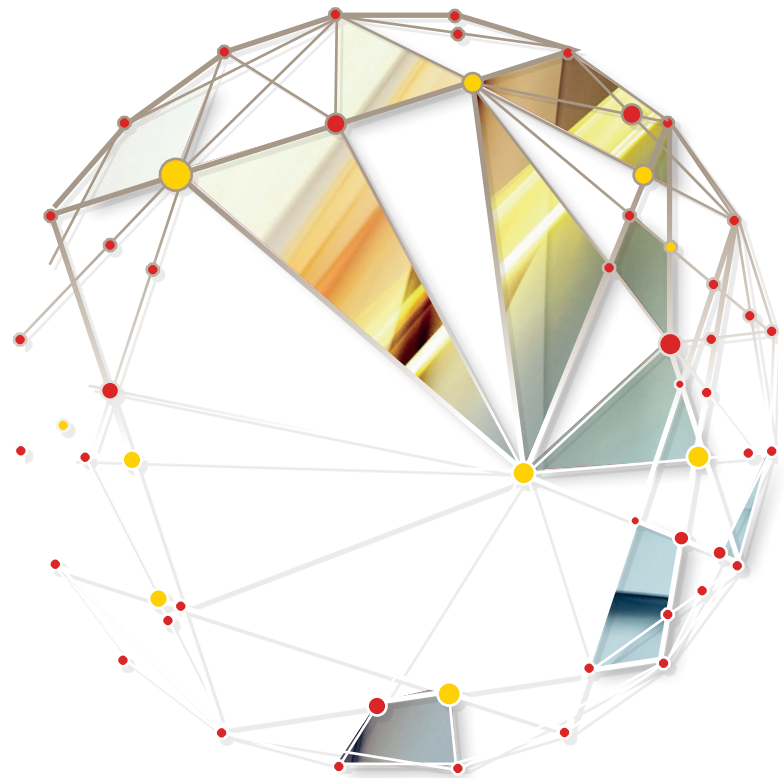




NURCHA

CONSTRUCTION FINANCE AND
PROGRAMME MANAGEMENT

An Agency of the National Department of Human Settlements



Annual Report 2018 **NURCHA**

Mission:

NURCHA initiates programmes and takes considered risks to ensure a sustainable flow of finance for the construction of low-income and affordable housing, community facilities and infrastructure. NURCHA work in partnership with all role players in these markets to maximise the development of sustainable Human Settlements.

Vision:

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

Development Principles

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

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

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

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Mission, Vision and Development Principles

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Values



PRUDENT use of resources entrusted to us.

RESPECT and Integrity in our interactions with each other and our clients and partners.

INNOVATION and Willingness to take considered risks in testing the limits of sustainable finance.

DEVELOPMENT of individuals, communities and the country.

EXCELLENCE in everything we do.

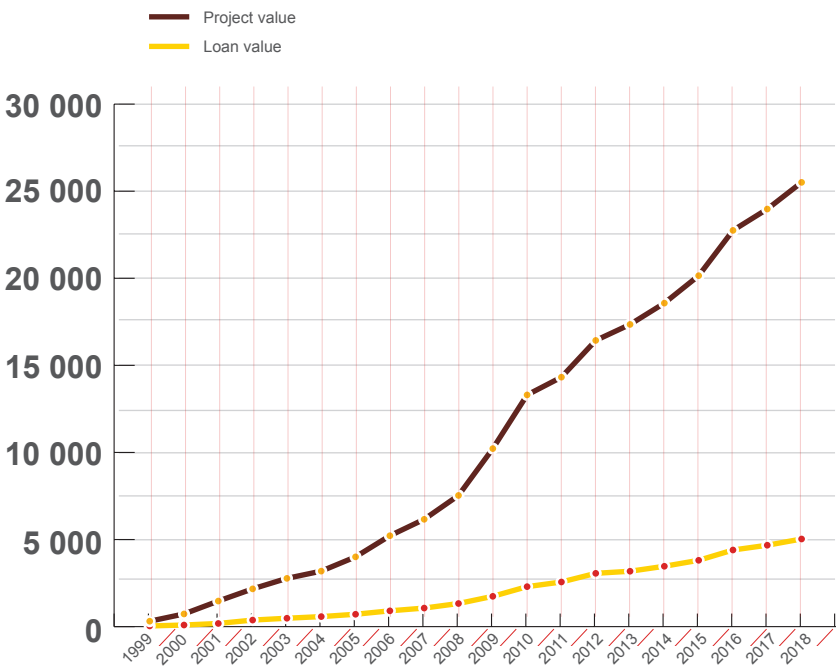






Project and Loan Value Timeline

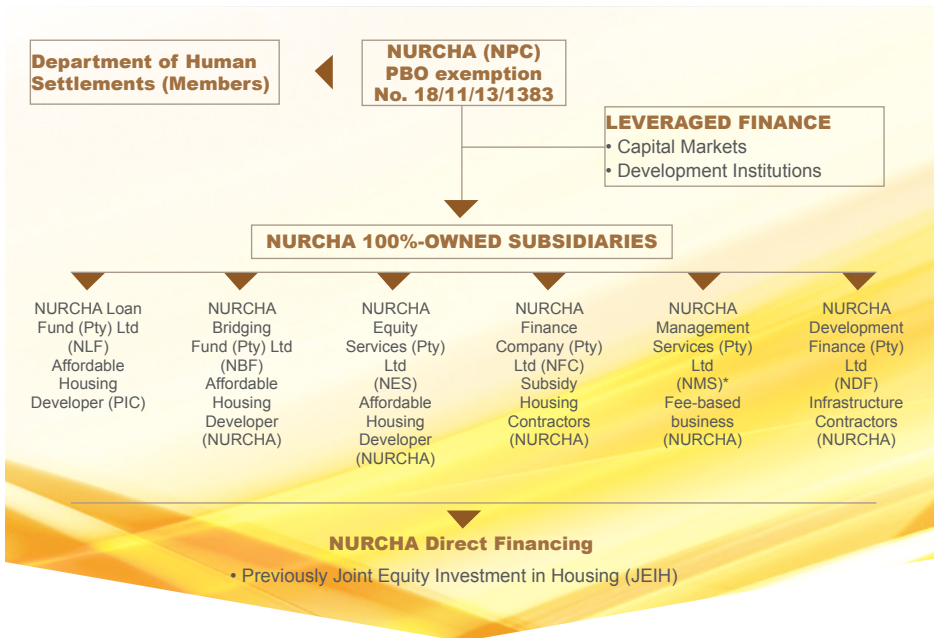
PROJECT & LOAN TIMELINE 1999-2018



NURCHA OUTPUTS -
SINCE INCEPTION TO 31 MARCH 2018

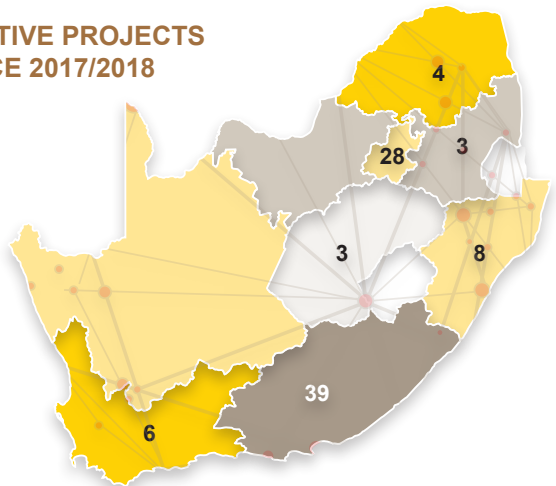
Programme	Subsidy Housing	Affordable Housing	Infrastructure & Community Facilities	Total
NUMBER OF LOANS SIGNED	1 036	228	293	1 557
HOUSES IN LOAN SIGNED	374 742	44 346	N/A	419 088
HOUSES/ PROJECTS COMPLETED	266 780	36 634	188	303 602
VALUE OF LOANS	1.696 billion	2.657 billion	677.7 million	5.031 billion
VALUE OF PROJECTS	12.065 billion	9.372 billion	4.070 billion	25.507 billion

Organisational Structure



NUMBER OF ACTIVE PROJECTS BY PROVINCE 2017/2018

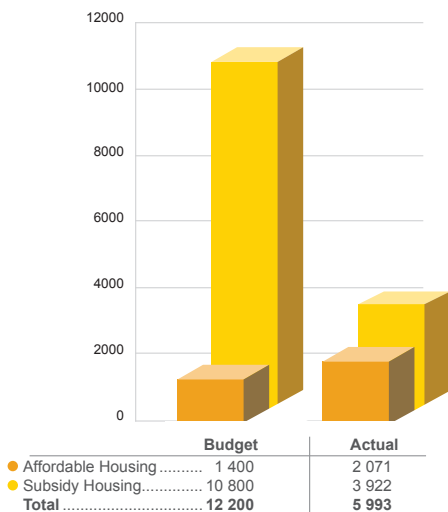
Eastern Cape	39
Free State	3
Gauteng	28
KwaZulu-Natal	8
Limpopo	4
Mpumalanga	3
Western Cape	6
TOTAL	91



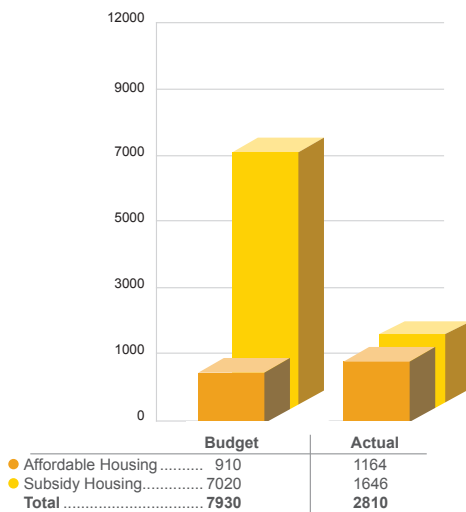
Facts and Figures

for the year ended 31 March 2018

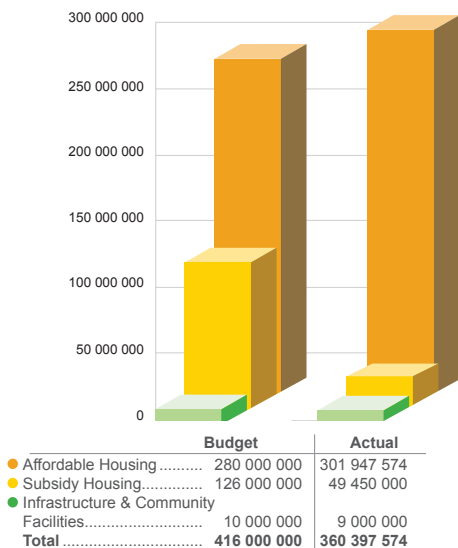
NUMBER OF HOUSES IN SIGNED CONTRACTS



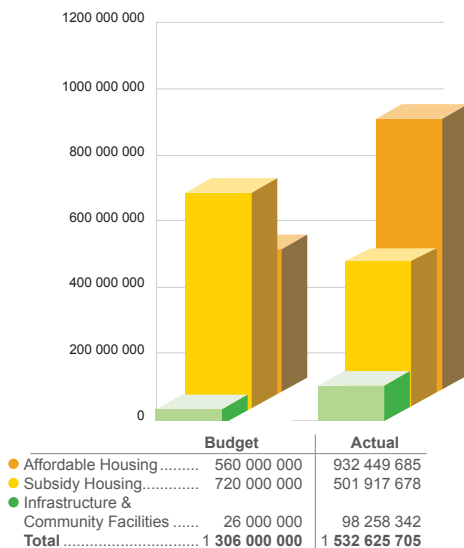
NUMBER OF COMPLETED HOUSES



LOAN VALUES (R' millions)

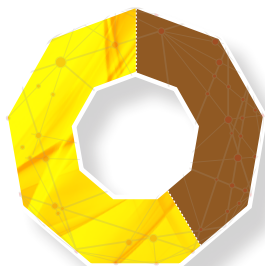


PROJECT VALUES (R' millions)



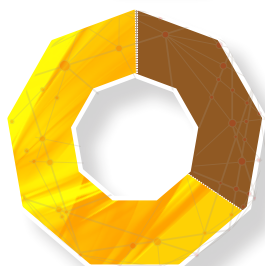
Facts and Figures

for the year ended 31 March 2018



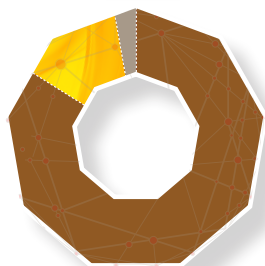
Number of Houses/ Sites Completed

	Actuals
● Affordable Housing	1164
● Subsidy Housing	1646
Total	2810
● Infrastructure & Community Facilities	3



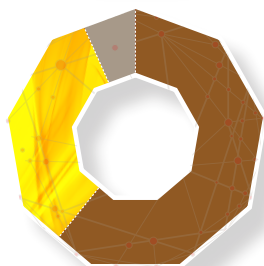
Number of Houses in Signed Contracts

	Actuals
● Affordable Housing	2 071
● Subsidy Housing	3 922
Total	5 993
● Infrastructure & Community Facilities	2



VALUE OF LOANS FINANCED (R' millions)

	Actuals
● Affordable Housing	301 947 574
● Subsidy Housing	49 450 000
● Infrastructure & Community Facilities	9 000 000
Total	360 397 574



VALUE OF PROJECTS FINANCED (R' millions)

● Affordable Housing	932 449 685
● Subsidy Housing	501 917 678
● Infrastructure & Community Facilities	98 258 342
Total	1 532 625 705

Our Story

OUR STORY begins with a letter by Nelson Mandela establishing NURCHA on 25 August 1995.

- Negotiations to establish partnership between Open Society Institute (OSI) and SA Government.

1996/ 1997

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

1998

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

1999

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

2000

- **AWARD:** Impumelelo "Top 300 Black Empowered Companies".
- **AWARD:** SABC TV2 Lebone Women on the Move Award.

2002

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

2003

- NURCHA stops issuing guarantees.
- January 2003, Start of OPIC/FNB relationship (\$20 million).

2005

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

2006

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

2007

- NURCHA appoints Kehla Shubane as third Chairman.

2009

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

2010

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

2012

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

2013

- NURCHA mourns the death of Nelson Mandela, a national icon who was one of the founding members, 4 December 2013.

2014

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

2015

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

2016

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

2017

- Minister of Human Settlements Lindiwe Sisulu, launches the Human Settlements Bank.
- NURCHA moves to Parktown August 2017.
- NURCHA, RHLF are absorbed by NHFC.
- **AWARD:** SAIBPP "Demonstrating outstanding commitment to the transformation in the property sector".

2018

- Nomaandia Mfeketo is appointed as Minister of Human Settlements
- NURCHA celebrated the centenary of the birth of former President Nelson Mandela by sponsoring the painting of MURALS in Mthatha

Members of the Board

Chairman and Executive Directors



1. Khehla SHUBANE
Board Chairman
Independent non-ex-
ecutive director
BA (Hons), MBA,
Social Science
Date of appointment:
16 May 1995

2. Viwe GQWETHA
Managing Director
BA, Masters in
Town and Regional
Planning, Strategic
Leadership Opera-
tions, Programme
Management
Date of appointment:
22 August 2007

3. Adél STRUWIG
Executive Director:
Lending Portfolio
BCom, MBA, Banking
Finance and Credit
Date of appointment:
1 October 2013

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

Members of the Board

Non-executive Directors



5. Zyda RYLANDS
*Human Capital and Transformation
 Committee chairperson;
 Independent non-executive director*

BCom (Hons), CA(SA), Executive
 Education, Financial Management,
 Human Resource/Management,
 Transformation
 Date of appointment:
 16 August 2006

6. Thulani NZIMAKWE
*Audit Committee chairman;
 Independent non-executive director*

BCom, BAcc, CA(SA), Financial
 Management
 Date of appointment:
 4 July 2011

7. Webster NDODANA
Independent non-executive director

Pr Eng, BSc Eng, BSc, Civil and
 Structural Engineering
 Date of appointment:
 16 August 2006

8. Linda SING
Non-executive director

BCom (Hons), MBA, MPhil, CAIB
 Banking, Finance
 Date of appointment:
 18 August 2009

9. Cedric DE BEER
*Non-executive director
 (SEDF nominee)*

BA, Strategic Leadership
 Date of appointment:
 26 June 1997
10. Maleho NKOMO

*Independent non-executive
 director*

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

11. Hendrik Petrus PRINSLOO
Independent non-executive director

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

Our People









**FOREWORD
BY THE
CHAIRMAN**

Foreword by the Chairman

The first democratic elections in South Africa, which were held on April 27 1994, ushered in a democratic government under the leadership and presidency of Mr Nelson Mandela. In the eyes of the majority of South African citizens, from across all races, and the international community at large, this was the nation's first legitimately elected government. President Mandela's administration inspired boundless and beautiful hope for peace, freedom and prosperity amongst ordinary, previously downtrodden citizens, and indeed, all sectors of society.

Lest we forget, the then new democratic administration inherited a society that was shaped by a long history of racial segregation and institutionalised socio-economic discrimination and inequality that had culminated in the establishment of the apartheid system. It had fragmented administrative authorities that were not only organised along racial and ethnic lines, in order to entrench the apartheid system, but also costly and illegitimate.

