NATIONAL HOUSING FINANCE CORPORATION LTD.

INTEGRATED ANNUAL REPORT
2022/2023

Contents

CONTENTS (continued)

LIST OF FIGURES

LIST OF TABLES

LIST OF TABLES (continued)

1. LIST OF ABBREVIATIONS/ACRONYMS

AFD	Agence Française de Développement
AGM	Annual General Meeting
AGSA	Auditor-General of South Africa
APP	Annual Performance Plan
BASA	Banking Association South Africa
B-BBEE	Broad-Based Black Economic Empowerment
BNG	Breaking New Ground
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CRM	Customer Relationship Management
CSI	Corporate Social Investment
CTCHC	Cape Town Community Housing Company (Pty) Ltd
DBSA	Development Bank of Southern Africa
DCF	Discount Cash Flow
DFI	Development Finance Institution
DPSA	Department of Public Service and Administration
DRP	Debt Relief Programme
ERP	Enterprise Resource Planning
EWP	Employee Wellness Programme
EXCOM	Executive Committee
FLISP	Financed Linked Individual Subsidy Programme
GEHS	Government Employees Housing Scheme
GPF	Gauteng Partnership Fund
GRAP	Standards of Generally Recognised Accounting Practice
GRI	Global Reporting Initiative
HR	Human Resource
HSDB	Human Settlements Development Bank
ICT	Information Communications Technology
IF	Infrastructure Fund
IRDP	Integrated Residential Development Programme
IT	Information Technology
KPI	Key Performance Indicator
MoI	Memorandum of Incorporation
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MTSF	Medium-Term Strategic Framework
NCR	National Credit Regulator
NDoHS	National Department of Human Settlements
NHBRC	National Home Builders Registration Council
NHFC	National Housing Finance Corporation
NURCHA	National Urban Reconstruction and Housing Policy
ODA	Other Delivery Agent
PDI	Previously Disadvantaged Individual
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PICC	Presidential Infrastructure Coordination Council
PMO	Project Management Office
RFI	Request for Information
SAIBPP	South African Institute of Black Property Practitioners
SALGA	South African Local Government Association
SAMWU	South African Municipal Workers' Union
SARB	South African Reserve Bank
SCM	Supply Chain Management
SHI	Social Housing Institution
SHRA	Social Housing Regulatory Authority
SOC	State-Owned Company
TWG	Technical Working Group

PART A:
GENERAL INFORMATION

1. ABOUT THIS REPORT

This report provides information about the performance of the National Housing Finance Corporation (NHFC) for the period 01 April 2022 to 31 March 2023.

The National Department of Human Settlements (NDoHS) established the entity as a Development Finance Institution (DFI) in 1996, when it was mandated to broaden access to affordable housing finance for low- to middle-income households in South Africa. The NHFC is registered in terms of the Companies Act, 2008 (Act No. 71 of 2008) and is listed as a Schedule 3A public entity according to the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

The NHFC's complete list of general information is included on page 123 of this report.

This Integrated Annual Report is produced in good faith and provides insight into the effects of the company's business on its internal and external environments. The report includes financial performance information relevant to all stakeholders and the shareholder.

1.1 Scope and boundary

This Integrated Annual Report provides strategic, operational, governance and financial overviews of the activities of the NHFC for the period 1 April 2022 to 31 March 2023. The information in this report refers to the performance of the core business functionality of the NHFC, operating in South Africa, and its major operating subsidiaries, unless stated otherwise.

1.2 Reporting framework

As a Schedule 3A SOE, wholly owned by the Government of South Africa, the NHFC is represented by the Minister of Human Settlements. The NHFC was incorporated under the Companies Act, (Act No. 61 of 1973), which was replaced by the Companies Act, 2008 (Act No. 71 of 2008) and is thus subject to its tenets. The report is thus compiled in compliance with:

- The Public Finance Management Act, 1999 (Act No. 1 of 1999)
- The Companies Act, 2008 (Act No. 71 of 2008)
- The principles of the King IV Code on Corporate Governance
- National Treasury Regulations
- Standards of Generally Recognised Accounting Practice (GRAP).

1.3 Basis of preparation

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

To the best of its ability, the NHFC provides an accurate and transparent account of the company's performance for the reporting period, as expanded upon by the recommendations of the King IV Code.

1.4 Risk taking

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

1.5 Forward-looking statements

Contained in this report are various forward-looking statements. Such statements may relate to the possible future financial position, business operation and strategy, or management plans. Forward-looking statements are not based on historical facts, but rather on current estimations, assumptions, and expectations for the company, and are dependent on circumstances that may or may not be realised in the future.

1.6 Assurance

The NHFC's Integrated Annual Report for 2022/23 is compiled in accordance with the ethical values of the company, statutory legislative frameworks, and reporting best practices. The Board has reviewed the report and is satisfied that the information it contains is, to the best of its knowledge, an accurate and true representation of the NHFC's position. The financial statements contained herein have been assured via an audit conducted by the Auditor-General of South Africa (AGSA).

Cape Town Belhar Project

2. WHO WE ARE

The NHFC is a state-owned company in the human settlements sector, supporting housing delivery through the provision of affordable housing finance. The company's ultimate purpose is to serve low- to middle-income households by providing the opportunity for such households to live with dignity. The NHFC is mandated to facilitate an end-to-end solution that addresses financing of human settlement needs in South Africa. This is achieved through the provision of various funding instruments which seek to address specific intervention requirements.

The company has been in existence since 1996, operating at a national level, providing wholesale funding to the affordable housing market. The primary funding focus has been on Social Housing Institutions (SHIs), non-banking retail intermediaries, privately owned property developers, construction companies, and investors. The secondary focus has been on loan origination and other forms of wholesale funding (equity and quasi-equity), which have been made available to intermediaries that operate within the affordable housing market sector.

Prevailing socio-economic conditions, together with a drive to better leverage private sector contributions, provided the impetus in 2018 for the merger of the Rural Housing Loan Fund (RHLF) and the National Urban Reconstruction and Housing Agency (NURCHA) into the NHFC, together with the process of converting the NHFC into the Human Settlements Development Bank (HSDB). The HSDB is intended to deliver on development outputs and outcomes on a greater scale and with greater impact than the three single entities could previously yield. As a result, the NHFC's mandate expanded to include rural housing, as well as the supply of bridging finance to developers and construction companies in the affordable home ownership and subsidy housing markets. The NHFC has indeed become the largest debt provider in social housing.

The process towards the establishment of the HSDB is ongoing. A policy framework for the establishment of the HSDB, which aims to contribute to an improved, functional property market, has been approved. The HSDB as a DFI, will operate as a financier, facilitator of affordable mortgages, human settlements value-chain transformation agent and servicer of implementing agencies, to facilitate delivery of sustainable human settlements.

"The NHFC has become the largest debt provider in social housing."

Cape Town Sunset Village Project

The concept for the HSDB has been approved by the Socio-Economic Impact Assessment System (SEIAS) Cluster, and the business case is being reworked based on National Treasury's comments. Once this process is finalised, and the HSDB Bill is promulgated, National Treasury will consider the capitalisation of the entity. The matter is concurrently subject to the preparation of draft legislation by the Department of Human Settlements before it can be presented to Cabinet.

The Board remains committed to concluding the process towards the establishment of the HSDB and has accordingly geared the strategic direction of the NHFC to this eventuality.

2.1 Strategic pillars

The NHFC is founded on four strategic pillars. For each pillar, the company has defined what success will look like, and has developed strategies that are critical to achieving that success.

STRATEGIC PILLARS

Maximise Development Impact

Facilitate increased and sustained private sector investment and participation in the under-served segment of the housing market

Additionality

A contribution that is beyond what is available or provides that which is otherwise absent from the market

Transform the Human Settlements Sector

Facilitate market participation, enabling the prioritisation of inclusivity, size, previously disadvantaged individuals (PDIs), and women and youth, in the development of sustainable human settlements

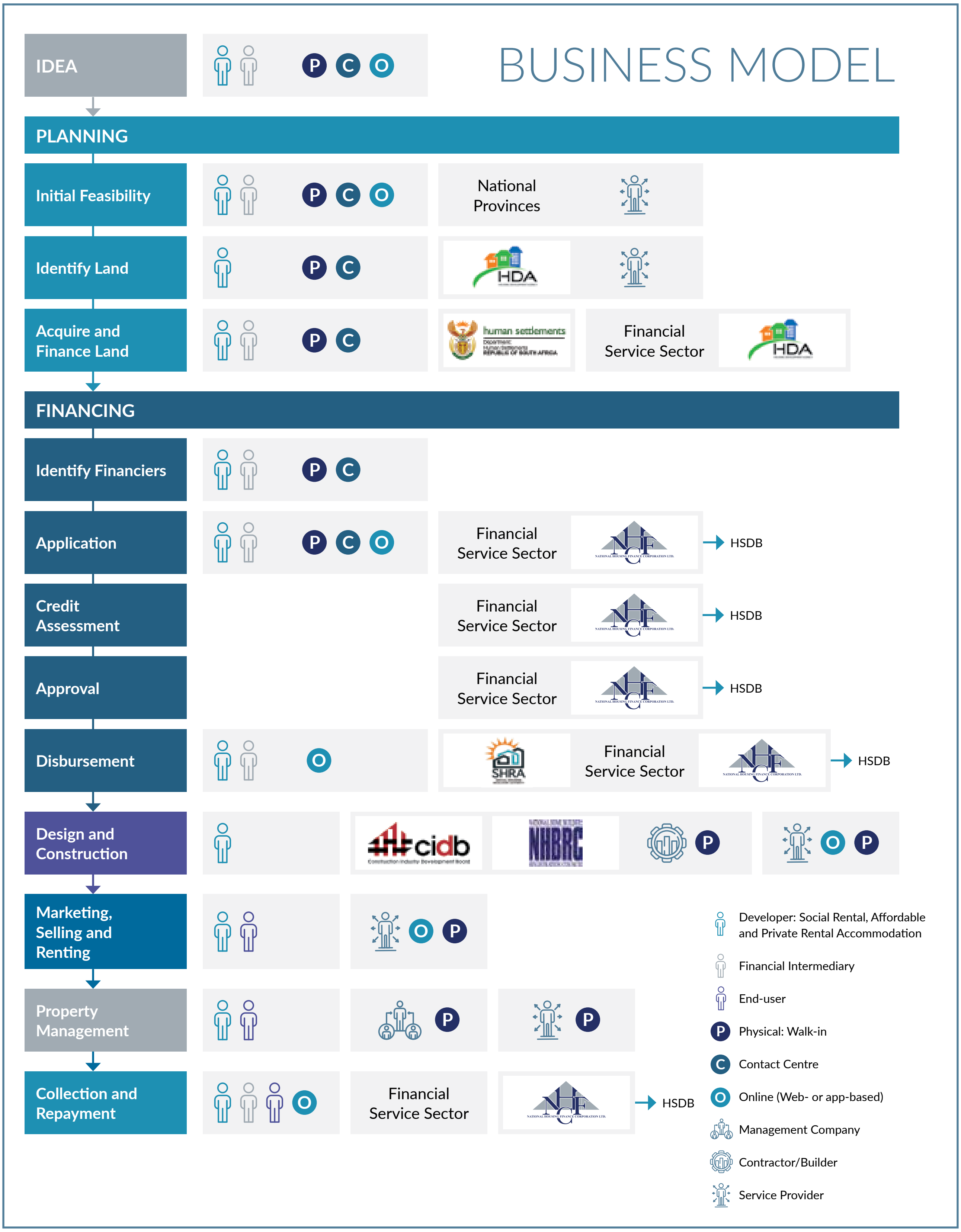
Achieve Sustainability

Balance the twin challenges of the NHFC as a DFI, namely, the achievement of greater developmental impact whilst ensuring that it is done in a sustainable manner

Sustainable human settlement and improved quality of household life

2.2 Our business model

The current delivery model provides housing finance to retail intermediaries, developers, private rental, social housing landlords, contractors, and strategic partners to facilitate the delivery of housing opportunities for households earning below R22 000 a month. As NHFC works towards converting to the HSDB it has proposed the following business model to align with its expanded mandate.



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

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

DEMAND AND SUPPLY-SIDE PRODUCTS

Supply Side Products

- Private developer financing
- Social housing financing
- Contractor financing
- Developer bridging finance
- Rapid land release financing
- Programme and Fund management

Demand Side Products

- First Home Finance
- Subsidy Programme
- Incremental housing finance

2.3 Stakeholders

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

Internal stakeholders

These stakeholders are internal to the company and responsible for ensuring that the business of the company is achieved.

Internal/Core Stakeholders	Function in the Value Chain	Purpose
Board of Directors	Governance	Provide direction and oversight
Executive Committee (EXCOM)	Management	Implement strategy and oversee operations
Employees	Disbursement, collection, management, service provision, grant facilitation and operations	Carry out the work of the company

External stakeholders/Strategic partners

Our external stakeholders comprise individuals, groups or entities that have either a significant impact on, or are significantly impacted by, the operations of the company.

External Stakeholders	Function in the Value Chain	Role
National Credit Regulator	Financial oversight Adherence to FICA	Regulator
Financial Sector Conduct Authority		
Financial Intelligence Centre		
Property Practitioners Regulatory Authority	Collaboration	Regulator
National Treasury	Capital provision and approval of fund-raising applications	Ensures capital provided is used in accordance with mandate
Department of Human Settlements	Capital provision/management	Advocacy and oversight
National Home Builders Registration Council	Certify developers	Regulator
Provincial Government	Planning, land, tenure, and essential infrastructure	Partner and customer
Private Sector Financial Institutions	Co-funding	Supplier and partner
Multilateral Funders	Funding	Supplier and partner
Private Rental Developers	All functions other than financing	Customer
Social Housing Institutions	All functions other than financing	Customer
Short-Term Financiers	Financing	Intermediary customer
Provincial Development Financial Institutions	Financing	Partner
Department of Public Services and Administration	Policy guidance	Ensures entity maintains a compliant and functioning public service
Housing Finance Institutions and Other Deliver Agents (ODAs)	All functions other than financing	Intermediary customer
Low Income Households	Property end user and community development	Beneficiary
Housing Development Agency	Planning, land and tenure, and essential infrastructure	Partner
Social Housing Regulation Authority	Planning, land and tenure, and financing for delivery of social housing	Partner and regulator
Research Institutions	Across the value chain	Partner

Current intermediaries – Future customers

The NHFC's operating model is that of a wholesale financier which provides suitable financing for retail financiers. The retail financiers in turn provide affordable financing solutions to end consumers in need of affordable housing. Thus, the NHFC ultimately provides affordable housing finance to individual consumers via an intermediary (customer), which could be a social housing institution, a retail financial intermediary (such as a micro lender providing loans for incremental building or home improvements), building contractors/developers, bond originators, or other property investment companies (investing in rental housing stock).

Intermediary	Description	Needs	End Consumer Serviced
Retail Finance Intermediaries	Lending businesses that provide loans to low-income households that build on an incremental basis	Access to affordable funding	Rural and urban households
Social Housing Institutions	Non-profit institutions that develop and manage social housing developments	• Access to affordable funding • Government subsidised rental accommodation	Social housing market
Other Delivery Agents	For-profit institutions that develop and manage social housing developments	• Access to affordable funding • Government subsidised rental accommodation	Social housing market
Private Developers	Property developers and contractors who develop housing for the sales and rental market	Access to affordable funding	• Affordable housing market • Private rental market
Contractors	Contractors appointed to build Breaking New Ground (BNG) housing	Bridging subsidy finance	Urban and rural beneficiaries of BNG homes

End consumers

End consumers are the ultimate beneficiaries of the NHFC's product offering. End consumers benefit from financing provided via the NHFC, enabling them to either receive, build, buy or rent formal accommodation. The NHFC's end consumers comprise the BNG market and the 'gap' market – households with a combined income that precludes them from qualifying for a full government housing subsidy.

End Consumer Segment	Combined Household Income per Month	Description	Need
Incremental housing	R800 – R22 000	• Households that do not qualify for government housing and need financing for incremental building • Households that currently reside in informal dwellings (in both rural and urban areas) and are building a house • Households that have previously received a BNG house, but because of changing income circumstances want to extend/ improve BNG house and possibly trade up, thereby supporting the secondary housing market	• Funding for incremental housing solutions • Building materials for renovations and building houses incrementally
Social housing	R1 850 – R22 000	Households that fall outside the scope of the government full housing subsidy and are unable to obtain a mortgage loan from a bank	• Affordable social rental housing • Subsidised accommodation
Affordable housing	R3 501 – R22 000	Households that fall outside the scope of the government full housing subsidy and require a deposit to obtain a home loan from a financial institution	• Affordable private rental and ownership solutions • Subsidy to enable buying or building first homes on an affordable basis
BNG housing	R0 – R3 500	BNG provides subsidised houses to low-income families. These houses are owned, not rented, by the beneficiaries	• Funding provided to contractors appointed by local authorities to build BNG housing.

2.4 Our strategic focus

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

In accordance with the Theory of Change Framework, the NHFC has designed its strategy to include programmes that drive the achievement of its strategic goals and make an impact in relation to the National Development Plan (NDP).

IMPACT STATEMENT

SUSTAINABLE HUMAN SETTLEMENTS AND IMPROVED QUALITY OF HOUSEHOLD LIFE

Alignment with NDP outcomes

Outcome 8 of the NDP aligns with the NHFC's objectives and highlights the following:

- A strong and efficient spatial planning system that is well integrated across the spheres of government
- The upgrade of all informal settlements on suitable, well-located land by 2030
- More people living closer to their places of work
- Better quality public transport
- More jobs in or close to dense, urban townships

Outcomes

- Functional, efficient, and integrated government
- Improved delivery of affordable housing
- Increased access to affordable finance to enable end-users to have appropriate, spatially just, and adequate housing
- Increased penetration and participation of low- to middle-income households and black-owned businesses in the housing market

Strategic enablers

- Sound corporate governance
- Efficient and effective systems and processes
- Competent and adequately skilled staff
- Stable economic climate
- Functioning housing market
- Co-operation with all spheres of government and provinces

HOW WE ACHIEVE OUR MANDATE

The NHFC achieves its mandate through various strategies and approaches, as outlined below:

1 **Development Finance Institution (DFI) Model:** The NHFC operates primarily as a DFI, providing wholesale funding to the affordable housing market. It adopts a flexible hybrid model by forming strategic partnerships to make markets more inclusive and leverage partner resources, skills, and competencies.

2 **Risk Appetite and Market Gap:** The NHFC's risk appetite threshold is higher than that of traditional banks. It invests or provides finance in areas where banks would typically not participate, addressing the missing or under-served segments of the housing market.

3 **Market Expansion:** The NHFC identifies and enters new markets to unlock opportunities. This includes areas such as township residential property markets, student accommodation, backyard rentals by small-scale landlords, and micro living solutions. By entering these markets, the NHFC aims to address liquidity constraints and perceived commercial risks.

4 **Financial Closure and Equity Stakes:** The NHFC plays a role in facilitating financial closure for projects. It provides longer tenures to improve project viability and may also take equity stakes in projects to support their development.

5 **Project Preparation:** The NHFC supports project preparation activities, including scoping, pre-feasibility, and feasibility work. By assisting in the preparation of bankable projects, the NHFC aims to attract private sector involvement and financing.

6 **Catalysing Private Sector Involvement:** The NHFC's role is to catalyse, attract, and mobilise private sector participation in the affordable housing sector. It collaborates with like-minded partners such as the International Finance Corporation (IFC), Agency Francaise de Development (AFD), and African Development Bank (AfDB). The NHFC also encourages reluctant partners to actively engage in housing financing.

7 **Lead Arranger:** The NHFC positions itself as the 'bank of first choice in human settlements financing'. It takes the lead in arranging and coordinating financing for projects, bringing together various stakeholders and funding sources to support the development of sustainable human settlements.

8 **Blended Finance Solutions:** The NHFC utilises blended finance solutions to bridge gaps and address market barriers in areas with strategic importance and high development impact. By combining public and private funds, the NHFC aims to overcome financing challenges and promote sustainable housing development.

Through these approaches, the NHFC strives to fulfil its mandate of providing affordable housing finance, mobilising private sector involvement, and facilitating the development of sustainable human settlements.

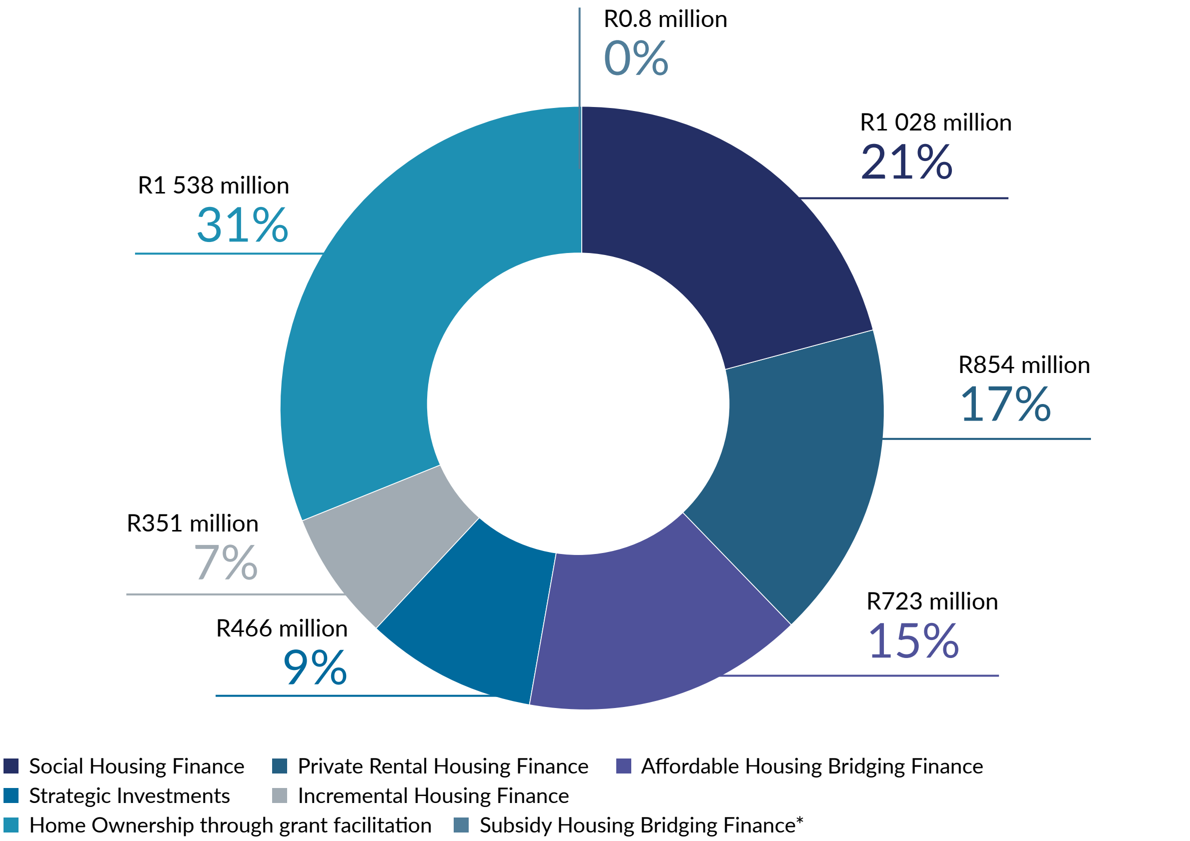
THE NHFC'S OFFERING

The bulk of the funding provided by the NHFC is secured, senior debt with security in the form of mortgage loans or the client's underlying loan book. In addition, the NHFC provides funding that falls into the realms of equity and quasi equity (mezzanine debt, junior debt and preference share investing/funding).

Strategic Investments	The NHFC works closely with investors, developers and housing development agencies and funds to leverage private sector and development funders to finance and create affordable housing stock.
Social Housing Finance	This is subsidised rental housing, made available by social housing institutions (SHIs) and other delivery agents (ODAs) accredited by the Social Housing Regulatory Authority (SHRA). The NHFC provides 10%–30% project funding as secured debt with the balance provided by SHRA in the form of consolidated capital grants.
Private Rental Housing Finance	The NHFC provides medium- to long-term funding to develop or refurbish affordable privately-owned rental accommodation.
Grant Facilitation	The NDoHS commissioned the NHFC to administer and facilitate delivery and access to the Finance Linked Individual Subsidy Programme (FLISP) nationally with effect from 1 April 2019. In 2023 the programme was re-branded to First Home Finance and launched in February 2023. The First Home Finance Programme offers qualifying applicants a once off subsidy to make buying or building homes more affordable and offers a measurable opportunity to reduce the eventual monthly loan repayment instalments.
Affordable and Subsidy housing – Bridging Finance	The NHFC provides bridging development finance to contractors and developers involved in the development of subsidy and affordable housing. Funding is provided to contractors who have been awarded contracts by public and private sector entities for the construction of subsidy housing and related community facilities. For affordable home ownership, the NHFC invests in developments where individuals purchase completed units through mortgages. These bridging finance products are typically short- to medium-term and assist contractors and developers with a revolving facility throughout the duration of construction.
Incremental Housing Finance	The NHFC offers funding to non-banking intermediaries, who on-lend to homeowners, for incremental improvements, including additional living space. Funding is facilitated to empower both rural and urban low-income earners to better their living conditions.
Strategic Partnerships and Programme Management	The NHFC enters into Memorandum of Understanding (MoUs) with strategic partners in the human settlements ecosystem with a view to collaborate on funding projects as well as on advocacy work for funding programmes run by the NHFC. Programme management and project implementation services are offered to provincial and local authorities to enhance the development of project and programme management capacity and enhance service delivery in the human settlements sector.

The NHFC capital allocation to the various programmes is as follows:

Figure 1: NHFC's allocated capital as at 31 March 2023



*Subsidy housing is a short-term revolving facility. Although balance at year end was small in comparison to the total loan book, there were investments during the year.

Cape Town Sunset Village Project

2.5 Our cumulative development impact

Figure 2: Cumulative funds disbursed directly by the NHFC

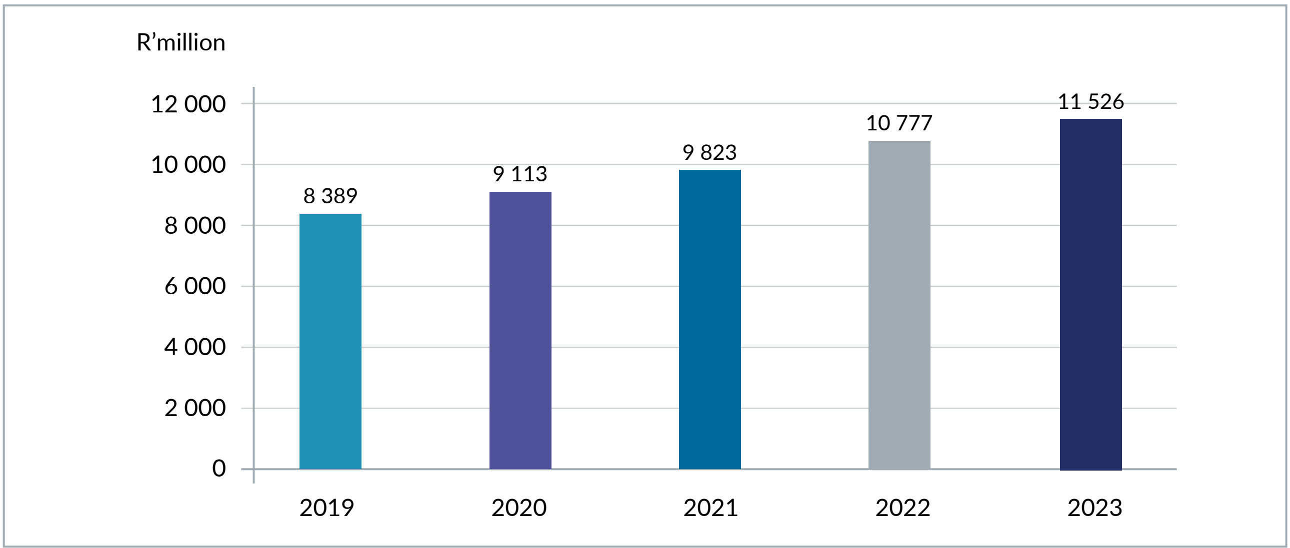


Figure 3: Cumulative housing opportunities facilitated through lending disbursements and leveraged funds

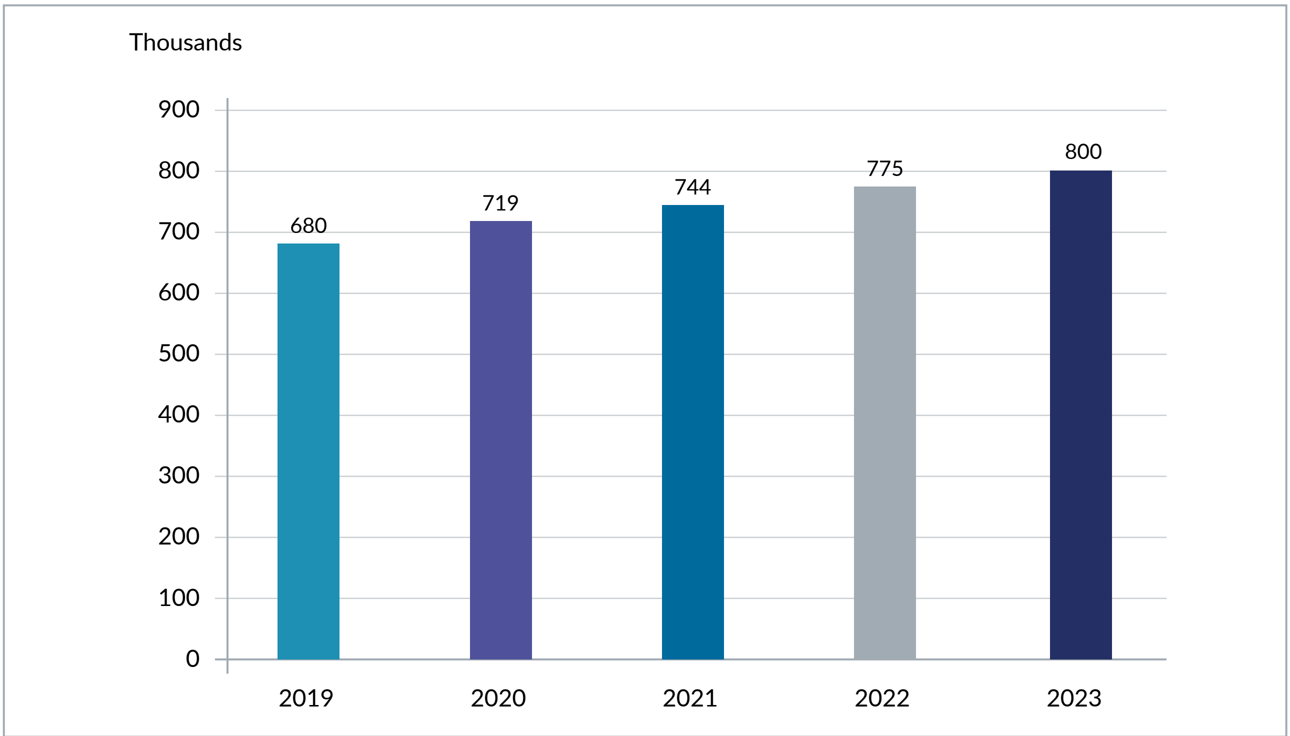


Figure 4: Private-sector funds leveraged through our funding, interventions and partnerships

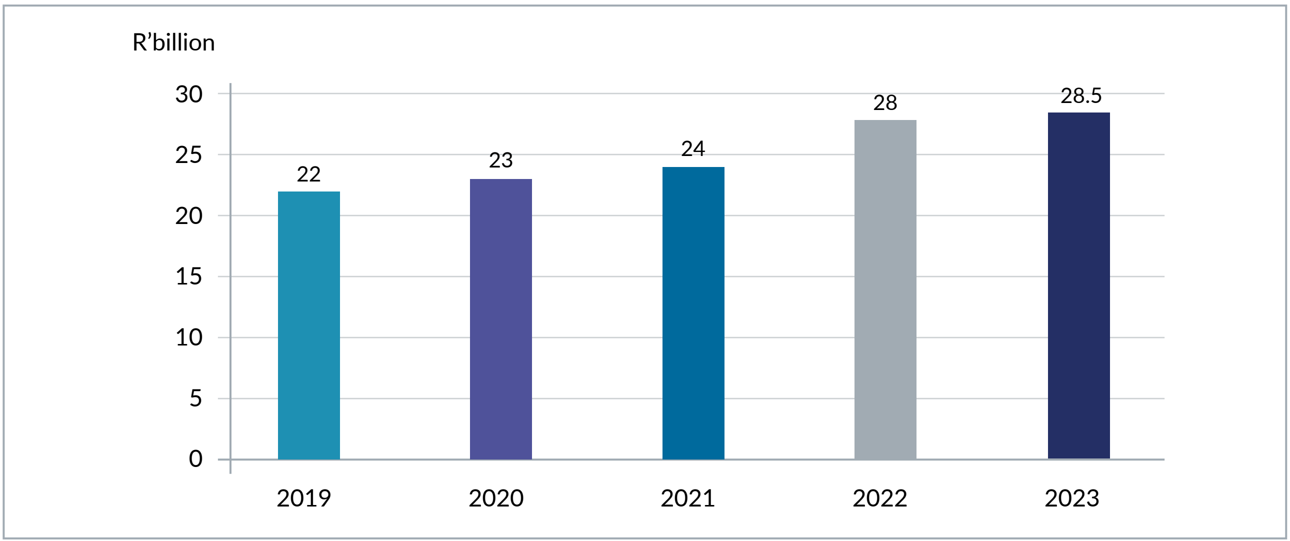
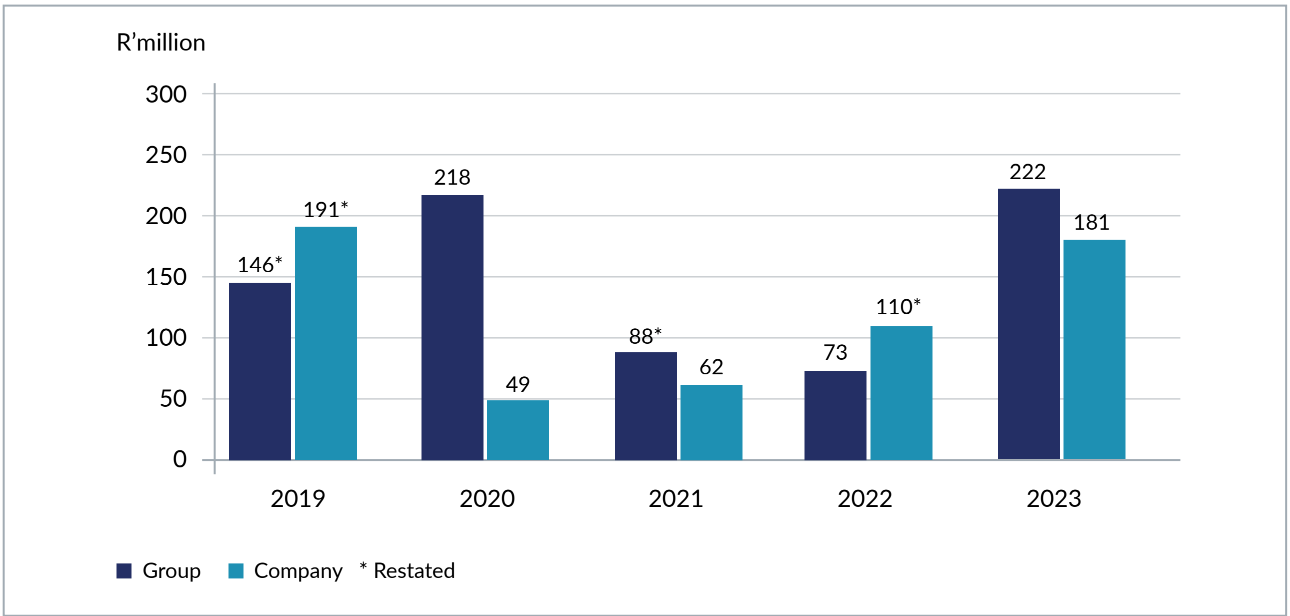


Figure 5: Financial performance – annual surplus



3. FOREWORD BY THE MINISTER

The growth of inter- and intra-country migration to urban spaces will continue to exert pressure on the supply of affordable housing. Currently, the shortage of affordable housing stock has led to the increased formation of informal settlements and urban slums and the worsening of the inner-city housing crisis. The rate of urbanisation and the attendant crisis in secondary cities has surpassed that of big Metropolitan cities. The crisis is exacerbated by the fact that some of these secondary cities are in dysfunctional municipalities which are unable to cope with the increased demand for services and lack the planning capacity to adapt to the changes in population sizes. Hence, there is a great need for the National Housing Finance Corporation (NHFC) together with the private sector to increase investments in the development of new stock.

In the year under review, the NHFC approved R989 million and disbursed R749 million for affordable housing finance in South Africa. Although, this investment will go a long way in contributing to the creation of new affordable housing stock, it is nowhere near enough to meeting the market demand. The implementation of Government Employees Housing Scheme (GEHS) will also add to increased demand for affordable housing in Metropolitan and secondary cities. Under the current fiscal constraints, government's contribution will continue to diminish, which therefore means the efforts to crowd-in private sector investments in this sector must be intensified. The NHFC must lead these efforts.

The Finance Linked Individual Subsidy Programme (FLISP) which has been rebranded to First Home Finance during this financial year, has underperformed. The underperformance has been attributed to the delays in the approval of the Housing Code Implementation Guidelines for Non-Mortgage Products, leading to the reduction in the number of subsidies and anticipated subsidy amounts. With the now approved Implementation Guidelines for Non-Mortgage Products, I expect that in the financial year 2023/24, the First Home Finance programme will show improved performance.

Transformation in the affordable housing sector remains a challenge. In the year under review, designated groups make up a small percentage of the approved pipeline which does not bode well for transformation. The NHFC must, in the new financial year, implement Broad-Based Economic Empowerment Lending and Investment Guidelines that will stimulate participation of designated groups in the sector and in the NHFC pipeline. Affordable housing, in the process of helping us transform the spatial configuration cities, must be transformed as an economic sector.

I am encouraged by the expansion of the programme aimed at increasing the participation by PDIs (particularly enterprises owned by Black people, women, youth and people living with disabilities) and support the establishment of start-ups and small enterprises. I welcome the creation of the Walmer-Gqeberha Programme in the Nelson Mandela Bay Metro, which has so far completed 52 houses at a cost of R9 million. The expansion of the programme in the financial year 2023/24, which will include the appointment of five co-operatives and the construction of 138 houses as part of the in-situ upgrading process, is an indication that transformation as deliberate effort can achieve great results.

I wish to express my gratitude to the Board, the CEO Ms Azola Mayekiso and the rest of the NHFC staff for their hard work.

Mmamoloko Kubayi, MP
Minister of Human Settlements
22/09/2023

4. CHAIRPERSON's OVERVIEW

Introduction

It is with mixed feelings that I present this strategic overview of the National Housing Finance Corporation at the culmination of my first year as Chairperson of the Board. The year has not been an easy one for either the company or our country. Indeed, it may be argued that load shedding and ailing state-owned entities and municipalities, together with the protracted recovery from the COVID-19 pandemic and the on-going Ukraine-Russian crisis, have exacerbated an already fragile situation. As poverty continues to afflict a large portion of our population, urbanisation continues to increase, ultimately moving out our end goal of access to adequate housing for everyone.

However, I am pleased to reflect on the positive strides the company has made amidst (and despite) this turmoil, including the appointment of our first female CEO, Azola Mayekiso.

Strategy and performance overview

The NHFC's strategy to achieve its mandate has remained true to form. It is founded on various sound approaches, including:

- Operating primarily as a DFI to provide wholesale funding to the affordable housing market
- Providing finance in areas where banks would typically not participate, thus addressing the missing or under-served segments of the housing market
- Identifying and entering new markets to unlock opportunities
- Facilitating financial closure for projects
- Supporting project preparation activities
- Catalysing private sector involvement
- Taking the lead in arranging and coordinating financing for projects, bringing together various stakeholders and funding sources
- Using blended finance solutions to bridge gaps and address market barriers in areas of strategic importance and high development impact.

> "As a DFI, the NHFC is self-sustaining. Capital injections from the shareholder are intended to increase delivery capacity rather than ensure the company remains a going concern."

