Australian Government

NHFIC
National Housing Finance and Investment Corporation

National Housing Finance and Investment Corporation

Annual Report 2020–21

About this report

This Annual Report is for the period commencing 1 July 2020 and ending on 30 June 2021 (defined as the financial year). It provides information about the National Housing Finance and Investment Corporation (NHFIC), as required by the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act), the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and other regulatory reporting obligations.

The Annual Report covers NHFIC's business activities, strategy, performance (including the Annual Performance Statement), governance, risk management, executive remuneration and financial statements. It presents the progress NHFIC has made during the financial year in achieving its purpose and performance objectives as outlined in the *Corporate Plan 2020–21*, in particular the improved housing outcomes it has delivered for Australians.

Further information about NHFIC's operating environment, strategic objectives and performance targets for the next four years is contained in the *Corporate Plan 2021–22*.

An online version of this report, as well as the Corporate Plan, are available on the NHFIC website at **www.nhfic.gov.au**. The Annual Report is also available on the Australian Government's Transparency Portal at **www.transparency.gov.au**.

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Acknowledgement of Country

In the spirit of reconciliation, NHFIC acknowledges the Traditional Custodians of country throughout Australia and their continuing connections to land, waters, community and culture. We pay our respects to their Elders past, present and extend that respect to Aboriginal and Torres Strait Islander peoples today.

Contents

About NHFIC

NHFIC is a corporate Commonwealth entity with the purpose of improving housing outcomes for Australians.

NHFIC provides long-term and low-cost finance, and capability building assistance, to registered community housing providers (CHPs) to support the provision of more social and affordable housing. It lends, invests and provides grants to help finance the critical infrastructure needed to unlock and accelerate new housing supply. NHFIC supports first home buyers by administering Government schemes that help them purchase their home sooner, and undertakes independent research into housing supply, demand and affordability in Australia.

Since our establishment on 30 June 2018, NHFIC has:

Approved $2.5 billion in long-term loans to 32 CHPs, supporting over 13,000 new and existing homes and saving these CHPs an estimated $420 million in interest and fees as well as other indirect costs associated with refinancing

Issued nearly $2 billion in bonds, including the largest social bond in Australia by an Australian issuer

Approved $304 million in infrastructure facilities, to unlock over 6,400 projected new dwellings and accelerate housing supply

Helped almost 33,000 Australians purchase or build a home

Published 6 research reports, providing insights into the nation's housing sector

Highlights 2020–21

Affordable Housing Bond Aggregator (AHBA)

To support the provision of more social and affordable housing, and facilitate the sustainable growth of the CHP sector, NHFIC

- Issued 3 bonds under the AHBA totaling $805 million
- Issued its first sustainability bond, which was also NHFIC's longest tenor bond (15 years), and first floating rate note
- Finalised its first major investment into a public private partnership (PPP) project
- Approved $1.1 billion of loans and grants to CHPs, supporting over 5,800 dwellings
- Provided 7 capacity building program grants, to assist CHPs to develop their financial capability and undertake new developments

National Housing Infrastructure Facility (NHIF)

To increase, unlock and accelerate new housing supply, NHFIC

- Developed a strong NHIF deal pipeline, with approved facilities of $197.2 million to support infrastructure projects around Australia
- Committed[1] $110.9 million in NHIF grants and loans to unlock more than 2,600 new dwellings
- Expanded the NHIF rollout, with approved financing in two new states – South Australia and Victoria ($114 million) – and the first CHP transaction ($18 million)

First Home Loan Deposit Scheme (FHLDS)

To support home buyers to purchase their first home sooner and to facilitate access to the housing market, NHFIC

- Launched the New Home Guarantee (NHG)
- Released 20,000 places under the FHLDS and NHG
- Helped 13,261 Australians purchase their first home through the FHLDS
- Helped 6,155 Australians build or purchase a newly built first home through the NHG

Research

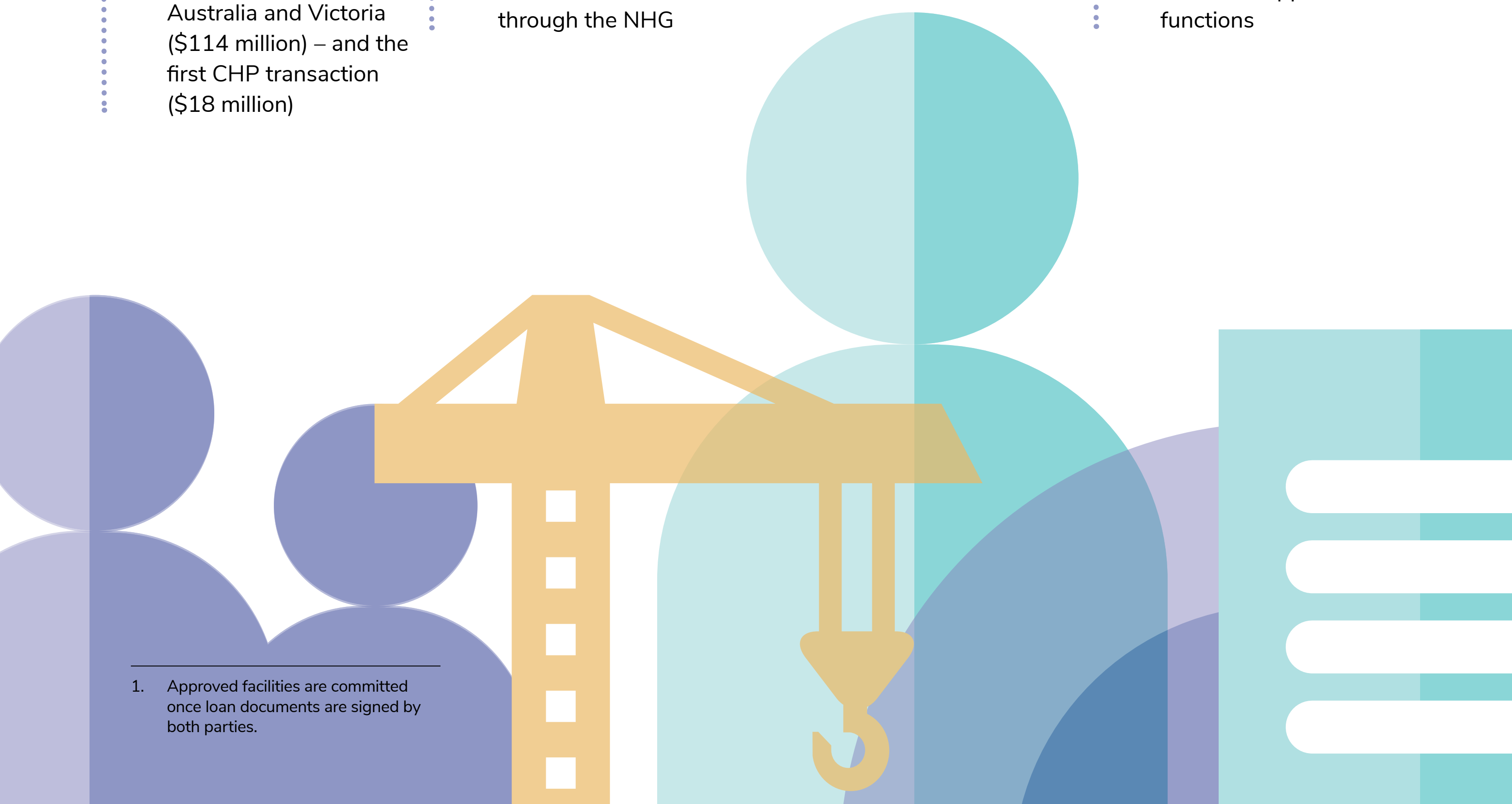
To support the monitoring of housing supply, demand and affordability, NHFIC

- Launched the inaugural flagship State of the Nation's Housing report, focused on housing supply and demand projections
- Issued 4 other research reports
- Hosted 2 webinars, including one focused on regionalisation of the workforce

NHFIC as a high-performing organisation

To deliver practices and outcomes of a high-performing organisation, NHFIC

- Delivered normalised earnings of $0.8 million
- Continued to expand the expertise of the NHFIC team
- Invested in technology, notably in the FHLDS IT Portal improving functionality for lenders
- Reviewed the service level agreement (SLA) with Export Finance Australia for cost-effective support functions



1. Approved facilities are committed once loan documents are signed by both parties.

A message from the Chair and CEO

Adrian Harrington, Chair

Nathan Dal Bon, Chief Executive Officer

The past year was a challenging one for many Australians.

The COVID-19 pandemic continues to have far-reaching effects for the economy and the community more broadly, with impacts felt across the housing, construction, finance, not-for-profit and government sectors.

While the housing and financial sectors have both been resilient, they have faced significant challenges as the pandemic has impacted many lower-income, at-risk and vulnerable Australians. It has also been a year of two halves, with periods of uncertainty contrasting with glimpses of optimism in the hope conditions will stabilise. Housing supply has increased as a result of several government initiatives to promote housing activity while housing price growth has surprised on the upside, with housing affordability remaining a key challenge in cities and increasingly in regional Australia.

Despite this unprecedented year, NHFIC made significant progress delivering on our targets during 2020–21, and we are well positioned to continue helping to improve housing outcomes for Australians in 2021–22 and beyond.

Financial year 2020–21 performance

Last year, NHFIC approved a record $1.1 billion in loans to CHPs, bringing total approvals to over $2.5 billion through the AHBA, supporting the delivery of more than 13,000 new and existing homes. Now in its third year, the AHBA has expanded its footprint to support projects across more states, and expanded the forms of lending offered to support new supply of social and affordable housing.

NHFIC continues to establish social and affordable housing as a new investment asset class in Australia, with nearly $2 billion of bonds issued since our inception. The successful issuance of three bonds in 2020–21 for $805 million saw strong support from new and existing institutional investors. This included NHFIC's first sustainability bond, which was also NHFIC's longest tenor bond, and first floating rate note. This strong demand saw the pricing on NHFIC's bonds continue to tighten relative to comparable benchmarks.

The NHIF continued to gain momentum, with over $197 million in approved loans and grants of which over $110 million moved to contract stage during the reporting period. This will assist the construction of more than 2,600 social, affordable and market dwellings across five states and territories. The NHIF has also broadened its rollout into two new states, Victoria and South Australia, and has expanded to include our first CHP transaction under the facility.

NHFIC rolled out another year of the Australian Government's FHLDS, as well as implementing the NHG under an expanded mandate from the Australian Government. Through these schemes, almost 33,000 Australians since January 2020 have been supported to purchase or build a home sooner. NHFIC also progressed the implementation of the Family Home Guarantee (FHG), announced by the Government in the 2021–22 Federal Budget, for commencement on 1 July 2021. The successful launches of the NHG and FHG were a testament to our ability to build and administer schemes within tight timeframes and work collaboratively with lender partners to ensure improved outcomes for Australians aspiring to own a home.

NHFIC's research function has become a respected voice in the public sphere, contributing to key discussions around policy since it was established on 1 January 2020. In addition to the inaugural launch of the annual State of the Nation's Housing flagship research report examining housing supply and demand projections, we released four research papers and hosted two webinars in 2020–21. The strong stakeholder and media interest in NHFIC's research has contributed to an active and broad discussion around housing policy issues in Australia.

Key themes

Strong cooperation with our stakeholders

Central to NHFIC's achievements has been our partnerships and strong relationships with stakeholders from across the government, community housing, finance and construction sectors.

These partnerships have led to new and innovative models for social and affordable housing. As an example, the Building Communities (Vic) Limited project is our largest and most complex transaction to date, with lending of over $344 million and NHIF financing of $51 million to support the delivery of over 1,100 social and affordable dwellings.

This project is a prominent example of the PPP model in Australia and has demonstrated the potential of the CHP sector in managing housing projects at scale and partnering with both NHFIC and the private sector. We estimate that the project will provide a return to the participating CHP of around $200 million over the life of the development which can be reinvested into more affordable housing.

Transitioning to a mature business

We are both proud to lead an organisation with a mission to improve housing outcomes for Australians, and one that plays a leading role in driving progress and development in the affordable and community housing sector. We are also inspired by the outstanding work and contributions of the NHFIC team over the financial year.

To ensure our sustainable growth and effectiveness in responding to our stakeholders, we reviewed and strengthened our operating model, invested in our technology capabilities and developed a program to embed our values and culture across the business.

The Australian National Audit Office (ANAO) completed a performance audit into the administration of NHFIC. The ANAO concluded that NHFIC was largely effective across its operations and in delivery against the Investment Mandate. NHFIC accepted and implemented the recommendations before the end of the financial year. This demonstrates our commitment to continuous improvement across our governance activities.

Outlook

It was a busy year for NHFIC and we remain well placed to deliver against our strategic goals and targets, including those set out in our 2021–22 Corporate Plan.

We acknowledge the anticipated release of the Australian Government's independent review of the operation of the NHFIC Act in the coming months and look forward to working with the Government and our industry partners to address any outcomes from that review, as appropriate.

As a young organisation, NHFIC is three years into a much longer journey to maturity, evolving and adapting quickly. Our underlying fundamentals are strong, we have introduced good practices to strengthen our operations, and we have a clear path to continuing our financial self-sustainability. It is very pleasing that the different parts of the whole – AHBA, NHIF, FHLDS and Research – are all operating smoothly and have a clear value proposition in Australia's housing market. It is the wealth of experience and diversity in our team that underpins our ability to achieve our purpose.

There is hard work ahead to unlock housing supply through infrastructure and to support the ongoing growth and maturity of the community housing sector. We are well prepared to support home buyers and CHPs in times like these. More broadly, there is a clear need to find sustainable housing solutions for at-risk groups in society. For example, a number of state governments have announced initiatives in these areas, including focusing on medium-term accommodation for vulnerable women.

Innovation is also important if we want to develop new housing and attract additional investment into social and affordable housing. As an organisation, we want to continue building on our product offerings to remain relevant and achieve our purpose. NHFIC is strongly committed to developing more innovative solutions as its business continues to grow and evolve. This includes building on its partnerships and increasing investor participation in the CHP sector.

We are committed to making a difference and achieving our purpose to improve housing outcomes for Australians. We look forward to working collaboratively with the Australian Government – including Assistant Treasurer, Minister for Housing and Minister for Homelessness, Social and Community Housing, the Hon Michael Sukkar MP and Treasury – state and territory governments, CHPs, institutional investors, lenders and other stakeholders on a range of initiatives that will continue to allow NHFIC to meet its mandate.

Acknowledgements

We wish to acknowledge the work of the departing Chair Brendan Crotty and Board Director David Cant, who both served on the NHFIC Board from NHFIC's inception until July 2021.

Over the past three years, both Brendan and David have been integral in setting the foundations of the organisation and in reaching its accomplishments so far. We wish Brendan and David the very best in their future endeavours.

We would also like to extend a warm welcome to our new Board members, Jane Hewitt and Kelvin Ryan, who joined the Board in July 2021. Their knowledge and experience will be greatly valued.

We would like to acknowledge Minister Sukkar, Federal Treasury and their respective teams for their strong engagement and support over the past year.

Finally, on behalf of the Board, we would like to thank Stephen Knight, independent Chair of the Bond Issue and Due Diligence Management Committee, independent members of our Credit Committee and the NHFIC team for their passion, commitment and hard work in delivering this year's outstanding performance.