Naturally, Mandela's administration was expected to deliver on the high hopes and legitimate aspirations of the people. So the first ANC government manifesto was called the Reconstruction and Development Programme (RDP). The RDP articulated a number of socio-economic development programmes across different sectors and included the need to deliver decent housing to the millions of poor and disadvantaged citizens. The housing delivery programme, as expressed in the 1994 Housing White Paper, was promising more than just shelter, it was a planned catalyst for economic spin-offs that would arise from significant public investments in the sector, and benefit thousands of households and the economy at large. The relatively strong economic multiplier effect of the public investment in housing therefore had both social and economic impacts and helped propel various dimensions of societal transformation. It was against this backdrop that the National Urban Reconstruction and Housing Agency (NURCHA)



Khehla Shubane

came into being.

In the implementation of the RDP, the ANC administration, under President Mandela's leadership, took cognisance of fragmented administrative authorities and the urgent need to rationalise them in line with the requirements of the democratic dispensation. It was also alive to the debilitating effect the re-engineering of state capacity would have on the delivery of the RDP. As a result of these crucial understandings, several focussed delivery interventions, including mobilisation of relevant expertise and stakeholders, were initiated across provinces. These strategic interventions were designed to focus and deliver on critical sectorial programmes identified and coordinated under the RDP umbrella in the Presidency. These interventions, all of which had limited timeframes,

Foreword by the Chairman

were each launched as Presidential Lead Projects. NURCHA was one of these initiatives.

There was a dire lack of an appropriate financing instrument in the market to facilitate the entrance of new players in the housing sector and the economy, particularly black and women owned contractors and developers. NURCHA's founders were far sighted enough to realise that the envisaged social, economic and transformative benefits of public investment in housing would be sub-optimal without an appropriate financing vehicle, hence its establishment in 1995.

It is 23 years to date since NURCHA's establishment. The year coincides with the centenary celebration of the birth of the late former president Mandela. It would be amiss not to recognise the role that this internationally recognised statesman and icon played in the establishment of NURCHA, a small organisation that has punched above its weight in an endeavour to deliver on its developmental mandate. In the same vein, it would be a disservice to Madiba's legacy - his stature, what he stood for and his style of leadership - if I were not to recognise all the eminent individuals and leaders that immediately bought into his vision of transforming South Africa and restoring dignity to its citizens. For me, the expression of his legacy is well encapsulated by what is popularly referred to as 'Mandela Magic'. His magic played a prominent role in the establishment of NURCHA and the strides it has made during its 23 years of existence. Although he was saddled with bigger domestic transitional matters and the elevation of South Africa's role in international affairs, his critical role towards injecting life into fledgling transformational initiatives never escaped him. Such was his intriguing ability and foresight to identify the latent potential held by small initiatives.

Having been a close observer of his effusive leadership style and humble character at the time, Mandela's set of beliefs in human rights, freedom and an equitable and just society, crowned on

top by his enormous human sacrifice to realise a society aligned to these beliefs was what won him friends at home, abroad and across classes in society.

It would seem Madiba was also acutely aware of this innate power and effectively used his influence to solicit support for government socio-economic transformative initiatives. The first layer of 'disciples' that embraced Madiba's vision were the progressive minded individuals both from the broad liberation movement and public (establishment) institutions. This is where the ideals of an alternative society were kept alive and where an idea of an organisation such as NURCHA originated.

The second layer was that of leaders who served as proverbial midwives that helped give life to NURCHA as an alternative institution in the finance market. This is a long list of progressive minded men and women but I will mention only a few as a way to illustrate how the Madiba Magic worked. The first to be acknowledged is Mr Aryeh Neier, the President of the Soros Open Society Institute (OSI) at the time. His strong human rights background immediately and without reservations moved him to support South Africa's fledgling democracy and any transformation cause supported by Madiba. In this instance, he was won over by the idea of establishing an institution such as NURCHA, an organisation that would create finance opportunities for those who had always been excluded from the mainstream of the economy. The cause aligned well with the values espoused by Mr George Soros and his foundation, OSI.

The second person to be acknowledged is Dr van Zyl Slabbert, a citizen who played a significant role as a 'midwife' in the establishment and funding of NURCHA, in an effort to support the transformation goals of the day. In particular, he supported an initiative to orchestrate the empowerment of black and women-owned contractors

Foreword by the Chairman

and developers to participate in the economy and deliver affordable housing for the poor. Dr Slabbert, too, had a good anti-apartheid reputation, coupled with his catalytic role in transitional dialogues between the ANC and the Apartheid government. At the time, he was also the Regional Facilitator of Soros backed Open Society Initiatives of Southern Africa.

These two individuals, working together with other significant role players, brought together the visions of Madiba and Mr George Soros in a partnership that invested in housing development for 20 years. The common thread behind Madiba's collaborative relationships, at home and abroad, was the trust in Madiba as a person - his principles, his leadership and in the ideals he was pursuing. This was Madiba's magnetic power that came to be referred to as the 'Madiba Magic'.

In the true sense of a living legacy, the indelible mark left by Madiba is shining even brighter 20 years after his term in public office ended and is a distinct reference point for value based leadership for current and future leaders here at home and abroad.

As we celebrate the centenary of Madiba's birth, it is befitting to thank all those who have served NURCHA in the past and present – stakeholders, clients, board members, management and staff at large. You have kept the Madiba legacy alive for 23 years and it will remain so beyond NURCHA's existence.

On behalf of the Board I am also pleased to report that all preparations for the impending consolidation of NURCHA into NHFC have been completed and the transaction will be finalised during 2018. Once the transaction is complete the Board will start formal dissolution processes of the remaining shell company.



Khehla Shubane
Chairperson



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human Settlements

Department:
Human Settlements
REPUBLIC OF SOUTH AFRICA



NATIONAL HOUSING FINANCE CORPORATION SOC LTD

NURCHA

CONSTRUCTION FINANCE AND
PROGRAMME MANAGEMENT

An Agency of the National Department of Human Settlements





Nelson Mandela
Centenary
2018
Be the legacy





MANAGING DIRECTOR'S REPORT

Managing Director's Report

Year Under Review

NURCHA experienced significant changes and operational challenges in the year under review. In the first half of the financial year, there was slow approval of new loans, due to fully utilised financing capacity. In spite of these challenges, the Affordable Housing programme performed well and achieved all its targets for the year.

Most developers in our loan book, big and small, experienced commercial downturns amid slow sales of their developments. Most projects had their completion dates rescheduled; and because of this, loan repayments were rescheduled in line with adjusted completion dates. The emerging developers' portfolio suffered significant strain, projects went into distress, and some became unviable and went into default. As a result, NURCHA had to institute debt recovery processes, and liquidation processes are underway. The loan book was adversely affected as the company saw a rise in provisions for losses from 4.3% to 22% during the financial year under review.

The company invested significant time in activities related to the ongoing consolidation of the three Development Finance Institutions. The major undertaking in the first half of the year involved preparations to relocate office from Rosebank to the National Housing Finance Corporation (NHFC) offices in Houghton. The move was completed successfully in July. This was a major event in the organisational change processes both at NURCHA and as a joint collaboration with the sister entities with whom NURCHA is consolidating. Since the move to Houghton, management has invested significant time and effort towards helping the staff settle, and this has been a very challenging time in relation to staff morale and focus.

The company also experienced a high staff turnover, especially in critical positions, in the last quarter of the year. This staff attrition has significantly affected institutional memory and business risks have been elevated as new staff is recruited and trained to take up positions in the



Viwe Gqwetha

company. The staff attrition and human resources related challenges have become significant enterprise risks that are receiving the attention of both management and the Board.

All possible measures are being taken to keep operations going, ensure the business remains viable and counter the adverse operating conditions. However, the organisation will only be able to implement permanent solutions once the DFI consolidation is concluded. The state of limbo under which the organisation has been operating for more than four years has affected the business negatively.

Financial Performance

In the year under review, NURCHA incurred a deficit of R19.9m after administrative costs and impairments. These are very disappointing finan-

Managing Director's Report

Year Under Review

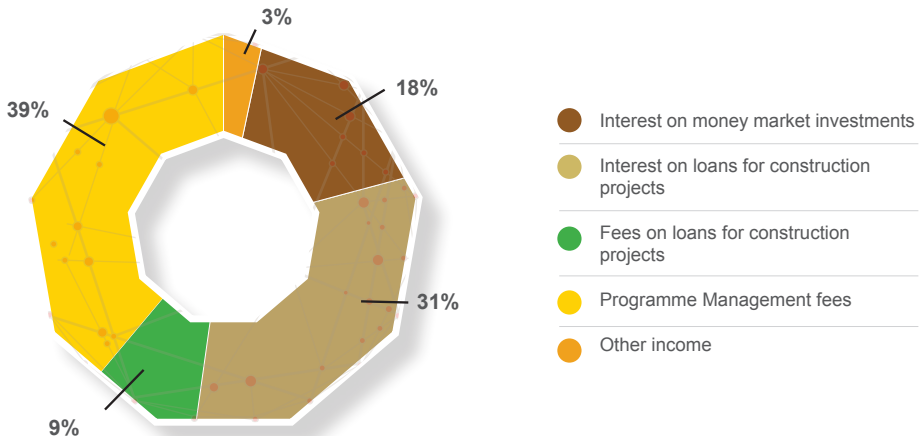
cial results for the company, given the fact that the company achieved an operating surplus of R35.8m before impairments. The astronomical rise in impairments, of which 50% came as a result of fraudulent diversions of funds by a related group of contractors that had projects in the Eastern and Western Cape provinces, had an adverse impact on financial results. These poor financial results follow a four-year period through which the company reported good surpluses and low impairments in spite of the high-risk market in which it operates.

It is important to evaluate the setbacks of the year under review in perspective though, and 'not throw the baby away with the bath water'. The NURCHA lending model has demonstrated that lending to its niche and relatively risky market can be done successfully and sustainably if two important conditions can be created. Firstly, collaboration by sector stakeholders around commonly agreed lending rules and mechanisms to mitigate default risks could help to significantly improve

market conditions and the financial sustainability of financing instruments. The successes of the four-year span of low impairments were as a result of such collaborations. The second condition is to deliver lending programmes at volume thresholds that ensure appropriate pricing and financial sustainability. From this perspective, the business model serves as an embryo for a future operating system for scaling up the business NURCHA has been doing over the years.

The company has sustained its diversified core business activities (sources of income). Figure 1 below shows reported gross income, as derived from the three major income streams: interest-based income from the lending business activities, fees generated through the programme and fund management business, and money market investments, with each contributing 40%, 39% and 18% respectively. An additional 3% categorised as other income is largely made up of bad debt recoveries.

Figure 1: Sources of Income



Managing Director's Report

Year Under Review

Credit Risk And Control Environment

Moderate to high risk lending defines NURCHA's business and the environment in which it operates. With stringent in-house controls and credit rules, NURCHA has eliminated the rise in provisions for losses as a result of construction risks. However the risk of fraudulent diversions of funds still prevails and has been prominent in the year under review. This is due largely to deviation from agreed protocols governing flow of project proceeds. The new Centralised Supplier Database (CSD) recently introduced by National Treasury has escalated this risk. The new risk that is brought about by the CSD is the ease by which contractors can change bank accounts jointly administered with NURCHA as a lending risk mitigation measure. This is over and above the new administrative requirements for opening and loading bank accounts. Engagements to find lasting solutions are continuing with National Treasury and it is a problem affecting other financiers in the sector beyond NURCHA. This risk can best be mitigated at a sector level and collaboration around an agreed set of lending rules.

The second source of a rise in provisions were emerging developers that were negatively affected by a decline in sales and affordability in the target market. The economic decline in mining towns due to the general drop in resource prices has had negative ripple effects in those markets and led to projects failing or going into distress. The weak economic environment was a major factor that affected developers across the board. However, established developers had better mechanisms to cushion the effect of slow demand than emerging ones.

Concentration risks in affordable housing have moderated as a result of diversification and an increase in the number of developers in NURCHA's loan book. In the year under review, there were 29 active affordable housing projects to 19 developers.

In the previous financial year, NURCHA undertook to improve controls in supply chain management. Significant improvements have been made towards enhancing the supply chain management system, capacity and performance in general.

The Year Ahead

The DFI consolidation has dragged on far longer than any of the parties involved expected and has become a threat to NURCHA's business and effective management of operational risks. However, all hurdles to the consummation of the transaction seem to have been addressed, except for final and imminent approval from National Treasury. On the basis of progress made so far, it is anticipated that the effective date of the transaction will be the 30th September 2018. By this date, all of NURCHA's business (assets, liabilities and personnel) will be transferred to NHFC on a going concern basis. From the effective date onwards, what was NURCHA's business will operate as a division of NHFC until NHFC is reconfigured into a human settlements related development bank through an Act of Parliament. NURCHA on the other hand will become a shell company and immediately start formal dissolution processes.



Viwe Gqwetha
Managing Director



MINISTRY IN THE OFFICE OF THE PRESIDENT

Tel : (012) 319 1500
Date : 25 August 1995

Mr Cedric de Beer
NURCHA
710 Hallmark Towers
54 Siemert Road
New Doornfontein
2094

Dear Mr de Beer

LETTER OF SUPPORT FOR NURCHA

The South Africa Government of National Unity has given high priority to housing development as part of the Reconstruction and Development Programme. The National Urban Reconstruction and Housing Agency has been established as a Presidential Lead Project to fill a critical niche in Housing Development in South Africa over the next five to ten years.

The Government's commitment to this project is reflected in a R20 million grant to Nurcha from the RDP fund. It is our hope that development agencies and the private sector will match the lead given by the Government and Mr George Soros by making available additional funds and quarantees, in order that Nurcha may fulfil its rich potential.

It is through such creative partnerships that development, peace and economic growth can be achieved in our country.

MR NELSON R. MANDELA
PRESIDENT

Private Bag X1000 Pretoria 0001

Private Bag X1000 Cape Town 8000





**REVIEW OF
OPERATIONS**

Lending Portfolio:

Overview

NURCHA has spent the past 6 years implementing a direct lending model, after termination of an intermediary lending model in 2012. The new business model has shown promising results in terms of development impact and organisational sustainability. The amended lending model vigorously pursues a positive contribution to industry transformation with programmes such as the Contractor Finance and Development Programme (CFDP) for small construction companies owned by women, the youth and people with disabilities, by participating in public-sector initiatives and the Emerging Developer Programme, two initiatives that are aimed at improving access to credit for previously excluded groups. With the introduction of these transformative initiatives also came lessons in risk management, business processes, stakeholder management and risk mitigations and this has necessitated a continuous refinement of programmes, processes and lending practices. The high risk nature of NURCHA's lending products and the funding capacity constraints experienced by NURCHA from October 2016 to May 2017, together with the effects of the continued economic downturn, the financial risk profile downgrade and the impact of consumer unsecured credit indebtedness, had a negative effect on NURCHA's business growth prospects.

Lending Portfolio 2017/2018 in Perspective

In the period under review, NURCHA had a total of 93 active projects, with a total loan value of R916 million and a total exposure of R333 million, as illustrated in Table 1 below.

Table 1: Loan Commitments Across all Lending Programmes

LENDING PROGRAMME	TOTAL ACTIVE PROJECTS		LOAN VALUE COMMITMENT		LOAN EXPOSURE	
	No.	(%)	(R'M)	(%)	(R'M)	(%)
Affordable Housing	29	31.2%	667.04	72.8%	251.77	76%
Subsidy Housing	57	61.3%	222.94	24.3%	65.83	20%
Infrastructure and Community Facilities	7	7.5%	26.33	2.9%	14.99	5%
TOTAL	93	100%	916.31	100%	332.59	100%

There were 29 active projects on the Affordable Housing Programme, of which 8 projects were for emerging developers. The Affordable Housing Programme makes up 73% of loan values committed and 76% of NURCHA's total loan exposure to debtors. The Subsidy Housing Pro-

gramme consists of 57 active projects, of which 8 were CFDP projects, but only comprises 24% of loan values committed and 20% of all book debts. The Infrastructure and Community Facilities Programme is a programme where NURCHA previously suffered substantial losses and

a decision was made to scale the programme down. This programme only had 7 active projects, 2.9% of loan values committed and 5% of all book debts. These projects are spread over seven provinces as per Figure 2 below and include lending activities in mining and secondary cities and towns.

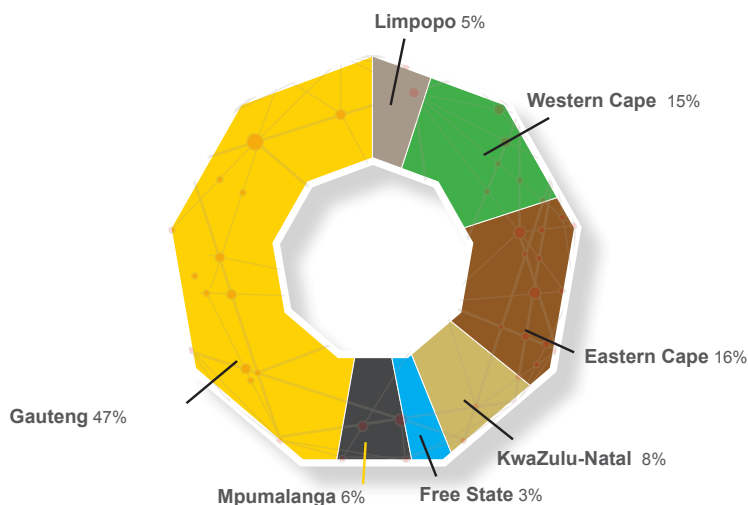


Figure 2: Geographical Spread of Active Projects

Loan Book Performance

Loan book management has come a long way and has stabilised. While impairments were at a sustainable rate for the past 5 years, transformative programmes and the high-risk nature of the lending market NURCHA is serving, impairments for the period under review showed a sharp increase. At the end of the period under review, NURCHA is reporting 35% in overdue debts and an increase from 4.3% to 22% in impairments against an exposure of R333 million. Figure 3 on page 32 illustrates the impairments trend over the last five years for the entire lending book.