Products (including capital allocation) and services evolving from this strategy include Strategic Investments (R466 million); Social Housing finance (R1 028 million); Private Rental Housing finance R854 million); Affordable and Subsidy Housing bridging finance (R723 million); Incremental Housing loans (R351 million); and home ownership – including retail and other (R1 538 million). The other product is First Home Finance for which the NHFC receives an allocation from the Department of Human Settlements which the NHFC disburses to qualifying applicants. The NHFC also does Programme Management in partnership with various municipalities. Performance in relation to the NHFC's five-year strategic targets is reflected in Table 4 on page 41.

Strategic relationships

The NHFC has made concerted efforts to maintain and grow relationships with its strategic partners and stakeholders during the review period, including, where possible, scheduled meetings.

An MoU was implemented with the Department of Public Service and Administration (DPSA) to inform public servants on the Government Employees Housing Scheme (GEHS) about the First Home Finance Programme. Collaboration MoUs were also signed with the National Home Builders Registration Council (NHBRC), HDA, Social Housing Regulatory Authority (SHRA) and Property Practitioners Regulatory Authority (PPRA). In addition, an engagement on the product offering was held with the South African Municipal Workers' Union (SAMWU). The company is engaging with various non-mortgage lenders to sign MoUs with the NHFC to enable their borrowers to seamlessly apply for the First Home Finance subsidy.

Engagements with several key players in the sector are ongoing, including the Infrastructure Fund (IF), the Development Bank of Southern Africa (DBSA), commercial banks, Gauteng Partnership Fund (GPF), and Agence Française de Développement (AFD). These engagements seek to establish collaborations to support the housing value chain and mobilise financing syndications for priority projects.

Two MoUs were concluded with the GPF and the IF. These two strategic partners have financing instruments and mandates complementary to those of the NHFC to advance housing financing and transformation.

Further engagements were held with AFD, with whom the NHFC has maintained a good working relationship for a long period of time. Discussions are under way to build on this foundation and increase the scope of collaboration which will take effect once the Human Settlements Development Bank (HSDB) is established. In the interim, the focus is on financing the NHFC's transitional processes and associated research required for transitioning to the HSDB.

Discussions with the Small Enterprise Finance Agency (SEFA) are ongoing, particularly regarding a partnership that would enable SEFA to extend its financing to the built environment sectors, and particularly the human settlements sector.

Operating environment

As mentioned in my introduction, several factors affected South Africa's economy and hence the NHFC's performance in the review period. In addition, the company, and the country in general, bore the brunt of public service industrial action in August and November 2022. This had severe repercussions for the NHFC, hobbling the achievement of targets and halting attempts to raise awareness among public servants about the First Home Finance Programme.

Delayed approval of the Housing Code Implementation Guidelines for Non-Mortgage Products reduced the number of subsidies and anticipated subsidy amounts and had a knock-on effect on other aspects of the First Home Finance Programme. Lenders were hesitant to enter into implementation agreements with the NHFC and reluctant to sign MoUs until final approval.

Funding

Although the NHFC has over R2 billion in undisbursed funds, the major portion of this sum is already committed to clients. The company needs to raise new funding to ensure that it can continue to deliver on its mandate. However, as the NHFC moves towards becoming the HSDB, some long-standing partners have indicated that they will hold back until the HSDB is in place. Engagements with other potential funders are ongoing and once offers are in place, the necessary approvals will be sought to allow for further capitalisation. The Board is looking at various options that can assist in recapitalising the HSDB.

Sustainability

As a DFI, the NHFC is self-sustaining. Capital injections from the shareholder are intended to increase delivery capacity rather than ensure the company remains a going concern. To achieve this, return on equity over the long term must exceed the long-term inflation rate. The NHFC's financial results for 2022/23 are impressive but it continues to achieve a return on equity below what is required. To this end, attempts are being made to:

- Improve the percentage of assets that are productive
- Better manage the debtors' book
- Improve the cost to income ratio
- Improve margins
- Gear up.

In essence we need to look more closely at the quality of our assets and pay particular attention to our post investment strategy. Both areas need further refinement and attention.

Our strategic focus in the year ahead is clearly directed at fast-tracking the establishment of the HSDB.

Transformation

The South African Government is addressing historical imbalances with inclusive and equality-seeking legislation, aimed at assisting previously disadvantaged households. In this regard, expropriation, a prevalent issue in land reform, has cast a shadow over the market as it awaits clarity. In the year under review we improved our transformation funding to designated groups by 120% compared with the previous reporting period. The NHFC supported B-BBEE compliant companies through disbursements totalling R668 million, an increase of 82%. A new indicator was introduced targeting black-owned entities, to further address historical imbalances, and while the target was not met, the NHFC disbursed R248 million to this group.

Strategic focus

Our strategic focus in the year ahead is clearly directed at fast-tracking the establishment of the HSDB. This means we will have to focus on the following:

- Finalising the HSDB enabling legislation
- Finalising the HSDB business case
- Recruiting appropriate skills for the HSDB.

This will enable the effective leveraging of government grants to maximise private sector funding and participation, leading ultimately to the transformation of the human settlements sector.

We continue to work with the department in implementing the Government Housing Employee Scheme. As the NHFC we want to ensure that no one is left behind.

Appreciation

In conclusion, I extend my sincere thanks to the Minister of Human Settlements, Ms Mmamoloko Kubayi and her department, for their guidance and support.

My appreciation also goes to the directors of our Board and Board Secretary, whose collective expertise has so efficiently guided the direction of the NHFC and the decisions of the Board and its committees.

Finally, my thanks go to the CEO, executive management, and staff of the company. Your diligence and commitment are the engine that drives the NHFC.

Mr Luthando Vutula
Chairperson: National Housing Finance Corporation

5. CHIEF EXECUTIVE OFFICER'S OVERVIEW

It is an absolute honour and privilege to serve in a capacity that contributes to providing people with a fundamental human right, which is the provision of decent human settlements. Access to housing is not only a basic human need but also the cornerstone for overall well-being, stability, and the fulfilment of other aspirations. Working towards ensuring everyone has access to a safe and affordable home can have a profound impact on individuals, families, communities and the economy; contributing to a more equitable and prosperous society.

The year under review saw the NHFC approving R989 million and disbursing R749 million for affordable housing finance in South Africa. It is commendable to be part of these efforts that positively impact people's lives. **Another key milestone was the re-branding of FLISP (Finance Linked Individual Subsidy Programme) to 'First Home Finance'**. This signifies a strategic shift in how the programme is positioned and communicated to its target audience. This is not a mere name change; it signifies benefits like accessibility, relatability and connection as the word 'home' resonates with the target audience.

Having joined the NHFC in March 2023, I walked into an organisation that in my opinion is primed for a refresh. A refresh in terms of its culture, transformation efforts, customer-centricity and funding sources. This refresh is embodied in our four core pillars that will be used to migrate from the current NHFC to the Human Settlements Development Bank (HSDB).

The work towards the establishment of the HSDB has received renewed impetus and a dedicated project management office (PMO) will be in place by the second quarter of the new financial year. The work of this PMO will culminate in an organisational design which is appropriate for all the core functions of the HSDB.

Review of core programmes

The context within which the NHFC has delivered its results is that of a depressed economy where GDP growth was a mere 2% in 2022. Global and domestic challenges have contributed to the slowdown. Local factors included recurring electricity supply interruptions, transport and logistics challenges, inflationary pressure and increased interest rates.

The NHFC's purpose is to improve people's lives by ensuring it funds the development of affordable housing thus ensuring that beneficiaries have decent homes. Its dual mandate is also to transform the ownership patterns in the industry delivering homes to align with the demographics of our country.
At group level, the performing book of the NHFC increased by R617 million. This was attributed to higher disbursements and a reduction in the non-performing book (loans that were in default). At company level, the NHFC collected R945 million from the total current book and R1.1 billion at group level. This was primarily driven by affordable housing programme clients who paid off their outstanding exposures ahead of schedule. Collections exceeded the budgeted amount. Social Housing collected R75 million, while Private Rental collected R113 million during the period. The company arrears decreased by R91 million, going from R343 million to R252 million. The reduction in arrears and successful implementation of the debt relief programme have contributed to improved financial performance.

In 2021/22 new policy measures were approved for First Home Finance to enable households to access non-mortgage products in addition to those who already had access to subsidies with mortgages.

The programme, however, continued to face challenges including the delay in approving Housing Code Implementation Guidelines for Non-Mortgage Products, which is required by lenders to enter into implementation agreements with the NHFC. This delay meant limited uptake of the programme non-mortgage finance.

The Subsidy Housing Programme was unable to meet both its approval and disbursement targets because of the extremely low deal pipeline and client base. The challenge is exacerbated by the Irrevocable Payment Undertaking, an undertaking signed by the contractor and acknowledged by the Employer (provincial departments or municipalities). This undertaking guarantees that funds will flow into a dual project account, opened under the contractor's name, to which NHFC-authorised signatories are account administrators.

General financial review

The NHFC budgeted for a lower increase in interest rates than the South African Reserve Bank (SARB) eventually provided. This also led to higher interest expenses than budgeted. This increase in interest revenue was offset by lower than budgeted management fees, leading to lower revenue than budgeted.

Operating expenses were substantially lower than budgeted for because of posts either being removed from the structure or recruitment taking place later than budgeted for. Overall, the economic climate benefited the NHFC, with higher interest rates being achieved without a need for additional impairments.

Financial results

	2023			2022	
Group	Actual R'000	Budget R'000	Variance %	Restated R'000	Variance %
Revenue	655 345	664 847	-1.4%	531 024	23.4%
Cost of sales	(106 035)	(151 386)	-30.0%	(100 978)	5.0%
Gross margin	**549 310**	**513 461**	**7.0%**	**430 046**	**27.7%**
Other operating income	31 626	8 412	276.0%	13 180	140.0%
Operating expenses	(246 029)	(339 388)	-27.5%	(262 354)	-6.2%
Operating surplus	**334 907**	**182 485**	**83.5%**	**180 872**	**85.2%**
Fair value adjustments, interest and losses on disposal	(135 648)	58 254	-332.9%	(107 550)	26.1%
Surplus before taxation	**199 259**	**240 739**	**-17.2%**	**73 322**	**171.8%**
Taxation	22 558	-	-	(584)	-3 962.7%
Surplus after taxation	**221 817**	**240 739**	**-7.9%**	**72 738**	**205.0%**

	2023			2022	
Company	Actual R'000	Budget R'000	Variance %	Restated R'000	Variance %
Revenue	421 204	464 688	-9.4%	356 954	18.0%
Cost of sales	(28 931)	(88 117)	-67.2%	(54 439)	-46.9%
Gross margin	**392 273**	**376 571**	**4.2%**	**302 515**	**29.7%**
Other operating income	33 457	-	-	8 062	315.0%
Operating expenses	(198 746)	295 759	-32.8%	(217 491)	-8.6%
Operating surplus	**226 984**	**80 812**	**180.9%**	**93 086**	**143.8%**
Fair value adjustments, interest and losses on disposal	(45 536)	8 954	-608.6%	16 544	-375.2%
Surplus before taxation	**181 448**	**89 766**	**102.1%**	**109 630**	**65.5%**
Taxation	-	-	-	-	-
Surplus after taxation	**181 448**	**89 766**	**102.1%**	**109 630**	**65.5%**

Outlook

Funding

Although the NHFC has over R2 billion in undisbursed funds, the majority of this is already committed to clients. Consequently, the company is looking to raise new debt funding to ensure that it can continue to deliver on its mandate. Engagements with a variety of potential funders are ongoing and once offers are in place, the necessary approvals will be sought to allow for this capital raising.

Sustainability

The NHFC, as a DFI, is required to be self-sustaining with any capital injections from the shareholder intended to increase delivery capacity rather than ensure the company remains a going concern. To achieve this, the company is of the view that return on equity must, over the long term, exceed the long-term inflation rate. Despite the NHFC having achieved financial results well ahead of budget it continues to achieve a return on equity below what is required despite the current return on equity ratio steadily increasing after two slow year's post-COVID. Several measures are being taken to address this situation including:

- **Improving the percentage of assets that are productive:** Interest is earned at, or above, prime on loans, while investments are below this.
- **Better management of the debtors' book:** An area that will hold the NHFC back from improving its productive assets is the risk of impairments. The goal is to maintain the current levels.
- **Improving cost to income ratio:** The cost to income ratio is difficult to control. When interest rates decline, a zero increase in costs leads to an increase in the cost to income ratio.
- **Improving margins**
- **Improving debt to equity ratio:** The gearing of the NHFC as a financial institution needs to exceed 100%. This will improve both the company's capacity to deliver as well as mitigate exposure to interest rate fluctuations.

Capacity review

In readying itself for the HSDB, the NHFC is looking to automate its operating environment and is in the process of procuring an ERP system which will help modernise our systems in our core operations. The system is in the final procurement stages and management is confident that we will have a system in place by the end of September 2024.

The organisation has also digitised the application process for beneficiaries of First Home Finance by creating an application portal which will be enhanced in line with the approval of non-mortgage products.

The NHFC is primed to take over the administration of the Government Employees Housing Scheme and to this end will forge strategic partnerships that will enable it to successfully pilot the value proposition that we have designed for the scheme. This is a critical project for the NHFC and will necessitate that we beef up capacity in the unit that interfaces with beneficiaries of First Home Finance who include qualifying members of GEHS.

Supply chain management

Supply chain processes have been a matter of concern for the company for many years and with the rollout of the new Enterprise Resource Planning (ERP) system, the processes will be greatly enhanced. A CSD Request for Quotations function will also be operationalised, which will accommodate the implementation of the revised Preferential Procurement Regulations of 2022.

There were no unsolicited bid proposals for the year under review.

Challenges experienced.

Despite recent appointments of new contractors across various provinces, it remains a challenge to source new business without signed Irrevocable Payment Undertakings in place. In this regard, the NHFC will continue to engage with provincial departments to resolve this matter.

The COVID-19 lockdown regulations impacted Incremental Housing clients. They were in breach of their financial covenants, as disbursements and collections slowed down.

Audit report matters

In 2021/22, the NHFC received an unqualified audit report with material findings for the fourth consecutive year. An action plan was drawn up which itemised each finding of the Auditor-General, explored the root causes, and designating responsibility for the corrective action. Certain of the actions required longer periods to complete, and as such would not be completed in the financial year. Significant steps have been taken to date to rectify the findings; however, the process needs to be accelerated. Of the 129 matters identified, 41 have been completed, 31 are not yet due and 57 remain overdue. The outstanding matters are mostly in the Finance, SCM and ICT units. Work is underway to rectify these matters and a significant number will be resolved once the ERP system is implemented.

Looking forward

Since the late 2010s, the NHFC has been working towards conversion to an expanded role as the Human Settlements Development Bank (HSDB), to facilitate the consolidation of funding streams for projects, and the crowding in of a broader section of the private sector. The process is now subject to the preparation of draft legislation by the NDoHS before it can be taken to Cabinet. This expanded role carries with it obligations beyond just the delivery of houses. Such obligations include an advocacy role, facilitation, co-ordination, and collaboration with key stakeholders, and providing technical support optimise the housing value chain. The NHFC is working to establish partnerships that begin to pave the way for the implementation of its mandate as the HSDB.

Instilling a high performance culture and all the outlined efforts to enhance the capacity of the NHFC are mission critical for the next financial year and these will be areas that receive management's focused attention. Key to mention are all the efforts to enhance how we do things in the core operations – enhancements will be put in place to improve our investment and post-investment monitoring processes. Benchmarking will be our guiding principle such that best practice is infused into the NHFC/HSDB.

Events after the reporting date

The dedicated Project Management Office (PMO) for the establishment of the HSDB will be in place by the second quarter of the new financial year. A restructuring of the NHFC will follow once the optimal organisational structure has been confirmed. Allied to this, a competency and skills assessment will be conducted for all functions to ensure that the HSDB has the right skills and competencies in place. The PMO will also provide strategic support, by operationalising the new strategic focus areas as developed by the new Board. Finally, the PMO will assist the NDoHS in finalising the establishing legislation for the HSDB.

Housing Code Implementation Guidelines for the non-mortgage products of First Home Finance, were approved in April 2023. This will accelerate uptake of the First Home Finance subsidy for beneficiaries that do not qualify for mortgages, and it is anticipated that this will broaden the reach of the programme to rural areas.

Appreciation

I would like to express my sincere gratitude to the Board, EXCO and the staff of the NHFC for their guidance, teamwork and enthusiasm, in these, the first few months of my tenure. I would be remiss if I did not thank Mr Bruce Gordon and the executive team, who played a key role in laying strong foundations for the entity leading to this point of its evolution. I look forward to, together, taking the NHFC forward progressively.

Ms Azola Mayekiso

Chief Executive Officer: National Housing Finance Corporation

6. STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE INTEGRATED ANNUAL REPORT

To the best of our knowledge and belief, we confirm the following:

All information and amounts disclosed in the Integrated Annual Report are consistent with the Annual Financial Statements audited by the Auditor-General of South Africa.

The Integrated Annual Report is complete, accurate and is free from any omissions.

The Integrated Annual Report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.

The Annual Financial Statements (Part G) have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) applicable to the public entity.

The Accounting Authority/Board is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.

The Accounting Authority/Board is responsible for establishing, and implementing a system of internal control has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the Annual Financial Statements.

The Auditor-General of South Africa is engaged to express an independent opinion on the Annual Financial Statements.
In our opinion, the Integrated Annual Report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2023.

Mr Luthando Vutula
Non-Executive Chairperson

Ms Azola Mayekiso
Chief Executive Officer

7. STRATEGIC OVERVIEW

7.1 Vision
The apex financing partner of choice in the affordable housing value chain.

7.2 Mission
Enabling access to housing finance for low-to middle-income families through strategic partnerships and promoting the sustainability of the human settlements' ecosystem, through the use of our strategic pillars as illustrated on page 10.

7.3 Values
Our guiding values are:

- Accountability
- Collaboration
- Excellence
- Leadership
- Integrity
- Innovation
- Diversity
- Ubuntu
- Professionalism

8. LEGISLATIVE AND OTHER MANDATES

The NHFC is a Schedule 3A public entity in terms of the Public Finance Management Act 1999 and is registered in terms of the Companies Act of 2008. The public company continues to comply with its existing legal format whilst the drafting of new legislation is in progress but is starting to operationalise the HSDB model. The constitution documents will be altered to conform to the HSDB requirements that will be outlined in legislation once it has been promulgated.

8.1 Constitutional mandate

Section 26 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), states that:

(1) Everyone has the right to have access to adequate housing.

(2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

The NHFC was established in terms of the National White Paper: A New Housing Policy and Strategy for South Africa, 1994, which is a broader policy document on the challenges that the country faced around housing and the substantive responses and strategy necessary to overcome the challenge.

8.2 Legislative mandates

Table 1: Legislative mandates of the NHFC

Regulation	Purpose
Housing Act, 1997 (Act No. 107 of 1997)	Provides for the facilitation of a sustainable housing development process. For this purpose, it lays down general principles applicable to housing development in all spheres of government
Companies Act, 2008 (Act No. 71 of 2008) and the Companies Regulations, 2011	Provides the regulatory framework for enterprises of all types and sizes to promote growth, employment, innovation, stability, good governance, confidence, and international competitiveness
Housing Consumers Protection Measures Act, 1998 (Act. No. 95 of 1998) as amended by Act No. 27 of 1999)	Makes provision for the protection of housing consumers, and provides for the establishment and functions of the National Home Builders Registration Council
Consumer Protection Act, 2008 (Act No. 68 of 2008)	Promotes a fair, accessible, and sustainable marketplace for consumer products and services
Public Finance Management Act, 1999 (Act No. 1 of 1999 (PFMA) and Treasury Regulations	Promotes good financial management within the public service to maximise service delivery through the effective and efficient use of limited resources
Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001)	Establishes a Financial Centre and Money Laundering Advisory Council to combat money laundering activities

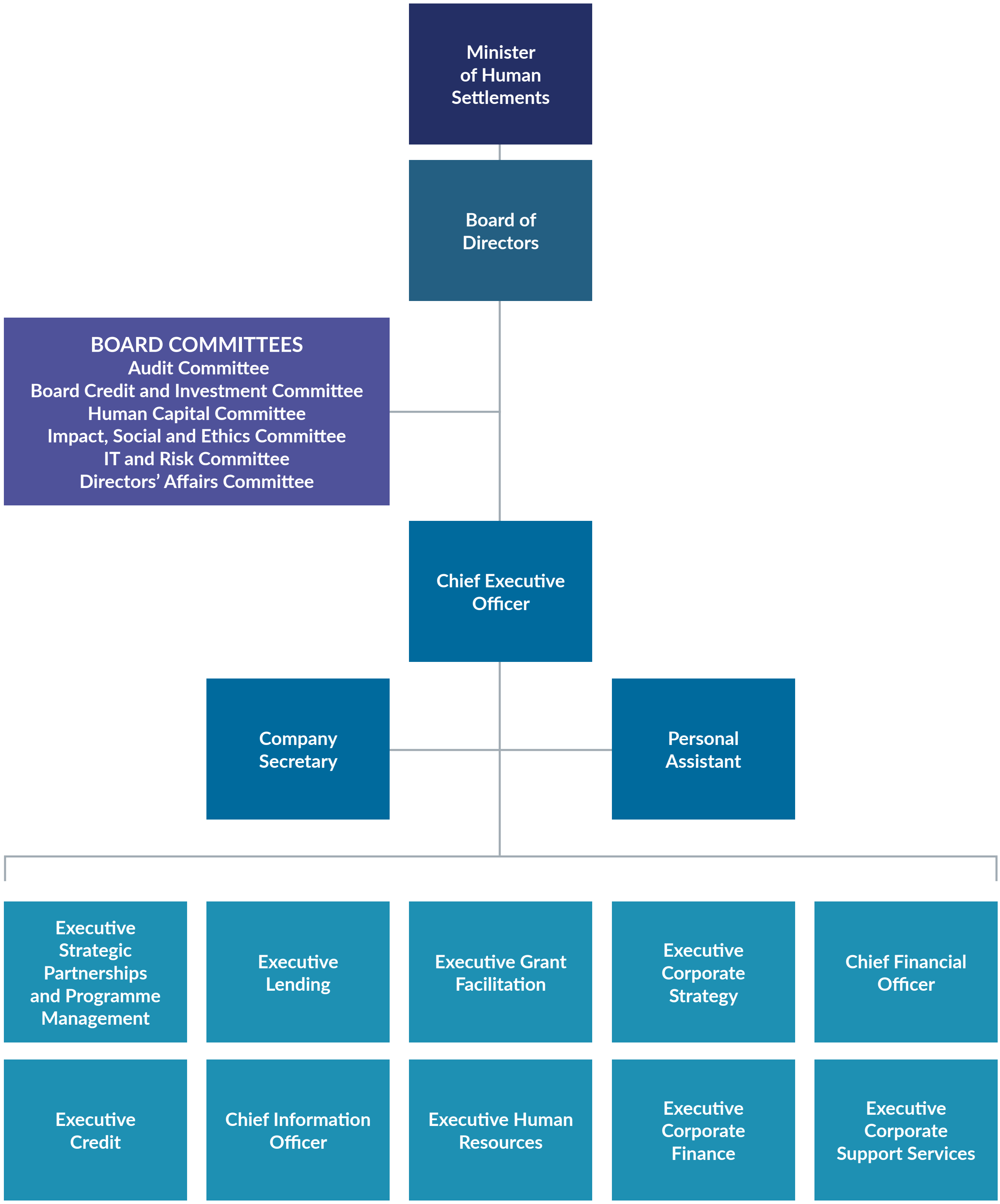
Regulation	Purpose
National Credit Act, 2005 (Act No. 34 of 2005)	Promotes and advances the social and economic welfare of South Africans; promotes a fair, transparent, competitive, sustainable, responsible, efficient, effective, and accessible credit market and industry, to protect consumers
Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)	Introduces the Twin-Peaks model of financial sector regulation in South Africa and establishes the Prudential Authority under the SARB and the Financial Sector Conduct Authority (replacing the Financial Services Board). The purpose of the Act is to achieve a stable financial system that works in the interests of financial customers and supports balanced and sustainable economic growth
Housing Development Act, 1997 (Act No. 107 of 1997)	Facilitates a sustainable housing development process by laying down general principles applicable to housing development in all spheres of government
Rental Housing Act, 1999 (Act No. 50 of 1999)	Defines the responsibility of government in respect of rental housing property to create mechanisms to promote the provision of rental housing property
Home Loan and Mortgage Disclosure Act, 2000 (Act No. 63 of 2000)	Promotes fair lending practices by encouraging financial institutions to disclose information, and identifies discriminatory lending patterns
Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)	Gives effect to Section 217(3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in Section 217(2) of the Constitution, and provides for matters connected therewith
Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004)	Provides for the strengthening of measures to prevent and combat corruption and corrupt activities; provides for the offence of corruption and offences relating to corrupt activities; provides for investigative measures in respect of corruption and related corrupt activities
Prevention of Organised Crime Act, 1998 (Act No. 121 of 1998)	Introduces measures to combat organised crime, money laundering and criminal gang activities; prohibits certain activities relating to racketeering; provides for the prohibition of money laundering and an obligation to report certain information in the Criminal Matters Act 1996; repeals the Proceeds of Crime Act, 1996 and incorporates provisions contained therein and matters connected therewith
Protection of Personal Information Act, 2013 (Act No. 4 of 2013)	Aims to ensure that all South African institutions conduct themselves in a responsible manner when collecting, processing, storing, and sharing a person or entity's personal information
Promotion of Access to Information Amendment Act, 2002 (Act No. 54 of 2002)	Amends the Promotion of Access to Information Act, 2000, by revising a definition and providing for the training of presiding officers in the magistrates' courts for purposes of the Act; and providing for matters connected therewith
Social Housing Act, 2008 (Act No. 16 of 2008)	To establish and promote a sustainable social housing environment, to define the functions of national, provincial and local governments in respect of social housing

8.3 Policy mandates

As a development financial institution which was established by the National Department of Housing in 1996, NHFC's operations are influenced by a broad range of policies:

- **White Paper: A New Housing Policy and Strategy for South Africa, 1994** – a broader policy document on the challenges that the country faced around housing and the substantive responses and strategy to the challenge (including the establishment of the National Housing Finance Corporation)
- **Government Notice, No. 1378 of 17 October 1997** – providing for the designation of an institution of which the activities do not fall within the meaning of "the business of a bank" (namely the National Housing Finance Corporation Limited)
- **The National Housing Code, 2000 amended in 2009** – which sets the underlying policy principles, guidelines, norms, and standards which apply to government's various housing assistance programmes introduced since 1994
- **Breaking New Ground (BNG), 2004** – a comprehensive plan for new sustainable human settlements, shifting focus from social to financial/wealth creation and from quantitative to qualitative standards.

9. ORGANISATIONAL STRUCTURE



9.1 The Executives

Azola Mayekiso
Chief Executive Officer

Nthabiseng Mongali
Company Secretary

Bruce Gordon
Chief Financial Officer

Vaneshree Pillay
Acting Executive Manager Corporate Support Services

Dr Nomsa Ntshingila
Executive Human Resources

Viwe Gqwetha
Executive Strategic Partnerships and Programme Management

Mandu Mamatela
Executive Corporate Strategy

Jabulani Fakazi
Executive Grant Facilitation

Vuyokazi Menye
Chief Information Officer

Tsholofelo Ramotsehoa
Executive Lending

Mogotsi Oepeng
Executive Credit

Zola Lupondwana
Executive Corporate Finance

PART B:
PERFORMANCE INFORMATION

1. AUDITOR'S REPORT: PREDETERMINED OBJECTIVES

The AGSA currently performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to management, with material findings being reported under the Predetermined Objectives heading in the Report on other legal and regulatory requirements section of the auditor's report.

Refer to pages 128 to 129 of the Auditor's Report, published in Part G: Annual Financial Statements.

2. HOW THE MACRO ENVIRONMENT AFFECTS US

2.1 Service delivery environment

The Africa Renewal publication indicates that South Africa is going through a housing backlog. According to the publication, the Department of Human Settlements has reportedly built over 2.7 million low-cost houses over the past 15 years but still faces an estimated backlog of 2.6 million inclusive of 2.3 million in the Department of Human Settlements' National Housing Needs Register (NHNR).

The number of residential property transfers registered in the Deeds offices has been on a downward trend since 2022, suggesting that fewer people are affording to buy homes, albeit that house prices have not crashed, and commercial banks are still keen to extend mortgages. Furthermore, inflation has been on the rise which has increased building costs resulting in a decrease in the availability of affordable housing stock.

On the back end of a 13-year high inflation rate of 7.8% in July 2022, inflation drivers slowed in the fourth quarter of 2022, (Oct–Dec). Economists therefore forecast a Gross Domestic Product (GDP) growth of just above 1.0% year-on-year for 2023.

The South African Reserve Bank Monetary Policy Committee (MPC) has raised interest rates throughout the year under review, as inflation continues to exert pressure on the mandate of the MPC.

The income of the NHFC is sensitive to movements in interest rates and other general economic indicators which affect the demand for housing projects. The NHFC's business is therefore highly susceptible to interest rate changes, with more than 90% of its lending book linked to the prime lending rate.

Economic and financial conditions are expected to remain volatile for the foreseeable future. In this highly uncertain environment, policy decisions will continue to be data dependent and sensitive to the balance of risks to the outlook.

The key drivers of business performance for the NHFC as a lending business are loan book growth, quality of the loan book (level of impairments and write-offs), the interest margin, the capital structure (debt and equity mix) and cost efficiency of the business, and general market conditions affecting the underlying market. Of these, operational efficiency is one of the few aspects over which the NHFC has control.

> "The rise of the digital economy, innovation and deployment of robust and responsive technologies affects the reach of the NHFC and will allow it to operate in new demographic locations."

Political and social environment

Four primary factors dominated the political and social environment during the period under review and continue to do so, namely load shedding, ailing state-owned companies (SOCs). COVID-19 pandemic recovery, and continued urbanisation and poverty.

Load shedding of electricity by South Africa's power utility, Eskom, escalated dramatically, wreaking havoc in the daily lives of citizens, putting a damper on production output, and ultimately paralysing the economy. According to the CEIC, industrial production fell 5.1% year-on-year in February 2023 following a drop of 4.5 % year-on-year in the previous month. Adding to this, Eskom applied to the National Energy Regulator of South Africa (NERSA) to have consumer tariffs increased by up to 35% in 2023 and was given approval for an 18.65% hike.

The ailing state of SOEs in general, amidst the turmoil of mismanagement, fraud, corruption, and lawlessness, played a huge role in the deceleration of growth in the country. Investor confidence in the public sector diminished. With the ratings released in November 2022, S&P Global Ratings Agency maintained South Africa's government bonds below investment grade but acknowledged an improvement in the fiscus. South Africa's sovereign credit ratings status, set by major ratings agencies Moody's, S&P Global, and Fitch remain deep in junk territory. S&P Global did, however affirm South Africa's currency debt ratings at BB-, retaining a slightly positive outlook.

Recovery following the COVID-19 pandemic has been painfully slow, with increases in the cost of living, inflation, and interest rates leaving very little money in the pockets of households. South Africa's private sector credit increased by 8.3% year-on-year in November 2022, easing from a 9.34% growth a month earlier. However, this was the 17th straight month of growth in private sector credit. With the cost of living rising by the day, it seems that the credit extension trajectory will continue to move upwards as more and more households are living hand to mouth and have become heavily and solely dependent on credit to get by. Current rental agreements and payment conditions are negatively impacted, as businesses and households increasingly renege on payment agreements.

Rapid urbanisation, population growth and poverty continue to increase migration to metropolitan areas, exerting pressure on urban human settlements and access to services. As a result, informal settlements continue to grow and remain a challenge to eradicate. At the same time, the significant number of citizens remaining in rural areas, need access to government services.

Technological advancements

The advent of the Digital Era has brought new technologies and innovation into the market, enabling lower income households to access affordable finance. These technologies include enterprise mobility, the use of mobile and online platforms to source funding, and utilisation of Blockchain, Big Data, Analytics, the Internet of Things (IoT) and Artificial Intelligence (AI) to enable increased spatial planning.

The rise of the digital economy, innovation and deployment of robust and responsive technologies affects the reach of the NHFC and will allow it to operate in new demographic locations. Adoption of innovative and new technologies has the capacity to improve service delivery and operational efficiencies. To gear the company for the effective implementation of the HSDB, significant investment will be needed in Information Communications Technology (ICT) capital expenditure (Capex) and hiring of the necessary skills required.

Innovation in housing materials has led to cheaper raw materials being available to build better quality housing.

Building projects on a larger scale can dramatically change the productivity and cost of delivering housing, making it possible to employ techniques such as repeatability and off-site fabrication.

Environmental factors

Increased awareness of ecological footprint continues to provide new considerations to ensure that the needs of both the company and its beneficiaries are met in a sustainable manner.

Legal environment

As a result of increased political scrutiny around affordable housing solutions and land reform, the South African Government is seeking to address historical imbalances with inclusive and equality-seeking legislation, aimed at assisting previously disadvantaged households.

2.2 Organisational environment

The NHFC is listed as a Schedule 3A public entity in the Public Finance Management Act, 1999 (Act No. 1 of 1999) and is registered in terms of the Companies Act, 2008 (Act No.71 of 2008). The operationalisation of the HSDB model is still in progress while enabling legislation is drafted and the NHFC hopes that this process can be finalised in the near future.

> "To ensure a healthy leadership pipeline, a vibrant succession pool (25) of candidates is in place on the NHFC Mentorship Programme."

Human capital

Since the NHFC's employees are its most valuable asset, every effort is made to create a culture of excellence by ensuring the development of employees for technical efficiency, building a leadership pipeline and ensuring a culture of knowledge creation.

Human capital management tracks vacancies, staff turnover, training, and development (including on the job and technical and leadership training) to ensure that the NHFC has the capacity to deliver on its mandate. In so doing, the company also manages risk and develops mitigating responses to risks identified.

Table 2: Human Capital's strategic responses to risk factors

Risks	Strategic Response
Changing Operating Environment	Reviewed Human Capital Policy Framework • Flexi-hours and remote working policy and employee's performance agreements. • Approved hybrid approach to work. • Defined competencies for employees whose work was affected by remote working (multi-skilling). • Change Management: Change management to familiarise employees with the changing environment. • Employee Wellness: Wellness programme tailored to address physical, mental, and financial employee matters.
Employee Related Risk	Employee Risk Register reviewed quarterly.
Culture	Culture Survey • Employees survey, results and recommendations reviewed. • Survey results implemented.
Values	Employee Bottom-Up Value Creation • Process of Value Embedding concluded, including: - Championing of values by Executive Managers - Creation of an Executive Manager Value blog to embed organisational values. • Functional values implemented.
Ethics	Managing Ethics in the Workplace • Encouraging employees to submit gift registers when they receive gifts. • Encouraging employees to declare and submit conflict of interest forms as soon as they become aware of a conflict.

Of a total of 41 vacancies in this financial year, 23 positions were filled. The remaining 18 positions were at different stages of the recruitment process by year-end. Two of the 23 appointments included those of the CEO and Company Secretary. These appointments have already assisted in stabilising the company's operations. Currently only one executive-level position is still vacant, and it is anticipated that this will be filled in the new financial year.

Two interventions are directed at managing the risk of ageing leadership, namely succession planning implementation and the training and development of employees in the leadership pipeline through mentoring and/or coaching.

The company continues to train staff to ensure a competent workforce. Employee Development has four pillars: Experiential Learning which comprises the Graduate Programme, Training Chartered Accountants and the NHFC Learnership Programme. Training and development for technical efficiency is ongoing, based on individual employee development plans.

To ensure a healthy leadership pipeline, a vibrant succession pool (25) of candidates is in place on the NHFC Mentorship Programme. Some of the candidates have enlisted in additional leadership growth programmes.

Table 3: Employee development pillars

Employee Development Pillars	
Experiential Learning	**On-boarding and Performance**
Leadership Development	**Succession and Sustainability**

ICT

An Online Application Portal on the enhanced CRM System was launched by the Minister in February 2023 to assist in automating the processing of First Home Finance applications. The CRM System, however, needs further enhancement to accommodate online applications for First Home Finance with non-mortgage products.

The NHFC has a drive to establish productive ICT partnerships that will add weight to resolving challenges that hamper financial closure on many projects in the pipeline.

Industrial action and technology failures

The NHFC experienced a go-slow during March 2023 which resulted in several First Home Finance applications not being completed by the time the financial year ended. Disbursements and approvals across all product lines were also negatively impacted. The suspension of the NHFC deeds account from 13 to 24 March, and NHSDB technical glitches between 27 and 29 March, resulted in searches not loading. More than 200 First Home Finance applications were not completed, which would have improved the reported number of approvals and, to some extent, the value of approvals.

First Home Finance

The NDoHS commissioned the NHFC to administer and facilitate delivery and access to FLISP nationally, with effect from 1 April 2019. The FLISP programme was rebranded to First Home Finance during this financial year and officially launched by the Minister at Sky City in Ekurhuleni on 24 February 2023.

The NHFC had hoped to add non-mortgage products to the First Home Finance offering during the year under review, as this would increase the volume of subsidy applications as well as the average amount of subsidies because non-mortgage products are predominantly accessed by households in lower income brackets, especially those living in rural areas.

Delays in the approval of Housing Code Implementation Guidelines for Non-Mortgage Products not only reduced the number of subsidies and anticipated subsidy amounts but resulted in a knock-on effect on many other aspects of the First Home Finance Programme. Lenders have been hesitant to enter into implementation agreements with the NHFC. The signing of a Memorandum of Agreement with the Banking Association South Africa (BASA) has been delayed because they require approved Housing Code Implementation Guidelines for Non-Mortgage Products. The reconfiguration of the CRM System to accommodate non-mortgage products in line with the guidelines was also delayed.

Implementation of an MoU with the Department of Public Service and Administration (DPSA) to inform public servants on the GEHS about the programme is under way. Provincial roadshows on the programme were halted due to industrial action in the public service, however, the roadshows have been rescheduled now that the industrial action has ended.

2.3 Key policy developments and legislative changes

The NHFC is still operating in its original legal format, but it is hoped that legislation for the change to the HSDB will be promulgated in due course.

2.4 Progress towards achievement of the NHFC outcomes

The NHFC has seen progress towards achieving its five-year strategic targets which are aligned with the NDoHS' 2019–2024 Medium-Term Strategic Framework (MTSF) and National Development Plan.

Table 4: Strategic outcomes progress

Outcome No.	Outcome	Outcome Indicator	Actual Achievement Year 1 – 3 Mar-23
1	Functional, Efficient and Integrated Government	Unqualified audit opinion with no matters of emphasis (including audit of the performance report)	Unqualified audit opinion with a finding on compliance with applicable legislation (March 2023)
2	Improved delivery of affordable housing	Number of Housing Opportunities facilitated through the disbursements (No.):	
		Social Housing Units (No.)	2 269
		Private Rental Units (No.)	222
		Affordable Housing Units (Strategic Investments) (No.)	319
		Bridging Affordable – Units (No.)	2 300
		Bridging Affordable – Serviced Stands (No.)	1 209
		Bridging Subsidy – Units (No.)	1 618
		Incremental Loans (No.)	68 790
		Number of housing units facilitated through FLISP Grant Disbursements	8 533
3	Increased access to affordable finance to enable end-users to have appropriate, spatially just and adequate housing	Value of leveraged funds in strategic partnerships (R'm)	-
		Value of leveraged funds from the Private sector - Excluding FLISP (R'm)	1 101
		Value of leveraged funds from FLISP (R'm)	4 807
		Number of Leveraged Units - Private Rental and Affordable (Strategic Investments)	4 918
		Number of Provinces Covered by RFIs	9
4	Increased penetration and participation of low-to middle-income households and businesses owned by PDIs in the housing market	Percentage of disbursements to PDI Enterprise (managed programmes)	61%

Cape Town 308 on Karen Project

3. PROGRAMME PERFORMANCE OVERVIEW

The programmes of the NHFC are structured so that Programme 1: Administration is responsible for providing overall administration of the company, thereby ensuring that all programmes have the facilities, infrastructure and personnel required to achieve their planned targets. Outcomes, Outputs, Output Indicators, Targets and Actual Achievement are outlined below.

3.1 Programme 1: Administration

Programme purpose:
To provide strategic leadership, management, and support services to the entity.

Sub-programmes:
Programme 1 does not have sub-programmes.

