 2021 (post year-end) remains a challenge to predict, given the slow vaccine rollout and lockdowns that South Africa is experiencing.

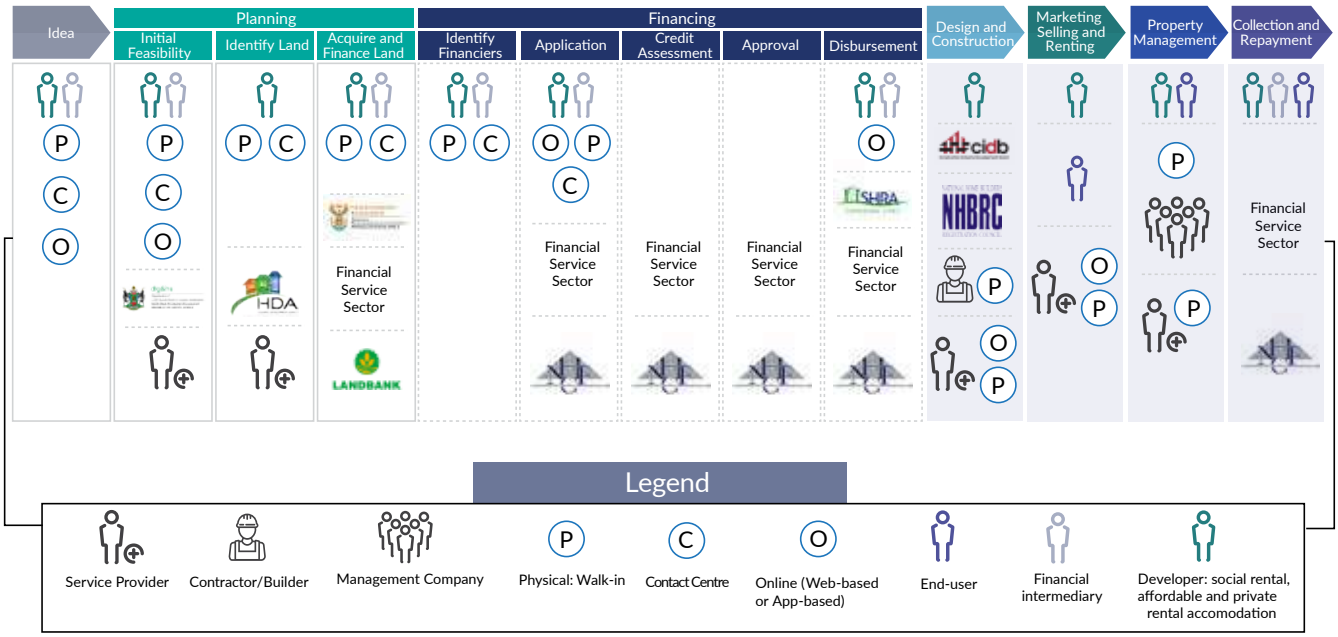
THUTHUKANI HOUSING FINANCE

During the current financial year, 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 our target market. Like Lendcor, 2020/21 was characterised by lethargic business volumes and high impairments.

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 well-located settlements close to work and amenities. This will require a greater level of flexibility in the household income definition to enable such integration of households of low and high incomes to achieve these policy objectives.

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.



OUR RESOURCES

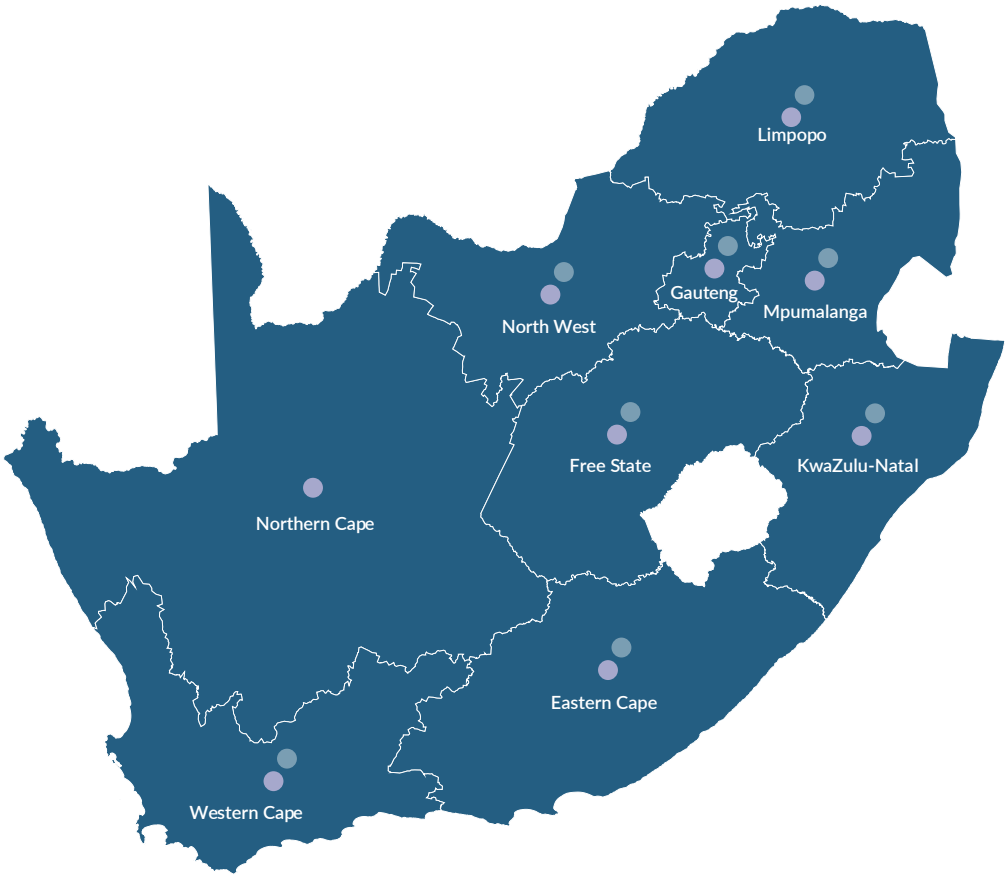
Capital	How our resources are used to support our business model	Output and outcomes	Impact
FINANCIAL CAPITAL			
• Shareholder equity • Dividends from investments • Interest income, fees and capital repayments from loans provided • Debt funding	• Making new equity investments • Disbursing new loans • Operational expenditure • Repaying borrowings	• Approval totalled R1.112 million • Disbursements achieved R710 million • FLISP disbursement R61 million • Achieved Cost to Income ratio of 57.7% • Growth in net loans and advances of 5%	• Sustainable, effective and efficient DFI (NHFC) • Serving household evolving needs for different types of tenure – rental, ownership etc.
HUMAN CAPITAL			
• Our employees	• Appraising funding applications • Monitoring and evaluation of portfolio • Managing all other operational business areas • Training and skills development	• Employee turnover 5.2% • R1.5 million spend on training and development	• 91% of skills development target met • 52% of female and 48% 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	• Disbursements to Designated Groups (women and youth) R54 million • CSI programmes • Learnership programme	• Empowered designated groups to participate and contribute to the economy • Historically disadvantaged property entrepreneurs supported • Seven learners on the learnership development programme • Four learners employed on a permanent basis
INTELLECTUAL CAPITAL			
• Industry-specific knowledge and experience • Knowledge gained from project development • Credit-granting and post-monitoring investment	• Managing risk in the business • Strategies developed for project funding, and; • Programme planning and execution	Crowding in private sector: • Leveraged Financing (Excluding FLISP) R199 million • Leveraged Financing (FLISP) R1 031 million	• Serving household evolving needs 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 regulation	• Social housing units • Private rental housing units • 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

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.

OUR FOOTPRINT

BUILDING TOGETHER, AND BECOMING STRONGER TOGETHER

THE NHFC PROJECT FOOTPRINT



NHFC funded Projects per Province 2020/2021	Number of Projects*	Number of Loans per province for Incremental Housing**
Gauteng	53	1 504
Eastern Cape	25	6 126
Western Cape	14	94
Free State	1	452
Northern Cape	0	1
KwaZulu-Natal	19	7 877
Limpopo	3	2 509
North West	1	1 129
Mpumalanga	2	1 281
Total	**118**	**20 973**

Notes
** Number of Projects (Active and Approved Projects)*
*** Number of Loans per province disbursed by intermediaries for the 2020/21 FY*

ACTIVE PROJECTS AND LOANS FOOTPRINT

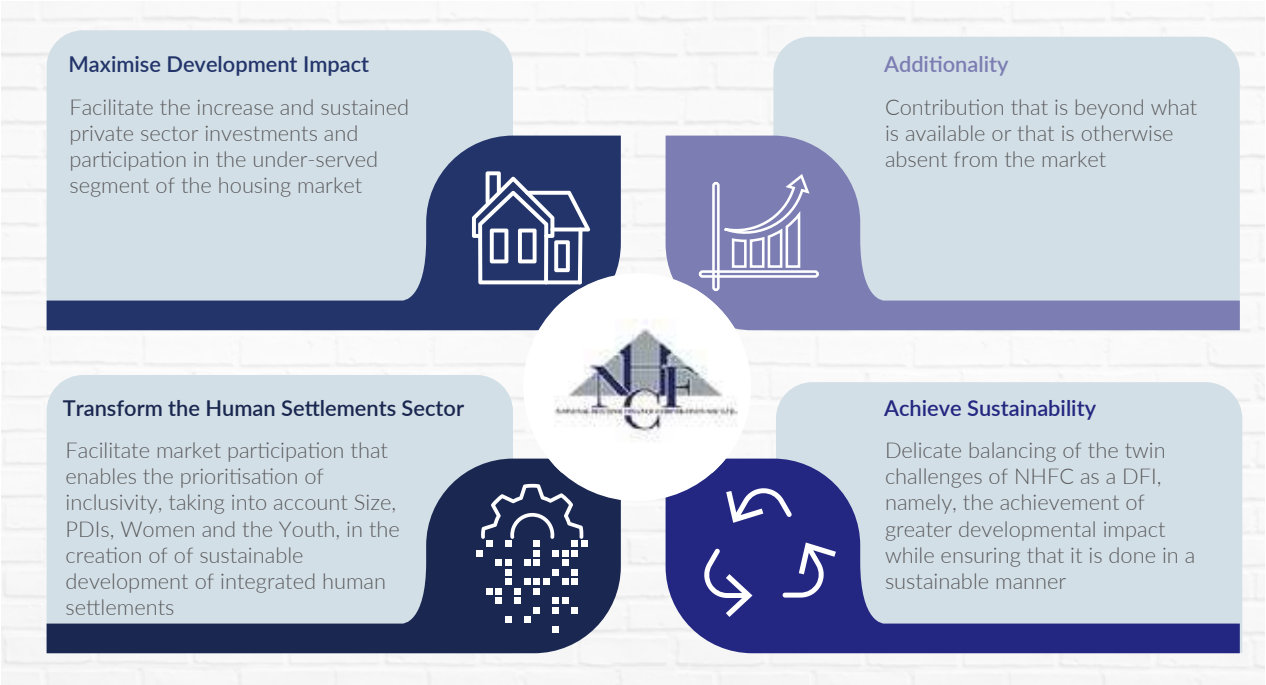
The map indicates the NHFC's active projects and disbursed loans throughout South Africa, and highlights how we have created positive impact in the various provinces.

OUR STRATEGY

THE NHFC STRATEGIC PILLARS

Transformation of the human settlements sector is very central to the NHFC's mandate. In developing the strategy to achieve our mandate and value proposition to our stakeholders, the following pillars were determined as significant. For each strategic pillar, we've defined what success will look like and developed strategies critical to achieve that success.

The following strategic pillars underpin and guide our operations:



To align to our 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 adopts a flexible, hybrid model through its strategic partnerships to make markets more inclusive, while leveraging partner funding, infrastructure, skills, competencies, systems, innovation, and entrepreneurial process. The choice of strategic partners in each instance, is determined critically by both the desired results and the development objectives.

With increased risk appetite the NHFC seeks to invest or provide finance where, typically, banks would not participate. This includes:

- 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 take equity stakes; and
- Support project preparation, including scoping, pre-feasibility and feasibility work on bankable projects

Specifically, the NHFC's purpose is to directly fill the 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:

- Pulling along like-minded partners
- Encouraging reluctant partners
- Acting as a lead arranger – 'bank of first choice in human settlements financing'
- 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
- 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 (ESG – Developmental Outcomes)

OUR PRIORITIES FOR 2021:

- Unwavering support to our clients as they face the 'new normal' and rebuild their businesses
- Modified Finance Linked Individual Subsidy Programme (FLISP)
- NHFC ICT Strategy: Definition & Implementation of Business Modernisation Strategy
- Ensuring a safe, healthy and productive working environment for employees. Employee value proposition: company developed remote working framework, with strategies and protocols to guide employees on remote working arrangement
- Post-merger: Skills audit to determine employee competency levels after consolidation, conducted job evaluation to align the following – job naming convention, job grading, find equitability in remuneration

MEDIUM-TERM:

- Approval of revised FLISP policy and Implementation of modified subsidy programme
- NHFC Business Modernisation:
  * Implementation of NHFC Enterprise Architecture
  * Implementation of Robust ICT Infrastructure
  * End-to-end FLISP process automation
  * Contract Management System implementation
  * POPI implementation and socialisation
- Human Capital: in gearing up for HSDB implemented organisational transformation – Implementation of a succession pool, established mentorship program, training and development, as well as career planning
- Finalisation of the Draft Legislation for HSDB and establishment

> *"To align to our mandate imperative, the NHFC has adopted a unique approach to doing business."*

PART C

Leadership Review

25

Celebrating 25 years of building together,

and becoming stronger together

CHAIRPERSON'S OVERVIEW

MS PHEKANE RAMARUMO
ACTING CHAIRPERSON OF THE BOARD

> *"As I assume the position of Chairmanship of the NHFC in an acting capacity for the 2020/21 financial year, it is my greatest honour to present this Integrated Annual Report to you, our stakeholders, and to the South African public."*

This is a very special edition for the Board, as we celebrate our 25-Year Anniversary, a major milestone for the organisation. I trust that you will share our sentiments and spirit of service to humanity and the South African population at large through a glimpse of this year's Integrated Annual Report.

It is an accepted organisational tenet that companies go through various stages of development and maturity. The NHFC is no exception.

In recent years, there has been a focus to consolidate financing support activities in the human settlements sector into one institution, and to be poised to be the first port of call for housing projects, as well as to leverage financial support from the public, private and international sectors. In short, to be the apex bank for the Department of Human Settlements.

To quote the words of former President Mandela, "As one climbs and reaches the top of each hill and gazes into the distance, one sees many greater hills ahead." Therefore, with this willpower will come greater responsibility for the Board, management and staff to move forward.

CONTINUING TO OPERATE UNDER COVID-19 CONDITIONS

President Ramaphosa instituted a nationwide lockdown at the beginning of the pandemic in 2020. The country has been in the iron-clad grip of the COVID-19 pandemic ever since, and continues to be weighed down by this heavy burden. Both the public and private sectors have amassed incalculable losses as a result; the NHFC has not escaped unscathed. The hardest-hit in our society have been the less-fortunate, especially the gap market which we serve.

At the time of writing, the country is preparing countermeasures to curb the third wave of COVID-19 in a bid to flatten the infections curve.

The immense financial pressure that businesses face continues to grow, which has caused a ripple effect in consumer spending trends and the approvals of bonds and loans. The NHFC operates within the financial service sector; the negative effects of the sector have had a significant adverse impact on our loan book.

Even though these challenges may seem insurmountable, the NHFC has remained agile in addressing these, as exemplified by enabling our staff to work remotely during the financial year without comprising the delivery of our company mandate. To this end, during the year under review, we had successfully laid down the foundations of an extremely robust, user-friendly and empowering ICT infrastructure that enabled our staff to deliver on the NHFC mandate, which has been continually expanded upon.

ADDRESSING THE COVID-19 VIRUS PANDEMIC

The year under review has not been without its challenges. These have to be embraced and the NHFC has shown itself able to rapidly adapt and move with the times. With the onset of the COVID-19 pandemic and various levels of lockdown, the company successfully adopted the work-from-home principle. Remote working was supported by our robust ICT infrastructure and support. This experience proved that the future way of working will not necessarily need or be reliant on the physical presence of staff in the office to to deliver on their key performance areas and assigned tasks.

The pandemic brought about hardships to the citizens of South Africa. Various government departments formulated and implemented programmes to support households affected by the pandemic in line with their mandates. Similarly, the Minister of Human Settlements has made an allocation of R300 million to NHFC for the Debt Relief Programme. This is intended to be used to offset debt incurred by the NHFC clients primarily due to economic distress that occurred as a result of COVID-19. As we were writing this integrated report, we were also in the process of finalising the NHFC Debt Relief Policy and Workplan to ensure implementation of the National Framework for the Debt Relief Programme.

The COVID-19 pandemic has also hurt the NHFC financially in the form of reduced business volumes and interest income. However, these have been partially offset through savings achieved – details are in the Financial Statements and CFO Report.

HIGHLIGHTS

The year under review has, notwithstanding, produced rays of hope in an otherwise gloomy period. We have successfully transformed the NHFC into a cohesive unit. It has been a great responsibility for me to ensure that it happens, and will help us to better address some of the deliverables of key projects, such as the catalytic projects that are being funded by the HDA. As a financial institution in the lending arena, we must follow the PFMA and governmental processes which need to be followed to the letter. These are taking longer than expected, but we anticipate this to be hastened by the fact that it is an SOE-to-SOE transaction.

DELIVERING ON OUR HUMAN SETTLEMENTS MANDATE

The year under review has been fraught with many challenges brought on by COVID-19. However, it has not in any way affected our commitment to provide the financial means for our market to own homes and to become financially empowered. Projects in various provinces across the country and FLISP grant disbursements have made it possible for first-time homeowners to buy their own properties. Although, for the most part, projected target figures were not met, we are reinvigorated to achieve our mandate now, more than ever.

BOARD, STAFF AND MANAGEMENT

I would like to pay tribute to the former CEO, Mr Samson Moraba, who retired from the company on 31 August 2020. He has seen the company grow for some 21 years from its embryonic stages to the threshold of the HSDB. We thank him for his many years of service.

In November 2020, we saw the retirement of three Board members of the company who have also contributed many years of faithful service. They are Ms Anthea Houston, Mr Johan Coetzee and Mr Sango Ntsaluba. To these key individuals who have served with such distinction and selflessness, we say, "Ndlelanhle!" May you enjoy your retirement as you embark on future endeavours.

With the retirement of Mr Moraba, the former Chairperson of the Board, Mr Sizwe Tati had accepted the invitation to step into the position of Acting CEO. This has been, and continues to be, a rather challenging assignment, especially in these trying times and as the NHFC moves towards the final establishment of the HSDB. However, Mr Tati is an exemplary candidate to lead the company in this regard; he is assured of the Board's full support towards this end.

In addition to the organisational changes that have just been mentioned, the Minister has appointed Ms Philisiwe Mthethwa to the Board; I take this opportunity to congratulate and recognise her appointment. She brings with her a wealth of business, finance and investment experience, thus adding value to our programmes. We look forward to working closely with her and welcome her new approach and energy to the Human Settlements sector.

Lastly, I humbly acknowledge my own appointment as Acting Chairperson of the Board, as appointed by the Minister. I understand that I have large shoes to fill in following the footsteps of my predecessors and I am indebted to my colleagues and the NHFC staff for their continued support.

Now that the NHFC merger is behind us and all staff are fully aligned to the goals and objectives of the NHFC, I am confident that we can move forward with confidence. Our single-minded purpose in serving our target market to the best of our collective abilities is what drives us. Our strategic session has helped us to assess our efficacy in working outside the office.

"I would like to pay tribute to the former CEO, Mr Samson Moraba, who retired from the company on 31 August 2020. He has seen the company grow for some 21 years from its embryonic stages to the threshold of the HSDB. We thank him for his many years of service."

THE OUTLOOK FOR 2022

Looking towards the 2022 financial year, we steadily approach our goals and strategic objectives as a fully transformed business. Part of this transformation has been shifting our focus, which has primarily been on lending, to include catalytic projects, and seeking out funding from both local and international funders, as well as establishing partnerships that can help us deliver on our mandate.

The FLISP programme is a national programme, but it has largely been evident mainly in Gauteng. However, we are confident that with the intensified marketing efforts and partnerships with various business channels, the delivery at scale of this subsidy in all provinces will be realised. We are particularly encouraged by the new changes that the Revised FLISP Policy will bring. It will deepen the reach of the subsidy to many low-income households nationally who are currently unable to access mortgage finance, but who do access non-mortgage products that have not been accessible to FLISP beneficiaries.

The coming years under the MTSF are going to be extremely challenging as the country metamorphosises and adapts to what is now being colloquially referred to as the "new normal" – especially in the way we work. Currently, the NHFC's new financial products are being interrogated, and new and existing partnerships are being fostered.

The economy is showing signs of slow recovery. Funding is restricted as all sectors have to address their most necessary demands, and the proverbial "cloth" has to be cut accordingly to fit these circumstances. The resulting "belt tightening" and fiscal growth can be expected to be slow.

APPRECIATION

As the newly appointed Chairperson of the NHFC Board, the working environment within which my colleagues and I operate is understandably difficult and complex. Therefore, it is vitally important that we continue to work together as a team and continually focus on what we are aiming to achieve, namely to home as many families and individuals in our target market as possible. Our mandate becomes a key driver for constant innovation, new growth and overall advancement. At the end of the day, it's really not about us, but about the communities we serve. With such lofty ideals must come equally high expectations of delivery and productivity. It fills me with immense pride and joy when I look back and note our many achievements through the year, brought on by dedicated staff and the leadership of the NHFC, who have been such important vision bearers.

To the people behind the NHFC, no matter the position or the job title, I take this opportunity to sincerely thank you for making this year a success under extremely challenging circumstances. Truly, we are stronger together when we build together.

I also convey my sincere gratitude to the former Minister of Human Settlements, Water and Sanitation, the Honourable Ms Lindiwe Sisulu. My deepest and most heartfelt gratitude and appreciation go to you for all your help, advice and counsel over a particularly difficult year. Your drive and insight in the Human Settlements sector and the NHFC are greatly appreciated and valued. We wish Minister Sisulu well in her new role as Minister of Tourism.

As we prepare this Integrated Annual Report, I am pleased to welcome our new Minister of Human Settlements, the Honourable Ms Mmamoloko Kubayi. On behalf of the NHFC Board and Management, I would like to assure you of our unwavering support as you drive the delivery of sustainable human settlements across metros, cities, towns and rural areas of our beautiful country. As the NHFC moves towards becoming an HSDB, we are geared to finance the delivery of human settlements throughout the value chain.

Finally, I wish to thank the management and staff for their unfailing support in this challenging year, and I look forward to embracing new horizons in the very near future.

Ms Phekane Ramarumo
Acting Chairperson of the Board
30 August 2021

CEO'S OVERVIEW

MR SIZWE TATI
ACTING CHIEF EXECUTIVE OFFICER

> *"This is a very special edition for the NHFC, as we celebrate 25 years of serving the people of this great land, through the fulfilment of our mandate to provide human settlements for the market we serve."*

OVERVIEW

The year under review has challenged the organisation in ways that we could never have imagined. Yet, with the challenges of COVID-19, working remotely, and adapting to new ways of working, we have managed to overcome adversity. Therefore, it gives me the greatest pleasure and the deepest honour to present our stakeholders and the South African public at large with our Integrated Annual Report.

This is a very special edition for the NHFC, as we celebrate 25 years of serving the people of this great land, through the fulfilment of our mandate to provide human settlements for the market we serve.

REVISED TARGETS

Due to an extremely constrained economy, it became necessary for the organisation to revise our targets, in line with DPME directives. I am pleased to report that we have successfully met these targets, especially where approvals, disbursements, the total number of units constructed, funds leveraged from third parties, and financial assistance given to some of our clients were concerned.

However, I must acknowledge that for some programmes such as FLISP, which is granted on the back of home loans approved by the banks, the revised targets were not met—signifying the challenging credit business environment during the year under review.

HIGHLIGHTS

A noteworthy highlight for the year has been the issue of staff working productively from home. I am pleased to report that the NHFC team have risen to the challenge and delivered on all expectations. Aided by a safe and secure IT infrastructure, training and the organisation investing in resources including hardware and software, the NHFC staff have enabled a successful, paperless work environment.

A SUMMATION OF THE FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAM

FLISP promises to be a key programme for housing delivery in South Africa as the Policy evolves. FLISP has traditionally been implemented with mortgage finance, which does not reach many households in the FLISP market – especially those in the lower income segments and those households who are building in rural areas and have no title to land.

I am pleased to report that the Revised FLISP Policy, that will be approved shortly, has added non-mortgage finance products to be implemented. This is a welcomed and innovative change as it will open opportunities for many people to access the subsidy and add it to different housing loan types and in so doing, build houses that they can afford – and call their own, even if on an incremental basis. I am also excited that this new Policy will also enable households who are part of Savings Groups such as Stokvels to access FLISP on the back of housing loans approved by their stokvels.

At the time of writing the NHFC and the Department of Human Settlements are in the process of formulating implementation guidelines to spell out processes for non-mortgage finance products implementation with FLISP.

The approval of the Revised FLISP Policy is also critical as it will enable the NHFC to sign the Memorandum of Agreement that has been negotiated with the Banking Association of South Africa (BASA). The resulting Service Level Agreements between individual banks and non-banking financial institutions are in the negotiation phase, and will be finalised in the near future.

A key concern that the shareholder has raised is the need to re-brand the FLISP product in such a manner that it becomes easily understood by the target audience. The general consensus is that the product name is convoluted and does not convey the programme's objective to the market in a memorable way. Towards this end, the Minister has proposed a new product name for FLISP that will position the product in a more favourable light.

Despite the challenging environment that FLISP has experienced in the year under review, I have no doubt that FLISP is an evergreen programme that will assist millions of our citizens to access adequate housing in the future. As the NHFC, we are geared to handle the programme's growth, supported by IT systems that will enable us to automate the subsidy processing throughout the value chain from applications all the way through to subsidy payments. subsidy payments.

LOWLIGHTS

The negative impact of COVID-19 on our business has taken an unprecedented toll on our ability to deliver fully on our mandate. The constricted economy has had a spill-over effect on our client's businesses as well, which further adversely impacted the loan book. Relief measures were provided to help our clients sustain themselves through the pandemic. The relief to clients was mainly provided in the form of capital and interest relief for a period of four months and subsequent loan term extensions.

Further compounding matters, in terms of our social housing complexes – these were subjected to illegal raids and unlawful occupancy where damage to our client's units were sustained. Our client engaged the assistance of security personnel to help clear out illegal occupants, and in most cases, this was possible.

The partial success to evict illegal occupants has had a direct and negative impact on the rental loan book. The negative impact resulting from illegal occupancy needs to be mitigated as a matter of urgency and will receive our fullest attention, going forward.

This is critically important if social housing is going to be regarded as a long-term destination of private sector and retirement fund capital.

THE COVID-19 PANDEMIC UPDATE

The President's announcement in May 2021 heralded the concerns that the country was rapidly progressing into the third wave of COVID-19 infections. However, even with imminent lockdowns threatening an already diminished economy, the NHFC is well-prepared to address the challenges of off-site working.

The company additionally engaged with its clients, which are intermediaries for the people on the ground – those in accommodation and who have all been hard hit by the pandemic. Where possible, relief has been provided through granting capital and/or moratoria and debt rescheduling. It is pleasing to note that as lockdown conditions were relaxed, there has been a moderate return to normality with some clients returning to the task of running their businesses.

STAKEHOLDER ENGAGEMENT – A SNAPSHOT

In terms of our stakeholder engagements for the year under review, I am pleased to report that these engagements have yielded positive results. One of the key engagements has been the Stakeholder CEO Forum, which is held annually between myself and all key stakeholders, where I invite all parties concerned to interact with me. The outcome is to glean vital data on our stakeholder's views on our performance, their impressions of the organisation as a whole and how leveraging their respective roles can have an increased, overall impact on us delivering on our mandate.

THE NHFC'S LIQUIDITY AND FINANCIAL STATUS AND PERFORMANCE

The organisation experienced difficulty in receiving loan re-payments from our clients, due to a subdued economy and extreme job losses. The Debt Rental relief was further delayed as a result of policy and legal issues – which doesn't auger well with some of our clients. However, we expect to be making payments soon to offer some form of relief. Despite the constrained operating climate, the company remains liquid and financially sound.

OUTLOOK FOR 2022

Although the year under review has been an extremely difficult and a subdued one, looking back, we can take comfort in the fact that, as an organisation, we have remained fluid. Our collective ability to respond to the many sudden changes in both the economy and in the face of a worldwide pandemic is cause for celebration.

Armed with the learnings and the strong foundations that we have laid; we can look to the future with a greater sense of confidence and hope. One such development that we can all look forward to is Cabinet's approval of our submission for the HSDB Bill. The Bill will provide for "successor in title" to permit smooth transition from NHFC to HSDB. We expect this process to be finalised during the second or third quarter of the new financial year. This will be an appreciable milestone towards our capitalisation efforts from National Treasury, and an important step, without which we can't move forward. Once HSDB is in place, the NHFC will be deregistered.

In terms of our state of readiness for HSDB, a great deal of effort went into ensuring a successful amalgamation and integration of processes. Our continued initiatives as far as HR Transformational Interventions and ICT are concerned, are outlined fully in the body of the report. We have also developed the branding and logo to be revealed at the appropriate timing. Other strategic initiatives under consideration for rolling out in the near future are:

- Mortgage Default Insurance
- Establishment of Entrepreneur Incubation Program
- Establishment of an Equity Fund
- Owner Builder Housing Voucher Programmes
- Individual Rural Voucher Programme

It is pleasing to note that there are some new partnerships with new clients in the areas of affordable and incremental housing. These are Seeing fruitful progress in terms of major projects earmarked to be built. some new mega-projects being built. Unfortunately, social housing continues to be a challenge, and political interventions are necessary. At least two social housing institutions have been restructured and steered back to profitability to profitability in the past year. Detailed performance reporting can be found elsewhere in this report.

We have made great strides in getting our proverbial 'house' in order, especially with revised succession planning, mentorship programmes and a fairly advanced continuation process that addresses such legislation as POPIA and FAIS which were adopted in a timeous manner. This positions us strongly to deliver on key catalytic projects that are currently in the pipeline, as well as infrastructure projects that are currently underway. The call for all business units within the NHFC to engage in delivering on our targets has been heeded, and we are well prepared to serve the needs of the gap market.

APPRECIATION

My sincere appreciation firstly goes to my predecessor, Mr Samson Moraba, who has tirelessly served the organisation for the past 21 years. During his tenure, the many systems and fail safes that he implemented continue to function flawlessly. It is now up to us to take these and further develop them until they evolve into outstanding business, growth and development-centred systems, in keeping with the status of a bank that the NHFC is steadily moving towards.

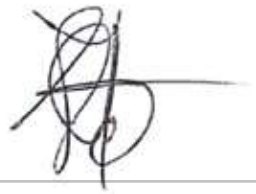
To the Board, I extend my heartfelt gratitude and sincere appreciation. The Board has functioned in an exemplary fashion, notwithstanding the fact that Board membership has dropped from ten members to six. Even though resources were stretched beyond breaking point, in all instances, the Board has managed to deliver a sterling performance in terms of attention to the business functionality and the many committees that demanded their attention over a very difficult year.