The overdue portion of the debt is due to two factors, namely slow payment of contractors by provinces, especially in the second half of the financial year, and a slowdown in the affordable housing market, which delayed progress on some projects. Impairments in the subsidy Housing Programme have seen an upward trend, mostly due to systems and control weaknesses. The programme is operating in an ever-changing environment with the implementation and rollout of the Centralised

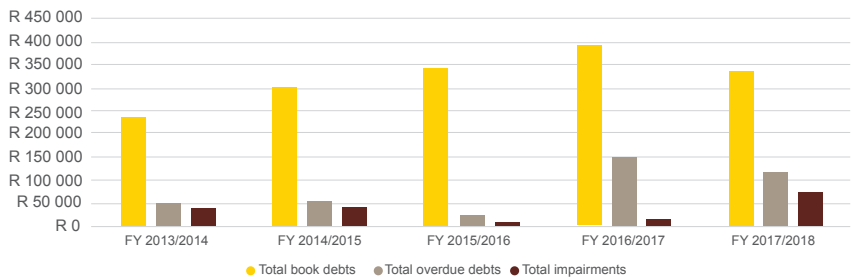
Lending Portfolio:

Overview

Supplier Database (CSD) by National Treasury, which allows contractors to change their banking details on the system. This put NURCHA's main form of security, the Irrevocable Payment Undertaking by the Employer, at risk and exposed NURCHA to a number of diversions of funds. The Affordable Housing Programme had

its own challenges, with some project repayment schedules that had to be revised and the viability of some emerging developer projects affected, resulting in a further rise in impairments. New risk management controls are continuously introduced to mitigate new emerging risks and stem rising impairments.

Figure 3: Loan Book - Multi-Year Trends



Key Performance Indicators

Affordable Housing Programme

The Affordable Housing Programme lends money to residential developers for the development of new affordable housing units in various housing typologies. The programme team actively seeks out investments in developments in underserved markets and this helps reduce the housing deficit for the emerging middle classes and lessen spatial segregation.

Table 2 on page 33 shows the programme met all of its targets and signed 14 new project loans, making 100% of the annual target. These loans translated to 1 164 houses and serviced sites delivered against a target of 910. The value of loans signed was R302 million, which is 108% of the target for the year, and this was a commitment to finance projects valued at R934 million.

NURCHA's financing capacity was a major limitation to the performance of the programme. The Programme exhausted its lending capacity of R370 million, 78% of NURCHA's total funding capacity, in October 2016 of the previous reporting period, with funding capacity only released from

completed projects by May 2017. While no new project loans could be signed up prior to June 2017, new project loans approved in this reporting period had to be carefully staggered to ensure that NURCHA could meet its funding commitments as they became due. The economic slowdown and the reluctance of commercial banks to award building loans to end users added to the pressure on NURCHA's funding capacity as repayment on many project loans already on the loan book were delayed due to a decline in market demand and new applications had a higher working capital requirement on turnkey projects. The funding capacity constraints in the first half of the reporting period and the economic slowdown hampered the growth of the programme.

Table 2: Affordable Housing Programme Performance Indicators

AFFORDABLE HOUSING PROGRAMME	BUDGET	ACTUAL
Number of Loan Contracts Signed	14	14
Number of Houses & Sites in Signed Contracts	1,400	2,071
Value of Loans (Rand)	280,000,000	301,947,574
Value of Projects (Rand)	560,000,000	934,449,685
Number Houses Built & Sites Serviced	910	1,164

Subsidy Housing Programme

This programme is NURCHA's oldest lending product and a major contributor to economic transformation. Its main objective is to finance the working capital of contractors building subsidised housing for households earning less than R3 500 per month, and it has enabled many contractors to enter the industry and gainfully participate in the economy.

Over the past few years, NURCHA has been fully engaged in attempting to increase the number of contractors that receive finance and has maintained that level of aspiration and effort. However, in the reporting period under review, the programme performed below target, as it faced the same funding capacity constraints mentioned under the Affordable Housing Pro-

gramme. NURCHA's funding capacity constraints in the first quarter of the reporting period coincided with the high project allocation period of government, with the result that NURCHA had to forfeit a number of potential new project loans. The focus of the programme team in the year under review was on getting the CFDP programme underway. The sizes of the projects signed were small, averaging 20 houses per contractor. The loan values were in line with the sizes of the projects but fell far short of the assumptions used at the planning stage, which assumed project sizes of 200 units per project. The management of the CFDP also proved to be labour intensive and absorbed a lot of the team's capacity.

Lending Portfolio:

Overview

The programme signed 17 loans against a target of 36. The programme also underperformed in other output related areas achieving 36% of houses in signed loans, 39% in value of signed loans and 23% in houses built as shown below in Table 3.

Table 3: Subsidy Housing Programme Indicators

SUBSIDY HOUSING PROGRAMME	BUDGET	ACTUAL
Number of Loan Contracts Signed	36	17
Number of Houses & Sites in Signed Contracts	10,800	3,922
Value of Loans (Rand)	126,000,000	48,700,000
Value of Projects (Rand)	720,000,000	500,074,215
Number Houses Built & Sites Serviced	7,020	1,646

Infrastructure and Community Facilities Programme

This programme finances contractors that are involved in infrastructure and community facilities projects. The programme has historically suffered significant losses and this prompted NURCHA to adopt a certificate-based lending approach as part of its lending criterion. It was important for NURCHA to implement the business model changes in an attempt to mitigate the default risks arising from a range of construction risks, including contract management weaknesses on the part of public entities that employ the services of contractors, as well as the credit behaviour of contractors.

The programme signed 2 loans against a target of 4. These loan values translated to R9 million against a target of R10 million, however the value of projects exceeded budget by 37% as illustrated on Table 4 below.

Table 4: Infrastructure and Community Facilities Programme Indicators

INFRASTRUCTURE AND COMMUNITY FACILITIES PROGRAMME	BUDGET	ACTUAL
Number of Loan Contracts Signed	4	2
Value of Loans (Rand)	10,000,000	9,000,000
Value of Projects (Rand)	26,000,000	98,258,342
Number Projects Completed	2	4

Transformative Outcomes

The CFDP and Emerging Developer Programmes are two innovative lending products with significant transformative outcomes. In order to reap the full benefit of these funding models they need to be supported by strong internal administrative, monitoring and control mechanisms in the context of an operating environment that must be able to adapt to changes quickly.

Through the CFDP, NURCHA has made an important breakthrough in lending to small contractors (CIDB Grade 1). This is a very challenging programme that put to test NURCHA's established policies and lending practices. It takes a systematic adaption in many aspects of the lending value chain, from credit rules to loan management and risk mitigation, to make the programme work, yet ensure that the loan defaults are within the parameters set by the Board.

The transformative initiatives yielded many valuable lessons for NURCHA. What stood out though, is that innovations with transformative impact require corresponding changes to es-

tablished practices that are defined by existing organisational policies and conversions. Venturing into initiatives of this nature has an inherent risk of causing disequilibrium, discomfort and resistance in the organisation. Overcoming these risks was the key difference between the success and failure of this initiative. With phase 2 of the CFDP drawing to a close, NURCHA rolled out phase 3 of the CFDP in the last quarter of the period under review. 5 new CFDP project loans were signed in the period under review. Table 5 on page 36 illustrates the performance of Phase 2 of CFDP.

The CFDP is testimony that transformation requires good inter-organisational chemistry and collaboration. In the case of the CFDP, it would not have succeeded without the former Honourable Minister of Human Settlements, Ms Sisulu, marshalling Human Settlements Departments and entities to collaborate in support of the Nelson Mandela Metropolitan Municipality (NMBMM). It is the absence of this type of collaboration that denies many contractors access to appropriate finance for entry and gainful participation in the industry.

Lending Portfolio:

Overview

Table 5: Summary Of CFDP

SUMMARY OF CFDP PHASE 2 PERFORMANCE

Number of loans	<ul style="list-style-type: none">• 22 loans approved• 21 loans signed• 16 contractors have completed work• 3 contractors are still on site• 2 contractors has abandoned site
Value of loans	<ul style="list-style-type: none">• R29.12 million in approved loans• R28.17 million in signed loans
Cumulative drawdowns paid to contractors	<ul style="list-style-type: none">• R74 million paid to contractors• R0.7 million in defaults to date (1 contractor)
Cumulative amounts paid to suppliers	<ul style="list-style-type: none">• R56.98 million
Value of materials on site	<ul style="list-style-type: none">• R0

Emerging Developer Programme Forms Part of the Affordable Housing Programme

NURCHA has also invested in efforts to create opportunities for emerging residential developers in the affordable housing market by systematically evaluating barriers to entry and the impact of trade-offs between lowering entry requirements and the corresponding escalation of risks through the Emerging Developer Programme. This is another sphere of innovation where valuable lessons were drawn, particularly in relation to the current operation model, supporting systems and areas that require urgent attention for mitigation of risks associated with emerging developers. In the current loan book, 28% (8 of 29) of developments are being undertaken by emerging developers.

Once their project development loans are approved there are stringent loan management and transaction rules that apply throughout

the lifespan of the project loan. These are tedious yet necessary risk mitigation controls. This is an area that requires urgent attention to improve efficiency and effectiveness, as the rise in impairments on the Affordable Housing Programme is directly linked to the Emerging Developer programme and linked to the inability to secure occupancy certificates or sell housing units with set time frames, an unfortunate occurrence resulting in increasing interest bills that ultimately affect project viability.

Emerging developer - Ready Homes CC

- Ready Homes CC is 100% black-owned developer with 80% of the interest owned by a woman.
- The Close Corporation was established in 1995 as an estate agency and contractor, concentrating mainly on the construction of individual homes.

Lending Portfolio: Overview

- The developer secured its first development loan of R12 million from NURCHA for its first major project and successfully completed a 27-unit development in Cairngrove in 2017 with the NURCHA funding.
- The developer secured its second loan of R4.9M from NURCHA for the construction of 11 Sectional Title units in Canehaven for sale to end-users. The project should be completed in October 2019.
- The developers have access to pockets of land for sizeable developments and will in the future undertake small developments with loan sizes under R10M at a time. The developer has pipeline projects estimated at R150 million, which are expected to deliver 270 units over the next 3 years.

Cairngrove - Completed - 27 Units



Programme and Fund Management Portfolio

Emerging Developer: Definite Shelter Properties 1 (Pty) Ltd Developer

- Definite Shelter Properties 1 (Pty) Ltd is a 100% black-owned company, established in 2001, specializing in the construction of residential properties.
- The entity previously traded mainly as a contractor and secured its first development loan of R34.1 million from NURCHA in 2015.
- The development consists of 100 sectional title units in Witpoortjie, Gauteng and has two phases.
- Phase 1 has been successfully completed and phase 2 is expected to be finalised in May 2019.
- The developer has a further 3 projects in the pipeline, with an estimated project value of R439 million, expected to deliver 686 housing units in the next 2 years.

The programme and fund management portfolio at NURCHA was established in 2012 with the strategic intent to support the development of project management and programme management capacity and enhance service delivery in the human settlements sector. This portfolio, which is run on a full cost recovery basis, has, over the past four years, run several development programmes across all spheres of government and successfully delivered several flagship programmes. The aforementioned ventures include the Contractor Finance and Development Programme (CFDP), the Free State Programme Management Support, the Eastern Cape Bucket Eradication Programme, and the City of Cape Town Ceilings Retrofit Programme.

The performance of the portfolio has provided extra service delivery capacity and value and advanced the achievement of sector development objectives. In the year under review, this portfolio realised fewer achievements, mainly as a result of the ongoing transitional efforts

to consolidate NURCHA, NHFC and RHLF and subsequently form a Human Settlements Development Bank and embark on a business development phase.

Mentioned below are four programmes that are still under implementation and will form part of the programmes that will continue under the yet to be established Human Settlements Development Bank. They also have the capacity to evolve into new sector development products that will introduce development management practices in the sector.

Ceilings Retrofit Project

The City of Cape Town had a total of 40 000 RDP housing units without ceilings and electricity that were built prior to 2005. The city committed R155 million to retrofit 8001 units with electricity and rhino boards ceilings. In May 2015, NURCHA was appointed as programme manager for phase 1, which comprised 4 550 units in

Programme and Fund Management Portfolio

Wesbank (1000), Kalkfontein (300), Broadlands (1000), Vrygrond (1600), Lwandle (400) and Eureka (250). Phase 2 of the programme comprised 3 451 units in Heinz Park (1 142), Silver City (363), Sir Lowry's Pass Village (640), Wesbank (837), Phumlani (209), Macassar (100), Gordon's Bay(60), and Chris Nissen Park (100). The contract for Phase 2 was 18 months long, with R68 million to be disbursed. Phase 1 and 2 were completed, and 8001 units were delivered to beneficiaries. A number of SMMEs also benefited from the programme.

In terms of the contract, 25% of the work was awarded to local SMMEs, while 5% was allocated to local labour.

Kuyasa Retrofit Project

The Western Cape Department of Human Settlements appointed NURCHA as the programme manager for the retrofitting of ceiling, electricity and minor roof seals consequent to the ceilings retrofit. The 3-year programme began in January 2018 and involves a total of 2 373 units. Planning for implementation has started.

Drakenstein Retrofit Project

The Western Cape Department of Human Settlements awarded NURCHA the tender for the removal of asbestos roofs, retrofitting of ceilings and installation of electricity to 477 units in Phola Park, Thembani Square and Silvertown in Mbekweni, Paarl. These units were built by

the then-Peoples Housing Process (PHP) and are now experiencing various problems such as cracked asbestos, damaged ceilings and poor performing plumbing. Planning for implementation of remedial work is underway.

Contractor Finance Development Programme (CFDP)

The CFDP supports small and established contractors and helps them to mature and reach sustainable levels of commercial enterprise in the construction sector. Specifically, the CFDP assists small and medium home builders with bridging finance, training and mentoring facilities that enable them to gainfully participate in the construction sector.

The CFDP programme focuses on women and youth-owned construction companies. The Nelson Mandela Metro was allocated a total of 60 contractors for the financial year 2017 - 2018. Of the 60 contractors that were allocated to Nelson Mandela Metro, NURCHA is financing 13 contractors and 12 SMME'S with 20 units and 1 with 50 units, and providing mentorship services and facilities to contractors on-site and off-site. NURCHA is also providing technical support and business development advisory services to contractors and facilitating the Material Supplier Undertaking agreement.





HUMAN RESOURCE

Human Resource

The Human Resource Department is responsible for Recruitment and Selection, Skills Development, Employment Equity and Employee Relations and Wellness in the organisation.

Communication

Staff meetings are held regularly and when required. The staff meetings usually focus on important matters, observations and suggestions raised by both management and staff. They also deal with DFI consolidation and change management related matters

Three years ago management and staff selected individuals referred to as Change Agents and Change Champions to serve in a committee that serves as a channel for staff to engage with the DFI consolidation related change process and explore how it is affecting employees. This committee meets periodically and as and when required with NURCHA's Executives.

Employee Wellness Programme

NURCHA has a contract with ICAS for Employee Wellness related support services. It has a comprehensive set of services that are available to individual staff members and the organisation. Management and the relevant Board Committee receive reports on the utilisation of the services on a quarterly basis. Utilisation in the year under review increased significantly. This is a pointer to the level of anxiety in the company and also an indication that employees are effectively using the available avenues to deal with personal and work related matters.

Two Emotional Impact sessions were organized for staff, as a way to provide employees with assistance and help them deal with a range of challenges and changes taking place in the organisation. One was held at the old offices before the July 2017 office relocation and other at the new offices in 2018. This session gave the staff an opportunity to express themselves in a safe, controlled environment, in order to help normalise the transformative changes they are experiencing. A number of interventions are planned to deal with high levels of anxiety in the company.

Labour Relations

In the year under review, and for the first time in its history, NURCHA entered into a Recognition Agreement with a Trade Union called SASAWU. It is most likely that this was largely influenced by the change process and anxieties and uncertainties caused by the DFI Consolidation process.

Social Responsibility

NURCHA participates in a wide range of social responsibility programmes that support economic and social transformation in South Africa. In the period under discussion, NURCHA offered three students the opportunity to undergo in-service training for a year, gain practical working experience in the construction industry and complete a qualification in their chosen field of study.



CORPORATE GOVERNANCE

Corporate Governance

Corporate Governance Statement

The Board of Directors of NURCHA and its management are pleased to present the corporate governance statement for the 2017/18 financial year.