Contribution to institutional outcomes:
This programme contributes to Outcome 1: Functional, efficient and integrated governance by facilitating: • Sound corporate governance • Efficient and effective systems and processes • Competent and adequately skilled staff • Effective and responsive ICT governance to ensure business continuity.

Key contributors to programme performance

Various divisions within the NHFC ensure that the company can adjust to changing environments while still providing support to its stakeholders with the same level of efficiency. The performance of some of these divisions/areas is showcased to illustrate the company's commitment to achieving its mandate.

- **Information and Communications Technology:** This division is responsible for ensuring that the company has access to all resources through the effective use of the most up-to-date technologies. A detailed account of this division's performance over the reporting period, and its specific interventions, follows under the heading Information and Communications Technology on page 73.
- **Human Capital Management:** Since the management of personnel is critical to ensuring that the company delivers on its mandate, a detailed report on this division's performance, and a statistical analysis of key movements of personnel, are detailed in Part E: Human Capital.
- **Stakeholder Management:** The NHFC's stakeholders are key to the success of its programmes. Maintaining regular contact with these stakeholders facilitates information exchange and buy-in and keeps the NHFC informed of changing needs in the social housing sector. Further information in this regard follows under the heading Stakeholder Management on pages 74 to 75.

Programme 1: Outcomes, outputs, output indicators and actual achievement

Table 5: Programme 1: Administration

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Functional, efficient and integrated government	Unqualified audit	Audit Outcome	Unqualified audit opinion (2019/20)	Unqualified audit opinion overall (2020/21)	Unqualified audit opinion with no material findings (2021/22)	Unqualified audit opinion with material findings	Material findings	**Target not achieved** Classification of Land bank investment as current assets due to the uncertainty of the liability solutions. Other material findings in certain disclosure notes relating to casting and supporting schedules. All material findings relating to the Financial Statements were corrected. Material findings on compliance in supply chain related legislation.
	Internal audit plan	Percentage implementation of the approved Internal Audit Plan	100% Implementation of the approved Internal Audit Plan	100% Implementation of the approved Internal Audit Plan	100% Implementation of the approved Internal Audit Plan	40%	-60%	**Target not achieved** Misalignment of IA annual plan and start date of new auditors

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Functional, Efficient and Integrated Government	Risk Management Report	Percentage implementation of the approved Risk Management Plan	100% Implementation of the approved Risk Management Plan	100% Implementation of the approved Risk Management Plan	100% Implementation of the approved Risk Management Plan	100%	None	**Target achieved**
	Procurement spend on designated groups	Percentage of procurement budget spend on women-owned enterprises	New indicator	New indicator	40% of procurement budget spent on women-owned enterprises	8%	(32%)	**Target not achieved** NHFC supplier database has limited suppliers from target groups.
		Percentage of procurement budget spend on youth-owned enterprises	New indicator	New indicator	20% of procurement budget spent on youth-owned enterprises	0.72%	(19.28%)	**Target not achieved** NHFC supplier database has limited suppliers from target groups.
		Percentage of procurement budget spend on enterprises owned by people with disabilities and military veterans	New indicator	New indicator	5% of procurement budget spent on enterprises owned by people with disabilities and military veterans	0%	(5%)	**Target not achieved** NHFC supplier database has limited suppliers from target groups.

Programme 1: Strategy to overcome areas of underperformance

The NHFC has drawn up corrective actions to address the areas of underperformance noted in Table 5. The unqualified audit opinion with material findings will be rectified by de-registering dormant and inactive subsidiaries and implementing the recently approved SCM Policy through training SCM team members. The new policy will also assist in addressing the underperformance in procuring goods and services from designated groups. A Central Supplier Database Request for Quotation function will be operationalised, which will implement the revised Preferential Procurement Regulations of 2022.

Cape Town Conradie Project

3.2 Programme 2: Integrated Human Settlements Planning and Development

Programme purpose:

To contribute to the development of policy, planning and research in the creation of sustainable and integrated human settlements, oversee the delivery of the Integrated Residential Development Programme (IRDP), and participate in coordination of intergovernmental partnerships with stakeholders.

Sub-programmes:

- 2a: Strategic Partnerships and Programme Management
- 2b: Subsidy Housing Finance (Lending)

Contribution to institutional outcomes:

Programme 2 contributes to Outcome 2: Improved delivery of affordable housing. Sub-programme 2a contributes to Outcome 3: Increased access to affordable finance to enable end-users to have appropriate, spatially just, and adequate housing, and Outcome 4: Increased penetration and participation of low ·to middle-income households and businesses owned by Previously Disadvantaged Individuals (PDIs) in the housing market.

Key contributors to programme performance

Each of the sub-programmes addressed below are key contributors to Programme 2.

Strategic Partnerships

The human settlements sector has a significant pipeline of projects with the potential to make a substantial impact in the national infrastructure development programme and economic stimulation. However, most projects that make up the long list of IRDP projects fall short of reaching financial closure. Targeted interventions and financing solutions are required to unlock the housing delivery potential.

Technical Working Group

The NHFC is a member of Infrastructure South Africa's Technical Working Group (TWG), which is mandated to evaluate the pipeline and recommend projects for consideration and approval for gazetting by the Presidential Infrastructure Coordination Council (PICC), as part of the Strategic Integrated Projects. In the year under review the TWG reviewed the project pipeline of IRDP and rental projects in order to appraise the Minister on areas that require her attention, including strengthening the institutionalisation of processes, intra-sectoral collaboration, and the requisite leadership attention to prioritise this important stream of work.

Financial sector players

Engagements with several key players in the sector are continuing, including the Infrastructure Fund (IF), the Development Bank of Southern Africa (DBSA), commercial banks, Gauteng Partnership Fund (GPF), and Agence Française de Développement (AFD). These engagements seek to establish collaborations to support the housing value chain and mobilise financing syndications for priority projects. Key highlights are:

- Two MoUs were concluded with GPF and IF. These two strategic partners have financing instruments and mandates complementary to those of the NHFC to advance housing financing and transformation.
- AFD and the NHFC have maintained a good working relationship for a long period of time. Discussions are under way to build on this foundation and increase the scope of collaboration which will take effect once the HSDB is established. In the interim, the focus is on financing the NHFC's transitional processes and associated research required for transitioning to the HSDB.
- Discussions with the Small Enterprise Finance Agency (SEFA) are ongoing, particularly regarding a partnership that would enable them to extend their financing to the built environment sectors, and particularly the human settlements sector.

Sub-programme 2a: Strategic Partnerships and Programme Management

Programme Management's purpose is to expand participation by PDIs (particularly enterprises owned by black people, women, youth and people living with disabilities) and support the establishment of start-ups and small enterprises.

The City of Cape Town Rental Stock Repairs and Maintenance Programme is currently in its third year and the NHFC's technical team continues to provide technical support to participating small contractors. Overall project performance and quality of work are commendable. The programme is one of the few in the country that has offered consistent work to as many as 123 contractors since it reached its implementation stage two years ago. It has given these contractors a rare opportunity to hone their skills, build their businesses' track records and assimilate good industry practices. The City of Cape Town's trust in the NHFC is demonstrated by their willingness to allow the NHFC to package a large-scale developmental and transformative programme as seen in this programme.

Progress has been made with the Walmer-Gqeberha Programme in the Nelson Mandela Bay Metro, with 52 completed houses at a cost of R9 million. In this Eastern Cape programme, five Co-operatives are in the process of being appointed, of which three have signed letters of appointment and the remaining two will be signing soon, all after undergoing on-site training. A further 138 houses are scheduled to be built in the next financial year as part of the in-situ upgrading process.

Lending

The lending division is responsible for the debt transactions in the organisation. Subsidy Housing Finance, which provides debt to contractors is one of five key products managed through the lending division and contributes specifically to Programme 2.

Sub-programme 2b: Subsidy Housing Finance (Lending)

The NHFC's Subsidy Housing Finance (Lending) is a bridging finance product that offers short-term revolving facilities, typically taken out over a period of 60 days or longer, to bridge contractor's cash flows, pending payment by the respective employer. In the Lending environment, disbursements are informed by approved transactions. Disbursements only occur once a transaction is approved, loan agreements are signed, and contractual conditions are met. This can result in a lag of 1–4 months between approval and disbursement of funds depending on the conditions of the contract that need to be fulfilled by both parties.

The Subsidy Housing Programme experienced a difficult year as contractors appointed to build BNG housing, struggled to obtain Irrevocable Undertakings from Provincial employers. An Irrevocable Undertaking is an undertaking signed by a Contractor and acknowledged by the Employer (Provincial Departments or Municipalities), acknowledging that funds will flow into a dual project account, opened under the Contractor's name, to which NHFC-authorised signatories are account administrators. Some of the Provincial Departments are reluctant to sign this key document which acts as security/collateral for contractors. The Western Cape is the only province that continues to support contractors by acknowledging Irrevocable Undertakings. The undertaking is key to unlocking financing for contractors as it serves as an alternative to tangible security. Without it, performance of the Subsidy Housing Finance product was challenged in terms of disbursements and approvals.

Approvals are the value of funding approved following an application by a borrower, which has undergone a due diligence process and an approval in line with the organisation's delegation of authority.

Disbursements are informed by approved transactions. These occur once transactions for funding are approved, loan agreements are signed, and contractual conditions are met.

Gauteng Mogale Junction Project

Programme 2: Outcomes, outputs, output indicators and actual achievement

Table 6: Sub-programme 2a: Strategic Partnerships and Programme Management

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
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)	0	0	7	0	(7)	**Target not achieved** It has been slow to convert MoUs signed with partners into tangible outputs and investments. Also, the targeted pipeline of IRDP projects has been slow to reach financing stage.
		Value leveraged from NHFC's strategic partnerships (R'm)	New indicator	0	15	1	(14)	**Target not achieved** It has been slow to convert MoUs signed with partners into tangible outputs and investments. Also, the targeted pipeline of IRDP projects has been slow to reach financing stage.
		Number of IRDP projects at the level of structuring collaborations	New indicator	New indicator	6	0	(6)	**Target not achieved** It has been slow to convert MoUs signed with partners into tangible outputs and investments. Also, the targeted pipeline of IRDP projects has been slow to reach financing stage.

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
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 to black-owned businesses on managed programmes (R'm)	New indicator	31	150	54	(96)	**Target not achieved** The R54 million spent to date was achieved largely through one programme in the Western Cape. The second programme in the Eastern Cape experienced several challenges that slowed down anticipated expenditure. The process of appointing Co-ops for the Eastern Cape programme was not finalised, with three having signed their appointment letter and two to still sign.
		Facilitate funding entrepreneur incubator programmes in partnership with key stakeholders in the sector	New indicator	One funding incubator programme implemented in partnership with key stakeholders in the sector	2	0	(2)	**Target not achieved** The programme undertook a procurement process to acquire external services to provide support in enrolling qualifying entrepreneurs and provide them with support during delivery of their projects. Due to the poor quality of responses by bidding service providers, no appointment was made.

Table 7: Sub-programme 2b: Subsidy Housing Finance (Lending)

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursement of approved loans	**Value of disbursements (R'm)**						
		Subsidy Housing - Bridging Finance (R'm)	133	136	206	13	(193)	**Target not achieved by R193 million** The product has an extremely low deal pipeline with few existing clients. Subsidy housing disbursed R13 million against a target of R206 million. The reason for the underachievement is due to the fact that some loans, approved in the fourth quarter of 2021/22 and loans approved year to date in 2022/23, were unable to meet CPs in relation to the Irrevocable Undertaking.
		Value of approvals - (R'm)						
		Subsidy Housing - Bridging Finance (R'm)	98	114	165	29	(136)	**Target not achieved by R136 million** Subsidy approved R29 million against a target of R165 million (18% achievement). Target not met due to low deal pipeline, and challenges with the Irrevocable Undertaking. Although Subsidy has experienced a considerably lower deal pipeline, the majority of loan applications that were under assessment amounted to R57.8 million and only R11.9 million was approved in the fourth quarter.

Programme 2: Strategy to overcome areas of underperformance

Sub-programme 2a: Strategic Partnerships and Programme Management

The NHFC has a drive to establish productive partnerships that will add weight to resolving challenges that hamper financial closure on many projects in the pipeline. Drawing from lessons learnt, focus will be on addressing upstream challenges hampering project financial closure and on scoping collaborations.

Appointing Co-operatives to the Eastern Cape programme will improve reporting on programme disbursements in the next financial year. Potential deals are under negotiation and offer prospects of new business to the portfolio of programmes.

More information about similar programmes will be sought through a Request for Information (RFI), and a business plan for the programme will be crafted.

Sub-programme 2b: Subsidy Housing Finance (Lending)

To support contractors, and ultimately enhance performance of the subsidy product, the NHFC approached the NDoHS for assistance regarding the Irrevocable Undertaking. Together with the National Department, there are ongoing engagements with the provincial Departments of Human Settlements. This will assist in ensuring that smaller contractors do not have to raise tangible security in lieu of the undertaking. Despite this challenge, there is a drive to attract more contractors, both small and large, which has been assisted by ongoing provincial workshops.

The revision of the BNG subsidy quantum, which will come into effect in the 2023/24 financial year, is expected to boost the performance of Subsidy Housing as it is anticipated that more tenders will be issued by relevant authorities.

Gauteng Mogale Junc Affordable Housing North West Klerksdorp Ext28

3.3 Programme 4: Rental and Social Housing Programme

Programme purpose:
Promote the provision of affordable rental housing and develop capabilities in the rental housing sector through intergovernmental collaboration.

Sub-programmes:
There are no sub-programmes.

Contribution to institutional outcomes:
Programme 4 contributes to Outcome 2: Improved delivery of affordable housing through the approval and disbursement of finance for Social Housing and Private Rental Housing.

Key contributors to programme performance

The rental portfolio includes both Social Housing and Private Rental Financing products. The NHFC is the biggest debt provider in Social Housing and provides funding to qualifying, accredited Social Housing Institutions (SHI) and Other Delivery Agents (ODA) who are subsidised by government to provide social housing developments for households earning from R1 850 to R22 000. The portfolio's performance is significant, as it is one of the biggest portfolios of the NHFC, and a priority housing programme of the NDoHS.

Social Housing disbursements demonstrated a positive performance because of the number of large projects which drew from approved facilities during the course of the year. In Social Housing specifically, the disbursement process from the sources of funding is such that debt is disbursed last. As such, there is a significant lag between project approval and disbursements that can range from 6–18 months, depending on the construction programme of the units under construction.. The rate of loan approvals decreased as the NHFC's participation in the sector was managed through a tightened lending criteria because of a strained non-performing loan book, which affected the financial performance of the NHFC. The existing social housing loan book deteriorated, largely because of illegal rental boycotts (non-payment of rentals by beneficiaries) experienced by the four big SHIs on the NHFC's books.

Subdued approvals performance in the Social Housing portfolio was primarily the result of a strained social housing financing model, poor commercial viability, and challenged regulatory oversight. The rise in interest rates, as well as the continued non-performing book which warrants more stringent modelling parameters, affect financial viability and approvals. In April 2022, grant quantum and income band increases were gazetted which were aimed at contributing positively to the financial model of Social Housing.

Social Housing Product

SHI Name:	Povicom NPC "Povicom"
Project Name:	Regent Villas Extension 1
Size of Project:	60 social housing units
Province:	Western Cape
Loan Amount:	R8.7 Million

Povicom is a 100% black managed Social Housing Institution, and an existing client of the NHFC. The project, Regent Villas Extension 1, is the second phase of this development and consists of 60 social housing units, which include bachelor units, as well as 1, 2 and 3 bedroom units in the Mitchells Plain area. Construction is ongoing and the project is currently 95% complete, with expected completion of all units in July 2023.

Cape Town Povicom Regent Project

Consolidated Capital Grants increased by 20% from R271 867 per unit to R328 687 and the rental band changed from R1 500–R15 000 to R1 850–R22 000. Although these amendments were a positive move, which indeed improve viability of the financial model, the amendments could not be applied retrospectively to projects that were already approved and accredited by the Social Housing Regulatory Authority (SHRA).

The Private Rental portfolio is a long-term product and inclusive of student accommodation which is part of the company's growth strategy. Like Social Housing, Private Rental is one of the NHFC's largest portfolios, therefore its performance is significant.

Both Private Rental disbursements and approvals demonstrated a positive performance, with disbursements at 90% achievement and approvals exceeding the target at 162% achievement. The aggressive growth strategy into student accommodation has paid off, with the portfolio growing steadily. Furthermore, higher interest rates traditionally result in improved demand for rental property because sales products become unaffordable. The balance in a fragile economy is a fine line between demand shift and the ability of consumers to afford any type of formal rental accommodation. A balancing act between vacancies, escalations, market strength and rent collection trends remains key to the feasibility of private rental transactions.

According to the Absa Homeowner Sentiment Index (HSI), which determines consumer sentiment regarding buying, selling, investing, and renting property, while most investors were positioning themselves to take advantage of the growing demand for rental properties, there were growing concerns that tenants could not afford to pay rent. TPN, South Africa's largest rental bureau, held a similar view, stating that rental demand was expected to grow, but only if landlords remained sensitive to rental market pricing and risk.

"The aggressive growth strategy into student accommodation has paid off, with the portfolio growing steadily."

Vacancies continue to be a challenge in the private rental space as demonstrated by TPN's Vacancy Survey, released in March 2023, which demonstrates a national vacancy rate (the number of properties standing vacant) of 8.13% in the fourth quarter. Provincially, vacancy rates vary, because each province cultivates a unique set of factors that drives its economy and rental market. The NHFC's largest rental market is Gauteng, which saw an increase of 10% in vacancy rates (properties without tenants) in the economic hub of the country. This was well above the national average of 8.13% by the end of the 2022/23 financial year.

In general, rental growth is still under pressure due to affordability on the demand side and a sluggish economy, which will not change in the short- to medium term. However, the NHFC remains confident in the student accommodation market, which has yielded positive approvals in the current year.

Private Rental Project

Client Name:	Ratis Property Development (Pty) Ltd
Project Name:	Jophiel Heights
Size of Project:	222 private rental units
Province:	Gauteng
Loan Amount:	R88 million

Ratis is a 100% black female owned private rental developer. The project, Jophiel Heights, consists of 222 private rental units, which include both 1 and 2 bedroom units in the Kempton Park area. Construction is ongoing and project is currently 60% complete, with expected completion of all units by October 2024.

Jophiel Heights in Gauteng

Programme 4: Outcomes, outputs, output indicators and actual achievement

Table 8: Programme 4: Rental and Social Housing Programme

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursement of approved loans	**Value of disbursements (R'm)**						
		Social Housing Finance (R'm)	89	70	111	152	41	**Target exceeded by R41 million** A Randfontein project, and a Fochville project disbursed at faster rates than forecast by the client. This was achieved through the introduction of accelerated construction programmes which resulted in early completions in second and third quarters respectively as demonstrated in the year-to-date performance.
		Private Rental Housing Finance (R'm)	40	45	80	71	(9)	**Target not achieved by R9 million** A project in the East Rand, which had forecast disbursements of R7 million, was unable to draw because of a lapsed availability period and unwillingness to provide the necessary information. The information has since been submitted and an extension of availability period is being processed. A Johannesburg South project was meant to draw ± R12 million.

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursement of approved loans	**Value of approvals - (R'm)**						
		Social Housing Finance (R'm)	219	216	345	74	(271)	**Target not achieved by R271 million** The Social Housing approval pipeline reduced. Projects that are SHRA accredited, packaged and ready were approved pre-April 2022 did not qualify for the grant increases and require a retrospective grant quantum. Of the projects accredited by the SHRA in the year under review, 40% are in the NHFC market and require debt funding. Some of these transactions are faced with challenges pertaining to financial viability and SHI technical capacity.
		Private Rental Housing Finance (R'm)	43	173	127	206	79	**Target exceeded by R79 million** A large student accommodation application was approved in the second quarter.

Programme 4: Strategy to overcome areas of underperformance

In March 2022, a media briefing by the Minister of Human Settlements outlined increases to the Consolidated Capital Grant (CCG), which will increase by 30%, from R328 687 to R424 984 per unit. This change, which will come into effect once gazetted in the next financial year, will help address not only construction escalation, but the value eroded by increased interest rates. The matter of the retrospective grant quantum is an ongoing discussion with stakeholders, and a positive resolution between the NDoHS, SHRA and all social housing stakeholders is expected. This will help accelerate delivery and performance in this space.

Cape Town Belhar Project

3.4 Programme 5: Affordable Housing Programme

Programme purpose:
Provision of affordable housing finance.

Sub-programmes:
• 5a: Grant Facilitation • 5b: Affordable Housing Finance • 5c: Sector Transformation • 5d: Strategic Investments

Contribution to institutional outcomes:
This programme contributes to Outcome 2: Improved delivery of affordable housing, Sub-programme 5a also contributes to Outcome 3: Increased access to affordable finance that is spatially just to enable social cohesion. Sub-programme 5c has an increased focus on the extension of funding to previously disadvantaged intermediaries in line with Outcome 4.

Key contributors to programme performance

Grant Facilitation

The NHFC originally established this programme to support government in the implementation of various human settlement programmes in an effort to ensure sustainable service delivery and a greater reach to the targeted beneficiaries. Under this programme, the NHFC is mandated by the NDoHS to facilitate implementation of two government programmes, namely the First Home Finance and the COVID-19 Debt Relief Programme.

First Home Finance

This programme was previously referred to as the Finance Linked Individual Subsidy Programme (FLISP) and subsequently rebranded to First Home Finance – a name that better resonates with the programme objectives. As the national implementing agency, the NHFC facilitates access to First Home Finance subsidy for the benefit of households buying or building their first homes, in the open market, whose monthly household income is between R3 501 and R22 000. The NHFC's role is distinct from that of provincial departments responsible for human settlements, which are mandated to implement the programme in their Integrated Residential Development Projects (IRDPs). The provinces, however, are allowed to appoint an implementing agent to assist them with implementation in their IRDPs. It must be pointed out that the programme performance reported in this Integrated Annual Report only includes subsidies processed by the NHFC and excludes subsidies reported by the provinces.

The programme continued to face a challenging operating environment. Since its inception in 2005, until the end of the year under review, the programme has been implemented only with mortgage finance. Although policy changes to include non-mortgage products were approved by the Human Settlements Minister and Members of Executive Councils Meeting in July 2018, the revised policy, codifying the inclusion of non-mortgage products in the programme implementation, was only approved in February 2022. Notwithstanding the revised policy approval, a further delay followed with the approval of the Housing Code Implementation Guidelines for Non-Mortgage Products. These were only approved post the end of the 2022/23 financial year and lenders offering non-mortgage products were reluctant to enter into implementation agreements before becoming privy to the guidelines. The inclusion of non-mortgage products in the programme implementation is intended to extend the reach of the programme to the households in the lower income segments of First Home Finance, as these household segments are not able to access mortgage finance, and therefore cannot benefit from the subsidies that the programme offers.

The First Home Finance Programme is linked to home loans offered by lenders that are sensitive to various economic variables. These include the country's GDP; the rate of unemployment (with the hardest hit population group being the youth who constitute a large percentage of the first-time home buyer`s market); inflation (shaped primarily by fuel, electricity, and food prices); and increases in interest rates. Households with a monthly income of below R15 000 have struggled to access mortgages, with the National Credit Regulator's (NCR) quarterly Credit Consumer Market Report showing that throughout the 2022 calendar year, less than 2% of mortgages granted were accessed by this group. The NCR's Report further showed that a significant proportion of mortgages granted were for larger sized credit agreements (R700 000) – in the September Report of 2022 the proportion was 89%, while in the December Report of 2022, the proportion was at 68%. Year-on-year mortgages granted also decreased by 8.77%. There was also evidence that more households were applying for various types of credit, but the rejection rates remained high, at above 66% during the first three quarters of the financial reporting period.

Although the NHFC began to consider subsidy applications for non-mortgage products, these were few and were mainly for cash buyers whose subsidy was paid to conveyancers' trust accounts, mainly to cover attorney's costs. The programme needs participation of lenders to whom subsidies can be paid for approved households as required by the policy. It must be emphasised that non-mortgage products will improve the national reach of First Home Finance, as mortgage is currently largely concentrated in Gauteng and the metropolitan areas of other provinces. Approved guidelines will unlock subsidy opportunities in rural areas and among many households in the lower First Home Finance income brackets who currently access non-mortgage products to build their homes but miss out on accessing the subsidy.

The appointment of permanent First Home Finance processing staff in December 2021, together with the partial enhancement of the CRM System, are beginning to bear positive results. Turnaround times and client service have improved but require further enhancement. Awareness needs to be raised around the CRM System, which was launched in February 2023. The CRM system needs further enhancement to accommodate online applications for subsidies for non-mortgage products.

Recruitment of additional call centre agents and a back-office supervisor are under way to address expected increases in applications for subsidies for non-mortgage products in the future. Capacity in the business development section is also receiving attention to enhance capacity to source more First Home Finance applications nationally. Furthermore, recruitment of business development personnel is under way to ensure signing up of various partners such as lenders, employers and community-based organisations to participate in the First Home Finance Programme.

Table 9 details the First Home Finance cumulative performance for the current MTSF period. A key point to note is that the programme has approved R686 million in subsidies while this amount has leveraged close to R5.8 billion in private financial sector lending for the affordable housing market. This value of approvals has benefited 11 841 households, 9 678 of whom have already taken occupation of their homes.

Table 9: First Home Finance Performance – MTSF period

		MTSF Performance Progress Report: 2019–2023				
Output	**Output indicators**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**
Disbursements of First Home Finance subsidies	Number of applications approved	2 212	2 411	2 935	4 283	11 841
	Value of approvals (R'm)	123	111	166	286	686
	Value of disbursements (R'm)	60	60	173	221	514
	Number of subsidies disbursed (Housing units)	1 167	1 136	3 268	4 107	9 678
	Amount leveraged from financial institutions (R'm)	943	1 030	1 519	2 260	5 752

One of government's development policy imperatives is to ensure that government development programmes benefit women. For both subsidies approved and disbursed in 2022/23, most beneficiaries were women. Table 10 shows that 66% of the total number of subsidies approved in 2022/23 were for women headed households, while 31% were for the benefit of men headed households. Only 3% of approved subsidies came from combined male and female applicants.

Table 10: Total number of subsidies approved in 2022/23

Gender	Number	%
Female	2 806	66%
Male	1 348	31%
Combined (Male and Female)	129	3%
Total	**4 283**	**100%**

Similarly, in terms of First Home Finance subsidies disbursed, more subsidies were disbursed to women (63%) than men (34%), with only 3% of total subsidies being disbursed to combined male and female applicants (see Table 11).

Table 11: Total number of subsidies disbursed in 2022/23

Gender	Number	%
Female	2 602	63%
Male	1 402	34%
Combined (Male and Female)	103	3%
Total	**4 107**	**100%**

Clearly, women are the main beneficiaries of the Subsidy Programme. More could be achieved by supporting women to access adequate housing if the requirement for "single with dependents" were abolished as a criterion for accessing the subsidy, as it is evident that women in general are taking a lead in accessing affordable housing.

Housing development is a key economic stimulus as it has both backward and forward economic multiplier effects. Housing development supports forward economic development in the housing development input industries such as construction, building materials and sector professionals. Downstream multiplier effects arise once households move into their houses, because they invest in various household goods such as furniture and appliances, which fuels economic activities in related industries. Limiting access to First Home Finance to "single with dependents" thus limits the full, positive impact of the programme on the economy.

The First Home Finance Programme is implemented nationally and therefore must be delivered in all nine provinces. However, as Table 12 shows, the programme was mainly accessed by households in Gauteng. The NHFC needs to extend the reach of the programme to other provinces.

Table 12: First Home Finance provincial outcomes for 2022/23

	Applications Received	Approvals		Rejections	Disbursements		Amount Leveraged
Province	**No.**	**No.**	**Value**	**No.**	**No.**	**Value**	**Value**
Eastern Cape	74	105	R7 350 771	23	108	R6 575 265	R43 583 770
Free State	37	53	R4 107 617	20	26	R1 616 161	R23 399 796
Gauteng	4 184	3 534	R236 180 670	515	3 614	R192 593 950	R1 886 904 899
KwaZulu-Natal	72	132	R8 569 815	39	93	R4 585 182	R70 303 556
Limpopo	14	19	R1 057 007	4	8	R465 368	R11 828 367
Mpumalanga	20	40	R2 537 277	14	24	R1 328 625	R20 807 017
North West	27	65	R3 900 692	16	38	R2 030 526	R32 067 675
Northern Cape	10	10	R888 363	4	9	R611 860	R4 271 225
Western Cape	202	325	R21 703 789	56	187	R11 040 844	R166 976 810
Total	**4 640**	**4 283**	**R286 296 001**	**691**	**4 107**	**R220 847 785**	**R2 260 143 117**

Although Gauteng is the economic hub and heat map for affordable housing, its benefit from the programme is disproportionate to other provinces, since 82% of applications approved and 88% of subsidies disbursed during the year under review were for Gauteng beneficiaries. While it is acknowledged that other provinces have opted to implement First Home Finance in both IRDP projects and the open market, there is huge scope for the NHFC to deepen the reach of the programme in other provinces. The NHFC is gearing itself to deliver the subsidy with non-mortgage products to benefit households in rural areas to build quality and decent homes. In this respect, the company is engaging with various non-mortgage lenders to sign MoUs with the NHFC to enable their borrowers to seamlessly apply for the First Home Finance subsidy.

COVID-19 Debt Relief Programme

The NHFC was mandated to implement the COVID-19 Debt Relief Programme (DRP) for its clients. Funds for the DRP were transferred to the NHFC on 31 March 2021, and as such could not be used in the year of allocation. After the conclusion of the NHFC audit, a request was made to National Treasury for retention of the funds, in line with PFMA Section 53(3), and granted in November 2021. Applications from clients were considered for Phase 1 and approved applications were implemented accordingly. Because the funds were not exhausted, the NHFC applied to National Treasury to retain and use the remaining funds for Phase 2 applications. In November 2022, National Treasury approved retention and the Board approved debt relief for a social housing institution client. The NHFC Credit Division is in the process of assessing Phase 2 debt relief applications from other clients for consideration by the entity's sanctioning committees.

The DRP funds were deposited in a separate bank account at the SARB. Table 13 indicates that at the end of March 2023 the DRP funds received from the NDoHS generated cumulative interest of over R24 million and cash available was R203 million, an amount which includes cumulative interest.

Following the approval of relief for clients by the respective NHFC sanctioning structures and implementing the Minister's Directive to support social housing institutions, a total of R120.9 million was utilised from the DRP funds as at the end of 2023 financial year. The withdrawal figure in Table 13 reflects the total funds used by the NHFC to honour debt on behalf of clients who were affected by the COVID-19 pandemic.

Table 13: COVID-19 Debt Relief Programme funds – 31 March 2023

Date	Capital received	Withdrawal	Fees	Interest earned	Cash available
Investment account balance	R299 999 000	R120 943 386	-	R24 106 596	R203 162 110
Grand total					**R203 162 110**

Cape Town Conradie Project

Bridging Affordable Housing Finance

The Bridging Affordable Housing Finance product is a medium-term product, aimed at developers building to sell units and stands who require a revolving facility to fund working capital. The performance of this portfolio is directly influenced by interest rates, bond approval rates and end-user affordability. At the peak performance of the product, the majority of commitments were approved at a time when interest rates (at 7%) were at a record 20-year low, which boosted end-user affordability. As at March 2023, the interest rate had increased significantly from the 2020 low of 7% to 11.25%, eroding affordability significantly. In relatable terms, a household earning R22 000 in 2020 could typically afford to purchase a house costing R850 000 at the prime lending rate of 7%. However, at the prime lending rate of 11.15%, the same household can only afford to purchase a house costing R630 000. Construction costs continue to rise, thereby moving the sales prices outside of the R22 000 affordability bracket, which affects the deal pipeline and approvals. These, and other factors, resulted in a significant reduction in disbursements, as sales and transfer of housing units declined, and developers reduced their delivery pace in response to the slow market up-take. Given the current interest rate forecasts, affordability will continue to affect first-time home buyers.

Within this context, 78% of the disbursement target was achieved, and 72% of the approvals target, mainly because of numerous post approval changes requested by clients. These are amendments to existing contracts to accommodate changes both to the conditions on site and in the market. Although necessary, these put pressure on resources and moved the focus away from the Key Performance Indicators (KPIs) of the division.

Bridging Affordable Project

Developer Name:	Blue Line Property Holdings (Pty) Ltd
Project Name:	The Wynne
Size of Project:	309 Affordable Sectional Title Housing Units
Province:	Western Cape
Loan Amount:	R170 million

Both majority shareholders are under the age of 35 years and therefore, the developer, Blue Line Property Holdings (Pty) Ltd is 90% black youth-owned. The company is a Special Purpose Vehicle (SPV) incorporated in 2021 as a development company to deliver The Wynne project, and is therefore a subsidiary of WCB Holding Group. WCB is a well-established construction company with a demonstrable track record.

The development, is a multi-storey building that will yield 309 Sectional Title Units. It is well located in Parrow, Cape Town, and is in close proximity to amenities, public transport and working opportunities. Construction is ongoing and is estimated to be 70% complete, with an anticipated completion date scheduled for November 2023.

Incremental Housing Programme

The Incremental Housing Finance product is a medium-term product, aimed at non-banking retail intermediaries who on-lend to end-users, to build their housing on an incremental basis. Incremental approvals were positive at 89% performance achieved, which included financing the growth strategy of existing clients, which will result in a greater reach in both rural and urban areas across the country. Incremental disbursements, however, were challenged because approved transactions did not disburse as forecast. In general, the time between approval and disbursement lags between 2–4 months, depending on the conditions of the contract. However, extended covenant negotiations and third party buy outs directly affected disbursement performance since the NHFC could not disburse until negotiations were settled.

TransUnion's SA Consumer Credit Index, which measures consumer credit health, stated that household cashflows have been under pressure since April 2022, with this having varied effect across consumer segments. This suggests that household credit health will continue to be tested, which directly affects intermediaries who service the affordable housing market. Increases in the repo rate and soaring food prices have had a huge impact on affordability for end-users. This resulted in defaults on monthly repayment obligations, demonstrated by the low collection rates and high non-performing loans experienced by some intermediaries.

Sector Transformation Initiatives

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

The Lending specific sector transformation key performance indicators include:

- Disbursements to B-BBEE compliant entities Levels 1 – 4
- Disbursements to black-owned entities
- Disbursements to designated groups.

In the year under review, the Lending business disbursed as follows:

- A record R668 million was disbursed to B-BBEE compliant entities, up by 82% from the previous year
- R274 million was disbursed to designated groups, up by 120% from the previous year
- A record R248 million was disbursed to black-owned entities, which is a new indicator introduced in the year under review.

Incremental Housing Beneficiary Profile

Beneficiary Name: Mr and Mrs Mbalo
Province: Gauteng
Municipality: Sedibeng District Municipality
Township: Bophelong, Vaal

Mr and Mrs Mbalo reside in Bophelong in the Vaal. The couple received a loan of R19 000 from one of the NHFC intermediaries through the Sebokeng Build-It Building Material Supplier. Augmented by their savings, the loan was utilised to expand their existing RDP house by adding additional bedrooms to accommodate their growing family as well as building a boundary wall to improve security.

Incremental Housing

The outlook on disbursements to transformed entities is informed by overall lending activities that are expected to grow steadily in most of the lending products. The strategic aim is to broaden the performance by leveraging the financial and non-financial support capacity currently being established within the business. The Incubation programme as well as the Equity Instruments made available to black owned, and designated group owned contractors and developers will stand the transformation efforts in good stead. The pricing improves the financial viability of projects which will stimulate and encourage more black-owned transactions.

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

Strategic Investments

The division comprises the equity and quasi equity investments of the NHFC, with an approximate carrying value of R466 million. Key clients that make up this exposure are Housing Investment Partners (in sub ordinated debt), International Housing Solutions and Evolution Credit (Real People Investment Holdings). These investments exclude the secured debt facilities provided to clients. The portfolio is the NHFC's risk capital (equity and quasi equity which is unsecured) which is provided to clients, largely to attract other investors in investee companies by the NHFC taking the first risk of loss.

Programme 5: Outcomes, outputs, output indicators and actual achievement

Table 14: Sub-programme 5a: Grant facilitation

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursement of First Home Finance subsidies	Number of subsidy applications approved (No.)	2 411	2 935	4 780	4 283	(499)	**Target not achieved** Only applications for subsidies with mortgages were processed in the year as non-mortgage products were not yet implemented due to the delay in approving the Implementation Guidelines for non-mortgages during the year. The target was set expecting that the programme would be implemented with non-mortgages during the year.
		Value of approvals - First Home Finance Grant (R'm)	111.2	166	478	286	(192)	**Target not achieved** This is mainly because of processing and approving only mortgage-backed subsidies as a result of delayed approval of the Implementation Guidelines for non-mortgage products. Since mortgages are accessed by households in upper income brackets of the programme, they qualify on average for a smaller amount of subsidy, resulting in a lower total value of subsidies approved.

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Increased access to affordable finance to enable end-users to have appropriate, spatially just, and adequate housing	Disbursement of First Home Finance subsidies	Value of disbursements – First Home Finance Grant (R'm)	60.8	173	359	221	(138)	**Target not achieved** This reflects the fact that disbursements were for approved subsidies backed by mortgages which on average are of a smaller size as beneficiaries are in the upper income brackets of the programme.
		Number of subsidies disbursed (No.)	1 136	3 268	3 824	4 107	283	**Target exceeded,** even though subsidies were on the back of mortgage-backed subsidies. The contributory factor to this positive outcome is that the NHFC conducted a follow-up exercise with beneficiaries of previously approved subsidies since April 2019 when the NHFC assumed the national implementing agent role who might have missed submitting requests for payment of subsidies, especially during the COVID-19 pandemic.
		Amount leveraged from financial institutions (R'm)	1 030.6	1 519	1 912	2 260	348	**Target exceeded** The amount leveraged was from mortgages as beneficiaries get larger amounts of home loans, while they receive smaller amounts of subsidies as they are in the higher income bracket of the programme.

Table 15: Sub-programme 5b: Affordable Housing Finance

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursements of approved loans	**Value of disbursements (R'm)**						
		Affordable Housing – Bridging Finance (R'm)	321	467	604	468	(136)	**Target not achieved by R136 million** Clients projected to disburse, requested changes to the terms of contract to accommodate changes in circumstances on site. Disbursements therefore had to be delayed to the following quarters as the requested post-approval changes are processed in accordance with the delegation of authority. Additionally, one facility of R150 million approved in the third quarter was targeted to be fully disbursed in the fourth quarter but could not be disbursed since the client disagreed with some of the approved conditions.

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursements of approved loans	**Value of disbursements (R'm)**						
		Incremental Housing Finance (R'm)	53	224	190	36	(154)	**Target not achieved by R154 million** The target included drawdowns that were expected to come from an intermediary that has a R50 million application approved. The application was approved in the second quarter, due to a 3rd party buy-out and the shareholders agreements were finalised in the third quarter, the disbursements did not materialise, the client is first disbursing the equity contribution by the 3rd party shareholder. A R150 million approved facility which was expected to begin disbursements in the fourth quarter, was not disbursed as the client was not in agreement with additional covenants included in the Term Sheet.

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursements of approved loans	**Value of approvals (R'm)**						
		Affordable Housing – Bridging Finance (R'm)	532	613	605	434	(171)	**Target not achieved by R171 million** A large bridging affordable term loan of R150 million, scheduled to be submitted to the sanctioning committee for consideration in the fourth quarter, was delayed due to the complexity of the deal structure, and adverse media reports. Additionally, two facilities with a combined value of R124 million, targeted for submission to the sanctioning committees in the fourth quarter, were also delayed by the complexities of the deals, which included deal structuring and negotiations for shareholding structures that are focused on transformation and a fair percentage of black shareholding.
		Incremental Housing Finance (R'm)	100	61	225	200	(25)	**Target not achieved by R25 million** An application of R150 million for an existing intermediary, expected to be approved in the fourth quarter, was not supported after having gone through the due diligence process, leaving a shortfall of R25 million for the year.