I also extend sincere thanks and appreciation to Minister Dr Lindiwe Sisulu as the former Minister of Human Settlements, Water and Sanitation for her help, advice and direct involvement during the year under review. Much has been accomplished to the benefit of the people as a result. I take this opportunity to wish her well in her new appointment as the Minister of Tourism.

It is apt at this point that I take the opportunity to warmly welcome our new Minister of Human Settlements, Ms Mmamoloko Kubayi. On behalf of the NHFC team I assure you of our full support as you execute your responsibility of delivery of human settlements for the benefit of South African communities who are the gap market. As the NHFC moves steadily towards becoming the HSDB, we are constantly aware of our tremendous responsibility of facilitating housing finance that is targeted to those households in need, and which we serve – as defined in our mandate.

Lastly, my thanks and appreciation goes to each and every member of staff at the NHFC, who have supported our business and kept the organisation at 100% functionality and efficiency – even in the face of such uncertainty and difficulty.

To our clients that we serve, I thank you for your continued trust and confidence in us, and to the stakeholders who continue to impact so positively on our deliverables and mandate, we cannot possibly do this without you all.



Mr Sizwe Tati
Acting Chief Executive Officer
30 August 2021


REGENT VILLAS

CHIEF FINANCIAL OFFICER'S REPORT

MR MOGOTSI OEPENG
ACTING CHIEF FINANCIAL OFFICER

> *"The economic landscape, negatively influenced and impacted upon by the COVID-19 pandemic, had presented a unique set of circumstances, which the NHFC had to navigate around."*

OVERVIEW

The economic landscape, negatively influenced and impacted upon by the COVID-19 pandemic, had presented a unique set of circumstances, which the NHFC had to navigate around. The resulting business challenges were primarily driven by a rapidly changing macroeconomic environment, namely from the interventions taken by government to contain the spread of the pandemic, which was already adversely impacting our client base.

The impact of the slowdown on the economic activity from the various lockdowns and the reduction in the repo rate to stimulate the economy had a negative impact on the performance of the NHFC.

Regardless of these challenges, the NHFC was able to deliver a favourable set of results. This was as a result of the effective management of the quality of the loan book, operational efficiency, and risk-based pricing strategies.

In addition, the effective management of our cash and cash equivalents 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 included, among others, capital and interest moratorium, extended loan terms and the waiving of any breaches in key financial covenants for an extended period of time. Any shortfalls in the 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 from our lending portfolio and strategic investments.

OPERATING RESULTS

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

The NHFC business is highly susceptible to interest rate changes with more than 90% of its lending book linked to the prime lending rate. The South African Reserve Bank has since January 2020 cut the repo rate by 3 % as a measure to revive the economy.

As are result of the change in economic assumptions, at the request of the NDoHS and the National Treasury, the NHFC revised their budgets in the first quarter of 2021 to reflect the most probable impact of the COVID-19 pandemic to operations.

The resulting drop in the repurchase rate resulted in a decline of our interest on advances. However, this year, the growth, in the loan book was a net increase of 5%. The growth in loans and advances are a critical driver of revenue growth and constitute 58% of our total asset base.

We achieved disbursements of R710 million, this was higher than budgeted disbursements of R517 million. The achievement of our targets was boosted by a few large projects that were approved in the period, the challenging trading environment is, however, a reality where the NHFC saw fewer bankable property transactions in the year.

Slower growth in the loan book from reduced bankable projects over the last few years has resulted in the cash reserves of the NHFC increasing over time. Investment income was 12% of our total earnings and despite reduced repo rates, investment income of R54 million for the year against a budget of R60 million was achieved.

A key lesson from the pandemic was the necessity to maintain sufficient cash reserves to be able to 'ride out' economic downturns, as in our case, to be able to assist our clients with the necessary concessions. The goal for the NHFC is to ensure that it maintains an optimal level of cash and cash equivalents and to be able to fund a sufficient number of residential projects, generating more sustainable lending income.

Impairments and write-offs on loans and advances were R39 million in the current financial year which translated into a credit loss ratio of 0.9% against a budget of 3% for the year. Other impairment and write-offs were R15 million on HTM investments and R2.5 million on other balance sheets items. The total impairment and write-offs for the current year was R57 million against a budget of R104 million for the year.

The lower impairments and write-offs were lower than the previous year, as despite the economic situation, there was sufficient security in our arrear debtors to justify the lower provision. In addition, the significant review of the loans and advances in the prior years, and improving post-investment monitoring process, as well as an adjustment in the credit criteria for new applications resulted in the lower credit loss ratio in the current financial year.

Operational efficiency remains a key lever that is under the control of the management of the NHFC and this continued to yield positive results during the year through savings with respect to mainly outsourced services and employment costs. The cost to income ratio at group level was 58% in the current financial year against a budget of 60% and 46.7% in the previous year.

Most of our debt exposures have fixed interest costs, and the NHFC did not receive relief in finance costs when the interest rates declined. There, however, has been a decline in the finance cost during the year as a result of the repayment of a facility amount to R69.9 million as the terms of the facility were no longer economically viable for the NHFC.

The liquidity of the NHFC remains strong primarily because of strong treasury management. The group's consolidated cash and cash equivalents (including short-term money market instruments) were at R1.5 billion at year end, as reflected in the company accounts.

The surplus in the consolidated accounts is at R90 million was ahead of the budget of R45 million but below the previous year of R218 million. As noted above, in the current year the key drivers of this performance has been continued operational efficiency and lower impairments and write offs (from better portfolio management). The lower lending income is from the decline in the repurchase rate with a fixed expense base that has resulted in the decline of the surplus from the previous period.

STRATEGIC INVESTMENTS

Apart from the NHFC's core business of lending, typically through asset backed loans, the company has a deliberate strategy of diversifying its revenue stream through selective investments. These reside as a variety of financial instruments in companies that are innovative and who play an active role in being front runners in developing the affordable housing finance market in areas that are largely ignored by the private sector. In that regard, the NHFC has investments in IHS, HIP, TUHF, and CTCHC which all play a unique role in the market place. The portfolio is approximately R750 million in carrying value.

The portfolio is our risk capital (equity and quasi-equity which is unsecured) and provided to clients, largely to attract other investors in investee companies through the NHFC taking the first risk of loss.

KEY RATIOS

Key Financial indicators	Group / Company	Actual March 2021	Budget March 2021	Actual March 2020
Return on equity	Group Company	1,9% 1,4%	1,0% 1,2%	4,7% 1,1%
Return on assets	Group Company	1,5% 1,3%	0,7% 1,1%	3,6% 1,0%
Cost to income ratio	Group Company	57,7% 59,7%	60,0% 57,0%	46,7% 48,7%
Credit Loss Ratio (inc. bad debts) for loans and advances	Group Company	0,9% 1,0%	3,0% 3,0%	1,5% 1,7%
Debt to equity	Group Company	28,8% 5,9%	30,0% 6,0%	31,6% 6,8%
Growth in Net loans and advances	Group Company	5,2% 8,5%	-4,0% -12,8%	-1,4% -3,8%

CREDIT RATING

National Finance Housing Corporation Soc Limited

Rated Entity	Rating Class	Rating Scale	Rating	Outlook/Watch
National Housing Finance Corporation SOC Limited	Long Term Issuer	National	A (ZA)	Stable Outlook
	Short Term Issuer	National	A1 (ZA)	
	Long Term Issuer	International	B+	
	Short Term Issuer	International	B	Stable Outlook

In February 2021, Global Credit Ratings rated the NHFC at national scale ratings of A and A1 in the long- and short-term respectively, with the outlook changing to stable from negative.

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 and this places us at a stable footing for any possible fundraising efforts.

Funding liabilities remain quite low and comprise three multilateral loans secured at very favourable rates by the NHFC. The debt-to-equity ratio of the NHFC remains low at 5.9% with funding being heavily skewed towards shareholder funds.

The long-term plan is for the NHFC to change the funding mix to raise additional debt funding from select development finance institutions and fund managers on a concessionary basis. This is especially the case with the focus being placed on fiscal consolidation and changing budget priorities of government. This will require greater focus on achieving sustainable operating cash flows to ensure ability to service the debt.

While the NHFC was able to meet its loan covenants from its funders, the ratios relating to asset quality remain under strain, especially with the concessions given to clients during the year.

OUTLOOK

While financial performance is encouraging, and has somewhat exceeded budget expectations due to positive variances for impairments, investment income and operating expenses, our core business revenue has underperformed. The overall balance sheet risk of the NHFC has significantly changed with the onboarding of new products that present new credit risk and maturity profiles. These will require concerted effort in liquidity management and capital allocation. Growth in revenue remains a challenge primarily due to overall economic conditions, therefore rolling out aggressive growth in the disbursements, and achieving the set targets is critically crucial in meeting targets and maintaining sustainability.

Mr Mogotsi Oepeng
Acting Chief Financial Officer
30 August 2021

MATERIALITY: STAKEHOLDER ENGAGEMENT

The NHFC places a high degree of emphasis on engaging with stakeholders, who are defined as entities or individuals that can, within reason, be expected to be significantly affected by our activities, financial products and services.

OUR STAKEHOLDER ENGAGEMENT STRATEGY

The stakeholder management and engagement strategy provide a clear vision on which stakeholders should be engaged, how they should be mapped, what they should be engaged on as well as the mechanisms through which they should be engaged.

The organisation has diverse and numerous stakeholders who have, and are likely to have, an interest or stake in the organisation. The interest of all (legitimate) stakeholders has intrinsic value, and no set of interests is assumed to dominate the others.

OBJECTIVES

- One of the leading imperatives is data mining and insight generation that is required to influence future engagement and innovation
- To build, enhance, promote and protect the NHFC's reputation, so as to foster mutual trust
- Building and reinforcing a strong brand and maintaining a positive image of the NHFC
- Ensuring value creation to enable sustainable partnerships, encouraging collaboration and cooperation
- To proactively manage and, where possible, mitigate business risk

DEFINING MATERIAL MATTERS: STAKEHOLDER MAPPING

Stakeholder mapping is an important step in understanding who the NHFC stakeholders are, where they come from, and what they are looking for in relation to the NHFC business. Furthermore, it is a collaborative process of research, debate, and discussion that draws from multiple perspectives to determine a key list of stakeholders across the entire stakeholder perspective.

STAKEHOLDER ENGAGEMENT: OUR STRATEGIC APPROACH

Stakeholders are generally reached through marketing, workshops and PR efforts – traditional advertising, digital marketing and public relations in the form of television and radio interviews, printed stories or info-graphics. This keeps all stakeholders informed and aware, ensuring that engagement can then become more specific and intimate, without having to 'repeat the facts' with each engagement.

DEFINING OUR KEY STAKEHOLDERS:

INTERNAL STAKEHOLDERS

Internal stakeholders can be defined as groups or individuals who work within an organisation. These stakeholders are directly involved in the actions of the entity in either a strategic or operational manner. The following internal shareholders exist within the internal environment of the entity.

CORE STAKEHOLDERS:

Name	Function in Value Chain	Interest
National Treasury	Capital Provision	Finance provided is used in accordance with mandate
Department of Human Settlements	Capital Provision/Management	Entity delivers on mandate and transforms human settlement sector
Board of Directors	Management	Strategic direction of the entity
Executive Committee	Management	Operations of the entity
Employees	Disbursement/Collection/ Management	Source of income and career development
Department of Public Services and Administration	Management	Ensures that the entity maintains a compliant and functioning public service
Private Sector Financiers	Capital Provision	Financing provided generates adequate returns

EXTERNAL STAKEHOLDERS

External stakeholders can be defined as individuals, groups and entities from the external environment that can either have a significant impact on the operations of the entity or be impacted significantly by the operations of the entity. The following external shareholders exist within the external environment of the entity.

Name	Function in Value Chain	Role
National Credit Regulator Financial Sector Conduct Authority Financial Intelligence Centre	Financing	Regulator
Civil Society	Property Management & Community Development	Regulator
National Home Builders Registration Council	Planning, Land & Tenure and Essential Infrastructure, Quality houses are delivered, i.e., Housing Consumer Protection	Regulator
Provincial Government	Planning, Land & Tenure and Essential Infrastructure	Partner
Local Government	Planning, Land & Tenure and Essential Infrastructure	Partner
Private Sector Financial Institutions	Capital Provision, Financing	Provider of finance
Intermediaries	All Functions except financing Property Management	Intermediary Customer
Short term Financers	Financing	Intermediary Customer
Provincial Development Financials Institutions	Financing	Intermediary Customer
Housing Finance Institutions	All Functions except financing	Intermediary Customer
Low Income Households	Community Development	Customer
Housing Development Agency	Planning, Land & Tenure and Essential Infrastructure	Partner
Social Housing Regulation Authority	Planning, Land & Tenure and Essential Infrastructure	Partner
Research Institutions	Across Value Chain	Partner

We embed engagement with our stakeholders into our value creation process. The table below outlines how we've engaged our stakeholders during the year under review:

Stakeholders	How we engage	Key issues	Stakeholders' contribution to value creation
Government (Shareholder representative) • National Department of Human Settlements (NDoHS) • Department of Monitoring and Evaluation (DPME) • National Treasury	• Quarterly report • Annual Performance Plans • Integrated Annual Reports • Annual Operational Plans	• Capital Provision/Management • MTFS framework and outcomes • Strategic Plan and Annual Performance Plans • Compliance and audit reviews	• Entity delivers on mandate and transforms human settlements sector • Funds funded are utilised as per mandate requirement • Ensuring governance • Budget - funding provision
South African Reserve Bank	• Quarterly	• F02 and F04 Reports	• Financial Position, Financial Performance and Cash Flow
Parliamentary Portfolio Committee	• Integrated Annual Reports • Quarterly reports • Parliamentary committee sittings	• Service delivery • Compliance	• Focuses on the performance of public entities
Board of Directors	• Board meetings • Sub-board committee meetings	• Provide leadership and oversight Management • Quarterly Reports • Integrated Report • Annual Performance Plan • Strategic Direction	• Oversee the overall strategic direction of the entity
Executive Committee	• EXCOM	• Management • Operational Performance • Strategy Implementation	• Operations of the entity
Employees	• CEO's Staff address • Internal newsletters • Intranet • Internal workshops/ trainings	• Operational performance • Organisational Management • Training and development	• Source of income • Career & skills development • Enhance the organisational and team performance

Stakeholders	How we engage	Key issues	Stakeholders' contribution to value creation
• Funders: • NDoHS/National Treasury • EIB, AFD, PIC, KFW/DBSA • International Finance Corporation (IFC) • CDC • Commercial Financial Institution: ABSA, FNB, INVESTEC, NEDBANK, STD	• Annual reports • Half yearly reports • Quarterly reports • Periodic meetings	• NDoHS: Annual Performance Report • National Treasury: Estimate of National Expenditure • National Treasury: Quarterly Report • EIB, AFD, PIC, KFW/DBSA: Debt funders - Financial performance of the NHFC and ability to service debt • Contractor Incubator • IFC: Exploration of financing collaborations • CDC & IFC: Exploration on Social Housing Funding Opportunities • Commercial Financial Institution: ABSA, FNB, INVESTEC, NEDBANK, STD: Co-funding opportunities	• Return on investments • Objectives and outcomes • Budgets • Quarterly performance • Contractor Development • Financing scale
Suppliers			• Timeous Payments
Partners per programme: Social Housing and Private Rental: • Human Settlement Technical Working Group • Human Settlements Command Centre Committee • Social Housing Regulatory Authority (SHRA) • NHBRC • KZN provincial steering committee • NDoHS • National Association Social Housing Organisations	• Monthly meetings • Quarterly meetings • Webinars and Seminars • Virtual Workshops	• Human Settlements Technical Workshop Group: Rental Housing Policy framework • SHRA: Monthly discussions on bankable project and pipeline projects • NHBRC: Meetings about Funding • Discussions on National Rental Relief Fund with the NDoHS • Attendance of seminars hosted by NEF Property Sector Affordable Housing Webinar and International Housing Solutions webinar	• Book growth through new business opportunities • Co-funding capital contributions

Stakeholders	How we engage	Key issues	Stakeholders' contribution to value creation
Incremental Housing: • Intermediaries • Micro Finance South Africa (MFSA) • NDoHS • Data Management, Verification & Analysis	• Regular Meetings • Virtual Workshops	• Engagements with MFSA to gain access to their database of over 600 registered lenders and share our financial solutions • Data management, Verification & Analysis	• Book growth through new business opportunities
Affordable Housing: • Developers	• Regular meetings • Virtual Workshops	• Leveraging on NHFC as an administer of FLISP to have competitive advantage against our competitors • Affordable division continually maintaining the relationship with existing clients and to consider repeat business	
Subsidy Housing: • National and Provincial Departments of Human Settlements • DHS Technical Working Group • Developers and Contractors	• Regular meetings • Quarterly meetings • Virtual workshops	• Information sessions on Upgrading of Informal Settlements (UISP) and update on serviced stands • Updates on Provincial Reviews and NHFC updates on its role within the Human Settlements Development Grant (HSDG) every quarter. • DHS Technical Working Group: will enable the NHFC to identify projects can work with within the mandate • Expansion on Creating awareness on NHFC products at workshops	

Stakeholders	How we engage	Key issues	Stakeholders' contribution to value creation
FLISP: • National and Provincial Department of Human Settlements • Developers • Banks and other financial institutions • Clients- beneficiaries • EAAB	• Internal meetings • External meetings • Media- SABC 3	• Discussions with Developers active in FLISP market for business generation • Engagement with the NDoHS on Revised FLISP Policy, Owner Builder Subsidy Voucher Programme, and Rural Voucher Programme • Engagement with Department of Public Service Administration on the Memorandum of Understanding on Government Employee Housing Scheme and FLISP implementation • Collaborations with NDoHS on continuously marketing FLISP • FLISP is a credit linked subsidy, therefore banks have been identified as central in the FLISP partnership model • Engagement with Banking Association of South Africa and individual banks on the Memorandum of Agreement and Service Level Agreements, respectively, on FLISP implementation • Other important stakeholders such as developers, large employers (who provide housing benefits to employees) and Estate Agents will play a critical role as touch points in the sourcing of FLISP applications • Constant engagements with beneficiaries on follow ups of their applications • Media platform was used to profile the product to all TV show Ilungelo Elami	• Programme growth through new business opportunities

Stakeholders	How we engage	Key issues	Stakeholders' contribution to value creation
Strategic Partnerships and Programme Management: • Gauteng Province – Gauteng Incubator • Northern Cape Province- Provincial Incubator programme • City of Cape Town • The Presidency • Social Housing Regulatory Authority (SHRA) • Small Enterprise Development Agency (SEDA) • Small Enterprise Finance Agency (SEFA) • Black Business Council in the Built Environment (BBCBE) • EFFECTUS Capital Management • National Treasury • Randfontein Mega Project • Gauteng COGTA • uTshani Fund • South African Property Owners Association (SAPOA)	• Technical Working Groups-Human Settlements focused • Housing and Social Infrastructure Focus groups • External meeting • Social Housing Incubation Programme Presentation External meetings • Presentations • Introductory meeting to explore ways of collaboration • Training	• SHRA Sector development on collaborating on the delivery of 30 000 social housing units • City of Cape Town rental Programme to strengthen delivery and any associated contractor delivery requirement • Strategic Infrastructure Development Symposium (SIDS) which is central to the economic growth stimulation • Housing and Social Infrastructure Focus groups to participate in opening Lanseria as a new urban growth node • SEDA, SEFA, BBCBE: Sign MOU'S to formalise relations • Effectus Capital Management company profile and experience in the sector • Treasury: Public Finance Management Act over- view and its contents. Irregular expenditure Framework • Randfontein Mega Projects: Meeting on Prospects of financing the development • Gauteng Cogta: Meeting with MEC Maile on Gauteng Contractor Incubator • uTshani Fund: Potential collaborations on PHP implementations	• Sharing the NHFC Concept Note on Business Development Initiative that the NHFC can structure to support smaller/start up lenders • Technical and Financial assistance to eligible SHIs • Co-funding opportunities • Programme Management and Capacity building collaborations • Lobbying for other organisations in the sector to work through the HSDB/NHFC to meet the needs of the sector timeously • Lobbying for legislative changes • An opportunity to fast track and implement IRDP by the NHFC/ HSDB • Understanding the Act and the compliance universe relating to irregular expenditure • IRDP Project Delivery • Contractor development • Support to self-help housing • Raise public awareness on NHFC project finance

Stakeholders	How we engage	Key issues	Stakeholders' contribution to value creation
Stakeholder & Marketing; • NDoHS • Housing Development Agency (HDA) • National Home Builders Registration Council (NHBRC) • Micro Finance South Africa (MFSA) • MP Human Settlements Department • Co-operative Governance Human Settlements & Traditional Affairs (COGHSTA) • NDoHS Communicators Forum • Albertina Sisulu School of Leadership for Women • Youth in Property Association (YIPA) • Bargaining Council for the Civil Engineering Industry (BCCEI)	• Workshops – direct marketing • Walk-ins	• Increase organisation's footprint • Source new business and maintain existing partnership • Keeping stakeholders informed	• Assisting the organisation to connect broadly with network of stakeholders
CSI: • NDoHS – Youth Build • Cerebral Palsy Association • City of Cape Town	• Sponsorships	• The sponsorship was to support the Department of Human Settlements Youth Build initiative with 200 blankets towards the elderly and youth headed households • The sponsorship support falls within the 'Partnering for the greater good' CSI pillar, under the Shareholder support category • The purpose of the sponsorship was for the benefit of the victims of the Masiphumelele disaster in Cape Town, they received R35 000 worth of household supplies • Members of a Cerebral Palsy disease sufferers organisation were sponsored with hygiene supplies for their members	• Contribution to societal goals

PART D

Governance

Celebrating 25 years of building together,
and becoming stronger together

THE NHFC LEADERSHIP

Phekane Ramarumo
Pr. PLN,
Chairman

B.A. (UNIN), HD(PDA) Wits, MRP(SUNYA,USA), MBA(USW, UNICAF)

Sizwe Tati
Chief Executive Officer

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

Adrian Harris
Innovative Financial Services
Strategist and Entrepreneur

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

Khehla Shubane
Independent Consultant

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

Thembi Chiliza
Retired Banker

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

Philisiwe Mthethwa
Certificate in Central Banking

MBA (Corporate Finance), University of Sheffield, UK
B.A. in Economics, University of the North, Polokwane

EXECUTIVE MANAGEMENT

Sizwe Tati
Acting Chief Executive Officer

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

Viwe Gqwetha
Executive Strategic Partnerships

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

Mandu Mamatela
Executive Corporate Strategy

BCom (Hons) (University of North West), MBA (PU for CHE), IEDP (UK) (Wits), Executive Program in Corporate Strategy (University of Chicago Booth School of Business)

Bruce Gordon
Executive Credit

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

Jabulani Fakazi
Executive Grant Facilitation

MA Pol. Sc. Development Policy (NIU, USA), BSc Economics (NIU, USA), PDBM (UKZN), IEDP (WBS)

Mogotsi Oepeng
Acting Chief Financial Officer

BCom (RAU), (Hons) B Compt CTA (UNISA), ACMA, CGMA, Certificate in Advanced Corporate Finance (Wharton Business School)

Vuyokazi Menye
Chief Information Officer

BSc Computer Science (University of the Western Cape)
International Investment Management certificate (Fordham University (New York))
Project Management Diploma from Executive Education
Certificate in IT Governance (Cobit 8)
Regulatory Examination Certificate: Representatives from Moonstone (FSB)
TogaF 8 Certificate from Foster-Melliar

Lawrence Lehabe
Executive Lending

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

Sindisa Nxusani
Executive Corporate Support

BCompt (Hons) (Unisa), CA(SA)

Dr Nomsa Ntshingila
Executive Human Resources

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

Andrew Higgs
Executive Company Secretary

BCom (Rhodes), (Hons) B Compt (UNISA), CA(SA), MTP (SA), MAP (WBS), International Diploma Governance (ICA), Advanced Certificate Governance (hc) (ICA and University of Manchester), Advanced Executive Diploma in Corporate Governance (UNISA), Tax Management Planning (WBS), Housing Finance (Wharton Business School)

Zola Lupondwana
Executive Corporate Finance

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

GOVERNANCE

INTRODUCTION

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

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

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

The King IV Report advocates an outcome-based approach, and defines corporate governance as the exercise of ethical and effective leadership towards the achievement of the following governance outcomes:

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

The application of King IV is on an apply-and-explain basis, and the practices underpinning the principles are entrenched in the NHFC's internal controls, policies and procedures governing corporate conduct. From a materiality point of view, the board is satisfied that – on the whole –, the NHFC has applied the principles as set out in King IV.

> *"The NHFC fulfils its mandate in a manner that is consistent with the principles of integrity, fairness, transparency, ethical leadership, efficiency, and accountability."*

COMBINED ASSURANCE

Combined assurance receives deliberate and focused attention from the NHFC board. The Audit Committee ensures that the combined assurance model addresses the NHFC's risks and material matters in such a way as to avoid duplication of effort, rationalise collaboration among assurance providers, and manage costs. Activities are managed to maximise the impact, depth and reach from assurance service providers, to enable an effective control environment and ensure the integrity of the information used for reporting and decision making.

STATUTORY FORM

The NHFC was incorporated under the Companies Act 1973, and is now subject to the Companies Act 2008. It is also a Schedule 3A State-Owned Entity under the PFMA, and is wholly-owned by the state, as represented by the Minister of Human Settlements.

ACCOUNTABILITY TO THE SHAREHOLDER

The Board is accountable to the Minister of Human Settlements, which relationship is embodied in the Shareholder's Compact, countersigned by the Minister of Human Settlements as the Executive Authority. This key document determines the NHFC's mandate and holds the Board accountable for managing its operations according to the Annua Performance Plan and Strategic Business Plan.

The Board reports formally to the NDoHS every quarter, and the CEO and Chairperson meet periodically with the Minister. Certain governance documents are shared with the NDoHS on an annual basis as per the Protocol on Corporate Governance in the Public Sector.

BOARD

BOARD GOVERNANCE, STRUCTURES AND FRAMEWORK

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

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

BOARD COMPOSITION

Board members are appointed by the Minister of Human Settlements. The MOI provides for a maximum of twelve members. However, there are currently six members including the Acting Chairperson who is a non-executive director.

During the year under review, the former CEO, Mr Samson Moraba retired from the company on 31 August 2020. The Minister has appointed the former Chairperson, Mr Sizwe Tati, as Acting CEO from 1 September 2020 until a new CEO is appointed. Concurrently, Ms Phekane Ramarumo, a board member, has been appointed the Acting Chairperson.

At the Annual General Meeting on 26 November 2020, Mr Johan Coetzee, Mr Sango Ntsaluba and Ms Anthea Houston retired after many years of service to the company, and their contributions and expertise will be sorely missed. Ms Philisiwe Mthethwa was appointed to the board on the same date.

The Minister has indicated that attention is being given to further appointments to bolster the board. However, in the meantime, the current members are handling the full spectrum of board responsibilities and assignments expected.

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

Succession planning is important in ensuring continuity and maintaining the correct mix of expertise. As a result, the composition of the Board and its committees are reviewed annually and to ensure that there is a continuation of intellectual capacity and experience at all levels.

The MOI provides that one-third in number of the longest serving Non-executive Directors automatically retire at the annual general meeting of the company. These directors may allow themselves to be nominated for re-election for a further period of three years. Such re-appointment is confirmed by the Minister, as shareholder representative. At the annual general meeting of the company held on 26 November 2020, Ms Ramarumo was re-appointed by the shareholder in addition to the other changes outlined above.

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

SHAREHOLDER'S COMPACT

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

- Approving the organisational strategy, the annual performance plan, strategic plan and budget;
- Observing the legitimate interests of the shareholder;
- Monitoring operational and financial performance ensuring that the required control systems are in place;
- Reviewing the delegated 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 organisation and with its clients and stakeholders, and ensuring that all technology systems used are adequate to guarantee effective and efficient performance;
- Monitoring the socio-economic ethical compass of the NHFC and its interaction with its clients and stakeholders;
- Monitoring the implementation of transformation objectives and commitment to women managed programmes.

NON-EXECUTIVE DIRECTOR REMUNERATION

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

BOARD EVALUATION

It is the policy of the Board to arrange annual evaluations on its performance and effectiveness, as well as that of the Board committees. An evaluation was carried out during September 2020 and there were no significant findings.

BOARD MEETINGS

The Board has scheduled quarterly formal meetings, and meets additionally to approve the annual financial statements. Further meetings may also be called by the shareholder. The Chairpersons of the respective Board Committees report back to the Board at the quarterly Board meetings. The record of attendance at Board meetings for the period under review is reflected below.

ATTENDANCE REGISTER

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

Director name	Board	Audit	Risk	Credit and Investment	Development Impact and Strategy	Social and Ethics	HRER	Nomination	Joint
Mr S Tati (former Chairperson until 31 August 2020)	3/3		1/1		2/2			3/3	1/1
Mr S Tati (Acting CEO from 1 September 2020)	6/6	2/2	1/1	6/6	1/1	2/2	2/2	1/1	
Ms P Ramarumo (Acting Chairperson from 1 September 2020)	8/9		3/3		2/3	2/2		4/4	1/1
Mr J Coetzee#	3/5		3/3	9/9	2/3				1/1
Mr S Ntsaluba#	4/5	7/7	2/3		1/3		3/3	4/4	1/1
Ms A Houston#	1/5				0/3		1/3		
Mr A Harris	8/9	7/7		12/12	3/3	2/2		3/4	1/1
Ms P Mthethwa $	2/2			2/2					
Ms T Chiliza	9/9	6/7	1/1	11/11	1/1	4/4	1/1		1/1
Mr K Shubane	8/9		2/3	12/12		4/4			1/1
Mr S Moraba (former CEO)	3/3	5/5	2/2	5/5	2/2	2/2	2/2		1/1

 # Denotes retired 26 November 2020
$ Denotes appointed 26 November 2020

COMPANY SECRETARY

In terms of the Companies Act and the PFMA, the company is required to appoint a Company Secretary who is answerable to the Board. The Company Secretary plays a pivotal role in the corporate governance of the organisation. The Company Secretary maintains an arm's length relationship with the Board 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 company.

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 organisation in accordance with sound ethical principles. These are embodied in the Code of Conduct 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 all Board, Board committees, management committees and subsidiary companies' committees' meeting agendas. 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 management are expected to conduct themselves in a professional manner at meetings, and where there may be potential differences in matters of principle when discussing individual agenda matters, these differences are formally noted and handled according to the Board Compact, the Code of Conduct, and in terms of best practice.

ACCESS TO INFORMATION AND PROFESSIONAL ADVICE

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

BOARD AND STATUTORY COMMITTEES

All Board committees have clearly defined terms of reference, which set out the specific responsibilities delegated to them by the Board. These are reviewed annually in order to ensure alignment with the NHFC's mandate 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 the Board committees are chaired by Non-executive Directors.

Executive Management attend committee meetings by invitation. This attendance provides committees with an additional perspective on agenda items where necessary, and enables the non-executive directors to give direction or receive further information where required. Guidance is also taken from external professional institutions and service providers, which collectively issue position papers, professional opinions, research findings and guidelines, which the NHFC uses to assist itself in its implementation and compliance with various relevant statutes.