Signed for and on behalf of the members of the NHFIC Board in accordance with a resolution of the Board and in accordance with Section 46 of the *Public Governance, Performance and Accountability Act 2013*.

Adrian Harrington
Chair

Nathan Dal Bon
Chief Executive Officer

Signed 24 September 2021

Our purpose and activities

About NHFIC

NHFIC was established by the Australian Government under the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act) and is defined as a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

NHFIC operates the Affordable Housing Bond Aggregator (AHBA), the National Housing Infrastructure Facility (NHIF) and the First Home Loan Deposit Scheme (FHLDS) – including the New Home Guarantee (NHG) and from 1 July 2021 the Family Home Guarantee (FHG) – and conducts research into housing affordability in Australia. It also undertakes capacity building activities for registered community housing providers (CHPs).

NHFIC operates independently of the Government and applies commercial discipline in making financing decisions. NHFIC's Board is responsible for determining strategy, defining risk appetite and making financing decisions, and ensuring the proper, efficient and effective performance of NHFIC's functions. The Chief Executive Officer (CEO) reports to the Board and is responsible for the day-to-day administration of NHFIC.

NHFIC is part of the Treasury portfolio of agencies. Its responsible Minister is the Assistant Treasurer, Minister for Housing and Minister for Homelessness, Social and Community Housing, the Hon Michael Sukkar MP (Minister). Minister Sukkar was the responsible Minister for the full reporting period.

The Minister appoints the Board and may provide directions about the performance of NHFIC's functions through an Investment Mandate made under section 12 of the NHFIC Act. At the date of publishing this Annual Report, the National Housing Finance and Investment Corporation Investment Mandate Direction 2018 (Compilation No. 3) is the operative direction (Investment Mandate).

In November 2020, the Minister initiated a statutory review of the operations of the NHFIC Act and of NHFIC's activities assisting first home buyers, as required under sections 57 and 57A of the NHFIC Act (Review). At the date of publishing this Annual Report, the Review report and Government response are yet to be publicly released.

More information on NHFIC's governance is provided in the Governance section of this Annual Report.

Our purpose

To improve housing outcomes for Australians.

NHFIC achieves its purpose by:

- strengthening efforts to increase the supply of housing
- encouraging investment in housing, particularly in the social or affordable housing sector
- providing finance, grants or investments that complement, leverage or support Commonwealth, state or territory activities relating to housing
- contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia
- assisting earlier access to the housing market by first home buyers.

NHFIC does this by:

Providing loans to registered CHPs to support the provision of more social and affordable housing

The AHBA provides loans to registered CHPs by aggregating their lending requirements and financing them primarily through the issuance of government guaranteed bonds in the commercial finance market. This allows funding to be raised at a larger scale and on different terms than could be achieved by individual CHPs. The issuance of bonds also facilitates greater private and institutional investment in the community housing sector.

The AHBA uses a 'pass-through' model to provide greater funding certainty and more affordable long-term finance to registered CHPs. The savings are passed on to providers in the form of reduced borrowing costs and refinancing risks, enabling them to expand their operations and the supply of social and affordable housing.

AHBA loans can only be provided to registered CHPs that are regulated under a relevant state or territory law or scheme. NHFIC aims to provide loans at the lowest cost and most appropriate tenor possible, after recovering operational and financing costs and building capital reserves as required by the NHFIC Act. Where appropriate, different loan products are offered to meet the varying needs of registered CHP applicants.

AHBA loans may be used to acquire or construct new housing stock, maintain existing housing stock, assist with working capital requirements and/or general corporate requirements, and/or refinance existing debts. NHFIC obtains security from registered CHPs for AHBA loans with appropriate terms and conditions approved by the Board.

To support the AHBA, the Australian Government has provided a $1 billion line of credit that NHFIC may use to advance initial loans to registered CHPs prior to issuing bonds. The line of credit is also used to fund projects that progressively draw down ahead of issuing a bond, such as construction finance. Loans financed by the line of credit are typically refinanced by NHFIC issuing a bond when a critical mass of such loans have been advanced.

Providing finance for eligible infrastructure projects to unlock and accelerate new housing supply

The NHIF provides finance in the form of loans, grants and equity investments to help support eligible infrastructure projects that would not otherwise have proceeded, or that would only have proceeded at a much later date or with a lesser impact on new housing.

The $1 billion facility supports critical infrastructure projects linked to new housing supply, particularly affordable housing, whether on the site or connecting to or linking to infrastructure. Examples include new or upgraded infrastructure for services such as electricity, water, sewerage, telecommunications and transport; and site remediation works, including the removal of hazardous waste or contamination.

The terms of NHIF financing are flexible and can be tailored to suit the needs of project proponents. These may include concessions such as longer loan tenors and lower interest rates than offered by commercial financiers, extended periods of capitalised interest and repayment holidays.

NHFIC limits concessions provided under the NHIF to the minimum that it considers necessary for an eligible project to proceed or be completed in the proposed timeframe. NHFIC obtains security for NHIF loans with appropriate terms and conditions approved by the Board. State and territory applicants are not required to provide security.

NHFIC must ensure that the return on NHIF loans and investments over the medium to long term is sufficient to cover the NHIF's financing and operating costs, build capital reserves and cover the Government's borrowing costs (the benchmark rate of return).

Providing support for first home buyers to purchase their first home sooner

Under the FHLDS, eligible first home buyers can purchase a home with a deposit of as little as 5 per cent without having to pay for lenders mortgage insurance. This is because the Commonwealth, through NHFIC, provides a guarantee to participating lenders of up to 15 per cent of the assessed value of the eligible property financed by an eligible first home buyer's home loan. Up to 10,000 guarantees are available each financial year.

In the 2020–21 Federal Budget, the Government announced an extension to the FHLDS called the New Home Guarantee (NHG) to stimulate activity in housing construction, with an initial 10,000 guarantees made available in 2020–21 specifically for first home buyers building a new home or purchasing a newly built home.

The NHG was extended for a further financial year in the 2021–22 Federal Budget, with an additional 10,000 places available from 1 July 2021 to 30 June 2022.

Eligibility requirements apply to the FHLDS and NHG, including income and property price caps set by the Government.

NHFIC operates the schemes through a panel of 27 residential mortgage lenders across Australia. NHFIC's Investment Mandate provides that no more than two major banks can be approved as eligible lenders for a financial year.

Conducting research into housing affordability in Australia

NHFIC conducts comprehensive research into housing demand, supply and affordability in Australia.

NHFIC's flagship report, 'State of the Nation's Housing', provides an annual snapshot of housing demand and supply across the country, with a view to identifying supply shortfalls that could over time exacerbate affordability problems. This work is complemented by NHFIC's core ongoing work program which aims to contribute applied and practically focused research. These activities create a more connected conversation between government, research and industry that helps to deliver better housing outcomes.

NHFIC's work program is supported by an expert panel of academics, industry and public policy professionals. The research work also involves engaging with a broad range of stakeholders across the housing sector to identify problems with a view to undertaking practical and relevant research, and elevating and popularising key housing issues, which helps inform the public policy debate.

Providing support for capacity building to assist CHPs in applying for NHFIC finance

NHFIC provides support for capacity building to assist registered CHPs to further develop their financial and management capabilities and undertake new developments. A cap of $1.5 million applies to the amount that NHFIC can spend on capacity building activities. NHFIC's Investment Mandate envisages that NHFIC will enter into contracts to procure these services.

The Community Housing Industry Association (CHIA) currently administers the Capacity Building Program on NHFIC's behalf. Under the program, registered CHPs can access grants of up to $20,000 for professional advisory services in the areas of finance, business planning, property development and risk management to support a NHFIC finance application. Eligible representative peak bodies and groups of CHPs can also apply for grants of up to $20,000 to support sector-wide capacity building projects.

Annual Performance Statement

for the year ended 30 June 2021

Annual Performance Statement

for the year ended 30 June 2021

Introductory statement

I, Adrian Harrington, Chair of the accountable authority, the Board of the National Housing Finance and Investment Corporation (NHFIC), present the 2020–21 Annual Performance Statement of NHFIC, as required under Section 39 of the PGPA Act.

In my opinion, this Annual Performance Statement is based on properly maintained records, accurately reflects the performance of the entity, and complies with relevant sections of the PGPA Act.

Adrian Harrington
Chair
National Housing Finance and Investment Corporation

Annual Performance Statement summary

Table 1: 2020–21 outcomes mapped against quantitative performance targets

Performance area	Performance objective	Performance target 2020–21	Performance 2020–21	Outcome achieved
Facilitate sustainable growth of the CHP sector	Total NHFIC (AHBA) loan portfolio valued at $1.5b–$2b by 2021–22	$200m–$450m	Settled $896.1m of loans in 2020–21 In aggregate, $2.5b of AHBA loans have been approved[1] – of which $2.1b have been settled – supporting the delivery of 13,000+ new and existing dwellings and delivering anticipated savings of over $420m to CHPs	
	Total dollar value of issued bonds to be two-thirds of (settled) loan portfolio value	$133m–$300m	Issued $805m of bonds in 2020–21 In aggregate, almost $2b of bonds have been issued which account for almost 96% of the total loan portfolio	
Facilitate increase in housing supply	NHIF loan and grant facilities committed	$100m–$300m	Approved[1] $197.2m of loan and grant facilities in 2020–21, of which $110.9m were committed[1] facilities supporting the delivery of 2,600+ new dwellings In aggregate, $304.1m of NHIF facilities have been approved[1], of which $206.6m were committed[1] facilities supporting the delivery of 3,900+ new dwellings	
Facilitate access into housing market	Number of (FHLDS) guarantees provided to panel lenders	10,000	10,000 FHLDS guarantees provided 10,000 NHG guarantees provided	
Deliver high-performance organisation practices and outcomes	Financial sustainability	Ensure operating expenses per annum are within annual appropriation provided by government for 2020–21	Operating expenses for NHIF, FHLDS and Research[2] were within the cash appropriations provided by the Government for the year, after including the carry forward of cash surpluses from prior years	
		Achieve benchmark return to cover operating costs from 2021–22 and build an adequate capital reserve in accordance with legislation	The benchmark return was achieved as the AHBA generated earnings in 2020–21 from its operations, ahead of the 2021–22 target, which enabled it to build its cash capital reserves in accordance with its Capital Adequacy Policy	
		Maintain the minimum target value of the permanent fund associated with the NHIF	The minimum target value of the NHIF permanent fund was maintained as revenues generated covered operating costs and the Government cost of borrowing	

1. Facilities are ‘approved’ by the NHFIC Board and become ‘committed’ once loan documents are signed by both parties.
2. NHIF, FHLDS and Research form part of the general government sector (GGS) reporting classification.

Table 2: 2020–21 outcomes mapped against qualitative performance targets

Our functions	Performance targets 2020–21	Performance 2020–21	Outcome achieved
Provide loans to registered CHPs to support the provision of more social and affordable housing	Expand offering under the AHBA loan facility in terms of dollar value, types of lending (for example, construction finance), range of CHPs and geographic coverage across Australia	Expanded offering by dollar value (from $910.7m in 2019–20 to $1.1b in 2020–21), types of lending (construction and project finance, introduced a floating rate note), CHP and geographic coverage (13 CHPs in six states)	
	Issue bonds to support the AHBA loan facility with a mix of tenors	Bonds issued during 2020–21 have terms ranging from 10 to 15 years	
	Build partnerships with institutional investors and superannuation funds to attract additional capital into the community housing sector	43 institutional investors invested in the three bonds issued during 2020–21 Entered into an innovative pilot agreement, partnering with a leading superannuation fund to co-fund a project in NSW	
	Implement protocols with each registrar nationally	Protocol agreements in place with five states (NSW, Qld, SA, Tas and WA) and engagement with the remaining state (Vic) to finalise protocols	
Provide finance for eligible infrastructure projects to unlock new and accelerate housing supply	Expand NHIF rollout to finance infrastructure projects across Australia	Expanded rollout and reach, with grants and loans approved in two new states (SA and Vic) and the first CHP transactions $197.2 million of NHIF facilities approved[1] of which $110.9 million were committed[1]	
Provide grants for capacity building services to assist CHPs in applying for NHFIC finance	Issue grants for capacity building services through the Capacity Building Program, supporting more CHPs to access NHFIC finance	Approved seven capacity building grants totalling $0.1 million in 2020–21 for CHPs in NSW, Qld and WA Expanded the program and attracted a broader mix of Tier 1, 2 and 3 CHPs	
Administer the FHLDS to support first home buyers purchase their first home sooner	Work collaboratively with participating lenders to enhance the operation and integrity of the Scheme and support first home buyers	Worked collaboratively with participating lenders to ensure the effective design and execution of the schemes. Feedback on NHFIC from lenders and borrowers has been positive, in particular the administrative simplicity of the schemes and the level of support provided for borrowers and lenders Developed and launched the NHG Scheme as directed by the Government	
Conduct research to support the monitoring of housing supply, demand and affordability	Issue the State of the Nation's Housing report and targeted research papers to inform policy debate and decision making	Issued the inaugural annual State of the Nation's Housing report in December 2020, along with four additional research reports and two webinars Feedback from stakeholders has been positive, with the research viewed as highly relevant and used to inform discussions	

Affordable Housing Bond Aggregator

Helping community housing to grow and flourish

CHP loans approved reaches $2.5 billion

NHFIC's AHBA continued to facilitate and contribute to the growth of the community housing sector, enabling the supply of additional social and affordable housing.

A total of $1.1 billion of AHBA loans were approved by the NHFIC Board in 2020–21, supporting the delivery of 5,803 new and existing dwellings. NHFIC settled $896.1 million in loans to CHPs during 2020–21.