We perceive our role as not only to ensure that NURCHA survives and succeeds through tough economic times, but that it does so through an open and transparent governance process. We are committed to:

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

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

We are satisfied that during the 2017/18 financial year we performed the company's activities and discharged our responsibilities in accordance with the above principles. Any non-compliance with the principles of King IV is explained accordingly in this report.

Stakeholder Relationships

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

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

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

The shareholder agreement for the 2017/18 financial year, a contract between the NURCHA Board of Directors and the Executive Authority of the Department of Human Settlements, was signed by the Board Chairperson. The purpose of the agreement is to agree on performance expectations and parameters to ensure that the

relationship, roles and responsibilities between the parties are clearly defined and that there are no actual or perceived conflicts of interest that would impede on the achievement of Government's broad policy objectives and the efficient management of NURCHA.

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

The consolidation of NURCHA, Rural Housing Loan Finance (RHLF) and National Housing Finance Corporation (NHFC) is going ahead as announced by the Minister of Human Settlements.

Corporate Code of Conduct and Ethics

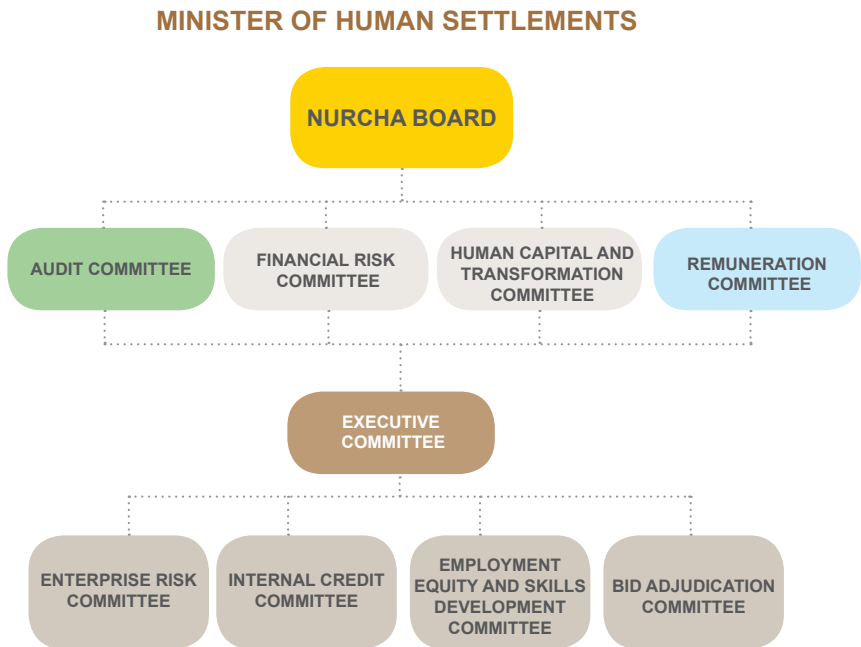
The directors have a fiduciary duty to act in good faith and with due diligence and care in the best interest of the company and all its stakeholders. The Board has developed a code of ethics that governs the conduct of directors and staff to ensure that at all times they act with utmost integrity, objectivity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

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

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

Corporate Governance

Governance Structures



The Board of Directors

NURCHA is headed by and controlled by an effective and efficient Board, which is the accounting authority in terms of the PFMA. The Board gives strategic direction to the company and constitutes a fundamental base for the application of corporate governance principles. The Board comprises of the appropriate mix of executive and nonexecutive directors representing the necessary skills to strategically guide NURCHA. The majority of the members are non-executive to ensure independent and objective decision-making. The Board is fully accountable for NURCHA's performance.

The Role of the Board

The Board holds absolute responsibility for the performance of NURCHA in that:

- It retains full and effective control over NURCHA;
- It ensures that NURCHA complies with applicable laws, regulations and government policy;
- It has unrestricted access to information about NURCHA;
- It formulates, monitors and reviews corporate strategy, major plans of action, risk policy, annual budgets and business plans;
- It ensures that the shareholders' performance objectives are achieved;
- It manages potential conflicts of interest;
- It ensures that a clear definition of levels of materiality is developed;
- It holds annual general meetings;
- It ensures financial statements are prepared;
- It appraises the performance of the Chairperson;
- It ensures effective Board induction;
- It maintains integrity, responsibility and accountability.

The executive committee consists of the executive directors and meets fortnightly when the Board is not in session. The Board is able to solicit independent professional advice, at the expense of the company, where necessary.

The Board continued to ensure that the funds received from stakeholders were used efficiently and effectively, and in terms of their covenants. It is satisfied that during the year under review it carried out its responsibilities according to its charter. Amongst other things, the Board approved and monitored annual performance plans, and budgets; monitored strategy implementation; reviewed its charter and those of its committees; assessed the performance of the whole Board, the committees and individual directors; reviewed committee membership; re-appointed Board members by rotation; and took resolutions to effect the smooth transition to the DFI consolidation.

Board Charter

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

During the year under review, the Board met four times and is satisfied that it carried out its duties in accordance with its mandate.

Corporate Governance

Board Composition

Board members	Mr K Shubane (<i>Board Chairperson</i>)	<i>Independent non-executive director</i>
	Mr C de Beer	<i>Independent non-executive director</i>
	Mr V Gqwetha	<i>Executive director</i>
	Mr W Ndodana	<i>Independent non-executive director</i>
	Ms M Nkomo	<i>Independent non-executive director</i>
	Mr S Nxusani	<i>Executive director</i>
	Mr T Nzimakwe	<i>Independent non-executive director</i>
	Mr H Prinsloo	<i>Independent non-executive director</i>
	Ms Z Rylands	<i>Independent non-executive director</i>
	Ms L Sing	<i>Independent non-executive director</i>
	Ms A Struwig	<i>Executive director</i>

NURCHA has a unitary Board structure that comprises a majority of independent non-executive directors. This is to ensure independence and objectivity in decision-making. The Board charter allows for a maximum of sixteen directors.

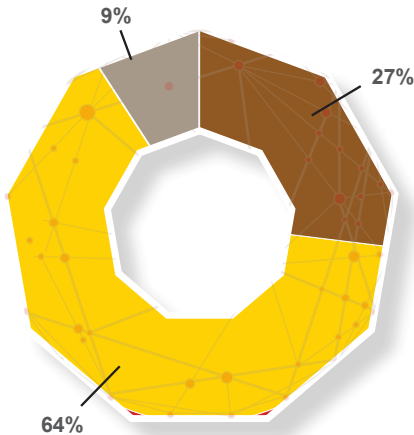
As at 31 March 2018, there were eleven board members of which:

- 7 (64%) were non-executive directors who are independent of management and free from any relationship that could materially interfere with the execution of their independent judgement.
- 1 (9%) non-executive directors was considered not to be independent.

- 3 (27%) were executive directors who were involved in the day-to-day running of the business.

The Board Chairperson

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



Board Composition

- Independent non-executive directors
- Non-executive directors
- Executive directors

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

Independence

The majority of directors are independent non-executive directors and an independent non-executive director chairs each Board and

each of its committees. The Board strives for the highest standards of integrity and accountability, and each director brings independence of character and judgement to their role.

The policy of disclosure of interests and recusal from discussions in which a director has interest is followed to mitigate any conflict of interests and preserve independence.

The independence of Board members who have served on the Board for more than three (3) terms is evaluated by the Board each year. Independence is determined against the criteria set out in King IV (the King Code). Ms. Nkomo, Ms. Rylands, Mr. Ndodana, Mr. Nzimakwe, and Mr. Shubane have served on the Board for more than 3 terms.

This situation arose as a result of the DFI consolidation plans in the past few years. It became unnecessary to disrupt the Board during the last few years of NURCHA's existence. After due consideration of their individual circumstances and contributions, the board concluded that

Corporate Governance

these directors are able to act independently and fulfil their duties irrespective of their tenure. Mr. de Beer is not considered to be independent as he previously represented one of the funders on the Board of NURCHA.

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

Knowledge, Skill and Expertise

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

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

Appointment, Retirement, and Rotation of Directors

NURCHA has a formal policy detailing the procedures for the recruitment, appointment, and

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

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

Non-executive directors are appointed for a three-year period, and are eligible for reappointment depending on their past contributions and future availability to serve on the Board. During the year, Messrs Shubane, Nzimakwe and Prinsloo were due for rotation and were reappointed until the effective date of the consolidation.

Board and Director Evaluation

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

No major areas of concern were raised in the performance evaluation of the Board, its committees, and individual directors in the financial year under review.

Succession Planning

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

Management succession planning is an ongoing consideration to ensure that effective management is in place to implement NURCHA's strategy.

Delegation of Authority

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

The Board has delegated some of its powers to the Managing Director. Together with other executive directors, the Managing Director runs the day-to-day activities of the business in line with the PFMA and other legislation. The responsi-

bilities for compliance on an operational basis remain with senior management, and the Board maintains oversight thereof.

Strategic Objectives, Business Planning, and Performance Management

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

During the current financial year, the annual performance plan, strategic plan and budget were submitted to the Department of Human Settlements and National Treasury as required by the PFMA. The plans included measures and targets against which NURCHA and its performance is assessed.

The Board continued to monitor NURCHA's performance against budgets through quarterly reporting. The company performance for the period under review is reflected under the Directors' Report on page 88.

Corporate Governance

Board Committees:

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

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

The Audit Committee

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

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

All the committee members are independent non-executive directors and are financially literate. The Managing Director and Financial Direc-

tor attend the audit committee meetings. The Chairman of the audit committee attends the annual general meetings. Membership of the committee is for one year and may be renewed.

The committee ensures that the independence and objectivity of the external auditors is not impaired by approving all non-audit services.

All other significant services outside the scope of the pre-approved audit plan carried out by the auditors are approved on a case by case basis by the audit committee. The committee approves the internal audit plan and approves all work that is done outside the plan.

Corporate Governance

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

The committee reviewed and recommended the quarterly reports and annual financial statements to the Board. It ensured that these re-

ports were produced in terms of Generally Recognised Accounting Practice (GRAP) and the Companies Act. Closed meetings between the audit committee members and auditors were held without management. The assessment of NURCHA's finance function was conducted by the committee.

The committee met six times during the year under review and is satisfied that its activities for the year were in compliance with its terms of reference.

The Financial Risk Committee (FINCOM)

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

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

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

Corporate Governance

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

The Human Capital and Transformation Committee (HCTC)

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

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

The committee reports on compliance with the Employment Equity Act No. 55 of 1998 (EE Act) and on other transformation issues. It ensures that NURCHA's human resources, procurement and business practices reflect a commitment to the creation of an equitable, non-racial, non-sexist society. This committee also carries out the responsibilities of the nominations committee.

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

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

The committee met six times during the year under review.

The Remuneration Committee

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

The purpose of the remuneration committee is to ensure that remuneration policies and approaches, as determined by the Human Capital and Transformation Committee, are applied fairly. It also decides on the remuneration of staff, and makes recommendations to the board and shareholder

Corporate Governance

about the remuneration of non-executive directors.

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

Board members are paid on the basis of their attendance at meetings. In addition to attendance fees, the Board chairperson and the committee chairpersons are paid monthly retainers. The remuneration of each director is disclosed on page 133 of the annual financial statements.

The committee met twice during the year in accordance with its charter.

Attendance at Meetings Held During the Financial Year

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

Column A is the number of meetings attended by the director.

Column B is the number of meetings held during the year.

Corporate Governance

Company Secretary

The company secretary is empowered to properly fulfil her duties. The functions of the company secretary are in line with the requirements of the Companies Act. The company secretary is a source of guidance and advice to the Board, and within the company, on matters of ethics and good governance.

The company secretary oversees the induction of new directors and the ongoing education of directors. NURCHA has submitted all returns as required of public entities in terms of the PFMA, Treasury Regulations and other relevant legislation, and ensures that all such returns are accurate, correct and up to date.

Prescribed Officers

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

Enterprise Risk Management

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

The Board, through the Audit committee, receives regular reports from management and other assurance providers such as the external and internal auditors. These reports show that there are systems that are implemented to identify, assess, manage, monitor, control and report on material risks throughout the organisation.

The enterprise risk committee ensures that adequate systems of internal control are in place to mitigate targeted, significant risks to an acceptable level. However, it is always a challenge to balance the desire to achieve the company's strategic objectives against the level of risk the company is willing to tolerate in the process. Each risk has been assigned a risk owner, however, the management of risk remains the responsibility of every staff member. A risk management culture is promoted across all business units and incorporated in day-to-day activities. A wide variety of risk mitigation strategies are in place, including standardized processes, policies, delegations of authority, pricing model and strategic planning reviews. Risk reports are analysed and interpreted to monitor risks on an ongoing basis.

The annual strategic risk assessment and evaluation were done, and the strategic risk register was reviewed during the financial year by the Enterprise Risk Committee as delegated by the Audit Committee.

The following are some of the major risks that were monitored during the 2017/18 financial year:

- **DFI consolidation** - The DFI consolidation can result in the duplication of roles in the new DFI structure. This may cause uncertainty amongst employees and make it difficult to retain and/or recruit new employees. The consolidation process is taking too long to materialise causing difficulty in making long-term commitments and plans. The risk has slightly improved to medium due to the implementation of change readiness and change management programmes where employees are part of the process.
- **Fraud** – This is wrongful or criminal deception intended to result in financial or personal gain. Additional controls have been put in place to eliminate Supply Chain Management Fraud. Fraud awareness training and education is regularly conducted.
- **Funding** – This refers to the inability to attract and retain funding with external parties, and the resulting inability to meet targets. Cash flow projections show that NURCHA is sustainable in the near future. However, funding capacity remains a concern as the uncertainty of the DFI consolidation makes funders reluctant to fund NURCHA before the consolidation process is complete.
- **Performance or output target** – This refers to the inability to meet output targets for the current financial year. The risk remains high, as NURCHA did not meet performance targets on subsidy and infrastructure programmes. Turn-around strategies are being implemented and involve all stakeholders.
- **Collection Process (Delinquent book)** - Ineffective collection of overdue debt and poor collection process on the delinquent book. Collection of debts showed improvement during the year.
- **ICT Infrastructure and systems** - Non-availability and inadequate ICT services (substandard systems and services). There were improvements during the last quarter of the year. Policies and controls have been reviewed.
- **Compliance** – Inadequate compliance with applicable legislation, regulations and codes. Compliance risk has moved from low to medium risk. Gaps in the existing controls have been identified. These were caused by a number of factors, including changes in legislation. Training relating to certain changes in legislation was conducted during the year. Policies and procedures are being reviewed to align them with legislative changes.
- **IT Governance Compliance** – Inability to direct, co-ordinate and measure

Corporate Governance

application of internal and external resources. There were improvements during the last quarter of the year. Policies and controls have been reviewed.

Regulatory Environment and Statutory Compliance

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

NURCHA complies with relevant laws, contracts, regulatory policies and guidelines. The company has a decentralised compliance structure, and the compliance function reports to the audit committee through the Company Secretary. Progress is made each year to improve the company's legislative compliance in terms of NURCHA's regulatory universe. The regulatory universe consists of the top 30 Acts that govern NURCHA. The Acts are prioritized according to the likelihood of an event occurring and the impact that non-compliance will have on the organisation. The regulatory universe is reviewed regularly and new Acts are added as required. There are daily, weekly, monthly and quarterly compliance requirements that are monitored at various levels of the company.

In 2014, NURCHA took a decision to de-register with the National Credit Regulator (the "NCR") because all NURCHA loans were outside of the approved threshold used then. However, the Company re-registered as a credit provider following the announcement of the new thresholds by the Minister of trade and Industry.

NURCHA is registered as an Accountable institution with the Financial Intelligence Centre in terms of the Financial Intelligence Centre Act, No. 38 of 2001 (FICA) and as a result has a responsibility to report unusual and suspicious transactions. FICA compliance awareness and training was provided to staff following the amendments to the Act. The training focused on Anti-Money Laundering, the shift from a rule-based approach to a risk-based approach, and on the Client Due Diligence (CDD).

NURCHA has enhanced measures relating to CDD and verification of client identities. There is more focus on monitoring business relationships, obligations in respect of prominent and influential persons, and additional due diligence measures relating to legal persons, trusts and partnerships.

Proper health and safety checks were performed following the move to NHFC premises in anticipation of the consolidation of NURCHA and RHLF with NHFC. Health and safety training was provided to staff members and a health and safety compliance report together with the findings were submitted to the Audit Committee. Management is in the process of addressing

and closing all the health and safety concerns identified.

The company reviewed compliance with the Employment Equity Act and training was provided to all members of the Committee. The Committee is responsible for the implementation, monitoring and reviewing of the Employment Equity Plan. The chairperson of the Committee reports directly to the Chief Executive Officer.

Management is of the view that NURCHA has complied with the material aspects of any legislation that the Company has to comply with. All returns and reports were submitted to stakeholders on time during the year.

Internal Controls

The foundations for internal control processes lie in NURCHA's governance principles that incorporate and emphasise ethical behaviour, legislative compliance and sound accounting practice.

The system of internal control provides reasonable, but not absolute assurance on the effectiveness and efficacy of controls. Internal control is designed to mitigate, not eliminate, significant risks faced by the company. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets and adherence to policies, processes and guidelines.