AUDIT COMMITTEE

The Audit Committee is composed of three independent Non-executive Directors. The current serving members are Ms P Mthethwa (Chairperson) (who was appointed in February 2021), Mr A Harris and Ms T Chiliza. The Acting CEO, the Chief Financial Officer (CFO), Executive Managers, external auditors and internal auditors attend all meetings. During the year, the committee holds additional in-camera sessions to consider the performance of the CFO and finance division, the performance and relationships with the internal auditors and external auditors, and the underlying support of the Executive Management.

The Audit committee meets a minimum of six times a year and its primary objective is to assist the Board in discharging its duties relating to:

- Oversight of financial reporting, as well as compliance with all applicable legal requirements and accounting standards;
- The operation of adequate systems of internal control and internal audit processes;
- Reviewing the annual financial statements, accounting policies, financial provisions, adjustments, estimates and valuations;
- Reviewing the APP, Strategic Plan and budget;
- Reviewing the Integrated Annual 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; and
- Review of and approval of quarterly reports to the shareholder as delegated by the Board.

The current external auditor is the Auditor General of South Africa (AGSA). The AGSA's appointment is confirmed annually by the shareholder at the Annual General Meeting.

The NHFC has an outsourced 'whistleblowing' practice. Matters may be reported to the external independent party, which records and categorises the items. These are directed to the Chairperson of the Audit Committee for investigation, recommendation or subsequent action.

The internal audit function is outsourced to an external service provider, independent of the external audit function. The current internal auditor is Ngubane and Co. who have been appointed on a three-year contract. Once this is complete, a tender process will be undertaken for the appointment of new internal auditors.

The internal auditors conduct reviews of the key processes related to the significant risks of the company and the subsidiary companies, and to provide independent assurance to the Board and management on the effectiveness of the internal control systems. The Audit Committee reviews the work of the internal auditors, and the lead auditor of this function has direct unhindered access to the Chairpersons of the Audit Committee and the Board, to ensure that any significant audit matters requiring immediate Board attention, are dealt with.

The internal audit function conforms to the International Standards for the Professional Practice of Internal Auditors as published by the Institute of Internal Auditors.

BOARD CREDIT AND INVESTMENT COMMITTEE

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

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

THE COMMITTEE:

- Annually reviews the credit philosophy, risk framework and policy, risk appetite, long-term investment strategy and related policies, for recommendation to the Board for approval;
- Reviews and discharges its functions under the Treasury Management Policy;
- Reviews the quarterly Strategic Investments and Credit Reports, noting portfolio performances and recommending legal action, impairments, bad debt write-offs or revaluation of investments where applicable, to other Board committees and the Board;
- Considers and approves loan applications for facilities between R50 million up to R160 million, upon recommendation by the Management Credit and Investment Committee. Investments and facilities in excess of R160 million are referred to the Board for approval;
- Considers and approves long-term retail debt investments up to R100 million. Investments that exceed R100 million are recommended to the Board; and
- Considers annual and post-investment reviews of strategic and major clients of the NHFC.

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

HUMAN RESOURCES, ETHICS AND REMUNERATION COMMITTEE

This committee is composed of two independent non-executive directors and is attended by the Acting CEO and the Executive Manager: Human Resources.

The Human Resources, Ethics and Remuneration Committee meets four times a year and its responsibilities include:

- Annual reviews of the Human Resources Policy and Strategy, the Remuneration Policy and Balance Scorecard Remuneration Framework, and recommending them to the Board for approval;
- Reviewing and monitoring the top HR risks;
- Considering and approving salary increases for all staff;
- Approving the implementation of bonuses and incentives 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; and
- Monitoring and implementing the Ethics Policy.

In discharging its duties, the committee gives due cognisance to the NHFC's remuneration philosophy, which is to offer remuneration that will attract, incentivise, retain, and reward employees with the appropriate and required skills that will enable the NHFC to deliver on its strategic objectives.

The NHFC has a zero-tolerance approach to dishonest, corrupt and illegal conduct. This is central to the Code of Conduct. Criminal behaviour will not be permitted, and formal charges would be laid against perpetrators, who would be dismissed if found to have participated in unacceptable behaviour. In the past year there have been no instances of dishonest, corrupt or illegal conduct reported. In addition, the HR policy complies with the International Labour Protocol in not employing children, and promoting gender and payment equality standards.

SOCIAL AND ETHICS COMMITTEE

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

> *"The Social and Ethics Committee (SEC) is a mandatory committee of the Board as laid down in terms of section 72 (4) of the Companies Act."*

For good corporate governance purposes, the SEC extends its reporting to the main NHFC board.

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

The SEC is composed of two independent non-executive directors and the Acting CEO. Executive Management attend meetings by invitation. It meets four times a year and its responsibilities include:

- The company conducts its business activities in an ethical and socially responsible manner in fulfilling its duties;
- Social and economic development of its employees and other stakeholders;
- Promotion of transformation, equality and prevention of unfair discrimination;
- Ensuring the company has established a Code of Ethics which includes the prevention of fraud, bribery and corrupt practices, as well as the protection of human rights;
- The contribution to the development of the communities in which its business activities are predominantly conducted – which includes poverty alleviation and the beginning 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; and
- There is a framework and strategy for stakeholder engagement.

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

BOARD RISK COMMITTEE

The Board Risk Committee comprises the Chairpersons of the various board committees and is also attended by the Acting CEO and Executive Managers. It meets six times a year, and its primary objective is to assist the Board execute its responsibilities with respect to risk and fraud management.

In fulfilling its mandate, the committee:

- Annually reviews the Enterprise Risk Management Strategy and Framework as well as the Fraud Prevention Plan, and monitors management in the implementation thereof;
- Bi-annually reviews and recommends the Risk Appetite Statement and Policy to the Board for approval;
- Evaluates the effectiveness of risk management systems, processes and controls;
- Annually reviews and recommends all risk management policies to the Board for approval; and
- Approves financial risk management strategies as recommended by the Board Credit and Investment Committee.

DEVELOPMENTAL IMPACT AND STRATEGY COMMITTEE

This committee is comprised of four independent non-executive directors and the Acting CEO, and is attended by Executive management.

ITS MAIN OBJECTIVES 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 housing market;
- Give the Board assurance that the strategic objectives are aligned to the DHS's human settlements strategy;
- Review the strategic direction in relation to the econ, as well as supply and demand imperatives in the market;
- Recommend amendments to the company's strategic direction, policy and operational structures to ensure that the desired developmental impact is achieved;
- Monitor the company's performance against the objectives set for developmental impact; and
- Monitor the impact of developmental activities on the financial strategy.

In addition to the above, the Development Impact and Strategy Committee has been co-ordinating oversight towards the establishment of the Human Settlements Development Bank.

NOMINATION COMMITTEE

This committee is comprised of three independent non-executive directors. The Acting CEO, attends by invitation.

This committee considers and facilitates the following objectives independently of HRER:

- Consider and recommend potential non-Executive director candidates to the shareholder for possible appointment to the roles of board or CEO;
- Review non-Executive director performance and recommend to the shareholder for consideration for reappointment at the annual general meeting;
- Review the annual performance of the CEO;
- Review the annual board evaluation;
- Review and confirm recommendations 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; and
- Review the performance of external appointees to strategic investment companies.

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 instalment 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.

MANAGEMENT COMMITTEES

EXECUTIVE COMMITTEE

EXCOM comprises the NHFC Executive Managers and Acting CEO, and is involved in managing the NHFC's day-to-day business. EXCOM has its own terms of reference.

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

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

MANAGEMENT CREDIT AND INVESTMENT COMMITTEE

The Management Credit and Investment Committee is a management sub-committee of EXCOM. It meets regularly to make recommendations to Board Credit and Investment Committee, or approve funding approvals within its own mandate. It has its own terms of reference and is responsible for approving loan facilities up to R50 million per client (which is reviewed annually and by the Board Credit and Investment Committee annually), and recommending amounts in excess of R50 million to the Board Credit and Investment Committee.

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

ASSETS AND LIABILITIES COMMITTEE

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

The committee's objectives are to:

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

INFORMATION TECHNOLOGY MANAGEMENT COMMITTEE

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

Its main objectives are to:

- Review the IT strategy to ensure that it is aligned with the APP
- Develop an IT governance framework and IT policies, and oversee the implementation thereof
- Obtain independent assurance that the IT internal framework is effective
- Monitor all IT risks and controls to determine whether they are addressed effectively and ensure that relevant plans and controls are in place
- Review all IT major capital expenditure proposals
- Responsible for the implementation of the POPI Act and PAIA manual

PROCUREMENT COMMITTEE

The Procurement Committee is chaired by the Chief Financial Officer.

THE PROCUREMENT COMMITTEE'S MAIN OBJECTIVES ARE TO:

- Monitor and ensure the implementation of the procurement policy, procedures and procurement code of conduct, as well as to investigate reports of non-compliance
- Oversee the adjudication and appointment of service providers to the 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 in compliance with the PFMA and National Treasury Regulations
- Enact decision-making processes for procurement in order to avoid unbudgeted, irregular, fruitless, and wasteful expenditure
- Maintain a register of unbudgeted, irregular, fruitless, and wasteful expenditure

SAFETY AND SECURITY COMMITTEE

The Safety and Security Committee is chaired by the General Manager: Human Resources.

Its main objective is to monitor, evaluate, advise on, and make decisions regarding health, safety and security matters, and to report on these matters to the Social and Ethics Committee. It is responsible for monitoring and implementing the safety and security policy.

With the advent of the COVID -19 Virus pandemic, the SASC also has appointed a Compliance Officer responsible for monitoring, controlling and reporting on all company COVID protocols and staff compliance during the Lockdown conditions as per the Disaster Management Regulations.

> *"The Safety and Security Committee's main objective is to monitor, evaluate, advise on and make decisions regarding health, safety and security matters, and to report on these matters to the Social and Ethics Committee."*

SOCIAL AND ETHICS COMMITTEE REPORT

The Social and Ethics Committee (SEC) has been 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 work.

The King IV Report has acknowledged the increased oversight role of Social and Ethics committees concerning organisational ethics, responsible corporate citizenship, sustainable development, and stakeholder relationships, as well as its statutory and regulatory duties. There is also focus on Transformation, BBBEE, and the roles of women and children. Consequently, the board committees for Risk, Credit and Investment, Development Impact and Strategy and Human Resources, Ethics and Remuneration report accordingly, highlighting the activities and the impact for each quarter.

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

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

MONITORING AND SUSTAINABLE DEVELOPMENTCOVID-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. However, with the assistance of the ICT department, nearly all staff members were provided with the means to work from home in the form of equipment software, media interaction and reporting. More recently, following an internal survey, and noting the COVID–19 Virus Regulations, the NHFC has agreed to a hybrid model of working from home where possible, but access to the office is possible where necessary.

The company has developed and approved a policy and protocol for all staff concerning COVID management and behaviour. It is reviewed regularly to ensure it remains up to date with the Regulations, and there is weekly reporting to the authorities. In the first months, an on-site nurse was engaged and the company provided transport for staff to go to the office. As lockdown levels have eased, these have now been discontinued, and the SASC committee members, security staff, and the appointed Compliance Officer monitor all staff movements. PPE equipment has also been made available. In the past year approximately 15 staff have been affected by the virus, quarantined and recovered. No deaths have been reported, although 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, due to the negative knock-on effect on their tenants. However, as the Lockdowns have eased there has started to be a slow return to normality.

Financially, the company has also been adversely affected. The original APP was revised in conjunction with government dictates, and savings were achieved in a number of cost areas. However, income has also been affected due to reductions in the statutory interest rates which has affected both client repayments (linked to the interest rates) and for deposit taking investments. More detail on these can be found elsewhere in the Integrated Annual Report.

> *"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."*

UNITED NATIONS GLOBAL COMPACT

- In consideration of the National Environment Management Act, there has been an ongoing review of the provision of housing as a result of funding applications by housing providers or investment institution intermediaries. The housing provided has been in the form of incremental housing, social rental, and private rental housing. The FLISP programme has been remodelled, and new specialised Programmes (such as the Debt Relief Programme) are also being 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 challenges arising especially in social housing around rent boycotts, building hijackings, as well as the combined efforts to deal with these by executive management, the shareholder, and SHRA. As a result, it is pleasing to note the steps being taken by management and the Department of Human Settlements for a revised policy on the challenges and potential solutions for social housing. It is noted that some social housing programmes have been placed in business rescue and the benefits are now being achieved.
- SEC has noted the 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.

> *"SEC has noted the success of a number of environment impact assessments and development programmes for various projects."*

- 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 Combatting Crime and Fraud and associated legislation, confirmation has been received that there has been no incidences of fraud or fines imposed, and that the required compliance certificates have been issued to National Treasury. In addition, the NHFC has a standard for checking on the backgrounds of all funding applicants to ensure that there are no negative issues highlighted that could give rise to reputational or recovery of monies.
- SEC has noted the application of the Politically Exposed Persons policy, which is also being used to monitor key players in funding applicants.
- Several reports have been received from the external service provider as Tip-Offs, and these have been investigated, dealt with and closed. The company remains committed to the highest levels of corporate governance, compliance and integrity.

PROMOTION OF EQUALITY UNDER B-BBEE ACTIVITIES HAS INDICATED THE FOLLOWING PERFORMANCE AS PER THE INTEGRATED ANNUAL REPORT:

- SEC has noted that during 2020-2021 the company initiated a new policy for clients to provide evidence of compliance at acceptable B-BBEE standards of B-BBEE activities. Much work is still required in this area, and the NHFC is working closely with its clients accordingly.
- Internally, 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

- The HSDB business case has been finalised and now approved by National Treasury.
- Progress on the related legislation has been slow, but the draft bill has been approved by the NDoHS policy departments, MINMEC and the Social Cluster. The next level is Cabinet. Challenges have been noted in the proposed disestablishment of the NHFC and steps to form the new HSDB, and a model whereby the HSDB becomes the successor in title to the NHFC business and staff is being explored, to fast track the process through the administrative requirements. NDoHS has also confirmed their role and commitment in the necessary steps, before submission to Parliament for approval.
- The Stakeholder Strategy, mapping and Framework has been developed which guides NHFC communication and consultation as a stepping stone to the HSDB
- SEC reviewed the Corporate Social Investment policy for the integrated NHFC, and has noted the implementation plan and budget. Additional assistance has been given to emergency projects following disasters around the country.
- The ICT strategy, systems, policies and procedures have been implemented and some have been successfully updated.
- 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.
- SEC noted the formation of a specific Ethics unit within Human Resources which is working on training and rolling out of new policies on Ethics and Values within the organisation.

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 requirements are in place.

CORPORATE GOVERNANCE

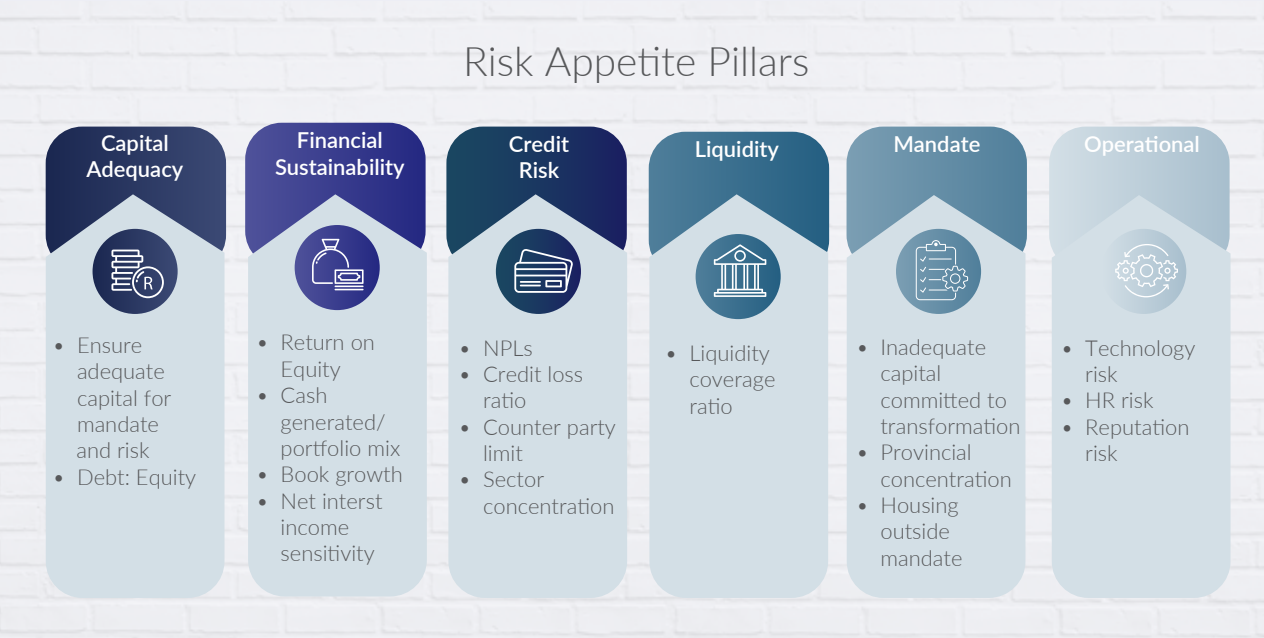
- All the required legislative and regulatory corporate governance protocols are in place, the Annual Performance Plan and Shareholder's Compact for 2021-2022 have been submitted to and approved by the shareholder, in accordance with the Medium-Term Strategic Plan and PFMA requirements.
- All CIPC compliance is in place, the PAIA requirements, codes on ethics and employee's values, key risk, IT and remuneration frameworks, and the annual meeting calendar is in place.
- It is noted that the performance of the Provident Funds has come under pressure due to an economic downturn during the year. However, the trustees of the Provident Fund meet regularly and are closely monitoring the fund managers' performances.

ENTERPRISE RISK MANAGEMENT

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

RISK APPETITE STATEMENT (RAS)

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 2021 and where thresholds were exceeded momentarily, action plan were put in place.



COMPLIANCE MANAGEMENT REPORT

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

BUSINESS CONTINUITY MANAGEMENT (BCM)

The NHFC is committed to 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 the NHFC resources.

The Business Continuity policy, framework, and plan have been finalised and approved. The EWRM team are in the process of implementing BCM and various initiatives are underway to capacitate staff and to ensure that BCM is successfully implemented throughout the NHFC.

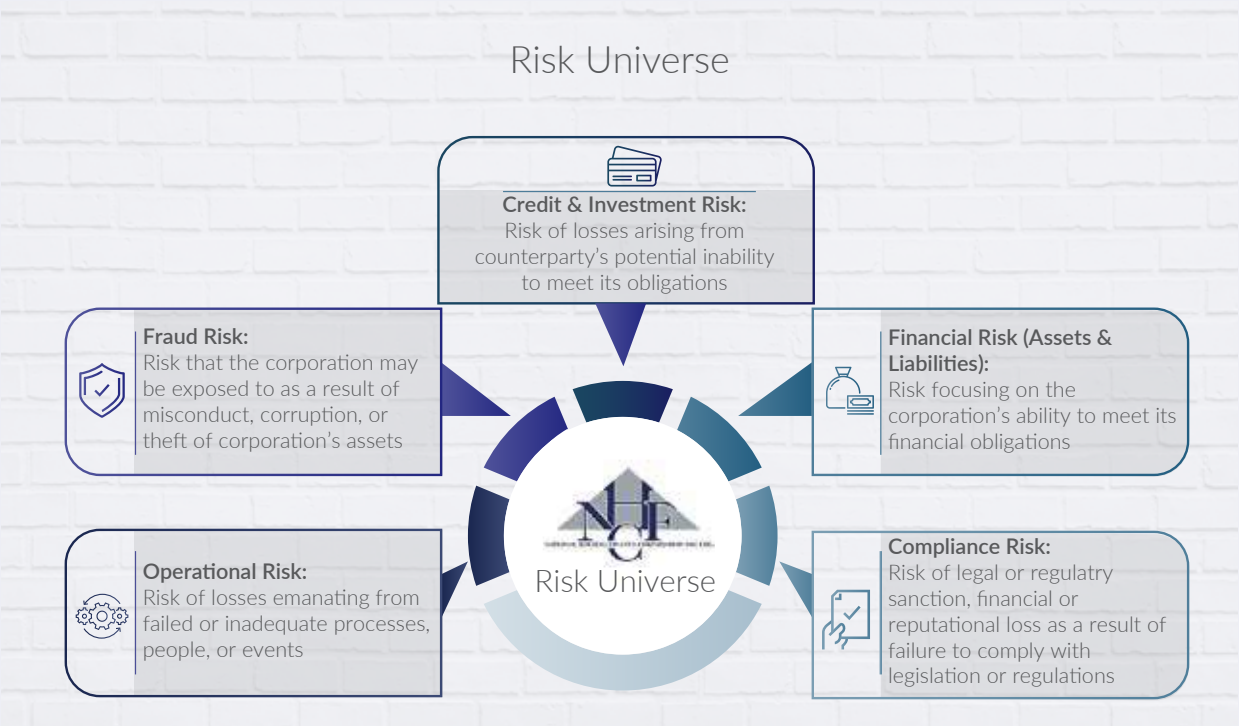
COMBINED RISK

Combined risks are approved and monitored throughout the year and adjustments made as issues emerge. In the year under review, significant changes in our operating context (brought on by the global spread of COVID-19 and subsequent lockdowns) started in March 2020. The impact of the pandemic has continued to affect the NHFC operations during the year under review.

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

RISK UNIVERSE

At NHFC's Risk is expressed in line with the Corporation's Risk Universe, which includes:



NHFC RISK REGISTER

Risk Id No	Risk Type	Risk/ Threat in Achieving Objectives	Mitigation Plans	Inherent Risk	Residual Risk
1	**Mandate Risk**	• Funding the market that is not aligned to the mandate • Failure of the NHFC to deliver on the shareholder's (NDoHS) mandate	• 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 • Credit policy effectively implemented • Development Monitoring Team established for unsecured lending to ensure that funds are used as per approved mandate.	H	M
2	**Financial Sustainability Risk**	Challenge in balancing developmental mandate with financial sustainability leading to APP targets not being met	• 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
3	**Credit Risk**	Challenge in granting quality loans resulting in unsuccessful collections or credit risk in excess of risk tolerance	• 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

Risk Id No	Risk Type	Risk/ Threat in Achieving Objectives	Mitigation Plans	Inherent Risk	Residual Risk
4	**Investment Risk**	Inability to attract suitable funding partners (Attrition of partners, emerging partners) Not realising expected returns from strategic investments	• 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
5	**Funding Risk**	Challenge to mobilise sustainable funding, raise debt at the appropriate price from DFI's, Debt Market and Shareholder equity	• 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
6	**HR Risk**	Challenge in attracting, engaging rewarding and retaining talent Skilled and talented staff may be unsettled by the DFI Consolidation	• 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 • Implementation of succession planning • Implementation of Ethics	H	M
7	**Reputational Risk**	Loss of reputation (due to negative publicity)	• 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
8	**Compliance Risk**	Non-compliance to legislation, regulations, and policies	• Complies with PFMA and National Treasury Regulations continue to be monitored • B- BBEE -Plans put in place to improve NHFC B-BBEE level gradually each year. NHFC currently at level 8 • COIDA - Registration with COIDA in the process of being finalised • Compliance to all COVID-19 protocols	H	M
9	**Governance Risk**	• Possibility of adverse audit opinion • Dysfunctional Board • Lack of approved policies and procedures	• Fully constituted Board • Regular meetings held as per meeting schedules • Quarterly Board Updates • Annual Board evaluation conducted	H	L
10	**IT Risk**	• Misalignment of IT and Business Strategy • Inappropriate or failed internal Processes • Inappropriate IT platform	• 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
11	**Market Risk**	Limited ability to provide thought leadership to the low - medium housing market (advocacy, insights and foresights, innovation)	• Partner with research institutions to assist with research for economic conditions • NHFC continues to influence affordable housing market through a variety of communication channels; i.e. regular meetings with SHRA, NDoHS and BASA	H	M

CREDIT RISK MANAGEMENT

CHANGES TO HOW NHFC MANAGES CREDIT RISK

DEPARTMENT STRUCTURE

During the 2020 / 2021 financial year, the Credit Risk Division underwent a number of changes to enable 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
- Credit Risk and Retail
- Turnaround and Collections

Each of these sections is headed by a highly capable manager, with those who wish to do so being trained and mentored as part of the company's succession planning initiatives.

POLICIES AND PROCEDURES

A process of updating the various credit policies was also started with the main Credit Policy being approved during the year. The Impairment Policy will be finalised early in the new financial year, whereafter the Pricing Policy will be updated. 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.

In addition, the changes to the Impairment Policy will result in the financial implications of non-performing loans being reported sooner, thus creating a more responsive Credit team.

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

As a result of the COVID-19 pandemic NHFC experienced a variety of challenges with regard to credit risks, and the cash flows from our borrowers. In the 2019/20 financial year we provided well for COVID risks that developed just before the year-end, and therefore our provisions in the current year did not need to be boosted substantially. Assisting the NHFC in achieving this low level of credit losses is the collateral that we hold as security for long term loans, meaning that often (despite loans being non-performing) we have not needed to raise provisions.

A number of NHFC clients were struggling as a consequence of the COVID-19 pandemic with a significant portion of their tenants or borrowers losing part or even all their income, leading to defaults. To assist our clients in not defaulting, we restructured loans wherever this was possible. The following table shows the effect of COVID-19 on the performance of the NHFC loan book.

LOAN BOOK ANALYSIS – COMPANY

	2021					2020				
	Number of loans	Loan	Impairment	Net	% of total	Number of loans	Loan	Impairment	Net	% of total
	#	R'000	R'000	R'000	%	R'000	R'000	R'000	R'000	%
Impaired book	16	512 412	221 657	290 755	11.0%	13	355 874	198 843	157 031	6.4%
Past due not impaired	17	399 973	–	399 973	15.0%	33	634 614	–	634 581	26.0%
Restructured because of COVID	11	741 591	–	741 591	28.0%	–				0.0%
Other restructured					0.0%	3	15 523	–	15 523	0.6%
Total non-performing loans	44	1 653 976	221 657	1 432 391	54.0%	49	1 006 011	198 843	807 168	33.0%
Performing loans	37	1 219 229	–	1 219 229	46.1%	46	1 636 641	–	1 636 641	70.0%
Total book	**81**	**2 873 205**	**221 657**	**2 651 548**	**100,0%**	**95**	**2 642 651**	**198 843**	**2 443 809**	**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 by more than 400%. Without bringing the average credit loss ratio within the limits set by the risk appetite statement, the company cannot grow sustainably.

	2021	2020	2019	2018	2017
	R'000	R'000	R'000	R'000	R'000
Total book	2 873 205	2 642 651	2 919 914	2 339 586	2 117 775
Credit losses	23 207	46 773	57 264	72 556	94 888
Credit loss ratio	1.%	1.7%	2.%	3.1%	4.5%
Bad debts written-off	393	138 539	–	70 858	230 123

INFORMATION AND COMMUNICATIONS TECHNOLOGY

Everything digital that the NHFC has undertaken and implemented to enable the 'new normal' is inextricably linked to business objectives, business strategy, annual performance plan and ICT strategy. Business Process Automation, Information Management, Cyber Security, and Privacy have become a critical and key focus areas as new applications and business solutions are deployed to enable remote business operations. Data availability, privacy, and security is a priority in any business solution deployed, introduced and implemented.

During the period under review (2020/21), the NHFC implemented a Business Modernisation Strategy that was rapidly executed at the onset of the COVID-19 pandemic. Globally, the trend fast became one where businesses began turning to digital solutions in order to survive.

The accelerated global digitalisation was readily accepted, and soon millions of employees around the world were suddenly working remotely during lockdown, calling it the 'new normal'. Several positives have stemmed from the global digitalisation move. Our 'new normal' has changed the way we think about Information and Communications Technology, and the realisation that meeting through video conferencing solutions, communications by sending emails, and interacting online while driving projects has all been made possible through Information and Communication Technology.

For some, the learning curve has been steep. It's a big jump from working in an office to spending days collaborating online. For others, it was a natural progression to enhanced efficiencies and productivity.

The new ways of working have had a major impact on how organisations not only structure their ICT divisions and business operations, but to ensure that the protection of their intellectual and proprietary information being accessed by unauthorised individuals.

The NHFC had to immediately respond to the new normal by introducing and implementing digital measures that will enable the business to achieve its strategic and operational objectives through ICT.

Everything that the ICT division has undertaken and implemented thus far to enable the 'new normal' is inextricably linked to business objectives, ICT Strategy, and Business Strategy.

Below are some of the initiatives that the ICT Department has implemented, in partnership with all NHFC business units in an effort to enable and support business operations.

IT GOVERNANCE

To ensure alignment of ICT and Business Strategy, and ensuring that ICT investments support business objectives, the ICT department implemented the following governance structures and enabling policies as approved by the Board. Implementation of these governance structures and documents have addressed the risks that were identified during the risk assessment process, internal and external audit findings that were outstanding. Implementation of these policies and the IT Governance Framework has assisted the ICT division and the NHFC at large to establish a solid, empowering and responsive baseline in running the business. The governance documents that were approved include the following:

- IT Governance Framework;
- ICT Project Management Framework;
- Backup and Recovery Policy;
- Change Management Policy;
- Disaster Recovery Policy;
- Information Classification Policy;
- Password Policy; and
- End-User Management Policy.

To ensure effective provision of oversight on all ICT related matters, ITMC meetings (a governance structure that has an oversight responsibility of all ICT related matters), were held quarterly.

ICT RISK MANAGEMENT AND COMPLIANCE

To ensure effective ICT risk management and compliance, the ICT Department addressed the following:

- Audit findings resolved and recommendations implemented;
- ICT Risk Register implementation;
- NHFC ICT Policy Catalogue review; and
- PAIA and POPIA project implementation with a key focus on Privacy, Information and Records Management.

"To ensure effective provision of oversight on all ICT related matters, ITMC meetings (a governance structure that has an oversight responsibility of all ICT related matters), were held quarterly."

BUSINESS ENABLEMENT IN RESPONSE TO THE NATIONAL LOCKDOWN

To ensure operational efficiency and business continuity during the COVID-19 National Lockdown and Risk Adjusted Strategy levels, the ICT Department (in partnership with the various NHFC business units) successfully enabled employees to work remotely by implementing the following solutions:

- Virtual Private Network (VPN) and Access Point Network (APN) to ensure effective connectivity and access. The full implementation of VPN came online during the third week of July 2020 while APN was implemented at the beginning of the National Lockdown, in March 2020;
- Microsoft Teams and Zoom for effective video conferencing to enable virtual meetings;
- Microsoft Office 365 suite for full and effective collaboration;
- Online BoardPac solution for effective meeting management and record keeping;
- Issuing of additional and new laptops for critical users;
- Sourcing and deployment of new mobile phones for all identified employees to enable effective communication;
- Implementation of a Bulk SMS solution for effective and improved communication and to cater for employees that might not have access to emails while at home (e.g., cleaners);
- Online ICT support for all employees – in particular those involved in the payment of suppliers, core business functions, finance and payroll; and
- Successfully created an operational framework which enabled the business to deliver the following monthly reports on-time and to a high level of finish:

    - Retail LMS;
    - Affordable Housing LMS;
    - Subsidy Housing SLIM system;
    - CreditEase; and
    - VIP/Payroll dry run updates.