Table 3: NHFIC approved AHBA loans to CHPs in 2020–21

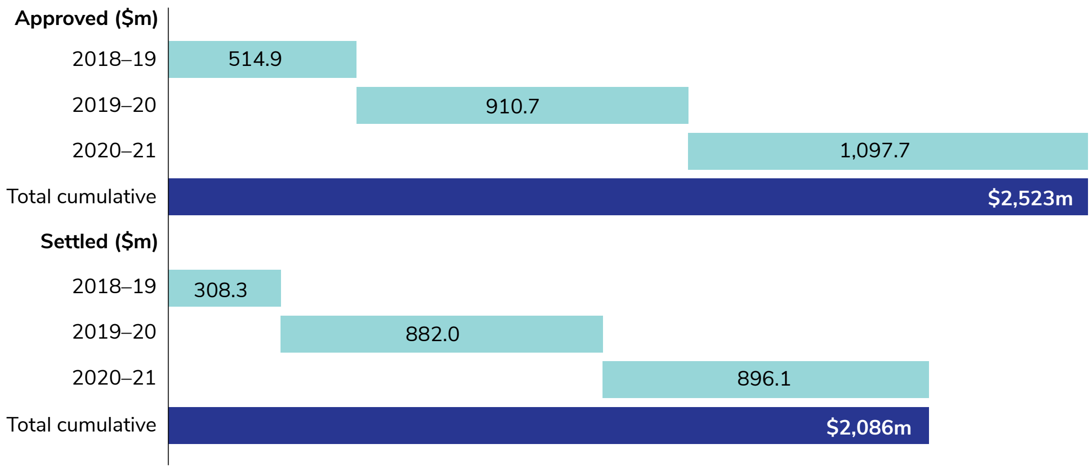
CHP	Loan value ($m)	Top line details	Date of approval	Funding source	State	New and existing dwellings supported[1]
BlueCHP	100.0	Construction umbrella facility for Qld PFG program and term debt	7 Jul 2020	Line of credit	Qld	244
Unison	53.0	Refinance and working capital for acquisition	7 Jul 2020	Bond	Vic	993
Housing Choices Tasmania	8.0	Construction and term debt	1 Sept 2020	Bond	Tas	133
Foundation	45.0	Acquisition	9 Nov 2020	Bond	WA	120
Common Equity (Vic)	15.0	Refurbishment	8 Feb 2021	Bond	Vic	80
Building Communities (Vic) Limited	344.3	Construction and term debt post completion	6 May 2021	Bond/ Line of credit	Vic	1,110
SGCH Portfolio	250.0	Refinance, construction and term debt	6 May 2021	Bond	NSW	2,000
Mission Australia	67.9	Construction and term debt post completion	6 May 2021	Bond	NSW	130
Pacific Link	7.0	Acquisition	6 May 2021	Bond	NSW	86
Housing Choices SA	16.5	Refinance	6 May 2021	Bond	SA	248
Housing Choices SA	5.5	Working capital	6 May 2021	Line of credit	SA	14
Board approved loans (4)[2]	185.5	Refinance, construction and term debt			NSW, Qld, Vic	645
Total	**1,097.7**					**5,803**

1. Dwelling information provided by CHPs at time of loan application.
2. Pending financial close.

NHFIC's total AHBA loan portfolio reached $2.5 billion of approved loans as at 30 June 2021, an increase of $1.1 billion from the previous year. As at 30 June 2021, the AHBA loan portfolio is supporting the delivery of 4,675 new and 8,394 existing dwellings.

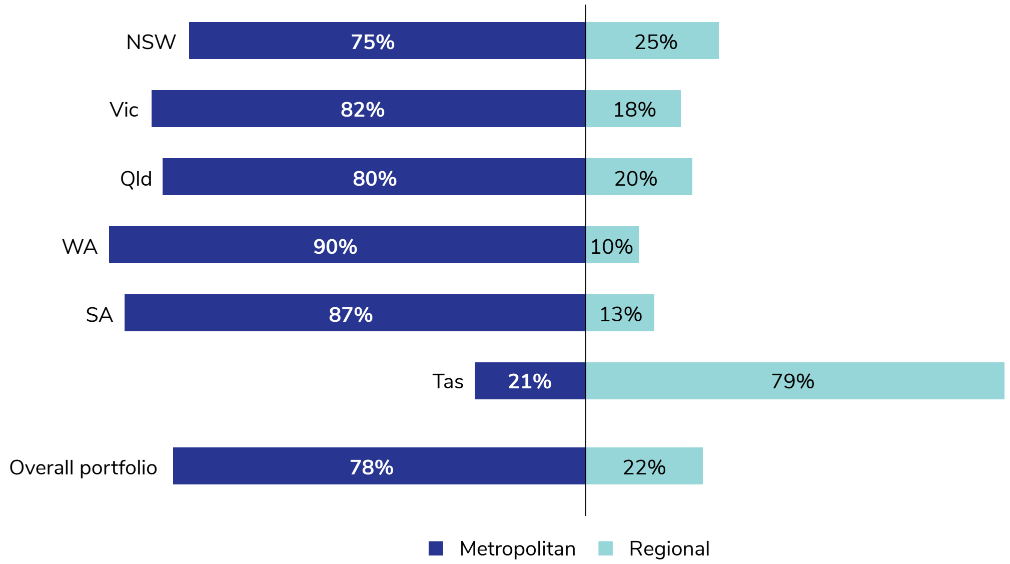
By providing CHPs with access to lower-cost and longer-tenor loans consistent with its purpose, the AHBA has delivered anticipated future savings of over $420 million to date to CHPs, representing interest payments and finance fees over the term of the loans as well as other indirect costs associated with refinancing.

Figure 1: Change in overall CHP lending



A location-based breakdown of new and existing dwellings supported by NHFIC's lending portfolio as at 30 June 2021 is included in Figure 2.

Figure 2: NHFIC total portfolio, dwellings split by metropolitan versus regional



Metro versus Regional analysis was performed on NHFIC's collateral management register residential assets with mortgages as at 20 July 2021, and is based on the Australian Statistical Geography Standard (ASGS) Geographic Correspondences from 2016: https://data.gov.au/dataset/ds-dga-23fe168c-09a7-42d2-a2f9-fd08fbd0a4ce/details. Please note: The ACT was not included due to low sample size.

Table 4: ABHA approved lending by type, year on year

	2018–19		2019–20		2020–21	
	$m	%	$m	%	$m	%
Refinance of term debt	271.7	53	513.3	56	279.0	25
Working capital for new supply and acquisition	197.5	38	245.3	27	127.6	12
Construction/project finance	45.7	9	152.0	17	691.1	63
Total	**514.9**	**100**	**910.6**	**100**	**1,097.7**	**100**

What is a sustainability bond?

Sustainability bonds are a type of financial instrument, where the funds raised by the bond are used to finance or refinance green and social projects that have positive environmental and social impacts.

With investors further integrating environmental, social and governance (ESG) criteria into their investment decisions, demand for sustainability bonds is growing rapidly.

An evolving lending pipeline to meet growing CHP needs

Consistent with the Government's objectives for the AHBA, NHFIC developed a strategy after its establishment that involved an initial focus on the provision of term debt primarily for refinancing as well as limited working capital for acquisition and new developments. It was also planned that NHFIC would build its expertise and track record before embarking on riskier construction projects, and new housing supply projects were contingent on supporting state government programs which were limited at the time.

NHFIC has executed on this strategy, with the pipeline of refinancing of short-term debt for longer and cheaper finance largely completed and the portfolio rebalancing towards more diverse and complex types of lending for CHPs. The pipeline has shifted towards funding new housing supply projects, with 75 per cent of finance approvals in 2020–21 supporting new supply including 63 per cent focused on construction/project finance. The volume of transactions has also enabled NHFIC to generate sufficient revenue to become financially self-sustaining and strengthen the accumulation of reserves.

Building a new asset class

In 2020–21, NHFIC continued its role in growing Australia's social and sustainable bond market and establishing social and affordable housing as a recognised investment asset class. NHFIC issued three bonds in the 12 months to 30 June 2021, taking issuance during the financial year to $805 million and NHFIC's total bond issuances to just under $2 billion.

The three bond issues in 2020–21 were supported by 43 domestic and international institutions.

NHFIC expanded its bond program by issuing its first sustainability bond and floating rate note in 2021–22. The proceeds from the sustainability bond will support the development of more than 1,100 new mixed tenure rental homes across Melbourne as part of NHFIC's involvement in the Building Communities consortium led by Community Housing Limited (CHL). The new developments will have a range of sustainable features including a 7-star average energy efficiency rating, 5-star green building rating, on-site renewable energy supply through solar PV systems, energy efficient appliances, rainwater harvesting and water efficient fixtures.

NHFIC's first sustainability bond was also its longest tenor bond to date (15 years) and received strong support from both domestic and international investors (12 international investors out of a total of 30 investors), including Australian superannuation funds, sovereign wealth funds and offshore ethical investment funds.

"Cbus Super has long been an advocate for NHFIC financing being used to support new construction of social and affordable housing and has invested in all three bond issuances made by NHFIC to date."

Cbus Super CEO Justin Arter

NHFIC's expanded bond program will enable it to fund new community housing projects that meet additional energy efficiency and environmental criteria that align with the United Nations Sustainable Development Goals and International Capital Market Association sustainability bond principles.

NHFIC's first floating rate note was issued in June 2021 for $100 million and also attracted strong interest from new domestic and international investors. The floating rate note enabled NHFIC to provide a variable interest rate loan facility for 10 years to community housing provider SGCH Group. Following the success of this first floating rate note, NHFIC is now able to offer a combination of fixed interest rate loans and variable interest rate loans to CHPs to better meet their particular financing requirements.

Diversifying the investor base

NHFIC's investor base continued to grow both domestically and offshore with 13 new investors (including seven based overseas) across the three new bonds issued in 2020–21. NHFIC has also built up a core set of repeat investors which have made up 40 per cent of demand across all of its bonds and has now had more than 60 different institutional investors.

The combination of new and repeat investors ensured that NHFIC's bond program continued to receive strong support, with all three recent bonds at least more than two times over-subscribed. The three bonds also had the highest allocation to international investors to date.

Strong investor demand and NHFIC's growing reputation as a bond issuer has seen a progressive tightening of the margin on NHFIC bonds compared to equivalent government bond benchmarks, with the $362 million, 10 year fixed rate NHFIC social bond issued in June 2021 achieving the lowest margin to date against the Australian Commonwealth Government Benchmark (ACGB) of similar tenor. The increased diversity in NHFIC's investor base is helping to establish social and affordable housing as an investment 'asset class' in Australia and reflects the growing global trend of institutions seeking opportunities to invest in projects that support ESG outcomes.

Table 5: NHFIC bond issuance in 2020–21

Issue	$m	Settlement date	Maturity date	Characteristic	Coupon rate	Investors #	Investor type	CHPs supported
1	343	2 June 2021	30 June 2036	15-year, fixed rate sustainability (social and green) bond	2.335%	30	Australian asset managers and super funds, international investors, sovereign wealth funds, ethical investment funds	• Building Communities consortium led by CHL
2	362	15 June 2021	1 July 2031	10-year, fixed rate social bond	1.74%	23	Australian asset managers and super funds, international investors, sovereign wealth funds, ethical investment funds	• SGCH Group • Mission Australia • Unison • Common Equity Vic • Foundation • Pacific Link • HCSA • HCT
3	100	15 June 2021	1 July 2031	10-year, floating-rate note	3mBBSW +18bps		Australian banks, international investors	• SGCH Group

More information on NHFIC's bonds can be found in the Social Bond Report for the current and previous financial years.

Table 6: NHFIC fixed rate bonds against benchmark

Issue date	Tenor (years)	Coupon rate (%)	Price above ACGB benchmark
28 March 2019	10	2.38	+48.3bps
27 November 2019	10.5	1.52	+37.8bps
29 June 2020	12	1.41	+38bp
2 June 2021	15	2.335	+21.7bps
15 June 2021	10	1.74	+21.5bps

Connecting investors with housing outcomes

In May 2021, ahead of its planned bond issuances, NHFIC hosted an investor tour of social and affordable properties in Melbourne. Thirteen attendees representing eight investors and financiers attended the tour to visit key sites and hear the experiences of tenants who live in properties owned by two CHPs (Women's Housing and Haven; Home, Safe). They also met with representatives of CHPs to better understand the work of the community housing sector and how NHFIC funding makes a difference.

NHFIC published its second Social Bond Report in 2020–21 as part of its ongoing reporting of social outcomes to investors. The report included profiles of 17 CHP borrowers across New South Wales, Victoria, Queensland, Western Australia, South Australia and Tasmania. It connected investors with insights into CHPs, expected outcomes of the loans, and the stories of tenants whose lives are improved by the work of CHPs supported by NHFIC finance.

Above: Haven; Home, Safe CEO Andrew Cairns addresses a group of investors and stakeholders during the NHFIC investor tour site visit in May 2021. COVID-safe precautions applicable at the time were followed.

"Our clients love to hear stories from CHPs about real-world mums, dads and underprivileged Australians benefiting from NHFIC-funded affordable and social housing."

Pendal Group Portfolio Manager George Bishay

CASE STUDY

SGCH

REDFERN, NSW

Above: Gibbons Street apartments living space and bedroom interior.

Main: Front of Gibbons Street development.

Right of main: SGCH CEO Scott Langford (left) and NHFIC CEO Nathan Dal Bon (right) at the topping out ceremony in December 2020; Gibbons Street common play area for children.

A project supported by the AHBA is SGCH's Gibbons Street development, which provides housing for 400 social and affordable housing tenants in Redfern NSW, with 25% earmarked for Indigenous households.

162 social and affordable homes

400 tenants

25% Indigenous

1 in 6 units can adapt to accommodate residents with disabilities

NHFIC's bond issuances in June 2021 supported a $250 million loan to leading CHP SGCH Group, comprising a $150 million fixed rate loan and $100 million floating rate note.

With the funds, SGCH refinanced its existing debt and set aside $22.7 million for construction of existing planned projects and allocated $73.7 million for construction of new projects. With lower-cost and longer-tenor funding from NHFIC, SGCH estimated future savings in excess of $50 million in interest payments and reduced refinancing costs.

The Gibbons Street project consists of a 162-unit, 18-storey building which provides 40 social and 120 affordable housing units across a mix of one, two and three bedroom units. The building was completed in June 2021, with 27 units adaptable for residents with disabilities and 25 per cent of units allocated to Indigenous households.

Reflecting on NHFIC's role at the project opening event in June 2021, SGCH Chair Annette Gallard commented:

"NHFIC's financing terms enable far greater provision of social and affordable housing than would otherwise occur. This will lead to hundreds of new homes that would not be possible without NHFIC.

There is no doubt that NHFIC created a pathway to access long tenor, low cost, operating phase capital that did not exist before NHFIC entered the market. This is a significant stepping stone on a pathway that we think will lead to more investment and more homes than would otherwise have been possible. You are helping create a functional ecosystem for capital to support community housing.

One of the key benefits NHFIC has delivered for CHPs is access to long term senior debt which is not otherwise accessible in the market. Whether safety net or springboard, a key feature of social and affordable housing is that it seeks to offer security of tenure to residents, so residents can focus on increasing their social and economic participation with the foundation of a safe and affordable home."

"NHFIC's financing terms enable far greater provision of social and affordable housing than would otherwise occur. This will lead to hundreds of new homes that would not be possible without NHFIC."

Annette Gallard

SGCH Chair

Collaborating and partnering for outcomes

Financial collaboration

In August 2020, NHFIC announced a collaboration with leading industry superannuation fund Cbus Super to develop an innovative pilot program with the NSW Land and Housing Corporation (LAHC) for its Community Housing Renewal Program.

The pilot program involves a procurement process, run by LAHC, to choose a preferred CHP proponent to deliver 96 dwellings across six sites in Sydney. While the pilot is ongoing, and represents one type of financing model to support CHPs, NHFIC has liaised with other states and territories, discussing how similar financing structures could support local community housing projects and attract private capital to the sector.

Partnering with states and territories

NHFIC also engaged with all state and territory governments in 2020–21, working constructively on initiatives that complement, leverage or support Commonwealth, state or territory activities relating to housing.

Notably, this resulted in NHFIC's first major PPP project and largest loan to date of $344.3 million provided to Building Communities (Vic) Limited, supporting more than 1,100 new homes for social, affordable, specialist disability and private rental tenants. The transaction also included $51 million of financing from the NHIF that will accelerate critical infrastructure development for these projects.

The Victorian Government announced the Building Communities consortium, led by CHL and Tetris Capital, as the preferred proponent for three Melbourne housing projects to be delivered under an innovative ground lease structure on Homes Victoria land in Brighton, Flemington and Prahran. The consortium will be provided with a lease to build, operate and maintain housing on the sites for 40 years and at the end of the lease the land and all of the dwellings will come under the management of Homes Victoria.