Table 16: Sub-programme 5c: Sector Transformation

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Increased penetration and participation of low- to middle-income households and black-owned businesses in the housing market	Increased focus on extension of funding to previously disadvantaged intermediaries	Value of disbursements targeted towards designated groups (R'm)	68	124	476	274	(202)	**Target not achieved by R202 million** Designated groups make up a small percentage of the approved pipeline (approved in prior years), however, the current BEE Lending and Investment Guidelines will stimulate participation of designated groups in the sector and in the NHFC pipeline.
		Value of disbursements targeted towards B-BBEE compliant companies - Level 4, 3, 2, 1 Contributors (R'm)	519	367	357	668	311	**Target exceeded by R311 million** Target exceeded due to a drive by the NHFC over the past year to encourage compliance by clients. Initiatives are therefore starting to demonstrate positive results.
		Value of disbursements targeted towards black-owned entities (R'm)	New indicator	New indicator	357	248	(109)	**Target not achieved by R109 million** Target not met as black-owned transactions of >51% make up a small percentage of the approved pipeline (approved in prior years). However, the current BEE Lending and Investment Guidelines will stimulate participation of designated groups in the sector and in the NHFC pipeline.

Table 17: Sub-programme 5d: Strategic Investments

Outcome	Output	Output Indicator	Audited Actual Performance 2020/21	Audited Actual Performance 2021/22	Planned Annual Target 2022/23	Actual Achievement 2022/23	Deviation from Planned Target to Actual Achievement 2022/23	Reasons for Deviations
Improved delivery of affordable housing	Disbursements of approved loans	**Value of disbursements (R'm)**						
		Affordable Housing – Strategic Investments (R'm)	73.2	17	178	9	(169)	**Target not achieved** Currently only one client is drawing from the NHFC due to the low pipeline of approved facilities.
		Value of approvals (R'm)						
		Affordable Housing – Strategic Investments (R'm)	120	310	265	46	(219)	**Target not achieved** Deal mining is still to yield the desired results.

Programme 5: Strategy to overcome areas of underperformance

Sub-programme 5a: Grant Facilitation

The Housing Code Implementation Guidelines for Non-Mortgage Products have been approved and the programme will be able to offer non-mortgage products, which will provide access for households in the lower income brackets of First Home Finance income levels, including those in rural areas. The process to effect further enhancements of the CRM System to accommodate online application for the subsidy for non-mortgage products needs to be speedily completed. Marketing of First Home Finance will be intensified at national level. It is expected that large volumes of applications will be received from applicants in the lower income brackets who will, on average, qualify for a larger subsidy amount. In addition, the increase in subsidy quantum, with the maximum increased from R130 505 to R169 265, will contribute to a higher value of approvals and disbursements.

The NHFC is negotiating with various providers of non-mortgage products to enable implementation of the programme and will sign a Memorandum of Agreement with the Banking Association of South Africa (BASA) and Service Level Agreements with individual banks and other housing finance lenders. Implementation of the MoU with the Department of Public Service and Administration on the First Home Finance will continue to be implemented to facilitate seamless access to First Home Finance for government employees who are buying or building their homes. More than 321 000 government employees are in the First Home Finance monthly income category of R3 501 to R22 000, and a large proportion is likely to qualify for the subsidy. For the first time, qualifying GEHS members who opt to build their homes in rural areas will be able to access the First Home Finance subsidy. Private sector employers with Employer Assisted Housing Schemes, especially in the mining sector, are also being pursued to participate in the programme. Union Federations are critical partners of the NHFC in raising awareness among their members, and engagement with them will be intensified.

The CRM System needs to be reconfigured to accommodate non-mortgage products so that they can be efficiently accessed via the Online Application Portal. The approved guidelines will ensure that the necessary system enhancement is done in line with the guidelines so that efficient processing of subsidies with new products is achieved.

The NHFC is negotiating with Lenders to pay on approval of subsidies as prescribed in the revised First Home Finance Policy. This will increase the number of subsidies disbursed, since disbursement will be on all approved applications to Lenders, which is more efficient than processing disbursements on an individual basis.

Sub-programme 5b: Affordable Housing Finance

Bridging Affordable Housing Finance

Developers are responding to the demand decrease caused by end-user affordability and high interest rates by prioritising mixed income developments which are well located, thereby locating affordable housing close to work opportunities. The mixed-income developments provide a cross subsidisation mechanism, which still provides affordable housing in well located areas. As a growth strategy, the bridging product will partner with such developers to ensure that developers do not exclude the gap market because of affordability.

Incremental Housing Finance

In terms of the Incremental Housing Sub-Programme, the disbursements target was not met, largely due to a dispute surrounding approved covenants of a R150 million facility. Negotiations to unlock those disbursements are ongoing and a positive outcome expected in the new financial year.

Intermediaries are responding to the sector challenges by increasing their product offering to include pension backed lending products as well as aligning themselves with the new First Home Finance regulations which allow access to the subsidy for non-mortgage products. This will boost activity in the incremental space, as it increases affordability for the end-user who will then be able to take incremental loans for building materials. The Incremental Housing product has a lot of scope to grow in the South African landscape, as it provides the largest amount of impact through the number of loans originated by intermediaries, therefore remains a critical delivery platform for the NHFC. The sector, however, remains highly untransformed, therefore the growth strategy includes an effort to attract black-owned intermediaries through the provision of concessionary pricing and other relevant instruments that will better serve the market needs.

Sub-programme 5c: Transformation

Several initiatives are under way to raise awareness of the NHFC's products among PDIs.

The conclusion of MoUs with various private sector employers with Employer Assisted Housing Schemes, as well as new developers, has been prioritised to improve the transformation mandate. In addition, partnerships with Trade Union Federations will be pursued to raise awareness of First Home Finance among their members.

Lending Disbursements

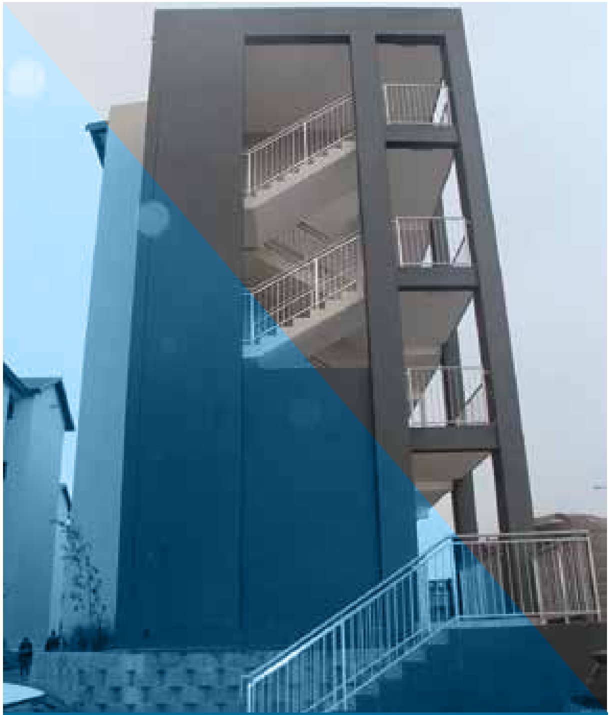
The outlook on disbursements to transformed entities is informed by overall lending activities which are expected to grow steadily in most of the lending products. The strategic aim is to broaden the performance by leveraging initiatives such as the Incubation Programme, which is expected to begin in the new financial year. During the period, B-BBEE lending and investment guidelines which provide concessionary pricing to >51% black-owned entities, as well as entities owned by women, youth, people with disabilities, and start-ups, proved successful in attracting PDIs and increasing transformation disbursements and approvals. These concessions will remain in place as part of the transformation growth strategy to crowd in more black entrepreneurs. Reduced pricing improves financial viability of projects which will stimulate and encourage more black-owned transactions.

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

Sub-programme 5d: Strategic Investments

Neither loan approval nor disbursement targets were achieved due to the lack of a pipeline of approved clients. Currently there is only one client drawing from the NHFC Strategic Investments. The focus is on building a pipeline of approved clients through collaborations and deal mining which are ongoing. The process started in earnest with a R150 million approval which is expected to start drawing in the next 12 months. There remains, however, a lag between approval date and actual disbursement, which can take anything from nine to 12 months due to normal project preparation processes.

In addition, the unit is working with a group of professionals involved in advisory work including corporate finance attorneys and other corporate advisory firms which are advising their clients on capital raising and development project opportunities.


Cape Town Maitland Project

3.5 Information and Communications Technology

Introduction

Throughout the year, the ICT Division has remained dedicated to aligning its technological capabilities with the evolving business needs, processes and objectives of the company. The ICT strategy – known as the Business Modernisation Strategy – is designed to enable and support the overall growth and success of the NHFC. By closely collaborating with business units, the ICT Division has ensured that all ICT initiatives are in line with the current and future NHFC strategic objectives.

Modernisation and Digital Transformation

Modernisation and digital transformation remain a key focus of all ICT efforts. The ICT Division continues to invest in innovative technologies to enhance operational efficiency, improve client experience and drive business growth. The official launch of First Home Finance in February 2023, was the culmination of the ICT Division's work to expand on empowering touch points and online solutions for NHFC clients and beneficiaries to file their applications, track progress, and receive feedback instantly. In addition to this highlight of the year, the division successfully revised and enhanced the following existing business tools: the NHFC website, First Home Finance Portal, and the CRM System with its up-to-date client data reports and SMS communication channel.

The implementation of business process mapping and an enterprise architecture repository has been a significant achievement for the NHFC as it readies itself for the transition to the HSDB. This initiative has provided the company with valuable insights into its business processes and architecture, allowing the NHFC to streamline operations, enhance efficiency, and make informed decisions. Using emerging technologies such as Software as a Service, Cloud Computing, and Collaboration Solutions, the ICT Division has transformed key operational areas.

ICT Governance and Risk Management

The ICT Division through its Business Modernisation Strategy has aligned its strategic outcomes with those of the NHFC as a whole. Effective governance of all ICT aspects of the NHFC have been strengthened through the application of the recently approved ICT Governance Framework and Risk Management Practices Guideline. The ICT Division has also established clear policies, standards, procedures, and controls to manage ICT-related risks, comply with regulatory requirements, and safeguard the integrity of NHFC's ICT systems. Control is monitored through self-assessment and regular audits, which are used to monitor and enhance ICT governance and risk management practices.

Strategic Enterprise-wide Projects

Enterprise Resource Planning Solution

The ICT Division is looking to overhaul and refresh the current aged application systems and replace them with an ERP solution that will streamline business processes and improve efficiency. The successful implementation of the extensive Enterprise Architecture and Business Process Mapping Project laid the foundations for the division to take this next step and implement an ERP solution.

Enterprise Content Management Solution

Enterprise Content Management is a strategic initiative aimed at aligning the NHFC strategic outcomes with fit-for-purpose document management, records management, improved information management, and information classification and retrieval that will increase productivity and operational efficiencies.

Vulnerability Assessment and Penetration Test

The objective of this project is to safeguard the NHFC's information assets by conducting ongoing vulnerability assessments and penetration tests to ensure the security of the company's systems, networks, and applications. This will assist the ICT Division to identify and remediate vulnerabilities, strengthen the company's ICT security, and proactively address emerging threats over the next three years.

Conclusion

The ICT Division has made significant strides in aligning technology with NHFC outcomes by ensuring information security and privacy, enhancing IT infrastructure reliability, influencing business direction and strengthening governance and risk management practices. The ICT Division remains committed to leveraging technology to drive innovation, improve operational efficiency and deliver value to its internal stakeholders.

3.6 Stakeholder Management

The NHFC's stakeholders are key to the success of its programmes. Stakeholders are the two-way avenue through which the NHFC is informed of changing needs in the housing sector and the sector is alerted to the range of financial products and services available to suppliers to the sector and the sector's beneficiaries. Table 18 illustrates some of the stakeholder engagements and events which took place in the reporting period.

Table 18: Examples of stakeholder engagement in 2022/23

Stakeholder	Contribution to value creation	Key issues	How we engage	Impact
Government -NDoHS	Ensures alignment of the NHFC with national government priorities	• NHFC's developmental role and social responsibility • Transformation of the Human Settlements sector • Long-term sustainability • Financial performance • Policy implementation and regulation • Shareholder Compact	• Strategic alignment and development impact • Collaboration, advocacy and dialogue • Quarterly meetings on performance, and compliance with PFMA • Administration and delivery of First Home Finance programme nationally to beneficiaries	• Improved delivery of affordable housing and access to housing finance for end- users
NDoHS Entities	Maximise impact and service delivery	• Collaboration • Resource optimisation	• GPF Summit participation • Collaboration with NHBRC, HDA, SHRA, CSOS and PPRA	• Sustainable human settlements and improved quality of household life
Clients and partners	Mutual cooperation to provide capacity building and innovative financing solutions to enhance service delivery	• Funding opportunities • Enhance brand NHFC • Product development and innovation • Infrastructure finance • Provide technical support • Social facilitation of industry participation in human settlements delivery	• Workshop/ Imbizos NHFC product offerings for contractors, developers, estate agents – property practitioners • Promotion of the First Home Finance programme • Investment Opportunities • Access to information	• SAWIC member's workshop and collaboration • Sponsorship and participation at BBCBE Housing Summit • Sponsorship and participated in the Annual Affordable Housing Africa Conference • Workshop with national SALGA management, SAMWU members

Stakeholder	Contribution to value creation	Key issues	How we engage	Impact
Media	• Visibility of NHFC brand, products and services	• Product offering information. • Strategic Initiatives • Perception management	• Media briefings • Social media engagements on Twitter, Facebook and LinkedIn • Interviews on CNBCA and Radio	• 117% increase in followers
Management and employees	• Internal communications, employee cohesion and engagement	• Organisation performance • Training and development opportunities	• CEO staff briefings • Whistle -blowing hotline • Staff performance reviews • Culture surveys • Corporate LAN advertising App • Quarterly employee newsletters	• Engaged and motivated staff

4. REVENUE AND CAPITAL COLLECTION

Table 19: Revenue and capital collection

	2022/23			2021/22		
Products	**Revenue R'000**	**Capital R'000**	**Total R'000**	**Revenue R'000**	**Capital R'000**	**Total R'000**
Social Housing	90 296	54 124	144 420	58 963	174 130	233 094
Private Rental	68 603	52 699	121 303	60 654	14 369	75 023
Affordable Housing	62 010	368 617	430 627	40 394	280 922	321 317
Incremental Housing	44 042	13 507	13 648	32 606	123 306	155 912
Retail book and Other	7 317	169 212	213 253	7 370	18 357	25 727
Subsidy Housing	141	14 550	21 867	1 503	148 173	149 676
Total	**272 409**	**672 709**	**945 117**	**201 490**	**759 257**	**960 747**

Revenue received per programme is the monies that are received from investors, loan repayments and interest that the NHFC then uses to fund programmes. Capital received is the portion of loans that reduce the capital owed by recipient loans and is used to finance future loans.

PART C: GOVERNANCE

1. INTRODUCTION

Corporate governance entails the processes and systems by which the NHFC is directed, controlled, and held to account. In addition to legislative requirements based on the company's enabling legislation and the Companies Act of 2008, corporate governance is applied through the precepts of the Public Finance Management Act (PFMA), in tandem with the principles contained in the King IV Code on Corporate Governance, and the Global Reporting Index (GRI) for sustainability reporting.

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

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

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

2. PORTFOLIO COMMITTEE

The NHFC reports to Parliament through the Portfolio Committee for Human Settlements. Three presentations were made to the committee during the reporting period which included:

- A presentation of the Annual Performance Plan for 2022/23 on 21 April 2022.
- A joint presentation with the NDoHS on the progress made towards establishing the HSDB on 8 June 2022.
- A presentation of the Integrated Annual Report for the 2021/22 financial year on 14 October 2022.

3. EXECUTIVE AUTHORITY

The Minister of the National Department of Human Settlements (NDoHS) is the Executive Authority of the NHFC. The Board reports formally to the NDoHS on a quarterly basis and the Chief Executive Officer, as well as the Chairperson, meet periodically with the Minister.

All reporting is submitted to the Executive Authority as per PFMA prescripts.

4. THE NHFC BOARD

4.1 Introduction

As the Accounting Authority, the Board provides leadership, vision, and strategic direction to enhance shareholder value and ensure the NHFC's long-term sustainability and growth.

The Board is committed to the principles of openness, transparency, integrity, and accountability as advocated in the King IV Code on Corporate Governance. It is the responsibility of the Board to develop and oversee the execution of the strategy and monitor performance against the APP.

All directors have unrestricted access to the Chairperson of the Board, the CEO, the Company Secretary, and Executive Management Team, should they require additional information (outside of that provided in meeting packs) in discharging their duties.

Directors may seek additional independent professional advice concerning the affairs of the company by arrangement with the Company Secretary or Board Chairperson.

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

4.2 The role of the Board

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

4.3 Shareholder Compact

The Shareholder Compact is a concise overview of the roles, functions, responsibilities and powers of the Board and the shareholder and is reviewed annually. Through the Shareholder Compact, the Board undertakes to manage the company by:

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

4.4 Board Charter

The Board is regulated by its charter which sets out the parameters within which the Board should operate. The charter defines the powers, roles, and governance responsibilities of the Board. The Board Charter is reviewed annually to ensure the Board's effective functioning and continued fulfilment of the requirements of the charter.

The Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

4.5 Composition of the Board

The Minister of Human Settlements appoints the Non-Executive Directors of the Board for a period of three years. The MOI provides that one-third of the longest-serving Non-Executive Directors automatically retire at the company's Annual General Meeting (AGM). These Directors may make themselves available for re-election for a further period of three years. The Minister, as the shareholder, confirms such reappointment. The MOI provides for a maximum of 12 members. During the period under review, the Board comprised 12 members, one of whom is the CEO. The CEO is an Executive Director, appointed by the Board in concurrence with the Minister. The CEO is accountable to the Board.

There is a good balance of knowledge, experience, and skills on the Board. The majority of directors are independent and not involved in the day-to-day running of the business of the NHFC.

Mr L Vutula (51)
Chairperson
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- Master's degree in Development Finance (University of Stellenbosch); Bachelor of Business Administration (Hons) (University of Stellenbosch); Bachelor of Economics and Accounting (University of Botswana)
- International Housing Finance Programme (Wharton Business School, USA); Diploma in Project Management (Damelin Management School); Banking and Finance Course (INSEAD, France)

NHFC Board Committee Membership: Directors' Affairs Committee – Chairperson

Other Directorships: Executive Director, Bigen Group

Professional Memberships: Chartered Development Finance Analyst (CIDEF)

Areas of Expertise: Development finance; Property finance; Business development and management; Strategy; Negotiating and people management

Ms S Bolipombo (37)
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- Master of Commerce in Development Finance (University of Cape Town);
- Postgraduate Diploma in Accounting (University of Cape Town);
- Bachelor of Business Science, Finance Hons (University of Cape Town)

NHFC Board Committee Membership: Board Credit and Investment Committee – Chairperson; Audit Committee; Directors' Affairs Committee

Other Directorships: SADTU Investment Holdings (Pty) Ltd; Non-Executive Director, Kaleo Holdings (Pty) Ltd; Non-Executive Director, Cornerhouse Properties (Pty) Ltd

Professional Memberships: CA(SA) SAICA; Institute of Directors (IoDSA)

Areas of Expertise: Corporate governance and ethics; Strategy and corporate development; Governance, risk and compliance; Financial planning and analysis; Accounting, tax and financial reporting; Financial modelling and valuations; Financial due diligence; Capital raising and funding agreements

Mr T Bonakele (47)
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- MBA (Gordon Institute of Business Science); LLB (University of Fort Hare); BJuris (University of Fort Hare)
- Programme for Management Development (UCT Graduate School of Business); European Competition Law Summer School (Cambridge University, UK); Certificate in Competition Law (University of Cape Town); Trial Advocacy (Black Lawyers Association)

NHFC Board Committee Membership: Human Capital Committee – Chairperson; Directors' Affairs Committee; Impact, Social and Ethics Committee

Other Directorships: Non-Executive Director, GoGoGoGo (Pty) Ltd; Non-Executive Director, Walter Sisulu University; Non-Executive Director, National Lotteries Commission

Professional Memberships: IoDSA

Areas of Expertise: Leadership; Management; Law; Economics

Ms T Chiliza (61)
Independent Non-Executive Director
(Re-appointed: 29 March 2022)

Qualifications:
- BAdmin (University of Fort Hare); MDP (Graduate School of Business, University of Durban-Westville)
- Postgraduate Course in Management Consulting and Production Management (CHAMDOR Training Centre); Dip. Management Consulting and Production/ Operations Management (National African Federated Chamber of Commerce)

NHFC Board Committee Membership: Audit Committee; Human Capital Committee

Other Directorships: None

Professional Memberships: IoDSA

Areas of Expertise: Management; IoDSA Marketing; Budgeting; Human resources

Mr V Dube (62)
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- Programme in Leadership (Shell/Wharton School of Business, University of Pennsylvania);
- BA (Hons) English Literature (University of Fort Hare);
- BA Communications (University of Fort Hare)

NHFC Board Committee Membership: IT and Risk Committee – Chairperson; Directors' Affairs Committee; Impact, Social and Ethics Committee

Other Directorships: Director, Grey Logistics (Pty) Ltd; Director, Norster Logistics (Pty) Ltd

Professional Memberships: South African Council for the Architectural Profession (SACAP); Pretoria Institute of Architects (PIA)

Areas of Expertise: Marketing and communications; Mining and construction; Strategy; Business development

Mr P Heeger (56)
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- Professional Practice Examination, Architecture (Architects Institute, UK);
- BTech in Construction Management (University of South Africa);
- Graduate Diploma in Construction Management (Engineering Council, UK);
- Post Graduate Diploma in Advanced Project Management (University of South Africa)

NHFC Board Committee Membership: Impact, Social and Ethics Committee – Chairperson; IT and Risk Committee; Audit Committee; Board Credit and Investment Committee; Directors' Affairs Committee

Other Directorships: Non-Executive Member, Heeger Engineers (Pty) Ltd, Department of Public Works and Infrastructure

Professional Memberships: South African Council for the Project and Construction Management Professions (SACPCMP); Engineering Council of South Africa (ECSA); South African Council for the Architectural Professions (SACAP)

Areas of Expertise: Civil Engineering, specialising in construction engineering; Business management; Project management; Contract management

Ms P Kadi (43)
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- Postgraduate Diploma in Development and Public Sector Monitoring and Evaluation (Wits School of Governance); MA Visual History (University of the Western Cape); BA (Hons) Political Studies and Comparative Economics (University of the Western Cape); BA Political Studies (University of the Western Cape)
- Digital Disruption: Digital Transformation Strategies (Cambridge University Judge Business School of Executive Education); Technology Governance (Institute of Directors SA); National Cybersecurity Policy (United States Telecommunications Training Institute); Board Leadership Core Programme (Gordon Institute for Business Science); Scenario Planning and Leadership (Oxford University Edward Said Business School)

NHFC Board Committee Membership: IT and Risk Committee; Audit Committee; Human Capital Committee; Impact, Social and Ethics Committee

Other Directorships: Non-Executive Director, SABC; Non-Executive Director, Mandela Bay Theatre Complex; Non-Executive Director,Tshwane North College; Trustee, Karoshoek Community Trust; Board member, Cricket South Africa

Professional Memberships: African Leadership Institute, Archbishop Tutu Fellow; IoDSA

Areas of Expertise: Policy development; Audit and risk management; Corporate communications and digital strategies; Budget management; Corporate governance; Strategic and business planning and management; Project management

Ms T Kobile (40)
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- MPhil in Development Finance – dissertation incomplete (University of Cape Town); BSc (Hons) in Property Studies (University of Cape Town); BSc in Property Studies (University of Cape Town)
- Tongaat Hulett Management Development Programme; Open Doors Accredited Board Training Programme (Boardroom Africa)

NHFC Board Committee Membership: Board Credit and Investment Committee; Impact, Social and Ethics Committee

Other Directorships: CEO, Southern African Venture Capital and Private Equity Association; Director, Congruity (Pty) Ltd; Trustee, Tongaat Hulett Management Share Ownership Trust

Professional Memberships: IoDSA

Areas of Expertise: Development finance; Property and project finance; Governance; Project management

Mr T Mabaso (47)
Independent Non-Executive Director
(Appointed: 29 March 2022)

Qualifications:
- MBL (Unisa School of Business Leadership;
- B-Tech in Architectural Technology (Tshwane University of Technology);
- National Diploma in Architectural Technology (Tshwane University of Technology)

NHFC Board Committee Membership: Board Credit and Investment Committee; Impact, Social and Ethics Committee

Other Directorships: Non-Executive Director, Aloecap (Pty) Ltd; Non-Executive Director, New Heights (Pty) Ltd; Non-Executive Director, Reino Chemicals (Pty) Ltd

Professional Memberships: South African Council for the Architectural Profession (SACAP); Pretoria Institute of Architects (PIA)

Areas of Expertise: Strategy development; Policy development and monitoring; Human resources; Infrastructure maintenance

Ms P Mthethwa (59)
Independent Non-Executive Director
(Re-appointed: 29 March 2022)

Qualifications:
- MBA, Corporate Finance and Economics (University of Sheffield, United Kingdom); Maîtrise en sciences économiques (equivalent of MSc in Economics – incomplete) (University of Paris 2. Sorbonne, Paris, France); BA Economics (University of the North)
- Certificate in Central Banking (South African Reserve Bank); Diploma in French (CAVILAM Institute of Languages, France)

NHFC Board Committee Membership: Audit Committee – Chairperson; Board Credit and Investment Committee; Directors' Affairs Committee

Other Directorships: Non-Executive Director, Industrial Development Corporation; Member, Investment and Risk Committees of the Industrial Development Corporation; CEO, National Empowerment Fund Corporation

Professional Memberships: None

Areas of Expertise: Development finance; Property finance; Audit and risk; Budgeting and forecasting

Ms A Seedat (39)

Independent Non-Executive Director

(Appointed: 29 March 2022)

Qualifications:

- MBA (Gordon Institute of Business Science); MSc Property Development (University of the Witwatersrand); BSc (Hons) Quantity Surveying (University of the Witwatersrand)
- Postgraduate Diploma in General Management (Gordon Institute of Business Science); Finance for Non-financial Managers (Gordon Institute of Business Science)

NHFC Board Committee Membership: Board Credit and Investment Committee; Impact, Social and Ethics Committee

Other Directorships: Executive Director, AZRA Developments, South Africa; Non-Executive Director, Joburg Tourism Company

Professional Memberships: Project Management Institute, South Africa (PMI); South African Council for the Project and Construction Management Professions (SACPCMP); South African Council for the Quantity Surveying Profession (SACQSP); Royal Institute of Chartered Surveyors – APC; Association of Construction Project Managers (ACPM)

Areas of Expertise: Quantity surveying; Property development and management; Cost and construction consultancy; Project management and execution; Business strategy; Contract negotiation, formulation, and administration; Budgets and forecasting; Risk management

Ms A Mayekiso (43)

Chief Executive Officer

(Appointed: 1 March 2023)

Qualifications:

- Bachelor of Business Science, Finance Hons (University of Cape Town); MDP (Gordon Institute of Business Science); MBA (Hanze University of Applied Sciences Groningen); MA in International Business (Anglia Ruskin University)
- International Women's Forum Fellow (Harvard Business School and INSEAD)
- Impact Investing Certificate (UCT Graduate School of Business)

NHFC Board Committee Membership: IT and Risk Committee; Impact, Social and Ethics Committee

Other Directorships: Non-executive Director, Betapoint; Non-executive Board Member, Creation Capital Investments; Non-executive Director, Afrika Tikkun Foundation; Co-Chairman, Lulalab Foundation; Director, Prosperity Capital; Director, Duchess (Pty) Ltd; Director, Tibonelo (Pty) Ltd; Deputy Chairman, Human Resource Development Council of South Africa

Professional Memberships: Young Presidents Organisation (YPO), Johannesburg

Areas of Expertise: Business strategy; Leadership; Change management; Investment management; Employee benefits; ESG implementation; Quality control; Financial management; Business development; Innovative solution development

Table 20: Board composition and meeting attendance

Name	Designation	Date Appointed	Date Resigned	Other Committees	No. of Board Meetings Attended
Luthando Vutula	Chairperson Non-Executive Director	29 March 2022	N/A	• Directors' Affairs Committee – Chairperson	14/14
Seithati Bolipombo	Non-Executive Director	29 March 2022	N/A	• Board Credit and Investment Committee – Chairperson • Audit Committee • Directors' Affairs Committee	14/14
Tembinkosi Bonakele	Non-Executive Director	29 March 2022	N/A	• Human Capital Committee – Chairperson • Directors' Affairs Committee • Impact, Social and Ethics Committee	7/14
Thembi Chiliza*	Non-Executive Director	29 March 2022	N/A	• Audit Committee • Human Capital Committee	13/14
Velile Dube	Non-Executive Director	29 March 2022	N/A	• IT and Risk Committee – Chairperson • Directors' Affairs Committee • Impact, Social and Ethics Committee	13/14
Paul Heeger	Non-Executive Director	29 March 2022	N/A	• Impact, Social and Ethics Committee – Chairperson • IT and Risk Committee • Audit Committee • Board Credit and Investment Committee • Directors' Affairs Committee	14/14
Palesa Kadi	Non-Executive Director	29 March 2022	N/A	• IT and Risk Committee • Audit Committee • Human Capital Committee	14/14
Tshepiso Kobile	Non-Executive Director	29 March 2022	N/A	• Board Credit and Investment Committee • Impact, Social and Ethics Committee	12/14

Name	Designation	Date Appointed	Date Resigned	Other Committees	No. of Board Meetings Attended
Thulani Mabaso	Non-Executive Director	29 March 2022	N/A	• Board Credit and Investment Committee • Impact, Social and Ethics Committee	12/14
Philisiwe Mthethwa*	Non-Executive Director	29 March 2022	N/A	• Audit Committee – Chairperson • Board Credit and Investment Committee • Directors' Affairs Committee	11/14
Aeysha Seedat	Non-Executive Director	29 March 2022	N/A	• Board Credit and Investment Committee • Impact, Social and Ethics Committee	10/14
Azola Mayekiso#	Chief Executive Officer Executive Director	1 March 2023	N/A	• IT and Risk Committee • Impact, Social and Ethics Committee	2/14

* Reappointment # Appointed 1 March 2023

4.6 Meetings of the Board

The Board meets quarterly for formally scheduled meetings, and in addition, meets to approve the Annual Financial Statements (AFS) and the APP. The shareholder may call for further meetings if deemed necessary.

Cape Town 308 on Karen Project

The chairpersons of the respective Board committees report back to the Board at the quarterly Board meetings. The attendance record at Board meetings for the period under review is reflected in Table 20 above.

4.7 Remuneration of the Board

Remuneration of Directors is determined by the shareholder and reviewed and approved by the shareholder at the AGM. The remuneration comprises a retainer and fees per meeting attendance.

Directors who are employees of public entities do not receive remuneration for services rendered to the NHFC.

Table 21: Board remuneration

Figures in Rand thousand	Fees	Salaries	Bonuses	Post-employment, pension and medical benefits	Committees fees	Total 2023	Total 2022
Non-executive Chairman							
Mr L Vutula[1]	1 386	-	-	-	-	1 386	-
Ms PV Ramarumo (acting)[2]	-	-	-	-	-	-	1 047
Directors – Independent non-executives							
Ms S Bolipombo	1 102	-	-	-	-	1 102	-
Mr P Heeger	1 019	-	-	-	-	1 019	-
Ms T Chiliza	1 017	-	-	-	-	1 017	811
Ms P Mthethwa[3]	-	-	-	-	-	-	-
Ms P Kadi	924	-	-	-	-	924	-
Mr T Mabaso	620	-	-	-	-	620	-
Ms A Seedat	614	-	-	-	-	614	-
Mr T Bonakele[4]	384	-	-	-	-	384	-
Ms T Kobile[5]	272	-	-	-	-	272	-
Mr V Dube[6]	52	-	-	-	-	52	-
Mr J Coetzee[7]	-	-	-	-	143	143	124
Mr S Moraba[8]	-	-	-	-	131	131	136
Mr SA Tati[9]	-	-	-	-	-	-	51
Mr K Shubane	-	-	-	-	-	-	721
Mr A Harris	-	-	-	-	-	-	1 070
Directors' fees	**7 390**	-	-	-	**274**	**7 664**	**3 960**

1. Mr L Vutula is the chairperson of the new board that has been appointed with effect from 29 March 2022.
2. Ms P Ramarumo was appointed as Acting Chairperson on 1 September 2020 and has resigned on 29 March 2022.
3. Ms P Mthethwa does not earn fees as she is in the full time employ of the National Empowerment Fund.
4. Mr B Bonakele only started earning fees from 1 September 2022 when he ceased to be the Competition Commissioner.
5. Ms T Kobile only started earning fees from November 2022.
6. Mr V Dube does not earn fees as he is in the employ of the Western Cape Government.
7. Mr J Coetzee was nominated by the NHFC to its strategic investments and continues to represent the NHFC in HIP Management company and on HIP Trust 1 and 2.
8. Mr S Moraba was nominated by the NHFC to its strategic investment and continues to represent the NHFC in HiP Management Company, HIP Trust 1 and 2, and on various companies in the TUHF Holdings group.
9. Mr SA Tati is the former Chairperson of the Board. He was appointed Acting Chief Executive Officer by the Minister, with effect from 1 September 2020. Mr SA Tati resigned as the Acting CEO and Chairperson of the Board in February 2022

4.8 Board committees

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

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

Table 22: Board committee meetings and members

Committee Name	No. of Meetings Held	No. of Members	Names of Members
Directors' Affairs Committee	3	6	• L Vutula • T Bonakele • S Bolipombo • V Dube • P Heeger • P Mthethwa
Audit Committee	8	5	• P Mthethwa • S Bolipombo • T Chiliza • P Heeger • P Kadi
Board Credit and Investment Committee	8	6	• S Bolipombo • T Kobile • P Mthethwa • P Heeger • T Mabaso • A Seedat
Human Capital Committee	6	4	• T Bonakele • T Chiliza • V Dube • P Kadi
IT and Risk Committee	3	5	• V Dube • T Bonakele • P Kadi • P Heeger • A Mayekiso
Impact, Social and Ethics Committee	3	7	• P Heeger • T Bonakele • V Dube • T Kobile • T Mabaso • A Seedat • A Mayekiso

Following the appointment of the Board on 29 March 2022, the Board committees were reconstituted in line with business needs and governance practices.

Audit Committee

The Audit Committee is a statutory committee, established in terms of the Companies Act 2008. The committee performs duties stated in Section 94(7) of the Companies Act. The committee supports the Board by providing independent oversight of the effectiveness of the NHFC's governance of functional areas, including finance. The committee reviews the integrity of the Annual Financial Statements and other functions as delegated to it by the Board from time to time.

The function and objectives of the Audit Committee are reported in detail on page 91 of this report.

The Audit Committee's report appears under Part G on page 126 of this report.

Board Credit and Investment Committee

The Board Credit and Investment Committee comprises independent non-executive directors. The CEO and other members of the executive management team, as well as professional staff responsible for various portfolios, are standing attendees at the meetings. The committee meets bi- monthly to review reports and consider funding applications.

The primary role of the committee is to assist the Board in fulfilling its credit and investment responsibilities, and includes:

- The annual review of the Credit Philosophy, Risk Framework and Policy, Risk Appetite Statement, and long-term investment strategy (and any related policies) for recommendation to the Board for approval
- The review of quarterly reports such as strategic investments, credit, performance, and cash positions, for recommendation to the Board and its relevant sub-committees in relation to legal action, impairments, bad debt write-offs, or revaluation of investments (where applicable)
- Consideration and approval of loan applications for facilities, as per the Delegation of Authority, upon recommendation by the Board Credit and Investment Committee – investments and facilities that exceed the BCIC delegated authority limits are referred to the Board for approval
- Consideration and approval of long-term retail debt investments up to R100 million – investments that exceed R100 million are recommended to the Board
- Consideration of annual and post-investment reviews of strategic as well as major clients of the NHFC.

Human Capital Committee

- This committee comprises independent non-executive directors. The meetings are attended by the CEO, as well as the Executive Manager: Human Resources. The committee meets four times per year, to attend to its responsibilities, which include:
- Periodic reviews of the Human Resources Policy and Strategy, the Remuneration Policy, and the Balanced Scorecard Remuneration Framework, and making recommendations to the Board for approval
- Reviewing and monitoring the top (high) Human Resource (HR) risks
- Considering and approving salary increases for staff
- Approving the implementation of bonus and incentive initiatives for staff
- Reviewing executive managers' salary increases and incentive bonuses and recommending these to the Board for approval
- Reviewing the terms and conditions of executive managers' service agreements
- Annually reviewing and approving succession planning.

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

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

Impact, Social and Ethics Committee

This is a statutory committee of the Board, as laid out in terms of Section 72(4) of the Companies Act. Its mandate is to report to the shareholder on the company's activities regarding the principles and standards of the Organisation for Economic Cooperation and Development, the International Labour Organization, and the United Nations Global Compact, as highlighted in the Companies Act. The committee is guided by the principles of King IV, the PFMA, and other relevant legislation.

As the Impact, Social and Ethics Committee is collaborative in nature, it is mindful not to duplicate work performed within the company or by any of the other committees of the Board. The committee performs its oversight role to ensure that the company remains committed to being a socially responsible corporate citizen and remains a sustainable business regarding its ethical, economic, social, transformational, and environmental impact on the communities within which it operates.

The committee comprises independent non-executive directors and the CEO, and Executive Management Team members attend meetings by invitation. The committee meets four times per year, and its responsibilities include:

- Ensuring that the company conducts its business in an ethical and socially responsible manner
- Oversight of the social and economic development of NHFC employees and other stakeholders
- Promotion of transformation, equality, and prevention of unfair discrimination
- Ensuring that the company has established a Code of Ethics that outlines and prescribes the prevention of fraud, bribery, and corrupt practices, as well as the protection of human rights as enshrined in the South African Constitution
- Contributing to the development of the communities in which the NHFC's business activities are predominantly conducted, by way of poverty alleviation, and supporting the start-up of wealth creation
- Ensuring that appropriate labour and employment practices are adhered to, both in terms of local legislation and the protocols specified in the Companies Act
- Reviewing the Framework and Strategy for Stakeholder Engagement
- 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
- Monitor the impact of developmental activities per the financial strategy
- Coordinate oversight towards the establishment of the Human Settlements Development Bank.

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

IT and Risk Committee

The IT and Risk Committee comprises independent non-executive directors and the CEO. Committee meetings are also attended by the Chief Financial Officer (CFO), Chief Information Officer (CIO), Executive Manager: Corporate Support Services, Executive Manager: Credit and other members of the Executive Management Team by invitation. The committee meets four times per year to assist the Board in executing its responsibility with respect to risk and fraud management.

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

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

Directors' Affairs Committee

The Directors' Affairs Committee comprises the Chairperson of the Board as well as the chairpersons of the Board committees. The CEO may attend committee meetings by invitation.

The committee focuses on directors' matters, and is independent of the Human Capital Committee, which focuses on staff matters. The committee's mandate includes:

- Considering and recommending potential non-executive director candidates for possible appointment to the Board or CEO position
- Reviewing non-executive directors' performance, and recommending re-appointment/s to the shareholder for consideration at the AGM
- Reviewing the annual performance of the CEO
- Reviewing the annual Board evaluation
- Reviewing and confirming recommendations for appointments (both internal and external) to represent the NHFC on external company boards, where the NHFC has made a significant strategic investment and desires to have governance insight of the investment
- Reviewing the performance of external appointees to strategic investment companies.

4.9 Access to information and 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.

5. GOVERNANCE OF SUBSIDIARY COMPANIES

The NHFC is the sole shareholder of the Cape Town Community Housing Company (Pty) Ltd and NHFC Management Services (Pty) Ltd, and also has control over the Abahlali Housing Association on (No. 2) NPC. These are all active subsidiary companies of the NHFC.

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

Each subsidiary has its own board of directors, which meet periodically to review quarterly performance, the Annual Financial Statement, and the risk register. Oversight of these subsidiary companies is the responsibility of the NHFC's Corporate Finance division.

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

6. INTERNAL AUDIT AND AUDIT COMMITTEE

6.1 Internal Audit

The NHFC's internal audit function is outsourced to an external service provider. The service is independent of the external audit function and assists the Board in ensuring that internal controls are adequate and operate as intended throughout the financial year.

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

Based on a review of the APP and Risk Register, the internal auditor prepares an annual programme to review the key processes of the company, as well as its subsidiary company, Cape Town Community Housing Company (CTCHC).