CYBERSECURITY

The world is facing unprecedented cyber security issues. The World Economic Forum (WEF) risk report on 2020 listed cyber-attacks as one of the major risks facing companies. This is mainly driven by the fact that organizations are moving from manual processes to digitized environments. While the introduction of new technologies such as In-ternet of Things (IOT) and Artificial Intelligence bring value to compa-nies, they also bring security issues. The global regulatory environment is becoming stricter regarding privacy issues. Companies can be sub-jected to big fines if they do not follow strict privacy regulations. Cyber criminals are working on ways to take advantage of the new technolo-gies to exploit systems of many companies.

Cyber attacks such as ransomware have affected at least 60% of companies globally. The Covid-19 pandemic has accelerated the adoption of Cloud Solutions and working from home strategies. These initiatives have also brought various vulnerabilities to the companies

South Africa is also facing cyber security issues. Many companies, both in public and private sectors, have been subjected to cyber-attacks. These attacks mainly come in the form of ransomware at-tacks, Covid-19 phishing scams and data breaches. With the imple-mentation of the Protection of Personal Information Act (POPIA), com-panies are facing huge fines if there is any breach of their systems.

> *"The Covid-19 pandemic has accelerated the adoption of Cloud Solutions and working from home strategies."*

NHFC is not immune to the cyber attacks facing the industry. The NHFC is a financial institution and it is also State-Owned Entity (SOE) entity. This means the NHFC also faces additional cyber security risks that include hacktivism and cybercrime (financial fraud). The NHFC appreciates these risks. To this end the entity has implemented various measures such as regular auditing and monitoring of the ICT systems, strong access control systems and policies, end-point protection antivirus software, Online Disaster Recovery, Online Backup and Recovery, Business Continuity measures, encryption of data, firewalls and continuous information security awareness to all the NHFC employees. The NHFC has also implemented a robust Privacy Framework in line with POPIA requirements. Lastly, the NHFC information and application systems are hosted in a private and secure cloud.

Information and Cyber Security has become a critical focus point as new ICT applications and enabling automated business processes are deployed. Data availability, information integrity, privacy, and security are a priority in any ICT solution that was implemented in the period under review. The ICT Department continues to monitor all systems and infrastructure to limit, prevent, and detect any security breach from both the internal and external environments.

In the period under review, we are pleased to report that there were no security breaches or incidents between the company and the NHFC security services provider. It is a key KPI of the ICT department to ensure that digitally, effective, secure, and empowering ICT systems are in place so that the business is fully-enabled to operate at full capacity and that all business operations are delivered efficiently.

ICT STRATEGY EXECUTION

Towards this end, the ICT Department has prioritised the implementation of the ICT strategy initiatives as identified by ITMC which was subsequently approved by EXCO and Board. These included the following:

1. ENTERPRISE ARCHITECTURE AND BUSINESS PROCESS MAPPING PROJECT

The organisation is in the process of implementing Enterprise Architecture and Business Process Mapping project. The project is named Sisekelo as it serves as a foundation for future business modernisation and automation through Information and Communications Technology. The project has been initiated in order to start the modernising effort of the current business processes of the NHFC. The project is divided into three phases:

- As-Is analysis of the business strategy, business processes and business systems;
- Gap analysis; and
- Define To-Be process, Enterprise Architecture, Modelled business processes, and business requirements specification that will be used to source business systems that will be implemented to enable business digitisation initiatives.

The As-Is analysis has been conducted and concluded. It was conducted through online workshops with all the business units (NHFC divisions). The As-Is workshops were aimed to identify and define the baseline architecture.

The As-Is report document was produced. Its purpose is to provide a common understanding of NHFC's current Enterprise Architecture, identify gaps, and recommend the To-Be architecture and business processes that will enable NHFC business modernisation.

2. INFRASTRUCTURE CONSOLIDATION AND MODERNISATION

A project to consolidate all server, network, and information security infrastructure is currently underway. The project is aimed at consolidating all the servers and introducing a secure and reliable cloud strategy. As a result, all NHFC information and systems will be hosted in a private cloud to ensure availability, reliability, and accessibility of information 24/7. This strategy will enable the work from home (remote working) strategy as it was adopted since the beginning of the national lockdown on 26 March 2020. This will assist and empower the future of work strategy that the organisation is in the process of adopting.

The IT modernisation strategy will contribute towards lowering overall infrastructural costs. The savings will be derived from the company no longer having to purchase server space – and the associated costly periodic infrastructural support. The IT strategy makes allowances for a payment option that caters to payment for mimnimal infrastructure being used on a particular system, and moves away from having the company purchase IT equipment that will not be used to its fullest capacity. This results in unnecessary wastage. We are please to report that this project is currently at a 90% completion rate.

3. FLISP ENHANCEMENT

This project is aimed at modernising and digitising the current FLISP CRM system, processes, and the introduction of efficient workflows for improved turn-around times, improved service delivery and new client experience. An online portal and upgrade of the old FLISP CRM system are on the verge of being implemented as the financial year ended. The online portal will introduce a new, improved, and empowering experience to all FLISP clients. Clients will be able to apply online at the comfort of their homes, as and when they want to apply for a FLISP subsidy. Improved client communication will be introduced in the new online client portal to keep clients informed regarding the status of the application. Automated client communication will be through text messages and emails. The system is nearing the deployment stage.

4. POPIA IMPLEMENTATION

Implementation of POPIA legislative requirements is currently underway. An Information Officer was appointed for this purpose. A process to register the Information Officer with the Information Regulator is currently underway. POPIA training and awareness sessions were provided to all NHFC employees and Board members. An impact assessment process was conducted and concluded. All efforts were in place to ensure that the NHFC is compliant by 1 July 2021.

5. NHFC CONTRACTS MANAGEMENT SOLUTION

A Contracts Management Solution was successfully deployed to manage end-to-end contracts management process. The system is also deployed to ensure operational efficiencies, compliance to Treasury regulations and prevention of irregular expenditure in the Supply Chain Management Process. Lastly, the system is implemented to address control weaknesses and risks as identified by both internal and external auditors.


FINANCIER
INNOVATOR
FACILITATOR

PART E

Our Capitals

Celebrating 25 years of building together,

and becoming stronger together

HUMAN AND INTELLECTUAL CAPITAL

Human capital embodies the collective habits, knowledge, social, and personality attributes which enable employees to be productive and to produce the expected organisational value which comes with achieving the set goals.

The NHFC defines the combined employee capitals (human and intellectual) as its unique differentiator, embodied in a collective expertise, innovation, and cultural capabilities which go beyond individual employee capabilities to contribute in value creation for the organisation (Magrassi, 2010).

We believe that our Human capital is the most unique feature that makes the NHFC the organisation that it is, a caring employer with heart. Therefore, our Employee Value Proposition (EVP) is based on the premise, to 'invest in our human capital to yield a return over time' as defined by Becker, in 'Economic Growth and Resources', Volume 3 (1975).

Our Employee Value Proposition (EVP), which is employee centered, sets out our employee offerings which are premised on a return on investment in the development of our employees' skills, capabilities, and experiences.

EMPLOYEE COSTS

Employee costs include salaries, including travel allowance, cell phone allowance as well as contract staff (temps) who were hired to address backlog, while recruitment for permanent staff in processing and back office was still underway. Two positions are in the process of being filled. For the Client Liaison Specialist position, interviews were conducted in December and the decision on appointment will made in January 2021. The position of Personal Assistant will also be filled during Quarter 4 of this financial year. We have adopted an approach to incrementally fill FLISP positions as the Programme grows and after observing results of anticipated efficiencies to be delivered by CRM System enhancement that is mentioned below.

Our EVP rests on three pillars, firstly the NHFC HR Department exists to 'Partner' with line managers to equip employees' capabilities to deliver on mandate expectations, secondly, as 'Experts' to address our employees' HR related needs, such as talent management, and thirdly, as a 'Service Center' to cater for the administrative needs of our employees such as leave management, employee wellness and other employee related administrative matters.

The NHFC Talent Management model also ensures employee centricity of our EVP. Consequently, the whole value chain from recruitment is premised on placing internal capacity as priority when vacancies become available. Ultimately, the organisation ensures that its training and development strategy addresses three aspects of staff development: technical, leadership bench strength, and aspirational training.

EMPLOYEE WELLNESS

With the advent of COVID-19, to ensure the wellness of our employees, the NHFC has appointed a wellness service provider, Healthi-Choices, to look after the psycho-social wellness of our employees during the pandemic since the bulk of the NHFC business takes place remotely.

In line with the agreement, our employees are surveyed twice a month to make sure they are coping with the stress of COVID-19 and remote working and that they are taking care to comply with the regulatory COVID-19 protocols put in place by the company, including completing the office screening form for approval by their managers before they come to the office.

For employees whose work requires them to be in the office, the NHFC COVID-19 safety measures in place are in line with the Health and Safety COVID-19 Protocols and the Department of Employment and Labour (Directive) on Disaster Management.

The NHFC Employee Wellness Programme (EWP) has so far proved to be effective. It is also compliant to COVID-19 protocols and relevant legislation.

WELLNESS UTILISATION REPORT

In the period being reviewed, utilisation of the Wellness Programme by our employees is a mixed bag. However, most (80%) of the employees who used the programme were female, with males only accounting for (20%) of usage. The males who used the programme were between the ages of 31-40 years.

In terms of the reasons for using the Wellness Programme, most (70%) of the employees presented with psychosocial problem of stress/anxiety, grief/bereavement, depression/mood disorder. Only a few (20%) problems presented were attributed to relationship issues. Even fewer (10%) problems that were presented by our employees, were attributable to work and performance. As a result, even the two managerial referrals that took place, were initiated for work relationships.

MITIGATING THE IMPACT OF COVID-19 IN THE NHFC WORKPLACE

In mitigating the impact of COVID-19 on the NHFC employees, an implementation committee; the extended Safety and Security Committee (SASC) comprising of representatives from business units which are key in the implementation of COVID-19 protocols, was put in place.

The SASC meets on a weekly basis, to review the COVID-19 situation in the workplace, to ensure staff is trained, to manage compliance and risk in the workplace, and to ensure communication to staff and to the relevant regulatory institutions such as the National Institute of Occupational Health (NIOH) on a weekly basis and to the governing structures of the organisation.

Other responsive and operational strategies which were put in place to ensure the safety of our employees included, commissioning a nurse for a period of six months to screen employees twice a day for COVID-19 symptoms, arranging privately hired transport for 20 of our employees who use public transport, to minimise the virus infection. An online survey of employees to determine the levels of coping with COVID-19 effects was completed and assessed. Following the survey findings, support was provided to staff in need, including their families. Further, an online webinar, on 'Managing and Growing through Trauma' was done through the service provider to further empower our employees.

Reporting on the impact of COVID-19 takes place on a weekly basis, to SASC, the Executive Management Committee (EXCOM), as well as the NIOH. On a quarterly basis, management reports to the Board and its Committees on the impact of COVID-19 in the organisation.

To date, due to the stringent implementation of the NHFC COVID-19 protocols and the policy framework on COVID-19, in the reporting period, only six NHFC employees were confirmed to have been infected by the virus. All of them recovered and were operational. Sadly, there was one COVID-19 related death in the organisation, this occurring in the month of July 2021.

BEYOND COVID-19

Indications from the Human Resource Management (HRM) industry concerning the impact of COVID-19 on working practices, specifically remote working, indicates that this has become a norm. As a result, at a global level as well as locally, working practices are changing. In order to align with industry best practice, the NHFC HR Department has developed and obtained approval to a hybrid model of working post COVID-19.

A hybridised model of working now combines the use of technology and face-to-face interaction. This blended work approach is one of the many different working models being currently explored. Nonetheless, because it blends both traditional (face-to-face) and online (remote) working, it is a popular and safe way of exploring new and innovative work options. The key feature about this model is its employee-centric nature, ensuring a good work-life balance.

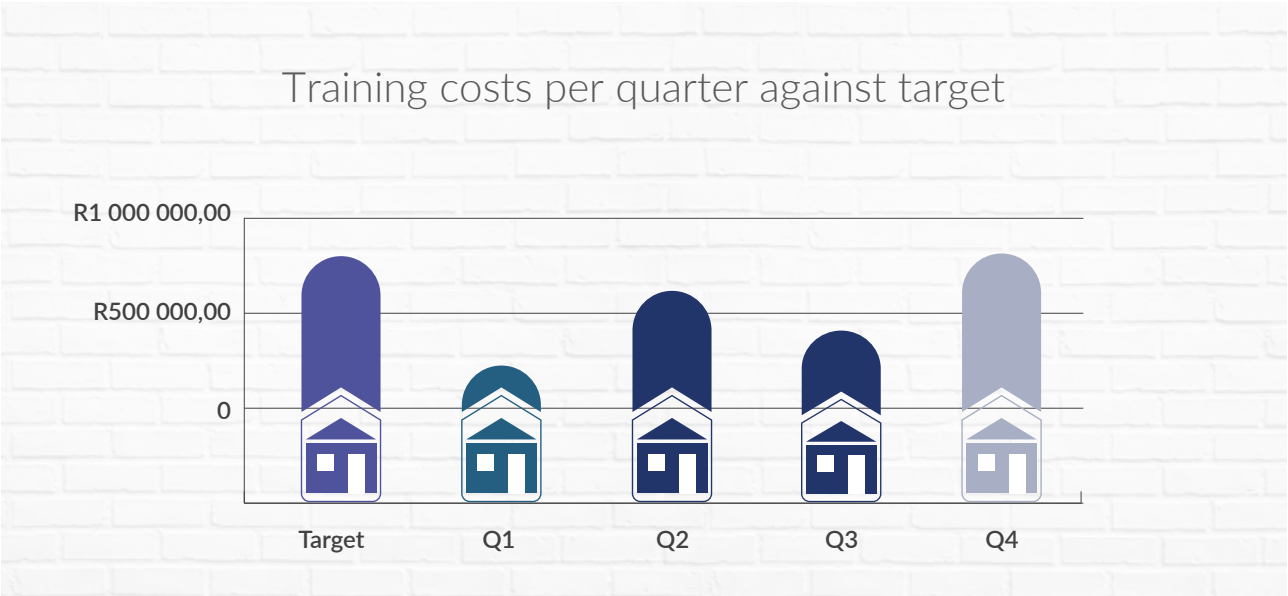
EMPLOYEE TRAINING AND DEVELOPMENT

In general, the year under review was a mixed bag in terms of performance against target on employee training and development. While the set training targets were achieved, performance on the training budget spend was unimpressive at 55.2% of budget, due to the fact that group training proved to be much more cost effective than training individual employees. Furthermore, since COVID-19, training is done online and costs much less than it did, person to person.

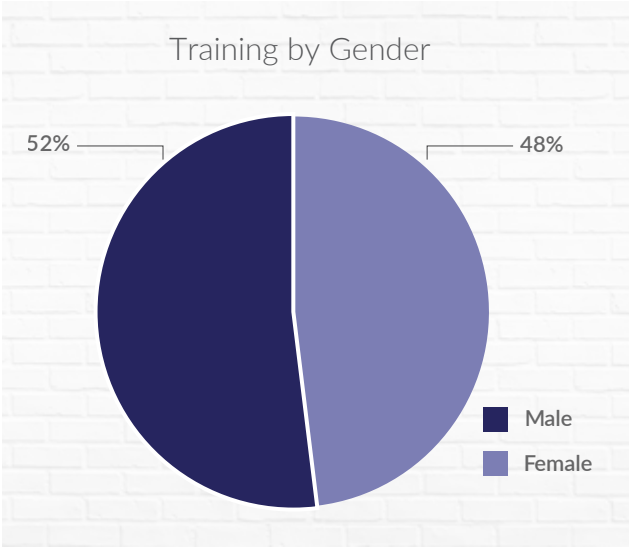
As the year progressed toward the last two quarters of the financial year, the training spend substantially increased compared to the previous quarters. This can be attributed to the continued implementation of the results of the skills audit.

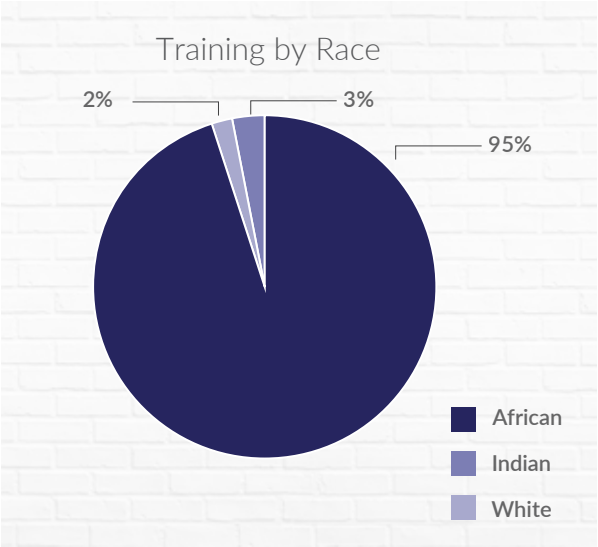
Training might have started off at a slow pace as everyone was still adjusting to the reality of COVID-19, however, once everyone realised that it was here for a long haul, it picked up during the year, and exceptional performance of 91% was achieved.

2020/21 TRAINING



THE FOLLOWING GRAPH SHOWS THE SPREAD OF OUR TRAINING AMONG DIFFERENT SEGMENTS OF OUR EMPLOYEES, BY GENDER AND BY RACE:

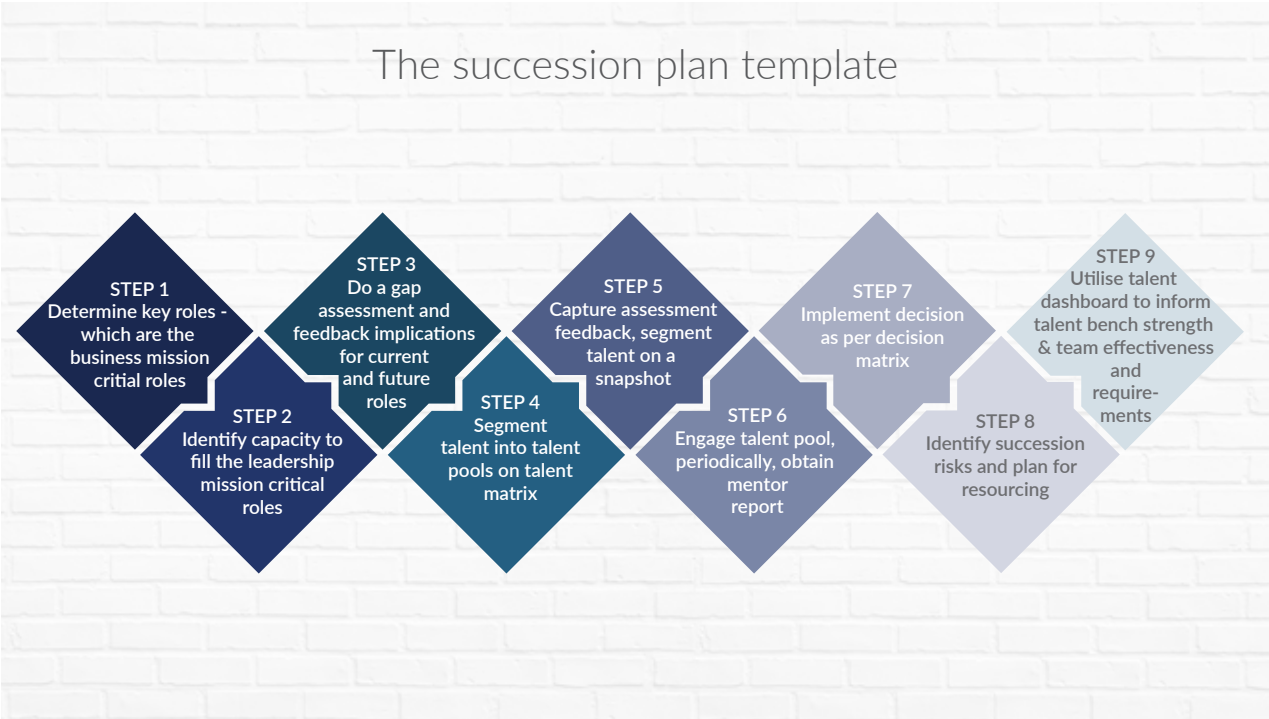




SUCCESSION PLANNING

In the year under review, a succession and implementation plan was approved. In implementing, the following activities were undertaken: Aligning the succession plan objectives to the Corporate Strategy to empower the NHFC to deliver on mandate expectation, delegating three executive managers at EXCO-directive to drive the succession plan implementation, the nomination of succession pool candidates and communicating to staff the succession pool, the administration of psychometric assessments for pool candidates, developing career plans for the pool candidates, and the establishment of a mentorship programme in order to address the developmental gaps identified for each member of the succession plan within the succession pool.

THE SUCCESSION PLAN TEMPLATE

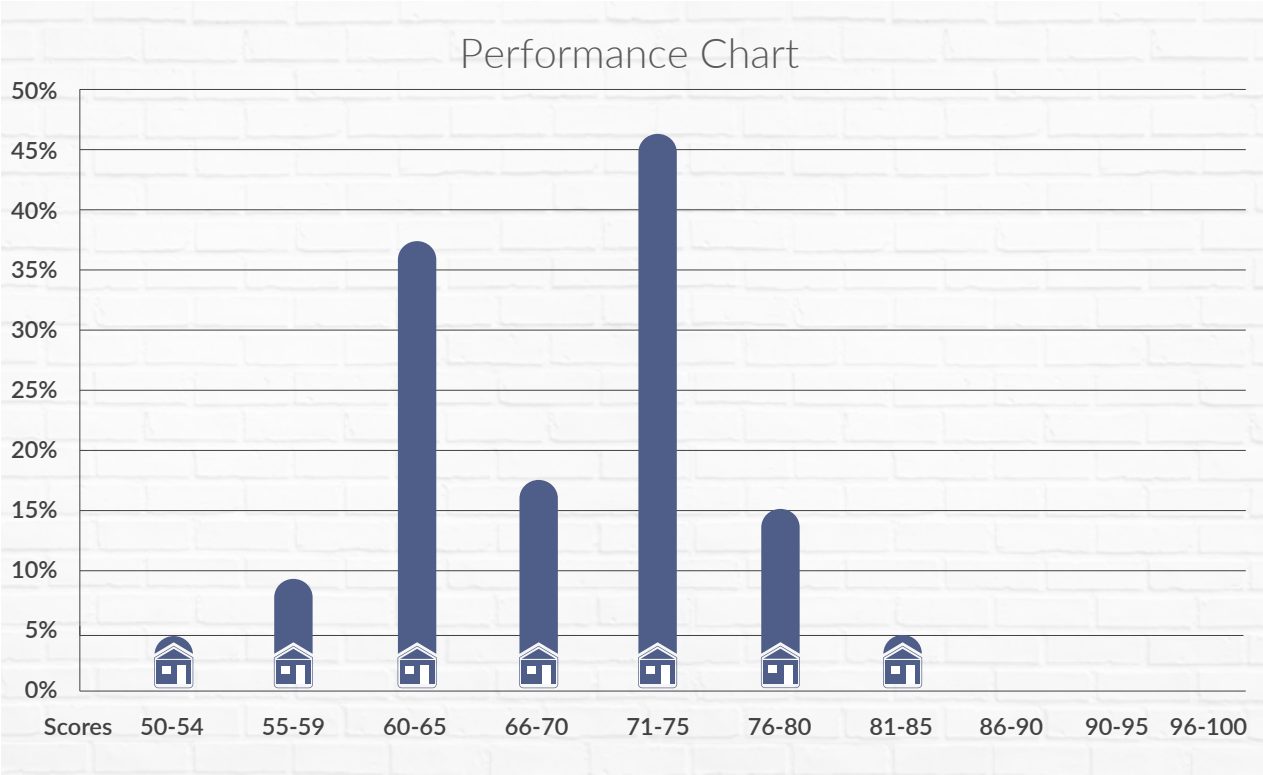


PERFORMANCE MANAGEMENT AND REVIEWS

Performance management is a management tool to monitor and evaluate employee performance against set goals and standards. The Balanced Scorecard is the NHFC's preferred performance management system for ensuring a productive environment where employee performance standards are agreed and their performance is reviewed quarterly to make sure it meets the agreed standard.

In the financial year under review, the overall performance scores on a scale of 1-5 (1 being low and 5 high) indicate that 5% of employees achieved a sterling performance of 91% in line with the set performance standards and some went beyond. On the other extreme, 9% of the employees did not meet the expected performance standard and will be put on the Performance Improvement Plan (PIP).

The graph below represents a normal curve where a small percentage (9%) of employees did not meet the set standard, while (14%) of staff exceeded expectation. The bulk (64%) staff performance fell within accepted performance limits.



OCCUPATIONAL HEALTH AND SAFETY

In line with the requirements of the Health and Safety Act of 1993, new Health and Safety representatives were appointed and trained during the period under review.

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.

Since most of the NHFC operations are conducted remotely due to compliance to 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, to work remotely as much as possible and to ensure employee safety, the NHFC has developed a number of policies to mitigate the impact of the pandemic, for example, a policy on working from home and procedures on returning to the office and dealing with vulnerable employees were approved by the Board.

As a result of the policies in place and the stringent management of the protocols in the period being reviewed, the NHFC had a relatively low number of infections in the last year in comparison to the infections that occured in Gauteng where most of the NHFC operations take place. Since the onset of COVID-19, only eight employees were infected with the virus, with one death reported due to COVID-19 infection.

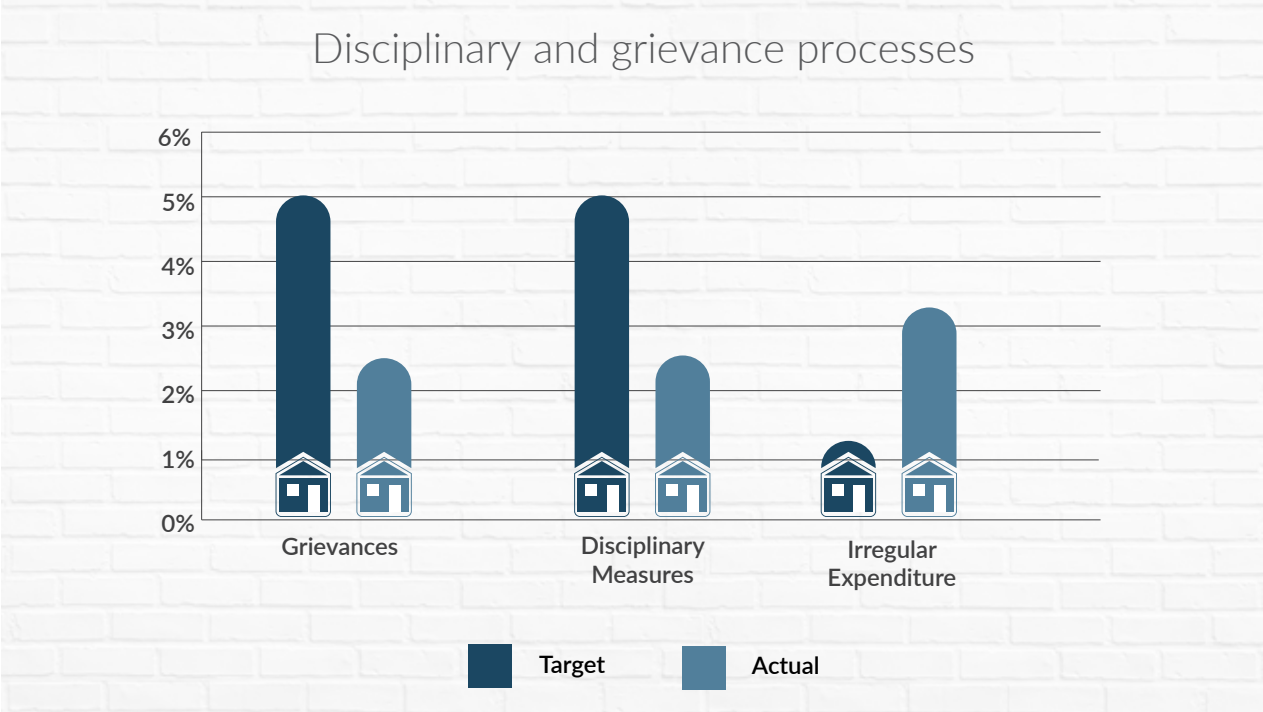
LABOUR RELATIONS

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 has signed a Recognition Agreement (RA) with the NHFC and is accorded organisational rights which are provided for by the Act, including trade union access to a 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.

The trade union with minority union members (SASAWU) is entitled to the following rights: access to the workplace for union organisers, deductions from employees' wages of trade union subscriptions by the employer, and time off work for trade-union activities for union office bearers who are employees.

As a result of signing the RA with SASBO, to negotiate salary increases with them. In the reporting period, the two-year salary agreement (CPI +1%) that was concluded in the previous period is being implemented. However, the implementation of the agreed salary increments was only effected for non-SASBO employees, including those in the bargaining unit. Because at the time of writing this report, the NHFC and SASBO were still in a process to resolve a dispute, and the matter was referred to the CCMA. The implementation of the agreement on salary increases for the period 2021/22 ended in a dispute between SASBO and the NHFC. The matter has been referred to the CCMA for conciliation.

Employment relations within the organisation are progressing as expected, but below the 5% set performance standard. In the reporting period, there were two disciplinary and three grievance processes noted.

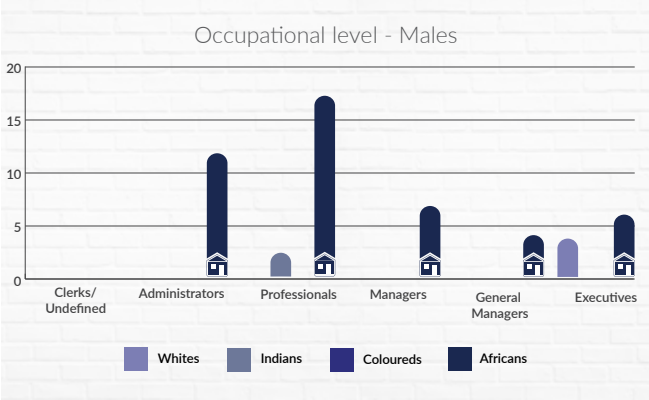


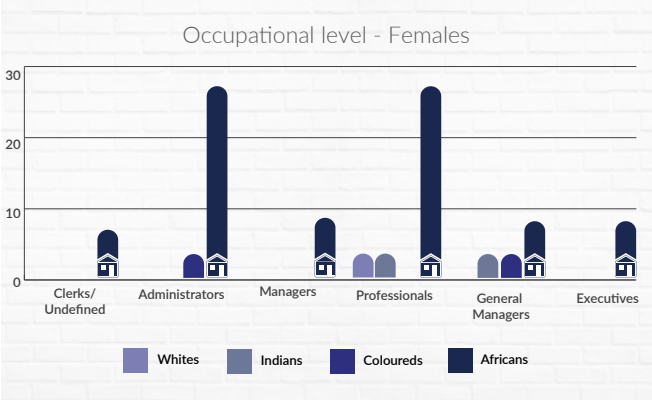
EMPLOYMENT EQUITY

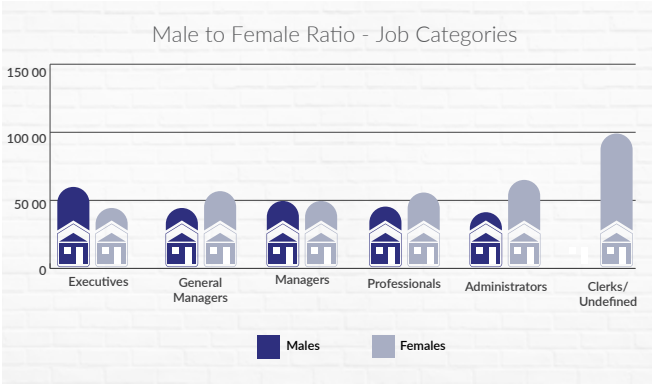
In the South African environment, the purpose of the Employment Equity Act, No. 55 of 1998 is to achieve equity in the workplace by promoting equal opportunity and fair treatment by eliminating unfair discrimination. This means that affirmative action must be implemented (positive discrimination) to redress the disadvantages in employment experienced by designated population such as Black people in general and white women.