In total, the NHFIC funding is expected to provide a return to the CHP of around $200 million over the life of the project. These funds are available to be reinvested into more social and affordable housing.

The project is a step change for the community housing sector, with CHL playing a leading role in developing and operating a complex and large housing development. The project is also a prime example of how the Australian Government and state governments can work together with the not-for-profit, private and community housing sectors to deliver much-needed social and affordable housing.

NHFIC has agreed protocols with most jurisdictions to facilitate a cooperative working relationship including the exchange of information and the shared objective of supporting the interests of tenants.

In 2020–21, NHFIC finalised protocols with NSW LAHC for its Community Housing Redevelopment Program and continued to develop protocols with Victoria and updated protocols with Queensland. As at 30 June 2021, NHFIC had protocols in place with five out of six states – New South Wales (Department of Communities and Justice and LAHC), Queensland, South Australia, Western Australia and Tasmania.

"We have had a successful partnership with NHFIC since its inception. This funding in particular is game changing, enabling CHL to accelerate the delivery of large scale new social and affordable housing for hundreds of Victorians in a model that is replicable for the renewal of public housing nationally."

CHL Managing Director Steve Bevington

Figure 3:

Partnering with states and territories in 2020–21

- Funding
- Consultation

$1097.7m Total AHBA loans approved

13 Total CHPs supported

7 Total capacity building grants issued

WA

- Provided Foundation Housing with $45m for acquisition of affordable dwellings and to deliver on its growth strategy.
- Continued to consult with the Department of Communities to assist with their housing strategies, such as the Social Housing Economic Recovery Package.

NT

- Participated in the first SDA Land Offer program leading to an AHBA application with one of Australia's largest disability accommodation providers.
- Consulted with the NT Government to develop and collaborate on its new housing strategy.

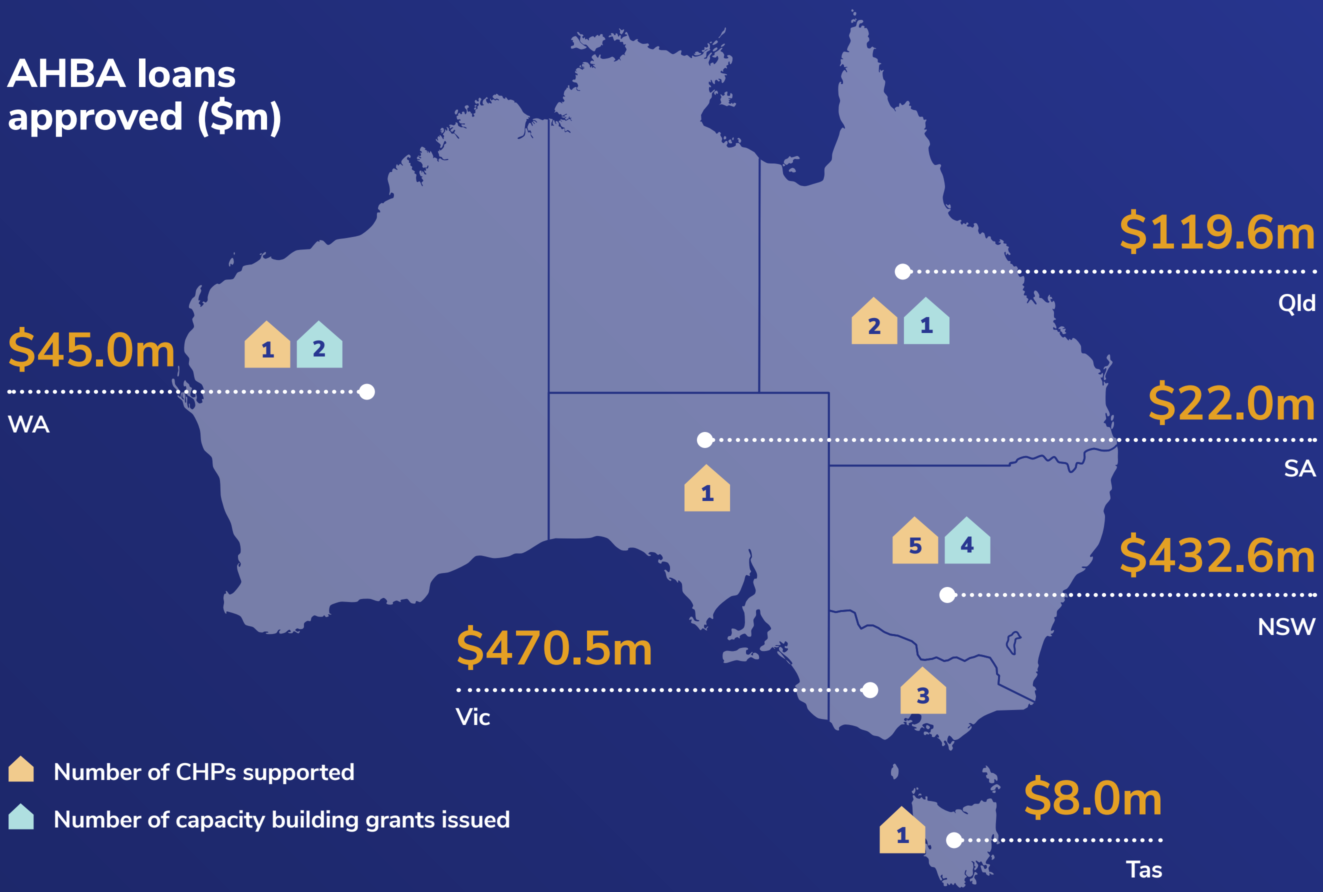
Qld

- Approved first transaction for the Queensland Government's Partnering for Growth Program of $100m.
- Held workshops with the Queensland Government and Queensland Investment Corporation (QIC) on financial structuring options for CHPs.

NSW

- Continued supporting the Community Housing Renewal Program with LAHC.
- Continued to work with Landcom on projects, including Lachlans Line.
- Collaborated with the Department of Communities and Justice (DCJ) and Landcom to identify new opportunities.
- Held an education workshop with DCJ Housing.

AHBA loans approved ($m)



SA

- Provided Housing Choices SA with $22m to deliver on program commitments with the SA Government.
- Collaborated with the South Australian Housing Authority (SAHA) to deliver on projects, including a women's housing initiative in Adelaide.
- Worked closely with SAHA to establish a steering committee for a social housing pilot project.

Vic

- Funded NHFIC's first PPP transaction as part of the Victorian Government's Public Housing Renewal Program, and largest loan to date with $344.3m in AHBA finance.
- Supported the first phase of the Victorian Government's Big Housing Build stimulus program.

Tas

- Provided letters of comfort for the Tasmanian Government's Community Housing Growth Program to support bidding CHPs.
- Collaborated with the Tasmanian Government on suggested structures for their Community Housing Growth Program.

ACT

- Engaged with the ACT Government, Suburban Land Agency and leading CHPs.
- Consulted with CHPs in the ACT on financing and potential projects.

Supporting CHPs through potential COVID-19 impacts

NHFIC took proactive measures to stress test its lending portfolio as the impacts of COVID-19 emerged during 2020–21, to ensure NHFIC had adequate buffers and could offer support to CHP borrowers if required. This testing revealed that none of NHFIC's CHP client base were at risk of breaching their loan covenants, and that NHFIC's portfolio could withstand reductions in revenues under various stress-testing scenarios.

NHFIC is also actively approaching CHP borrowers during the pandemic to understand the measures they are taking to support tenants and their staff. NHFIC offered avenues for financial consultation and support, and ensured that CHPs were aware that NHFIC was willing to work collaboratively with them during this challenging time.

NHFIC research also jointly commissioned with CHIA 'Australia's social and affordable housing sector: a resilient response to COVID-19'. Thirty CHPs were interviewed in June and August 2020 to assess the pandemic's immediate and longer-term impacts on the CHP sector and their tenants.

Building capabilities for CHPs and the sector

NHFIC continued to provide grants through the Capacity Building Program, administered by CHIA on NHFIC's behalf. The grants support registered CHPs to further develop their financial and management capabilities.

NHFIC received positive feedback from CHPs who participated in the program, with 100 per cent of recipients reporting the top score of being 'very satisfied' with the work carried out through the funding in the most recent evaluation survey. CHIA also reported informal feedback about how important the support has been to providers, and that with the exception of Victoria there is no comparable support being offered to CHPs by any other jurisdiction.

In the year to 30 June 2021, NHFIC approved seven capacity building grants totalling $0.1 million for CHPs in New South Wales, Queensland and Western Australia to access consulting services in the areas of finance, business planning, property development and risk management to support NHFIC finance applications. The approved grants comprised a mix of Tier 1, 2 and 3 CHPs, with a Tier 3 CHP receiving a grant for the first time.

Of the seven CHPs approved for grants in the 2020–21 cohort, five have completed their tailored assistance programs and one of the five – Foundation Housing in Western Australia – has already successfully obtained NHFIC finance.

NHFIC also extended the Capacity Building Program in 2020–21 to include projects from representative peak bodies and groups of CHPs that support sector-wide capacity building, in addition to individual CHP grants. Four sector-wide projects were approved during the year, including an innovative project to develop metrics and guidelines for a sector-specific financial stress model that will be made available to all CHPs on completion.

Enhancing how NHFIC works with CHPs

During 2020–21, NHFIC revised its credit policy to offer an additional lending product based on project finance. This product provides CHPs with greater flexibility and options when considering innovative structures, including PPPs, and allows leverage of cashflow streams for growth. Shortly after introducing this product, NHFIC supported its largest and most complex transaction to date for the Building Communities consortium.

To ensure sound management of its growing AHBA loan portfolio, NHFIC introduced enhanced frameworks for portfolio management, collateral management and construction loan management. NHFIC also formed a new lending guideline to help facilitate more transactions with CHPs that provide specialist disability accommodation.

NHFIC developed a financial model template to standardise financial reporting for CHPs to help them with loan applications. Commissioned by NHFIC, the resource was designed in consultation with CHPs and developed by financial modelling firm Leadenhall to streamline financial forecasting and performance reporting, as well as assist with CHP regulatory reporting requirements. CHPs were trained in using the financial model, which has contributed to most loan applications NHFIC has received since it was implemented in July 2020.

NHFIC engaged with its CHP client base in a series of individual strategy workshop meetings with each CHP to discuss their goals and aspirations, offer support, and find opportunities to work together towards growing the sector.

NHFIC also enhanced its internal legal capabilities to work more closely with CHPs, reducing reliance on third-party legal counsel and enabling a more cost-effective and responsive model of engagement with NHFIC. This allows NHFIC to engage more closely with CHPs earlier in the process and facilitates smoother and more efficient transactions and negotiations. NHFIC is simplifying its lending documentation where possible which will further streamline this process.

National Housing Infrastructure Facility

Investing to grow housing supply

$111m in committed NHIF deals

The NHFIC Board approved $197.2 million in NHIF deals in 2020–21, including commitments of $110.9 million to support critical housing-enabling infrastructure projects. When completed, these projects will unlock more than 2,600 social, affordable and market dwellings across Australia.

Since the inception of the NHIF, the NHFIC Board has approved applications for grants and loans of over $304 million to finance eligible infrastructure projects across five states and territories.

NHIF rollout and engagement expanded

NHIF expanded its rollout and reach in 2020–21, with grants and loans approved in two new states – South Australia and Victoria – and the first CHP transactions under the facility.

NHFIC continued to engage with state and territory governments and CHPs, building on strong foundations established in the previous financial year. During 2020–21, NHIF grants and loans were approved for projects across South Australia, Victoria and New South Wales.

Table 7: 2020–21 NHIF investment commitments

Project proponent	Total committed ($m)	State	Type of project			
SA Housing Trust	43.0	SA				
Housing First	17.1	Vic				
Evolve	3.2	NSW				
Victorian Public Housing Renewal Program	47.6	Vic			-	
Total	**$110.9 million**					

Key

- Transportation, including roads
- Electricity and gas
- Site remediation, including removal of hazardous waste and infrastructure
- Water, sewerage and stormwater

“We know that a stable, affordable home is the best possible base from which to build, and in some cases rebuild lives. These homes must be in good neighbourhoods with access to utilities, transport, schools and opportunities. NHFIC’s Infrastructure Facility model is a brilliant way for experienced, not-for-profit housing providers like us to access affordable finance and get on with the job of delivering homes for people in need.”

Housing First Chair Janine Kirk AO

NHFIC signed new umbrella facility agreements of $18 million with Housing First in Victoria in March 2021, and $45 million with the South Australia Housing Trust in May 2021, providing a framework for engaging NHFIC on their project pipelines to enable delivery of vital housing-enabling infrastructure projects in coming years.

In June 2021, NHFIC approved the first NHIF joint venture in South Australia, working with a CHP to deliver 661 homes, of which 255 will be retained as social housing.

During the year, NHFIC worked closely with the Department of Communities (Tas), Suburban Land Agency (ACT) and Landcom (NSW) on upcoming opportunities. NHFIC also met with Economic Development Queensland and a number of regional councils to discuss the benefits of NHIF financing.

NHFIC progressed more than $47 million in NHIF expressions of interest working closely with local government areas (LGAs) during 2020–21.

Notable engagement included workshops with Queensland councils through the Council of Mayors (SEQ), and with Regional Development Australia, an initiative which brings together all levels of government – Australian, state and territory, and local – to focus on regional development.

To support the ongoing expansion of NHIF and work towards execution of funding agreements with LGAs in 2021–22, NHFIC has amended internal policies to more closely align with LGA requirements.

“[NHIF] is the sort of innovation we are looking for under the Our Housing Future 2020–2030 to increase the supply of affordable housing in South Australia. Developing market homes for sale gives the Authority the opportunity to re-invest money from these sales back into social housing.”

SA Housing Authority Chief Executive Michael Buchan

Figure 4:

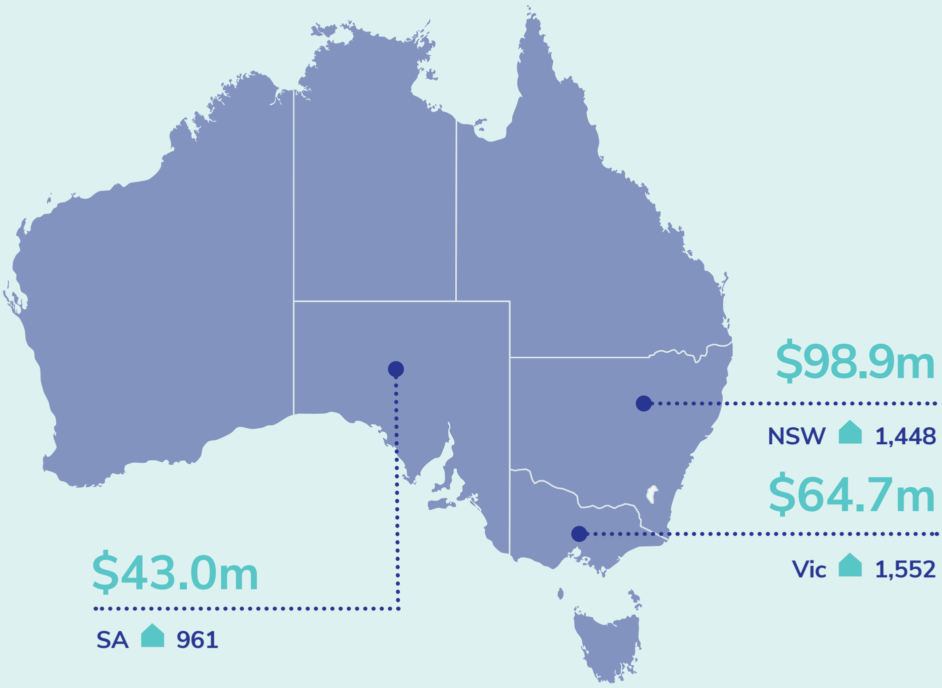
Total NHIF investment and outcomes

$206.6m

in total committed NHIF loans and grants

3,961

Total projected dwellings supported by committed NHIF facilities



First Home Loan Deposit Scheme

Helping first home buyers

Strong scheme take-up continues

NHFIC released a total of 20,000 scheme places to participating lenders during 2020–21, comprising 10,000 places under the FHLDS and 10,000 places under the NHG.