The system of internal control is regularly reviewed and tested for relevance and effectiveness in order to manage the company risks that

have a significant impact on the business. Internal auditors conduct periodic reviews across all functions to provide assurance to the Board on the effectiveness of control systems and compliance with agreed policies, procedures, and legislation. The relationship between the internal and external auditors is mutually supportive and facilitates proper coverage of financial, operational and compliance controls.

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

The Board is satisfied that NURCHA operates an adequate system of internal control that identifies and manages operational and financial risks.

Internal Audit

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

Corporate Governance

The internal auditors continuously give assurance to the audit committee by providing written assessments of the effectiveness of NURCHA's systems of internal control and risk management.

Reviews that were conducted by internal auditors during the year were:

Information Technology (IT) Governance

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

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

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

The server, network and backup infrastructure is in line with latest technological trends and, as

such, is stable and cost-efficient. The ICT service to business has thus improved overall, for the longer term, without significant variance on cost impact to the business.

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

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

Going Concern

The directors believe that the company has sufficient resources to continue operating as a going concern for the year ahead, based on the existing forecasts and current resources. The Board believes the solvency and liquidity requirements are in line with the provisions of the Companies Act.

Plans are at an advanced stage to consolidate NURCHA and RHLF into NHFC to form one entity. In the case of consolidation, NURCHA's business will be transferred to NHFC as a going concern.

Sustainability

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

- **Black Economic Empowerment (Bee)**

NURCHA policies are in line with the Broad Based Black Economic Empowerment Act No. 53 of 2003 (BBBEE Act). The policy guides NURCHA activities in the area of social transformation. The company was assessed on the new BEE codes and the current BEE score is level 5. Plans were put in place to improve the rating.

- **Procurement of Goods and Services**

Compliance with the procurement policy and BEE strategy allows for meaningful black economic empowerment when approving service providers and ensures fairness and transparency in the

selection of business suppliers. This is done in line with the Broad Based Black Economic Empowerment Act, No 53 of 2003 (BBBEE Act) and the Preferential Procurement Policy Framework, No 5 of 2000 (PPPFA).

The overall objectives of the procurement policy are:

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

Corporate Governance

- **Employment Equity**

NURCHA is committed to maximising the potential and performance of all staff members, and makes a special effort to maximise the role and contribution of historically disadvantaged people. The company complies with the relevant provisions of the Employment Equity Act and it continuously strives to achieve a diverse workforce that is broadly representative of all South Africans. The employment Equity committee ensures that NURCHA supports the concept of equal opportunity without regard to race, colour, religion, gender, sexual orientation, national origin, or disability.

- **Skills Development**

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

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

- **Corporate Social Responsibility**

NURCHA gets involved in various social responsibility programmes. During the period under review, NURCHA placed three students with the developers and these students were provided with experiential training and financial support by means of a monthly stipend. In addition to the above, NURCHA established a learnership programme for one student.

NURCHA sponsored accommodation for a boys' rugby camp from previously disadvantaged communities. Contributions were made to an NGO that supports a primary school in Orange Farm, a township on the outskirts of Johannesburg.



ANNUAL FINANCIAL STATEMENTS

ANNUAL FINANCIAL STATEMENTS

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Mr K Shubane (Chairman)

ANNUAL FINANCIAL STATEMENTS

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Development Finance Institution. The main business of the Public Entity is to facilitate the delivery of housing and related community facilities and infrastructure to low and middle income communities, together with programme and fund management.
Members	Mr K Shubane (Chairman) Mr V Gqwetha (Managing Director) Mr S Nxusani (Financial Director) Ms A Struwig (Executive Director: Lending Portfolio) Mr C de Beer Mr W Ndodana Ms M Nkomo Mr T Nzimakwe Mr H Prinsloo Ms Z Rylands Ms L Sing
Registered office	3rd Floor, Old Trafford 3 Isle of Houghton 11 Boundary Road Houghton 2198
Business address	3rd Floor, Old Trafford 3 Isle of Houghton 11 Boundary Road Houghton 2198
Postal address	P.O. Box 2452 Saxonworld 2132
Auditors	Ngubane and Co. (Johannesburg) Inc. Chartered Accountants (S.A.) Registered Auditors
Company secretary	Ms Ntsiki Ndzimbomvu
Company registration number	1995/004248/08
Level of assurance	These consolidated and separate annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The consolidated and separate annual financial statements were internally compiled by: Mr Sindisa Nxusani (CA) SA
Published	14 August 2018

ANNUAL FINANCIAL STATEMENTS

CERTIFICATE BY COMPANY SECRETARY

It is hereby certified, in terms of the Companies Act No 71 of 2008 of South Africa, that for the year ended 31 March 2018, the Company has lodged with the Registrar of Companies all returns as are required of a company incorporated as a Non Profit Company, in terms of this Act, and that all such returns are true, correct and up to date.



14 August 2018

ANNUAL FINANCIAL STATEMENTS

AUDIT COMMITTEE REPORT

The audit committee hereby presents the report for the financial year ended 31 March 2018 in accordance with the Public Finance Management Act (PFMA) and Treasury Regulations.

Audit committee's Responsibility

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

Section 51 (1) (a) of the Public Finance Management (PFMA) states that:

The accounting authority must ensure that the public entity has and maintains:

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

The audit committee reports that it has performed its duties as delegated by the Board and has a majority of independent non-executive directors who are financially literate, as recommended by King IV report on corporate governance. The committee met six times during the financial year under review, evaluated its performance and addressed matters of conflict of interest within the company. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities as contained therein. The committee's chairman attended the annual general meeting during the year under review.

ANNUAL FINANCIAL STATEMENTS

AUDIT COMMITTEE REPORT

1. **Appointment and oversight of the external auditors**

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

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

We have reviewed the public entity's implementation plan for audit issues raised in the prior year; and we are satisfied that the said matters have been adequately resolved.

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

We have continued to monitor and confirm that management complies with legislative, regulatory and other contractual obligations.

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

The committee approved the internal audit plan for the year.

We are satisfied with the cooperation between the internal auditors and external auditors and that the combined assurance addresses all significant risks facing NURCHA.

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

ANNUAL FINANCIAL STATEMENTS

AUDIT COMMITTEE REPORT

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

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

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

5. Examination and review of the financial statements and accompanying reports

During the year under review, the committee examined and reviewed the quarterly reports on the operational and financial performance of the company. The committee also reviewed the annual financial statements for the year ended 31 March 2018.

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

The audit committee concurs with and accepts the independent external auditors' conclusion on the annual financial statements and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.



T Nzimakwe

Chairperson – Audit committee

14 August 2018

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of the National Urban Reconstruction and Housing Agency (NURCHA) and its subsidiaries (the group) set out on pages 89 to 141, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of National Urban Reconstruction and Housing Agency (NURCHA) and its subsidiaries (the group) as at 31 March 2018, and their financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practices in South Africa and the requirements of Public Finance Management Act of South Africa, Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008.

Basis for opinion

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

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

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

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

Emphasis of matter

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

Transfer of functions between entities under common control

As disclosed in note 40 to the consolidated and separate financial statements, the Group expects transfer its functions to National Housing Finance Corporation (NHFC). The revised proposed planned effective date of the transfer has been moved to 30 September 2018.

Material increase in asset provisions – loan for construction projects

As disclosed in note 3 to the financial statements, material impairment of R57 924 220 (2017: R12 995 000) was incurred as a result of impairment recognised on the loans for construction projects.

Irregular expenditure

As disclosed in note 35 to the financial statements, irregular expenditure of R1 452 073 (2017: R2 859 504) was incurred as a result of non-compliance to the National Treasury Regulations and Supply Chain Management processes.

Fruitless and Wasteful expenditure

As disclosed in note 34 to the financial statements, fruitless and wasteful expenditure of R48 425 (2017: R19 266) was incurred as a result of fraudulent marketing representative who defrauded the Marketing and Supply Chain Management departments and also interest on late payment of income tax.

Other matter

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

Commitments

As disclosed in note 28 to the financial statements, commitments of R595 859 046 (2017: R845 596 114) has been committed by the entity and is being managed as disclosed on note 32 of Risk Management Policy of the financial statements.

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

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

The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with General Recognised Accounting Practices in South Africa (GRAP) and the requirements of the Public Finance Management Act, Act 1 of 1999 (PFMA) and The Companies Act, 71 of 2008, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

**Independent Auditor’s Report to Parliament
on National Urban Reconstruction and Housing Agency
and its Subsidiaries**

Our procedures address the reported performance information, which must be based on the approved performance planning documents of National Urban Reconstruction and Housing Agency. We have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the public entity for the year ended 30 March 2018:

Programmes	Pages in the annual performance report
Programme 1 - Affordable Housing	32-33
Programme 2 - Subsidy Housing	33-34
Programme 3 - Infrastructure and Community Facilities	34
Programme 4 – Programme and Fund Management	38-39

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

The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

Programme 1– Affordable Housing

Measurability: Indicators not well defined

Various indicators

We were unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicators. This was due to a lack of technical indicator descriptions that are not well defined. The performance indicators did not have clear data definitions so that data can be collected consistently and is easy to understand. The indicators are listed below:

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

- Number of loan applications application received
- Number of loan contracts signed

Programme 2– Subsidy Housing

Measurability: Indicators not well defined

Various indicators

We were unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicators. This was due to a lack of technical indicator descriptions that are not well defined. The performance indicators did not have clear data definitions so that data can be collected consistently and is easy to understand. The indicators are listed below:

- Number of loan applications application received
- Number of loan contracts signed

Programme 3– Infrastructure and Community Facilities

Measurability: Indicators not well defined

Various indicators

We were unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicators. This was due to a lack of technical indicator descriptions that are not well defined. The performance indicators did not have clear data definitions so that data can be collected consistently and is easy to understand. The indicators are listed below:

- Number of loan applications application received
- Number of loan contracts signed

Programme 4– Programme and Fund Management

Reliability: No performance indicator definitions in place

Various indicators

We were unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicators. This was due to a lack of technical indicator descriptions that are not in place. The performance indicators did not have data definitions so that data can be collected consistently and is easy to understand. The indicators are listed below:

- (i) **Ceilings Retrofit Programme**
 - a. Number of houses to be retrofitted,
 - b. Local SMEs to be involved,
 - c. Number of Jobs to be created;
- (ii) **Contactor Finance and Development Programme**
 - a. Number of contractors given bridging finance,
 - b. Number of contractors trained and mentored,
 - c. Number of houses delivered and number of jobs created

Other matters

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

Achievement of planned targets

Refer to the annual performance report on pages 4 to 7 for information on the achievement of planned targets for the year and explanations provided for the over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in this report.

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

Adjustment of material misstatements

We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Affordable housing, Subsidy Housing, Infrastructure and community facilities and Programme and Fund Management Programmes. We raised material findings on the usefulness and reliability of the reported performance information which management subsequently corrected the misstatements.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Expenditure Management

Effective steps were not taken to prevent irregular expenditure amounting to R1 452 073, as disclosed in note 35 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The irregular expenditure was caused by non-compliance to the National Treasury Regulations and Supply Chain Management processes.

Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R 48 425, as disclosed in note 34 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. Fruitless and wasteful expenditure was as a result of fraudulent marketing representative who defrauded the Marketing and Supply Chain Management departments and also interest on late payment of income tax.

Oversight/Governance

Board member did not leave the meeting when discussion of a contract extension and condonment where the member had interest in as required by the Companies Act 71 of 2008 Section 75 (7) (d).

Annual Financial Statements

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

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

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

Other information

The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, 2008 (Act No. 71 of 2008). The other information does not include the consolidated and separate financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

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

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

Internal control deficiencies

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

Leadership

- Inadequate leadership was provided to ensure that there is accurate financial and performance information reporting and compliance and related internal controls.

Financial and performance management

- Management did not ensure that adequate record keeping is in place and available in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

- Management did not ensure the controls over daily and monthly processing.
- Insufficient design and implementation of certain formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Auditor tenure

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

Ngubane & Company (Jhb) Inc.

Chartered Accountants (SA)



Midrand

14 August 2018

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

Annexure – Auditor's responsibility for the audit

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

Financial statements

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

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

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

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

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

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

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

Independent Auditor's Report to Parliament on National Urban Reconstruction and Housing Agency and its Subsidiaries

Communication with those charged with governance

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

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

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

Directors' Report

for the year ended 31 March 2018

The directors hereby present their report for the year ended 31 March 2018.

Nature of business

The National Urban Reconstruction and Housing Agency (NURCHA) was incorporated in the Republic of South Africa as a non-profit company in terms of the Companies Act, 2008. The company is listed as a Schedule 3A public entity in terms of the Public Finance Management Act (PFMA). It was established in 1995 as a partnership between the South African Government, which is represented by the National Department of Human Settlements and Soros Economic Development Fund (SEDF). During the 2016/17 financial year, SEDF withdrew their partnership arrangement with the South African Government. The National Department is, therefore, the only shareholder as at 31 March 2018.

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

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

The Programme and Fund Management Portfolio, which was established in April 2012, continued to function during the year under review. Details of programmes conducted during the year are provided fully from pages 30 to 39.

Subsidiary companies

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

Directors, prescribed officers and company secretary

The names of the directors, prescribed officers and company secretary are stated on pages 133.

Directors' Report

for the year ended 31 March 2018

Material resolutions

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

Directors' responsibility for financial statements

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

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

The directors approved the financial statements on 14 August 2018.

Internal controls

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

Development finance institution consolidation

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

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

- The existing expertise and capacity needs to be preserved; and

Directors' Report

for the year ended 31 March 2018

- Even together the entities operate at too small a scale to impact significantly on the needs of South Africa's disadvantaged communities.

The then-Minister of Human Settlements committed herself to the establishment of a Human Settlements Development Bank in support of the entire human settlements delivery value-chain which would address:

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

This merger process is being undertaken in two phases. The first phase consists of the National Urban Reconstruction and Housing Agency and the Rural Housing Loan Fund donating their businesses and assets to the National Housing Finance Corporation. Thereafter the Department of Human Settlements will present Parliament with legislation to convert the National Housing Finance Corporation to the Human Settlements Development Bank (HSDB).

Progress on phase one

During the year under review, the progress towards this merger advanced significantly with Board, executive and employee activities focused on concluding and implementing the agreement to finalise the matter. The agreements have all been signed and the conditions precedent within those agreements are in the process of being fulfilled. In July 2017, NURCHA relocated its offices from Rosebank to NHFC's offices in Houghton in anticipation of the implementation of phase one of consolidation.

The only outstanding item to be fulfilled is the authority for the NHFC to take on the commitments of NURCHA and RHLF. This is the subject of a Public Finance Management Act (PFMA) Section 66 application that the NHFC submitted to the Department of Human Settlements during June 2018. Phase one will only be completed if the Minister of Finance grants his approval in terms of this PFMA section.

Progress on phase two

While the Humans Settlements Development Bank Policy Framework was approved by MINMEC, during the year under review, the business case and enabling legislation were not completed. The public sector, private sector and civil society consultations on these key documents remained outstanding by year end. It is not certain when phase two will be completed and the HSDB will become operational. The key concern is that if it takes too long for the HSDB to be operational, our target market will be disadvantaged as the National Treasury has pronounced that it will only capitalise the consolidated entity once the enabling legislation has been promulgated, and the bank is operational.

Directors' Report

for the year ended 31 March 2018

As a result of this transition period, NURCHA is operating under difficult conditions where management is unable to negotiate new funding with financiers and the retention of staff is becoming a challenge.

Directors' statement on going concern assumption

The going concern assumption has been adopted in preparing the financial statements. The directors have no reason to believe that the company will not be a going concern in the foreseeable future based on the 2018/19 budget, cash flow forecasts and available cash resources.

As stated above the NURCHA's shareholder has taken the decision to consolidate the organisation with two other DFIs (NHFC and RHLF) in order to form a bigger Human Settlements Development Bank that will deliver at a larger scale than the three DFIs are able to individually. The effective date of this transaction is expected to be 30 September 2018.

NURCHA will continue to operate as a division of NHFC. The assets and liabilities of NURCHA and its subsidiary companies are reported at carrying value at year-end.

New loan applications under the Affordable Housing Programme will be financed using internal funds and a Public Investment Corporation (PIC) loan facility. The availability of the PIC loan facility came to an end in April 2016 but the final repayment date is July 2023. The PIC has consented to the consolidation of NURCHA with NHFC and an addendum to the loan agreement has been drafted and agreed on by both parties. The signing of the final addendum will be done after the effective date.

The directors are satisfied that NURCHA has access to adequate resources to continue in operational existence up to the effective date of the consolidation.

Property, plant and equipment

Furniture and equipment were acquired at a cost of R1 507 231 (2017: R782 313). There were no changes in the nature of property, plant and equipment or in the policy regarding their use during the year under review.

Directors' Report

for the year ended 31 March 2018

Group construction finance facilities

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

	2018	2017
	R'000	R'000
Construction finance capital received in the form of accumulated surplus	481 238	499 453
Public Investment Corporation (PIC) loan for construction finance	70 000	70 000
Total capacity before contingent liabilities	551 238	596 453
Commitments relating to loans signed and issued by NURCHA	453 360	422 798

The table above demonstrates that NURCHA has sufficient internal resources to meet current commitments

Project losses

Project losses for the group (NURCHA and its subsidiary companies) amounting to R97 727 (2017: R16 000) were incurred during the year under review as a result of defaults on loans to construction projects. The group will pursue legal action on some of these contractors or employers and a portion of this amount may be recovered as the contractors have assets in the background and/or the claims are considered valid.