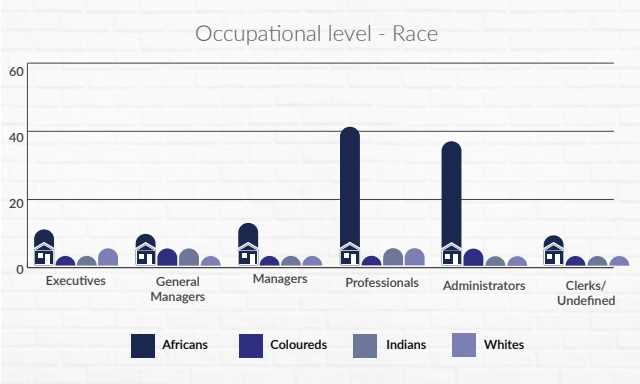
At NHFC, Employment Equity (EE) remains important, specifically in terms of our transformation agenda of ensuring adequate female representation at senior and professional levels of the organisation. With the appointment of the CIO and the CFO at the executive management level, the situation is improving. Generally, in the organisation the male/female ratio slants more towards female. The appointment of females in key roles is still a challenge which is on our radar. This ratio of male-to-female in key roles has slightly changed for the better since the appointment of the CIO and the CFO at EXCO level. Nonetheless, plans are afoot to ensure that current EE plan objectives are achieved.

LISTED BELOW ARE THE NHFC DEMOGRAPHICS AS AT 31 MARCH 2021









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 organisation. As a result, in the 2020/21 financial year, two senior female employees have been appointed. A concerted effort is made to ensure the gender balance at semi-skilled employee levels.

EQUAL REMUNERATION

The changes in the Labour laws on equal remuneration for equal work is gaining momentum. As the NHFC, we continue to remunerate our employees fairly according to their competence and equal work.

With the advent of the consolidation of the three entities in 2018, it was necessary for the NHFC to review its remuneration practices in line with the Employment Equity Act 55 of 1998 and its Regulations that ensure protection for all Employees in terms and conditions of employment. The 'equal pay for equal work value' is there to protect employees against discrimination and favouritism, thus ensuring that the same employee performing substantially the same work or work of equal value is remunerated equally.

To this end, in 2020, the NHFC commissioned an external service provider to conduct a job evaluation exercise to, firstly, harmonise the job grading systems which were historically different. Secondly, to review salaries in line with the outcome of the job evaluation. As a result, 78 positions were subjected to the job evaluation exercise. The outcome of the process was shared with all employees, and the company is currently implementing the outcome of the process.

For the same period, no unfair labour practice claim was instituted against the company on the basis of equal remuneration.

REMUNERATION AND BENEFITS

Remuneration is pay or financial compensation provided in exchange for services performed by an employee.

The NHFC remuneration philosophy aims to attract, motivate, and retain its mission critical employees who optimally contribute to the achievement of its mandate expectation.

As a result, remuneration in the NHFC is structured in two cash components which create a well-balanced remuneration mix. A guaranteed remuneration package which is based on a Total Cost to Company provides all employees with some flexibility to structure their packages as they please.

The guaranteed aspect of our employee remuneration is subject to annual review in April. While this aspect of employee salary is also negotiated with the union with a majority representation for employees in the Bargaining units, it is also subject to the NHFC affordability.

In addition, the NHFC has a variable component to our remuneration which is dependent on the performance of both the organisation and the employees. This is the bonus or incentive portion which is only awarded after the financial and performance audit.

When bonuses are declared, the awarding is based on the employee's cumulative consistent achievement of performance objectives, and contribution to the overall achievement of company annual objectives. Furthermore, each employee bonus is awarded according to their individual employment contracts.

The executive incentive scheme is also performance based and is a three-year contract which ties the executive (for retention purposes) to a three-year rolling deferred performance-based incentive cycle scheme. This incentive cycle scheme is primarily aimed at achieving shareholder value which is attained by, among other things, the retention of executive managers over a short- to medium-term basis.

The executive bonus structure has a short-term (annually paid out component) and a long-term component, deferred for three years and paid out in tranches as follows: 50%, 30%, and 20% in a three-year cycle.

As a result, in year one (depending on company performance and that of the executive), the annual 50% component of the bonus is paid. In year two, an annual short term 50% and the deferred 30% portion is paid out. In the third year, the short-term component of 50%, the 20% that was deferred in the first year, and the 30% of the previous year is paid out. In total, only in the third year does the executive qualify for a potential 100% of the bonus, 50% of which was deferred in the two previous years.

After three years of satisfactory performance, the executive can be retained. If the performance of the executive is not satisfactory, the performance management process of the NHFC kicks in, in line with the Performance Management Policy.

INTERNAL AUDIT PROCESSES

The HR Internal Audit Report which evaluates the adequacy, effectiveness, and timeliness of management actions on audit findings and recommendations by the internal audit partner indicates that all outstanding Audit Findings have been resolved. Therefore, the internal audit partners in the period being reported were satisfied that HR adequately and effectively resolved all the issues that were raised in the previous audit period.

LEAVE MANAGEMENT

Managing employee leave is important because, on the one hand, they need to plan their leave in advance in line with management to avoid operational disruptions. On the other hand, employees need to rest to avoid work-related stress and for proper governance.

However, with most NHFC operations being remotely conducted due to the pandemic itself and the subsequent alert level restrictions to curb infection rates, subsequent travel bans were also imposed. Therefore, employees were reluctant to take leave. Nonetheless, the implementation of a leave forfeiture policy has been helpful in managing employee leave under current circumstances.

As a result, in the year under review, leave provision is slightly (2%) above plan (5%). Therefore, leave provision is sitting at 7% instead of the planned 5% provided for.

> *"Managing employee leave is important because, on the one hand, they need to plan their leave in advance in line with management to avoid operational disruptions."*

LEAVE PROVISION

HUMAN RIGHTS AND LABOUR PRACTICES

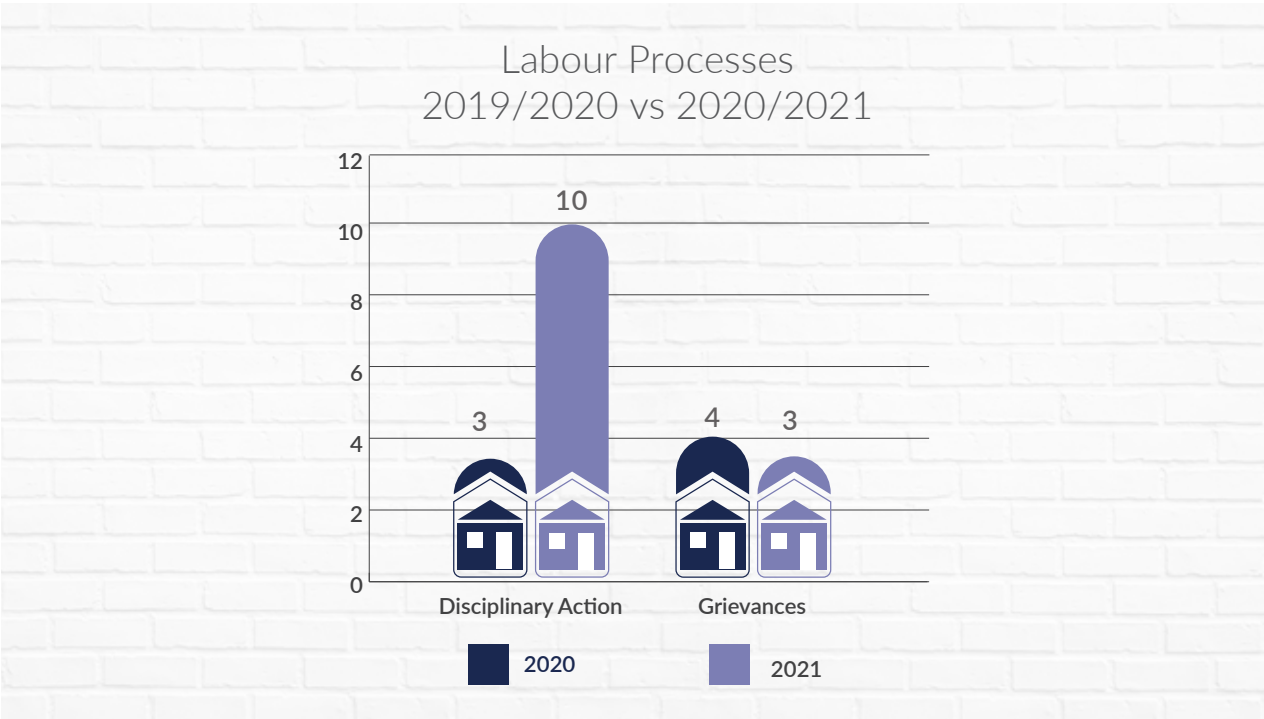
The NHFC believes in the principles espoused by the International Labour Organisation (ILO). Therefore, we continue to comply to the ILO's labour standards as enshrined in its conventions through its policies and practices.

The spirit and intention of the following ILO protocols continue to influence the NHFC's Human Resources policies and practices in the following areas of our operation:

- Prohibition of child labour
- Compulsory labour
- Freedom of association
- Elimination of discrimination in employment and occupation
- Security practices and human rights grievance mechanism

As a result of complying with the ILO protocols, in the period under review, there were no infringements identified related to the above human rights and labour practices.

GRAPH ON LABOUR ISSUES

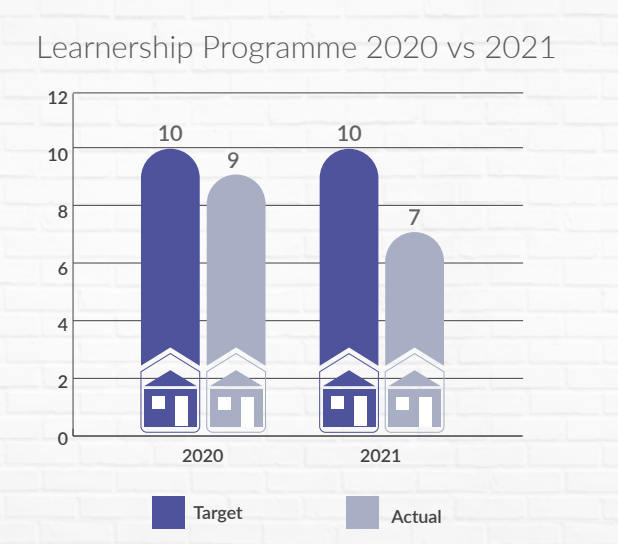


NHFC LEARNERSHIP PROGRAMME

The National Skills Strategy has identified learnership as a key means to achieving human development targets at a macro-economic level. The spin off includes improvement in employment opportunities, re-skilling the workplace, and replacing traditional restrictive apprenticeships with broader-based skill projects.

In order to make an impact in the employment of youth as well as in providing experiential learning the NHFC committed itself to training at least ten (10) students/interns per year at different times, until the issue of youth employment is addressed or until the size of the organisation substantially increases.

In relation to the financial year 2019/2020, in 2020/2021 the NHFC saw a drop in the intake of learners due to various reasons which included, among others, the impact of COVID-19 and the impact on placing new learners in different organisations, including the NHFC. As a result, only seven learners were taken into the learnership programme, including four from BANKSETA from the previous year. Despite the setback on learner intake, the NHFC has managed to employ four of its learners into permanent/ fixed term positions from an intake of two years.



ETHICS IN THE WORKPLACE

The NHFC is committed to the development of an ethical culture which promotes the ICRAFT (Integrity, Competence, Responsibility, Accountability, Fairness and Transparency) characteristics of the King IV principles of good corporate citizenship, focusing the ethical responsibilities of the company to the triple bottom line of the economy social and natural environment in which it operates.

The NHFC consequently takes the governance of ethics very seriously, with the Social Ethics Committee (SEC) of the Board providing an oversight role on matters such as fair remuneration, and responsible and transparent tax practice among other matters of governance. On the other hand, the Human Resources, Ethics and Remuneration Committee (HRER) of the Board provides assurance to the Board about Social internal matters, specifically related to the employee as a stakeholder.

The protection of employees' rights is therefore, one of the crucial aspects of the HRER mandate and it is also central in both our Values and Code of Conduct.

Our Human Resources Policies reflect this attitude. The company's approved HR Policy (2021) also ensures the process of redress for employees, where necessary.

In the year under review, in managing Ethics in the organisation, the NHFC has developed an Ethics Policy framework, which includes – among other things – the appointment of the Ethics Officer to implement the following interventions to ensure effective ethics management in the organisation: the review of the organisational values and the ethics policy for relevance, the development of new values, the development of the code of conduct, and development and approval of the Ethics Policy, Risk Register and an Ethics Decision Matrix.

The next steps include the development of the Ethics Strategy and the implementation plan against which reporting will be done.

SUBSIDIARY SUPPORT

The NHFC subsidiary, CTCHC, currently has five employees, who enables it to collect on the outstanding instalment sales on its books. All NHFC policies are cascaded to ensure operational efficiency. The NHFC's operational support for the CTCHC continues to ensure statutory compliance and employee support.

SOCIAL CAPITAL

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

ENTREPRENEUR SUPPORT AND BEE FUNDING

A total of R519 million was disbursed towards the empowerment of BEE entrepreneurs by the NHFC and its strategic partners. Of that, R68 million had been disbursed to women and youth entrepreneurs.

NATURAL CAPITAL

Our intentions and commitment to the environment remains a priority. As part of our contribution, we endeavour to ensure that our clients adhere to environmental legislation and ensure that the impact provided is socially and environmentally responsible. Formation of the HSDB provides us with new opportunities to explore green funding for the different products. A major component of our ongoing research will be assessing which of the merged NHFC products would provide the most impact through green initiatives, as well as the mechanisms required for such a funding initiative.

> *"As part of our contribution, we endeavour to ensure that our clients adhere to environmental legislation and ensure that the impact provided is socially and environmentally responsible."*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PART F

Annual Financial Statements

2025

Celebrating 25 years of building together,
and becoming stronger together

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 capacitates emerging housing intermediaries through strategic
Directors	Mr Sizwe Tati (Acting CEO, appointed 01 September 2020) Ms Thembi Chiliza Mr Johan Coetzee (Retired 26 November 2020) Mr Adrian Harris Ms Anthea Houston (Retired 26 November 2020) Mr Samson Moraba (Chief Executive Officer; Retired 31 August 2020) Mr Sango Ntsaluba (Retired 26 November 2020) Ms Phekane Ramarumo (Acting Chairperson, appointed 01 September 2020) Mr Khehla Shubane Ms P Mthethwa (Appointed 26 November 2020)
Registered office	Isle of Houghton, Old Trafford 3 11 Boundary Road, Houghton 2193
Postal address	PO Box 31376 Braamfontein 2017
Bankers	The Standard Bank of South Africa Limited
Auditors	Auditor-General of South Africa
Company registration number	1996/005577/30
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

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The financial statements were prepared by Ms. Viola Moraswi (CA) SA and reviewed by Mr. Mogotsi Oepeng ACMA (CGMA).

STATEMENT OF RESPONSIBILITY BY THE BOARD

The Board of Directors, which constitutes the Accounting Authority, is required by the Companies Act of South Africa, 2008 (Act No.71 of 2008) (Companies Act) and Public Finance Management Act of 1999 (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the National Housing Finance Corporation SOC Limited (NHFC) at 31 March 2021, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the annual financial statements and have been given unrestricted access to all financial records and related data.

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

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

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

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

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

The Directors have reviewed the NHFC's cash flow forecast for the year to 31 March 2022, 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 124 to 127.

The annual financial statements, set out on pages 132 to 231, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 August 2021 and were signed on their behalf by:

Mr Sizwe Tati
Acting Chief Executive Officer

Ms Phekane Ramarumo
Acting Chairperson of the Board

COMPANY SECRETARY'S CERTIFICATION

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88(2)(E) OF THE COMPANIES ACT

I hereby confirm in terms of Section 88 (2) (e) of the Companies Act, Act 71 of 2008, that the NHFC lodged with the Commissioner of Intellectual Property and Companies, all such returns and notices as are required of a State Owned Enterprise in terms of the Act for the financial year ending 31 March 2021, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

Andrew Higgs
Company Secretary

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LTD

REPORT ON THE 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 132 to 231 which comprise the consolidated and separate statement of financial position as at 31 March 2021, 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 group as at 31 March 2021, and their financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP), 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 group 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 MATTERS

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

Restatement of corresponding figures

7. As disclosed in note 38 to the consolidated and separate financial statements, the corresponding figures for 31 March 2020 were restated as a result of errors in the financial statements of the group at, and for the year ended, 31 March 2021.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED AND SEPARATE 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 group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

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.

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LTD

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

12. In accordance with the Public Audit Act 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 the 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 2021:

Programmes	Pages in the annual performance report
Programme 2 – Lending and investment	210 – 217

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 identify any material findings on the usefulness and reliability of the reported performance information for programme 2 – Lending and investment.

OTHER MATTER

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 209 to 231 for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement 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, performance and annual report

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements of 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 approximately R8,5 million disclosed in note 39 to the annual financial statements, as required by section 51 (1) (b) (ii) of the PFMA. The majority of the irregular expenditure was due to deviations from procurement management processes.

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON NATIONAL HOUSING FINANCE CORPORATION (SOC) LTD CONTINUED

Procurement and contract management

23. Some of the goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1 and paragraph 3.3.1 of Practice Note 8 of 2007/08.

24. Some of the goods and services of a transaction value above R500 000 were procured without inviting competitive bids and deviations were approved by the accounting officer but it was practical to invite competitive bids, as required by Treasury Regulation 16A6.1 and paragraph 3.4.1 of Practice Note 8 of 2007/2008 and Treasury Regulation 16A6.4.

25. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with the policies of the public entity, as required by Treasury Regulation 16A6.2 (a) and (b).

26. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2 (1) (f) of PPPFA and Preferential Procurement Regulation 2017.

27. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and Preferential Procurement Regulation.

28. Some of the contracts and quotations were awarded to bidders based on pre-qualification criteria that were not stipulated, in contravention of the 2017 Preferential Procurement Regulation 4 (1) and 4 (2).

29. Some of the bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content as required by the 2017 Procurement Procurement Regulation 8 (2).

30. Some of the commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content in accordance with paragraph 3.4 of National Treasury Instruction Note 4 of 2015/2016.

31. Some of the commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8 (5).

32. Some of the contracts were extended 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.

Consequences Management

33. Disciplinary steps were not taken against some of the officials who had incurred or permitted irregular expenditure, as required by section 51 (1) (e) (iii) of the PFMA.

34. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.

OTHER INFORMATION

35. 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 programme presented in the annual performance report that have been specifically reported in this auditor's report.

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

37. 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.

38. The other information we obtained prior to the date of this auditor's report is the director's report and the company secretary's certificate. Any other information is expected to be made available to me after 03 September 2021.

39. 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. I have nothing to report in this regard.

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

INTERNAL CONTROL DEFICIENCIES

41. 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.

42. Management did not adequately review the financial statements submitted for auditing, as evidenced by the material misstatements identified in the financial statements, which were corrected due to the audit process.

43. An action plan developed to address the root causes of the findings identified in the prior year was not credible, which resulted in repeat findings in the financial statements as well as continued material non-compliance with applicable laws and regulations. The entity continues to incur significant amounts of irregular expenditure.

44. Management did not adequately review and monitor non-compliance with laws and regulations pertaining to irregular expenditure and the supply chain management control environment to ensure compliance with supply chain management prescripts.

Auditor-General

Pretoria
03 September 2021

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 84 to 94 of the Intergrated Report.

EXECUTION OF THE FUNCTIONS OF THE AUDIT COMMITTEE

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

EXTERNAL AUDITORS

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

SYSTEMS OF INTERNAL CONTROLS

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

Based on the reports and explanations given by management, the Internal Auditors and External Auditors during the year under review, the Audit Committee is of the opinion that the system of internal controls implemented by NHFC is effective. Nothing has come to the attention of the Audit Committee to indicate that a material breakdown in the functioning of internal controls, procedures and systems has occurred during the year under review.

FINANCIAL AND REGULATORY REPORTING

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

EVALUATION OF ANNUAL FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The Audit Committee has reviewed principles, policies and practices adopted in the preparation of annual financial statements for the 2021 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the audited annual financial statements. The Audit Committee is satisfied that they are adequate and appropriate and that the audited annual financial statements comply in all material respects with the Public Finance Management Act, the Companies Act of South Africa and Generally Recognised Accounting Practice.

The Audit Committee recommended the 2021 annual financial statements to the Board for approval.

PMthethwa

Ms Philisiwe Mthethwa
Chairperson of the Audit Committee
Date: 30 August 2021

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 19 to 24.

CORPORATE GOVERNANCE

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

FINANCIAL HIGHLIGHTS

The financial highlights are set out in the CFO report on page 66 to 69.

FINANCIAL RESULTS

The financial results of the NHFC for the year under review are set out on pages 132 to 203. 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. 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 among 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. As are result of the change in economic assumptions, and at the request of the NDoHS and the National Treasury, the NHFC revised their budgets in the first quarter of 2021 to reflect the most probable impact of the pandemic, with respect to operations.

CREDIT RATING

In February 2021, Global Credit Ratings rated the NHFC at national scale ratings of A and A1 in the long- and short-term respectively, with the outlook changing to stable from negative. 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, and 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 2209 to 231.

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. There was no financial allocation received in 2020/21, and R50 million in 2019/20 was received from the shareholder.

DIRECTORATE AND SECRETARIAT

Details pertaining to the directors and company secretary appear on pages 80 to 81 and 85 to 87.

EXTERNAL AUDITORS

The appointed external auditor is the Auditor-General of South Africa. Their appointment is confirmed annually by the shareholder at the annual general meeting. The Auditor-General has held this appointment since the 2018 financial year.

DIRECTORS' REPORT

HUMAN SETTLEMENTS DEVELOPMENT BANK (HSDB)

The process towards the establishment of the HSDB is well underway. The business case has been concluded and the Bill has been submitted to the Office of the Chief State Law Advisor for pre-certification and legal opinion. The current financial year is the second year of full operations as a merged entity. The NHFC is undergoing a transformation process of restructuring its operations to the HSDB business model.

The remaining steps to achieve HSDB establishment, are as follows:

- Draft Legislation
- Promulgate Legislation
- Secure Approvals and Funding
- Operationalise the HSDB Act

The Board, the shareholder and National Treasury remain committed to concluding this strategic process towards the establishment of the HSDB.

REMUNERATION OF DIRECTORS AND MEMBERS OF BOARD COMMITTEES

The Directors' emoluments are set out on page 200 of these financial statements.

AUDIT COMMITTEE MEMBERS OF BOARD COMMITTEES

The appointed Audit Committee members and External Auditors are in line with the Companies Act, Act 71 of 2008. The NHFC's policy is to not use External Auditors for non-audit services. In cases where the External Auditors are to be used for non-audit services, prior approval of the Audit Committee must be obtained.

INTERNAL CONTROL

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

INFORMATION TECHNOLOGY

The Board is responsible for the governance of Information Technology (IT), including the implementation of an appropriate IT Strategy. The IT Control Framework provides assurance that the IT control process is effective and that the IT assets of the NHFC are safeguarded. The implementation of the IT Governance Framework is delegated to an IT Management Committee, the details of which are reflected on page 91.

EVENTS AFTER THE REPORTING DATE

There were no post-balance sheet events reported.

SUBSIDIARIES AND ASSOCIATES

The NHFC's investments are disclosed in Notes 12 to 17 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 209 to 231.

IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

During the year, the NHFC incurred R8,5 million of irregular expenditure and no fruitless and wasteful expenditure was incurred in the current year due to non-compliance with National Treasury Regulations and Supply Chain Management Policies.

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 the irregular expenditure. The expenditure is disclosed in note 39 of the Annual Financial Statements.

ACCOUNTING AUTHORITY CHANGES

Mr Samson Moraba, CEO of NHFC, retired on 31 August 2020 and Mr Sizwe Tati, Chairperson of the NHFC was appointed as the Acting CEO until a permanent CEO is appointed by the shareholder. Non-executive director, Ms Phekane Ramarumo, has been appointed as Acting Chairperson of the NHFC. In accordance with the direction from the shareholder, once a permanent CEO is appointed, Mr Tati will revert to being the Chairperson of the Board, and Ms Ramarumo will revert to being a non-executive director.

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 2021 was approved by the Board of Directors on 30 August 2021 and is signed on their behalf by:

Ms Phekane Ramarumo
Acting Non-Executive Chairperson of the Board

Mr Sizwe Tati
Acting Chief Executive Officer

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2021

		Group		Company	
	Note(s)	2021 R'000	Restated 2020 R'000	2021 R'000	2020 R'000
Interest on advances	3	401 262	479 100	190 789	249 707
Interest received on investments	3	64 032	105 537	62 989	102 616
Rental income	3	14 249	16 931	12 209	14 174
Dividends received	3	5 585	9 960	5 585	9 960
Sale of houses	3	28 712	20 468	–	–
Management fees	3	24 503	13 074	24 336	17 168
Share of residual interest in controlled entities	3	–	–	41 559	18 261
Fees on advances	3	8 413	3 367	7 048	3 367
Revenue		**546 756**	**648 437**	**344 515**	**415 253**
Cost of sales	4	(29 940)	(20 707)	–	–
Net impairments and write offs	6	(57 171)	(84 180)	(55 186)	(70 095)
Gross surplus		**459 645**	**543 550**	**289 329**	**345 158**
Other operating income	5	18 617	27 290	15 331	2 844
Operating expenses	6	(248 632)	(239 175)	(203 889)	(192 912)
Operating surplus		**229 630**	**331 665**	**100 771**	**155 090**
Investments Fair value and Impairments	21 & 8	(47 745)	1 157	(20 476)	(84 062)
Income/(loss) from associates	7	12 638	28 362	–	–
Finance costs	9	(104 524)	(143 108)	(18 482)	(22 334)
Surplus for the year		**89 999**	**218 076**	**61 813**	**48 694**

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

		Group		Company	
	Note(s)	2021 R'000	Restated 2020 R'000	2021 R'000	Restated 2020 R'000
Assets					
Non-Current Assets					
Loans and advances	11	3 228 260	3 291 907	2 145 876	2 062 435
Investments in controlled entities	14	–	–	355 330	341 170
Loans to subsidiaries	12	–	–	1 593	–
Investments in associates	17	243 018	226 902	163 155	142 104
Property, plant and equipment	18	2 400	2 451	2 338	2 331
Intangible assets	19	2 331	522	2 326	512
Finance lease receivables	20	101 967	105 622	–	–
Investment property	21	79 466	62 300	70 780	62 300
Investment in non-controlled entities	13	241 022	254 456	241 022	254 456
		3 898 464	**3 944 160**	**2 982 420**	**2 865 308**
Current Assets					
Loans and advances	11	723 901	465 946	505 672	381 374
Properties developed for sale	22	11 288	11 288	–	–
Finance lease receivables	20	11 710	7 952	–	–
Other receivables and prepayments	23	50 412	23 094	27 459	28 649
Held to maturity investments	24	671 630	696 158	671 630	696 158
Cash and cash equivalents	25	1 463 404	1 105 890	1 276 503	889 437
Income tax receivable	10	37 336	35 169	37 336	35 169
		2 969 681	**2 345 497**	**2 518 600**	**2 030 787**
Total Assets		**6 868 145**	**6 289 657**	**5 501 020**	**4 896 095**
Liabilities					
Non-Current Liabilities					
Other financial liabilities	29	1 314 198	1 427 502	222 379	264 429
Long term payables	32	9 937	10 130	–	–
		1 324 135	**1 437 632**	**222 379**	**264 429**
Current Liabilities					
Funds under management	28	675 721	107 546	665 854	97 095
Other financial liabilities	29	44 213	36 927	41 799	36 764
Provisions	30	47 854	36 250	42 641	35 795
Trade and other payables	31	57 010	42 089	19 990	15 467
		824 798	**222 812**	**770 284**	**185 121**
Total Liabilities		**2 148 933**	**1 660 444**	**992 663**	**449 550**
Net Assets		**4 719 212**	**4 629 213**	**4 508 357**	**4 446 544**
Issued capital	26	842	842	842	842
Share premium	26	879 158	879 158	879 158	879 158
Grant capital	27	1 656 698	1 656 698	1 656 698	1 656 698
Retained earnings		1 993 154	1 903 155	1 834 035	1 772 222
Non distributable and other reserves		189 360	189 360	137 624	137 624
Total Net Assets		**4 719 212**	**4 629 213**	**4 508 357**	**4 446 544**
Total net assets and liabilities		**6 868 145**	**6 289 657**	**5 501 020**	**4 896 095**

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2021

	Issued capital R'000	Share premium R'000	Total share capital R'000	Non distri–butable reserve R'000	Grant capital R'000	Total reserves R'000	Retained earnings R'000	Total net assets R'000
Group								
Opening balance as previously reported	842	879 158	880 000	251 020	1 545 038	1 796 058	1 724 802	4 400 860
Restatement Abahlali (Note 38)	–	–	–	–	–	–	4 053	4 053
Correction of error CTCHC (Note 38)	–	–	–	–	–	–	(500)	(500)
Balance at 01 April 2019 as restated*	**842**	**879 158**	**880 000**	**251 020**	**1 545 038**	**1 796 058**	**1 728 355**	**4 404 413**
Surplus for the year	–	–	–	–	–	–	218 076	218 076
Restatement of reserves in group accounts	–	–	–	–	–	–	29 148	29 148
Reversal of interest recognised in prior years due to restructurings	–	–	–	–	–	–	(72 424)	(72 424)
Grant capital	–	–	–	–	50 000	50 000	–	50 000
Reclassification of reserves to grant capital	–	–	–	(61 660)	61 660	–	–	–
Changes in net assets	–	–	–	(61 660)	111 660	50 000	174 800	224 800
Balance at 01 April 2020	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**1 903 155**	**4 629 213**
Surplus for the year	–	–	–	–	–	–	89 999	89 999
Changes in net assets	–	–	–	–	–	–	89 999	89 999
Balance at 31 March 2021	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**1 993 154**	**4 719 212**
Note(s)	26	26	26		27			
Company								
Balance at 01 April 2019	**842**	**879 158**	**880 000**	**199 284**	**1 545 038**	**1 744 322**	**1 724 223**	**4 348 545**
Surplus for the year	–	–	–	–	–	–	48 694	48 694
Grant capital	–	–	–	–	50 000	50 000	–	50 000
Reclassification of reserves to grant capital	–	–	–	(61 660)	61 660	–	–	–
Changes in net assets	–	–	–	(61 660)	111 660	50 000	48 694	98 694
Opening balance as previously reported Adjustments	842	879 158	880 000	137 624	1 656 698	1 794 322	1 772 917	4 447 239
Correction of errors	–	–	–	–	–	–	(695)	(695)
Balance at 01 April 2020 as restated*	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 772 222**	**4 446 544**
Surplus for the year	–	–	–	–	–	–	61 813	61 813
Changes in net assets	–	–	–	–	–	–	61 813	61 813
Balance at 31 March 2021	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 834 035**	**4 508 357**
Note(s)	26	26	26		27			

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

		Group		Company	
	Note(s)	2021 R'000	Restated 2020 R'000	2021 R'000	2020 R'000
Cash flows from operating activities					
Receipts					
Sale of goods		28 712	20 468	–	–
Interest, rental and dividend income		468 262	612 654	322 642	371 484
Other income		15 317	49 130	13 164	4 874
		512 291	682 252	335 806	376 358
Payments					
Employee costs		(139 098)	(100 944)	(136 447)	(96 575)
Net cash payment to suppliers		(114 161)	(108 641)	(64 802)	(64 486)
Finance costs		(102 674)	(143 107)	(20 017)	(23 173)
Net cash payment to customers		(226 017)	(146 591)	(223 899)	(98 535)
		(581 950)	(499 283)	(445 165)	(282 769)
Net cash flows from operating activities	33	**(69 659)**	**182 969**	**(109 359)**	**93 589**
Cash flows from investing activities					
Additions to property, plant and equipment	18	(1 236)	(2 279)	(782)	(2 200)
Disposal of property, plant and equipment	18	786	–	–	–
Purchase of investment property	21	(4 707)	–	–	–
Addition of other intangible assets	19	(2 467)	(492)	(2 467)	(477)
Increase in investment in non controlled entities		(46 771)	–	(46 771)	–
Decrease in Held to Maturity Investment		14 429	(207 711)	14 429	(207 711)
Movement in Investment in controlled entities		–	–	–	18 261
Net cash flows from investing activities		**(35 256)**	**(210 482)**	**(35 592)**	**(192 127)**
Cash flows from financing activities					
Net movement in borrowings		(105 746)	(39 610)	(36 742)	(37 322)
Movement in funds under management		568 175	64 544	568 759	64 468
Grant capital		–	50 000	–	50 000
Net cash flows from financing activities		**462 429**	**74 933**	**532 017**	**77 146**
Net increase/(decrease) in cash and cash equivalents		**357 514**	**47 420**	**387 066**	**(21 392)**
Cash and cash equivalents at the beginning of the year		1 105 890	1 058 470	889 437	910 830
Cash and cash equivalents at the end of the year	25	**1 463 404**	**1 105 890**	**1 276 503**	**889 438**

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2021

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 2021 comprise the NHFC, its subsidiaries and the Group's interest in associates (referred to as the Group). The financial year-end for all of the 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 2021.