The role of internal audit is to provide independent assurance that NHFC's risk management, governance and internal control processes are operating effectively. Internal Audit is outsourced to a service provider whose main objectives are to add value and provide assurance and consulting services. Further, internal audit has undertaken investigations and probity reviews not only from allegations but also as part of proactive assurance. Audits were undertaken in the following key areas Finance, HR, Treasury Management, SCM, Performance Management and Compliance

The lead internal auditor has direct, unhindered access to the Chairperson of the Audit Committee. This ensures that should there be any significant audit findings or matters that require the immediate attention of the Board, these are dealt with expeditiously.

6.2 Audit Committee

The Audit Committee comprises six members. Its meetings are held a minimum of six times per year and attended by the internal auditors on invitation, the CEO, CFO, and executive managers. The primary objective of the committee is to assist the Board, by performing the following duties:

- Oversight regarding the appointment of internal and external auditors
- Oversight of financial reporting, as well as compliance with all applicable legal requirements and accounting standards
- Reviewing and approving quarterly reports to the shareholder, as delegated by the Board
- 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 Annual Integrated Report
- Oversight of the internal audit process
- Oversight of the external audit process
- Reviewing the effectiveness of management information and systems of internal control, with specific reference to the findings and recommendations of the internal and external auditors.

Table 20 discloses relevant information on the audit committee members.

7. COMPLIANCE WITH LAWS AND REGULATIONS

The NHFC uses a Compliance Matrix, issued by the NDoHS, with which to track and ensure its compliance with laws, regulations and NDoHS requirements. The compliance register is available on request from info@nhfc.co.za.

8. FRAUD AND CORRUPTION

The NHFC has a Fraud Prevention and Response Plan in place, which was reviewed in March 2022. Its purpose is to promote ethics, as well as fight fraud, theft, corruption, maladministration, and other acts of misconduct.

The NHFC adopts a zero-tolerance approach to any acts of fraud, bribery and corruption perpetrated by its employees, directors, clients or suppliers with whom we do business or who act on our behalf. To prevent and manage all instances of fraud and corruption, the NHFC has a Fraud Prevention and Response Plan, Whistleblowing Policy, Anti-money Laundering Policy and Politically Exposed Persons Policy in place.

The NHFC's Whistle Blower Policy, which is aligned with the Protected Disclosures Act, 2000 (Act No. 26 of 2000) (PDA) and The Fraud Prevention and Response Plan, communicates the processes for reporting irregularities and criminal offences occurring within the NHFC. These may be irregularities and criminal offences committed by either employees, service providers or the employer. Fraud and corruption related matters are reported to the Audit and IT and Risk Committees quarterly. Fraud and corruption awareness and training workshops are also conducted bi-annually.

The primary mechanism in place to report fraud and corruption, is an external service provider, which provides a safe and anonymous space for staff to report unethical or fraudulent matters. The external party records and categorises the items and directs them to the Chairperson of the Audit Committee for investigation, recommendation, and subsequent action where required.

9. MANAGING CONFLICT OF INTEREST

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

The declaration of interest is a standing item on the meeting agendas of all Board, Board committee, Management committee, and committees of subsidiary companies.

In addition, all Board members, executive managers, general managers, and prescribed officers are requested annually to provide a full declaration of all internal and external interests. This declaration is kept on record in the office of the Company Secretary.

10. CODE OF CONDUCT

A code of conduct is a set of guidelines that are spelt out by an employer and set out the employer's expectation about how employees must behave while they work for the employer. The Code of Conduct outlines corporate values and commitments and sets the standards and expectations for employee behaviour, which tailors the company's culture.

Post the merger of the three entities, the NHFC awarded a third-party service provider a contract to assist in the review of its values and to develop new organisational values, an Ethics Policy and Code of Conduct. The outcome of the exercise was a bottom-up approach and process of value creation and a Code of Conduct and Ethics Policy which set the tone for the current merged National Housing Finance Corporation and future HSDB.

The NHFC has put the Code of Conduct in place, and all staff and stakeholders must abide by this code. Any behaviour that contradicts that listed in the HC policy, will be subject to the NHFC disciplinary process.

Table 23: Examples of breach of code of conduct

Stakeholder	Expected Conduct	Schedule Of Offence Category
Where an employee interacts with a fellow employee, he/she must:	• Act professionally and co-operate fully to advance the public interest • Refrain from conflict of interest	**Schedule 1:** • Failure or refusal to abide by work schedules • False claims for overtime
Where an employee interacts with a member of the public the employee should:	• Promote the unity and well-being of the South African nation in performing his/her duties • Be polite, helpful, and reasonably accessible in dealings with customers	**Schedule 2 and 3:** • Failure to provide a high level of service or courtesy to a client • Causing customers, fellow employees, or other persons to complain regarding work, client service or attitude

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

Consequence Management is exercised in terms of the NHFC's disciplinary measures for non-compliance with the code of conduct. Monitoring and evaluation of the effectiveness/compliance with the code is done through the Ethics Office.

11. HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

The NHFC has an obligation to provide and maintain, as far as reasonably practical, a working environment that is safe and without risk to the health of all its employees, in compliance with the Occupational, Health and Safety Act and Regulations, 1993 (Act No. 85 of 1993) (OHS Act). The NHFC has established a Health and Safety Committee that, through the Executive Committee, provides programmes that ensures that health hazards and risks are reduced in the workplace, and promotes employee health and safety.

The NHFC is committed to the health and safety of its employees and its stakeholders who visit its premises. To this end, it has developed a policy framework which guides employee behaviour to ensure a safe and healthy workplace, free from hazardous substances or conditions that may cause injury, damage or diseases to employees or external stakeholders.

In line with this policy, all NHFC employees are responsible for their own health and safety as well as that of their colleagues. To this end, employees are trained and provided information on how to carry out work processes safely and to report incidents timeously.

12. COMPANY SECRETARY

In terms of the Companies Act and the PFMA, the NHFC must appoint a Company Secretary who is accountable to the Board and plays a pivotal role in the corporate governance of the company. The Company Secretary maintains an arm's length relationship with the directors 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 regarding all aspects of the Board's mandate and the operations of the NHFC.

The Company Secretary is responsible for ensuring that all reports and returns, as required by the Companies Act, 2008 (Act No. 71 of 2008) are lodged and that the returns are complete and accurate (See Company Secretary's Certification on page 135 under Part G: Annual Financial Statements.

13. SOCIAL RESPONSIBILITY

As a good corporate citizen, the NHFC strives to be responsive to the needs of communities and contribute to their socio-economic development and the stewardship of the natural environment in which it operates. This is achieved through value creation efforts directed at key stakeholders, over time, particularly investment in the development of empowerment projects that uplift communities.

Through Corporate Social Investment (CSI) initiatives the NHFC endeavours to build its corporate reputation and brand equity, and create enduring relationships which enhance business value propositions, gain advantage in capital, labour and customer markets, and positively influence service delivery systems. During the 2022/23 financial year the company participated in value-driven initiatives which range from facilitating early development of children; extending care to children with chronic disorders; empowering school children, particularly girl children; and restoring dignity by building a home for a family.

This flagship project, the Mpumalanga House Build Project helped a family in great need and put the NHFC on the map. In partnership with the Mpumalanga DoHS the NHFC demonstrated its wherewithal to build a house, i.e., a modern three-bedroom house, from the ground up. The company intends to participate in more similar projects, where value to communities is demonstrable.

To give relevance to the company's CSI projects, the CSI Strategy is structured along four pillars, namely Education and skills development for change; Partnering for the greater good; Building communities from the ground up; and Employee support and involvement. In this reporting year, amid the barrage of demand-driven requests for sponsorship, Table 24 reflects those which were subsequently successfully implemented.

The Mpumalanga house built for a family whose members have multiple chronic diseases

Table 24: Projects sponsored during the 2022/23 financial year

CSI Pillar	Project	Province	Sponsored Company	Number of beneficiaries	Amount (R)
Partnering for the greater good	Adult diapers	Gauteng	Cerebral Palsy Association	35 adults	52 710
	School uniform	Eastern Cape	Two Schools	140 children	151 521
	Celebrating the excellence of the Top 100 Black Property Leaders in South Africa	Gauteng	SAIBPP (South African Institute of Black Property Practitioners)	3 000 attendees	90 000
	Sanitary towels	Eastern Cape and KwaZulu-Natal	Four Schools	140 children	102 051
Education and skills development for change	Children's books	Eastern Cape (Gqeberha)	Masinyusane Centre	15 schools	49 949
	Sponsorship – master class	Free State	SAIBPP	3 000 black property practitioners	100 000
	Student convention for those in human settlements studies	Gauteng	Institute of Human Settlement Practitioners (IHSP)	60 students	65 000
Building communities from the ground up	Water tank	Limpopo	Individuals – DoHS	14 households	17 800
	House build	Mpumalanga	Individuals – DoHS	5 people	274 185
Total budget: R1.2 million			**Total spent and paid: R903 217**		

School in Gqeberha to which the NHFC made a sponsorship of school uniform

Adult diapers donated to the United Cerebral Palsy Association of South Africa

14. AUDIT COMMITTEE REPORT

Please refer to the Audit Committee Report in Part G on page 126.

15. IMPACT, SOCIAL AND ETHICS COMMITTEE REPORT

The Impact, Social and Ethics Committee was established in terms of Section 72(4) of the Companies Act 2008, read together with Regulation 43. In executing its mandate, the committee applies the recommended practices contained in the legislation as well as King IV. The committee advises, oversees and monitors the NHFC's activities with regard to social and economic development, ethics, transformation, sustainability, corporate citizenship, health, safety, stakeholder relationships, labour, and employment matters, and the impact of its lending activities on the environment. In summary, the committee ensures that the company remains committed to being a socially responsible corporate citizen and creates a sustainable business for the NHFC and its stakeholders.

In addition, and supplementary to the above, the committee notes the NHFC's risk profile, various policies and committee charters, staff ethics management and training, marketing and communications activities, B-BBEE compliance, fraud management, supply chain management, ICT framework, and controls to prevent corruption. The committee maintains a joint mutual working arrangement with the other Board Committees.

Composition and functioning

The committee comprises independent non-executive directors and the CEO. The non-executive directors who serve on the committee are nominated and appointed by the Board following recommendation from the Directors' Affairs Committee. The members of the committee for the year under review are set out on page 87 of this report. All executive managers are standing attendees at all Impact, Social and Ethics Committee meetings.

The committee's performance was assessed as part of the Board evaluation exercise conducted by an independent service provider, which is currently under way. Meetings and members are detailed on pages 87 of this report.

Monitoring of sustainable development practices

The committee monitors NHFC's environmental, social and governance performance and stewardship through policies, frameworks, standards and guidelines. In the execution of its duties, the committee has reviewed the following key sustainable development practices, specifically relating to:

- Management of ethics and compliance
- Stakeholder relations
- Broad-Based Black Economic Empowerment
- Labour relations and working conditions
- Training and skills development
- Management of the NHFC's environmental impacts
- GRI standards reporting.

The committee maintains a mutual working arrangement with the Audit Committee and Human Capital Committee.

Focus areas in the year under review

The committee's particular focus areas during the year under review were as follows:

- Employment Equity reports
- Compliance with applicable laws
- Ethics management reports

- The NHFC's B-BBEE status
- The lending framework and adherence
- The NHFC's corporate citizenship practices
- Stakeholder relations
- Fraud and corruption reports
- The risk framework
- Policies within its scope, which were then recommended for Board approval.

Reporting

The committee reports to the Board on its activities quarterly. It is also required to report through its Chairperson, on matters within its mandate, to the Shareholder at the 2023 AGM.

16. BROAD-BASED BLACK ECONOMIC EMPOWERMENT REPORT

Name: National Housing Finance Corporation SOC Ltd (NHFC)
Registration Number: 1996/005577/30
Physical Address: 90 Grayston Dr, Sandown, Sandton, 2031
Type of Public Entity: The NHFC is a Schedule 3A public entity according to the PFMA
Sector: The NHFC provides housing finance to retail intermediaries, property developers and social housing institutions in the human settlements sector

Table 25: B-BBEE report

Criteria	Relevant answer	Discussion
Determining qualification criteria for the issuing of licences, concessions or other authorisations in respect of economic activity in terms of any law	N/A	The NHFC does not have any roles in this regard.
Developing and implementing a preferential procurement policy	Yes	This forms part of the NHFC SCM Policy.
Determining qualification criteria for the sale of state-owned enterprises	No	The NHFC does not engage in the sale of state owned enterprises.
Developing criteria for entering into partnerships with the private sector	No	The NHFC currently has no Public Private Partnerships.
Determining criteria for the awarding of incentives, grants and investment schemes in support of Broad Based Black Economic Empowerment	No	This forms part of the NHFC Credit and B-BBEE Policies.

Approved by:

Mr Luthando Vutula
Non-Executive Chairperson: National Housing Finance Corporation

PART D:
RISK MANAGEMENT

1. MANAGING RISK

The NHFC's approach to managing risk is set out in its approved Enterprise-wide Risk Management Framework. The Enterprise Risk Management Department oversees the identification and analysis of strategic risk exposures and their potential impact on the achievement of the NHFC's strategic objectives. The assessment of NHFC's strategic and operational risks is performed annually. At the start of 2022/23, the department facilitated a review of key strategic risks, which were subsequently approved by the Board. All the identified risks are monitored and evaluated on a quarterly basis by management and the Board, ensuring that risk responses are current and dynamic. During the process of continuous monitoring and evaluation, emerging risks are also identified to ensure that all risk areas are effectively managed, and proper mitigation plans are put in place.

A combined assurance approach optimises the assurance coverage obtained from line management (first line of defence), internal specialist functions – risk and compliance management (second line of defence), and internal and external assurance providers – Internal Audit and External Audit (third line of defence) to ensure that prioritised risks at all levels of the company are mitigated through effective operating controls.

2. RISK APPETITE STATEMENT

The Risk Appetite Statement sets the tolerance for risk-taking in NHFC operations, within its risk-bearing capacity. Risk limits and risk profile assessments are other key elements in the implementation of the framework. 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 31 March 2023 and where thresholds were exceeded momentarily, action plans were put in place.

3. RISK APPETITE PILLARS

Figure 6: Risk appetite pillars

Capital Adequacy
- Ensure adequate capital for mandate and risks
- Debt: Equity

Financial Sustainability
- Return on equity
- Cash generated/portfolio mix
- Book growth
- Net interest income sensitivity

Credit Risk
- Non-performing loans
- Credit loss ratio
- Counterparty limit
- Sector concentration

Liquidity
- Liquidity coverage ratio

Mandate
- Inadequate capital committed to transformation
- Provincial concentration
- Housing outside mandate

Operational
- Technology risk
- HR risk
- Reputation risk

4. RISK UNIVERSE

At NHFC risk is expressed in line with the company's Risk Universe.

Figure 7: NHFC risk universe

Operational Risk Risk of losses emanating from failed or inadequate processes, people or events.	NHFC RISK UNIVERSE	**Fraud Risk** Risk that the corporation may be exposed to as a result of misconduct, corruption or theft of the corporation's assets.
Credit and Investment Risk Risk of losses arising from a counterparty's potential inability to meet its obligations.	**Financial Risk (Assets and Liabilities)** Risk focusing on the corporation's ability to meet its financial obligations.	**Compliance Risk** Risk of legal or regulatory sanction, financial or reputational loss as a result of failure to comply with legislation or regulations.

5. COMPLIANCE MANAGEMENT REPORT

Overall, during the year under review the NHFC has complied with all the applicable laws of the country including the PFMA and Treasury Regulations. Where assurance cannot be assured fully, plans are in place to improve in those areas. This includes compliance with Section 13 (G) of the B-BBEE Act. The Audit and Risk Committee of the Board approved the regulatory universe and reviews the NHFC's compliance with legal and regulatory provisions quarterly. During the year under review, the following legislative prescripts were prioritised by the NHFC:

- Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997)
- Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993)
- Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001)
- Protection of Personal Information Act, 2013 (Act No. 4 of 2013)
- Income Tax Act, 1962 (Act No. 58 of 1962)
- Labour Relations Act, 1995 (Act No. 66 of 1995)
- National Environmental Management Act, 1998 (Act No. 107 of 1998)
- National Credit Act, 2005 (Act No. 34 of 2005)
- Companies Act, 2008 (Act No. 71 of 2008) and the Companies Regulations of 2011
- Occupational Health and Safety Act, 1993 (Act No. 85 of 1993)
- Promotion of Access to Information Amendment Act, 2002 (Act No. 54 of 2002)
- Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
- Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004)
- Prevention of Organised Crime Act, 1998 (Act No. 121 of 1998)
- Employment Equity Act, 1998 (Act No. 55 of 1998)
- Financial Regulation Act, 2017 (Act No. 9 of 2017)
- Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003)
- Property Protection Act, 2019 (Act No. 22 of 2019) (Replacing the Estate Agency Affairs Act of 1976).

6. BUSINESS CONTINUITY MANAGEMENT

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 NHFC resources.

The Business Continuity Policy, Framework and Plan have been finalised and approved. The Enterprise Wide Risk Management team ensures that business continuity is successfully implemented throughout the NHFC.

7. CREDIT RISK MANAGEMENT

7.1 Overview

The NHFC end-user market's ability to meet their obligations has been impacted most by modest GDP growth, persistent inflation, and high unemployment. Loans and investments withstood several headwinds over the last two financial years while the non-performing book stabilised in the current financial year. The growth of loans and advances was moderate with a large portion of disbursements, specifically for affordable housing bridging loans having short- to medium-term exposures.

The second phase of the DRP was successfully implemented post year-end having been approved by the various sanctioning committees. Exposures remained liquid with collections of approximately R945 million in the current year at a company level with most average weighted terms being between eight and twelve years.

The Credit Risk Division's improved structure has focused its monitoring, reporting and additional measures to improve liquidity in the non-performing book. Serving the end-user market across the different products is guided by rigorous selection processes that emphasise creditworthiness and enhanced post-investment monitoring. Continuous improvements are being made, including the implementation of enhanced early warning indicators and intervention strategies that assist in identifying potential areas of concern, thus enabling timeous intervention and the maintenance of the asset quality posture.

7.2 Department structure

The division structure enables it to manage the growth in the book that will result from the conversion to the HSDB in the near future. The structure, staffed with specialists, consists of the following sections:

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

"The Credit Risk Division's improved structure has focused its monitoring, reporting and additional measures to improve liquidity in the non-performing book."

7.3 Policies and procedures

An SCM process was initiated during the financial year under review and was aimed at updating the various policies, i.e. Credit Policy, Investment Policy, Pricing Policy, the Risk Appetite Statement, and their respective procedures.

The NHFC will use these updated policies and procedures to ensure rapid decision making and innovative solutions. These policies will also enable the HSDB to become a leader in its space and become the benchmark against which other development finance institutions measure themselves, rather than simply replicating what others are doing. Benchmarking exercises will also be carried out to determine the base for these policies.

It is anticipated that the new policies will be completed and implemented during the third and fourth quarters of the 2023/24 financial year

7.4 Risk appetite

The long-term target for the credit loss ratio, as set out 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 in the division, the division will be working towards ensuring that this ratio is achieved and maintained.

7.5 The effects of COVID-19

This financial year marked the first year under which the country was not observing COVID-19 protocols. Credit risks, however, remained as our borrowers' cash flows were still recovering from the initial interruptions of operations.

The NHFC was allocated R300 million to administer, under the DRP, to provide relief to NHFC clients who were affected by the pandemic during the 2020/21 financial year. The policy approvals necessary to implement the DRP were only finalised during the following financial year and as at 31 March 2022, approximately seventeen (17) clients with arrears amounting to R11.2 million were assisted through the programme.

After the conclusion of the 2021/22 audit, a request was made to National Treasury to retain the remaining funds as NHFC clients were still grappling with the enduring adverse consequences of the COVID-19 pandemic. National Treasury granted the retention of these surplus funds to continue addressing the adverse impact of the pandemic, stabilise the affordable housing sector and support social housing institutions as per the Minister's Directive issued in April 2022. As at 31 March 2023, approximately eight (8) clients with arrears totalling R89 million were assisted through this programme, with more to be assisted in the 2023/24 financial year.

7.6 Loan book analysis

The current loan book consists of fewer loans than the previous year, but the percentage of total non-performing loans reduced significantly, indicating that the restructured Credit Risk Division is already better able to perform its duties.

Table 26: Loan book analysis for the company

2023	Number of loans	Loan R'000	Impairment R'000	Net R'000	% of total
Impaired book	18	607 342	225 530	381 812	13%
Past due but not impaired	16	277 443	-	277 443	10%
Restructured	1	107 151	-	107 151	4%
Total non-performing loans	**35**	**991 936**	**225 530**	**766 406**	**27%**
Performing loans	**33**	**2 103 425**	**-**	**2 103 425**	**73%**
Total book	**68**	**3 095 361**	**225 530**	**2 869 831**	**100%**

2022	Number of loans	Loan R'000	Impairment R'000	Net R'000	% of total
Impaired book	22	525 795	267 352	258 442	9%
Past due but not impaired	16	594 144	-	594 114	21%
Restructured	3	446 015	-	446 015	16%
Total non-performing loans	**41**	**1 565 954**	**267 352**	**1 298 602**	**46%**
Performing loans	**36**	**1 526 711**	**-**	**1 526 711**	**54%**
Total book	**77**	**3 092 665**	**267 352**	**2 825 313**	**100%**

7.7 Credit losses

Table 27 illustrates a general downward trend in credit losses, however, there is still a great need to ensure that this trend continues, as the business case for the HSDB indicates that the book needs to increase substantially. The credit risk profile is proactively managed through periodic monitoring of loans to ensure optimised performance. Despite the negative impacts of the global economic meltdown including that of South Africa, still struggling to recover from the impact of the COVID-19 pandemic, the credit portfolio performance proved resilient, with only R28 million in impairments and write-offs incurred, against a budget of R88 million.

Table 27: Credit losses for the company

	2023 R'000	2022 R'000	2021 R'000	2020 R'000	2019 R'000
Total gross book	3 095 362	3 092 665	2 873 205	2 642 651	2 919 914
Add back bad debts written off on loans and advances	70 397	4 005	393	138 539	47 693
Gross book before write off	**3 165 759**	**3 096 670**	**2 873 598**	**2 781 190**	**2 967 607**
Net impairment and write off on loans and advances	28 557	49 700	23 207	46 773	104 957
Credit loss	0.9%	1.6%	0.8%	1.7%	3.5%

Gauteng Mogale Junction Project

PART E:
HUMAN CAPITAL

1. OVERVIEW OF HR MATTERS

From March 2020 (the COVID-19 pandemic period), approximately 80% of the NHFC's employees worked from home, following the approval of a series of Work from Home Policy framework by the NHFC Board. With the relaxation of the State of Disaster, and the changes in the world of work, the NHFC Board approved a Hybrid Policy.

Through the support of the ICT Division, employees are now well equipped and supported to work remotely to fulfil their work obligations, which ensures continued organisational performance that leads to growth and sustainability.

In the year under review, the NHFC continued to maintain a stable work environment for its employees as they continued to work predominantly from home, ensuring that their performance expectations were clarified, the right tools were made available to fulfil their obligations, and the support and monitoring they required was readily accessible.

1.1 Human Capital key initiatives for the year under review

Following the NHFC Strategy Workshop, Human Capital was charged with the responsibility to drive employee performance by ensuring:

Drive Competence

- Employee Competence
- Leadership Development
- Graduate Programme
- Training Chartered Accountants
- Learnership Programme
- Employee Technical Training (IDP)
- Aspirational Training

Leadership Bench Strength

- Succession Planning
- Mentorship, Shadowing and Job Rotation

Managing Ethics in the workplace

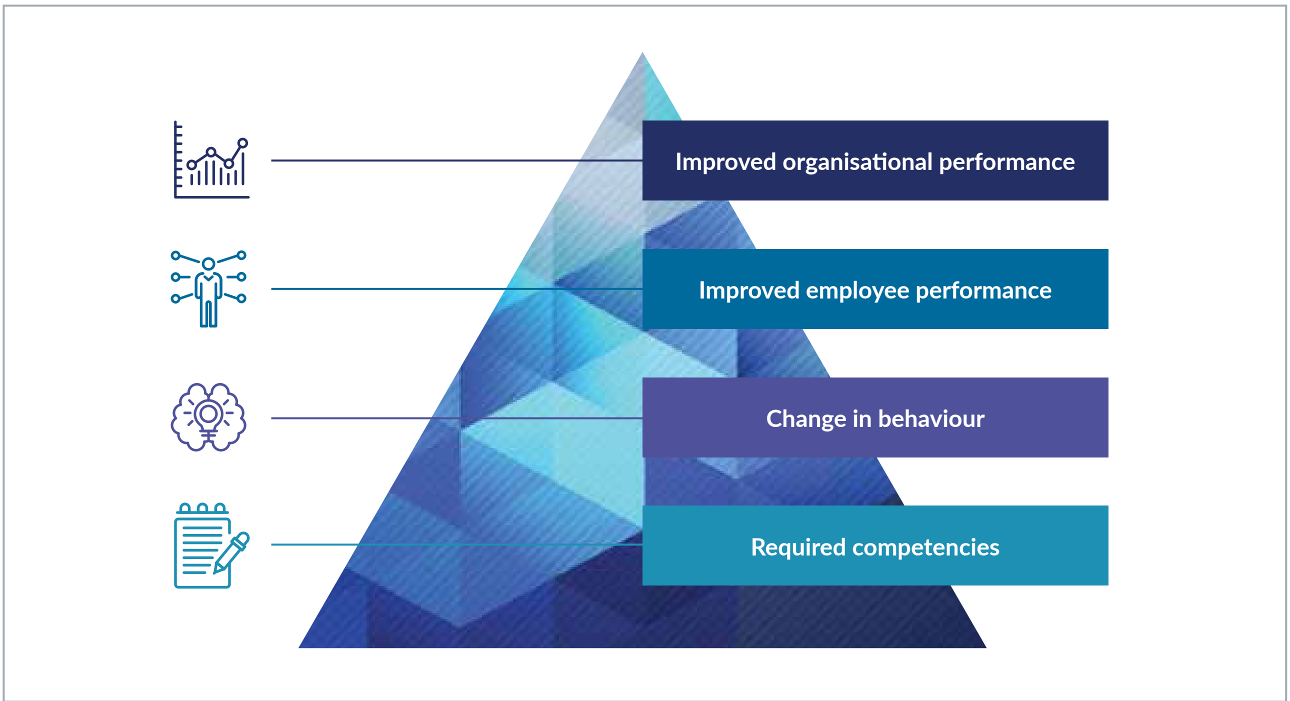
Remuneration Practices

Impact of key priorities

With the implementation of KPIs identified, the NHFC increased performance due to:

- Employees accepting ownership
- Employee empowerment
- Optimisation of systems
- Value being delivered.

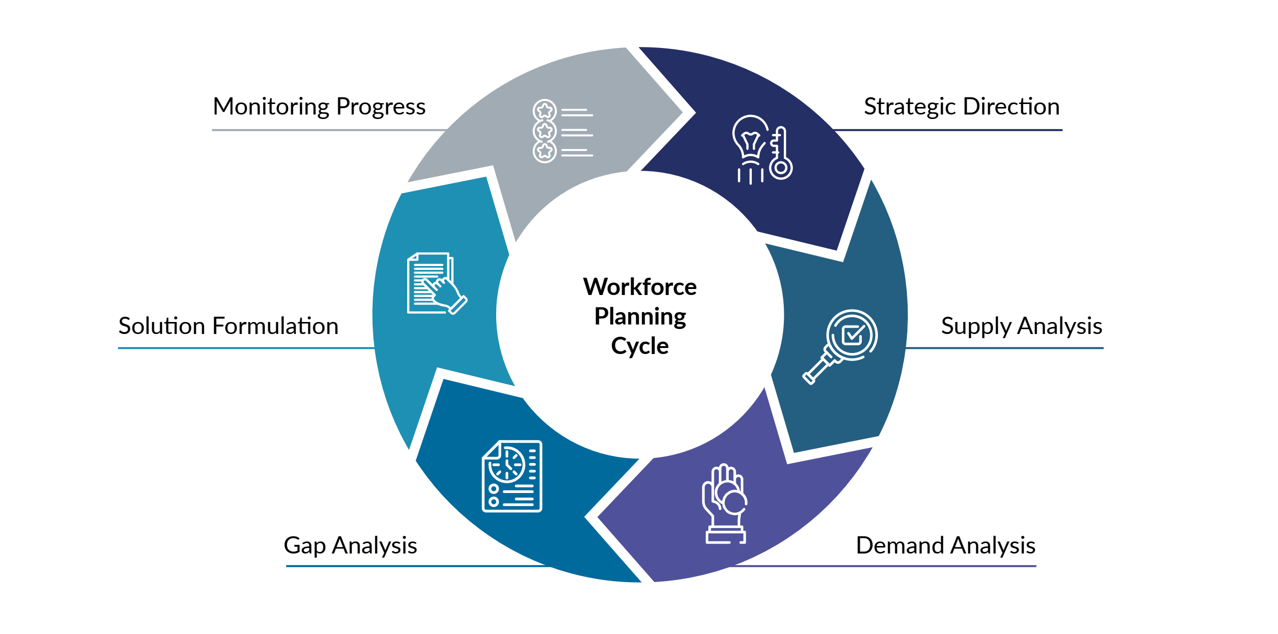
Figure 8: Impact of driving performance



1.2 Workforce planning framework and key strategies to attract and recruit a skilled and capable workforce

Workforce planning is a process of analysing, forecasting and planning workforce supply and demand, assessing gaps and determining targeted talent management interventions to ensure that the NHFC has the right people, in the right places, with the right skills to fulfil its mandate.

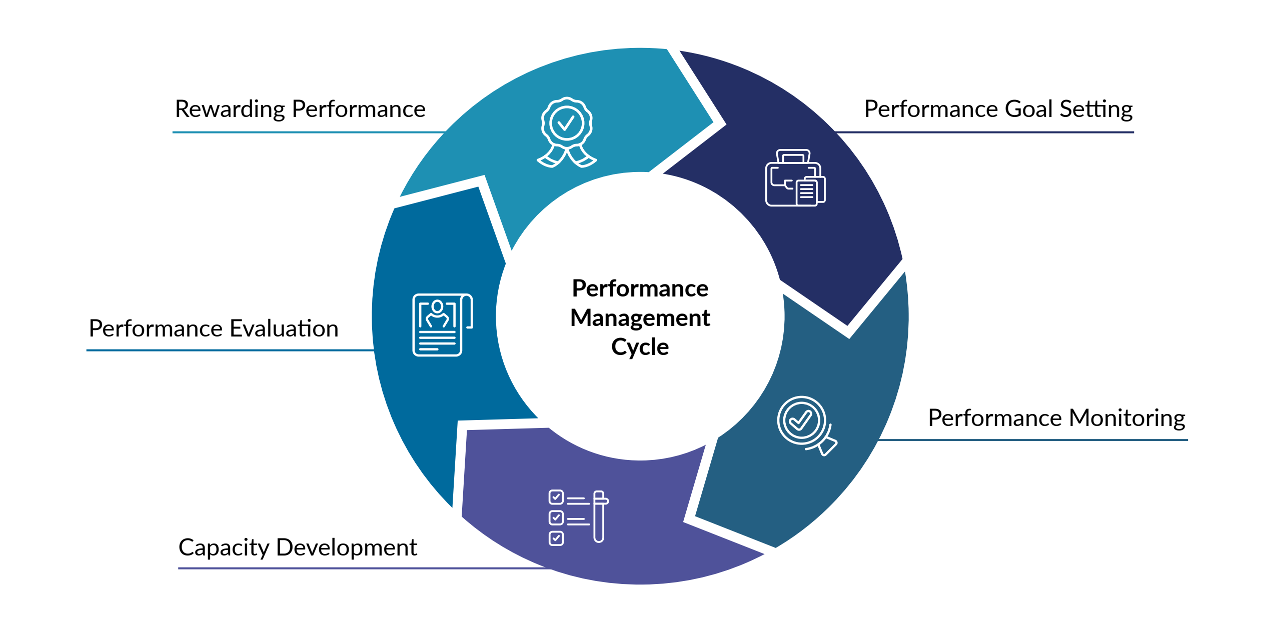
Figure 9: NHFC's process for planning its workforce



1.3 Employee performance management framework

The NHFC is committed to pursuing its mission by delivering on its mandate. This is only possible through employees achieving their cascaded performance mandate objectives. As a result, performance management is instrumental in the realisation of the company's success.

Figure 10: Performance management framework



1.4 Employee wellness programme

The aim of any Employee Wellness Programme (EWP) is to improve employee wellbeing holistically, which includes assisting employees to overcome specific health-related issues. The EWP can include training employees on health matters e.g., managing chronic illnesses, primary healthcare or encouraging fitness activities.

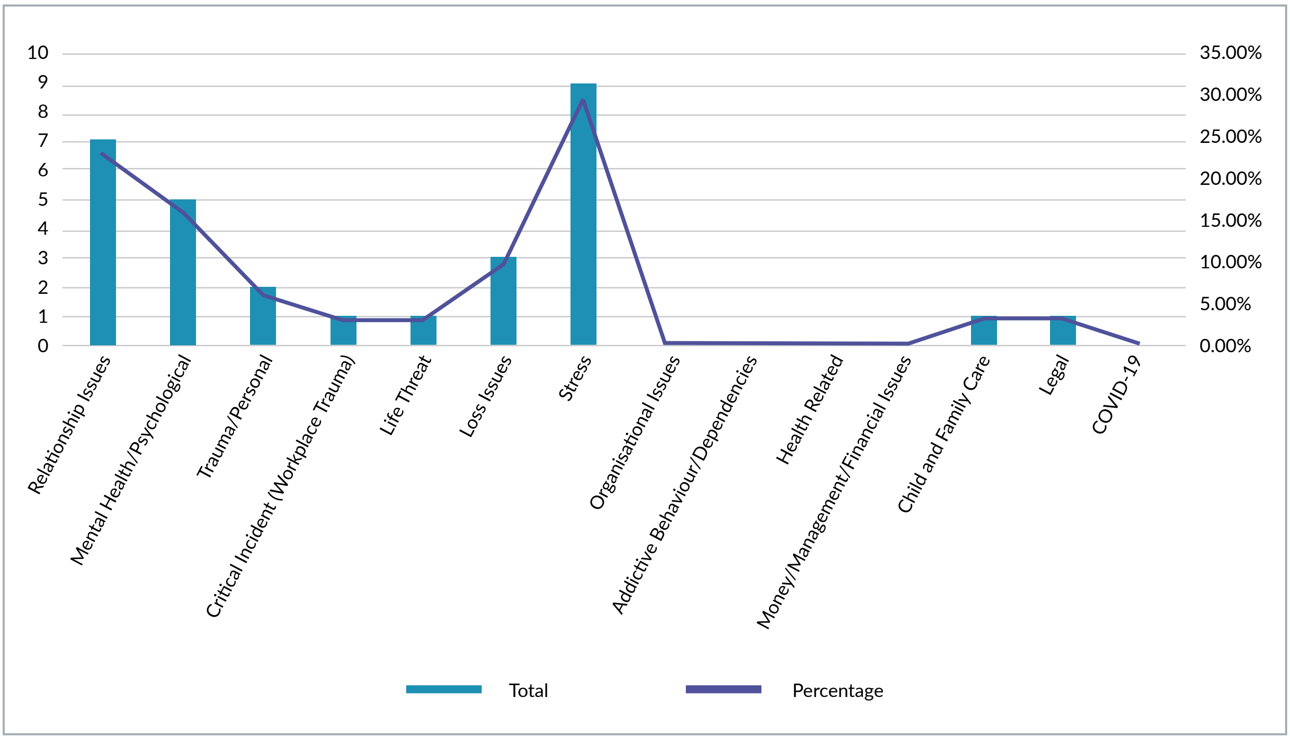
The NHFC's EWP is implemented through a partnership with a service provider. The engagement rate was 26.43% for the year under review, almost 7% higher than the industry benchmark, which is encouraging as it indicates that NHFC employees are using the services that are available to them.

The EWP has assisted employees to make smart, healthy choices with respect to healthcare, increased their vitality and involvement in healthy lifestyles, and is slowly diminishing the rate of absenteeism. The programme has increased productivity, boosted morale and reduced stress, both occupational and personal.

Assistance was given through telephone and/or face-to-face counselling, resulting in 12 individual cases being opened, managed and resolved in the year under review.

Staff members were assisted with the following as illustrated in Figure 11.

Figure 11: Employee problems presented



The graph above, indicates the high level of stress among our employees, which could be attributed to relationship issues.

Similarly, mental health issues could be as a result of relationship issues. Noteworthy from the graph though is that organizational issues do not seem to contribute to employees' high stress levels. This is due to our proactive initiatives.

In line with the preventative wellness strategy, the NHFC continues to provide preventative healthcare services for staff to mitigate productivity challenges and drive performance. Workshops to manage stress and finances were held to empower staff to proactively prevent stress and financial difficulties and to manage these situations should they occur.

1.5 Policy development

Policy development frameworks define the principles, scope, and life cycle for all the company's policies and procedures. The NHFC framework directs the overall planning and development of policy management throughout the company, including Human Capital policy.

The following three elements are important in the development and outline of policies: problem definition, goals to be achieved, and the policy instruments to address the problem and achieve the goals.

The following steps guide the outline of the process:

- Step One: Define the issue or problem
- Step Two: Gather necessary information on the issue, including benchmarks from sister organisations and consultants
- Step Three: Stakeholder consultation including unions
- Step Four: Discuss and debate at Executive Management level (include input of EXCOM)
- Step Five: Present draft policy to board committees
- Step Six: Board approval
- Step Seven: Employee training.

1.6 Challenges

Typically, Human Capital deals with many issues, however, the biggest challenges facing the division currently are recruitment; retention and motivation; leadership development; and corporate culture.

Recruitment: Challenges in recruitment include maintaining a balance between the ongoing talent war, where suitable candidates have the pleasure of choosing the highest bidder, and sustaining equitable internal pay scales. This also affects recruitment turnaround times that are becoming more drawn out.

Retention and Motivation: The role of motivation in employee retention is the key to 'keeping employees productive and committed to their work'. While money is a temporary motivator, it does play a key role in keeping employees motivated, albeit for a short while.

To mitigate the highs brought about by once-off, temporary motivations which are followed by lows after the effect of bonuses have waned, the NHFC is looking at developing an employee recognition and rewards scheme, which is a combination of small monitory rewards and generic behaviour modification managerial interventions, aimed at keeping employees motivated and productive.

Leadership Development: Richard Hendrickson (1989) found through his research into culture and leadership that culture shapes the type and style of leadership in any single organisation. Therefore, leadership is essentially a form of cultural expression.

With these insights the NHFC is deliberately encouraging leadership development for purposes of advancing new ways of thinking and organisational learning.

At the same time, to build its leadership bench strength, the NHFC has a cohort of young employees that it is grooming to assume leadership roles as and when they become ready.

1.7 Future HR plans/goals

To drive performance, Human Capital is expected to empower the NHFC employees to become competent, to deliver on its mandate objective. Employee accountability means they accept ownership and responsibility.

Figure 12 depicts what needs to be done to achieve the target of driving performance.

Figure 12: Human Capital road map

Where are we... ??

0% 25% 50% 75% 100%

Progress Monitoring	Sept 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023
1) Ensure Competent Employees (Learnerships, Mentorship, Shadowing, Employee Dev (KPA) 's for Executive Managers)	50%	50%	50%	50%	50%	50%	75%
2) Drive Employee Performance (Review Purpose of Job Profiles, Performance Contract for Executives, Workshop Occupational Purpose, Develop Decision Rights, employee survey, staff forum, suggestion box)	0%	0%	25%	50%	50%	50%	50%
3) Accept Ownership (Create clear lines of accountability for all decisions made by every individual within the organisation a) Create Decision Rights)	0%	0%	25%	25%	25%	25%	25%
4) Empower Workforce (Enable employee decision making, Enable Financial Decisions) a) Enable Employee Time Management, Share Information b) Develop and Conduct Annual Employee Empowerment Questionnaire (EEQ) survey to test empowerment	0%	0%	25%	25%	25%	50%	50%
5) Create a Healthy Work Experience (Quarterly staff forum, Recognition and Reward scheme, Review interview guide, Create Project Teams, improve culture survey score to 80%, Review policies)	0%	0%	25%	50%	50%	75%	75%
6) HR Risk Management	25%	25%	50%	50%	75%	75%	75%
7) Change Management Programme	25%	25%	25%	25%	25%	25%	25%

2. HUMAN RESOURCE OVERSIGHT STATISTICS

2.1 Personnel related expenditure

Table 28: Personnel cost by salary band

Salary Band	Personnel Expenditure (R'000)	% of Personnel Expenditure to Total Personnel Cost (R'000)	No. of Employees	Average Personnel Cost per Employee (R'000)
Top management	29 368	14.81%	11	2 670
Senior management	13 827	11.44%	9	1 536
Professional qualified	60 206	49.81%	73	824
Skilled	8 493	7.03%	18	472
Semi-skilled	8 407	6.96%	27	311
Unskilled	558	0.46%	5	112
Total	**120 861**	**100%**	**143**	**845**

Performance Rewards

No performance rewards were issued in the reporting year.