Allowance for impairment of loans

During the year under review, the allowance for impairment of loans for the group increased by R56,2 million (2017: R12,9 million). The increase is mainly due to project loans that are in default. Diversion of funds by contractors and late payment by employers also contributed to this increase.

Delays in payment of contractor claims by other organs of state are still being experienced. These contributors to the state of NURCHA's loan book have been brought to the attention of the Department of Human Settlements and National Treasury for their intervention. The intervention by the shareholder and National Treasury is needed because employees of other government departments are involved when funds are diverted. This is more common in instances when the government department does not use the CSD.

Directors' Report

for the year ended 31 March 2018

Loans to Subsidiary companies

During the 2016/2017 financial year, the Board decided that part of the loans made by NURCHA to the two subsidiary companies in prior years must be written off. The decision was informed by the fact that the financial position of the two companies is very weak following the major impairment of their loan books in prior years. These companies are now dormant and chances are limited that their business growth will be significant in future. The total amount written off during the financial year is Nil (2017: R28 million).

Subsidy Housing Programme

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

The loan value committed under the Subsidy Housing Programme as at the end of the financial year, using the direct lending method, is R147.1 million (2017: R104 million). The use of the direct lending method is in line with the decision of the Board in the 2012 financial year regarding the termination of relationship with the intermediaries to manage aspects of the loan book on its behalf.

TUSK, however, has continued supporting projects that were signed through them to their completion, but all new projects are signed directly with NURCHA.

Fruitless and Wasteful Expenditure

During the year under review, NURCHA incurred fruitless and wasteful expenditure amounting to R48 425. Of this amount R47 500 relates to a fraudster who approached NURCHA's marketing department promising to organise marketing and advertising space for NURCHA and other entities on SABC 2. The vetting of this prospective service provider was done but it was later found that documents that were submitted, including the stamp by the commissioner of oaths, were fraudulent. The R924.90 relates to interest on late payment of provisional tax to the South African Revenue Services.

Irregular Expenditure

During the year under review, irregular expenditure amounted to R1,5 million. Three contracts amounting to R1 062 323 were extended without going out on tender. This was due to the fact that NURCHA management was expecting the consolidation of the three entities to happen before the effective date. The effective date has been moved on numerous occasions, the latest change being

Directors' Report

for the year ended 31 March 2018

from June 2018 to 30 September 2018. Due to these delays, management decided that NURCHA must go out on tender for all services whose contracts have expired irrespective of the effective date. In all three cases the approval from the committee with delegated authority was obtained after the expenditure was incurred.

In one reported instance, a quotation amounting to R34 721 was not evaluated using the 80/20 preference point system.

The directors are satisfied that in all these reported cases services were rendered fully. The directors will continue to improve Supply Chain Management processes.

Refer to note 35 for details of this irregular expenditure and action taken or to be taken against wrong doers.

Auditors

The auditors of NURCHA and its subsidiary companies are Ngubane and Company. They have carried out an independent examination of the financial statements in accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA), the General Notice issued in terms thereof and with International Standards on Auditing and have reported their findings in the audit report on pages 70 to 79.

Post-balance sheet events

The 31% TUSK Construction Support Services (Pty) Ltd (TUSK) shares held by NURCHA were bought back by TUSK and were paid for in full on 13 April 2018. Two Directors resigned after year end, refer to notes 33 for further details.

Directors' Report

for the year ended 31 March 2018

Development outputs

The following table provides development outputs for the year ended 31 March 2018:

	Contracts signed		Houses/sites in contracts		Houses/sites completed		Loans signed (R million)		Project values (R million)	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Subsidy Housing	36	17	10 800	3 922	7 020	1 646	126,0	49,5	720,0	501,9
Affordable Housing	14	14	1 400	2 071	910	1 164	280,0	301,9	560,0	932,4
Infrastructure & Community Facilities (projects)	4	2	N/A	N/A	2	3	10,0	9,0	26,0	98,3

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



Khehla Shubane
Chairperson – Board



Viwe Gqwetha
Managing Director

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)
Consolidated and Separate Statement of Financial Position
as at 31 March 2018

		Group		Company	
R'000	Note	2018	2017	2018	2017
Assets					
Current Assets					
Loans for construction projects	3	231,919	257,428	149,782	189,987
Receivables from exchange transactions	4	2,175	27,419	1,863	573
Non-current assets held for sale	5	1,300	1,300	1,300	1,300
Cash and cash equivalents	6	338,819	281,436	283,470	155,699
		574,213	567,583	436,415	347,559
Non-Current Assets					
Property, plant and equipment	7	1,770	893	1,770	893
Intangible assets	8	185	770	185	770
Investments in controlled entities	9	-	-	1	1
Investments in associates	10	-	-	-	-
Loans to economic entities	11	-	-	96,842	125,861
Loans for construction projects	3	30,114	120,844	12,753	98,459
		32,069	122,507	111,551	225,984
Total Assets		606,282	690,090	547,966	573,543
Liabilities					
Current Liabilities					
Current tax payable	14	1,887	641	-	-
Payables from exchange transactions	12	12,983	28,981	3,747	3,089
Managed funds	13	-	49,862	-	-
Provisions	15	1,904	2,228	1,904	2,228
Other payables	5	-	650	-	650
		16,774	82,362	5,651	5,967
Non-Current Liabilities					
PIC loan	16	69,976	69,976	-	-
Total Liabilities		86,750	152,338	5,651	5,967
Net Assets		519,532	537,752	542,315	567,576
Capital contributed by Government	17	361,000	361,000	361,000	361,000
Other reserves		199,284	199,284	199,284	199,284
Formation grants	18	38,300	38,300	38,300	38,300
Accumulated surplus		(79,046)	(60,831)	(56,265)	(31,005)
Total Net Assets		519,538	537,753	542,319	567,579

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)
Consolidated and Separate Statement of Financial Performance
for the year ended 31 March 2018

		Group		Company	
R'000	Note	2018	2017	2018	2017
Revenue					
Revenue from exchange transactions					
Fees on loans for construction projects		11,922	10,360	7,943	7,748
Fees charged to controlled entities		-	-	22,829	21,001
Interest on loans for construction projects		42,719	53,459	31,327	37,273
Other income		4,770	5,098	965	1,964
Programme management fees	19	52,654	59,889	-	-
Interest received from investments	20	23,825	13,585	18,325	10,673
Interest on loans to controlled entities	20	-	-	5,099	9,678
Total revenue from exchange transactions		135,890	142,391	86,488	88,337
Expenditure					
Employee related costs	21	(41,725)	(38,241)	(41,726)	(38,241)
Depreciation and amortisation		(1,212)	(967)	(1,212)	(967)
Finance costs	22	(7,224)	(7,351)	-	-
Lease rentals on operating lease		(2,768)	(2,769)	(2,179)	(2,303)
Bad debt written off	23	(98)	(16)	(98)	(28,000)
Repairs and maintenance		(206)	(217)	(196)	(215)
Other operating expenses	24	(45,125)	(57,165)	(11,490)	(11,425)
Total expenditure		(98,358)	(106,726)	(56,901)	(81,151)
Operating surplus		37,532	35,665	29,587	7,186
Gain on disposal of property, plant and equipment		26	19	26	19
Gain / (loss) on fair value adjustment		2,296	155	2,084	(1,453)
Movements in impairments - loans		(56,182)	(12,936)	(56,954)	(29,399)
Movement in impairments - non current assets held for sale		-	(1,838)	-	(2,100)
		(53,860)	(14,600)	(54,844)	(32,933)
(Deficit) surplus before taxation		(16,328)	21,065	(25,257)	(25,747)
Taxation	14	(1,887)	(745)	-	-
(Deficit) surplus for the year		(18,215)	20,320	(25,257)	(25,747)

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)
Consolidated and Separate Statement of Changes in Net Assets
for the year ended 31 March 2018

R'000	Capital contributed by Government	Other reserves	Formation grants	Total reserves	Accumulated surplus	Total net assets
Group						
Balance at 01 April 2016	361,000	199,284	38,300	237,584	(81,151)	517,433
Changes in net assets						
Surplus for the year	-	-	-	-	20,320	20,320
Total changes	-	-	-	-	20,320	20,320
Balance at 01 April 2017	361,000	199,284	38,300	237,584	(60,831)	537,753
Changes in net assets						
Deficit for the year	-	-	-	-	(18,215)	(18,215)
Total changes	-	-	-	-	(18,215)	(18,215)
Balance at 31 March 2018	361,000	199,284	38,300	237,584	(79,046)	519,538
Note	17		18			
Company						
Balance at 01 April 2016	361,000	199,284	38,300	237,584	(5,258)	593,326
Changes in net assets						
Deficit for the year	-	-	-	-	(25,747)	(25,747)
Total changes	-	-	-	-	(25,747)	(25,747)
Balance at 01 April 2017	361,000	199,284	38,300	237,584	(31,008)	567,576
Changes in net assets						
Deficit for the year	-	-	-	-	(25,257)	(25,257)
Total changes	-	-	-	-	(25,257)	(25,257)
Balance at 31 March 2018	361,000	199,284	38,300	237,584	(56,265)	542,319
Note	17		18			

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)
Consolidated and Separate Cash Flow Statement
for the year ended 31 March 2018

		Group		Company	
R'000	Note	2018	2017	2018	2017
Cash flows from operating activities					
Receipts					
Loan fees and programme management fees		89,819	70,248	29,482	7,748
Loan repayments		66,544	64,848	49,651	46,267
Other receipts		4,770	7,449	965	2,188
		161,133	142,545	80,098	56,203
Payments					
Employee costs		(41,726)	(36,971)	(41,726)	(36,971)
Suppliers		(116,261)	(117,292)	(11,228)	(28,069)
Finance costs		(7,224)	(7,351)	-	-
		(165,211)	(161,614)	(52,954)	(65,040)
Net cash flows from operating activities	26	(4,078)	(19,069)	27,144	(8,837)
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(1,509)	(782)	(1,509)	(782)
Proceeds from sale of property, plant and equipment	7	33	42	33	42
Purchase of other intangible assets	8	-	(118)	-	(118)
Loan advanced to economic entities		-	-	29,020	58,060
Loan disbursements for construction projects		60,641	(54,547)	70,998	(46,981)
Net cash flows from investing activities		59,165	(55,405)	98,543	10,219
Cash flows from financing activities					
Increase in PIC loan		-	2	-	-
Net increase/(decrease) in cash and cash equivalents		55,087	(72,873)	125,687	1,382
Cash and cash equivalents at the beginning of the year		281,436	354,154	155,699	155,770
Gain / (loss) on fair value adjustment		2,296	155	2,084	(1,453)
Cash and cash equivalents at the end of the year	6	338,819	281,436	283,470	155,699

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)
Consolidated Statement of Comparison of Budget and Actual Amounts for the
year ended 31 March 2018

R'000	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Group						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Fees on loans for construction projects	8,175	-	8,175	11,922	3,747	(a)
Interest on loans for construction projects	59,289	-	59,289	42,719	(16,570)	
Other income	6,550	-	6,550	4,770	(1,780)	(c)
Programme management fees	13,489	-	13,489	52,654	39,165	(b)
Interest received - investment and controlled enti	18,518	-	18,518	23,825	5,307	(a)
Total revenue from exchange transactions	106,021	-	106,021	135,890	29,869	(d)
Expenditure						
Personnel	(36,010)	-	(36,010)	(41,725)	(5,715)	(e)
Depreciation and amortisation	(1,170)	-	(1,170)	(1,212)	(42)	
Finance costs	(7,347)	-	(7,347)	(7,224)	123	
Lease rentals on operating lease	(3,118)	-	(3,118)	(2,768)	350	
Bad debts written off	-	-	-	(98)	(98)	(f)
Repairs and maintenance	(234)	-	(234)	(206)	28	
General expenses	(28,741)	-	(28,741)	(45,125)	(16,384)	(b)
Total expenditure	(76,620)	-	(76,620)	(98,358)	(21,738)	
Operating surplus	29,401	-	29,401	37,532	8,131	
Gain / (loss) on disposal of property, plant and equipment	-	-	-	26	26	
Gain / (loss) on fair value adjustment	-	-	-	2,296	2,296	
Movements in impairments - loans	(2,771)	-	(2,771)	(56,182)	(53,411)	(g)
	(2,771)	-	(2,771)	(53,860)	(51,089)	
Deficit before taxation	26,630	-	26,630	(16,328)	(42,958)	
Taxation	-	-	-	1,887	1,887	
Surplus / (deficit) for the year	26,630	-	26,630	(18,215)	(44,845)	

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)
Consolidated Statement of Comparison of Budget and Actual Amounts for the
year ended 31 March 2018

R'000	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Loans for construction projects	292,996	-	292,996	231,919	(61,077)	(a)
Receivables from exchange transactions	18,903	-	18,903	2,175	(16,728)	
Non-current assets held for sale	-	-	-	1,300	1,300	
Cash and cash equivalents	471,280	-	471,280	338,819	(132,461)	(a)
	783,179	-	783,179	574,213	(208,966)	
Non-Current Assets						
Property, plant and equipment	473	-	473	1,770	1,297	
Intangible assets	1,982	-	1,982	185	(1,797)	
Loans for construction projects	85,951	-	85,951	30,114	(55,837)	(a)
	88,406	-	88,406	32,069	(56,337)	
Total Assets	871,585	-	871,585	606,282	(265,303)	
Liabilities						
Current Liabilities						
Current tax payable	-	-	-	1,887	1,887	
Payables from exchange transactions	25,332	-	25,332	12,983	(12,349)	(h)
Managed funds	179,071	-	179,071	-	(179,071)	(i)
Provisions	2,531	-	2,531	1,904	(627)	
	206,934	-	206,934	16,774	(190,160)	
Non-Current Liabilities						
PIC loan	69,975	-	69,975	69,976	1	
Total Liabilities	276,909	-	276,909	86,750	(190,159)	
Net Assets	594,676	-	594,676	519,532	(75,144)	
Net Assets						
Capital contributed by Government	361,000	-	361,000	361,000	-	
Reserves						
Other reserves	199,284	-	199,284	199,284	-	
Formation grants	38,300	-	38,300	38,300	-	
Accumulated surplus	(3,908)	-	(3,908)	(79,052)	(75,144)	
Total Net Assets	594,676	-	594,676	519,532	(75,144)	

ACCOUNTING POLICIES

1. Presentation of consolidated and separate annual financial statements

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

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

The going concern assumption has been adopted in preparing these consolidated and separate annual financial statements. The directors have no reason to believe that the company will not be a going concern in the foreseeable future based on the 2018/19 budget, cash flow forecasts and available cash resources. The going concern issues faced by the group are further explained in note 40. The entity will continue to operate in some modified form and will meet its statutory obligations for the foreseeable future.

1.3 Consolidation

Basis of consolidation

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

1.3 Consolidation (continued)

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

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

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

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

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

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

Investment in associates

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

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

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

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

Provisions

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

Receivables from exchange transactions

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

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

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

1.4 Significant judgements and sources of estimation uncertainty (continued)

Payables from exchange transactions

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

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

Merger Date

Based on the information available, the entity has assessed and concluded that the merger of the three DFIs will take place on the latest proposed date. Refer to note 40 for progress on the merger.

1.5 Property, plant and equipment

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

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

- ☐ • it is probable that future economic benefits or service potential associated with the item will flow to the group; and
- ☐ • the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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for the year ended 31 March 2018

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

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

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

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

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

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

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

1.6 Intangible assets

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

1.6 Intangible assets (continued)

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- ☐ • it is technically feasible to complete the asset so that it will be available for use or sale.
- ☐ • there is an intention to complete and use or sell it.
- ☐ • there is an ability to use or sell it.
- ☐ • it will generate probable future economic benefits or service potential.
- ☐ • there are available technical, financial and other resources to complete the development and to use or sell the asset.
- ☐ • the expenditure attributable to the asset during its development can be measured reliably.

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Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Intangible assets are derecognised:

- ☐ • on disposal; or
- ☐ • when no future economic benefits or service potential are expected from its use or disposal.

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

1.7 Investments in controlled entities

Group consolidated and separate annual financial statements

The group financial statements include those of a company and its controlled entities. The revenue and expenses of the controlled entities are included from the effective date of acquisition.

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

1.7 Investments in controlled entities (continued)

Company consolidated and separate annual financial statements

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

1.8 Investments in associates

Group consolidated and separate annual financial statements

An investment in an associate is accounted for using the cost method.

Any impairment losses are deducted from the carrying amount of the investment in associate.

Distributions received from the associate are recorded as dividends and does not reduce the carrying amount of the investment.

Company consolidated and separate annual financial statements

An investment in an associate is carried at cost less accumulated impairment..

1.9 Non-current assets held for sale

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

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

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

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

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

1.10 Financial instruments

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

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

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

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

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

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

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

1.10 Financial instruments (continued)

expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

A financial liability is any liability that is a contractual obligation to:

- ☐ • deliver cash or another financial asset to another entity; or
- ☐ • exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- ☐ • equity instruments or similar forms of unitised capital;
- ☐ • a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- ☐ • a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are financial liabilities that have fixed or determinable payments, excluding those instruments that:

- ☐ • the entity designates at fair value at initial recognition; or
- ☐ • are held for trading.