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 2021

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 35 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.
- 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2021

- 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 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:

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2021

Item	Average useful life
Furniture and fittings	16.67%
Motor vehicles	25%
Office equipment	6.67%
Computer equipment	33.33%
Leasehold improvements	period of lease

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

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

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

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

iv) De-recognition

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

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

(e) Properties developed for sale

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

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

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

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

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

Work-in-progress

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

(f) Intangible assets

(i) Recognition and measurement

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

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

(ii) Derecognition

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

(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;

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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. 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2021

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.

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

ACCOUNTING POLICIES CONTINUED

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

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

(iii) Financial liabilities

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

Financial liabilities comprise the following:

Other payables
Other payables are recognised at fair value.

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

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

iv) De-recognition of financial assets and liabilities

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

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

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

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

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

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

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

Provisions are not recognised for future operating losses.

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

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note 34.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2021

(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.

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.

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.

ACCOUNTING POLICIES CONTINUED

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The following specific recognition criteria must also be met before revenue is recognised:

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

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

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

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

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

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

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.

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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2021

(o) Investment property

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

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

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

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

(p) Related party disclosures

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

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

1.7 EVENTS AFTER REPORTING DATE

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

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

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

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

(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.

ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

1.8 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 group that obtains control of the acquiree or transferor.

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

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

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

ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

Identifying the acquirer and transferor

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

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

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 FINANCIAL INSTRUMENTS

1.12 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 group incurs to acquire the asset on the reporting date.

ACCOUNTING POLICIES CONTINUED

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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 group.

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. 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.

1.13 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 group; or
(b) the number of production or similar units expected to be obtained from the asset by the group.

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

1.14 SHARE CAPITAL / CONTRIBUTED CAPITAL

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

1.15 PROPERTY, PLANT AND EQUIPMENT

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the group; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2021

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.

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 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.

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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2021

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. 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 group. 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 group assesses at each reporting date whether there is any indication that the group 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 group 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 group 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 group separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 18).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

2. NEW STANDARDS AND INTERPRETATIONS

2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2020	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact

2.2 Standards and interpretations issued, but not yet effective

The group has not applied the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2020	Unlikely there will be a material impact

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
3. REVENUE				
Interest on advances				
Interest on performing advances	205 028	249 927	171 036	241 349
Interest on impaired advances	19 753	8 358	19 753	8 358
Interest on finance lease receivable	7 578	10 939	–	–
Interest on advances from controlled entities	168 903	209 876	–	–
	401 262	**479 100**	**190 789**	**249 707**
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	64 032	105 537	62 989	102 616
Rental income				
Rental income from investment property	14 249	16 931	12 209	14 174
Dividend received				
Dividend income from TUHF	1 831	8 297	1 831	8 297
Dividend income from IHS	3 596	1 505	3 596	1 505
Dividend income from Greenstart	158	158	158	158
	5 585	**9 960**	**5 585**	**9 960**
Sale of houses				
CTCHC sale of houses	28 712	20 468	–	–
Management Fees				
Fees charged to controlled entities	–	–	17 578	11 643
Programme management fees	17 745	7 549	–	–
FLISP recovery	6 758	5 525	6 758	5 525
	24 503	**13 074**	**24 336**	**17 168**
Share of residual interest in controlled entities – Housing Investment Partners	–	–	41 559	18 261
Fees on advances	8 413	3 367	7 048	3 367
4. COST OF SALES				
CTCHC cost of sale of houses	(29 940)	(20 707)	–	–
5. OTHER OPERATING INCOME				
Other operating income is made up as follows:				
Levies from finance lease receivable	1 814	2 140	–	–
Recoveries and refunds	13 249	4 446	13 025	1 276
Other interest received	757	426	698	386
Sundry income	2 797	20 278	1 608	1 182
	18 617	**27 290**	**15 331**	**2 844**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
6. OPERATING SURPLUS				
Included in operating surplus are the following items:				
Staff costs	99 322	93 134	96 936	90 765
Salaries	81 143	70 900	78 998	68 782
Medical aid	1 021	1 545	1 021	1 545
Provident fund	5 879	7 685	5 638	7 434
Bonus provision	11 279	13 004	11 279	13 004
Executive costs (refer to note 37)	46 518	39 614	46 518	39 614
Salaries	28 560	21 552	28 560	21 552
Medical aid	1 079	959	1 079	959
Provident fund	3 195	2 758	3 195	2 758
Bonus Provision	13 684	14 345	13 684	14 345
Administration	5 382	6 335	4 745	4 452
Marketing	1 734	1 160	1 734	1 160
Consultancy	7 681	9 011	7 587	8 574
Directors' fees	5 127	4 904	5 127	4 904
Legal fees	7 477	5 883	5 688	4 667
Auditors' fees	5 677	6 885	5 483	6 908
Travel and entertainment	628	2 479	536	1 707
Communication	1 682	1 942	1 593	1 836
Training and development	1 469	1 005	1 469	997
Office expenses	4 900	5 030	2 336	2 878
Depreciation and amortisation	1 495	2 120	1 427	2 053
Sundry & Investment property expenses	14 896	13 311	14 896	13 331
Operating lease expense	10 028	11 968	7 814	9 066
	214 016	**204 781**	**203 889**	**192 912**
Management fees incurred in controlled entities	34 616	34 394	–	–
Total operating expenses	**248 632**	**239 175**	**203 889**	**192 912**
Impairments	**(54 330)**	**64 775**	**(11 535)**	**68 444**
Net impairment raised on loans and advances	(22 909)	94 820	(22 814)	91 766
Impairment from controlled entities	(15 771)	(12 303)	–	–
Impairment of held to maturity investment	(15 583)	(17 661)	(15 583)	(17 661)
Impairment of dividend accrued Greenstart	(158)	(158)	(158)	(158)
Net impairment on loans to subsidiaries	–	–	27 020	(5 503)
Net impairment reversed on housing stock	91	77	–	–
Bad debts written off	**(2 841)**	**(148 955)**	**(43 651)**	**(138 538)**
Bad debts written-off on loans and advances	(393)	(146 534)	(393)	(138 538)
Bad debts written-off on loans to subsidiaries	–	–	(43 258)	–
Bad debts written-off on housing stock	(2 448)	(2 421)	–	–
Total Net impairments and bad debts written-off	**(57 171)**	**(84 180)**	**(55 186)**	**(70 095)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
7. INCOME/LOSS FROM ASSOCIATES				
Income/(loss) from associates				
TUHF Holdings Proprietary Limited	12 139	24 297	–	–
Housing Investment Partners Proprietary Limited	485	3 653	–	–
Lendcor Proprietary Limited	1 167	411	–	–
Thuthukani Housing Finance Proprietary Limited	(1 153)	–	–	–
	12 638	**28 361**	**–**	**–**
8. INVESTMENT FAIR VALUE AND IMPAIRMENT				
Fair value changes on investments				
Listed investments				
Fair value adjustments	–	(4)	–	(4)
Unlisted investments				
Cape Town Community Housing Company Proprietary Limited	–	–	–	(24 816)
Trust for Urban Housing Finance Holdings Proprietary Limited	–	–	16 051	(23 095)
International Housing Solutions Proprietary Limited	(56 281)	(28 486)	(56 281)	(28 486)
Real People Holdings Limited	(3 923)	33 347	(3 923)	33 347
Housing Investment Partners Trusts	–	–	14 160	(35 390)
Thuthukani Housing Finance Proprietary Limited	–	–	(3 963)	–
	–	–	–	–
Lendcor Proprietary Limited	–	–	5 000	(1 919)
Total	**(60 204)**	**4 857**	**(28 956)**	**(80 363)**
9. FINANCE COSTS				
Interest on other financial liabilities	104 524	143 108	18 482	22 334
10. TAXATION				
Income tax receivable: statement of financial position				
Balance at the beginning of the year	35 169	35 169	35 169	35 169
Interest earned	2 167	–	2 167	–
Balance at the end of the year	**37 336**	**35 169**	**37 336**	**35 169**

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 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
11. LOANS AND RECEIVABLES – ADVANCES				
Gross advances				
Opening balances	3 999 648	4 137 196	2 642 651	2 831 397
Disbursements	726 758	624 514	625 202	600 989
Interest and fees charged	361 147	473 181	190 788	253 074
Repayments	(861 887)	(1 092 076)	(592 091)	(882 817)
Reclassification to equity	–	–	–	(24 816)
Amounts previously impaired, written off	(393)	(146 534)	(393)	(138 539)
Fees	7 363	3 367	7 048	3 363
Balance at the end of the year	**4 232 636**	**3 999 648**	**2 873 205**	**2 642 651**
Impairments on advances				
Balances at the beginning of the year	(241 795)	(324 204)	(198 843)	(290 609)
Adjusted opening balance	**(241 795)**	**(324 204)**	**(198 843)**	**(290 609)**
Amounts impaired and written off during the year	–	146 534	–	138 539
Increase in impairments on advances	(38 680)	(107 085)	(22 814)	(95 136)
Impairments reversed during the year	–	42 960	–	48 363
Net impairments (raised) / reversed	**(38 680)**	**82 409**	**(22 814)**	**91 766**
Balance at the end of the year	**(280 475)**	**(241 795)**	**(221 657)**	**(198 843)**
Comprising:				
Specific impairments	(239 316)	(201 220)	(180 498)	(158 268)
General impairments	(41 159)	(40 575)	(41 159)	(40 575)
Net advances	**3 952 161**	**3 757 853**	**2 651 548**	**2 443 808**
Maturity analysis				
Receivable within one year	723 901	465 946	505 672	381 374
Receivable within one to two years	567 369	359 542	392 352	347 948
Receivable within two to three years	550 875	275 094	364 137	25 351
Receivable beyond three years	2 110 016	2 657 271	1 389 387	1 689 136
Net advances	**3 952 161**	**3 757 853**	**2 651 548**	**2 443 809**
Loans and advances – NHFC	2 578 252	2 336 737	2 651 548	2 443 809
Loans and advances – Subsidiaries	58 384	74 737	–	–
Loans and advances – Controlled entities HIP	1 315 525	1 346 379	–	–
Total Loans and advances	**3 952 161**	**3 757 853**	**2 651 548**	**2 443 809**
Non-current assets	3 228 260	3 291 907	2 145 876	2 062 435
Current assets	723 901	465 946	505 672	381 374
	3 952 161	**3 757 853**	**2 651 548**	**2 443 809**

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 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
12. LOANS TO SUBSIDIARIES				
Gross advances				
Opening balance	–	–	94 021	88 517
Intercompany fees charged	–	–	17 578	11 643
Disbursements	–	–	252	647
Repayments	–	–	–	(6 786)
Bad debts written off	–	–	(43 258)	–
Balance at the end of the year	**–**	**–**	**68 593**	**94 021**
Impairments on advances				
Opening balance	–	–	(94 021)	(88 517)
Current year impairments	–	–	(16 267)	(5 504)
Amounts previously impaired and now written off	–	–	43 288	–
Balance at the end of the year	**–**	**–**	**(67 000)**	**(94 021)**
Net advances	**–**	**–**	**1 593**	**–**

Loans to subsidiaries have been reclassified from loans and advances.

13. 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 2021	**–**	**–**	**–**	**–**

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 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
13. INVESTMENTS IN NON-CONTROLLED ENTITIES continued				
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	**(6 242)**	**(2 319)**	**(6 242)**	**(2 319)**
Cumulative changes	(2 319)	(35 666)	(2 319)	(35 666)
Current year changes	(3 923)	33 347	(3 923)	33 347
Carrying amount at 31 March 2021	**50 348**	**54 271**	**50 348**	**54 271**

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. R131.9 million senior debt facility (including interest) were 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 R4.2 million was incurred in the 31 March 2018 financial, which has now been reclassified from impairments to fair value adjustments in equity instruments. The gross balance of R56.6 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		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
International Housing Solutions				
Investment at cost	254 119	161 441	254 119	161 441
Amounts disbursed in current year	46 770	92 678	46 770	92 678
	300 889	**254 119**	**300 889**	**254 119**
Cumulative Fair value changes since inception	**(110 215)**	**(53 934)**	**(110 215)**	**(53 934)**
Cumulative changes from prior years	(53 934)	(25 448)	(53 934)	(25 448)
Current year changes	(56 281)	(28 486)	(56 281)	(28 486)
Carrying value at 31 March 2021	**190 674**	**200 185**	**190 674**	**200 185**

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 R3.6 million (R1.5 million in 2020).

The investment in IHS was reclassifed from loans and advances to investment in non controlled entities on the statement of financial position.

Total investment in non-controlling entities	**241 022**	**254 456**	**241 022**	**254 456**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

14. 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 financial distress. All settlement proceeds from the active underlying loan book are deposited into the Abahlali bank account of which the NHFC has full control.

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
The 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 Homeloan	**–**	**–**	**–**	**–**

Investment in Gateway Home Loans 001 (Proprietary) Limited

Gateway Homeloans 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.

Investment in MDIC				
Investment at cost	–	–	–	–
Accumulated impairments	–	–	–	–
Carrying amount of the investment in MDIC	**–**	**–**	**–**	**–**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

14. 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	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Investment at Cost	–	–	28 816	4 000
Acquisition of shares during the current year	–	–	–	24 816
	–	**–**	**28 816**	**28 816**
Accumulated fair values from prior years	–	–	(28 816)	(4 000)
	–	–	–	24 816
Current year fair value adjustment	–	–	–	(24 816)
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 (Pty) Ltd for a gross value total premium of R51 518 225.81.

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

Investment at cost	–	–	270 159	270 159
	–	**–**	**270 159**	**270 159**
Cummulative fair value changes – inception to date	**–**	**–**	**85 171**	**71 011**
Accumulated fair value from prior years	–	–	71 011	106 401
Fair value for the current year	–	–	14 160	(35 390)
Carrying amount of the investment in HIP	**–**	**–**	**355 330**	**341 170**

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 R1000:

- NHFC Management services (Pty) Ltd
- NURCHA Loan Fund (Pty) Ltd
- NURCHA Development Finance (Pty) Ltd
- NURCHA Equity Services (Pty) Ltd
- NURCHA Bridging Finance (Pty) Ltd
- NURCHA Finance Company (Pty) Ltd

Total Investment in Controlled Entities	**–**	**–**	**355 330**	**341 170**

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	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
15. 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 2021	**–**	**–**	**–**	**–**

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.

16. INVESTMENT IN PREFERENCE SHARES

Greenstart Proprietary Limited				
Investment at cost	2 500	2 500	2 500	2 500
Cummulative 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 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 2021

17. INVESTMENTS IN ASSOCIATES

17.1 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	
	2021 R'000	2020 R'000
Share of the associate's balance sheet		
Total assets	1 495 938	1 382 796
Total liabilities	(1 309 596)	(1 208 493)
Net asset	**186 342**	**174 303**
Investment at cost	33 282	33 282
Accumulated share of profits of associates	74 754	70 723
Accumulated share of reserves in associates	66 167	45 900
	174 203	149 905
Current year share of the associates profits	11 700	4 031
Other reserves	439	20 267
Carrying amount of the investment in TUHF	**186 342**	**174 203**
Share of the associate's revenue	135 454	172 276
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 the investment in preference shares	35 000	35 000
Carrying amount of investment in TUHF	**227 874**	**215 736**

** Other reserves include movements in employee share scheme, dividends declared and non distributable reserves*

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FOR THE YEAR ENDED 31 MARCH 2021

17. INVESTMENTS IN ASSOCIATES continued

17.2 INVESTMENT IN ASSOCIATE – TUHF HOLDINGS LIMITED

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

	Company	
	2021 R'000	2020 R'000
Investment in ordinary shares at cost	33 282	33 282
Investment in C class ordiniary shares at cost	6 533	6 533
Total cost of acquisition	**39 815**	**39 815**
Opening fair value changes from prior years	67 289	90 382
Current fair value changes	16 051	(23 092)
Cummulative fair value changes – Inception to date	**83 341**	**67 289**
Net carrying value	**123 156**	**107 104**
Investment in preference shares		
Carrying amount of the investment in preference shares	**35 000**	**35 000**
Carrying amount of the investment in TUHF	**158 156**	**142 104**

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 2021

17. INVESTMENTS IN ASSOCIATES continued

17.3 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	
	2021 R'000	2020 R'000
Share of the associate's balance sheet		
Total assets	15 323	13 645
Total liabilites	(40 366)	(39 255)
Net asset	**(25 043)**	**(25 610)**
Share of the associate's revenue	9 091	9 295
Share of profit/(loss)	485	3 653

The Group's share of cumulative losses amounts to R33.165 million in 2021 (R33.165 million in 2020) 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.

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

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

	Company	
	2021 R'000	2020 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 2021

17. INVESTMENTS IN ASSOCIATES continued

17.5 INVESTMENT IN ASSOCIATE – LENDCOR (PROPRIETARY) LIMITED (LENDCOR)

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

	Group	
	2021 R'000	2020 R'000
Share of the associate's balance sheet		
Total Assets	40 918	46 004
Total Liabilities	(29 509)	(35 447)
Net asset	**11 409**	**10 557**
Investment at cost	350	350
Accumulated share of profits	10 206	9 795
	10 556	10 145
Current year share of profits	1 167	411
Carrying amount of the investment in Lendcor	**11 723**	**10 556**
Share of the associate's revenue	14 415	15 697

The groups share of cumulative equity amounts to R11.7 million.

17.6. INVESTMENT IN ASSOCIATE – LENDCOR (PROPRIETARY) LIMITED (LENDCOR)

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

	Company	
	2021 R'000	2020 R'000
Investment in equity shares		
Investment in ordinary shares at cost	350	350
Total cost of acquisition	**350**	**350**
Opening accumulated Fair value from prior years	(350)	1 570
Current year Fair value changes	5 000	(1 920)
Cummulative accumulated Fair value – inception to date	**4 650**	**(350)**
Carrying amount of the investment in Lendcor	**5 000**	**–**

NHFC has a 20% interest in Lendcor (Pty) Ltd 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 2021

17. INVESTMENTS IN ASSOCIATES continued

17.7 INVESTMENT IN ASSOCIATE – NORUFIN HOUSING (PROPRIETARY) LIMITED (NORUFIN)

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

	Group	
	2021 R'000	2020 R'000
Share of the associate's balance sheet		
Current assets	–	8 992
Non-current assets	–	(10 935)
Net asset	**–**	**(1 943)**
Investment at cost	5 288	5 288
Accumulated share of profits/loss of asscociate	(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	–	–

17.8 INVESTMENT IN ASSOCIATE – NORUFIN (PROPRIETARY) LIMITED (NORUFIN)

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

	Company	
	2021 R'000	2020 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)
Current year 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 2021

17. INVESTMENTS IN ASSOCIATES continued

17.9 INVESTMENT IN KABO FINANCIAL ENTERPRISE (PTY) LTD

The Entity has a 20% interest in Kabo Financial Enterprise (Pty) Ltd and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Kabo Financial Enterprise (Pty) Ltd.

	Group	
	2021 R'000	2020 R'000
Share of associates balance sheet		
Total assets	–	639
Total liabilities	–	(766)
Net assets	**–**	**(127)**
Accumulated share of profits/(losses)	(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.

17.10 INVESTMENT IN KABO FINANCIAL ENTERPRISE (PTY) LTD

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

	Company	
	2021 R'000	2020 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
Cummulative 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 2021

17. INVESTMENTS IN ASSOCIATES continued

17.11 INVESTMENT IN LEHAE HOUSING (PTY) LTD

The Entity has a 20% interest in Lehae Housing (Pty) Ltd and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Lehae Housing (Pty) Ltd.

	Group	
	2021 R'000	2020 R'000
Investment at Cost	800	800
Acumulated impairment	(800)	(800)
Carrying amount of the investment in Lehae	–	–

17.12 INVESTMENT IN LEHAE HOUSING (PTY) LTD

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

	Company	
	2021 R'000	2020 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
Cummulative 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 2021

17. INVESTMENTS IN ASSOCIATES continued

17.13 INVESTMENT IN THUTHUKANI HOUSING FINANCE (PTY)LTD

The Entity has a 30% interest in Thuthukani Housing Finance (Pty) Ltd and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Thuthukani Housing Finance (Pty) Ltd.

	Group	
	2021 R'000	2020 R'000
Share of associates balance sheet		
Total assets	26 780	–
Total liabilities	(27 995)	–
Net assets	**(1 215)**	**–**
Investment at Cost	3 963	–
Current year share of losses	(1 153)	–
Carrying amount of the investment in Thuthukani	**2 810**	**–**

Share of associates revenue is R4 147 000.

17.14 INVESTMENT IN THUTHUKANI HOUSING FINANCE (PTY) LTD

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

	Company	
	2021 R'000	2020 R'000
Investment in equity shares		
Carrying amount investment in Thuthukani	3 963	–
Fair value adjustment in investment in Thuthukani	(3 963)	–
Carrying amount of the investment in Thuthukani	**–**	**–**

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Total Investment in associates	**243 018**	**226 902**	**163 155**	**142 104**

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18. PROPERTY, PLANT AND EQUIPMENT

	Group					
	2021			2020		
	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
Furniture and fittings	3 352	(3 191)	161	3 321	(3 121)	200
Motor vehicles	556	(531)	25	556	(501)	55
Office equipment	1 437	(795)	642	1 437	(641)	796
Computer equipment	11 691	(10 363)	1 328	10 936	(9 562)	1 374
Leasehold improvements	2 702	(2 458)	244	2 702	(2 676)	26
Total	**19 738**	**(17 338)**	**2 400**	**18 952**	**(16 501)**	**2 451**

	Company					
	2021			2020		
	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
Furniture and fittings	3 135	(2 974)	161	3 104	(2 905)	199
Motor vehicles	436	(436)	–	436	(436)	–
Office equipment	1 323	(683)	640	1 323	(531)	792
Computer equipment	11 364	(10 071)	1 293	10 613	(9 299)	1 314
Leasehold improvements	2 702	(2 458)	244	2 702	(2 676)	26
Total	**18 960**	**(16 622)**	**2 338**	**18 178**	**(15 847)**	**2 331**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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18. PROPERTY, PLANT AND EQUIPMENT continued

Reconciliation of property, plant and equipment – Group – 2021

	Opening balance R'000	Additions R'000	Disposal	Depreciation R'000	Total R'000
Furniture and fittings	200	31	–	(70)	161
Motor vehicles	55	–	–	(30)	25
Office equipment	796	–	–	(154)	642
Computer equipment	1 374	755	–	(801)	1 328
Leasehold improvements	26	–	450	(232)	244
	2 451	**786**	**450**	**(1 287)**	**2 400**

Reconciliation of property, plant and equipment – Group – 2020

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	98	137	(35)	200
Motor vehicles	112	–	(57)	55
Office equipment	90	837	(131)	796
Computer equipment	1 069	1 181	(876)	1 374
Leasehold improvements	680	124	(778)	26
	2 049	**2 279**	**(1 877)**	**2 451**

Reconciliation of property, plant and equipment – Company – 2021

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Furniture and fittings	199	31	–	(69)	161
Office equipment	792	–	–	(152)	640
Computer equipment	1 314	751	–	(772)	1 293
Leasehold improvements	26	–	450	(232)	244
	2 331	**782**	**450**	**(1 225)**	**2 338**

Reconciliation of property, plant and equipment – Company – 2020

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Furniture and fittings	94	138	(33)	199
Motor vehicles	27	–	(27)	–
Office equipment	84	836	(128)	792
Computer equipment	1 065	1 101	(852)	1 314
Leasehold improvements	680	124	(778)	26
	1 950	**2 199**	**(1 818)**	**2 331**

The cost of fully depreciated assets that are still in use amount to R14.1 million (2020: R13.3 million), and for the Group R14.6 million (2020: R14.4 million).

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

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

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19. INTANGIBLE ASSETS

	Group					
	2021			2020		
	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	14 206	(11 875)	2 331	11 739	(11 217)	522
Total	**14 206**	**(11 875)**	**2 331**	**11 739**	**(11 217)**	**522**

	Company					
	2021			2020		
	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	13 956	(11 630)	2 326	11 489	(10 977)	512
Total	**13 956**	**(11 630)**	**2 326**	**11 489**	**(10 977)**	**512**

Reconciliation of intangible assets – Group – 2021

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software	522	2 467	(658)	2 331

Reconciliation of intangible assets – Group – 2020

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software	274	492	(244)	522

Reconciliation of intangible assets – Company – 2021

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software	512	2 467	(653)	2 326

Reconciliation of intangible assets – Company – 2020

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Computer software	271	477	(236)	512

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	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
20. FINANCE LEASE RECEIVABLES				
Gross investment in the lease due				
– within one year	193 534	198 340	–	–
	193 534	198 340	–	–
less: Unearned finance revenue	(79 858)	(84 766)	–	–
	113 676	**113 574**	**–**	**–**
Non-current assets	101 967	105 622	–	–
Current assets	11 710	7 952	–	–
	113 677	**113 574**	**–**	**–**

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% (2020: 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 R113.7m (2020: R113.5m) is the maximum exposure to credit risk.

21. INVESTMENT PROPERTY

	Group					
	2021			2020		
	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	79 466	–	79 466	62 300	–	62 300

	Company					
	2021			2020		
	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	70 780	–	70 780	62 300	–	62 300

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FOR THE YEAR ENDED 31 MARCH 2021

21. INVESTMENT PROPERTY continued

Reconciliation of investment property – Group – 2021

	Opening balance R'000	Additions R'000	Fair value adjustments R'000	Total R'000
Investment property	62 300	4 707	12 459	79 466

Reconciliation of investment property – Group – 2020

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	66 000	(3 700)	62 300

Reconciliation of investment property – Company – 2021

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	62 300	8 480	70 780

Reconciliation of investment property – Company – 2020

	Opening balance R'000	Fair value adjustments R'000	Total R'000
Investment property	66 000	(3 700)	62 300

Nature and impact of the change in the valuation method.

NHFC previously used the Direct Method of Comparison method for the valuation of investment property in the 31 March 2020 financial year and the net income capitalisation method in the current year.

The fair value of the investment property using the net income capitalisation method is R70.8 million for the 31 March 2021, using the Direct Method was not determined by the valuer, therefore the impact from the change in the valuation method is not quantifiable.

31 March 2021 valuation

Investment property for the Company is stated at Fair value determined, based on a valuation performed by an accredited independent valuer, Mr Kgoshi Sasa (Registered Professional Valuer at Mogalakwena Valuers (Pty) Ltd) on 30 April 2021. Mr Kgoshi Sasa is not connected to the Company and has experience in property valuations.

In order 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, 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. The Income Capitalisation method determines the net normalised annual income of the property, assuming the property is fully let at market related rentals, and market escalations, with an allowance made for vacancies (where applicable). Market related operating expenses are incurred, resulting in a net annual income which is then capitalised at a market related rate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

21. INVESTMENT PROPERTY continued

The capitalisation rate is best determined by referring to market transactions of comparable properties as it is based on information derived from market analysis. The risk inherent in income producing properties is the degree of certainty that the income stream will be realised despite the uncertainty of the future, and therefore the higher the risk factor, the better return the investor will require. Most of the rentable areas within the Subject Property have been vacant for more than a year, and this would have a negative impact on the risk associated with its marketability.

Due to the Subject Property being used for Business purposes being stand-alone retail units, rental residential units and CBD office. The Max cap rates have been considered in view of locality and quality of space offered, these range between 11.05% to 12.50%. The valuer thus applied a capitalisation rate of 12.50% in the calculation taking into account the age of the buildings, locality and condition.

31 March 2020 valuation

Investment property for the Company was stated at fair value determined, based on a valuation performed by an accredited independent valuer, Mr Tiaan Chris van Niekerk (Registered Professional Associated Valuer at Spectrum Valuers and Asset Solutions (Pty) Ltd) on 1 April 2020. Mr Tiaan Chris van Niekerk is not connected to the Company and has experience in property valuations.

The company used 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 be 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. Where there is a shortage of such sales, the comparable sales method is impractical and then in such cases, valuers 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).

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	12 459	(3 700)	8 480	(3 700)
Net rental income	14 249	16 931	12 209	14 174
	26 708	**13 231**	**20 689**	**10 474**
Details of investment property				
Property 1				
– Purchase price: 1 December 2008	26 361	21 654	21 654	21 654
– Additions since purchase or valuation	53 105	40 646	49 126	40 646
	79 466	**62 300**	**70 780**	**62 300**

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

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FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
22. PROPERTIES DEVELOPED FOR SALE				
Work in progress	–	4 530	–	–
Production supplies*	11 288	11 288	–	–
Carrying value of repossessed properties	–	(4 530)	–	–
	11 288	**11 288**	**–**	**–**

*This is housing stock from Abahlali.