Table 29: Training costs

Programme	Personnel Expenditure R'000	Training Expenditure R'000	Training Expenditure as a % of Personnel Cost	No. of Employees Trained	Average Personnel Cost per Employee R
Administration	74 551	1 713	2.30	72	23 787
Affordable Housing Programme	18 842	424	2.25	26	16 320
Integrated Human Settlements Planning and Development Programme	19 932	480	2.41	18	26 660
Rental and Social Housing Programme	7 535	32	0.42	7	4 571
Total	**120 861**	**2 648**	**7.38**	**123**	**71 339**

2.2 Employment and vacancies

Table 30: Employment and vacancies by programme

Programme	2021/22 No. of Employees	2022/23 Approved Posts	2022/23 No. of Employees	2022/23 Vacancies	% of Vacancies
Administration	73	95	81	14	15%
Affordable Housing	27	34	29	5	14%
Integrated Human Settlements Planning and Development	13	29	26	3	10%
Rental and Social Housing	7	8	7	1	12%

Table 31: Employment and vacancies by salary band

Salary Band	2021/22 No. of Employees	2022/23 Approved Posts	2022/23 No. of Employees	2022/23 Vacancies	% of Vacancies
Top management	9	11	11	0	0%
Senior management	10	11	9	2	18%
Professional qualified	56	90	73	17	18%
Skilled	16	19	18	1	5%
Semi-skilled	24	30	27	3	10%
Unskilled	5	5	5	0	0%
Total	**120**	**166**	**143**	**23**	**51%**

2.3 Employment changes

The NHFC recruited and employed 32 new staff members in the reporting period despite a turnover rate of 5.5%. The two executive-level appointments were made despite the competitive labour market and the Human Capital Division is confident that recruitment and employment processes will be swift.

Table 32: Employment changes by salary band

Salary Band	Employment at Beginning of Period	Appointments	Terminations	Employment at End of the Period
Top management	9	2	0	11
Senior management	10	0	1	9
Professional qualified	56	25	8	73
Skilled	16	2	0	18
Semi-skilled	24	3	0	27
Unskilled	5	0	0	5
Total	**120**	**32**	**9**	**143**

Table 33: Reasons for staff leaving

Reason	Number	% of Total No. of Staff Leaving
Death	0	0%
Resignation	5	56%
Dismissal	0	0%
Retirement	1	11%
Ill health	0	0%
Expiry of contract	3	33%
Other	**0**	0%
Total	**9**	100%

Table 34: Labour relations: Misconduct and disciplinary action

Nature of Disciplinary Action	Number
Verbal warning	1
Written warning	4
Final written warning	3
Dismissal	0

2.4 Equity target and employment equity status

Table 35: Male staff by salary band

	Male							
	African		Coloured		Indian		White	
Salary Band	Current	Target	Current	Target	Current	Target	Current	Target
Top management	4	0	0	0	0	0	0	0
Senior management	2	0	0	0	0	0	0	0
Professional qualified	25	0	0	0	1	0	1	0
Skilled	6	0	0	0	0	0	0	0
Semi-skilled	5	0	0	0	0	0	0	0
Unskilled	0	0	0	0	0	0	0	0
Total	**44**	**0**	**0**	**0**	**1**	**0**	**1**	**0**

Table 36: Female staff by salary band

Female								
	African		Coloured		Indian		White	
Salary Band	Current	Target	Current	Target	Current	Target	Current	Target
Top management	6	0	0	0	0	0	0	0
Senior management	5	0	1	0	1	0	0	0
Professional qualified	43	0	0	0	2	0	1	0
Skilled	12	0	0	0	0	0	0	0
Semi-skilled	21	0	1	0	0	0	0	0
Unskilled	5	0	0	0	0	0	0	0
Total	**92**	**0**	**2**	**0**	**3**	**0**	**1**	**0**

Table 37: Disabled staff by salary band

Disabled Staff				
	Male		Female	
Salary Band	Current	Target	Current	Target
Top management	0	0	0	0
Senior management	0	0	0	0
Professional qualified	0	0	0	0
Skilled	0	0	0	0
Semi-skilled	0	0	1	0
Unskilled	0	0	0	0
Total	**0**	**0**	**1**	**0**

PART F:
PFMA COMPLIANCE REPORT

1. INFORMATION ON IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE AND MATERIAL LOSSES

1.1 Irregular expenditure

Table 38: Reconciliation of irregular expenditure

Description	2022/23 R'000	2021/22 R'000
Opening balance	37 197	16 038
Add: Irregular expenditure confirmed	6 361	21 159
Less: Irregular expenditure condoned	-	-
Less: Irregular expenditure not condoned and removed	-	-
Less: Irregular expenditure recoverable	-	-
Less: Irregular expenditure not recovered and written off	-	-
Closing balance	**43 558**	**37 197**

Over R6 million of the irregular expenditure incurred in 2022/23 was due to procurement from expired contracts which is not in line with the NHFC SCM Policy and Delegation of Authority.

Table 39: Reconciling notes

Description	2022/23 R'000	2021/22 R'000
Irregular expenditure that was under assessment in 2021/22	-	1 705
Irregular expenditure that relates to 2021/22 and identified in 2022/23	-	5 045
Irregular expenditure for the current year	6 361	16 114
Total	**6 361**	**22 864**

Table 40: Current and previous year irregular expenditure (under assessment, determination, and investigation)

Description	2022/23 R'000	2021/22 R'000
Irregular expenditure under assessment	-	-
Irregular expenditure under determination	405	-
Irregular expenditure under investigation	-	-
Total	**405**	-

Table 41: Current and previous year irregular expenditure condoned

Description	2022/23 R'000	2021/22 R'000
Irregular expenditure condoned	4 497	-
Total	**4 497**	**-**

No irregular expenditure for the current and previous year was removed, recovered or written off.

1.2 Additional disclosure relating to inter-institutional arrangements

The NHFC is not party to any inter-institutional arrangements.

Table 42: Current and previous year disciplinary or criminal steps taken because of irregular expenditure

Disciplinary steps taken
Consequence management was implemented

1.3 Fruitless and wasteful expenditure

Table 43: Reconciliation of fruitless and wasteful expenditure

Description	2022/23 R'000	2021/22 R'000
Opening balance	2 418	1 153
Add: Fruitless and wasteful expenditure confirmed	229	5 284
Less: Fruitless and wasteful expenditure written off	-	-
Less: Fruitless and wasteful expenditure recoverable		(4 019)
Closing balance	**2 377**	**2 418**

Table 44: Reconciling notes

Description	2022/23 R'000	2021/22 R'000
Fruitless and wasteful expenditure that was under assessment in 2021/22	-	-
Fruitless and wasteful expenditure that relates to 2021/22 and identified in 2022/23	-	-
Fruitless and wasteful expenditure for the current year	229	5 284
Total	**229**	**5 284**

Table 45: Current and previous year fruitless and wasteful expenditure (under assessment, determination, and investigation)

Description	2022/23 R'000	2021/22 R'000
Fruitless and wasteful expenditure under assessment	-	-
Fruitless and wasteful expenditure under determination	-	-
Fruitless and wasteful expenditure under investigation	-	-
Total	**-**	**-**

Table 46: Current and previous year fruitless and wasteful expenditure recovered

Description	2022/23 R'000	2021/22 R'000
Fruitless and wasteful expenditure recovered	-	4 019
Total	**-**	**4 019**

Table 47: Current and previous year irregular expenditure not recovered and written off

Description
There were no current and previous year fruitless and wasteful expenditure written off

Table 48: Current and previous year disciplinary or criminal steps taken because of fruitless and wasteful expenditure

Description
Consequence management will be implemented

1.4 Additional disclosure relating to material losses in terms of PFMA Section 55(2)(b)(i) and (iii)

The NHFC had no material losses due to theft or other means in the previous or current financial years.

2. LATE AND / OR NON-PAYMENT OF SUPPLIERS

The NHFC is committed to paying its suppliers within their payment terms, are usually within 30 days. Certain of our development clients have 14 day payment terms. We often settle these accounts sooner than required. The National Treasury Regulation requires us to report on late payment of suppliers in detail from next year. We have started gathering the data to enable us to do so.

Table 49: Procurement by other means

Project description	Name of supplier	Type of procurement by other means	Contract number	Value of contract R
Latitude Helpdesk Training	Latitude Software IT Services	Limited Bidding-RFQ	PO_NHFC006150	R2 875
Latitude Software Upgrade	Latitude Software IT Services	Limited Bidding-RFQ	N/A	R4 312
Membership subscription to SAIBPP	SAIBPP	Limited Bidding-RFQ	PO_NHFC005977	R55 000
SAIBPP 100 Co-sponsorship of publication and annual conventions	SAIBPP	Limited Bidding-RFQ	PO_NHFC005914	R190 000
Strategic facilitation	VM Services (PTY) LTD	Limited Bidding-RFQ	PO_NHFC005900	R260 000
Forensic Investigator appointed to attend a hearing	Fundudzi Forensic	Limited Bidding-RFQ	PO_NHFC005894	R20 700
Membership subscription to National Credit Regulator (NCR)	National Credit Regulator	Limited Bidding-RFQ	PO_NHFC005834	R44 541
Provision of mobile services	Vodacom	Limited Bidding-RFQ	N/A	R207 788
Provision of a service provider to prepare the NHFC SOC LTD as a Chartered Accountant Training body	Lemme Business Services	Limited Bidding-RFQ	PO_NHFC005787	R133 500
Provision of training for credit team	Data Science for Leadership	Limited Bidding-RFQ	PO_NHFC006016	R58 500
Extension of the existing lease contract at Isle of Houghton	Gemgrow	Limited Bidding-RFQ	N/A	R322 109
Provision of internet connectivity services (ISP), virtual hosting solution, firewall solution, hosted PBX solution and Mimecast solution	Vox Telecommunication (Pty) Ltd	Competitive Bidding-RFP	PO_NHFC006090 PO_NHFC005600 PO_NHFC005696 PO_NHFC005869	R1 147 685
FLISP Enhancement	Liptech CC T/A Astech	Competitive Bidding-RFP	N/A	R143 080
SAGE CRM Contract	Liptech trading as Astech	Limited Bidding-RFQ	PO_NHFC006014	R1 304 100
Provision for Risk Management and Compliance training and appointment	KPMG	Competitive Bidding-RFP	PO_ NHFC005983; PO_NHFC006252	R346 788
Corporate Lan advertising	Nth Dimension	Limited Bidding-RFQ	N/A	R98 739
The Ethics Institute membership renewal	The Ethics Institute	Limited Bidding-RFQ	PO_NHFC005547	R1 166

Project description	Name of supplier	Type of procurement by other means	Contract number	Value of contract R
Deviation from normal SCM process to accept 2 quotations for provision of Compliance Management Services and appointment of ABMI Research Institute	ABMI Research Institute	Competitive Bidding-RFP	N/A	R993 600
Deviation: contracts management – NMS integration	Vodacom (Box Fusion)	Limited Bidding-RFQ	N/A	R36 571
CSI Committee – second bidder to for the Wendy House Project and budget	Molatelo K General Trading	Competitive Bidding-RFP	PO_NHFC006135	R230 850
Request for a deviation from the normal procurement process in the procurement of space in the media to announce the appointments of Ms Azola Mayekiso and Ms Nthabiseng Mongali	Sunday Times	Competitive Bidding-RFQ	N/A	R51 612
CSI School Uniform sponsorship	Ciskei Uniforms RTM Agency Rainy Enterprise	Limited Bidding-RFQ	PO_NHFC006152 PO_NHFC006151 PO_NHFC006153	R78 701 R53 900 R18 900
Kredits annual subscription renewal	Kredits	Limited Bidding-RFQ	N/A	R193 124
Caseware annual licence renewal	Adapt IT	Limited Bidding-RFQ	PO_NHFC006318	R217 878
Deviation from SCM process 21st Century	21st Century	Limited Bidding-RFQ	N/A	R22 144
Deviation from normal SCM process to obtain three (3) quotations for provision of Business Continuity Training and Business Continuity Plan Testing services	Dimension Data	Competitive Bidding-RFQ	N/A	R134 780
Appointment of Empowaworx to live-stream the FLISP rebranding launch event	Empowaworx	Limited Bidding-RFQ	PO_NHFC006351	R20 000
Credit Ease annual licence renewal	KE Concepts	Limited Bidding-RFQ	N/A	R1 141 291
Sage CRM (FLISP) annual licence renewal	SAGE SA	Limited Bidding-RFQ	N/A	R150 623
Appointment of Empowaworx as event organiser for FLISP rebranding	Empowaworx	Limited Bidding-RFQ	PO_NHFC006195	R136 944
Residential Investment and Development Conference 12–13 July 2023	Residential Investment and Development Conference	Limited Bidding-RFQ	N/A	R95 000
Deviation for the Ethics Officer Certification Programme	The Ethics Institute	Limited Bidding-RFQ	PO_NHFC006276	R28 560

Project description	Name of supplier	Type of procurement by other means	Contract number	Value of contract R
SAGE VIP Premier annual licence renewal	SAGE SA	Limited Bidding-RFQ	PO_NHFC006272	R191 625
Appointment of a service provider for ethical culture assessment	The Ethics Institute	Limited Bidding-RFQ	PO_NHFC006303	R172 543
Adapt IT Caseware Training	Adapt IT	Limited Bidding-RFQ	PO_NHFC006249	R37 522
Sponsorship of IHSP (SA) International Seminar, Bloemfontein	IHP (SA)	Limited Bidding-RFQ	PO_NHFC006284	R65 000
Deviation from normal procurement process to buy school uniform	Company names not indicated	Limited Bidding-RFQ	N/A	R350 000
Request for a deviation from the normal procurement process in the procurement of space for the placement of content in various publications	Yes Media	Limited Bidding-RFQ	PO_NHFC006103	R60 000
Deviation Memo for Ethics Champions webinar	The Ethics Institute	Limited Bidding-RFQ	PO_NHFC006131	R1 194
Urgent printing of brochures for the Human Settlements Indaba	Empowaworx	Limited Bidding-RFQ	N/A	R15 000
SAGE Loan Management System (LMS) annual subscription renewal	SAGE SA	Limited Bidding-RFQ	PO_NHFC006122	R92 333
SAGE Pastel annual licence renewal	SAGE SA	Limited Bidding-RFQ	PO_NHFC006105	R171 999
Variation of cost (additional budget) for the construction of a house undertaken as a CSI initiative in Mpumalanga	Department of Human Settlements	Limited Bidding-RFQ	N/A	R58 287
Total				**R9 160 864**

Table 50: Contract variations and expansions

Project description	Name of supplier	Contract modification type	Contract number	Original contract value R'000	Value of previous contract expansion/s or variation/s	Value of current contract expansion or variation
Insurance and undertaking services	Kunene Makopo Risk Solutions	To align contract with NHFC financial year-end. The contract value was not extended, only the contract period	N/A	R50 000	N/A	No value, only extension of time
Office Lease Port Elizabeth	Africorp International Properties	To extend the contract while procurement process was under way	PO_NHFC006328	R93 373	N/A	R79 380
Panel of Attorneys	VZLR	To extend the contract while procurement process was under way.	PO_NHFC006322	R45 121	N/A	R80 524
Panel of Attorneys	Werkmans	To extend the contract while procurement process was under way	PO_NHFC006148	R902 533	N/A	R35 201
Panel of Attorneys	Bowmans Law	To extend the contract while procurement process was underway	PO_NHFC006192	R93 261	N/A	No value, only extension of time
Panel of Attorneys	Seanego	To extend the contract while procurement process was under way	PO_NHFC006245	R199 200	N/A	No value, only extension of time
Sage Pastel Evolution support contract extension	Brilliant Link	The procurement of an ERP solution has been restarted and it is anticipated that it will be completed in the next 18 months. The ERP solution will ultimately replace the current financial and procurement system	PO_NHFC005378	R322 920	N/A	R362 250
Total				R1 706 408		R557 356

PART G:
ANNUAL FINANCIAL STATEMENTS

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The NHFC provides housing finance to retail intermediaries, property developers and social housing Institutions; as well as supports and capacitate emerging housing intermediaries through strategic partnerships
Directors	Mr L Vutula (Board Chairperson) Mr T Bonakele Ms T Chiliza Ms P Mthethwa Mr P Heeger Ms A Seedat Ms S Bolipombo Mr V Dube Mr T Mabaso Ms P Kadi Ms T Kobile Ms A Mayekiso (executive director) (appointed 1 March 2023)
Registered office	90 Grayston Dr, Sandown, Sandton, 2031
Postal address	PO Box 31376 Braamfontein Johannesburg 2017
Bankers	Standard Bank of South Africa Limited First National Bank Limited
Auditors	Auditor-General of South Africa Registered Auditors
Company registration number	1996/005577/30
Level of assurance	These consolidated Annual Financial Statements have been audited in compliance with the applicable requirements of the Companies Act No. 71 of 2008.

INDEX

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

The financial statements were prepared by Viola Moraswi, CA(SA) the General Manager: Finance, under the supervision of Bruce Gordon, CA(SA) the Chief Financial Officer of the NHFC.

STATEMENT OF RESPONSIBILITY BY THE BOARD

The Board of Directors, which constitutes the Accounting Authority, is required in terms of the Companies Act, 2008 (Act No.71 of 2008) (Companies Act) and Public Finance Management Act of 1999 (Act No. 1 of 1999) (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is their responsibility to ensure that the Annual Financial Statements fairly present the state of affairs of the National Housing Finance Corporation SOC Ltd (NHFC) at 31 March 2023, and the results of its operations and cash flows for this period. The external auditors are engaged to express an independent opinion on the Annual Financial Statements and have been given unrestricted access to all financial records and related data.

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

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

The Directors acknowledge that they are ultimately responsible for the systems of financial and risk management and internal control and attach considerable importance in maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board sets standards of internal control aimed at reducing the risk of error or deficit in a cost-efficient manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of the NHFC's enterprise-wide risk management is on identifying, assessing, managing and monitoring all forms of risk across the company. While operating risk will always exist, the NHFC endeavours to mitigate it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Independent internal auditors assist the Board in their task of ensuring that internal controls are adequate and operate as intended throughout the financial year under review. The company appointed internal auditors in May 2022.

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

The Directors have reviewed the NHFC's cash flow forecast 31 March 2024, and in light of this review and the current financial position, the Board 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 127 to 132.

The Annual Financial Statements, set out on pages 136 to 210, which have been prepared on the going concern basis, were approved by the Board of Directors on 27 July 2023 and were signed on their behalf by:

Mr L Vutula
Non-Executive Chairperson

Ms P Mthethwa
Chairperson Audit Committee

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 Part C on pages 87 and 91 of the Integrated Report.

Execution of the Functions of the Audit Committee

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

External Auditors

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

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

Internal Audit

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

Systems of Internal Controls

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

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

Financial and Regulatory Reporting

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

Going Concern

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

Evaluation of Annual Financial Statements and Accounting Policies

The Audit Committee has reviewed principles, policies and practices adopted in the preparation of Annual Financial Statements for the 2023 financial year and, where necessary, has obtained appropriate explanations relating to such financial information included in the 2023 Annual Financial Statements. The Audit Committee is satisfied that they are adequate and appropriate and that the 2023 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 2023 Annual Financial Statements to the Board for approval.

Ms P Mthethwa
Chairperson of the Audit Committee
26 July 2023

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 (NHFC) and its subsidiaries (the group) set out on pages 136 to 210, which comprise the consolidated and separate statement of financial position as at 31 March 2023, the statement of consolidated and separate 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 NHFC as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act).

Context 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 responsibilities of the auditor-general 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 matter

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 37 to the consolidated and separate financial statements, the corresponding figures for 31 March 2022 were restated as a result of an error in the consolidated and separate financial statements of the entity at, and for the year ended, 31 March 2023.

Other matters

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

National Treasury Instruction Note 4 of 2022-23: PFMA Compliance and Reporting Framework

9. On 23 December 2022, the National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised, irregular and fruitless, and wasteful (UIFW) expenditure. Among the effects of this framework is that irregular, and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the consolidated and separate Annual Financial Statements, only the current year and prior year figures are disclosed in note 38 to the financial statements. The movements regarding irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the consolidated and separate Annual Financial Statements of the NHFC. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now required to be included as part of other information in the annual report of the auditees.
10. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

Responsibilities of the Accounting Authority for the consolidated and separate financial statements

11. 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.
12. In preparing the consolidated and separate financial statements, the Accounting Authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

13. 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.
14. 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

15. In accordance with the Public Audit Act No.25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected programmes presented in the annual performance report. The Accounting Authority is responsible for the preparation of the annual performance report.
16. I selected the following programmes presented in the annual performance report for the year ended 31 March 2023 for auditing. I selected programmes that measure the entity's performance on its primary mandated functions and that are of significant national, community or public interest.

Programme	Page numbers	Purpose
Integrated human settlements planning and development programme	46–51	To contribute to the development of policy, planning and research in the creation of sustainable and integrated human settlements, oversee the delivery of the integrated residential development programme, and participate in coordination of intergovernmental partnerships with stakeholders
Rental and social housing programme	52–56	Promote the provision of affordable rental housing, and develop capabilities in the rental housing sector through intergovernmental collaboration
Affordable housing programme	57–72	Provision of affordable housing finance

17. I evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the entity's planning and delivery on its mandate and objectives.
18. I performed procedures to test whether:
    - the indicators used for planning and reporting on performance can be linked directly to the public entity's mandate and the achievement of its planned objectives
    - the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements
    - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
    - the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents
    - the reported performance information is presented in the annual performance report in the prescribed manner
    - there are adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.
19. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.
20. I did not identify any material findings on the reported performance information of the selected programmes.

Other matter

21. I draw attention to the matter below.

Achievement of planned targets

22. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- and under achievements.

Report on compliance with legislation

23. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The Accounting Authority is responsible for the entity's compliance with legislation.
24. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
25. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the [type of auditee], clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
26. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

27. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R6 361 000 as disclosed in note 38 to the Annual Financial Statements, as required by Section 51(1)(b)(ii) of the PFMA.

Other information in the annual report

28. The Accounting Authority is responsible for the other 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 referred to does not include the consolidated and separate financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.
29. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
30. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
31. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

32. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
33. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation.
34. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation.
35. Compliance monitoring by senior management relating to expenditure management were not effective due to a lack of adequate oversight resulting in non-compliance.

Auditor-General

Pretoria
31 July 2023

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

The annexure includes the following:

- the auditor-general's responsibility for the audit
- the selected legislative requirements for compliance testing.

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected programmes and on the entity's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the entity to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the- consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

I communicate with the Accounting Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Accounting Authority with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Public Finance Management Act No.1 of 1999 (PFMA)	Section 51(1)(a)(iv); 51(1)(b)(i); 51(1)(b)(ii); 51(1)(e)(iii) Section 53(4) Section 54(2)(c'); 54(2)(d) Section 55(1)(a); 55(1)(b); 55(1)(c)(i) Section 56(1); 56(2) Section 57(b); Section 66(3)(c'); 66(5)
Treasury Regulations (TR) for departments, trading entities, constitutional institutions and public entities	Treasury Regulation 8.2.1; 8.2.2 Treasury Regulation 16A 3.1; 16A 3.2; 16A 3.2(a); 16A 6.1; 16A6.2(a) & (b); 16A6.2(e);16A 6.3(a); 16A 6.3(a)(i); 16A 6.3(b); 16A 6.3(c); 16A 6.3(d); 16A 6.3(e); 16A 6.4; 16A 6.5; 16A 6.6; TR 16A.7.1; 16A.7.3; 16A.7.6; 16A.7.7; 16A 8.2(1); 16A 8.2(2); 16A 8.3; 16A 8.3(d); 16A 8.4; 16A9.1 16A9; 16A9.1(b)(ii); 16A9.1(c); 16A 9.1(d); 16A 9.1(e); 16A9.1(f); 16A 9.2; 16A 9.2(a)(ii); TR 16A 9.2(a)(iii) Treasury Regulation 30.1.1; 30.1.3(a); 30.1.3(b); 30.1.3(d); 30.2.1 Treasury Regulation 31.1.2(c') Treasury Regulation 31.2.1; 31.2.5; 31.2.7(a) Treasury Regulation 31.3.3 Treasury Regulation 32.1.1(a); 32.1.1(b); 32.1.1(c') Treasury Regulation 33.1.1; 33.1.3
Companies Act No.71 of 2008	Section 45(2); 45(3)(a)(ii); 45(3)(b)(i); 45(3)(b)(ii); 45(4) Section 46(1)(a); 46(1)(b); 46(1)(c') Section 112(2)(a); Section 129(7)
Prevention and Combating of Corrupt Activities Act No.12 of 2004 (PRECCA)	Section 34(1)
Construction Industry Development Board Act No. 38 of 2000 (CIDB)	Section 18(1)
CIDB Regulations	CIDB Regulation 17; 25(1); 25 (5) and 25(7A)
Preferential Procurement Policy Framework Act No. 5 of 2000 (PPPFA)	Section 1(i); 2.1(a); 2.1(b); 2.1(f)
Preferential Procurement Regulations, 2017	Paragraph 4.1; 4.2 Paragraph 5.1; 5.3; 5.6; 5.7 Paragraph 6.1; 6.2; 6.3; 6.5; 6.6; 6.8 Paragraph 7.1; 7.2; 7.3; 7.5; 7.6; 7.8 Paragraph 8.2; 8.5 Paragraph 9.1; 9.2 Paragraph 10.1; 10.2 Paragraph 11.1; 11.2 Paragraph 12.1 and 12.2
Preferential Procurement Regulations, 2022	Paragraph 3.1 Paragraph 4.1; 4.2; 4.3; 4.4 Paragraph 5.1; 5.2; 5.3; 5.4
PFMA SCM Instruction No. 9 of 2022/2023	Paragraph 3.1; 3.3 (b); 3.3 (c); 3.3 (e); 3.6
National Treasury Instruction no.1 of 2015/16	Paragraph 3.1; 4.1; 4.2

Legislation	Sections or regulations
PFMA SCM Instruction note 3 2021/22	Paragraph 4.1; 4.2 (b); 4.3; 4.4; 4.4 (a); 4.4 (c) -(d); 4.6 Paragraph 5.4 Paragraph 7.2; 7.6
NT Instruction note 3 of 2019/20	Paragraph 5.5.1(vi); Paragraph 5.5.1(x)
NT Instruction note 11 of 2020/21	Paragraph 3.1; 3.4 (a) and (b); 3.9; 6.1;6.2;6.7
PFMA SCM Instruction note 2 of 2021/22	Paragraph 3.2.1; 3.2.2; 3.2.4(a) and (b) ; 3.3.1; 3.2.2 Paragraph 4.1
PFMA SCM Instruction note 4 of 2022/23	Paragraph 4(1); 4(2); 4(4)
Practice note 5 of 2009/10	Paragraph 3.3
PFMA SCM Instruction 08 of 2022/23	Paragraph 3.2 Paragraph 4.3.2; 4.3.3
Competition Act no 89 of 1998	Section 4(1)(b)(ii)
NT Instruction note 4 of 2015/16	Paragraph 3.4
NT SCM Instruction note 4A of 2016/17	Paragraph 6
Second amendment of NT Instruction 05 of 2020/21	Paragraph 4.8; 4.9 ; 5.1 ; 5.3
Erratum NTI 5 of 202/21	Paragraph 1
Erratum NTI 5 of 202/21	Paragraph 2
Practice note 7 of 2009/10	Paragraph 4.1.2
Practice note 11 of 2008/9	Paragraph 3.1 Paragraph 3.1(b)
PFMA SCM Instruction note 1 of 2021/22	Paragraph 4.1

Mandate and Principal Activities

The National Housing Finance Corporation SOC Limited (NHFC) was established by the NDoHS as a 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 PFMA. Details of the NHFC's principal activities are described on pages 9 to 12.

Corporate Governance

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

Financial Highlights

The financial highlights are set out on inside cover of this report.

Financial Results

The financial results of the NHFC for the year under review are set out on pages 27 to 28.

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

Credit Rating

In February 2023, Global Credit Ratings rated the NHFC at national scale ratings of A and A1 in the long and short term respectively, with the outlook as stable.

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

Business Performance Results

The business performance against predetermined objectives for the year under review is set out in Part B.

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 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 surpluses are retained by the NHFC in order to build its capital base, and thereby increase its activities and impact.

Going Concern

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

Directorate and Secretariat

Details pertaining to the directors and company secretary appear on pages 79 to 83 and page 95.

External Auditor

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

Human Settlements Development Bank (HSDB)

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

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

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

Remuneration of Directors and Members of Board Committees

The Directors' emoluments are set out on pages 202 to 204 of these financial statements.

Audit Committee Members of Board Committees

The Audit Committee members and External Auditors are appointed in line with the Companies Act, 2008 (Act No. 71 of 2008).

The External Auditors do not perform non-audit services for the company.

Internal Controls

An effective internal control framework is in place and it 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.

Events after the reporting date

There are no events after the reporting date.

Subsidiaries and Associates

The NHFC's investments are disclosed in notes 5 to 8 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 page 78.

Irregular, Fruitless and Wasteful Expenditure

During the year, the NHFC incurred R6.36 million of irregular expenditure and R228.8 thousand of fruitless and wasteful expenditure was incurred in the current year due to non-compliance with our National Treasury Regulations and SCM Policies. No fruitless and wasteful expenditure incurred in the current year has been recovered yet.

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

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

Accounting Authority Changes

Ms Azola Mayekiso has been appointed as CEO of the company on 1 March 2023.

The Company Secretary, Mr Andrew Higgs, retired from the company on 31 January 2022, and was retained on a fixed term contract until 31 July 2022. Ms Nthabiseng Mongali has been appointed in his place effective 6 March 2023.

The Board is pleased to welcome the new CEO and Company Secretary to the NHFC.

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 2023 was approved by the Board of Directors on 27 July 2023 and is signed on their behalf by:

Mr L Vutula
Non Executive Chairperson

PMtetwa

Ms P Mthethwa
Chairperson Audit Committee

COMPANY SECRETARY'S CERTIFICATION

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act No. 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Ms Nthabiseng Mongali
Company Secretary

STATEMENT OF FINANCIAL POSITION as at 31 March 2023

	Note(s)	Group 2023 R'000	Group 2022 Restated* R'000	Company 2023 R'000	Company 2022 Restated* R'000
Assets					
Non-Current Assets					
Loans and advances	3	3 542 682	3 227 367	2 229 624	2 156 060
Loans to subsidiaries	4	-	-	33 783	18 893
Investment in non-controlled entities	5	238 043	243 042	238 043	243 042
Investments in controlled entities	6	-	-	261 295	257 645
Investments in associates	7	228 629	249 021	114 678	149 607
Investment preference shares	8	-	-	-	-
Property, plant and equipment	9	2 533	3 000	2 531	2 993
Intangible assets	10	407	1 309	407	1 309
Finance lease receivables	11	101 942	94 250	-	-
Investment property	12	82 897	58 718	71 650	48 000
Deferred tax	31	24 089	-	-	-
Held to maturity investments	15	36 608	53 547	36 608	53 547
		4 257 830	**3 930 254**	**2 988 619**	**2 931 096**
Current Assets					
Loans and advances	3	640 380	853 224	640 207	669 253
Properties developed for sale	13	-	11 238	-	-
Finance lease receivables	11	3 945	5 937	-	-
Other receivables and prepayments	14	49 601	39 908	11 979	24 250
Held to maturity investments	15	530 674	515 411	530 674	515 411
Cash and cash equivalents	16	2 206 008	1 862 172	1 823 987	1 517 215
Income tax receivable	31	41 552	38 000	41 552	38 000
		3 472 160	**3 325 890**	**3 048 399**	**2 764 129**
Total Assets		**7 729 990**	**7 256 144**	**6 037 018**	**5 695 225**
Liabilities					
Non-Current Liabilities					
Other financial liabilities	17	1 306 515	1 305 344	139 816	170 538
Long term payables	23	7 901	9 054	-	-
		1 314 416	**1 314 398**	**139 816**	**170 538**
Current Liabilities					
Funds under management	22	1 207 508	991 348	1 184 326	981 466
Other financial liabilities	17	55 012	42 985	37 414	40 400
Provisions	18	10 633	41 187	3 804	34 125
Trade and other payables	19	106 893	54 626	48 777	27 262
Current tax payable	31	2 695	584	-	-
		1 382 741	**1 130 730**	**1 274 321**	**1 083 253**
Total Liabilities		**2 697 157**	**2 445 128**	**1 414 137**	**1 253 791**
Net Assets		**5 032 833**	**4 811 016**	**4 622 881**	**4 441 434**
Issued capital	20	842	842	842	842
Share premium	20	879 158	879 158	879 158	879 158
Grant capital	21	1 656 698	1 656 698	1 656 698	1 656 698
Accumulated surplus		2 306 775	2 084 958	1 948 559	1 767 112
Non distributable and other reserves		189 360	189 360	137 624	137 624
Total Net Assets		**5 032 833**	**4 811 016**	**4 622 881**	**4 441 434**
Total net assets and liabilities		**7 729 990**	**7 256 144**	**6 037 018**	**5 695 225**

* See Note 37

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 March 2023

	Note(s)	Group 2023 R'000	Group 2022 Restated* R'000	Company 2023 R'000	Company 2022 Restated* R'000
Interest on advances	24	468 034	379 913	272 409	204 073
Interest received on investments	24	81 252	54 032	73 345	52 168
Rental income	24	12 962	13 869	11 228	12 220
Dividends received	24	158	1 498	158	1 498
Sale of houses	24	217	2 649	-	-
Management fees	24	87 668	76 121	37 053	39 889
Share of residual interest in controlled entities	24	-	-	22 108	44 411
Fees on advances	24	5 054	2 942	4 903	2 695
Revenue		**655 345**	**531 024**	**421 204**	**356 954**
Cost of sales	25	(1 751)	(2 572)	-	-
Net impairments and write offs	27	(52 442)	(66 289)	(28 931)	(54 439)
Programme implementation costs		(51 842)	(32 117)	-	-
Gross surplus		**549 310**	**430 046**	**392 273**	**302 515**
Other operating income	26	31 626	13 180	33 457	8 062
Operating expenses	27	(246 029)	(262 354)	(198 746)	(217 491)
Operating surplus		**334 907**	**180 872**	**226 984**	**93 086**
Investments Fair value and Impairments	12 & 29	19 180	(20 403)	(32 683)	28 964
Surplus/(deficit) on disposal		34	-	34	-
Surplus/(deficit) from associates	28	(29 935)	7 521	-	-
Finance costs	30	(124 927)	(94 668)	(12 887)	(12 420)
Surplus before taxation		**199 259**	**73 322**	**181 448**	**109 630**
Income tax expense	31	22 558	(584)	-	-
Surplus for the year		**221 817**	**72 738**	**181 448**	**109 630**

* See Note 37

	Issued capital R'000	Share premium R'000	Total share capital R'000	Non distributable reserve R'000	Grant capital R'000	Total reserves R'000	Accumulated surplus R'000	Total net assets R'000
Group								
Opening balance as previously reported	842	879 158	880 000	189 360	1 656 698	1 846 058	1 988 188	4 714 246
Adjustments Prior year adjustments	-	-	-	-	-	-	24 032	24 032
Balance at 01 April 2021 as restated*	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**2 012 220**	**4 738 278**
Surplus for the year	-	-	-	-	-	-	72 738	72 738
Restated* Balance at 01 April 2022	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**2 084 958**	**4 811 016**
Surplus for the year	-	-	-	-	-	-	221 817	221 817
Balance at 31 March 2023	**842**	**879 158**	**880 000**	**189 360**	**1 656 698**	**1 846 058**	**2 306 775**	**5 032 833**
Note(s)	20	20	20		21			
Company								
Opening balance as previously reported Adjustments	842	879 158	880 000	137 624	1 656 698	1 794 322	1 834 033	4 508 355
Prior year adjustments 37	-	-	-	-	-	-	(176 551)	(176 551)
Balance at 01 April 2021 as restated*	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 657 482**	**4 331 804**
Surplus for the year	-	-	-	-	-	-	109 630	109 630
Restated* Balance at 01 April 2022	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 767 111**	**4 441 433**
Surplus for the year	-	-	-	-	-	-	181 448	181 448
Balance at 31 March 2023	**842**	**879 158**	**880 000**	**137 624**	**1 656 698**	**1 794 322**	**1 948 559**	**4 622 881**
Note(s)	20	20	20		21			

* See Note 37

CASH FLOW STATEMENT for the year ended 31 March 2023

	Note(s)	Group 2023 R'000	Group 2022 Restated* R'000	Company 2023 R'000	Company 2022 Restated* R'000
Cash flows from operating activities					
Receipts					
Repayments from customers		657 743	851 761	672 708	695 378
Sale of houses		217	2 649	-	-
Interest, rental and dividend income		673 363	538 879	433 317	360 163
Other income		20 096	12 515	29 905	7 397
		1 351 419	1 405 804	1 135 930	1 062 938
Payments					
Employee costs		(142 986)	(145 752)	(139 636)	(142 887)
Payment to suppliers		(138 586)	(110 508)	(96 372)	(91 587)
Finance costs		(128 749)	(99 364)	(12 939)	(13 294)
Disbursements to customers		(780 750)	(1 016 483)	(740 899)	(922 537)
		(1 191 071)	(1 372 107)	(989 846)	(1 170 305)
Net cash flows from operating activities	33	**160 348**	**33 697**	**146 084**	**(107 367)**
Cash flows from investing activities					
Additions to property, plant and equipment	9	(1 051)	(2 133)	(1 049)	(2 133)
Disposal of property, plant and equipment	9	131	-	131	-
Decrease in Held to Maturity Investment		1 676	102 672	1 676	102 672
Disbursement to Investment in controlled entities		-	-	(9 287)	(16 977)
Net cash flows from investing activities		**756**	**100 539**	**(8 529)**	**83 562**
Cash flows from financing activities					
Net movement in borrowings		(33 644)	(51 094)	(33 644)	(51 094)
Movement in funds under management		216 376	315 627	202 860	315 612
Net cash flows from financing activities		**182 732**	**264 533**	**169 216**	**264 518**
Net increase in cash and cash equivalents		**343 836**	**398 769**	**306 771**	**240 713**
Cash and cash equivalents at the beginning of the year		1 862 172	1 463 404	1 517 215	1 276 503
Cash and cash equivalents at the end of the year	16	**2 206 008**	**1 862 173**	**1 823 986**	**1 517 216**

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 2023 comprise the NHFC, its subsidiaries and the Group's interest in associates (referred to as the Group). The financial year-end for all its subsidiaries is 31 March. Similar accounting policies are applied across the Group.

1.2 Statement of compliance

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

1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC SOC Limited and its subsidiaries as at 31 March 2023.

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. 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 surplus or deficit.

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.

- 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 historical cost 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, other than those mentioned in note 7.

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 associate's 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:

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

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

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

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

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

iv) De-recognition

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

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

(e) Properties developed for sale

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

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

Instalment sale agreements which have been cancelled and the asset transferred to 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 straight-line method over three years and tested for impairment annually.

(ii) Derecognition

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

(g) Financial instruments

i) Financial assets

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

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

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

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

This includes financial assets and liabilities that are:

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

Financial instruments held at amortised cost

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

Recognition and measurement

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

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

Equity investments

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

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

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

Held-to-maturity investments

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. 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 months. Cash and short-term deposits are considered to be loans and receivables.

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

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

ii) Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The amount of specific impairments raised is the amount needed to reduce the carrying amount of the asset to the present value of the expected ultimate fair value less costs to sell, taking into consideration the financial status of the underlying client and any security in place for the recoverability of the financial asset.

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

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

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

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

Finance lease receivables

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

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

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

(iii) Financial liabilities recognition and measurement

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

Financial liabilities comprise the following:

Other payables

Other payables are recognised at fair value.