As at 30 June 2021, lenders had allocated 9,999 of the 10,000 2020–21 FHLDS places provided by NHFIC. Of these, 9,647 (96 per cent) first home buyers had signed a contract or settled on their home, while the remaining 352 (4 per cent) were at early financing stages and still looking for a property.

Table 8: Schemes administered by NHFIC as at 1 July 2021

Name	First Home Loan Deposit Scheme	New Home Guarantee[1]	Family Home Guarantee
	Commenced on 1 January 2020 for major banks and 1 February for non-major lenders	Commenced on 2 November 2020	Commenced on 1 July 2021
Purpose	To help first home buyers purchase their first home sooner	To help first home buyers purchase a new home sooner	To help single parents with dependants purchase a family home
Minimum deposit	5%	5%	2%
Scheme places made available in that financial year			
2019–20	10,000		
2020–21	10,000	10,000	
2021–22	10,000	10,000	10,000 for a 4-year period

1. Previously known as FHLDS (New Homes).

"My partner and I would like to thank the team at NHFIC so much for your help. Thank you for taking the time to hear our story and thank you for following up on this matter for us. It's impossible to express the level of gratitude we feel, but you have created a positive ending to the most expensive and stressful experience we have ever had."

Feedback from FHLDS first home buyers in Queensland

In the eight months from its launch on 2 November 2020 to 30 June 2021, the NHG saw solid support and participation from participating lenders and first home buyers. Over two-thirds (6,727) of NHG places were taken up by lenders as at 30 June 2021. Of these, 4,781 (71 per cent) first home buyers had signed a contract or settled on their new home, while the remaining 1,946 (29 per cent) were at early financing stages.

As at 30 June 2021, two scheme-backed loans were at 60+ days arrears and one at 90+ days arrears. No claims had been made by lenders on any guarantees.

Figure 5: 2020–21 FHLDS and NHG guarantee certificate allocations by state and territory[2]

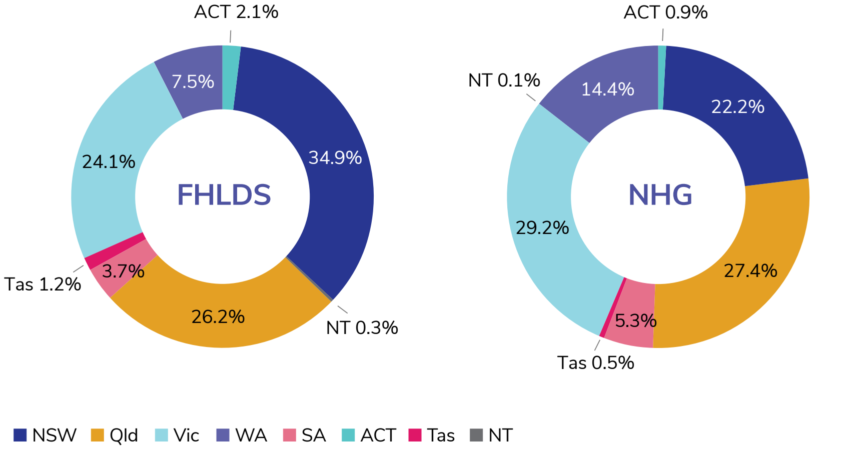


Figure 6: Profile of the typical single and couple buyer under FHLDS and NHG in 2020–21

Profile of the median buyer

	Single FHLDS	Single NHG		Couple FHLDS	Couple NHG
	$397,000	$465,000	Purchase price	$474,500	$548,500
	25–29		Age bracket	25–29	
	$60–$80k per annum		Household income	$100–$125k per annum	
	52% female 48% male	47% female 53% male	Gender split	–	–
	95%	92%	Loan to value ratio	95%	94%

2. This data relates to Guarantee Certificates issued in 2020–21 as at 30 June 2021 and are based on actual purchase location. Guarantee Certificates are issued to a lender after a first home buyer has signed a contract of sale and received unconditional finance approval. The data does not include places on hold (that is, where places are reserved or finance has been pre-approved) or Guarantee Certificates that have ceased.

Making a difference to the home ownership dream

The FHLDS and NHG have been well received in the market by participants and lenders alike. NHFIC's dedicated FHLDS inbox and toll-free 1800 phone number received a large number of enquiries from members of the public, and during 2020–21, NHFIC answered 3,173 phone calls and responded to 3,990 emails about the schemes.

Participating lenders reported that the schemes have led to positive outcomes for their customers and communities. All 27 participating lenders offered their customers the FHLDS and NHG in 2020–21. Notably, some regional non-major lenders commented that the schemes have helped them improve market share for their lending products, contributing to customer choice and competition in the market.

Across the market, NHFIC notes that first home buyer commitments have risen to their highest level since 2008, with scheme guarantees accounting for around one in 10 (11 per cent) of total first home buyer loans.[3]

Over 3,700 key workers[4] used the schemes, represented in more than one in five of all guarantees issued in 2020–21. Of these key workers, 35 per cent were nurses, 34 per cent teachers, 11 per cent emergency services, 10 per cent childcare workers, and the remaining 10 per cent included aged and disabled carers, social workers and others.

Above: In June 2021, Minister Sukkar (second from left, pictured with home buyers Shalika, Chandler and Brendan) announced an additional 30,000 FHLDS, NHG and FHG places to support single parents and first home buyers for 2021–22.

IN 2020–21

1 in 10 first home buyers

made use of FHLDS or NHG

5,000 new homes

built under the schemes[5]

23% of scheme places

went to key workers, including nurses, teachers, emergency services workers, childcare workers, aged and disabled carers and social workers

7,100+ emails and phone calls

managed by the FHLDS team

3. Guarantee Certificates issued in 2019–20 and 2020–21 for FHLDS and NHG as a proportion of owner-occupied first home buyer loan commitments (Australian Bureau of Statistics, Lending Indicators, June 2021, Table 24).
4. Occupations classified as key workers are: pre-primary, primary and secondary school teachers; nurses; childcare workers; carers and aides; defence force members, firefighters and police; ambulance officers and paramedics; and social and welfare professionals.
5. New homes built refers to house and land package purchases and separate land and contracts to build.

First Home Loan Deposit Scheme

CASE STUDY

FHLDS

WANNEROO, WA

"Getting the government guarantee means we are now set up to take on the next step of our lives.

Having a home in our twenties means we have a great foundation for everything we want to do."

Brody

The FHLDS is helping thousands of Australians buy their first home and move forward with their life goals – at full pace.

For Brody and Kym, newlyweds in their late 20s, the FHLDS meant they could buy the house of their dreams, giving them the freedom to think and plan for the next stage of their lives as a family.

Brody, a supermarket store manager, and Kym, a nurse, were in the stage of their life where they were thinking about settling down, and after a brief search they were immediately smitten with a house in Wanneroo, Western Australia.

"We hadn't been in the market for a huge amount of time, but when we stumbled on the house, we fell in love with the joint and knew it was the right place for us," said Brody.

"It ticked all the boxes – it was in our price point, close to family and friends, we already live in the area so we know it well, it was well designed, big enough we can grow into it as a family, and with real space to live."

Brody and Kim's broker informed them they were eligible for the First Home Loan Deposit Scheme and helped them through the process with their lender, fast tracking the couple's path to home ownership.

"It was great to know we were eligible for the scheme as we had a pretty firm price ceiling. Getting the government guarantee means we are now set up to take on the next step of our lives," said Brody.

"Having a home in our twenties means we have a great foundation for everything we want to do, and we can think about having kids and other aspects of life, and accelerate our plans."

For now, Brody and Kym are enjoying their new home as they make plans for their future.

"Our outdoor deck is such a great place to be!," said Brody. "I love it, especially when the weather is warm. I'm looking forward to bringing the TV outside and watching the footy with friends and family."

"Both my partner and I want to say a huge thank you to [NHFIC]. I was very stressed prior, as I felt like there was no one there to help us (I had been dealing with separate banks prior to this). Again we want to say thank you so much!"

Feedback from FHLDS first home buyers in Queensland

Collaboration with participating lenders

With the expansion of FHLDS by the Australian Government, NHFIC focused on enhancing operations and ongoing engagement and collaboration to deliver high-quality scheme outcomes.

Lender engagement increased over 2020–21 with regular forums to discuss strategic objectives and address operational challenges in a pragmatic and timely manner. Participating lenders provided positive feedback on NHFIC's ability to support and educate borrowers and lenders and provide transparent and effective support to help panel lenders embed the schemes into their business operations.

NHFIC also implemented technology enhancements relating to the FHLDS IT Portal and worked closely with participating lenders to improve the customer experience and ensure the integrity of the schemes is maintained. These improvements meant it was possible for NHFIC to deliver and launch the NHG shortly after it was announced to the public.

During the year, NHFIC also conducted the annual property price cap review and provided recommendations to the Government on changes, as required under the Investment Mandate. Price cap changes were subsequently announced by the Minister in June 2021 and effected on 1 July 2021.

NHFIC conducts reviews of lender compliance in terms of eligibility to Scheme Rules. This includes lender origination activities and their alignment to scheme eligibility as well as the application of fairness and suitability in credit practices and policies, interest rate fairness and customer care. The inaugural audit process was completed in the 2020–21 financial year. All participating lenders were assessed as compliant to their obligations, with sound performance throughout the year.

With the expansion of FHLDS by the Australian Government, NHFIC focused on enhancing operations and ongoing engagement and collaboration to deliver high-quality scheme outcomes.

Research

Data and research to support long-term housing outcomes

Five research papers issued in 2020–21

In 2020–21, NHFIC's research function delivered the inaugural annual flagship 'State of the Nation's Housing' report. An additional four research papers related to topics on housing demand, supply and affordability in Australia were also published, and followed NHFIC's first research paper published in June 2020.

NHFIC's research function was established in January 2020 to inform engagement and interest in relevant housing topics and encourage better housing outcomes.

NHFIC research's key objective is to focus on housing demand, supply and affordability issues. To deliver on its objectives, NHFIC engages closely with housing and property stakeholders. NHFIC's value-add in this area relates to identifying topical issues and providing analysis that is applied and accessible to a wider audience.

By undertaking research on its own initiative, the Investment Mandate allows NHFIC to liaise with relevant stakeholders, identify critical issues affecting the housing market and undertake targeted public policy-oriented research work.

Research paper topics are chosen for their policy impact and potential to help improve housing outcomes. During 2020–21, amid the highly uncertain COVID-19 environment, NHFIC was agile in its approach and research topics were also prioritised for their relevance to prevailing housing market conditions.

Research reports in 2020–21 were covered extensively by national, metropolitan, regional and industry media, resulting in 197 pieces of coverage, including on the front pages of metropolitan mastheads (*The Sydney Morning Herald*, *The Age*). To date, feedback from industry, public policy experts and other stakeholders has reinforced that this research information is highly relevant and used to inform discussions about future housing needs.

"NHFIC Research has shed valuable light on the strong linkages between residential building activity and the health of other parts of the economy outside of construction."

Master Builders Association

Table 9: NHFIC research issued in 2020–21

Date	Name	Summary/topic
Aug 2020	**FHLDS Trends and Insights**	Key trends and insights from the first six months of the FHLDS
Sept 2020	**COVID-19: Australia's Population and Housing Demand**	Scenario analysis on how COVID-19 could impact demand for housing in Australia
Oct 2020	**Australia's Social and Affordable Housing Sector: A Resilient Response to COVID-19**	Survey of CHPs on the impact of COVID-19 on tenant demand and their financial position
Dec 2020	**State of the Nation's Housing***	Forward view of housing demand and supply across all major cities and rest of state areas, based on five-year projections
May 2021	**Delivering More Affordable Housing: An Innovative Solution**	Potential solutions that help reduce the funding gap for community housing

* NHFIC's flagship report

An important addition to Australia's housing research landscape

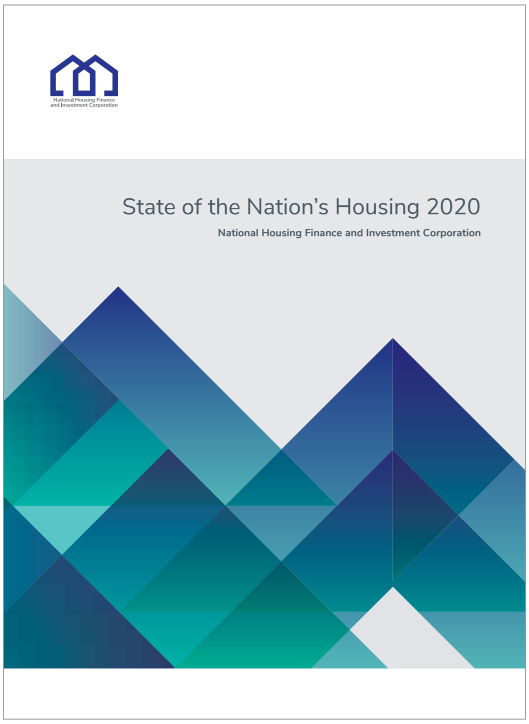
The first flagship State of the Nation's Housing report, released in December 2020, provided five-year demand and supply projections across Australia's major cities and rest of state areas, which allowed NHFIC to produce assessments of current and future gaps between new household formation and supply. This comprehensive insight into the nation's housing sector will be published annually.

In lieu of face-to-face events, NHFIC facilitated webinars on housing policy to discuss and explore housing trends with industry and prominent housing specialists.

In September 2020, NHFIC hosted a webinar on employment, housing demand and COVID-19 featuring The Demographics Group and leading demographer Bernard Salt. In February 2021, NHFIC joined Mark Steinert, Stockland Group Managing Director and CEO, and the Australian Government Centre for Population to reflect on NHFIC's State of the Nation's Housing report and Australia's Population Statement. There was strong participation at the webinars, with over 250 attendees at the September webinar. In total, these webinars have been viewed more than 800 times.

Expanding its digital functionality, NHFIC added a Research Portal to its website and launched an interactive mapping tool for FHLDS in November 2020. The interactive mapping tool drew on the first six months of FHLDS data, providing users with the ability to search and drill down scheme information by postcode and LGA.