23. OTHER RECEIVABLES AND PREPAYMENTS				
Staff debtors	2 711	1 996	2 711	1 996
Deposits and prepayments	22 281	177	21 128	667
Other debtors receivables	22 905	18 366	1 105	23 431
Dividends recievable	2 515	2 555	2 515	2 555
	50 412	**23 094**	**27 459**	**28 649**

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.

24. HELD-TO-MATURITY INVESTMENTS				
Development Bank of Southern Africa Limited	60 237	60 000	60 237	60 000
Industrial Development Corporation Soc Limited	40 260	40 000	40 260	40 000
Telkom SA SOC Limited	–	60 000	–	60 000
ABSA Bank Limited	101 039	40 000	101 039	40 000
Investec Bank Limited	–	80 000	–	80 000
Nedbank Limited	60 381	80 000	60 381	80 000
Land and Agricultural Bank of South Africa Soc Limited*	73 694	99 211	73 694	99 211
Trans-Caledon Tunnel Authority (TCTA)	–	18 489	–	18 489
Transnet SOC Limited	–	52 597	–	52 597
First National Bank Limited	90 339	–	90 339	–
National Treasury	245 680	129 574	245 680	129 574
Stanlib Limited	–	7 906	–	7 906
South African Reserve Bank Soc Limited	–	28 381	–	28 381
Total held-to-maturity money market investments	**671 630**	**696 158**	**671 630**	**696 158**

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 current year, discussions are currently underway on a possible liability solution.*

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FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
25. CASH AND CASH EQUIVALENTS				
Short-term deposits – NHFC				
ABSA Bank Limited	55 931	13 246	54 294	11 657
Investec Bank Limited	8 024	8 040	8 024	8 040
Nedbank Limited	169 288	137 766	169 288	121 959
Standard Bank of South Africa Limited	7 954	21 226	7 954	21 226
Rand Merchant Bank, a division of First Rand Bank Limited	9 041	18 415	9 041	18 415
Stanlib Limited	76 218	5 719	76 218	5 719
CPD	271 375	482 926	254 952	482 926
First National Bank Limited	14 179	33 008	14 179	31 616
	612 010	**720 346**	**593 950**	**701 558**
Cash at bank and in hand – NHFC				
Cash on Hand	10	10	3	3
Standard Bank of South Africa Limited	335 346	40 756	308 843	18 786
First National Bank Limited	16 666	139 350	7 852	71 995
Netbank Limited	120 803	103 011	–	–
	472 825	**283 127**	**316 698**	**90 784**
Total cash and short-term deposits	**1 084 835**	**1 003 473**	**910 648**	**792 342**

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	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
25. CASH AND CASH EQUIVALENTS continued				
Short term deposit – third party funds				
Reserve Bank – FLISP	353 401	94 972	353 401	94 972
Standard Bank -FLISP	9	646	9	646
First National Bank – CFDP	2 847	2 811	–	–
	356 257	**98 429**	**353 410**	**95 618**
Cash at bank and in hand-third party funds				
Standard Bank – FLISP	12 445	1 477	12 445	1 477
First National Bank – Gqebera	9 867	2 511	–	–
	22 312	**3 988**	**12 445**	**1 477**
Total third party funds	**378 569**	**102 417**	**365 855**	**97 095**
Total Cash and cash equivalents	**1 463 404**	**1 105 890**	**1 276 503**	**889 437**
NHFC				
Short-term deposits	612 010	720 346	593 950	701 558
Cash at Bank	472 825	283 127	316 698	90 784
	1 084 835	**1 003 473**	**910 648**	**792 342**
FLISP				
Short term deposits	353 410	95 618	353 410	95 618
Cash on hand and at bank	12 445	1 477	12 445	1 477
	365 855	**97 095**	**365 855**	**97 095**
CFDP				
Short term deposits	2 847	2 811	–	–
Gqebera				
Cash on hand and at bank	9 867	2 511	–	–
Total Cash and cash equivalents	**1 463 404**	**1 105 890**	**1 276 503**	**889 437**

** Funds under management refer to note 28.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
26. ISSUED CAPITAL AND SHARE PREMIUM				
Capital				
Ordinary shares				
Authorised				
100 000 000 Ordinary shares of R0.01 each	–	1 000	–	1 000
Issued and fully paid				
84 187 332 ordinary shares of R0.01 each	842	842	842	842
Share premium	879 158	879 158	879 158	879 158
The unissued shares are under the control of the shareholder.				
27. GRANT CAPITAL				
Opening balance	1 656 698	1 544 768	1 656 698	1 544 768
	–	–	–	–
NDOHS	–	50 000	–	50 000
Reclassification of reserves to grant capital	–	61 930	–	61 930
	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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
28. FUNDS UNDER MANAGEMENT				
FLISP[(a)]	365 854	97 095	365 854	97 095
Gqebera[(b)]	9 867	10 451	–	–
Residential rental relief programme[(C)]	300 000	–	300 000	–
	675 721	**107 546**	**665 854**	**97 095**

(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) Residential rental relief programme.

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 24) and short-term deposits (note 25)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
29. FINANCIAL LIABILITIES				
At amortised cost				
Old Mutual Capital Holding Proprietary Limited	443 732	349 660	–	–
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				
Future growth Asset Management Proprietary Limited	650 000	743 100	–	–
The loan bears interest at jibar + 2.9% payable quarterly with a bullet payment for capital in March 2026 of R650m.				
Agence Francaise de Developpement (AFD)	64 443	80 489	64 443	80 489
This loan bears interest at a fixed rate of 6.078% per annum and is repayable in equal semi-annual capital instalments of R7 888 692 (2020: R7 888 692) exclusive of interest. Interest and capital is paid bi-annually on 31 May and 30 November of each year.The final instalment is payable on 24 November 2024.				
European Investment Bank (EIB)	85 068	101 744	85 067	101 744
This loan bears interest at a quarterly variable rate of 3M Jibar with a maximum margin of 0.40% per annum and is repayable in semi-annual equal capital instalments of R8 308 077 (2020: R8 308 077) exclusive of interest. Interest and capital is paid bi-annually on 15 June and 15 December of each year. The final instalment is payable on 15 December 2025.				
Development Bank of South Africa	114 668	118 960	114 668	118 960
The loan bears interest at a fixed rate of 7.56% per annum payable half yearly on 15 June and 15 December.Repayment of the 41 half yearly instalment commenced on 14 December 2014.				
Public Investment Corporation (PIC)	–	69 976	–	–
The loan bears interest at the prime interest rate and interest is serviced monthly.The capital is repayable in eight equal quarterly instalments of R8 747 000 commencing in 1 July 2021. The facility was setlled in November 2020.				
City of Cape Town	500	500	–	–
The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town to the Cape Town Community Housing Company (Proprietary) Limited. The loan is payable as and when the company ("CTCHC") becomes profitable.				
	1 358 411	**1 464 429**	**264 178**	**301 193**
Non-current liabilities				
At amortised cost	1 314 198	1 427 502	222 379	264 429
Current liabilities				
At amortised cost	44 213	36 927	41 799	36 764

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
30. PROVISIONS				
Provision for leave pay				
Opening balance as at 1 April 2020	10 099	8 909	9 949	8 759
Additional provision raised	591	1 190	615	1 190
Closing balance as at 31 March 2021	**10 690**	**10 099**	**10 564**	**9 949**
Provision for incentive bonus				
Opening balance as at 1 April 2020	25 846	20 440	25 846	20 440
Provision utilised for the year	(18 731)	(20 440)	(18 731)	(20 440)
Additional provision raised	24 962	25 846	24 962	25 846
Closing balance as at 31 March 2021	**32 077**	**25 846**	**32 077**	**25 846**
Provision for retention rewards*				
Opening balance as at 1 April 2020	–	3 288	–	3 288
Acquisition from merger	–	–	–	–
Provision utilised during the year	–	(3 288)	–	(3 288)
Closing balance as at 31 March 2021	**–**	**–**	**–**	**–**
Provision for municipal rates				
Opening balance as at 1 April 2020	305	305	–	–
Provision utilised during the year	(6)			
Additional provision raised	187	–	–	–
Closing balance as at 31 March 2021	**486**	**305**	**–**	**–**
Provision for Lease Payments				
Opening balance as at 1 April 2020	–	–	–	–
Additional provision raised	4 600	–	–	–
Closing balance as at 31 March 2021	**4 600**	**–**	**–**	**–**
Total provisions	**47 854**	**36 250**	**42 641**	**35 795**

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 2021 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.

** Retention reward-The final payment is payable 12 months after the merger is completed. The payments are all calculated and payable based on the salary at September 2016. The merger was completed on 1 October 2018 and the retention rewards were paid in the 2020 financial year.*

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 new owner.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
31. TRADE AND OTHER PAYABLES				
Trade payables	2 065	9 111	2 017	12 229
Payments received in advance	17 981	1 748	10 710	1 748
Accrued expense	36 964	31 230	7 263	795
	57 010	**42 089**	**19 990**	**14 772**

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

32. LONG TERM PAYABLES

VAT Payable	9 937	10 130	–	-

The VAT payable arises from CTCHC on the Harmony Village project and will be paid to SARS on annual instalments to match the manner in which revenue is received from customers.

33. CASH FLOWS FROM OPERATING ACTIVITIES

Net profit before tax	89 999	219 733	61 813	48 694
Non-cash and separately presented items	82 222	53 013	58 638	145 862
Working capital changes	(15 863)	56 814	(5 911)	(2 432)
Increase in advances	(226 017)	(146 591)	(223 899)	(98 535)
Net cash flows generated from (used in) operations	**(69 659)**	**182 969**	**(109 359)**	**93 589**
Non-cash and separately presented items				
Depreciation and amortisation	1 495	2 120	1 427	2 053
Dividends accrued	(2 515)	(2 536)	(2 515)	(2 536)
Impairments and bad debts	60 856	88 323	55 185	70 095
Share of profit of an associate	(12 638)	(28 362)	–	–
FLISP recovery	–	(2 273)	–	(2 273)
Fair value adjustment on equity investments	56 145	(4 861)	28 876	80 363
Fair value adjustment on property investment	(8 400)	3 700	(8 400)	3 700
Intercompany fees	–	–	(17 578)	(11 643)
Accrued interest income	(5 482)	(19 165)	(5 482)	(19 165)
Non cash items from controlled entities	4 661	28 823	3 693	19 038
Accrued finance costs	7 109	6 230	4 696	6 230
Interest on SARS asset	(2 167)	–	(2 167)	–
Provision for leave movement	903	–	903	–
Lease installment	–	(12 607)	–	–
Programme management fees not received	(17 745)	–	–	–
Net cash flows used in operations	82 222	59 392	58 638	145 862
Working capital changes				
(Increase)/ decrease in properties developed for sale	(6 418)	2 989	–	–
(Increase)/ decrease in finance lease receivable	(102)	40 331	–	–
(Increase)/ decrease in accounts receivable	(46 171)	1 804	(17 976)	(5 841)
Increase/ (decrease) in accounts payables	25 226	8 382	5 219	101
Increase/ (decrease) in provisions	11 602	3 308	6 846	3 308
	(15 863)	56 814	(5 911)	(2 432)

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FOR THE YEAR ENDED 31 MARCH 2021

34. 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 rentention of surplus which is subject to the National Treasury's approval.

The current estimated surplus for the financial year ended 31 March 2021 is R534 million.

Commitments

Commitments in respect of lending activities

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Loans approved and contracted for:				
Exceeding availability	4 280	26 865	4 280	26 865
Still within availability period	1 958 003	756 156	1 958 003	756 156
Subtotal	1 962 283	783 021	1 962 283	783 021
Approved but not yet contracted for	235 662	423 139	235 662	423 139
	2 197 945	**1 206 160**	**2 197 945**	**1 206 160**
Operational contracts	22 559	19 376	22 559	19 376
	22 559	**19 376**	**22 559**	**19 376**

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 two years from 1 October 2020 to 30 September 2022.

Future minimum rentals payable under current operating lease as at 31 March 2021:

National Housing Finance Corporation SOC Limited	5 172	6 623	5 172	6 623
Cape Town Community Housing Proprietary Limited	–	769	–	–
NHFC Management Services	349	–	–	–
Within one year	5 521	7 392	5 172	6 623
National Housing Finance Corporation SOC Limited	2 669	5 911	2 669	5 911
NHFC Management Services	29	–	–	–
After one year but not more than five years	2 669	5 911	2 669	5 911
Total office operating lease commitments – office buildings	**8 219**	**13 303**	**7 841**	**12 534**

Operating lease commitments – Office photocopiers

The Group entered into operating leases for photocopiers. The leases have different lease periods.

Within one year	278	–	278	–
After one year but not more than five years	347	–	347	–
	625	–	625	–
Total Group commitments	**8 844**	**13 303**	**8 466**	**12 534**

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35. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

Credit risk

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

Equity risk

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

Given the risk profile of this investment, only a maximum of 12% of the NHFC's net asset value can be invested to this asset class (in total) based on the Board approved Risk Appetite Statement.

Loans and receivables – advances

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

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

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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

Advances are presented net of the allowance for impairment. The requirement for an impairment is analysed at regular intervals guided by an impairment policy.

Financial instruments and cash deposits

The credit risk arising from financial instruments is managed within the Treasury department. The Treasury Policy and Risk Appetite Statement of the Group provides a framework that regulates the treasury management activities, operations conducted, management and control of risk.

Short-term deposits and held-to-maturity money market investments are placed with financial institutions rated at least P-3 or better in terms of short-term credit ratings by a reputable rating agency. Counterparty limits are reviewed by the Board of Directors on an annual basis. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group exposure at year-end is within approved counterparty limits.

Financial assets exposed to credit risk at year end were as follows:

Maximum exposure to credit risk.

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Loans and receivables – advances	3 952 161	3 757 853	2 651 548	2 443 809
Finance lease receivables	113 677	113 574	–	–
Held-to-maturity investments	671 630	696 158	671 630	696 158
Cash and short-term deposits	1 463 404	1 105 890	1 276 503	889 437
Other receivables and prepayments	50 412	23 094	27 459	28 649
Investment in preference shares	35 000	35 000	35 000	35 000
	6 286 284	**5 731 569**	**4 662 140**	**4 093 053**

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.

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35. FINANCIAL RISK MANAGEMENT continued

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Credit quality of loans and receivables				
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.				
Neither past due nor impaired	2 394 629	2 863 658	1 219 229	1 636 642
Past due but not impaired*	400 348	631 626	399 973	634 614
Impaired**	675 961	485 383	512 412	355 872
Restructured	761 698	18 981	741 591	15 523
	4 232 636	3 999 648	2 873 205	2 642 651
Less: Specific impairments	(239 316)	(201 220)	(180 498)	(158 268)
General impairments	(41 159)	(40 575)	(41 159)	(40 575)
Net advances	**3 952 161**	**3 757 853**	**2 651 548**	**2 443 808**

** 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					
		Ageing of amounts due					
		Total balance	Capital instalment	Current to 30 days	31 to 60 days	61 to 90 days	91 to 180+ days
Ageing analysis of advances that are past due, but not impaired:	2021	400 349	300 891	6 099	3 145	3 032	87 182
Ageing analysis of advances that are past due, but not impaired:	2020	631 626	460 356	33 966	8 614	9 226	119 464

		Company					
		Ageing of amounts due					
		Total balance	Capital instalment	Current to 30 days	31 to 60 days	61 to 90 days	91 to 180+ days
Ageing analysis of advances that are past due, but not impaired:	2021	399 973	280 432	7 080	3 623	3 551	105 287
Ageing analysis of advances that are past due, but not impaired:	2020	634 614	417 400	18 266	10 042	12 441	176 465

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 2021 amounts to R1 562 million (2020: R1 581 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 R761.6 million (2020: R18.9 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Credit quality and concentration of other financial assets				
Counterparties with external credit ratings of at least F1				
– Held-to-maturity investments – money market	671 630	696 158	671 630	696 158
– Cash and short term deposits	1 463 404	1 105 890	1 276 503	889 437
Counterparties assessed by reference to historical information about counterparty default rates				
– Finance lease receivables	113 677	113 574	–	–

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
Strategic investment	8%	18%
Incremental housing loans	9%	12%
Home ownership	34%	5%
Private Rental Housing	21%	28%
Social Rental Housing	20%	26%
Affordable Housing	8%	11%
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 2021

35. FINANCIAL RISK MANAGEMENT continued

	Group 2021		Group 2020	
	Fixed rate R'000	Prime linked rate R'000	Fixed rate R'000	Prime linked rate R'000
The Group is exposed to interest rate risk on the following assets and liabilities:				
Assets				
Loan and receivables – advances rates vary between 5.00% and 14.00% p.a.	190 975	3 761 186	225 510	3 532 343
Finance lease receivables average interest rate of 10.50% p.a.	113 677	–	113 574	–
Held-to-maturity investment rates vary between 3.54% and 8.20% p.a.	–	671 630	–	696 158
Cash and short-term deposits rates vary between 2.95% and 7.86% p.a.	–	1 463 404	–	1 105 890
Liabilities				
Funds under management vary between 2.00% to 5.78%	–	675 721	–	107 546
AFD loan – the rate is fixed at 6.078%	64 443	–	80 489	–
EIB loan – the rate varies between 3.758% and 6.783%	–	85 068	–	101 744
DBSA loan – the rate is fixed at 7.56% p.a.	114 668	–	118 960	–
PIC loan – the rate is at prime	–	–	–	69 976
Future growth Asset Management Proprietary Limited	–	650 000	–	743 100
Old Mutual Capital Holding Proprietary Limited	–	443 732	–	349 660

	Company 2021		Company 2020	
	Fixed rate R'000	Prime linked rate R'000	Fixed rate R'000	Prime linked rate R'000
Assets				
Loan and receivables – advances rates vary between 5.00% and 14.00% p.a.	190 975	2 460 573	225 510	2 218 298
Held-to-maturity investments rates vary between 3.54% and 8.20% p.a.	–	671 630	–	696 158
Cash and short-term deposits rates vary between 2.95% and 7.86% p.a.	–	1 276 503	–	889 437
Liabilities				
Funds under management vary from 2.0% to 5.78%	–	665 854	–	97 095
AFD loan – the rate is fixed at 6.078%	64 443	–	80 489	–
EIB loan – the rate varies between 3.758% and 6.783%	–	85 067	–	101 744
DBSA loan – the rate is fixed at 7.56%	114 668	–	118 960	–

Interest rate risk management strategy is as follows:

1. Clients who access variable interest rate facilities are subject to interest rates that reset on a change in prime interest rate or on a quarterly basis in accordance with various market indices.

The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.

2. Investments are aligned to the cash flow requirements and strategy of the core business. The portfolio is diversified utilising a mix of fixed and floating rate instruments within the policy framework and is continually monitored to adapt to changing dynamics.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

Interest rate sensitivity

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

Effect on profit

		Group		Company	
	Increase/ decrease %	Effect on profit 2021 R'000	Effect on profit 2020 R'000	Effect on profit 2021 R'000	Effect on profit 2020 R'000
Loans and receivables – advances	1	37 612	35 323	24 606	22 182
	(1)	(37 612)	(35 323)	(24 606)	(22 182)
Held-to-maturity investments	1	6 716	6 962	6 716	6 962
	(1)	(6 716)	(6 962)	(6 716)	(6 962)
Cash and short-term deposits	1	14 634	11 059	12 765	8 894
	(1)	(14 634)	(11 059)	(12 765)	(8 894)
Financial liabilities and Funds under management	1	(18 545)	(13 270)	(7 509)	(1 988)
	(1)	18 545	13 270	7 509	1 988
The Group earns interest as follows:					
Interest on advances		401 262	479 100	190 789	249 707
Interest on investment		64 032	105 537	62 989	102 616
		465 294	**584 637**	**253 778**	**352 323**
The Group's interest obligations are as follows:					
Interest on other financial liabilities		104 524	143 108	18 482	22 334

Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to honour its financial commitments on a cost effective and timeous basis.

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:

- short- and long-term cash flow management;
- diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- at least 60% of money market portfolio to mature within six months;
- limiting capital market investments to 30% of the portfolio; and
- mobilisation of funding.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

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

	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
As at 31 March 2021				
Trade and other payables	57 010	–	–	57 010
Funds under management	–	675 721	–	675 721
Long term payables	–	–	9 937	9 937
Financial liabilities	–	44 213	1 314 198	1 358 411
	57 010	**719 934**	**1 324 135**	**2 101 079**
As at 31 March 2020				
Trade and other payables	42 089	–	–	42 089
Funds under management	–	–	107 546	107 546
Long term payables	–	–	10 130	10 130
Financial liabilities	–	36 927	1 427 502	1 464 429
	42 089	**36 927**	**1 545 178**	**1 624 194**

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.

	Group	
	2021 R'000	2020 R'000
Total interest bearing debt	1 358 411	1 464 429
Total equity	4 719 212	4 629 213
Debt to equity ratio	29 %	32 %

Credit rating

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

Long term	A (ZA)
Short term	A1 (za)
International	BB to BB-
Long term	B+
Short term	B

Positive Influences: Strong Liquidity and Capitalisation as well as low Gearing.

Negative Influences: Current economic environment due to COVID-19 on vulnerable target market, recent Sovereign downgrades, and transition state of the entity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

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
2021				
Unlisted equity investments in non controlling entities	–	–	241 022	241 022
2020				
Unlisted equity investments in non controlling entities	–	–	254 456	254 456

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
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**
2020				
Unlisted equity investments in non controlling entities	–	–	254 456	254 456
Unlisted equity investments in associates	–	–	107 104	107 104
Unlisted equity investments in controlling entities	–	–	341 170	341 170
Total	**–**	**–**	**702 730**	**702 730**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

	Investment in Non-controlled entities	Investment in Controlled entities	Investment in associates
Company: Level 3 additional disclosure (R'000)			
Opening balance	156 917	376 560	132 117
Movement in gross balance	92 678	–	–
Fair value movement (IS)	4 861	(35 390)	(25 013)
Carrying value at 31 March 2020	254 456	341 170	107 104
Movement in gross balance	46 770	–	–
Fair value movement (IS)	(60 204)	14 160	21 051
Carrying value at 31 March 2021	**241 022**	**355 330**	**128 155**

	Investment in Non-controlled entities
Group: Level 3 additional disclosure (R'000)	
Opening balance	156 917
Movement in gross balance	92 678
Fair value movement (IS)	4 861
Carrying value at 31 March 2020	254 456
Movement in gross balance	46 770
Fair value movement (IS)	(60 204)
Carrying value at 31 March 2021	**241 022**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

Financial assets by category

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

	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity investments R'000	Total R'000
Group 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	–	–	113 677	113 677
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**	**820 306**	**6 527 306**
Group 2020				
Unlisted equity investments in non controlling entities	254 456	–	–	254 456
Loans and receivables – advances	–	3 757 853	–	3 757 853
Finance lease receivables	–	–	113 574	113 574
Held-to-maturity investments	–	–	696 158	696 158
Cash and short-term deposits	–	1 105 890	–	1 105 890
Other receivables	–	23 094	–	23 094
Investment in preference shares	–	–	35 000	35 000
	254 456	**4 886 837**	**844 732**	**5 986 025**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

	Fair value through profit and loss R'000	Loans and receivables R'000	Held-tomaturity investments R'000	Total R'000
Company 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**
Company 2020				
Unlisted equity investments in non controlling entities	254 456	–	–	254 456
Unlisted equity investments in associates	107 104	–	–	107 104
Unlisted equity investments in controlling entities	341 170	–	–	341 170
Loans and receivables – advances	–	2 443 808	–	2 443 808
Held-to-maturity investments	–	–	696 158	696 158
Cash and short-term deposits	–	889 437	–	889 437
Other receivables	–	28 649	–	28 649
Investment in preference shares	–	–	35 000	35 000
	702 730	**3 361 894**	**731 158**	**4 795 782**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

35. FINANCIAL RISK MANAGEMENT continued

Financial liabilities by category

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

	Financial liabilities at amortised cost R'000
Group 2021	
Financial liabilities	1 358 411
Trade and other payables	57 010
Funds under management	675 721
	2 091 142
Group 2020	
Financial liabilities	1 464 429
Trade and other payables	42 089
Funds under management	107 546
	1 614 064

	Financial liabilities at amortised cost R'000
Company 2021	
Financial liabilities	264 178
Trade and other payables	19 990
Funds under management	665 854
	950 022
Company 2020	
Financial liabilities	301 193
Trade and other payables	15 467
Funds under management	97 095
	413 060

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

36. RELATED PARTIES

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

	2021 % equity interest	2020 % equity interest
Gateway Home Loans (Proprietary) Limited	100	100
Gateway Home Loans 001 (Proprietary) Limited	100	100
Cape Town Community Housing Company (Proprietary) Limited	100	100
TUHF Holdings Limited	33	33
Housing Investment Partners (Proprietary) Limited	33	33
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
Lendcor (Proprietary) Limited	20	20
Norufin Housing (Proprietary) Limited	20	20
Kabo Financial Investments Ltd	20	20
Lehae Housing (Pty) Ltd	20	20
Thuthukani Housing Finance (Pty) Ltd	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 2021

36. RELATED PARTIES continued

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

	Company		Company	
	Amounts owed by/ to related parties 2021 R'000	Transactions with related parties 2021 R'000	Amounts owed by/ to related parties 2020 R'000	Transactions with related parties 2020 R'000
Cape Town Community Housing Company (Proprietary) Limited				
– Advances	57 365	–	84 311	–
– Interest received	–	7 946	–	20 781
– Payroll administration	294	–	362	–
Housing Investment Partners (Proprietary) Limited				
– Working capital loan	33 165	–	33 165	–
Housing Investment Partners Trust 1	–	–	–	–
– Equity	31 735	–	17 740	–
Housing Investment Partners Trust 2	–	–	–	–
– Equity	323 593	–	323 429	–
Abahlali Housing Association	–	–	–	–
– Advances	46 155	–	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	–	1 831	–	8 297
– Interest received	–	30 399	–	39 741
– Loans	425 907	–	439 804	–
– Equity investment	123 156	–	107 195	–
– Disbursements	–	–	–	60 000
NHFC Management Services (Pty) Ltd	–	–	–	–
Loan repayments	–	–	–	2 394
interest received	–	–	–	2
Administrative fees	–	15 223	–	7 188
Loan disbursements	–	157	–	–
Loans	46 169	–	30 941	–
NURCHA Finance Company (Pty) Ltd	–	–	–	–
Loan repayments	–	–	–	20
interest received	–	–	–	178
Administrative fees	–	20	–	–
Loan disbursements	–	219	–	–
Loans	13 863	–	13 623	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

36. RELATED PARTIES continued

	Company		Company	
	Amounts owed by/ to related parties 2021 R'000	Transactions with related parties 2021 R'000	Amounts owed by/ to related parties 2020 R'000	Transactions with related parties 2020 R'000
NURCHA Equity Services (Pty) Ltd	–	–	–	–
Loan repayments	–	10	–	–
Interest received	–	–	–	20
Administrative fees	–	20	–	–
Loans	13 014	–	12 984	–
NURCHA Development Finance (Pty) Ltd	–	–	–	–
Loan repayments	–	–	–	4 344
Interest received	–	537	–	789
Administrative fees	–	50	–	50
Loan disbursements	–	16	–	460
Loans	16 410	–	15 807	–
NURCHA Bridging Finance (Pty) Ltd	–	–	–	–
Loan repayments	–	–	–	6 000
Administrative fees	–	50	–	2 150
Loan disbursements	–	3	–	–
Loans	15 674	–	15 621	–
NURCHA Loan Fund (Pty) Ltd	–	–	–	–
Loan repayments	–	–	–	11
Interest received	–	2 456	–	3 132
Administrative fees	–	2 215	–	2 215
Loan disbursements	–	1 100	–	–
Loans	81 148	–	73 796	–
Lendcor (Proprietary) Limited	–	–	–	–
Loans	143 714	–	171 275	–
Interest received	–	992	–	12 300
Norufin Housing (Proprietary) Limited	–	–	–	–
Loans	5 286	–	5 286	–
Thuthukani Housing Finance (Pty) Ltd	–	–	–	–
Equity	3 963	–	–	–
Interest received	–	306	–	–
Loans	89 232	–	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

36. RELATED PARTIES continued

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 an 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 37.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

37. 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 Ltd

	Fees	Salaries	Bonuses	Post-employment pension and medical benefits	Committees fees	Total 2021	Total 2020
Acting Non-executive Chairman							
Ms PV Ramarumo[1]	754	–	–	–	–	754	513
Directors – independent non-executives							
Mr J Coetzee[2]	497	–	–	–	136	633	780
Ms AW Houston[3]	90	–	–	–	–	90	228
Mr SS Ntsaluba[4]	759	–	–	–	–	759	655
Mr E Godongwana	–	–	–	–	–	–	75
Mr SA Tati[5]	426	–	–	–	–	426	784
Ms T Chiliza	789	–	–	–	–	789	632
Mr K Shubane	741	–	–	–	–	741	621
Mr A Harris	843	–	–	–	–	843	616
Ms P Mthetwa[6]	–	–	–	–	–	–	–
Mr S Moraba[7]	–	–	–	–	93	93	–
Directors' fees	**4 899**	**–**	**–**	**–**	**229**	**5 128**	**4 904**
Acting Chief Executive Officer and executive director							
Mr SA Tati[5]	–	3 072	2 544	–	–	5 616	–
Executive managers/and Prescribed officers							
S Moraba	–	3 811	–	175	–	3 986	9 009
M Mamatela	–	1 860	1 235	264	–	3 359	3 143
L Lehabe	–	1 914	1 396	330	–	3 640	3 476
N Ntshigila	–	1 505	1 077	426	–	3 008	2 591
Z Lupondwana	–	1 599	969	269	–	2 837	2 496
A Higgs	–	1 632	1 148	177	–	2 957	2 501
J Fakazi	–	2 211	–	506	–	2 717	4 005
B Gordon	–	1 577	1 035	385	–	2 997	2 767
V Gqwetha	–	2 501	1 528	611	–	4 640	4 508
S Nxusani	–	1 885	1 171	516	–	3 572	3 342
V Menye	–	2 099	1 581	301		3 981	1 776
K Vundla	–	2 894	–	314	–	3 208	–
Management costs	**–**	**28 560**	**13 684**	**4 274**	**–**	**46 518**	**39 614**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

37. DIRECTORS' AND PRESCRIBED OFFICERS'/EXECUTIVE MANAGERS' EMOLUMENTS 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. As nominated by the NHFC to its strategic investments, he 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, and was appointed Acting Chief 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 position as Chairperson of the Board and Ms Ramarumo will revert to being a non-executive director.
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.

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

	Fees	Salaries	Bonuses	Post-employment pension and medical benefits	Committees fees	Total 2021	Total 2020
Chairman							
S Tati	–	–	–	–	–	–	–
Directors – Non-executives							
N Ntshingila	–	–	–	–	–	–	–
Directors' fees	–	–	–	–	–	–	–
Key members of management	–	–	–	–	–	–	–
Management costs	–	–	–	–	–	–	–

Mr S Tati and Dr N Ntshingila are executives of the holding company and currently serve on the subsidiary's board. However they receive no remuneration as board members.
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 2021

38. RESTATEMENT OF PRIOR PERIOD ERROR

Correction of Retained income amount in company to tie to the TB

The retained income is misstated from prior period and did not tie to TB.