Interest-bearing loans and borrowings

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

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

iv) De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

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

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

Financial liabilities

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

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

(h) Provisions

Provisions are recognised when:

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

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

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

Provisions are not recognised for future operating losses.

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

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

(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.

Commitments

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

(l) Revenue recognition

i) Revenue from exchange transactions

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

Sale of houses

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

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

Rental income

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

Interest income

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

Dividends

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

Fees

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

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

Share of residual interest in controlled entities

Residual income/(loss) derived from equity investments.

ii) Revenue from non-exchange transactions

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

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

(m) Taxation

i) Current taxation

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

ii) Deferred taxation

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

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

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

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

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

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

(n) Retirement benefits

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

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

(o) Investment property

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

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

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

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

(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.

(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.

The approved budget covers the fiscal period from 2022/04/01 to 2023/03/31.

(r) Determination of fair values

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

Investment property

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

Capitalisation method (investment property)

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

Comparative method (investment property)

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

Equity investments

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

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

Non-derivative financial liabilities

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

(s) Employee benefits

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

1.7 Events after reporting date

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

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

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

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

1.8 Irregular expenditure

Irregular expenditure as defined in section 1 of the Public Finance Management Act, Act No. 1 of 1999 (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) the PFMA; 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.

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 is 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 is recorded appropriately in the irregular expenditure register. If liability for losses resulting from 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 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. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant 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 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 recoverable, it is accounted for as revenue in the statement of financial performance.

1.10 Transfer of functions between entities under common control definitions

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

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

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

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

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

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

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

A transferor is the economic entity that relinquishes control of a function.

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

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

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Identifying the acquirer and transferor

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

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

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

1.11 Properties developed for sale

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

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

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

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

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

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

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

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

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

When properties developed for sale are sold, the carrying amounts of those properties developed for sale are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of properties developed for sale to net realisable value or current replacement cost and all losses of properties developed for sale are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of properties developed for sale, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of properties developed for sale recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:
(a) the period of time over which an asset is expected to be used by the economic entity; or
(b) the number of production or similar units expected to be obtained from the asset by the economic entity.

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

1.13 Share capital/ contributed capital

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

1.14 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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 cost less accumulated depreciation and any impairment losses which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated 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 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.

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

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

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

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

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

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 April 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 25 (as revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact
Guideline: Guideline on the Application of Materiality to Financial Statements	To be determined	Not expected to impact results but may result in additional disclosure
GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 April 2023 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
Guideline: Guideline on Accounting for Landfill Sites	01 April 2023	Unlikely there will be a material impact
GRAP 103 (as revised): Heritage Assets	To be determined	Unlikely there will be a material impact
iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2023	Unlikely there will be a material impact

3. Loans and receivables - advances

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Gross advances				
Opening balances	4 407 878	4 247 034	3 092 665	2 873 205
Disbursements	780 751	1 016 484	740 899	922 536
Interest and fees charged	474 320	383 486	272 409	204 074
Repayments	(1 125 777)	(1 238 063)	(945 117)	(905 840)
Amounts previously impaired, written off	(47 048)	(4 005)	(70 397)	(4 005)
Fees	5 054	2 942	4 903	2 695
Balance at the end of the year	**4 495 178**	**4 407 878**	**3 095 362**	**3 092 665**
Impairments on advances				
Balances at the beginning of the year	(327 287)	(272 226)	(267 352)	(221 657)
Increase in impairments on advances	(72 901)	(125 771)	(70 452)	(125 123)
Impairments reversed during the year	77 989	70 710	112 273	79 428
Amount reversed due to write off that did not go through profit or loss	10 083	-	-	-
Net impairments (raised)/reversed	**15 171**	**(55 061)**	**41 821**	**(45 695)**
Balance at the end of the year	**(312 116)**	**(327 287)**	**(225 531)**	**(267 352)**
Specific impairments	(272 105)	(287 076)	(185 519)	(227 141)
General impairments	(40 011)	(40 211)	(40 011)	(40 211)
Net advances	**4 183 062**	**4 080 591**	**2 869 831**	**2 825 313**
Maturity analysis				
Receivable within one year	640 380	853 224	640 207	669 253
Receivable within one to two years	125 078	811 310	125 078	628 754
Receivable within two to three years	307 470	659 464	307 470	465 954
Receivable beyond three years	3 110 134	1 756 593	1 797 076	1 061 352
Net advances	**4 183 062**	**4 080 591**	**2 869 831**	**2 825 313**
Loans and advances - NHFC	2 877 879	2 754 909	2 869 831	2 825 313
Loans and advances - Subsidiaries	28	11 749	-	-
Loans and advances - HiP Trust 1 and Trust 2	1 305 155	1 313 933	-	-
Total Loans and advances	**4 183 062**	**4 080 591**	**2 869 831**	**2 825 313**
Non-current assets	3 542 682	3 227 367	2 229 624	2 156 060
Current assets	640 380	853 224	640 207	669 253
	4 183 062	**4 080 591**	**2 869 831**	**2 825 313**

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.

4. Loans to subsidiaries

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Gross advances				
Opening balances	-	-	85 893	68 593
Disbursements	-	-	18 229	17 489
Repayments	-	-	(7 384)	(189)
Balance at the end of the year	**-**	**-**	**96 738**	**85 893**
Impairments on advances				
Balances at the beginning of the year	-	-	(67 000)	(67 000)
Impairments reversed during the year	-	-	4 045	-
Balance at the end of the year	**-**	**-**	**(62 955)**	**(67 000)**
Net advances	**-**	**-**	**33 783**	**18 893**

5. Investments in non-controlled entities

	Group 2023	Group 2022	Company 2023	Company 2022
Blue Financial Services Limited				
Shares at cost – ordinary shares				
Investments in shares at cost	30 000	30 000	30 000	30 000
Fair value adjustment	(30 000)	(30 000)	(30 000)	(30 000)
Carrying amount of shares at 31 March	-	-	-	-

As part of a debt restructuring agreement, the NHFC acquired 67 415 730 ordinary shares by converting a R30 million interest bearing loan owed by Blue Financial Services Limited to equity. This was equivalent to 0.88% of the issued capital. The conversion took place in July 2012 at an agreed share price of 44.5 cents per share. The equity investment in Blue Financial Services was devalued during July 2013 following a significant decrease in the share price to 13 cents, a further devaluation was taken in March 2016 as a prudent measure given the uncertainties surrounding the company's underlying performance in its operations, the prolonged suspension from the JSE and the lack of audited financial statements. Other factors that inherently affect the company's future prospects include the raising of funding and the settlement of the Debt Restructuring Agreement lenders.

As there is no quoted share price or reliable financial information, the investment in Blue Financial Services is measured at cost less accumulated impairments in accordance with GRAP. In the absence of a quoted share price, the carrying value has been fully impaired.

	Group 2023	Group 2022	Company 2023	Company 2022
Evolution Credit 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	**(33 822)**	**(38 432)**	**(33 822)**	**(38 432)**
Cumulative changes	(38 432)	(6 242)	(38 432)	(6 242)
Current year changes	4 610	(32 190)	4 610	(32 190)
Carrying amount at 31 March	**22 768**	**18 158**	**22 768**	**18 158**

As a result of a restructuring in Evolution Credit (previously Real People) in December 2017, the NHFC converted portion of its senior debt investment in Evolution Credit 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 Evolution Credit 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. Since March 2018, the E PIK notes and ordinary share capital investment in Evolution Credit has been revalued on an annual basis. In the financial year ended 31 March 2022 (the prior financial year), a significant revaluation (downwards) occurred due to the projected rising cost of capital and lower projected disbursements, both negatively affecting the discount cash flow of the investment.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
IHS Fund II SA Collector, L.P. (International Housing Solutions) (IHS)				
Investment at cost	300 889	300 889	300 889	300 889
Amounts disbursed in current year	-	-	-	-
	300 889	**300 889**	**300 889**	**300 889**
Cumulative fair value changes since inception	(85 614)	(76 005)	(85 614)	(76 005)
Cumulative changes from prior years	(76 005)	(110 215)	(76 005)	(110 215)
Current year changes	(9 609)	34 210	(9 609)	34 210
Carrying value at 31 March	**215 275**	**224 884**	**215 275**	**224 884**

The Fund's primary purpose is to invest in affordable housing projects, including completed projects that are to be renovated, and projects in development. Fund investments may be in the form of equity interests, interests in trusts, debt, subordinated debt or preferred equity in housing projects. As a limited partner, the NHFC participates in the profits and losses generated by the Fund. Its revenue therefore is accrued from the profits or losses generated per reporting period.

The Fund made distribution to NHFC as a Limited Partners (LPs) of R nil (R nil in 2022).

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

Total investment in non-controlling entities	**238 043**	**243 042**	**238 043**	**243 042**

6. 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 when the company was in financial distress. When tenants decide to settle the rental units, those settlements proceeds are deposited into the Abahlali bank account over which the NHFC has full control. Abahlali is considered a controlled entity as the NHFC appoints its directors.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Abahlali Housing Association (No 2) NPC				
Investment at cost	-	-	-	-
Accumulated impairments	-	-	-	-
Carrying amount of the investment in Abahlali	-	-	-	-

Investment in Gateway Home Loans (Proprietary) Limited

Gateway Home Loans (Proprietary) Limited is a wholly owned subsidiary of National Housing Finance Corporation SOC Limited and is currently not trading.

	Group 2023	Group 2022	Company 2023	Company 2022
Gateway Home Loans (Proprietary) Limited				
Investment at cost	-	-	50 000	50 000
Accumulated impairments	-	-	(50 000)	(50 000)
Carrying amount of the Investment in Gateway Home Loans	-	-	-	-

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 2023	Group 2022	Company 2023	Company 2022
Investment at cost	-	-	28 816	28 816
Accumulated fair value changes from prior years	-	-	(28 816)	(28 816)
Current year fair value adjustment	-	-	15 160	-
Carrying amount of the investment in CTCHC	-	-	**15 160**	-

A total of 43 577 707 debentures were converted to 43 577 707 ordinary no par value shares in the share capital of Cape Town Community Housing Company (Proprietary) Limited for a gross value total premium of R51 518 225.81 in 2020.

The shareholder's loan of R121 708 494 has been capitalised by the issue of 102 949 529 ordinary no par value shares.

All of NHFC outstanding debt granted has been converted to equity with the exception of that related to Harmony Village. The incurrence of finance cost has been ceased, with the NHFC no longer accruing any interest.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Housing Investment Partnership Trust				
Opening balance	-	-	287 136	270 159
Disbursements in the current year	-	-	9 286	16 977
	-	**-**	**296 422**	**287 136**
Accumulated Fair values	-	-	(50 287)	(29 491)
Accumulated fair value from prior years	-	-	(29 491)	(92 763)
Fair value for the current year	-	-	(20 796)	63 272
Carrying amount of the investment in HIP	**-**	**-**	**246 135**	**257 645**

The NHFC is the sole investor in the junior debt instruments in Housing Investment Partners Trust (Trust 1) and Vulumnyango Trust (Trust 2) has resident interests in the two trusts are controlled entities.

NHFC has applied a discounted cash flow (DCF) method in arriving at the equity valuation of the two trusts. The projections of the trusts have been reviewed to understand the reasonableness in projected earnings along with the working capital changes and repayments of senior and mezzanine debt. Due consideration has been given to the revenue prospects of the trusts, 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 and this was applied to the cash flows potentially distributable to equity investors.

Other subsidiaries

The following wholly owned subsidiaries of NHFC are held at cost, the value of the individual subsidiaries equals to the share capital which is less than a R1 000:

- NHFC Management Services (Proprietary) Limited
- NURCHA Loan Fund (Proprietary) Limited
- NURCHA Development Finance (Proprietary) Limited
- NURCHA Equity Services (Proprietary) Limited
- NURCHA Bridging Fund (Proprietary) Limited
- NURCHA Finance Company (Proprietary) Limited
- Mortgage Default Insurance Company (Proprietary) Limited (MDIC)

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Total Investment in Controlled Entities	-	-	**261 295**	**257 645**

7. Investments in associates

7.1 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	
	2023 R'000	2022 R'000
Share of the associate's balance sheet		
Total assets	1 465 778	1 385 568
Total liabilities	(1 301 438)	(1 192 257)
Net asset	**164 340**	**193 311**
Investment at cost	33 282	33 282
Accumulated share of the associate's profit	96 583	86 454
Accumulated share of the associate's reserves	63 446	66 605
	193 311	186 341
Current year share of the associates (loss)/profits	(13 471)	10 129
Other reserves*	(15 500)	(3 159)
Carrying amount of the investment in TUHF ordinary shares	**164 340**	**193 311**
Share of the associate's revenue	145 456	117 302
Investment in C class ordinary shares		
Carrying amount of the investment in C class ordinary shares	6 533	6 533
Investment in preference shares		
Carrying amount of investment preference shares	-	35 000
Total carrying amount of investment in TUHF	**170 873**	**234 844**

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

7.2 Investment in associate - TUHF Holdings Limited

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

	Company	
	2023 R'000	2022 R'000
Investment in ordinary shares at cost	33 282	33 282
Investment in C class ordinary shares at cost	6 533	6 533
Total cost of acquisition	**39 815**	**39 815**
Opening fair value changes	67 195	83 341
Current fair value changes	(1 511)	(16 146)
Cumulative fair value changes - inception to date	**65 684**	**67 195**
Net carrying value	**105 499**	**107 010**
Investment in preference shares		
Carrying amount of investment preference shares	-	35 000
Carrying amount of the investment in TUHF	**105 499**	**142 010**

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 and this was applied to the cash flows potentially distributable to equity investors. The terminal value was determined using the perpetual growth approach unless not appropriate for that particular investment.

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

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 27%. TUHF redeemed these preference shares during the current year.

7.3 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 an 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	
	2023 R'000	2022 R'000
Share of the associate's balance sheet		
Total assets	14 250	13 281
Total liabilities	(36 833)	(37 096)
Net asset	**(22 583)**	**(23 815)**
Share of the associate's revenue	9 518	9 287
Share of profit/(loss)	1 227	1 515

The Group's share of cumulative losses amounts to R33.165 million in 2023 (R33.165 million in 2022) 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 R7.232 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.

7.4 Investment in associate - Housing Investment Partners (Proprietary) Limited (HiP)

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

	Company	
	2023 R'000	2022 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 an 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 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 and this was applied to the cash flows potentially distributable to equity investors. 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 financially sustainable. It continues to generate marginal operating profits. 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.

A significant portion of the assets of the limited partnership that the NHFC is invested in, resides in properties which have been valued on a discounted cash flow basis to which an appropriate discount rate has been adopted based on the capitalisation rate of the property plus a premium based on project specific risk like, construction risk, lease up risk and rental escalation risk.

7.5 Investment in associate - Kanga Finance (Proprietary) Limited previously Lendcor (Proprietary) Limited (Kanga)

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

	Group	
	2023 R'000	2022 R'000
Share of the associate's balance sheet		
Total assets	63 936	49 043
Total liabilities	(52 208)	(37 412)
Net asset	**11 728**	**11 631**
Investment at cost	350	350
Accumulated share of profits	12 077	11 373
	12 427	11 723
Current year share of profits	96	704
Carrying amount of the investment in Kanga	**12 523**	**12 427**
Share of the associate's revenue	25 137	17 090

The groups share of cumulative equity amounts to R12.4 million.

7.6 Investment in associate - Kanga Finance (Proprietary) Limited previously Lendcor (Proprietary) Limited (Kanga)

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

	Company	
	2023 R'000	2022 R'000
Investment in equity shares		
Investment in ordinary shares at cost	350	350
Total cost of acquisition	**350**	**350**
Opening accumulated fair values from prior years	7 246	4 650
Current year fair value changes	1 583	2 596
Cumulative accumulated fair value - inception to date	**8 829**	**7 246**
Carrying amount of the investment in Kanga	**9 179**	**7 596**

NHFC has a 20% interest in Kanga Finance (Proprietary) Limited and has a right to appoint a director. As the investee company has a February year end, adjustments have been processed to align the financials to the NHFC year end of March.

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

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

	Group	
	2023 R'000	2022 R'000
Share of the associate's balance sheet		
Total assets	-	-
Total liabilities	-	-
Net asset	**-**	**-**
Investment at cost	5 288	5 288
Accumulated share of profits/(loss) of associate	(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	-	-

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

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

	Company	
	2023 R'000	2022 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.

7.9 Investment in Kabo Financial Enterprise (Proprietary) Limited

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

The following table illustrates summarised financial information of the Entity's investment in Kabo Financial Enterprise (Proprietary) Limited:

	Group	
	2023 R'000	2022 R'000
Accumulated share of profits/(losses)	(236)	(236)
Current year share of losses	-	-
Carrying amount of the investment in Kabo	**(236)**	**(236)**

As part of NHFC's commitment to transforming the incremental housing industry, took up equity in Kabo. This is done to assist the company with the initial losses that a start-up will incur. As a consequence of these losses, the share capital is fully provided for. Other than NHFC's shares, Kabo is 100% black woman owned.

7.10 Investment in Kabo Financial Enterprise (Proprietary) Limited

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

	Company	
	2023 R'000	2022 R'000
Investment in equity shares		
Original investment in Kabo	129	129
Accumulated impairment	(129)	(129)
Carrying amount of the investment in Kabo	-	-
Investment in preference shares		
Investment at cost	121	121
Cumulative impairments	(121)	(121)
Investment in preference shares in Kabo	-	-

As there is no quoted share price or reliable financial information, the investment in Kabo is measured at cost less accumulated impairments in accordance with GRAP.

7.11 Investment in Lehae Housing (Proprietary) Limited

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

The following table illustrates summarised financial information of the entity's investment in Lehae Housing (Proprietary) Limited:

	Group	
	2023 R'000	2022 R'000
Investment at cost	800	800
Accumulated share of profits/(losses)	(800)	(800)
Carrying amount of the investment in Lehae	-	-

7.12 Investment in Lehae Housing (Proprietary) Limited

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

	Company	
	2023 R'000	2022 R'000
Investment in equity shares		
Carrying amount investment in Lehae	41	41
Fair value adjustment in investment in Lehae	(41)	(41)
Carrying amount of the investment in Lehae	-	-
Investment in preference shares		
Investment at cost	754	754
Cumulative impairments	(754)	(754)
Investment in preference shares in Lehae	-	-

As there is no quoted share price or reliable financial information, the investment in Lehae is measured at cost less accumulated impairments in accordance with GRAP.

7.13 Investment in Thuthukani Housing Finance (Proprietary) Limited

The Entity has a 20% (2022: 30%) interest in Thuthukani Housing Finance (Proprietary) Limited and has the right to appoint a director. Thuthukani Housing Finance restructured in December 2022, our ordinary share holding has reduced from 30% to 20%. A new equity investor has come on board.

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

	Group	
	2023 R'000	2022 R'000
Share of associate's balance sheet		
Total assets	19 906	26 313
Total liabilities	(10 684)	(306)
Net assets	**9 222**	**26 007**
Investment at cost	49 733	3 963
Accumulated share of profits/(losses)	(2 821)	(1 153)
	46 912	2 810
Current year share of profit/(losses)	(2 287)	(1 668)
Carrying amount of the investment in Thuthukani	**44 625**	**1 142**

Share of associates revenue is R5 696 000 (2022: R10 316 000).

7.14 Investment in Thuthukani Housing Finance (Proprietary) Limited

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

	Company	
	2023 R'000	2022 R'000
Investment in equity shares		
Cost of investment in Thuthukani	49 733	3 963
Fair value adjustment in investment in Thuthukani	(49 733)	(3 963)
Carrying amount of the investment in Thuthukani	-	-

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Total Investment in associates	**228 629**	**249 021**	**114 678**	**149 607**

8. Investment in preference shares

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Greenstart Homeloans Proprietary Limited				
Investment at cost	2 500	2 500	2 500	2 500
Cumulative impairments	(2 500)	(2 500)	(2 500)	(2 500)
Dividends accrued	158	158	158	158
Dividends impaired	(158)	(158)	(158)	(158)
Investment in preference shares at fair value	-	-	-	-

Investment in Greenstart Homeloans – These are redeemable cumulative preference shares redeemable at the option of the issuer. The investment consists of 100 shares at a par value of R1 and a share premium of R24 999 per share. The total of the preference shares in Greenstart Homeloans Proprietary Limited is R2.5 million. Dividends in terms of the shareholders' agreement are set at 6.3% per annum on the aggregate subscription price of R2.5 million.

9. Property, plant and equipment

	2023			2022		
Group	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Land	490	-	490	490	-	490
Furniture and fixtures	451	(420)	31	3 355	(3 253)	102
Motor vehicles	556	(556)	-	556	(556)	-
Office equipment	1 244	(895)	349	1 437	(945)	492
IT equipment	11 173	(9 510)	1 663	13 331	(11 478)	1 853
Leasehold improvements	2 702	(2 701)	1	2 702	(2 639)	63
Total	**16 616**	**(14 082)**	**2 534**	**21 871**	**(18 871)**	**3 000**

	2023			2022		
Company	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated depreciation and accumulated impairment R'000	Carrying value R'000
Land	490	-	490	490	-	490
Furniture and fittings	234	(203)	31	3 138	(3 036)	102
Motor vehicles	436	(436)	-	436	(436)	-
Office equipment	1 130	(781)	349	1 323	(831)	492
Computer equipment	10 844	(9 183)	1 661	13 004	(11 158)	1 846
Leasehold improvements	2 702	(2 701)	1	2 702	(2 640)	62
Total	**15 836**	**(13 304)**	**2 532**	**21 093**	**(18 101)**	**2 992**

Reconciliation of property, plant and equipment - Group - 2023

Group	Opening balance R'000	Additions R'000	Disposals R'000	Depre-ciation R'000	Total R'000
Land	490	-	-	-	490
Furniture and fixtures	102	-	(43)	(28)	31
Office equipment	492	-	-	(142)	350
IT equipment	1 853	1 051	(21)	(1 219)	1 664
Leasehold improvements	63	-	-	(63)	-
	3 000	**1 051**	**(64)**	**(1 452)**	**2 533**

Reconciliation of property, plant and equipment - Group - 2022

Group	Opening balance R'000	Additions R'000	Depre-ciation R'000	Total R'000
Land	-	490	-	490
Furniture and fixtures	161	3	(62)	102
Motor vehicles	25	-	(25)	-
Office equipment	642	-	(150)	492
IT equipment	1 328	1 640	(1 115)	1 853
Leasehold improvements	244	-	(181)	63
	2 400	**2 133**	**(1 533)**	**3 000**

Reconciliation of property, plant and equipment - Company - 2023

Company	Opening balance R'000	Additions R'000	Disposals R'000	Depre-ciation R'000	Total R'000
Land	490	-	-	-	490
Furniture and fixtures	102	-	(43)	(28)	31
Office equipment	492	-	-	(142)	349
IT equipment	1 846	1 049	(21)	(1 212)	1 661
Leasehold improvements	63	-	-	(63)	-
	2 993	**1 049**	**(64)**	**(1 445)**	**2 531**

Reconciliation of property, plant and equipment - Company - 2022

Company	Opening balance R'000	Additions R'000	Depre-ciation R'000	Total R'000
Land	-	490	-	490
Furniture and fixtures	161	3	(62)	102
Office equipment	640	-	(148)	492
IT equipment	1 293	1 640	(1 087)	1 846
Leasehold improvements	244	-	(180)	64
	2 338	**2 133**	**(1 477)**	**2 993**

The cost of fully depreciated assets that are still in use amounts to R10.9 million (2022: R 14.6 million), and for the Group R11.5 million (2022: R15.0 million).

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

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

10. Intangible assets

	2023			2022		
Group	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software	14 206	(13 799)	407	14 206	(12 897)	1 309

	2023			2022		
Company	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software	13 956	(13 549)	407	13 956	(12 647)	1 309

Reconciliation of intangible assets - Group - 2023

Group	Opening balance R'000	Amortisation R'000	Total R'000
Computer software	1 309	(902)	407

Reconciliation of intangible assets - Group - 2022

Group	Opening balance R'000	Amortisation R'000	Total R'000
Computer software	2 331	(1 022)	1 309

Reconciliation of intangible assets - Company - 2023

Company	Opening balance R'000	Amortisation R'000	Total R'000
Computer software	1 309	(902)	407

Reconciliation of intangible assets - Company - 2022

Company	Opening balance R'000	Amortisation R'000	Total R'000
Computer software	2 326	(1 017)	1 309

11. Finance lease receivables

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Gross investment in the lease due - instalment sales				
- within one year	11 397	13 827	-	-
- in second to fifth year inclusive	39 489	41 205	-	-
- later than five years	103 643	114 232	-	-
	154 529	169 264	-	-
less: Unearned finance revenue	(48 642)	(69 078)	-	-
	105 887	**100 186**	**-**	**-**
Present value of minimum lease payments due				
- within one year	3 945	5 937	-	-
- in second to fifth year inclusive	13 174	13 552	-	-
- later than five years	88 768	80 697	-	-
	105 887	**100 186**	**-**	**-**
Non-current assets	101 942	94 250	-	-
Current assets	3 945	5 937	-	-
	105 887	**100 187**	**-**	**-**

The average term on the finance lease receivable is 16 years. The interest rate in the agreement is mostly variable at the contract date for the full period. NHFC considers that the fair values of the finance lease receivables does not differ materially from the carrying value.

The amount of R105.8 million (2022: R100.1 million) is the maximum exposure to credit risk.

12. Investment property

Group	2023			2022		
	Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	82 897	-	82 897	58 718	-	58 718

Company	2023			2022		
	Valuation R'000	Accumulated impairment R'000	Carrying value R'000	Valuation R'000	Accumulated impairment R'000	Carrying value R'000
Investment property	71 650	-	71 650	48 000	-	48 000

Reconciliation of investment property - Group - 2023

Group	Opening balance R'000	Fair value adjust-ments R'000	Total R'000
Investment property	58 718	24 179	82 897

Reconciliation of investment property - Group - 2022

Group	Opening balance R'000	Transfers R'000	Fair value adjust-ments R'000	Total R'000
Investment property	81 099	39	(22 420)	58 718

Reconciliation of investment property - Company

Company	Opening balance R'000	Fair value adjust-ments R'000	Total R'000
Investment property - 2023	48 000	23 650	71 650
Investment property - 2022	70 780	(22 780)	48 000

Nature and impact of the valuation

Investment property 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 (Proprietary) Limited) on 30 April 2023. Mr Kgoshi Sasa is not connected to the NHFC 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. 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 property. 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) and bad debts. Market related operating expenses are incurred, resulting in a net annual income which is then capitalised at a market related rate.

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. A substantial number of the rentable unit within the investment property have been vacant for more than a year, and this would have a negative impact on the risk associated with its marketability.

The capitalisation rates have been considered in view of locality and quality of space offered, these range between 11.05% to 12.50% based on industry surveys. The valuer thus applied a capitalisation rate of 11.50% in the calculation taking into account the age of the buildings, locality and condition.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
The following amounts have been recognised in the income statement				
Fair value gain/(loss)	23 650	(22 420)	23 650	(22 780)
Net rental income	12 962	13 869	11 228	12 220
Direct operating expenses	(12 711)	(9 168)	(12 711)	(9 168)
Repairs and maintenance	(169)	-	(169)	-
	23 732	**(17 719)**	**21 998**	**(19 728)**
Details of investment property				
- Purchase price: 1 December 2008	26 361	26 361	21 654	21 654
- Additions since purchase or valuation	56 536	32 357	49 996	26 346
	82 897	**58 718**	**71 650**	**48 000**

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

13. Properties developed for sale

Production supplies*	-	11 238	-	-

*This is housing stock from Abahlali.

14. Other receivables and prepayments

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Staff debtors	4 670	3 081	4 670	3 081
Deposits and prepayments	3 438	1 228	3 075	880
Inter-company loans	-	-	1 753	-
VAT	2 995	1 167	-	-
Other debtors receivables	38 498	34 432	2 481	20 289
	49 601	**39 908**	**11 979**	**24 250**

Deposits and prepayments mainly relate to office rental deposits.

Study loans included in staff debtors are non-interest bearing and are expensed as bursaries when studies are completed, or recovered if studies are not completed.

Other staff debtors are charged interest at the prime lending rate.

15. Held to maturity investments

Standard Bank of South Africa Limited	71 974	40 201	71 974	40 201
Investec Bank Limited	121 123	60 299	121 123	60 299
Nedbank Limited	55 441	80 378	55 441	80 378
Rand Merchant Bank, a division of First Rand Bank	50 697	40 152	50 697	40 152
First National Bank Limited	64 783	61 379	64 783	61 379
National Treasury	166 656	233 002	166 656	233 002
Held-to-maturity money market investments - current	**530 674**	**515 411**	**530 674**	**515 411**
Land and Agricultural Bank of South Africa SOC Ltd*	69 852	86 791	69 852	86 791
Impairment on Land Bank	(33 244)	(33 244)	(33 244)	(33 244)
Non-current	**36 608**	**53 547**	**36 608**	**53 547**
Total held-to-maturity money market investments	**567 282**	**568 958**	**567 282**	**568 958**

Held-to-maturity money market investments are made for varying periods up to 12 months in line with the cash flow requirements of the NHFC and earn interest at the respective money market rates.

Investments are made in line with NHFC investment policy counter party risk, refer to financial risk note 35.

*The notes held in the counterpart were partially impaired in the 31 March 2020 and 31 March 2021 financial year following significant challenges experienced by the counterparty with the honouring the maturity values. Discussions are currently underway on a possible liability solution but there is no new information to justify additional impairments or the reversal of impairment in the current year.

16. Cash and cash equivalents

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Short-term deposits - NHFC				
ABSA Bank Limited	1 777	1 688	-	-
Investec Bank Limited	39 904	8 674	39 904	8 674
Nedbank Limited	146 843	196 801	146 843	196 801
Standard Bank of South Africa Limited	19 852	8 234	19 851	8 234
Rand Merchant Bank, a division of First Rand Bank Limited	7 543	9 045	7 543	9 045
Stanlib Limited	61 878	58 153	61 878	58 153
South African Reserve Bank	375 754	262 114	333 644	205 035
First National Bank Limited	8 420	29 141	8 314	29 040
	661 971	**573 850**	**617 977**	**514 982**
Cash at bank and in hand - NHFC				
Cash on Hand	7	7	-	-
Standard Bank of South Africa Limited	20 669	37 682	4 481	15 637
First National Bank Limited	22 518	62 601	17 232	5 135
Nedbank Limited	290 408	193 814	-	-
	333 602	**294 104**	**21 713**	**20 772**
Total cash and short-term deposits	**995 573**	**867 954**	**639 690**	**535 754**
Short term deposit - third party funds				
Reserve Bank - First Home Finance	975 651	668 996	975 650	668 996
Standard Bank - First Home Finance	10	9	10	9
Reserve Bank - Rental Relief fund	203 159	308 290	203 159	308 290
First National Bank - CFDP	2 885	2 877	-	-
	1 181 705	**980 172**	**1 178 819**	**977 295**
Cash at bank and in hand - third party funds				
Standard Bank - First Home Finance	5 475	4 166	5 475	4 166
Standard Bank - Rental Relief	3	-	3	-
First National Bank - Gqeberha	23 182	9 882	-	-
First National Bank - CFDP	70	-	-	-
	28 730	**14 048**	**5 478**	**4 166**
Total third party funds	**1 210 435**	**994 220**	**1 184 297**	**981 461**
Total Cash and cash equivalents	**2 206 008**	**1 862 174**	**1 823 987**	**1 517 215**

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
NHFC				
Short-term deposits	661 971	573 850	617 977	514 982
Cash at bank	333 602	294 104	21 713	20 772
	995 573	**867 954**	**639 690**	**535 754**
First Home Finance				
Short-term deposits	975 661	669 005	975 660	669 005
Cash on hand and at bank	5 475	4 166	5 475	4 166
	981 136	**673 171**	**981 135**	**673 171**
COVID Debt Relief Fund				
Short-term deposits	203 159	308 290	203 159	308 290
Cash on hand and at bank	3	-	3	-
	203 162	**308 290**	**203 162**	**308 290**
CFDP				
Short-term deposits	2 885	2 877	-	-
Cash on hand and at bank	70	-	-	-
	2 955	**2 877**	**-**	**-**
Gqeberha				
Cash on hand and at bank	23 182	9 882	-	-
Total cash and cash equivalents	**2 206 008**	**1 862 174**	**1 823 987**	**1 517 215**

Note: Funds under management refer to note 22.

17. Financial liabilities

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
At amortised cost				
Old Mutual Capital Holding Proprietary Limited				
Trust 1 - the loan bears interest at prime + 0.25% payable monthly with a bullet payment for capital in March 2027 of R80 million. Trust 2 - the loan bears interest at prime + 1.1% payable monthly with a bullet payment for capital in March 2026 of R350 million.	519 725	486 889	-	-
Future Growth Asset Management Proprietary Limited				
The loan bears interest at jibar + 2.9% payable quarterly with a bullet payment for capital in March 2026 of R650 million.	664 072	650 002	-	-
Agence Francaise de Developpement (AFD)				
This loan bears interest at a fixed rate of 5.761% per annum and is repayable in equal semi-annual capital instalments of R5 965 615 (2022: R7 888 692) exclusive of interest. Interest and capital is paid biannually on 31 May and 30 November of each year. The final instalment is payable on 24 November 2024.	21 843	34 003	21 843	34 003
European Investment Bank (EIB)				
This loan bears interest at a quarterly variable rate of 3M Jibar with a margin of 0.40% per annum and is repayable in semi-annual equal capital instalments of R8 308 077 (2022: R8 308 077) exclusive of interest. Interest and capital is paid biannually on 15 June and 15 December of each year. The final instalment is payable on 15 December 2025.	50 963	67 303	50 963	67 303
Development Bank of South Africa				
The loan bears interest at a fixed rate of 7.56% per annum payable half yearly on 15 June and 15 December. Repayment of the 41 half yearly instalment commenced on 14 December 2014.	104 424	109 632	104 424	109 632
City of Cape Town				
The loan relates to a discount on interest raised on the debentures previously issued to the City of Cape Town to the Cape Town Community Housing Company (Proprietary) Limited. The loan is payable as and when the company (CTCHC) becomes profitable.	500	500	-	-
	1 361 527	**1 348 329**	**177 230**	**210 938**
Non-current liabilities				
At amortised cost	1 306 515	1 305 344	139 816	170 538
Current liabilities				
At amortised cost	55 012	42 985	37 414	40 400

18. Provisions

Reconciliation of provisions - Group - 2023

Group	Opening balance R'000	Utilised during the year R'000	Reversed during the year R'000	Total R'000
Lease payments	4 600	-	-	4 600
Municipal rates	2 314	(197)	-	2 117
Incentive bonus	34 125	(19 427)	(10 894)	3 804
Other provisions	148	(36)	-	112
	41 187	**(19 660)**	**(10 894)**	**10 633**

Reconciliation of provisions - Group - 2022

Group	Opening balance R'000	Additions R'000	Utilised during the year R'000	Total R'000
Lease payments	4 600	-	-	4 600
Municipal rates	1 665	696	(47)	2 314
Incentive bonus	32 077	24 966	(22 918)	34 125
Other provisions	-	148	-	148
	38 342	**25 810**	**(22 965)**	**41 187**

Reconciliation of provisions - Company - 2023

Company	Opening balance R'000	Utilised during the year R'000	Reversed during the year R'000	Total R'000
Incentive bonus	**34 125**	**(19 427)**	**(10 894)**	**3 804**

Reconciliation of provisions - Company - 2022

Company	Opening balance R'000	Additions R'000	Utilised during the year R'000	Total R'000
Incentive bonus	**32 077**	**24 966**	**(22 918)**	**34 125**

Leave pay provision is realised when employees take leave or terminate employment.

During 2022 a provision was raised for bonuses for executives. This was based on the unaudited performance of the NHFC. After the audit, the Board decided that the performance did not warrant payment of the full bonuses. Instead, they awarded 50% of the amount that had been provided. These financial statements reflect a reversal of that provision. In addition, based on the unaudited performance of the NHFC, no provision has been raised for bonuses for 2023. Employees, other than executives, were paid their full bonuses for 2022.

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

Provision for lease payments relates to the purchase price for CTCHC piece of land which was allocated by the Upington Municipality of which the purchase price will only be paid when the last house is transferred to the owner.

19. Trade and other payables

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Trade payables	24 395	6 906	14 662	3 795
Payments received in advance	7 877	7 342	7 821	7 135
Accrued leave pay	10 414	10 045	10 161	9 919
Accrued expense	57 249	30 333	16 133	6 413
VAT	6 958	-	-	-
	106 893	**54 626**	**48 777**	**27 262**

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

20. Issued capital and share premium

Issued and fully paid				
84 187 332 ordinary shares of R0.01 each	842	842	842	842
Share premium	879 158	879 158	879 158	879 158
	880 000	**880 000**	**880 000**	**880 000**

The 15 812 668 unissued shares are under the control of the shareholder.

21. Grant Capital

Grants received	**1 656 698**	**1 656 698**	**1 656 698**	**1 656 698**

The initial grant of R200 million arose as a result of the merger of the Housing Equity Fund and the Housing Institutions Development Fund in the 2002 financial year. They are considered to be permanent and are therefore included in Shareholder's Equity. There are no conditions attached to these grants. During previous financial years additional grant capital amounting to R530 million was received from the shareholder and a further R80 million 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 NDoHS) 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.

22. Funds under management

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
First Home Finance[(a)]	981 163	673 171	981 163	673 171
Gqeberha[(b)]	23 182	9 882	-	-
COVID Debt Relief fund[(c)]	203 163	308 295	203 163	308 295
	1 207 508	**991 348**	**1 184 326**	**981 466**

(a) The NHFC is managing funds on behalf of the national government human settlements departments for the First Home Finance (previously Finance Link Individual Subsidy Programme (FLISP))
(b) The NHFC is managing funds on behalf of the Umzi Wase Gqeberha Housing Development Association
(c) COVID Debit Relief Fund.

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

Funds under management are invested in held-to-maturity investments (note 15) and short-term deposits (note 16).

23. Long term payables

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
VAT Payable	**7 901**	**9 054**	**-**	**-**

The VAT payable arises from CTCHC on the Harmony Village project and will be paid to SARS in annual instalments to match the manner in which revenue is received from customers.