To continue to improve the research evidence base and inform decision making at an industry level, NHFIC helped spearhead, and is currently Chair of, a new Australian Housing Data Analytics Platform Project. This initiative brings together government agencies – including AHURI, Australian Institute of Health and Welfare and Australian Bureau of Statistics – industry and academic stakeholders. It aims to unlock and build nationally significant housing datasets to provide researchers and policymakers with a set of nationally harmonised housing data, delivered through an integrated online workbench of housing decision support tools.



The first NHFIC State of the Nation's Housing report was released in December 2020.

"The research capability demonstrated by NHFIC over the past few years exceeds all previous Federal outputs in the housing space."

Property Council of Australia

NHFIC hosted a webinar on employment and housing demand, featuring, clockwise from top left, The Demographics Group's Director of Research Simon Kuestenmacher, NHFIC's Turi Condon, leading demographer Bernard Salt, NHFIC CEO Nathan Dal Bon, and NHFIC Research's Shane Lee and Hugh Hartigan.

High-performing organisation

Self-funding status achieved ahead of target

On track with self sustainability

NHFIC's normalised earnings for 2020–21 were a surplus of $0.8 million. While NHFIC's statutory financial results show a deficit of $59.2 million for 2020–21, an adjustment is made for concessional lending, NHIF grant monies and operational appropriations for the AHBA and NHIF to arrive at normalised earnings.

The reconciliation of statutory profit and loss to normalised earnings during the year is shown in Table 10.

NHFIC considers normalised earnings to be a more reflective measure of its underlying operating performance. This is because NHFIC's core business involves the provision of finance on a concessional basis. Under the accounting standards, NHFIC is required to book the concessional loan discount upfront as an expense.

The concessional loan discount is the difference between the rate NHFIC lends to the CHP and the prevailing market equivalent rate. As the concessional loan discount is a non-cash adjustment, it does not impact the underlying operational earnings of NHFIC.

Table 10: Reconciliation of statutory reported profit/loss to normalised earnings, 3-year summary

	2021	2020	2019
	$'000	$'000	$'000
Total income	104,563	87,524	59,534
Total expenses	(163,739)	(101,327)	(70,506)
Statutory reported profit /(loss)	**(59,176)**	(13,803)	(10,972)
Reconciliation to normalised earnings			
Adjustments:			
Add: concessional loan discount expenses	112,435	74,464	61,151
Less: unwinding of concessional loan discount	(12,068)	(4,583)	(611)
Less: revenue from the Government for AHBA operational expenses	(18,672)	(18,820)	(18,714)
Less: revenue from the Government for NHIF grants	(35,000)	(35,000)	(35,000)
Add: expenses related to capacity building programs	224	268	0
Add: expenses related to NHIF grants made	13,072	0	0
Normalised earnings	**815**	2,526	(4,147)

Capital management

NHFIC is not regulated by the Australian Prudential Regulation Authority (APRA) but instead is guided by APRA's prudential standards with respect to capital adequacy.

The Board has previously developed a policy for capital adequacy to ensure sound capital management and ongoing profitability, drawing on APRA guidelines.

On establishment, the AHBA was not provided with capital. Instead, the AHBA was provided operational funding for its first three years and the surplus operational funding has been accumulated as retained earnings. Over the medium term, NHFIC will target to increase its capital and reserves through retained earnings to meet the minimum capital adequacy ratio set by the Board.

Investment in the business

NHFIC's first three years of operation have focused on setting up the business and building the necessary foundations to effectively and efficiently deliver on its purpose. However, as the business grows, NHFIC needs to remain agile in anticipating and responding to changes in government policy and market conditions and in meeting the needs of its clients. This requires NHFIC to continually invest in its systems and people and drive efficiencies in core processes as its business operations transition from a start-up phase to a growth and maturity phase.

To support the business, NHFIC commissioned an independent review of its operating model in 2020–21. In response to the review, NHFIC has continued its investment in the business by streamlining processes, including finetuning its organisational structure to fill capacity gaps and realigning functions to enhance its operating model.

During 2020–21, NHFIC grew its team from 28 to 35 employees, primarily to support business expansion and portfolio management activities. NHFIC also continued to build its internal capability through targeted learning and development programs which focus on delivering outcomes consistent with its purpose.

Significant investment in technology was also made in 2020–21 to support NHFIC's business activities. Notably, investment in the FHLDS IT Portal enabled rapid deployment of new and existing schemes, while technology and training enabled NHFIC's workforce to work remotely during COVID-19. NHFIC expects to continue investing in technology to deliver efficient business outcomes.

NHFIC will consider how to further progress the recommendations of the operating model review during the course of 2021–22 in light of the outcomes of the statutory review of the NHFIC Act commissioned by the Minister.

NHFIC leveraged Export Finance Australia for a range of support functions, including treasury, HR, IT services and property management, to achieve cost-effective use of Government resources. To ensure ongoing value for money, NHFIC reviewed its SLA with Export Finance Australia in June 2021 and a revised SLA was signed for 2021–22.

More information can be found in the People and culture, and Governance sections of this report.

People and culture

Governance and accountability

Risk management

Our people and culture

Structure and workforce profile

NHFIC relies on its people and culture to achieve its purpose. Attracting and retaining the right people is critical to NHFIC's ongoing success.

NHFIC is committed to operating as a high-performance organisation that empowers and supports its people. NHFIC has a highly motivated, diverse and experienced team who bring a wealth of experience from both the public and private sectors.

The majority of NHFIC's employees are based in Export House in Sydney, with a small number in Canberra. NHFIC leverages expertise and support from Export Finance Australia under an SLA which ensures a cost-efficient use of existing Australian Government resources.

NHFIC's Executive team in the reporting period comprised the CEO, Chief Financial Officer and Chief Operating Officer, and nine senior executives overseeing key business areas.

As at 30 June 2021, NHFIC had 35 employees (34.2 full-time equivalents, or FTEs), including 31.6 permanent FTEs and 2.6 short-term contract FTEs. All NHFIC employees are employed under the NHFIC Act on common law contracts and are not members of the Australian Public Service (APS).

Figure 7: NHFIC organisational chart as at 30 June 2021

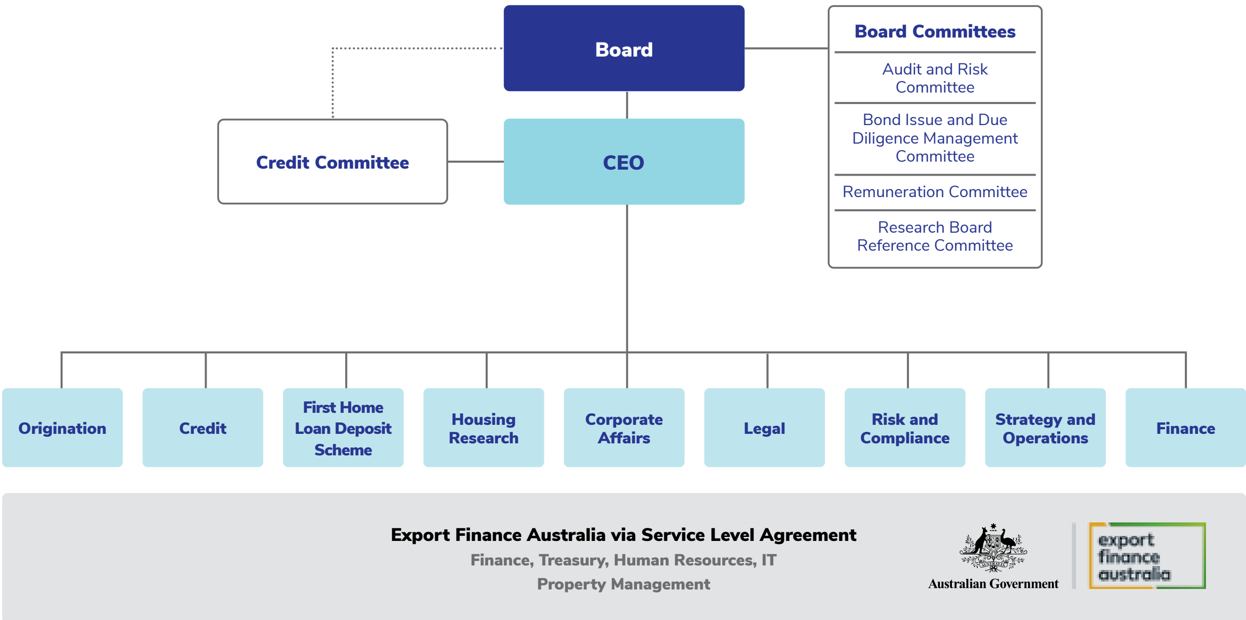


Table 11: Number of full-time equivalent employees

Classification	30 June 2021	30 June 2020
Permanent employees	**31.6**	26
Short-term contract employees	**2.6**	2
Total	**34.2**	28

Table 12: Workforce diversity

EEO designated group	30 June 2021		30 June 2020	
	Employees	%	Employees	%
Female	**15**	43	12	43
Male	**20**	57	16	57
Total	**35**	100	28	100
Non-English speaking backgound[6]	**19**	54	15	53
Aboriginal or Torres Strait Islander background	**2**	6	1	3
People with disability	**1**	3	0	–

A diverse and inclusive culture

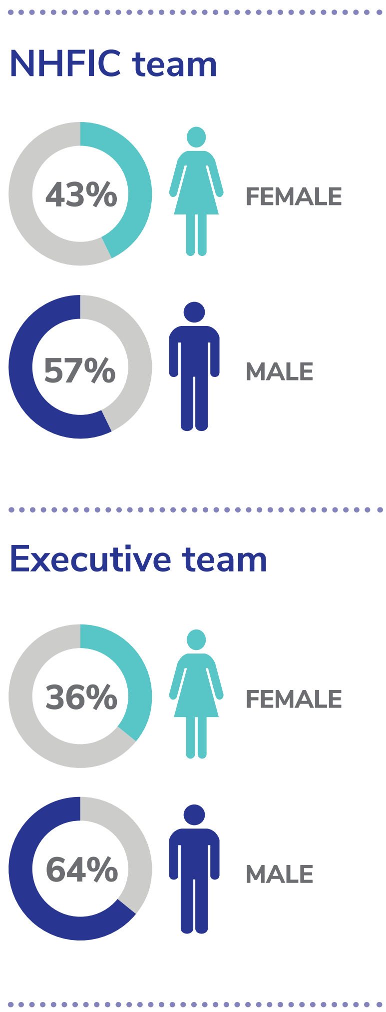
NHFIC continues to promote an inclusive workplace culture by encouraging a culture that respects and embraces differences and diversity of thought. By valuing diverse experience, expertise and backgrounds, NHFIC can foster a stronger organisation.

As at 30 June 2021, NHFIC had 43 per cent female employees and 57 per cent male employees. The number of females in senior leadership positions was strengthened by recruiting one additional female director to the Executive team, with the proportion being 36 per cent female and 64 per cent male.

NHFIC recognises its culturally diverse team enhances its ability to deliver client services that are culturally appropriate, accessible, consumer oriented and effective.

NHFIC is proud of its cultural diversity, with 54 per cent of employees being from a non-English speaking background or with parents who are from a non-English speaking background. Within NHFIC's employees, 18 different ancestries are represented and two employees identified as being of Aboriginal or Torres Strait Islander background.

Figure 8: NHFIC team and Executive team diversity as at 30 June 2021



6. Non-English speaking background (or with parents who are from a non-English speaking background).

Remuneration

NHFIC's remuneration strategy is designed to attract and retain the right people, with the necessary skills and expertise, to deliver its purpose and achieve the strategic objectives and targets as set out in the corporate plan. NHFIC strives for a high-performance culture that recognises highly capable employees, while remaining aligned to market practices and complying with the Australian Government's policies for its statutory agencies.

2020–21 remuneration structure

Board remuneration

All Board members of NHFIC are appointed by the Australian Government through the Minister for Housing. The Board is established and governed by the provisions of the NHFIC Act.

Fees for Board members are set and paid according to the determinations of the Commonwealth Remuneration Tribunal (the Tribunal), an independent statutory authority overseeing the remuneration of key Commonwealth offices. NHFIC is required to comply with the Tribunal's determinations and plays no role in the consideration or determination of Board member fees.

The Tribunal sets annual Chair and Board fees (exclusive of statutory superannuation contributions). The Chair fee includes all activities undertaken by the Chair on behalf of NHFIC (inclusive of committee participation), however additional fees are payable to Board members based on their appointment to the Audit and Risk Committee (ARC).

Statutory superannuation is paid in addition to the fees set by the Tribunal.

Executive remuneration

NHFIC's remuneration structure is designed to be competitive and reward high-performing senior executives while complying with all of NHFIC's regulatory obligations. To accomplish these goals, remuneration for all senior executives consists of fixed annual remuneration (FAR) and 'at risk' remuneration. The FAR compensates senior executives for executing the core requirements of their role while an 'at risk' payment may be awarded subject to the achievement of relevant corporate and individual key performance indicators (KPIs).

The FAR for NHFIC's CEO is determined by the Tribunal and the role is classified as a full-time public office holder. The FAR includes base salary, allowances, superannuation contributions and any non-cash benefits. The CEO also accrues long service leave. The CEO does not receive a discretionary bonus.

For other senior executives and highly paid employees, their expertise, relevant government policies and industry benchmarks influence the setting of the FAR component. NHFIC works within the parameters of the Australian Public Service Commission (APSC) Workplace Bargaining Policy. Under this policy, proposed general remuneration increases must be approved by the APS Commissioner through a Funding Productivity and Remuneration Declaration submission. A funding declaration was approved for remuneration increases of up to six per cent averaged over three years from September 2019.

During the year, the Board ceased the use of performance bonuses or 'at risk' remuneration and effected a new remuneration structure based on Government guidance. The new structure takes effect from 1 July 2021.

Factors considered when setting the appropriate FAR for any senior executive includes market data for comparable roles, complexity of the role, internal relativities, an individual's skills and experience, and individual performance assessments.

NHFIC uses the Financial Institutions Remuneration Group (FIRG) data and other relevant Government information to provide independent benchmarking in determining appropriate remuneration for roles across the organisation.

NHFIC benchmarks remuneration with the aim to position total remuneration competitively against comparable organisations. The guiding principle for remuneration benchmarking is to position total remuneration towards the mid-point of the benchmark for comparable roles in the Australian market, while working within the parameters set by the APSC.

Impact of COVID-19 on remuneration

In April 2020, the APSC issued guidance to non-APS agencies in relation to the Government's expected remuneration outcomes for non-APS, non-Senior Executive Service (SES) and SES equivalent employees as a result of the challenges arising from the COVID-19 pandemic. The Board determined to give effect to the policy intention of the Government as set out in the APSC guidance and as a result made the following remuneration determinations:

For fixed remuneration:

- a freeze on fixed remuneration for senior executives
- a six-month deferral of fixed remuneration increases for all other employees.

For variable remuneration:

- non-payment of 2019–20 and 2020–21 'at risk' remuneration entitlements for all eligible employees.