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

1.10 Financial instruments (continued)

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

Classification

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

1.11 Tax

Holding company

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

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities

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

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

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- ☐ • a transaction or event which is recognised, in the same or a different period, to net assets; or
- ☐ • a business combination.

1.11 Tax (continued)

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

1.12 Leases

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

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

Operating leases - lessee

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

1.13 Capital contributed by Government

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

The capital contributed by government are measured at cost.

1.14 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

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- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

1.15 Provisions and contingencies (continued)

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

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

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

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

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

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- • Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

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

The supplier commitment is determined using the approved contract amount adjusted with payment made to date. Lease commitment is derived from the signed lease agreement based on the future lease premiums.

1.17 Revenue from exchange transactions

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

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

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

1.17 Revenue from exchange transactions (continued)

Measurement

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- ☐ • the amount of revenue can be measured reliably;
- ☐ • it is probable that the economic benefits or service potential associated with the transaction will flow to the group;
- ☐ • the stage of completion of the transaction at the reporting date can be measured reliably; and
- ☐ • the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Revenue from servicing the loan

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

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Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- • The amount of the revenue can be measured reliably.

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

Initiation fees

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

1.18 Investment income

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

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.21 Budget information

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

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

The approved budget is prepared on a accrual basis and presented by programmes linked to performance outcome objectives. The approved budget covers the fiscal period from 2017-04-01 to 2018-03-31.

The budget for the economic entity includes all the entities approved budgets under its control.~

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

1.22 Related parties

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

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

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

All transactions with related parties are disclosed.

1.23 Events after reporting date

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

- • those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

1.23 Events after reporting date (continued)

- - those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.24 Transfer of functions between entities under common control

Definitions

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

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

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

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

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

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

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

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

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

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potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole group. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

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

Identifying the acquirer and transferor

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

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

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

1.25 Loans to/(from) economic entities

The loans to economic entities are recognised at amortised cost, using the effective interest method.

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

1.26 Loans for construction projects

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

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	No effective date has been determined.	Impact is currently being assessed
• GRAP 35: Consolidated Financial Statements	No effective date has been determined.	Impact is currently being assessed
• GRAP 36: Investments in Associates and Joint Ventures	No effective date has been determined.	Impact is currently being assessed
• GRAP 37: Joint Arrangements	No effective date has been determined.	No impact
• GRAP 38: Disclosure of Interests in Other Entities	No effective date has been determined.	Impact is currently being assessed
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2020	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2020	Unable to reliably estimate the impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2020	Impact is currently being assessed
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2020	Impact is currently being assessed
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2020	Impact is currently being assessed
• GRAP 26 (as amended 2016): Impairment of cash generating assets	01 April 2020	Impact is currently being assessed
• GRAP 21 (as amended 2016): Impairment of non-cash generating assets	01 April 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2020	Impact is currently being assessed
• GRAP 16 (as amended 2016): Investment Property	01 April 2020	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2020	Not expected to impact results but may result in additional disclosure

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	Group		Company	
R'000	2018	2017	2018	2017
3. Loans for construction projects				
Designated at fair value				
Loans for construction projects	335,324	395,380	228,548	300,200
Impairments of loans	(73,291)	(17,108)	(66,013)	(11,754)
	262,033	378,272	162,535	288,446
Non-current assets				
Loans for construction projects	30,114	120,844	12,753	98,459
Current assets				
Loans for construction projects	231,919	257,428	149,782	189,987
Repayment schedule:				
31 March 2018	-	274,536	-	201,741
31 March 2019	305,209	119,742	215,795	97,357
31 March 2020	29,947	78	12,585	78
31 March 2021	124	889	124	889
31 March 2022	44	99	44	99
31 March 2023	-	36	-	36
	335,324	395,380	228,548	300,200

The loans are secured by subordination or cession of shareholders' loans in the borrowing entities; cession of book debts; work in progress in projects; mortgage bonds over properties; pledges of cash balances and personal suretyship by the borrowing entities' shareholders (where applicable). These securities are ceded to funders where applicable. In respect of subsidy housing approved loans in excess of R10 million a tangible security is required. As at 31 March 2018 the available tangible securities were aggregated at R756 million for affordable housing loans and R2.3 million for subsidy housing loans.

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R'000

3. Loans for construction projects (continued)

Allowance for impairment of loans

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

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

Reconciliation of changes in allowance for impairment of loans - Group - 2017

	Opening balance	Contributions	Reversals	Written off	Closing balance
Impairment of loans	4,173	12,995	(45)	(15)	17,108

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

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

Reconciliation of changes in allowance for impairment of loans - Company - 2017

	Opening balance	Contributions	Reversals	Written off	Closing balance
Impairments of loans	539	11,260	(45)	-	11,754
	Group		Company		
	2018	2017	2018	2017	

4. Receivables from exchange transactions

Employee costs in advance	-	3	-	3
Prepayments	1	81	1	-
Deposits	38	638	-	570
Interest and other receivables	2,113	-	1,862	-
Programme management receivables	-	25,541	-	-
VAT receivable	23	1,156	-	-
	2,175	27,419	1,863	573

5. Non-current assets held for sale

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

Reconciliation of changes in non-current assets held for sale

Opening balance	1,300	-	1,300	-
Additional	-	1,300	-	1,300
	1,300	1,300	1,300	1,300

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	Group		Company	
R'000	2018	2017	2018	2017
6. Cash and cash equivalents				
Cash on hand	3	-	3	-
Bank balances	56,081	88,716	816	13,232
Short-term deposits	282,735	142,833	282,651	142,467
Managed funds	-	49,887	-	-
	338,819	281,436	283,470	155,699

7. Property, plant and equipment

Group	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold property	852	(107)	745	856	(856)	-
Furniture and fixtures	784	(626)	158	1,102	(1,028)	74
Computer equipment	2,183	(1,315)	868	3,139	(2,320)	819
Total	3,819	(2,048)	1,771	5,097	(4,204)	893

Company	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold property	852	(107)	745	856	(856)	-
Furniture and fixtures	784	(626)	158	1,102	(1,028)	74
Computer equipment	2,183	(1,315)	868	3,139	(2,320)	819
Total	3,819	(2,048)	1,771	5,097	(4,204)	893

Reconciliation of property, plant and equipment - Group - 2018

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

Reconciliation of property, plant and equipment - Group - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	79	31	(3)	(33)	74
Computer equipment	369	751	-	(301)	819
Other equipment	48	-	(20)	(28)	-
	496	782	(23)	(362)	893

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R'000

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Company - 2018

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

Reconciliation of property, plant and equipment - Company - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	79	31	(3)	(33)	74
Computer equipment	369	751	-	(301)	819
Other equipment	48	-	(20)	(28)	-
Total	496	782	(23)	(362)	893

8. Intangible assets

Group

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	4,022	(4,022)	-	4,022	(3,702)	320
Computer software, other	2,643	(2,458)	185	2,643	(2,193)	450
Total	6,665	(6,480)	185	6,665	(5,895)	770

Company

	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	4,022	(4,022)	-	4,022	(3,702)	320
Computer software, other	2,643	(2,458)	185	2,643	(2,193)	450
Total	6,665	(6,480)	185	6,665	(5,895)	770

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R'000

8. Intangible assets (continued)

Reconciliation of intangible assets - Group - 2018

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

Reconciliation of intangible assets - Group - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, internally generated	641	-	(321)	320
Computer software, other	616	118	(284)	450
	1,257	118	(605)	770

Reconciliation of intangible assets - Company - 2018

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

Reconciliation of intangible assets - Company - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, internally generated	641	-	(321)	320
Computer software, other	616	118	(284)	450
	1,257	118	(605)	770

9. Investments in controlled entities

Name of company	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
NURCHA Finance Company (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Equity Services (Pty) Ltd	100.00 %	100.00 %	1	1
NURCHA Development Finance (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Management Services (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Bridging Finance (Pty) Ltd	100.00 %	100.00 %	-	-
NURCHA Loan Fund (Pty) Ltd	100.00 %	100.00 %	-	-
			1	1

The carrying amounts of controlled entities are shown at cost.

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R'000

10. Investments in associates

Name of entity	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
SEBRA (Pty) Ltd	30.00 %	30.00 %	1,044	1,044
Impairment of investments in associates			1,044	1,044
Investment in associate written off			(1,044)	(1,044)
			-	-

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

Principal activities, country of incorporation and voting power

Legal name	Principal activity	Country of incorporation	Proportion of voting power
SEBRA (Pty) Ltd	Granting of loans	Republic of South Africa	30% of voting power

The company was incorporated in South Africa in 2001. The principal activity of the company was the granting of loans to contractors involved in subsidy housing business. NURCHA was a 30% shareholder in this company. The company has been dormant since December 2011.

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	Group		Company	
R'000	2018	2017	2018	2017
11. Loans to (from) economic entities				
Controlled entities				
NURCHA Management Services (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	18,249	46,563
NURCHA Finance Company (Proprietary) Limited The loan is unsecured and has no fixed term. The loan is interest free.	-	-	13,479	16,323
NURCHA Equity Services (Proprietary) Limited The loan is unsecured and has no fixed term. The loan is interest free.	-	-	12,878	13,058
NURCHA Development Finance (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	25,130	17,354
NURCHA Bridging Finance (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	18,278	15,699
NURCHA Loan Fund (Proprietary) Limited The loan is unsecured and has no fixed term. Interest on the interest-bearing portion of the loan is charged at prime less 1.5%.	-	-	61,259	66,599
	-	-	149,273	175,596
Impairment of loans to controlled entities	-	-	(52,431)	(49,735)
	-	-	96,842	125,861

The net impairments of loans raised for the year is R 2.7 million. These loans are classified as non-current loans because the Board is not intending to request repayment of the loans in the next 12 months. All loans to economic entities will be transferred to NHFC. Refer to note 30 for detailed transactions with the subsidiaries.

Reconciliation of provision for impairment of loans to economic entities

Opening balance	-	-	49,735	31,551
Additional impairments	-	-	5,720	20,394
Reversal of impairments	-	-	(3,024)	(2,210)
	-	-	52,431	49,735

12. Payables from exchange transactions

Trade payables	1,700	6,354	1,672	885
CFDP Grant	7,780	8,694	-	-
Other payables	325	10,664	305	310
VAT payables	117	75	-	-
Payroll related liabilities	232	1,521	232	1,521
Other accrued expenses	2,824	1,672	1,535	370
	12,978	28,980	3,744	3,086

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	Group		Company	
R'000	2018	2017	2018	2017

13. Managed funds

Managed funds comprises of:

Vulindlela rural housing project	-	44,707	-	-
Eastern Cape bucket eradication programme	-	2,350	-	-
Eastern Cape rural housing pilot	-	2,805	-	-
	-	49,862	-	-

The projects have been completed and closed. There were no new projects or extensions that were signed thereafter.

14. Taxation

Major components of the tax expense

Current

Local income tax - current period	1,887	641	-	-
Underprovision of the prior year	-	104	-	-
	1,887	745	-	-

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense:

Accounting surplus/(deficit)	(16,328)	21,065	-	-
Current year tax/(exemption) at the applicable tax rate of 28% (2017: 28%)	(4,572)	5,898	-	-

Tax effect of adjustments on taxable income

Tax losses carried forward	(613)	(12,362)	-	-
Non taxable income/(deficit)	7,072	7,209	-	-
	1,887	745	-	-

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15. Provisions

Reconciliation of provisions - Group - 2018

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

Reconciliation of provisions - Group - 2017

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	2,194	148	(114)	2,228

Reconciliation of provisions - Company - 2018

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

Reconciliation of provisions - Company - 2017

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	2,194	148	(114)	2,228

Group		Company	
2018	2017	2018	2017

16. PIC loan

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

69,976	69,976	-	-
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17. Capital contributed by Government

Capital grants received	361,000	361,000	361,000	361,000
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18. Formation grants

Open Society Institute of New York	18,300	18,300	18,300	18,300
SA Government - Department of Human Settlements	20,000	20,000	20,000	20,000
	38,300	38,300	38,300	38,300

19. Programme management fees

Fees earned on various support programmes	52,654	59,889	-	-
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	Group		Company	
R'000	2018	2017	2018	2017
20. Interest received from investments				
Controlled entities	-	-	5,099	9,678
Money markets	22,348	11,256	18,184	10,448
Current accounts	1,477	2,329	141	225
	23,825	13,585	18,325	10,673
	23,825	13,585	23,424	20,351
21. Employee related costs				
Basic pay	33,849	30,582	33,849	30,582
Performance bonus	2,796	2,317	2,796	2,317
Unemployment insurance fund	89	83	89	83
Workmen's compensation fund	24	21	24	21
Skills development levy	360	334	361	334
Leave pay provision charge	134	149	134	149
Travel, motor car, accommodation, subsistence and other allowances	223	252	223	252
Group life insurance	475	507	475	507
Temporary staff	3,775	3,895	3,775	3,895
Staff debt written off	-	24	-	24
Provident fund management fees	-	77	-	77
	41,725	38,241	41,726	38,241
22. Finance costs				
Interest paid from borrowings	7,224	7,351	-	-
23. Bad debt written off				
Bad debts written off - controlled entities	-	-	-	28,000
Bad debts written off - other loans	98	16	98	-
	98	16	98	28,000

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

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	Group		Company	
R'000	2018	2017	2018	2017
24. Other operating expenses				
Auditors remuneration	2,257	2,004	1,844	1,600
Bank charges	116	173	16	52
Cleaning	185	184	185	184
Consulting and professional fees	4,675	4,212	3,665	3,373
Consumables	68	48	53	47
Debt collection	2,609	408	354	12
Entertainment	5	8	5	8
Fines and penalties	1	-	-	-
Insurance	240	455	215	344
Marketing	551	287	430	287
Annual report	124	142	124	142
Placement fees	278	661	278	661
Postage and courier	72	178	62	176
Printing and stationery	420	427	372	396
Secretarial fees	50	13	49	4
Software expenses	728	418	702	330
Staff welfare	2	3	2	3
Subscriptions and membership fees	127	146	102	146
Telephone and fax	508	571	471	549
Training	816	988	816	988
Travel - local	1,092	1,437	730	726
Assets expensed	3	2	3	2
Electricity	673	974	673	974
General expenses	334	421	339	421
Programme implementation expenses	29,191	43,005	-	-
	45,125	57,165	11,490	11,425
25. Auditors' remuneration				
Fees	2,155	1,883	1,742	1,479
Expenses	102	121	102	121
	2,257	2,004	1,844	1,600
26. Cash (used in) generated from operations				
(Deficit) surplus	(18,215)	20,320	(25,257)	(25,747)
Adjustments for:				
Depreciation and amortisation	1,212	967	1,212	967
Impairments loss /(reversal) of loans	56,182	12,936	54,258	6,377
Loss/ (gain) on disposal of property, plant and equipment	(26)	(19)	(26)	(19)
Fair value gain/ (loss) on investments	(2,296)	(155)	(2,084)	1,453
Movements in provisions	(324)	34	(324)	34
Movement of impairments - non current assets held for sale	-	1,838	-	2,100
Changes in working capital:				
Receivables from exchange transactions	25,246	(15,303)	(1,291)	5,546
Payables from exchange transactions	(15,995)	4,766	656	452
Managed funds	(49,862)	(44,453)	-	-
	(4,078)	(19,069)	27,144	(8,837)

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	Group		Company	
R'000	2018	2017	2018	2017
27. Tax paid				
Balance at beginning of the year	(641)	-	-	-
Current tax for the year recognised in surplus or deficit	(1,887)	(745)	-	-
Under/(over) provision prior year	(104)	104	-	-
Balance at end of the year	1,887	641	-	-
	(745)	-	-	-

28. Commitments

(a) Commitments in respect of operational requirements

Loans for construction projects

Approved and contracted for

- Loans granted

453,539	697,616	333,240	360,429
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Approved but not yet contracted for

- Pending loans

142,320	147,980	37,450	105,601
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Total operational commitments

595,859	845,596	370,690	466,031
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Refer to note 32 for risk management measures that are being implemented by the group.

(b) Commitments in respect of capital expenditure

Approved and contracted for

Operational contracts

Ceiling retrofit programme

3,893	-	3,893	-
820	25,560	-	-
4,713	25,560	3,893	-

These committed expenditure relates to operational requirements and will be financed by external loans, retained surpluses, existing cash resources and funds internally generated.

(c) Operating leases - as lessee (expense)

Minimum lease payments due

- within one year
- in second to fifth year inclusive

1,654	1,016	1,654	1,016
596	-	596	-
2,250	1,016	2,250	1,016

Operating lease payments represent rentals payable by the group for its office space. Leases are negotiated for an average term of three years and rentals are fixed for an average of one year. No contingent rent is payable.

29. Contingencies

After financial year end date, NURCHA reached a settlement with a material supplier for CFDP contractors. NURCHA had signed a material payment undertaking with the supplier so that contractors could be provided with materials without meeting stringent requirements. NURCHA was issued with summons in respect of amount owed by some of the contractors.