Instalment sales and investment properties – CTCHC

During the year, prior year's errors were corrected for the ommision of rental rental charges levied against Augrabies rental clients and incorrect charges to cost of sales for units sold at Augrabies Park development in Upington in 2019 and 2020. The rental adjustment resulted in additional surplus for the year 2019 and the cost of sales adjustment resulted in deficit for the years 2019 and 2020 being understated respectively due to the calculation error. The prior period error was adjusted retrospectively.

Abahlali Housing Association (No. 2) NPC

Abahlali financials have been prepared and audited and a restatement is required.

	Group			Company		
	31 March 2020			31 March 2020		
	Previously Reported R'000	Correction R'000	Restated R'000	Previously Reported R'000	Correction R'000	Restated R'000
Statement of Financial Position						
Assets						
Trade and other receivables	20 985	2 109	23 094	–	–	–
Property developed for sale	–	11 288	11 288	–	–	–
Liabilities						
Trade and other payables	30 588	11 501	42 089	14 772	695	15 467
Net Assets						
Retained earnings	1 901 259	1 896	1 903 155	1 772 917	(695)	1 772 222

	Group		
	31 March 2020		
	Previously Reported R'000	Correction R'000	Restated R'000
Statement of Financial Performance			
Interest received on investments	105 444	93	105 537
Rental income	15 575	1 356	16 931
Total revenue	646 988	1 449	648 437
Net impairments and writeoffs	(81 944)	(2 236)	(84 180)
Gross surplus	544 337	(787)	543 550
Other operating income	26 187	1 103	27 290
Operating expenses	(238 042)	(1 133)	(239 175)
Operating surplus	332 482	(817)	331 665
Finance costs	(142 268)	(840)	(143 108)
Surplus for the year	219 733	(1 657)	218 076

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

39. IRREGULAR, FRUITLESS AND, WASTEFUL EXPENDITURE

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
39.1 Irregular Expenditures				
Opening balance (R'000)	10 745	5 387	10 745	5 387
Add Irregular expenditure incurred in the current year	8 523	5 358	8 523	5 358
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	**16 038**	**10 745**	**16 038**	**10 745**
39.2 Fruitless and Wasteful Expenditures				
Opening balance	1 153	–	1 153	–
SARS Penalty fees were charged as a results of a disalloweable expense claims when the NHFC was a tax paying entity.	–	1 153	–	1 153
No fruitless and wasteful expenditure incurred in th current year	–	–	–	–
Closing balance	**1 153**	**1 153**	**1 153**	**1 153**

** The entity is in the process of applying for condonation for the 2020 and 2021 period.*

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2021

	Approved budget R'000	Adjustments R'000	Final Budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
Group						
Statement of Financial Performance						
Revenue						
Interest on advances	456 202	–	**456 202**	401 262	**(54 940)**	Note 3
Interest received on investments	60 000	–	**60 000**	64 032	**4 032**	Note 3
Rental income	13 375	–	**13 375**	14 249	**874**	Note 3
Dividends received	–	–	**–**	5 585	**5 585**	Note 3
Sale of houses	20 094	–	**20 094**	28 712	**8 618**	Note 3
Management fees	32 455	–	**32 455**	24 503	**(7 952)**	Note 3
Other income	16 157	–	**16 157**	18 617	**2 460**	Note 5
Fees on advances	–	–	**–**	8 413	**8 413**	Note 3
Total revenue	**598 283**	**–**	**598 283**	**565 373**	**(32 910)**	
Expenditure						
Impairments and bad debts	(125 798)	–	**(125 798)**	(57 171)	**68 627**	Note 6
Cost of sales	(19 003)	–	**(19 003)**	(29 940)	**(10 937)**	Note 4
Operating expenses	(254 734)	–	**(254 734)**	(248 632)	**6 102**	Note 6
Total expenditure	**(399 535)**	**–**	**(399 535)**	**(335 743)**	**63 792**	
Finance costs	(156 519)	–	**(156 519)**	(104 524)	**51 995**	Note 9
Fair value adjustment	(10 696)	–	**(10 696)**	(47 745)	**(37 049)**	Note 8&20
Share of surpluses or deficits from associates	14 130	–	**14 130**	12 638	**(1 492)**	Note 7
Surplus for the year	**45 663**	**–**	**45 663**	**89 999**	**44 336**	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2021

The results group financial performance includes the following subsidiaries:

Active entities:

- Cape Town Community Housing Company (Proprietary) Limited;
- Housing Investment Partners Trust 1;
- Housing Investment Partners Trust 2;
- NHFC Management Services (Proprietary) Limited;
- NURCHA Bridging Finance (Proprietary) Limited;
- NURCHA Loan Fund (Proprietary) Limited; and
- Abahlali Housing Association (No. 2) NPC

Dormant entities:

- Mortgage Default Insurance Company (Proprietary) Limited;
- Gateway Home Loans (Proprietary) Limited;
- Gateway Home Loans 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 Group's associate companies have been included 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 resubmitted to the NDoHS and the revised APP was tabled and approved in parliament in January 2021.

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 COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2021

- **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 2021 financial year:

  - Interest on loans and advances R168.9 million
  - Impairments and bad debts R15.8 million
  - Operating expenses R34.6 million
  - Finance cost R81.4 million

- **Statement of Comprehensive Income in the Company Financial Statementss**
  The following additional amounts have been included in the company statement of Comprehensive Income for the 31 March 2021 financial year:

  - Share of residual income in controlled entities R41.6 million
  - Dividends received R5.6 million

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. R6.8 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 is impacting the level of impairments and write offs and the operational efficiency.
On the asset growth, the Group

- Achieved disbursements of R710 million against a budget of R517 million for the financial year disbursement.
- Incurred net bad debts and impairments of R57.2 million, R55.2 million at a company level.

The above factors have contributed to the lower than budgeted interest on loans and advances line.

On the equity investments:

- The group incurred fair value adjustments of R47.7 million at a Group level to reflect reduced growth outlook in some of the strategic partners.

In the operating expenses, on a normalised comparison, i.e. with the exclusion of R34.6 million reflected as management fees in controlled entities, the Group released a saving of R14 million reflecting management's concerted effort towards operational efficiency.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2021

	Approved budget R'000	Adjustments R'000	Final Budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
Company						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Interest on advances	240 720	–	**240 720**	190 789	**(49 931)**	Note 3
Interest received on investments	60 000	–	**60 000**	62 989	**2 989**	Note 3
Rental income	13 375	–	**13 375**	12 209	**(1 166)**	Note 3
Dividends received	–	–	**–**	5 585	**5 585**	Note 3
Management fees	36 667	–	**36 667**	24 336	**(12 331)**	Note 3
Other income	22 229	–	**22 229**	15 331	**(6 898)**	Note 4
Share of residual interest in controlled entities	31 523		**31 523**	41 559	**10 036**	Note 3
Fees on advances	–		**–**	7 048	**7 048**	Note 3
Total revenue	**404 514**		**404 514**	**359 846**	**(44 668)**	
Expenditure						
Impairment and bad debts	(102 000)		**(102 000)**	(55 186)	**46 814**	Note 6
Operating expenses	(220 210)		**(220 210)**	(203 889)	**16 321**	Note 6
Total expenditure	**(322 210)**		**(322 210)**	**(259 075)**	**63 135**	
Finance cost	(17 786)		**(17 786)**	(18 482)	**(696)**	Note 9
Fair value adjustments	(10 696)		**(10 696)**	(20 476)	**(9 780)**	Note 8 &20
Surplus for the year	**53 822**		**53 822**	**61 813**	**7 991**	

PART G

Annual Performance Report

25

Celebrating 25 years of building together,

and becoming stronger together

ANNUAL PERFORMANCE REPORT

As the new financial year was about to begin, the country went into lockdown in March 2020 which was attributed to the advent of the COVID-19 pandemic. By then, the new financial year's Annual Performance Plans (APP) had been concluded. The performance plans had been compiled to be implemented under normal conditions that were prevailing at the time, the pandemic had not been anticipated nor accounted for when the plans were compiled. When it became clear that the pandemic's impact was going to be far more severe than had been initially anticipated, and that this would also mean a reprioritisation of government plans and budgets, permission was granted to adjust the previously approved plans in order to reflect the COVID-19 pandemic's impact on plans and budgets. The NHFC COVID-19 adjusted APP was re-tabled and approved in Parliament in January 2021.

The first table (Table 1) below shows actual performance information against the original APP, but only up to December 2020, the month before re-tabling of the APP in Parliament, and only for the outputs that were revised. The following table (Table 2), shows actual performance achievements based on the revised APP.

TABLE 1 - ACHIEVEMENT AGAINST THE ORIGINAL APP*

PROGRAMME 2: LENDING AND INVESTMENT

PROGRAMME PURPOSE: To expand access to housing finance for NHFC target market

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 2020/2021	
Improved delivery of affordable housing	Disbursements of approved loans	Value of disbursements (R'm)				
		- Social Housing (R'm)	77	36	88	
		- Private Rental (R'm)	188	109	115	

	*ACTUAL ACHIEVEMENT 2020/2021 UNTIL DATE OF RE-TABLING (DECEMBER 2020)	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS	REASONS FOR REVISIONS OF ANNUAL TARGETS
	54	(34)	Target not met by R34 million. Construction was most affected in the first two quarters of the year as a result of the nationwide lockdown regulations which had an impact on performance of Social Housing Institutions and ODA's. Although construction activity started to normalise in Q3, contractors and developers were not operating optimally during this period.	Social Housing disbursements were adjusted downwards from R352 million to R281 million for the APP period, a variance of 20%. This is due to the Nationwide hard lockdown which suspended construction activities from 26 March to 1 June 2020. Although construction activities resumed under Level 3 lockdown, the limitations brought on by the regulations, further resulted in construction delays, deferring the originally expected Social Housing disbursements to latter years.
	35	(80)	Target not met by R80 million. Construction was most affected in the first two quarters of the year as a result of the nationwide lockdown regulations which had an impact on performance of private housing developers. Although construction activity started to normalise in Q3, contractors and developers were not operating optimally during this period, therefore disbursements were much lower than was forecasted.	Private Rental disbursements were adjusted downwards from R 594 million to R434 million for the APP period, a variance of 27%. This is due to the Nationwide hard lockdown which suspended construction activities from 26 March to 1 June 2020. Although construction activities resumed under Level 3 lockdown, the limitations brought on by the regulations, further resulted in construction delays, deferring the originally expected Private Rental disbursements to latter years.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 2020/2021	
Improved delivery of affordable housing	Disbursements of approved loans	- Bridging Affordable - (R'm)	42	68	222	
		- Bridging Subsidy - (R'm)	102	236	217	
		- Incremental (R'm)	63	184	284	

	*ACTUAL ACHIEVEMENT 2020/2021 UNTIL DATE OF RE-TABLING (DECEMBER 2020)	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS	REASONS FOR REVISIONS OF ANNUAL TARGETS
	278	56	Target exceeded, the biggest contributor to the achievement was from one facility on which NHFC disbursed R215 million.	Bridging Affordable Housing disbursements were adjusted downward from R705 million to R525 million for the APP period. This adjustment is precipitated by COVID-19 National Lockdown and restrictions which delayed construction work and commencement of new projects. As a result, originally planned disbursements on the Bridging Affordable Housing Projects were reduced.
	91	(126)	Q1 and Q2 were particularly the lesser productive periods for contractors as well as for NHFC because of work stoppage due to National Lockdown implemented towards the end of March 2020. The lower-than-expected disbursements in the abovementioned quarters had an impact in the overall performance.	The value of disbursements was reduced from R684 million to R576 million from the original APP due to the reduction of disbursements in the FY2020/21 from R217 million to R109 million. This was as a result of the nationwide lockdown regulations which had an impact on performance of the programme and necessitated the figures to be revised. Additionally, contractors were not operating optimally during this period.
	47	(237)	Target not met. The first three quarters of the financial year 2020/21 - Incremental Housing Intermediaries were mostly affected by COVID-19. The building material suppliers with which loans are originated through were closed during most part of the first quarter as a result there were no drawdowns. Some Intermediaries with available facilities to draw did not draw during this period – a case in point is one of our biggest intermediaries with an approved facility from the previous financial year end had not signed the agreement for an approved facility of R120 million.	The value of Incremental Housing disbursements was revised downward from R896 million to R598 million from the original APP. R284 million to R102 million in the financial year ending 2020/21. This was as a result of the Nationwide lockdown announced on the 23 March 2020. Building material suppliers which Incremental housing intermediaries utilises as their distribution channel were closed as a result of the nationwide lockdown.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 2020/2021	
Improved delivery of affordable housing	Disbursements of approved loans	Affordable Housing - Strategic Investment (R'm)	98	91	41	
		Value of approvals - (R'm)				
		- Social Housing (R'm)	232	35	104	
		- Private Rental (R'm)	33	215	216	
		- Bridging Affordable - (R'm)	96	215	490	

	*ACTUAL ACHIEVEMENT 2020/2021 UNTIL DATE OF RE-TABLING (DECEMBER 2020)	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS	REASONS FOR REVISIONS OF ANNUAL TARGETS
	64.4	23.4	Target was exceeded. The target was revised upward in the revised APP.	The NHFC took a decision to increase its investment in strategic equity investments in view of the market needs for more risk funding/capital for projects. This was exacerbated by the significant economic slowdown from the recession/stagnant growth in SA that the country was experiencing because of the COVID-19 pandemic as well.
	181	77	Target exceeded by R77 million. An ODA application of R134 million and SHI application of R46 million were approved in Q2 which positively contributed to the performance.	Social Housing approvals have been adjusted upwards from R377 million to R527 million for the APP period, an increase of 40%. Although all KPI's have been affected by the Nationwide hard lockdown which suspended construction activities, Social Housing which is majority funded by the Consolidated Capital grants will be less affected by the economic effects of COVID-19 as opposed to private rental developments which are partly funded through equity. As a result, to augment the drop in the COVID-19 adjusted Private Rental approvals Social Housing approvals have been increased.
	10	(206)	Target not met by R206 million. Due to COVID-19 pandemic, potential developers were weary to submit applications due to uncertainty in the market as well as the drop in property sentiment in 2020. Several applications were assessed in the period however applicants struggled to raise equity in the markets.	Private Rental approvals have been adjusted downwards from R842 million to R692 million for the APP period, a variance of 18%. This is due to the Nationwide hard lockdown which suspended construction activities from 26 March to 1 June 2020. Although construction activities resumed under Level 3 lockdown, the limitations brought on by the regulations, further resulted in construction delays, and property sentiment by Developers.
	487	(3)	99% of the annual target was achieved, and Q3 targets exceeded. Although annually targets were not achieved as at end of Q3 we anticipate that they will be exceeded at end of Q4, this is informed by the applications currently under assessment.	Approvals have not been adjusted downwards.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 2020/2021	
Improved delivery of affordable housing	Disbursements of approved loans	- Bridging Subsidy - (R'm)	76	64	140	
		- Incremental (R'm)	135	409	379	

	*ACTUAL ACHIEVEMENT 2020/2021 UNTIL DATE OF RE-TABLING (DECEMBER 2020)	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS	REASONS FOR REVISIONS OF ANNUAL TARGETS
	98	(42)	Q1 numbers were extremely low due to national lockdown and this affected The Programme. However, we managed to secure new business from existing contractors which helped improve the approval numbers. There is a need to secure business of R42 million in the quarter 4 as only R98 million was approved to date against a target of R140 million for FY 2020/21 Original APP.	The value of approvals reduced from R465 million to R395 million from the original APP as a result of the reduction of approvals in FY2020/21 from R140 million to R70 million. This was as result of nationwide lockdown regulations which had an impact on performance of the programme and necessitated that the figures be revised. Additionally, contractors were not operating optimally during the lockdown period.
	0	(379)	There were no approvals in the first three quarters of the financial year 2020/21. Incremental housing finance had a R250 million application in progress but was awaiting further information from the intermediary in these quarters. The amount was revised down and was not finalised in this period. The revision of the amount was due to poor economic conditions and outlook, COVID-19 impact which is still persisting.	Value of approvals were adjusted downwards from R1 195 million to R916 million from the original APP as a result of the reduction of the approvals from R379 million to R100 million for the full financial year ending 2020/21. This is due to the nationwide lockdown. Intermediaries are experiencing a significant strain, some facilities approved in the last financial year are not drawn down.

PROGRAMME 3: FLISP GRANT FACILITATION

ROGRAMME PURPOSE: To expand access to housing finance for NHFC target market.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 2020/2021	
Improved delivery of affordable housing	Disbursements of FLISP subsidies	Value of disbursements - FLISP Grant (R'm)	New indicator	60	311	
		Value of approvals - FLISP Grant (R'm)	New indicator	122.6	334	
	Increased access to affordable finance to enable end-users to have appropriate, spatially just and adequate housing	Number of FLISP subsidies disbursed (approved) (No.)	New indicator	2 212	5 418	

	*ACTUAL ACHIEVEMENT 2020/2021 UNTIL DATE OF RE-TABLING (DECEMBER 2020)	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS	REASONS FOR REVISIONS OF ANNUAL TARGETS
	42.8	(268.2)	Targets were not achieved due to COVID-19 pandemic lockdown early in the financial year and poor economic conditions that affected credit industry as FLISP is linked to home loans granted by lenders. Internally the process is still manual and enhancement of the CRM system was not yet completed to reduce turnaround times in the processing of FLISP applications and disbursements. As a result of long turnaround times, banks and mortgage originators are not submitting FLISP applications at scale.	Negative impact of COVID-19 in the property industry
	64	(270)	Targets were not achieved due to COVID-19 pandemic lockdown early in the financial year and poor economic conditions that affected credit industry as FLISP is linked to home loans granted by lenders. Internally, the process is still manual and enhancement of the CRM system was not yet completed to reduce turnaround times in the processing of FLISP applications and disbursements. As a result of long turnaround times, banks and mortgage originators are not submitting FLISP applications at scale.	Negative impact of COVID-19 in the property industry
	796	(4 622)	Targets were not achieved due to COVID-19 pandemic lockdown early in the financial year and poor economic conditions that affected credit industry as FLISP is linked to home loans granted by lenders. Internally, the process is still manual and enhancement of the CRM system was not yet completed to reduce turnaround times in the processing of FLISP applications and disbursements. As a result of long turnaround times, banks and mortgage originators are not submitting FLISP applications at scale.	Negative impact of COVID-19 in the property industry

PROGRAMME 4: 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 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 2020/2021	
Increased penetration and participation of low-to middle income households and businesses owned by PDIs in the housing market	Increased focus on extension of funding to previously disadvantaged intermediaries	Value of disbursements targeted towards B-BBEE entrepreneurs (R'm)	446	566	339	
		Value of disbursements targeted towards women and youth entrepreneurs, included in above total (R'm)	New indicator	83	290	
		Total value of projects managed - Programme Management (R'm)	New indicator	New indicator	200	
		Value of funds managed - Programme Management (R'm)	New indicator	New indicator	100	

	*ACTUAL ACHIEVEMENT 2020/2021 UNTIL DATE OF RE-TABLING (DECEMBER 2020)	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS	REASONS FOR REVISIONS OF ANNUAL TARGETS
	409	70	Target exceeded by R70 million as large once-off disbursement to a B-BBEE compliant Bridging Affordable Clients boosted achievements.	Disbursements targeted towards B-BBEE entrepreneurs have been adjusted downwards from R1.1 billion to R845 million for the APP period, a variance of 25%. This is due to the Nationwide hard lockdown which suspended construction activities from 26th March to 1st June 2020. Although construction activities resumed under Level 3 lockdown, the limitations brought on by the regulations, further resulted in construction delays, deferring the originally expected Private Rental disbursements to latter years.
	54	(236)	Target not met by R236 million. Construction was mostly affected in the first two quarters of the year as a result of the nationwide lockdown regulations which had an impact on most disbursements. Although construction activity started to normalise in Q3, contractors and developers were not operating optimally during this period, therefore disbursements including those for women- and youth-owned entities were much lower than was forecasted.	Disbursements targeted towards Women and Youth entrepreneurs have been adjusted downwards from R 982 million to R 724 million for the APP period, a variance of 26%. This is due to the Nationwide hard lockdown which suspended construction activities from 26 March to 1 June 2020. Although construction activities resumed under Level 3 lockdown, the limitations brought on by the regulations, further resulted in construction delays, deferring the originally expected Private Rental disbursements to latter years.
	2	(198)	Programme Management performance was stalled by the COVID-19 lockdown and also many clients adjusted and redirected budgets in response to the pandemic.	Programme Management could no longer perform as per the initially set target, as all built eminent related programmes stalled during the higher level of lockdown and targets were adjusted down due to lost time.
	10	(90)	Programme Management performance was stalled by the COVID-19 lockdown and also many clients adjusted and redirected budgets in response to the pandemic.	Programme Management could no longer perform as per the initially set target, as all built environment-related programmes stalled during the higher level of lockdown and targets were adjusted down due to lost time.

PROGRAMME 5: PROGRAMME MANAGEMENT AND STRATEGIC PARTNERSHIPS

PROGRAMME PURPOSE: To maximise development impact by facilitating partnerships and human settlements programmes.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 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	New indicator	50	

TABLE 2 - ACHIEVEMENT AGAINST THE REVISED APP**

PROGRAMME 1: ADMINISTRATION

PURPOSE: To provide strategic leadership, management and support services to the entity

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	PLANNED ANNUAL TARGET 2020/2021	
Functional, Efficient and Integrated Government	Unqualified audit	Audit action plan implemented	Unqualified audit opinion	Unqualified audit opinion	Unqualified audit opinion	
	Compliant Statutory Reports	Percentage of compliance with statutory tabling and prescripts	100 % compliance with statutory tabling and prescripts	100 % compliance with statutory tabling and prescripts	100 % compliance with statutory tabling and prescripts	
	Internal audit reports	Percentage implementation of the approved internal audit plan	New indicator	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	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	New indicator	100% implementation of the approved risk management plan	

	**ACTUAL ACHIEVEMENT 2020/2021 UNTIL DATE OF RETABLING (DECEMBER 2020)	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS	REASONS FOR REVISIONS OF ANNUAL TARGETS
	-	(50	Early in the financial year, the country was hit by the COVID-19 pandemic, which caused the country to implement strict movement and during this time only essential services were able to perform.	Target was revised due to COVID-19 related delays to due diligence investigations and ultimately effect on CHC/IHS partnership.

	**ACTUAL ACHIEVEMENT 2020/2021	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS
	Unqualified audit opinion - 2019/20	None	n/a
	100% compliant with statute & Prescripts	None	n/a
	100% implementation of the approved internal audit plan	None	n/a
	100% implementation of the approved anti-fraud and corruption implementation plan	None	n/a
	100% implementation of the approved risk management plan	None	n/a

PROGRAMME 2: LENDING AND INVESTMENT

PROGRAMME PURPOSE: To expand access to housing finance for NHFC target market

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	
Improved delivery of affordable housing	Disbursements of approved loans	Value of disbursements (R'm)			
		- Social Housing (R'm)	77	36	
		- Private Rental (R'm)	188	109	
		- Bridging Affordable - (R'm)	42	68	
		- Bridging Subsidy - (R'm)	102	236	
		- Incremental (R'm)	63	184	
		Affordable Housing - Strategic Investment (R'm)	98	91	
		Value of approvals - (R'm)			
		- Social Housing (R'm)	232	35	

	PLANNED ANNUAL TARGET 2020/2021	**ACTUAL ACHIEVEMENT 2020/2021	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS
	48	89	41	Target exceeded by R41 million. An Eastern Cape SHI managed to accelerate its programme post the hard lockdown and drew its entire facility within a three month period.
	31	40	9	Target exceeded by R9 million. A Pretoria Student Housing developer managed to accelerate its programme in the initial months post the hard lockdown and drew larger amounts than anticipated in an effort to make up for the lost time.
	97	321	224	Target exceeded, actual achievement of R321 million (331%) against a target of R97 million YTD.
	109	133	24	Target exceeded. Subsidy Housing disbursements for the Q4 were exceeded at R41 million (414%) as at the end of February against a target of R10 million which was mainly from a few existing contractors. YTD disbursement at R133 million against a target of R109 million (122%)
	102	53	(49)	Target not met. Year to date disbursements were R53m against a target of R102 million which is a 52% achievement. COVID-19 had a negative impact on our Intermediaries. We had a R120 million approved facility but not drawn and the Client only signed the agreement on the 24 March 2021 due to the national lockdown which affected their business and contracting on this facility. Other Intermediaries with available funds are drawing down slowly.
	130	73.2	(56.8)	Target not met. Disbursements are driven by the value and volume of approvals. The disbursements target was not met mainly due to the delay in a social housing transaction that has taken long to asses, as well as a delay in the draw-down for other approved clients (about six months delay).
	254	219	(35)	Target not met. Target not met by R35 million. The R80 million KZN application which was appraised experienced delays, and a R25 million GP submission was halted due to governance challenges experienced by the SHI when part of the board as well as the appointed contractor abandoned the project.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	
Improved delivery of affordable housing	Disbursements of approved loans	- Private Rental (R'm)	33	215	
		- Affordable Housing - Strategic Investment (R'm)	-	-	
		- Bridging Affordable - (R'm)	96	215	
		- Bridging Subsidy - (R'm)	76	64	
		- Incremental (R'm)	135	409	
		- Affordable Housing - Strategic Investment (R'm)	-	-	

	PLANNED ANNUAL TARGET 2020/2021	**ACTUAL ACHIEVEMENT 2020/2021	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS
	66	43	(23)	Target not met by R23 million. Due to COVID-19 pandemic, potential developers were weary to submit applications due to uncertainty in the market as well as the drop in property sentiment in 2020.
	240	120	(120)	Target not met. The division achieved 50% of its targets mainly due to a protracted due diligence and finalisation of the terms of the investment in a transaction involving off shore based multi -lateral agency partners who form part of the investment consortium. The NHFC, subject to approval by our sanctioning committees, is expected to invest R300 million in the transaction which is a transformative social housing investment in terms of scale. It is expected to deliver 11 000 to 12 000 social housing opportunities over an eight-year period. The transaction is now expected to close in the first quarter of FY2021/22.
	490	532	42	Target exceeded, recorded 109% actual performance, with R532 million achieved against a YTD target of R490 million. The greatest contributor to the good performance was the good pipeline from the previous financial year, which contained substantial number of applications that were converted into approvals.
	70	98	28	Target met. YTD approvals stood at R98 million against a target of R70 million (140% of Approved target).
	100	100	-	Year to date target of R100 million was met. R100 million facility was approved for an existing Intermediary.
	240	120	(120)	Target not met. The division achieved 50% of its targets mainly due to a protracted due diligence and finalisation of the terms of the investment in a transaction involving off shore based multi-lateral agency partners who form part of the investment consortium. The NHFC, subject to approval by our sanctioning committees, is expected to invest R300 million in the transaction which is a transformative social housing investment in terms of scale. It is expected to deliver 11 000 to 12 000 social housing opportunities over an eight-year period. The transaction is now expected to close in the first quarter of FY2021/22.

PROGRAMME 3: FLISP GRANT FACILITATION

PROGRAMME PURPOSE: To expand access to housing finance for NHFC target market.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	
Improved delivery of affordable housing	Disbursements of FLISP subsidies	Value of disbursements - FLISP Grant (R'm)	New indicator	60	
		Value of approvals - FLISP Grant (R'm)	New indicator	122.6	
		FLISP Five-Year Business Plan Approved	New indicator	New indicator	
		Number of subsidy applications (No.)	New indicator	3 712	
Increased access to affordable finance to enable end-users to have appropriate, spatially just and adequate housing		Number of FLISP subsidies disbursed (approved) (No.)	New indicator	2 212	
		Amount Leveraged from financial institutions (R'm)	New indicator	942	

	PLANNED ANNUAL TARGET 2020/2021	**ACTUAL ACHIEVEMENT 2020/2021	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS
	249	60.8	(188.2)	Targets were not achieved due to COVID-19 pandemic lockdown early in the financial year and poor economic conditions that affected credit industry as FLISP is linked to home loans granted by lenders. Internally the process is still manual and enhancement of the CRM system was not yet completed to reduce turnaround times in the processing of FLISP applications and disbursements. As a result of long turnaround times, banks and mortgage originators are not submitting FLISP applications at scale.
	267	111.2	(155.8)	
	Board approved plan	Board approved plan	None	Target achieved
	4 653	2 411	(2 242)	Targets were not achieved due to COVID-19 pandemic lockdown early in the financial year and poor economic conditions that affected credit industry as FLISP is linked to home loans granted by lenders. Internally the process is still manual and enhancement of the CRM system was not yet completed to reduce turnaround times in the processing of FLISP applications and disbursements. As a result of long turnaround times, banks and mortgage originators are not submitting FLISP applications at scale.
	4 334	1 136	(3 198)	
	2,117	1,030.6	(1,086.4)	

PROGRAMME 4: 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 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	
Increased penetration and participation of low-to middle income households and businesses owned by PDIs in the housing market	Increased focus on extension of funding to previously disadvantaged intermediaries	Value of disbursements targeted towards B-BBEE entrepreneurs (R'm)	446	566	
		Value of disbursements targeted towards women and youth entrepreneurs, included in above total (R'm)	New indicator	83	
		Percentage disbursement to PDI on managed programmes - Programme Management (%)	New indicator	New indicator	
		Total value of projects managed - Programme Management (R'm)	New indicator	New indicator	
		Value of funds managed - Programme Management (R'm)	New indicator	New indicator	

PROGRAMME 5: PROGRAMME MANAGEMENT AND STRATEGIC PARTNERSHIPS

PROGRAMME PURPOSE: To maximise development impact by facilitating partnerships and human settlements programmes.

OUTCOME	OUTPUT	OUTPUT INDICATOR	AUDITED ACTUAL PERFORMANCE 2018/2019	AUDITED ACTUAL PERFORMANCE 2019/2020	
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	New indicator	
		Multi-Year Investment Plan for PDA's developed	New indicator	New indicator	

	PLANNED ANNUAL TARGET 2020/2021	**ACTUAL ACHIEVEMENT 2020/2021	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS
	135	519	384	Target exceeded by R384 million, as large R215 million disbursements to a BBBEE compliant Bridging Affordable Client boosted achievements, as well as additional disbursements by BBBEE compliant clients from Social Housing, Bridging Subsidy and Private Rental.
	116	68	(48)	Target not met by R48 million. As a result of a challenged pipeline of women owned contractors, developers and intermediaries.
	50%	3%	-47%	Target not met. YTD performance: R1.3 million. The major contributor for not reaching the targets is that four programmes were cancelled, for various reasons.
	100	3.4	(96.6)	Target not met. The programme secured in Eastern Cape was reversed due to DoRA provision that prevented NHFC engagement. A programme secured in Limpopo for R219 million was also withdrawn due to a DoRA provision that prevented the use of NHFC as Fund Administrator. Therefore, the target and expenditure projections could not be achieved.
	50	10	(40)	Target not met. Four programmes that had been scheduled to be implemented during financial year were cancelled. The remaining programmes are at planning stages and will only yield results in the new financial year.

	PLANNED ANNUAL TARGET 2020/2021	**ACTUAL ACHIEVEMENT 2020/2021	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT 2020/2021	REASONS FOR DEVIATIONS
	25	0	(25)	Target not met. The negotiations on the formation of Social Housing Venture could not be completed in the year to report any expenditure.
	Board Approved Plan	The GIS specification has been completed. The next step is approval by EXCOM for a capacity acquisition and adding this as an area of collaboration with HAD.	n/a	Target not met. The project was much more involved than earlier anticipated and had to take into consideration POPIA provisions and governance issues.

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