Table 13: Key management personnel (KMP) as at 30 June 2021

Name	Title	2020–21 status	KMP status
Brendan Crotty	Board member (Chair)	Full year	Current
Adrian Harrington	Board member	Full year	Current
Teresa Dyson	Board member	Full year	Current
Kylie Rampa	Board member	Full year	Current
David Cant	Board member	Full year	Current
Tony De Domenico OAM	Board member	Full year	Current
Phillip Barresi	Board member	Full year	Current
Nathan Dal Bon	Chief Executive Officer	Full year	Current
Stuart Neilson	Chief Financial Officer & Chief Operating Officer	Part year	Current

The following change was made in the KMP during the year: Stuart Neilson was appointed as a KMP on 1 April 2021.

Remuneration governance arrangements

Management

Management is accountable for ensuring it rewards employees responsibly, with regard to the performance of NHFIC, individual performance, statutory and regulatory requirements, and current business norms.

In reference to Executive remuneration decisions, management achieves this by:

- the CEO making FAR recommendations to the Chair for new senior executives
- senior executives making FAR recommendations for all individuals within their business areas, including other highly paid employees, which are endorsed by the CEO
- implementing performance management and remuneration policies and practices, as agreed.

Board

The Board is responsible for ensuring NHFIC has coherent policies and practices that fairly and responsibly manage the performance and remuneration arrangements for the CEO and senior executives. The Board achieves this by:

- monitoring management's performance against NHFIC's annual corporate plan
- assessing the performance of the CEO
- providing guidance to the CEO on matters concerning the appointment and evaluation of senior executives.

Key management remuneration

During the year ending 30 June 2021, NHFIC had seven Board members and two senior executives who met the definition of KMP. Their names and length of term as KMP are summarised in Table 13.

In accordance with the PGPA Rule 2014, this report contains summary data of the remuneration received by KMP (Table 14), senior executives (Table 15) and other highly paid employees (Table 16) in 2020–21. Other highly paid employees are employees who are neither KMP nor senior executives and whose total remuneration exceeds the $230,000 threshold for this reporting period.

Table 14: Remuneration of key management personnel for the reporting period 2020–21

		Short-term benefits					Post-employment benefits	Other long-term benefits			
Name	**Position title**	**Salary**	**Annual leave adjustment**	**Base salary**	**Bonuses**	**Other benefits and allowances**	**Superannuation contributions**	**Long service leave**	**Other long-term benefits**	**Termination benefits**	**Total remuneration**
Brendan Crotty	Board	110,860	–	110,860	–	–	10,532	–	–	–	121,392
Adrian Harrington	Board	63,590	–	63,590	–	–	6,041	–	–	–	69,631
Teresa Dyson	Board	71,750	–	71,750	–	–	6,816	–	–	–	78,566
Kylie Rampa	Board	55,430	–	55,430	–	–	5,266	–	–	–	60,696
David Cant	Board	63,590	–	63,590	–	–	6,041	–	–	–	69,631
Tony De Domenico OAM	Board	55,430	–	55,430	–	–	5,266	–	–	–	60,696
Phillip Barresi	Board	66,749	–	66,749	–	–	6,341	–	–	–	73,090
Nathan Dal Bon	CEO	448,740	18,769	467,509	–	–	67,248	11,126	–	–	545,883
Stuart Neilson	CFO & COO	105,985	5,756	111,741	–	–	1,087	1,564	–	–	114,392
Total		**$1,042,124**	**$24,525**	**$1,066,649**			**$114,638**	**$12,690**			**$1,193,977**

NB: This table should be read in conjunction with Note 4.2 of the financial statements which details the basis of the calculation.

Table 15: Remuneration of senior executives for the reporting period 2020–21

		Short-term benefits			Post-employment benefits			Termination benefits	Total remuneration
Remuneration band	Number of senior executive staff	Average base salary $	Average bonuses $	Average other benefits and allowances $	Average superannuation contributions $	Average long service leave $	Average other long-term benefits $	Average termination benefits $	Average total remuneration $
$0 – $220,000	1	127,089	–	–	11,375	2,397	–	–	140,861
$220,001 – $245,000	1	199,536	–	–	36,707	4,766	–	–	241,009
$245,001 – $270,000	2	228,225	–	–	31,458	5,475	–	–	265,158
$270,001 – $295,000	1	254,749	–	–	24,109	6,292	–	–	285,150
$295,001 – $320,000	3	262,176	–	–	32,344	6,409	–	–	300,929
$320,001 – $345,000	0	–	–	–	–	–	–	–	0
$345,001 – $370,000	1	312,596	–	–	27,993	7,306	–	–	347,895
	9								

Table 16: Remuneration of highly paid employees for the reporting period 2020–21

		Short-term benefits			Post-employment benefits			Termination benefits	Total remuneration
Remuneration band	Number of other highly paid staff	Average base salary $	Average bonuses $	Average other benefits and allowances $	Average superannuation contributions $	Average long service leave $	Average other long-term benefits $	Average termination benefits $	Average total remuneration $
$230,000 – $245,000	1	207,938	–	–	19,257	5,274	–	–	232,469
	1								

Building team capability

As NHFIC grows and matures as a business, it has continued to expand its capabilities by recruiting experienced talent to meet its current and future needs. During 2020–21, NHFIC grew its team from 28 to 35 employees through targeted recruitment, primarily to support business expansion and portfolio management activities.

NHFIC invests in developing the technical and leadership capabilities of its people through various opportunities including:

- targeted learning and training opportunities for employees, such as knowledge sharing sessions or external coaching courses
- attendance at professional and industry seminars and conferences
- formal study assistance.

NHFIC also provides ongoing compliance training and periodic briefings for employees and requires all employees to complete a suite of refresher training annually. This ensures employees are up to date with legislative requirements and other compliance matters, their legal obligations in financial dealings, information security and other emerging matters. All new employees complete a full suite of mandatory training as part of their induction and onboarding.

Keeping people connected during COVID-19

The COVID-19 pandemic continued to have a significant and profound impact on NHFIC's way of working over the financial year, as it had for many organisations across Australia. Past investment in cloud-based technology meant the business was able to adapt quickly and seamlessly to remote working, while continuing to deliver a high level of service and commitment to stakeholders.

To support the effectiveness and wellbeing of its people during this challenging time, NHFIC focused on key initiatives including:

- onboarding new starters through videoconference technology
- increasing communication across the team
- supporting people leaders to manage a remote workforce
- connecting virtually and through online activities facilitated by the culture committee to support social interactions and positive engagement among employees.

During the year, employees worked flexibly reflecting guidance from Federal and State governments, with a combination of remote and office working available to all employees.

NHFIC worked with employees to provide individual flexible working arrangements to accommodate their personal circumstances while also supporting their health and wellbeing. As restrictions were relaxed, NHFIC embraced a hybrid-working model, combining working in the office and working at home.

During the first half of 2021, most NHFIC employees made use of flexible work arrangements (for example, flexible start and finish times and remote working) to help them more effectively balance their personal and work commitments.

Employee health, safety and wellbeing

The physical and mental health of employees is vitally important to NHFIC. Employees and their immediate families are provided with access to an Employee Assistance Program with confidential counselling and other support services. NHFIC also has an annual influenza vaccination program and provides salary continuance cover for eligible employees.

NHFIC is committed to providing a positive and safe work environment for all of its people, in line with requirements under the *Work Health and Safety Act 2011* (WHS Act).

NHFIC takes a pragmatic, risk-based approach to maintaining its work, health and safety compliance framework and management practices. This is backed by a strong culture of incident notification and investigation which includes reporting all accidents and near misses.

NHFIC's onboarding program for new employees and consultants includes a work health and safety overview with Export Finance Australia's Health and Safety Representative. NHFIC's first aid officer also undergoes regular training.

NHFIC works closely with Export Finance Australia around work, health and safety. Export Finance Australia's Health and Safety Representative conducts regular inspections of NHFIC's workspace. NHFIC engages with its employees on work, health and safety matters, including the adequacy of facilities, and takes steps to ensure a positive, productive and risk-free working environment.

COVID-safe measures were in place throughout the year including social distancing restrictions and hand sanitisers at lifts, common areas and desks. During 2020–21, an independent health and safety expert conducted a COVID-safe assessment to confirm there were no impediments to NHFIC's COVID-safe protocols that would prevent employees from returning to the office.

Notifiable incidents and investigations

NHFIC records and monitors hazards and controls. In 2020–21, NHFIC was not investigated and did not receive any notices in relation to work, health and safety matters. Under the WHS Act, NHFIC had no notifiable incidents or near misses.

Indemnities and insurance

NHFIC's Board members and employees were indemnified during the financial year in relation to liabilities and related legal costs incurred as officers of NHFIC. The scope of this indemnity is consistent with legislative requirements.

NHFIC also maintained and paid premiums for professional indemnity insurance and directors' and officers' liability insurance, including cover for certain legal costs. In total, NHFIC paid premiums of $299,000. NHFIC did not pay out any amount in connection with any Board member or employee indemnities during the financial year.

Our governance and accountability

Accountability

The NHFIC Board is responsible for NHFIC's corporate governance and operations.

NHFIC is established under the NHFIC Act and is defined as a corporate Commonwealth entity under the PGPA Act.

NHFIC is part of the Treasury portfolio of agencies and reports to the Assistant Treasurer, Minister for Housing and Minister for Homelessness, Social and Community Housing, the Hon Michael Sukkar MP. Minister Sukkar was the responsible Minister for the full reporting period.

The duties of the responsible Minister in relation to NHFIC are set out in the NHFIC Act. These include that the Minister appoints the Board and may provide directions about the performance of NHFIC's functions in the form of an Investment Mandate including in relation to such matters as strategies and policies the Board must observe, decision-making criteria, limits on financial assistance, and risk and return on investments. The Investment Mandate may not, however, direct the Board in relation to particular financing decisions.

At the date of publishing this Annual Report, the National Housing Finance and Investment Corporation Investment Mandate Direction 2018 (Compilation No. 3) is the operative direction (Investment Mandate). As a corporate Commonwealth entity, NHFIC is subject to the requirements of the PGPA Act in relation to corporate governance, reporting and accountability.

The Board must keep the Minister informed about NHFIC's operations and provide any information the Minister may require.

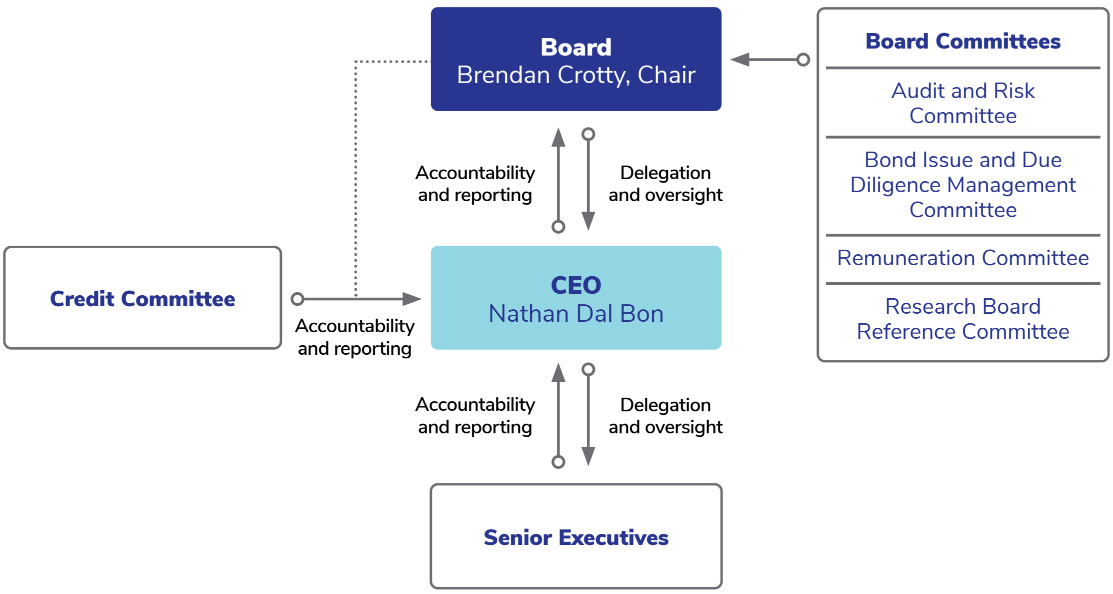
The Minister or Minister's representative responds to questions from members of Parliament about NHFIC, and the parliamentary orders relating to NHFIC. Members of NHFIC's Executive team may be requested to attend Senate Estimate hearings to answer questions on NHFIC's operations. In 2020–21, NHFIC appeared before the Economics Legislation Committee for Senate Estimates on three occasions on 27 October 2020, 24 March 2021 and 2 June 2021.

Corporate governance

NHFIC is committed to maintaining high standards of corporate governance which it considers essential to being a long-term sustainable organisation and to continually act in the best interests of the Australian public.

To develop a governance framework that is fit-for-purpose and appropriate for NHFIC's size and function, NHFIC considered its statutory responsibilities under the NHFIC Act, Investment Mandate, PGPA Act, PGPA Rules and other relevant legislation, as well as the relevant parts of the ASX *Corporate Governance Principles and Recommendations* (4th Edition), which are considered the benchmark for good corporate governance practices in Australia.

Figure 9: The corporate governance structure at NHFIC as at 30 June 2021



The Board

During the reporting period, the Board comprised seven independent non executive members (Table 17).

Table 17: The NHFIC Board as at 30 June 2021

Member	Term	Start date	End date	Board committees 2020–21
Brendan Crotty (Chair)	3 years	19 July 2018	18 July 2021	• Bond Issue and Due Diligence Management Committee • Remuneration Committee • Research Board Reference Committee
Adrian Harrington	5 years	26 July 2018	25 July 2023	• Audit and Risk Committee • Bond Issue and Due Diligence Management Committee
Teresa Dyson	5 years	26 July 2018	25 July 2023	• Audit and Risk Committee (Chair) • Remuneration Committee
Kylie Rampa	5 years	26 July 2018	25 July 2023	• Bond Issue and Due Diligence Management Committee • Remuneration Committee
David Cant	3 years	26 July 2018	25 July 2021	• Audit and Risk Committee • Research Board Reference Committee
Tony De Domenico OAM	5 years	10 April 2019	9 April 2024	• Research Board Reference Committee
Phillip Barresi	5 years	10 April 2019	9 April 2024	• Audit and Risk Committee • Remuneration Committee

The biographical information of each Board member is outlined later in this Annual Report.

On 25 June 2021, the Minister announced the appointment of Adrian Harrington as Chair from 19 July 2021, replacing the outgoing Chair Brendan Crotty. The Minister also announced the appointment of two new Board members: Kelvin Ryan (effective 19 July 2021) and Jane Hewitt (effective 26 July 2021).

Roles and responsibilities of the Board

The Board is ultimately responsible for the overall operation and stewardship of NHFIC and reports to the Parliament through the Minister. In performing its role, the Board decides, within the scope of the Investment Mandate – the strategies and policies to be followed by NHFIC. It monitors compliance with those strategies and policies, defines NHFIC's risk appetite, makes financing decisions and otherwise ensures the proper, efficient and effective performance of NHFIC functions.

The Board's key responsibilities are:

- providing input to and approving NHFIC's strategic direction, objectives, goals and budgets, as developed by management, in a manner which is at all times consistent with NHFIC's functions under the NHFIC Act and the Investment Mandate
- directing, monitoring and assessing NHFIC's performance against strategic and business plans, approving and monitoring expenditure, and reviewing and approving the major policies of NHFIC.