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	Group		Company	
R'000	2018	2017	2018	2017

30. Related parties

Relationships	Reference
Member	South African Government through the Department of Human Settlements. Refer to note 36
Holding company	NURCHA (NPC)
Controlled entities	Refer to note 9
Associates	Refer to note 10
Shareholder with significant influence	Refer to note 36
Members' and prescribed officers' emoluments	Refer to note 31
Loans to economic entities (subsidiaries)	Refer to note 11

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

Related party transactions	2018	2017
NURCHA Management Services (Proprietary) Limited		
Administration fees	10,448	10,003
Interest	138	169
Loan repayments	49,512	14,700
Loan disbursements	(9,700)	(2,725)
NURCHA Finance Company (Proprietary) Limited		
Administration fees	20	20
Interest	-	2,250
Loan repayments	3,164	-
Loan disbursements	(300)	-
NURCHA Equity Services (Proprietary) Limited		
Administration fees	20	20
NURCHA Development Finance (Proprietary) Limited		
Administration fees	50	50
Interest	1,506	3,481
Loan repayments	200	5,316
Loan disbursements	-	(3,178)
Loans written off	-	(24,000)
NURCHA Bridging Finance (Proprietary) Limited		
Administration fees	6,119	5,431
Interest	-	2,309
Loan repayments	17,300	42,402
Loan disbursements	(23,534)	(11,581)
Loans written off	-	(4,000)
NURCHA Loan Fund (Proprietary) Limited		
Administration fees	6,172	5,478
Interest	3,455	3,719
Loan repayments	4,000	31,600
Loan disbursements	-	(9,073)
	68,570	72,391

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31. Members' and prescribed officer's emoluments

Executive

2018

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

2017

	Salary	Bonus	Provident	Other	Total
Mr V Gqwetha (Managing Director)	2,029	267	401	63	2,760
Mr S Nxusani (Financial Director)	1,544	138	305	50	2,037
Ms A Struwig (Executive Director: Lending Portfolio)	1,583	193	176	50	2,002
	5,156	598	882	163	6,799

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

Non-executive

2018

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

2017

	Members' fees	Total
Mr K Shubane (Chairman)	300	300
Mr W Ndodana	32	32
Ms M Nkomo	82	82
Mr T Nzimakwe	203	203
Mr H Prinsloo	74	74
Ms Z Rylands	120	120
Ms L Sing	175	175
	986	986

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)

Notes to the Consolidated And Separate Annual Financial Statements

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31. Members' and prescribed officer's emoluments (continued)

Prescribed officers

2018

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

2017

	Salary	Bonus	Provident	Other	Total
Ms T Jali	1,001	83	111	31	1,226
Ms N Ndzimbomvu	985	82	109	33	1,209
	1,986	165	220	64	2,435

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

32. Risk management

Financial risk management

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

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

Liquidity risk

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

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and utilised borrowing facilities are monitored to ensure that we keep a sufficient credit buffer throughout the year. A buffer of R100 million is set to trigger suspension of approving new loans.

The group performs an intensive cash flow assessment and capacity available assessment periodically in order to establish whether the group has sufficient cash resources to finance new loan applications. If funds are not available to accommodate the new loan application, the application would be declined. The two systems are updated with new loans approved and loans fully settled.

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

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32. Risk management (continued)

Group

At 31 March 2018

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

At 31 March 2017

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans for construction projects	257,427	119,742	967	134,927
Receivables from exchange transactions	27,418	-	-	-
Payables from exchange transactions	82,360	-	-	-
Non-current assets held for sale	1,300	-	-	-
Cash and cash equivalents	281,436	-	-	-
PIC loan	-	-	69,976	-

Credit risk

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

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

The group takes tangible security for all Affordable Housing approved loan applications. These rules apply to Subsidy Housing approved loans in excess of R10 million. As at 31 March 2018 the available tangible securities were aggregated at R756 million for Affordable Housing loans and R2.3 million for Subsidy Housing loans. NURCHA uses debt collectors to recover debts that are in default. NURCHA uses debt collectors to recover debts that are in default.

Market risk

Interest rate risk

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

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

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33. Events after the reporting date

- The Tusk shares which were held as non-current assets held for sale at the reporting date were sold and paid for in full by Tusk in a share buy-back transaction on the 13 April 2018.
- Mr W. Ntodana, a non-executive director resigned from the Board effective 02 May 2018 and Ms A. Struwig, an executive director: lending resigned effective 31 August 2018.
- The effective date for the merger has been moved from 30 June 2018 to 30 September 2018.

	Group		Company	
R'000	2018	2017	2018	2017

34. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	49	19	-	19
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Details of irregular expenditure – current year - 31 March 2018

Incident	Amount
The Marketing department was approached by a fraudulent marketing representative who promised to organise marketing and advertising space for NURCHA and other entities on SABC 2 channel for an amount of R47 500.00. This was later found to be fraudulent as the broadcast of the segment did not appear on SABC 2. The vetting of the company was done by Marketing and SCM departments. They were satisfied with the information provided. The matter has been reported to SAPS for further investigation and no further action is to be taken to NURCHA staff as the necessary procedure were carried out before the expenditure was incurred.	48
The subsidiary of NURCHA holding, NFC had an income tax amount payable at 31 March 2017 of R641 352.53 as a result of income received from bad debts recovered. No provisional tax returns were submitted during the year as it was not possible to accurately estimate the amounts to be recoverable during the year due to the nature of income. As a result this, NFC incurred interest and penalties of R104 439.20 for late submission of tax returns and non-payment of provisional tax. The above was disputed by NFC which was later approved by SARS and a refund of R103 514.30 was received. The difference of R924.9 which relates to interest on late payment was however not approved by SARS.	1
Total	49

	Group		Company	
	2018	2017	2018	2017
35. Irregular expenditure				
Opening balance	-	-	-	-
Add: Irregular Expenditure - current year	1,452	2 859	-	764
Irregular Expenditure - previous year*	-	10 500	-	-
Less: Amounts condoned	(1,452)	(13,359)	-	(764)
	-	-	-	-

*This relates to irregular expenditure that took place in the previous year, but because the contracts were over two financial periods the balance of the expenditure was incurred in the current financial year.

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)

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35. Irregular expenditure (continued)

Details of irregular expenditure – current year - 31 March 2018

Incident	Action taken	Amount
A contract termination issued by NURCHA to the services provider was contested and as a result the legal proceedings were initiated but both parties settled the matter out of court. The contract was further extended until 31 March 2018. BAC only approved the extension in June 2017. The initial contract expired on the 31st March 2017. The delay was due to uncertainty around the effective date of the consolidation.	No action will be taken as the delays on effective date of the consolidation is the main contributor to the irregular expenditure.	322 +
Due to uncertainty around the effective date of the consolidation, the contract extension process was initiated after the contract had expired. BAC approved the contract extension.	No further action is to be taken as the approval was obtained from EXCO and BAC before the expenditure was incurred.	740 +
Due to uncertainty around the effective date of the consolidation, the contract was further extended and the extension is above the 15% threshold. BAC approved the contract extension.	No further action is to be taken as the approval was obtained from BAC before the expenditure was incurred.	290 +
The SCM RFQ process was not followed. The deviation was approved before the cost was incurred.	No further action was taken as the approval was obtained before the expenditure was incurred.	54
The 80/20 evaluation process was not followed and as a result the second highest service provider was appointed for the delivery of stationery. The appointed service provider submitted the cheapest in quotation. The error occurred as a result of miscommunication between NURCHA's internal departments.	Staff have been warned to work on written instructions only to avoid miscommunication.	35
Payment was made to a supplier without a contract. The supplier was contracted by NURCHA's debt collector. NURCHA had committed to pay legal fees for matters under litigation. A decision was taken by management in 2017 to pay the debt collector for the collection fees together with legal expenses because there was no contract.	No further action is to be taken as the approval was obtained from NURCHA management before the expenditure was incurred.	11
Total		1,452

+ A total of R1,3 million of the total irregular expenditure emanates from contract extensions because of the continued postponement of the DFI consolidation. The effective date has been moved for more than two years. The new date is currently set for 30 September 2018.

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)

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35. Irregular expenditure (continued)

Details of irregular expenditure – previous year - 31 March 2017

Incident	Action taken	Amount
The SCM process were not followed and the expenditure was not approved according to the NURCHA's delegation of authority. Payment was made for work done but the deviation was not submitted for approval to Bid Adjudication Committee (BAC) and the Managing Director.	Corrective action was taken against the employee involved.	728
Work was done by a service provider after their contract expired.	An investigation will be conducted to determine the cause and appropriate action will be taken. Implementation date : 31 October 2017	34
The contracted amount for training conducted for executive management increased by R19k due to cancellation of certain sessions. All the cancellations were for valid reasons. For example, there were instances whereby the managing director was scheduled to attend meetings with business partners but other urgent meetings were called by the Department at short notice and other members of the executive committee had to cancel their scheduled training in order to stand in for the managing director in meetings with the business partners.	As the reason for cancellation were considered to be valid, no further action will be taken.	19
The tenders awarded were not advertised on the eTender Publication portal and in the Government Tender Bulletin as required. Tenders were advertised in the Cape Times.	An investigation will be conducted to determine the cause and appropriate action will be taken. Implementation date : 31 October 2017	1,367
Supply chain processes were not followed when appointing service providers. Processes that were not followed include the following, not obtaining the minimum prescribed number of quotations; incorrect method of evaluation system used; not updating the irregular expenditure register as incidents occurred.	An investigation will be conducted to determine the cause and appropriate action will be taken. Implementation date : 31 October 2017	355
Payments were made to legal sub-contractors who were appointed by the main service provider. The main contract with the appointed service provider indicates that legal cost should be paid by NURCHA directly to the subcontractors.	Addendums to the existing contract will be signed in order to regularise this arrangement.	356
Total		2,859

	Group		Company	
	2018	2017	2018	2017

36. Cumulative support by South African Government through NDOHS since inception

Formation grant	20,000	20,000	20,000	20,000
Specialised lending grant	61,660	61,660	61,660	61,660
Recapitalisation grant	361,000	361,000	361,000	361,000
Interest on loan grant	3,500	3,500	3,500	3,500
Programme grant	20,000	20,000	20,000	20,000
	466,160	466,160	466,160	466,160

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	Group		Company	
R'000	2018	2017	2018	2017
Value of loans signed (R'million)				
	Budget	Actual		
	-	-		
Subsidy housing	126.0	49.5		
Affordable housing (including serviced sites)	280.0	301.9		
Infrastructure and Community Facilities	10.0	9.0		
Houses/Sites & Infrastructure project completed				
Subsidy housing	7,020	1,646		
Affordable housing (including serviced sites)	910	1,164		
Infrastructure and Community Facilities	2	3		
Loan defaults (R'000)				
Impairment of loans for construction projects	31	73		
38. Amount available for construction finance				
Accumulated surplus and reserves	481,238	499,453	504,019	529,279
PLC facility available for construction finance	70,000	70,000	-	-
Shortfall transferred to NURCHA	-	-	(104,093)	(68,940)
	<u>551,238</u>	<u>569,453</u>	<u>399,926</u>	<u>460,339</u>
Less: Construction finance facility committed				
Loans granted and committed	(543,360)	(422,798)	(376,039)	(286,204)
	<u>(543,360)</u>	<u>(422,798)</u>	<u>(376,039)</u>	<u>(286,204)</u>
	<u>7,878</u>	<u>146,655</u>	<u>23,887</u>	<u>174,135</u>

Loans granted and committed are reflected at 50% of the loan amount approved because of the pattern in which loans are drawn. For the affordable housing loans, the disbursements are per the projected cash flows and for the subsidy and infrastructure loans, the cash flows are of a revolving nature.

39. Budget differences

Material differences between budget and actual amounts

(a) The lending portfolio did not post good results in the current year. The stagnant economic environment affected the housing sector as well and that impacted the entity's performance. Fewer subsidy housing projects were being allocated to contractors by Municipalities and Provincial departments. The tough economic environment also impacted the middle income earners who found themselves unable to qualify for bonded housing that falls under the affordable housing category.

(b) The programme management portfolio posted good results. These were mainly driven by the good performance in implementing the Cape Town ceiling project, NURCHA was reappointed to implement the second phase of the programme. In order to generate this additional income, additional expenses were incurred, however these did not exceed the income generated.

(c) Bad debts recovered were budgeted as part of the other income and collection targets were not met.

(d) Over all the revenue budget was exceeded.

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)

Notes to the Consolidated And Separate Annual Financial Statements for the year ended 31 March 2018

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39. Budget differences (continued)

(e) The number of fixed term employees increased as a result of a number of employees going on extended leave and the increase in the work load because of the DFI merger. All vacant positions have been placed on hold because of the merger which has also resulted in the over expenditure as temporary staffers are being employed instead of permanent employees. Also a higher number of employees obtained higher performance ratings than was anticipated when the budget was drawn up. This also contributed to the reported variance.

(f) The entity does not budget for losses. These bad debts had been provided for in full.

(g) Loan impairments increased significantly during the year. This is due to a mixture of occurrences including fund diversions in the subsidy housing programme and slow progress on some of the affordable housing projects

(h) Overall the payables budget were overstated.

(i) The variance relates to managed funds. Managed funds are funds that the entity manages on behalf of Provincial Departments of Human Settlements. One of these programmes came to an end during the financial year and it had not yet been replaced by another fund management programme by the end of the financial year.

40. Transfer of functions between entities under common control

Transfer of functions between entities under common control occurring after the end of the reporting period but before the financial statements are authorised for issue

NURCHA will transfer all its assets and liabilities as a function to NHFC on the 30 September 2018, which is the latest effective date of the donation agreement and therefore the transfer date.

The Minister of Human Settlements took a decision to merge three DFIs under her ministry in order to form a Human Settlements Development Bank (HSDB) that will be able to deliver in the human settlement sector at a larger scale than the three DFIs are able to do individually. In May 2017, the Minister of Human Settlements announced the establishment of the Human Settlements Development Bank. The three merging DFIs will ultimately form part of this bank.

The formation of the HSDB bank will happen in two phases; the first of which NURCHA and Rural Housing Loan Fund (RHLF) will transfer assets to NHFC as a transfer of functions. After that, the second phase will be the formation of the Human Settlements Development Bank once all the legislative requirements have been fulfilled.

All conditions of the first phase of the transfer have been fulfilled, including approval by the Companies Tribunal of South Africa. On 28 April 2017, the Companies Tribunal of South Africa granted an exemption in terms of section 6(2) of the Companies' Act which effectively allows NURCHA and RHLF, non-profit companies to merge and donate assets to NHFC. NHFC is in the process of obtaining PFMA Section 66 approval from the Minister of Finance. Section 66 relates to restrictions on borrowing, guarantees and other commitments. The application was submitted in June 2018 through the Department of Human Settlements.

All assets and liabilities will be donated at a value of Rnil and transferred to NHFC at their carrying amounts. All loan covenants, commitments, salaries of employees and employment contracts will be transferred to NHFC as they are. No changes will be made.

As at 31 March 2018, the carrying amounts of the assets to be transferred at the effective date and liabilities to be relinquished on the effective date are as follows:

Value of assets

NATIONAL URBAN RECONSTRUCTION AND HOUSING AGENCY (NPC)
Notes to the Consolidated And Separate Annual Financial Statements
for the year ended 31 March 2018

	Group		Company	
R'000	2018	2017	2018	2017
40. Transfer of functions between entities under common control (continued)				
Assets transferred				
Property, plant and equipment	1,770	893	1,770	893
Intangible assets	185	770	185	770
Loans for construction projects	262,033	378,272	162,535	288,446
Receivables from exchange transactions	2,175	27,419	1,863	573
Non-current assets held for sale	1,300	1,300	1,300	1,300
Investments in controlled entities	-	-	1	1
Loans to economic entities	-	-	96,842	125,861
Cash and cash equivalents	338,819	281,436	283,470	155,699
	606,282	690,090	547,966	573,543
Liabilities relinquished				
Current tax payable	1,887	641	-	-
Payables from exchange transactions	12,983	28,981	3,747	3,089
Managed funds	-	49,862	-	-
Provisions	1,904	2,228	1,904	2,228
Other payables	-	650	-	650
PIC loan	69,976	69,976	-	-
	86,750	152,338	5,651	5,967
Difference between the carrying amounts of the assets acquired, the liabilities assumed	519,532	537,752	542,315	567,576

Acronyms

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

Administration

Registration Number

1995/004248/08

Registered Office

3rd Floor
Old Trafford 3
Isle of Houghton
11 Boundary Road
Houghton, 2198

Auditors

Ngubane and Co (Johannesburg) Inc
Chartered Accountants (SA)
Ngubane House
1 Superoir Close | Off 16th Road
Midrand
PO Box 8468
Halfway House, 1685

Directors

Mr K Shubane (*Chairman*)
Mr V Gqwetha (*Managing Director*)
Mr S Nxusani (*Financial Director*)
Ms A Struwig (*Executive Director: LendingPortfolio*)
Mr C de Beer
Mr W Ndodana
Ms M Nkomo
Mr T Nzimakwe
Mr H Prinsloo
Ms Z Rylands
Ms L Sing

Company Secretary

Ms Nontsikelelo Ndzimbomvu

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Level of assurance

The consolidated and separate financial statements have been audited in terms of section 29(1)(e)(i)(aa) of the Companies Act.

Preparer

The financial statements were prepared under the supervision of Mr S Nxusani, Chief Financial Officer CA(SA)





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human settlements

Department:
Human Settlements
REPUBLIC OF SOUTH AFRICA