24. Revenue

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Interest on advances				
Interest on performing advances	209 025	180 546	225 907	180 480
Interest on impaired advances	46 502	23 593	46 502	23 593
Interest on finance leases receivable	10 750	8 759	-	-
Interest on advances from controlled entities	201 757	167 015	-	-
	468 034	**379 913**	**272 409**	**204 073**
Interest on investments				
Interest on short-term deposits and held-to-maturity investments	**81 252**	**54 032**	**73 345**	**52 168**
Rental income				
Rental income from investment property	**12 962**	**13 869**	**11 228**	**12 220**
Dividend received				
Dividend income from TUHF	158	1 340	158	1 340
Dividend income from Greenstart	-	158	-	158
	158	**1 498**	**158**	**1 498**

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Sale of houses				
CTCHC sale of houses	217	2 548	-	-
Abahlali sale of houses	-	101	-	-
	217	**2 649**	**-**	**-**
Management fees				
Fees charged to controlled entities	-	-	18 229	17 490
Programme management fees	68 844	53 722	-	-
First Home Finance recovery	18 824	22 399	18 824	22 399
	87 668	**76 121**	**37 053**	**39 889**
Share of residual interest in controlled entities - Housing Investment Partners	**-**	**-**	**22 108**	**44 411**
Fees on advances	**5 054**	**2 942**	**4 903**	**2 695**

25. Cost of sales

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
CTCHC cost of sale of houses	1 751	2 522	-	-
Abahlali cost of sale of houses	-	50	-	-
	1 751	**2 572**	**-**	**-**

26. Other operating income

Other operating income is made up as follows:

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Levies from finance lease receivable	2 081	1 893	-	-
Recoveries and refunds	12 277	7 629	11 678	5 537
Other interest received	1 574	2 545	1 573	2 545
Sundry income	7 850	1 113	20 206	(20)
Debt Relief Programme	7 844	-	-	-
	31 626	**13 180**	**33 457**	**8 062**

27. Operating surplus

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Included in operating surplus are the following items:				
Staff costs	105 835	101 065	102 360	98 320
Salaries	95 239	78 635	92 116	75 890
Medical aid	4 075	2 188	4 075	2 188
Provident fund	10 760	8 584	10 408	8 584
Bonus provision	(4 239)	11 658	(4 239)	11 658
Executive costs (refer to note 36)	18 095	45 970	18 095	45 970
Salaries	21 069	28 282	21 069	28 282
Medical aid	892	1 287	892	1 287
Provident fund	2 789	3 092	2 789	3 092
Bonus provision	(6 655)	13 309	(6 655)	13 309
Administration	6 401	6 097	5 946	5 304
Marketing	1 684	1 568	1 682	1 566
Consultancy	6 341	7 042	6 267	7 029
Directors' fees	7 664	3 960	7 664	3 960
Legal fees	7 063	8 916	6 667	8 281
Auditors' fees	9 225	8 586	8 560	7 964
Travel and entertainment	2 192	482	1 592	241
Communication	2 811	1 318	2 775	1 166
Computer expenses	11 580	14 924	11 282	14 616
Training and development	2 714	2 538	2 714	2 537
Office expenses	2 173	2 316	1 494	1 915
Depreciation and amortisation	2 354	2 554	2 347	2 495
Sundry & Investment property expenses	11 572	8 945	11 572	8 925
Operating lease expense	9 974	9 831	7 729	7 202
	207 678	**226 112**	**198 746**	**217 491**
Management fees incurred in controlled entities	38 351	36 242	-	-
Total operating expenses	**246 029**	**262 354**	**198 746**	**217 491**
Impairments	**(687)**	**59 801**	**(41 467)**	**50 434**
Net impairment raised/(reversed) on loans and advances	(7 548)	54 557	(41 834)	45 694
Impairment from controlled entities	2 449	504	-	-
Impairment of dividend accrued Greenstart	158	158	158	158
Net impairment/(reversal) on loans to subsidiaries	-	-	(4 045)	-
Net impairment raised on President Place	4 254	4 582	4 254	4 582
Bad debts written off	**53 129**	**6 488**	**70 398**	**4 005**
Bad debts reversal/(written off) on loans and advances	36 966	4 005	70 398	4 005
Bad debts written off on housing stock	16 163	2 483	-	-
Total net impairments and bad debts written off	**52 442**	**66 289**	**28 931**	**54 439**

28. Surplus/(deficit) from associate

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
TUHF Holdings Proprietary Limited	(28 971)	6 970	-	-
Housing Investment Partners Proprietary Limited	1 227	1 515	-	-
Kanga Finance Proprietary Limited	96	704	-	-
Thuthukani Housing Finance Proprietary Limited	(2 287)	(1 668)	-	-
	(29 935)	**7 521**	**-**	**-**

29. Investment Fair Value and Impairment

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Investment property (Fair value model)	24 179	(22 423)	23 650	(22 780)
Fair value changes on investments				
Unlisted investments				
Cape Town Community Housing Company Proprietary Limited	-	-	15 160	-
Trust for Urban Housing Finance Holdings Proprietary Limited	-	-	(1 511)	(16 146)
International Housing Solutions Proprietary Limited	(9 609)	34 210	(9 609)	34 210
Evolution Credit Limited	4 610	(32 190)	4 610	(32 190)
Housing Investment Partners Trust and Vulumnyango Trust (Trust 2)	-	-	(20 796)	63 272
Thuthukani Housing Finance Proprietary Limited	-	-	(45 770)	-
Kanga Finance Proprietary Limited	-	-	1 583	2 598
	(4 999)	2 020	(56 333)	51 744
Total	**19 180**	**(20 403)**	**(32 683)**	**28 964**

30. Finance costs

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Interest on other financial liabilities	124 927	94 668	12 887	12 420

31. Taxation

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Major components of the tax (income) expense				
Current				
Local income tax - current period	1 531	584	-	-
Deferred				
Arising from previously unrecognised tax deficit	(24 089)	-	-	-
	(22 558)	**584**	**-**	**-**

Tax expense is raised in the Group in the current year as some of the subsidiaries has used up its assessed losses as well as new legislation that only allows the maximum 80% of taxable income for the year to be utilised against losses in a financial year for those that still have accumulated tax losses.

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Income tax receivable: statement of financial position				
Balance at the beginning of the year	38 000	37 336	38 000	37 336
Interest earned	3 552	664	3 552	664
Tax payable by subsidiaries	(2 262)	(584)	-	-
Balance at the end of the year	**39 290**	**37 416**	**41 552**	**38 000**

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. However, the NHFC complies with all other South African taxes, including employees' tax and Value Added Tax.

32. Related parties

The consolidated financial statements include the financial statements of NHFC SOC Ltd, its subsidiaries and associates as listed below.

	2023 % equity interest	2022 % 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
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 Fund (Proprietary) Limited	100	100
NURCHA Loan Fund (Proprietary) Limited	100	100
TUHF Holdings Limited	33	33
Housing Investment Partners (Proprietary) Limited	33	33
Kanga Finance (Proprietary) Limited	20	20
Norufin Housing (Proprietary) Limited	20	20
Kabo Financial Investments Limited	20	20
Lehae Housing (Proprietary) Limited	20	20
Thuthukani Housing Finance (Proprietary) Limited	20	30
Housing Investment Partners Trust*	-	-
Vulumnyango Trust*	-	-
Abahlali Housing Association (No 2) NPC^	-	-

* NHFC is invested in Junior debt facility.
^ NHFC controls Abahlali Housing Association and its bank account.

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

	Group		Company	
	Amounts owed by/ to related parties 2023 R'000	Transactions with related parties 2023 R'000	Amounts owed by/ to related parties 2022 R'000	Transactions with related parties 2022 R'000
Cape Town Community Housing Company (Proprietary) Limited				
- Advances	27 021	-	44 615	-
Housing Investment Partners (Proprietary) Limited				
- Working capital loan	33 165	-	33 165	-
Housing Investment Partners Trust				
- Equity	62 784	-	53 497	-
Vulumnyango Trust				
- Equity	322 688	-	322 688	-
Abahlali Housing Association (No 2) NPC				
- Advances	36 460	-	36 460	-
TUHF Holdings Limited				
C Class ordinary shares	6 533	-	6 533	-
- Preference shares	-	-	35 000	-
- Dividend income	-	158	-	1 340
- Interest received	-	25 971	-	25 048
- Loans	278 281	-	315 389	-
- Equity investment	125 188	-	107 010	-
NHFC Management Services (Proprietary) Limited				
Administrative fees	-	18 229	-	15 221
Loans	79 618	-	61 389	-
NURCHA Finance Company (Proprietary) Limited				
Loans	13 912	-	13 893	-
NURCHA Equity Services (Proprietary) Limited				
Loans	13 015	-	13 014	-
NURCHA Development Finance (Proprietary) Limited				
Loans	14 314	-	16 314	-
NURCHA Bridging Fund (Proprietary) Limited				
Administrative fees	-	-	-	50
Loans	8 335	-	15 731	-
NURCHA Loan Fund (Proprietary) Limited				
Interest received	-	-	-	2 674
Administrative fees	-	-	-	2 215
Loans	8 757	-	86 337	-

	Group		Company	
	Amounts owed by/ to related parties 2023 R'000	Transactions with related parties 2023 R'000	Amounts owed by/ to related parties 2022 R'000	Transactions with related parties 2022 R'000
Kanga Finance (Proprietary) Limited				
Loans	121 702	-	166 930	-
Interest received	-	14 498	-	11 503
Norufin Housing (Proprietary) Limited				
Loans	5 286	-	5 286	-
Thuthukani Housing Finance (Proprietary) Limited				
Equity	46 485	-	-	-
Interest received	-	9 887	-	9 229
Loans	52 878			
	-	**98 397**	-	

The NHFC has paid CIPC fees of R100 for its subsidiaries, Gateway, Gateway 001 and MDIC during the year.

Terms and conditions with related parties

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

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

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

Transactions with key management personnel are disclosed under note 36.

33. Cash flows from operating activities

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Net profit before tax	199 259	73 322	181 448	109 630
Non-cash and separately presented items	81 582	155 281	22 882	6 140
Working capital changes	2 515	(30 183)	9 945	4 021
Increase in advances	(123 008)	(164 723)	(68 191)	(227 158)
Net cash flows generated from/(used in) operations	**160 348**	**33 697**	**146 084**	**(107 367)**

Non-cash and separately presented items

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
Depreciation and amortisation	2 388	2 554	2 381	2 495
Dividends accrued	158	-	158	-
Impairments and bad debts	52 442	66 289	28 931	54 439
Share of profit of an associate	29 935	(7 521)	-	-
Fair value adjustment on equity investments	4 470	(2 017)	56 333	(51 486)
Fair value adjustment on investment property	(23 650)	22 420	(23 650)	22 780
Accrued interest income	(16 887)	(8 407)	(16 887)	(8 407)
Intercompany fees	-	-	(18 229)	(17 490)
Accrued finance cost	-	-	3 770	3 822
Interest on SARS asset	(3 552)	(665)	(3 552)	(665)
Other non-cash items	36 278	85 228	(6 373)	652
Programme management fees	-	(2 600)	-	-
Net cash flows used in operations	81 582	155 281	22 882	6 140

Working capital changes

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
(Increase)/decrease in properties developed for sale	11 238	50	-	-
(Increase)/decrease in finance lease receivable	(5 700)	10 319	-	-
(Increase)/decrease in accounts receivable	(4 628)	(31 501)	20 750	5 265
Increase/(decrease) in accounts payables	32 159	(2 383)	19 515	7 272
(Decrease)/increase in provisions	(30 554)	(6 667)	(30 320)	(8 517)
	2 515	(30 183)	9 945	4 021

34. Contingent liabilities and commitments

Contingent liabilities

Surrender of Surplus

Legislation requires schedule 3A public entities to surrender any surplus funds to the National Treasury. The NHFC applies for the retention of surplus which is subject to the National Treasury's approval. There is a possible obligation to return the cash surplus that arises from the NHFC having cash surplus as at 31 March 2023, the existence of that possible obligation will be confirmed by the approval or not approval of the National Treasury on the request for the retention of surplus submission, at this point it is not probable that the surplus will be returned to the National treasury based on the past practices since the inception of the NHFC that the National Treasury always approves the request for the retention of surplus as the NHFC was formed to be a self-sustaining entity.

The current estimated surplus for the financial year ended 31 March 2023 is R562 million.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Commitments in respect of lending activities				
Loans approved and contracted for: Still within availability period	1 796 083	1 815 706	1 796 083	1 815 706
	1 796 083	1 815 706	1 796 083	1 815 706
Approved but not yet contracted for	806 568	548 178	806 568	548 178
	2 602 651	**2 363 884**	**2 602 651**	**2 363 884**
Operational contracts	14 059	9 356	14 059	9 356
Programme management portfolio	82 282	45 119	-	-
	96 341	**54 475**	**14 059**	**9 356**

Operating lease commitment - Group as lessee

The Group entered into a commercial lease on the property from which it operates. The Isle of Houghton 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 18 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. From October 2022, the NHFC has entered in a month-to-month lease agreement, as of 31 March 2023 a notice to vacate the building has been issued and NHFC will move to a temporary home while the competitive bidding process to find a permanent home is taking place.

The lease in Gqeberha at Fairview Office was entered into in November 2022 for a period of three years. The Cape Town lease was entered into July 2019 for a period of five years.

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

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
National Housing Finance Corporation SOC Limited	445	2 669	445	2 669
Cape Town Community Housing Proprietary Limited	628	627	-	-
NHFC Management Services	337	29	-	-
Within one year	1 410	3 325	445	2 669
Cape Town Community Housing Proprietary Limited	146	783	-	-
NHFC Management Services	605	-	-	-
After one year but not more than five years	751	783	-	-
Total office operating lease commitments - office buildings	**2 161**	**4 108**	**445**	**2 669**

Operating lease commitments - Office photocopiers

The Group entered into operating leases for photocopiers. The leases have different lease periods. All current leases end in July 2023.

Within one year	84	254	84	254
After one year but not more than five years	-	84	-	84
	84	338	84	338
Total Group commitments	**2 245**	**4 446**	**529**	**3 007**

35. Financial risk management

The Group has various financial assets such as loans and receivables, finance lease receivables, other receivables, investments 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, 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 Information Technology and 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, mitigated 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. These kinds of instruments are unsecured and high risk in nature. They are used for leveraging private sector funding, maximising impact and transforming the human settlements supply chain.

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 regularly.

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

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

In order to avoid excessive concentrations of risk, the risk appetite statement includes specific guidelines to focus on maintaining a diversified portfolio. Provision is also made for prudential limits. Identified concentrations of credit risks are controlled and managed accordingly. Advances are presented net of the allowance for impairment. The requirement for an impairment is analysed at regular intervals guided by an impairment policy.

Advances are presented net of the allowance for impairment. The requirement for an impairment is analysed at regular intervals guided by an impairment policy.

Financial instruments and cash deposits

The credit risk arising from financial instruments is managed within the Treasury department. The Treasury Policy and Risk Appetite Statement of the Group provides a framework that regulates the treasury management activities, operations conducted, management and control of risk.

Short-term deposits and held-to-maturity money market investments are placed with financial institutions rated at least P-3 or better in terms of short-term credit ratings by a reputable rating agency. Counterparty limits are reviewed by the Board of Directors on an annual basis. Limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group exposure at year-end is within approved counterparty limits.

Financial assets exposed to credit risk at year end were as follows:

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Maximum exposure to credit risk				
Loans and receivables - advances	4 183 062	4 080 591	2 869 831	2 825 313
Finance lease receivables	105 887	100 187	-	-
Held-to-maturity investments	567 282	568 958	567 282	568 958
Cash and short-term deposits	2 206 008	1 862 172	1 823 987	1 517 215
Other receivables and prepayments	43 168	37 513	8 904	23 370
Investment in preference shares	-	35 000	-	35 000
	7 105 407	**6 684 421**	**5 270 004**	**4 969 856**

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 books;
- Cession of income and bank account;
- Guarantees;
    - Personal suretyship of principals;
    - Pledge of call account or fixed deposits; and
    - Cession of shares.

Credit risk mitigation policies and procedures ensure that the credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement.

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 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	3 280 588	2 663 454	2 103 425	1 526 711
Past due but not impaired*	277 443	590 466	277 443	594 144
Impaired**	829 996	705 902	607 342	525 795
12 months turnaround period	107 151	448 056	107 151	446 015
	4 495 178	4 407 878	3 095 361	3 092 665
Less: Specific impairments	(272 105)	(287 076)	(185 519)	(227 141)
General impairments	(40 011)	(40 211)	(40 011)	(40 211)
Net advances	**4 183 062**	**4 080 591**	**2 869 831**	**2 825 313**

* 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.

		Ageing of amounts due					
		Total balance R'000	Capital instalment R'000	Current to 30 days R'000	31 to 60 days R'000	61 to 90 days R'000	91 to 180+ days R'000
Group							
Ageing analysis of advances that are past due, but not impaired:	**2023**	277 443	196 572	6 439	3 275	3 267	67 890
Ageing analysis of advances that are past due, but not impaired:	**2022**	590 466	400 931	6 470	5 593	5 533	171 939
Company							
Ageing analysis of advances that are past due, but not impaired:	**2023**	277 443	196 572	6 439	3 275	3 267	67 890
Ageing analysis of advances that are past due, but not impaired:	**2022**	594 144	404 609	6 470	5 593	5 533	171 939

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 2023 amounts to R1 637 million (2022: R1 550 million).

During the current and previous year the Group did not take possession of any guarantees or debtors books.

The carrying amounts of advances that would otherwise be past due whose terms have been renegotiated in the last 12 months amounts to R107.1 million (2022: R448.1 million).

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 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	567 282	568 968	567 282	568 968
- Cash and short-term deposits	2 206 008	1 862 172	1 823 987	1 517 215
Counterparties assessed by reference to historical information about counterparty default rates				
- Finance lease receivables	105 887	100 187	-	-

Other receivables and prepayments are considered current and are not considered impaired.

The investment in preference shares is not impaired.

Concentration risk of equity loans and receivables by operation

	Group	Company
Strategic investment	9%	17%
Incremental housing loans	7%	9%
Home ownership	31%	4%
Private Rental Housing	17%	23%
Social Rental Housing	21%	28%
Affordable Housing	15%	19%
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.

	Group 2023		Group 2022	
	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.	185 452	3 997 610	195 357	3 885 234
Finance lease receivables average interest rate of 10.50% p.a.	105 887	-	100 187	-
Held-to-maturity investment rates vary between 3.54% and 8.20% p.a.	-	567 282	-	568 958
Cash and short-term deposits rates vary between 2.95% and 7.86% p.a.	-	2 206 008	-	1 862 172
Liabilities				
Funds under management vary between 2.00% to 5.78%	-	1 207 508	-	991 348
AFD loan – the rate is fixed at 5.761%	21 843	-	34 003	-
EIB loan– the rate varies between 3.758% and 6.783%	-	50 963	-	67 303
DBSA loan -the rate is fixed at 7.56% p.a.	104 424	-	109 632	-
Future Growth Asset Management Proprietary Limited	-	664 072	-	650 002
Old Mutual Capital Holding Proprietary Limited	-	519 725	-	486 889

	Company 2023		Company 2022	
	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.	185 452	2 684 379	195 357	2 629 956
Held-to-maturity investment rates vary between 3.54% and 8.20% p.a.	-	567 282	-	568 958
Cash and short-term deposits rates vary between 2.95% and 7.86% p.a.	-	1 823 987	-	1 517 215
Liabilities				
Funds under management vary from 2.0% to 5.78%	-	1 184 326	-	981 466
AFD loan – the rate is fixed at 6.078%	21 843	-	34 003	-
EIB loan – the rate varies between 3.758% and 6.783%	-	50 963	-	67 303
DBSA loan – the rate is fixed at 7.56%	104 424	-	109 632	-

Interest rate sensitivity

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

		Group		Company	
	Increase/ decrease %	Effect on profit 2023 R'000	Effect on profit 2022 R'000	Effect on profit 2023 R'000	Effect on profit 2022 R'000
Loans and receivables – advances	1	39 976	38 852	26 844	26 300
	(1)	(39 976)	(38 852)	(26 844)	(26 300)
Held-to-maturity investments	1	5 672	5 689	5 672	5 689
	(1)	(5 672)	(5 689)	(5 672)	(5 689)
Cash and short-term deposits	1	22 060	18 622	18 240	15 172
	(1)	(22 060)	(18 622)	(18 240)	(15 172)
Financial liabilities and funds under management	1	(24 423)	(21 955)	(12 353)	(10 488)
	(1)	24 423	21 955	12 353	10 488
The Group earns interest as follows:					
Interest on advances		468 034	379 913	272 409	204 073
Interest on investment		81 252	54 032	73 345	52 168
		549 286	**433 945**	**345 754**	**256 241**
The Group's interest obligations are as follows:					
Interest on other financial liabilities		124 927	94 668	12 887	12 420

Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to honour its financial commitments on a cost effective and timeous basis.

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:

- short- and long-term cash flow management;
- diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- at least 60% of money market portfolio to mature within six months;
- limiting capital market investments to 30% of the portfolio; and
- mobilisation of funding.

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

	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
As at 31 March 2023				
Trade and other payables	81 644	-	-	81 644
Funds under management	-	1 207 508	-	1 207 508
Long-term payables	-	-	7 901	7 901
Financial liabilities	-	55 012	1 306 515	1 361 527
	81 644	**1 262 520**	**1 314 416**	**2 658 580**
As at 31 March 2022				
Trade and other payables	37 239	-	-	37 239
Funds under management	-	991 348	-	991 348
Long-term payables	-	-	9 054	9 054
Financial liabilities	-	42 985	1 305 344	1 348 329
	37 239	**1 034 333**	**1 314 398**	**2 385 970**

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 65% and below.

	2023 R'000	2022 R'000
Total interest bearing debt	1 361 527	1 348 329
Total equity	5 032 833	4 792 697
Debt to equity ratio	27 %	28 %

Credit rating

The credit ratings below are provided by the Global Credit Rating Co.

National

Long term A (ZA)

Short term A1 (ZA)

International

Long term B+

Short term B

Positive Influences: Strong capitalisation and excellent liquidity.

Negative Influences: Weak asset quality and above average strategic investment risk.

The outlook for both National and International rating is Stable.

Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- Level 1: Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.
- Level 2: Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the financial position date. The valuation techniques or models are periodically reviewed and the outputs validated.
- Level 3: Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

	Group			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2023				
Unlisted equity investments in non-controlled entities	-	-	238 043	238 043
2022				
Unlisted equity investments in non-controlled entities	-	-	243 042	243 042

	Company			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2023				
Unlisted equity investments in non-controlled entities	-	-	238 043	238 043
Unlisted equity investments in associates	-	-	114 678	114 678
Unlisted equity investments in controlled entities	-	-	261 295	261 295
Total	-	-	**614 016**	**614 016**
2022				
Unlisted equity investments in non-controlled entities	-	-	243 042	243 042
Unlisted equity investments in associates	-	-	149 607	149 607
Unlisted equity investments in controlled entities	-	-	257 645	257 645
Total	-	-	**650 294**	**650 294**

	Investment in Non -controlled entities R'000	Investment in Controlled entities R'000	Investment in associates R'000
Company - Level 3 additional disclosure			
Opening balance	241 022	177 396	128 155
Disbursements	-	16 977	(13 546)
Fair value movement (IS)	2 020	63 272	34 998
Carrying value March 2022	243 042	257 645	149 607
Disbursements	-	9 287	-
Fair value movement (IS)	(4 999)	(5 637)	(34 929)
Carrying value at 31 March 2023	**238 043**	**261 295**	**114 678**

	Investment in Non -controlled entities R'000
Opening balance	241 022
Movement in gross balance	-
Fair value movement (IS)	2 020
Carrying value at 31 March 2022	243 042
Fair value movement (IS)	(4 999)
Carrying value at 31 March 2023	**238 043**

Financial assets by category

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

	Fair value R'000	Cost R'000	Amortised cost R'000	Total R'000
Group 2023				
Unlisted equity investments in non-controlled entities	238 043	-	-	238 043
Loans and receivables – advances	-	-	4 183 062	4 183 062
Finance lease receivables	-	-	105 887	105 887
Held-to-maturity investments	-	-	567 282	567 282
Cash and short-term deposits	-	-	2 206 008	2 206 008
Other receivables	-	-	43 168	43 168
	238 043	**-**	**7 105 407**	**7 343 450**
Group 2022				
Unlisted equity investments in non-controlled entities	243 042	-	-	243 042
Loans and receivables – advances	-	-	4 080 591	4 080 591
Finance lease receivables	-	-	100 187	100 187
Held-to-maturity investments	-	-	568 958	568 958
Cash and short-term deposits	-	-	1 862 172	1 862 172
Other receivables	-	-	37 513	37 513
Investment in preference shares	-	-	35 000	35 000
	243 042	**-**	**6 684 421**	**6 927 463**
Company 2023				
Unlisted equity investments in non-controlled entities	238 043	-	-	238 043
Unlisted equity investments in associates	114 678	-	-	114 678
Unlisted equity investments in controlled entities	261 295	-	-	261 295
Loans and receivables – advances	-	-	2 869 831	2 869 831
Loans to subsidiaries	-	33 783	-	33 783
Held-to-maturity investments	-	-	567 282	567 282
Cash and short-term deposits	-	-	1 823 987	1 823 987
Other receivables	-	-	8 904	8 904
	614 016	**33 783**	**5 270 004**	**5 917 803**
Company 2022				
Unlisted equity investments in non-controlled entities	243 042	-	-	243 042
Unlisted equity investments in associates	149 607	-	-	149 607
Unlisted equity investments in controlling entities	257 645	-	-	257 645
Loans and receivables – advances	-	-	2 825 313	2 825 313
Loans to subsidiaries	-	18 893	-	18 893
Held-to-maturity investments	-	-	568 958	568 958
Cash and short-term deposits	-	-	1 517 215	1 517 215
Other receivables	-	-	23 370	23 370
Investment in preference shares	-	-	35 000	35 000
	650 294	**18 893**	**4 969 856**	**5 639 043**

Financial liabilities by category

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

	Fair value R'000	Cost R'000	Amortised cost R'000	Total R'000
Group 2023				
Financial liabilities	-	-	1 361 527	1 361 527
Trade and other payables	81 643	-	-	81 643
Funds under management	-	1 207 508	-	1 207 508
	81 643	**1 207 508**	**1 361 527**	**2 650 678**
Group 2022				
Financial liabilities	-	-	1 348 329	1 348 329
Trade and other payables	37 239	-	-	37 239
Funds under management	-	991 348	-	991 348
	37 239	**991 348**	**1 348 329**	**2 376 916**
Company 2023				
Financial liabilities	-	-	177 230	177 230
Trade and other payables	30 795	-	-	30 795
Funds under management	-	1 184 326	-	1 184 326
	30 795	**1 184 326**	**177 230**	**1 392 351**
Company 2022				
Financial liabilities	-	-	210 938	210 938
Trade and other payables	10 208	-	-	10 208
Funds under management	-	981 466	-	981 466
	10 208	**981 466**	**210 938**	**1 202 612**

36. 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

Figures in Rand thousand	Fees	Salaries	Bonuses	Post-employment, pension and medical benefits	Committees fees	Total 2023	Total 2022
Non-executive Chairman							
Mr L Vutula[1]	1 386	-	-	-	-	1 386	-
Ms PV Ramarumo (acting)[2]	-	-	-	-	-	-	1 047
Directors – Independent non-executives							
Ms S Bolipombo	1 102	-	-	-	-	1 102	-
Mr P Heeger	1 019	-	-	-	-	1 019	-
Ms T Chiliza	1 017	-	-	-	-	1 017	811
Ms P Mthethwa[3]	-	-	-	-	-	-	-
Ms P Kadi	924	-	-	-	-	924	-
Mr T Mabaso	620	-	-	-	-	620	-
Ms A Seedat	614	-	-	-	-	614	-
Mr T Bonakele[4]	384	-	-	-	-	384	-
Ms T Kobile[5]	272	-	-	-	-	272	-
Mr V Dube[6]	52	-	-	-	-	52	-
Mr J Coetzee[7]	-	-	-	-	143	143	124
Mr S Moraba[8]	-	-	-	-	131	131	136
Mr SA Tati[9]	-	-	-	-	-	-	51
Mr K Shubane	-	-	-	-	-	-	721
Mr A Harris	-	-	-	-	-	-	1 070
Directors' fees	**7 390**	-	-	-	**274**	**7 664**	**3 960**

1. Mr L Vutula is the chairperson of the new board that has been appointed with effect from 29 March 2022.
2. Ms P Ramarumo was appointed as Acting Chairperson on 1 September 2020 and has resigned on 29 March 2022.
3. Ms P Mthethwa does not earn fees as she is in the full time employ of the National Empowerment Fund.
4. Mr B Bonakele only started earning fees from 1 September 2022 when he ceased to be the Competition Commissioner.
5. Ms T Kobile only started earning fees from November 2022.
6. Mr V Dube does not earn fees as he is in the employ of the Western Cape Government.
7. Mr J Coetzee was nominated by the NHFC to its strategic investments and continues to represent the NHFC in HIP Management company and on HIP Trust 1 and 2.
8. Mr S Moraba was nominated by the NHFC to its strategic investment and continues to represent the NHFC in HiP Management Company, HIP Trust 1 and 2, and on various companies in the TUHF Holdings group.
9. Mr SA Tati is the former Chairperson of the Board. He was appointed Acting Chief Executive Officer by the Minister, with effect from 1 September 2020. Mr SA Tati resigned as the Acting CEO and Chairperson of the Board in February 2022.

Figures in Rand thousand	Fees	Salaries	Bonuses*	Post-employment, pension and medical benefits	Committees fees	Total 2023	Total 2022
Chief Executive Officer and executive director							
Ms A Mayekiso[10]	-	369	-	58	-	427	-
Mr SA Tati (acting)[9]	-	-	-	-	-	-	4 577
Executive managers / and Prescribed officers							
Mr A Higgs[12]	-	740	(679)	-	-	61	3 490
Mr B Gordon[13]	-	2 829	(658)	555	-	2 726	3 635
Mr J Fakazi	-	2 623	(635)	488	-	2 476	4 104
Ms K Vundla[14]	-	-	-	-	-	-	1 214
Mr L Lehabe[12]	-	-	-	-	-	-	1 366
Ms M Mamatela	-	2 088	(662)	293	-	1 719	3 598
Mr M Oepeng	-	1 609	(263)	241	-	1 587	2 166
Ms N Mongali[11]	-	119	-	15	-	134	-
Ms N Ntshingila	-	1 866	(615)	496	-	1 747	3 457
Ms T Ramotsehoa	-	1 753	(349)	210	-	1 614	2 304
Mr V Gqwetha	-	2 788	(797)	655	-	2 646	4 891
Ms V Menye	-	2 330	(825)	326	-	1 831	4 152
Mr Z Lupondwana	-	1 955	(562)	344	-	1 737	3 291
Mr S Nxusani[12]	-	-	(610)	-	-	(610)	3 725
Management costs	-	**21 069**	**(6 655)**	**3 681**	-	**18 095**	**45 970**

* During 2022 a provision was raised for bonuses for executives. This was based on the unaudited performance of the NHFC. After the audit, the Board decided that the performance did not warrant payment of the full bonuses. Instead, they awarded 50% of the amount that had been provided. These financial statements reflect a reversal of that provision. In addition, based on the unaudited performance of the NHFC, no provision has been raised for bonuses for 2023. Employees, other than executives, were paid their full bonuses for 2022. When assessing the comparative packages of executives between 2022 and 2023, it must be borne in mind that the 2022 figures include a full bonus while the 2023 contain a negative 50% of a bonus.

10. Ms A Mayekiso was appointed as the CEO effective 1 March 2023.
11. Ms N Mongali was appointed as the Company Secretary effective 6 March 2023.
12. Mr L Lehabe, Mr A Higgs and Mr S Nxusani have retired from the NHFC.
13. Mr B Gordon, the CFO, was acting CEO from February 2022 to February 2023.
14. Ms K Vundla resigned.

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

Figures in Rand thousand	Fees	Salaries	Bonuses	Post-employment, pension and medical benefits	Committees fees	Total 2023	Total 2022
Chairman							
Mr S Tati	-	-	-	-	-	-	-
Directors - Non-executives							
Ms N Ntshingila	-	-	-	-	-	-	-
Directors' fees	-	-	-	-	-	-	-
Key members of management	-	-	-	-	-	-	-
Management costs	-	-	-	-	-	-	-

Ms N Ntshingila is an executive of the holding company and currently serves on the subsidiary's board. However they receive no remuneration as board members.

37. Prior period errors

President place

Taking over the full Trial Balance of President Place.

Loans and receivables

Understatement of interest in advances and receipts.

Fair value adjustments on investments

NHFC has previously valued its equity and quasi equity instruments internally. With the recommendation of external auditors and the Board, management has appointed a service provider to undertake the valuations in the current financial year. The valuer determined that the Free Cash Flow to the Firm approach was most appropriate whereas management has selected to use Free Cash Flow to Equity previously. Together with a change in valuation of the discount rate, the application of the valuation retrospectively requires an adjustment.

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

	Group 31 March 2022			Company 31 March 2022		
	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						
Loans and advances	4 061 637	18 954	4 080 591	2 829 006	(3 693)	2 825 313
Investment in controlled entities	-	-	-	376 184	(118 539)	257 645
Finance lease receivable	107 700	(7 513)	100 187	-	-	-
Other receivables and prepayments	23 413	16 495	39 908	15 268	8 982	24 250
Cash and cash equivalent	1 862 073	99	1 862 172	1 517 116	99	1 517 215
Liabilities						
Trade and other payables	40 442	14 184	54 626	13 202	14 060	27 262
Provisions	51 232	(10 045)	41 187	44 044	(9 919)	34 125
Current tax payable	-	584	584	-	-	-
Net Assets						
Accumulated surplus	2 061 646	23 312	2 084 958	1 884 404	(117 292)	1 767 112
Statement of Financial Performance						
Interest on advances	377 330	2 583	379 913	201 489	2 584	204 073
Rental income	14 879	(1 010)	13 869	13 230	(1 010)	12 220
Net impairments and bad debts	(61 707)	(4 582)	(66 289)	(49 857)	(4 582)	(54 439)
Other operating income	14 889	(1 709)	13 180	9 771	(1 709)	8 062
Operating expenses	(266 936)	4 582	(262 354)	(222 072)	4 581	(217 491)
Investment fair value and impairments	(20 403)	-	(20 403)	(30 431)	59 395	28 964
Tax expense	-	(584)	(584)	-	-	-
Surplus for the year	73 457	(719)	72 738	50 371	59 259	109 630

38. Irregular and Fruitless and Wasteful Expenditure

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Irregular expenditure	6 361	37 483	6 361	37 197
Fruitless and wasteful expenditure	229	2 418	229	2 418
Total	6 590	39 901	6 590	39 615
Restatement of prior year balances				
Previously stated	-	32 438	-	32 152
Restatement due to the first time application of National Treasury Instruction No. 4 2 789 800	-	1 705	-	1 705
	-	**34 143**	-	**33 857**

39. Events after the reporting date

There are no events after the reporting date.

Group	Budget on Accrual Basis					
	Approved budget R'000	Adjust-ments R'000	Final Budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
Statement of Financial Performance						
Revenue						
Interest on advances	460 994	-	**460 994**	468 034	**7 040**	**A**
Interest received on investments	49 866	-	**49 866**	81 252	**31 386**	**B**
Rental income	12 983	-	**12 983**	12 962	**(21)**	
Dividends received	20 300	-	**20 300**	158	**(20 142)**	**C**
Sale of houses	-	-	**-**	217	**217**	
Management fees	104 585	-	**104 585**	87 668	**(16 917)**	
Other income	8 412	-	**8 412**	31 626	**23 214**	**D**
Fees on advances	16 119	-	**16 119**	5 054	**(11 065)**	
Total revenue	673 259	-	**673 259**	686 971	**13 712**	
Expenditure						
Impairments and bad debts	(92 886)	-	**(92 886)**	(52 442)	**40 444**	**E**
Cost of sales	-	-	**-**	(1 751)	**(1 751)**	
Programme implementation cost	(58 500)	-	**(58 500)**	(51 842)	**6 658**	
Operating expenses	(339 388)	-	**(339 388)**	(246 029)	**93 359**	**F**
Total expenditure	**(490 774)**	**-**	**(490 774)**	**(352 064)**	**138 710**	
Profit on disposal	-	-	**-**	34	**34**	
Finance costs	(92 808)	-	**(92 808)**	(124 927)	**(32 119)**	
Fair value adjustment	20 824	-	**20 824**	19 180	**(1 644)**	**G**
Share of surpluses/(deficits) from associates	13 730	-	**13 730**	(29 935)	**(43 665)**	**H**
Surplus before taxation	**124 231**	**-**	**124 231**	**199 259**	**75 028**	**I**
Taxation	-	-	**-**	22 558	**22 558**	
Surplus for the year	**124 231**	**-**	**124 231**	**221 817**	**97 586**	

Company	Approved budget R'000	Adjust-ments R'000	Final Budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
	Budget on Accrual Basis					
Statement of Financial Performance						
Revenue						
Interest on advances	284 328	-	**284 328**	272 409	**(11 919)**	**A**
Interest received on investments	49 000	-	**49 000**	73 345	**24 345**	**B**
Rental income	12 985	-	**12 985**	11 228	**(1 757)**	
Dividends received	20 300	-	**20 300**	158	**(20 142)**	**C**
Management fees	39 466	-	**39 466**	37 053	**(2 413)**	
Other income	-	-	-	33 457	**33 457**	**D**
Share of residual interest in controlled entities	43 973	-	**43 973**	22 108	**(21 865)**	
Fees on advances	14 636	-	**14 636**	4 903	**(9 733)**	
Total revenue	**464 688**	**-**	**464 688**	**454 661**	**(10 027)**	
Expenditure						
Impairment and bad debts	(88 117)	-	**(88 117)**	(28 931)	**59 186**	**E**
Operating expenses	(295 759)	-	**(295 759)**	(198 746)	**97 013**	**F**
Total expenditure	**(383 876)**	**-**	**(383 876)**	**(227 677)**	**156 199**	
Profit/(loss) on disposal	-	-	-	34	**34**	
Finance cost	(11 870)	-	**(11 870)**	(12 887)	**(1 017)**	
Fair value adjustments	20 824	-	**20 824**	**(32 683)**	**(53 507)**	**G**
Surplus for the year	**89 766**	**-**	**89 766**	**181 448**	**91 682**	**I**

The results group financial performance includes the following subsidiaries:

Active entities:
- Cape Town Community Housing Company (Proprietary) Limited (CTCHC),
- Housing Investment Partners Trust
- Vulumnyango Trust
- NHFC Management Services (Proprietary) Limited
- NURCHA Bridging Finance (Proprietary) Limited, and
- NURCHA Loan Fund (Proprietary) Limited,
- Abahlali Housing Association (No 2) NPC.

Dormant entities:
- Mortgage Default Insurance Company (Proprietary) Limited (MDIC),
- Gateway 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 TUHF Holdings Limited, Housing Investment Partners (Proprietary) Limited (HIP), Kanga Finance (Proprietary) Limited, Thuthukani Housing Finance (Proprietary) Limited, Norufin (Proprietary) Limited, Kabo Financial Enterprise (Proprietary) Limited and Lehae Housing (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. The Groups 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 submitted to the NDoHS and was tabled and approved in parliament in January 2023.

Controlled and non-controlled entities impact on group and company performance

The group has a residual interest in some of the quasi equity investments. This impacts the manner and the timing in which the revenue from these investments is recognised in the statement of comprehensive income, the GRAP requirements are driven by the extent of the residual interest and therefore required different inclusion of the economic performance differs at group and company level.

Statement of Comprehensive income impact in the Group Financial statements

The following additional amounts have been included in the group statement of comprehensive income for the 31 March 2023 financial year:

- Interest on loans and advances R201.8 million
- Impairments and bad debts R2.4 million
- Operating expenses R38.4 million
- Finance cost R109.2 million

Statement of Comprehensive Income in the Company Financial Statements

The following additional amounts have been included in the company statement of comprehensive income for the 31 March 2023 financial year:

- Share of residual income in controlled entities R22.1 million

Current year performance

A. Interest on advances

As a lending institution business are the loan book growth, quality of the loan book that impacts the level of impairments and write offs and the operational efficiency. On the asset growth, the group. Achieved disbursements of R740.9 million against a budget of R1 191 million for the financial year disbursement.

Company interest on advances is still below budget even with the interest rate hikes as negatively affected by the loan book not growing as expected i.e. short-term products repaid and lower than budgeted disbursements; for group it is slightly over budget as a result of the impact on the interest rate hikes in the revenue from HIP.

B. Interest on investments

Over budget as a result of the interest rate hikes, and excess cash held from the repayment of the short-term products.

C. Dividends received

No dividends have been received from our investee companies which has not been performing as expected.

D. Other income

This is mainly the bad debts recovered.

E. Impairment and bad debts

Savings on Impairments and bad debt is due to net reversal of impairment on a client that has been converted to Equity and other net reversals of impairment due to the high level of security and also the impact of the application of Debt Relieve Programme which has reduced some of the arrears.

F. Operating expenses

In the operating expenses, the group realised a saving of R16 million and with company R19 million reflecting managements concerted effort to operational efficiency.

G. Fair value adjustments

Downward fair value adjustment as a reflection of the performance of some of the investee companies. From the group's point of view, investment in non-controlled entities are the only ones fair valued and the rest of the investments are either eliminated or equity accounted, positive fair value adjustments for the investment in non-controlled entities.

H. Share of surplus/(losses) from associates

The share of losses are a reflection of the performance of some of the investee companies.

I. Profit before tax

Overall performance, the group surplus for the year is over budget by R97 million and R91 million on a company level as a result of the savings in impairment, operating cost and improvement in the interest rate during the year.

First Home Finance is treated as a division within the NHFC company and group accounts, with the operating costs of R18.8 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 impacts the level of impairments and write offs and the operational efficiency.

On the asset growth, the group

- Achieved disbursements of R740.9 million against a budget of R1 191 million for the financial year disbursement
- Incurred net bad debts and impairments of R52.4 million, R66.3 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 (R5 million) at a group level and (R53 million) at company level to reflect reduced growth outlook in some of the strategic partners.

In the operating expenses, the group realised a saving of R16 million and with company R19 million reflecting managements concerted effort to operational efficiency.

Overall performance, the group surplus for the year is over budget by R72 million and R91 million on a company level as a result of the savings in impairment, operating cost and improvement in the interest rate during the year.

Other contributing factors

Lower than budgeted impairments and write offs at R64.1 million compared to a budget of R103 million, leading to a saving of R38.7 million.

NOTES

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