- identifying the principal business risks, ensuring NHFIC has in place an appropriate risk management framework and establishing the acceptable levels of risk within which the Board expects the management of NHFIC to operate
- reviewing and approving the systems of internal compliance and control, audit, risk management and legal compliance, to determine the integrity and effectiveness of those systems
- approving and monitoring material internal and external financial and other reporting, and monitoring the operational and financial position and performance of NHFIC
- ensuring that the capital and reserves of NHFIC are sufficient to meet the likely liabilities of NHFIC, and to make adequate provision for default in the repayment of principal, or in the payment of interest or other charges, in connection with loans made by NHFIC
- ensuring ethical behaviour and compliance with NHFIC's own governing documents, including NHFIC's code of conduct and corporate governance standards.

More details of the responsibilities of the Board are set out in the Board Charter. This is reviewed annually and a copy is available on the NHFIC website at www.nhfic.gov.au

Board size, appointment, skills and independence

The NHFIC Board must include a Chair and a minimum of four and maximum of six other Board members. Board members are appointed by the Minister, under a formal letter of appointment setting out key terms and conditions. The maximum term of office of a Board member is five years.

In appointing Board members, the Minister must ensure that Board members collectively have an appropriate balance of qualifications, skills or experience. This includes skills in banking and finance, law, housing (including social or affordable housing), infrastructure planning and financing, local government, and public policy.

Board and other committees

To assist the Board to discharge its responsibilities, the Board has established four committees: the Audit and Risk Committee; the Bond Issue Due Diligence and Management Committee; the Remuneration Committee; and the Research Board Reference Committee. NHFIC has also established a Credit Committee and an Executive Risk Committee which both report directly to the CEO.

Each committee is governed by its own charter, detailing its roles and responsibilities, membership requirements and frequency of meeting.

The NHFIC Board has established four Committees.

Table 18: NHFIC committees

Committee	Roles and responsibilities	Membership requirements	Frequency of meetings
Board Committee – Audit and Risk Committee	Assists the Board by reviewing the appropriateness of the Board's financial reporting, performance reporting, risk management and internal controls.	The Committee must comprise: • at least three members • members who are not employees. All members must have appropriate qualifications, knowledge, skills and experience to assist the Audit and Risk Committee to perform its functions.	At least three times per year
Board Committee – Bond Issue and Due Diligence Management Committee	Assists the Board to execute on NHFIC's strategy and achieve the optimal pricing on bonds issued by NHFIC in the wholesale debt capital market; optimise the use of funding sources for its AHBA loans business; optimise the investment of NHFIC's capital and reserves and short-term surplus cash; and manage NHFIC's exposures to interest rate risk and liquidity risk.	The Committee must comprise: • at least three members • a majority of which must not be employees. All members must have appropriate qualifications, knowledge, skills and experience to assist the Bond Issue and Due Diligence Management Committee to perform its functions.	At least three times per year
Board Committee – Remuneration Committee	Reviews and makes recommendations to the Board in relation to the payment of bonuses at NHFIC and the CEO remuneration.	The Committee must comprise four members appointed by the Board. All members must have appropriate knowledge, skills and experience to assist the Remuneration Committee to perform its functions.	Annually in August
Board Committee – Research Board Reference Committee	Assists the NHFIC Board with the oversight and management of work undertaken by the research function in accordance with NHFIC's Investment Mandate.	The Committee must comprise three members appointed by the Board. All members must have appropriate knowledge, skills and experience to assist the Research Board Reference Committee to perform its functions.	Fortnightly or as required
Credit Committee	Assists NHFIC with the objective oversight and management of credit risk arising from providing finance to proponents eligible under NHFIC's Investment Mandate. The Credit Committee works closely with NHFIC's credit assessment team.	The Committee must comprise: • at least three members • all independent from the Board • a majority of whom must not be employees. All members must have appropriate qualifications, knowledge, skills and experience to assist the Credit Committee to perform its functions. Current members: Rowena Johnston (Chair), Ian Shaw, Garry McLean and Adam Ohlstein.	Monthly or as required
Executive Risk Committee	Identifies and monitors significant risks to NHFIC, maintains and promotes NHFIC's risk management frameworks and policies, manages risks in line with those frameworks and policies, and implements and oversees control processes and risk mitigation strategies.	The Committee comprises the CEO (or delegate) and the CEO's direct reports.	Quarterly or as required

Further details of the responsibilities of the committees are set out in each committee's charter. The charters are reviewed annually and a copy of each is available on the NHFIC website at www.nhfic.gov.au

Ethical and responsible behaviour

Codes of conduct

NHFIC's codes of conduct for Board members and employees provide information about the behaviours that NHFIC expects and seeks to foster a culture where ethical conduct is valued and demonstrated in its day-to-day business.

All employees, consultants and contractors are required to demonstrate key behaviours consistent with the following standards:

- act with care, diligence, impartiality and objectivity
- perform to the best of their ability, maintaining high standards of honesty and integrity
- treat everyone with courtesy and respect, without coercion or harassment of any kind
- consider matters on their merits
- comply with applicable Australian laws and NHFIC policies, procedures and guidelines.

The codes of conduct are supported by a number of internal policies and procedures, providing further guidance for Board members and employees on acceptable actions and behaviour.

Public interest disclosure (whistleblower) protection

NHFIC is committed to maintaining the highest standards of ethical and accountable conduct and ensuring that individuals who make public interest disclosures are provided with the protections available under the *Public Interest Disclosures Act 2013* (PID Act).

NHFIC has developed detailed processes to be followed by supervisors, authorised officers, the principal officer and investigation delegates for reporting, investigating and responding to disclosures made under the PID Act.

NHFIC's Public Interest Disclosure (Whistleblower) Policy provides a framework for the escalation of disclosable conduct. This includes conduct that is illegal, corrupt, unethical or is an abuse of public trust. The Policy applies to all current and former employees of NHFIC, including contractors who provide goods or services to NHFIC.

Anti-Money Laundering/Counter Terrorism Financing (AML/CTF)

NHFIC is required to have an AML/CTF program in place which, among other things, identifies, manages and reduces the risk of money laundering and terrorism financing it potentially faces.

NHFIC has enrolled with the Australian Transaction Reports and Analysis Centre (AUSTRAC) and developed a comprehensive AML/CTF program. The program includes a framework for reporting suspicious matters to AUSTRAC together with comprehensive, Know your customer (KYC) procedures, ongoing ongoing customer due diligence and transaction monitoring procedures.

Corporate reporting

Internal controls

NHFIC has a number of internal controls and policies to ensure the integrity of its corporate reporting systems, including the accuracy of financial reporting. These internal controls take the form of appropriate financial delegations, financial planning and reporting, and compliance with appropriate procurement standards.

All corporate reports are reviewed by members of the Executive before their release to the public and also by the Board in the case of the corporate plan and annual report. This process helps ensure that corporate reports are accurate, balanced and understandable, and provide the responsible Minister with appropriate information to make informed decisions.

In August 2019, NHFIC appointed McGrathNicol as its internal auditors and approved a three-year internal audit program to evaluate and continually improve the effectiveness of its risk management and internal control processes. In June 2021, the Board extended McGrathNicol's appointment until 31 December 2022.

ANAO performance review

In 2020–21, the ANAO conducted a performance audit to assess the effectiveness of the administration of NHFIC. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Have the design expectations for NHFIC been effectively incorporated into its service delivery arrangements?
- Has NHFIC implemented frameworks to deliver on the Investment Mandate?
- Has NHFIC established appropriate arrangements to measure and report on its impact?

The results of the audit were tabled in Parliament in January 2021, concluding that NHFIC had incorporated design expectations into its strategies and established mechanisms to monitor its performance and compliance against its Investment Mandate. The report also stated that NHFIC's performance management framework was partly appropriate in relation to its arrangements for measuring and reporting on impact.

The ANAO made five recommendations to support the continuous improvement of NHFIC's policies and procedures and its monitoring and reporting. The recommendations focused on monitoring and reporting of performance under the SLA with Export Finance Australia, risk management, compliance management, and measuring and presenting of NHFIC's achievements in delivering improved housing outcomes.

NHFIC accepted all five of the ANAO's recommendations and developed comprehensive responses to address the recommendations which were reviewed by the Audit and Risk Committee and Board and fully implemented by June 2021. The implementation process was also independently reviewed by NHFIC's internal auditors.

Financial statements audit

The Auditor-General is responsible for auditing the financial statements. The external audit for 2019–20 was performed by the ANAO.

Declaration by the Chief Executive Officer and Chief Financial Officer

Prior to the approval of the annual financial statements by the Board, the CEO and CFO provide confirmation in writing that NHFIC's financial records have been properly maintained and that the financial statements give a true and fair view of the financial position and performance of NHFIC.

The CEO and CFO also make representations in relation to the adequacy and effectiveness of NHFIC's risk management framework and internal controls.

Environmental reporting

Ecologically Sustainable Development – EPBC Act reporting

NHFIC has a statutory obligation under section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* to report on how its activities accord with Ecologically Sustainable Development principles. NHFIC complies with this responsibility through application of its Good Corporate Citizenship Policy, as outlined in the Environmental Footprint section.

Good Corporate Citizenship Policy

NHFIC's Good Corporate Citizenship Policy is consistent with the Australian Government's expectations outlined in the Investment Mandate. Section 31 of the Investment Mandate requires NHFIC to have regard to Australian best-practice governance principles and the best-practice corporate governance for commercial financiers when performing its functions, including developing and annually reviewing policies with regard to environmental, social and governance issues.

Environmental footprint

In 2020–21, NHFIC operated from two locations:

1. a head office in Sydney, NSW, where NHFIC has an SLA with Export Finance Australia
2. a serviced office space in the ACT, which is used by NHFIC's Canberra employees.

The NHFIC Board is responsible for NHFIC's corporate governance and operations.

Our Board

Brendan Crotty

Chair

Term of appointment
19 July 2018 to 18 July 2021

Brendan was appointed as NHFIC Board Chair in July 2018. He has extensive property industry expertise, including 17 years as the Managing Director of Australand Property Group from 1990 to 2007, followed by 10 years as Chairman of Western Sydney Parklands Trust. Most recently Brendan retired as director of General Property Trust and the Macquarie University Council.

Brendan holds a Postgraduate Diploma in Town and Country Planning from Queensland Institute of Technology, and a Postgraduate Diploma in Business Administration from Macquarie University. He completed the Advanced Management Programme at the International Institute for Management Development Business School and the Strategic Use of Information Technology Programme at Stanford University.

Adrian Harrington

Member appointed Chair (from 19 July 2021)

Term of appointment[7]
26 July 2018 to 25 July 2023

Adrian has more than 30 years of experience in the funds management and real estate industries.

Adrian is currently a senior executive at Charter Hall and the former Chair of the Australian Housing and Urban Research Institute (AHURI). Adrian was formerly Head of Funds Management at Folkestone and has held senior positions at Mirvac, James Fielding and Deutsche Asset Management.

Adrian holds a Bachelor of Science (Hons) from the University of New South Wales, a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia and is a Graduate of the Australian Institute of Company Directors. Adrian is a Fellow of the Financial Services Institute of Australasia.

7. On 25 June 2021, the responsible Minister announced the appointment of Adrian Harrington as Chair from 18 July 2021, replacing the outgoing Chair Brendan Crotty. At time of publishing, Adrian Harrington's term of appointment as Member was 26 July 2018 to 18 July 2021, and term of appointment as Chair is 19 July 2021 to 18 July 2026.

Teresa Dyson

Member

Term of appointment

26 July 2018 to 25 July 2023

Teresa is an experienced company director and chair following over 20 years practicing as a senior taxation lawyer advising on infrastructure transactions, financing, corporate tax, mergers and acquisitions, the not-for-profit sector, and tax controversy matters. Teresa is currently a director on the boards of Genex Power Ltd, Power & Water Corporation, Seven West Media Ltd, Shine Justice Ltd, FARE, Energy Queensland Ltd, Gold Coast Hospital & Health Board and Energy Super.[8] Teresa is also a member of the Takeovers Panel and the Foreign Investment Review Board. Teresa has formerly served as the Chair of the Law Council of Australia, Business Law Section and has also been a Partner at Deloitte and Ashurst (formerly Blake Dawson). She is a former Chair and member of the Board of Taxation. Teresa holds a Bachelor of Arts, Bachelor of Laws (Hons) and Master of Taxation from the University of Queensland, a Master of Applied Finance from Macquarie University, and is a Graduate of the Australian Institute of Company Directors. Teresa has been admitted as a solicitor in New South Wales, Victoria, Queensland and to the High Court of Australia.

Kylie Rampa

Member

Term of appointment

26 July 2018 to 25 July 2023

Kylie has over 25 years experience in the Australian and global real estate sector.

Kylie is currently the CEO Property, Australia, for the Lendlease Group. She is also a director of Lendlease Real Estate Investments Limited and Lendlease Development Pty Limited, Director and Vice President of the Property Council of Australia, Director of the Sydney Opera House Trust, as well as Chair of the Building and Heritage Committee.

Prior to her role as CEO Property, Australia, Kylie was formerly the Managing Director of Lendlease Investment Management and has held other senior positions with the Gandel Group, Macquarie Group, AMP and Schroders.

Kylie holds a Bachelor of Business from the Queensland University of Technology.

David Cant

Member

Term of appointment[9]

26 July 2018 to 25 July 2021

David has over 40 years of experience in providing housing for those on low incomes.

David is currently an independent director of PowerHousing Australia and Chair of Uniting Housing Victoria. He is co-Chair of Under 1 Roof, a consortium of housing and homelessness organisations in Brisbane.

David was the inaugural CEO at Brisbane Housing Company from 2002 to 2017, which is now one of the largest registered CHPs in Queensland. He was a member on the Prime Minister's Council on Homelessness from 2009 to 2013.

David holds a Bachelor of Arts (Politics and Economics) from the University of Oxford and a Masters in Philosophy (Town Planning) from University College London.

8. Teresa was appointed as an LGIAsuper employer representative director when LGIAsuper and Energy Super merged on 1 July 2021.
9. On 25 June 2021, the Minister announced the appointment of two new Board members. At time of publishing, David Cant's term of appointment as member was 26 July 2018 to 25 July 2021.

Phillip Barresi

Member

Term of appointment

10 April 2019 to 9 April 2024

Phillip brings extensive national and international board and committee experience.

Phillip previously served on various boards and committees within the disability employment, aged care, at-risk youth and community banking sectors.

Most recently, Phillip served as the Director for Australia, New Zealand, Korea and Egypt on the Board of the European Bank for Reconstruction and Development in London.

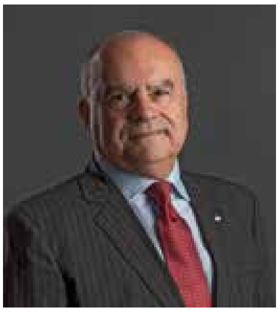
Phillip has held former appointments as CEO for both a leading energy industry association and an electricity generator industry group. Prior to this, Phillip served as a member of the Australian Parliament for nearly 12 years, including chairing a joint parliamentary committee with oversight of public accountants and audit.

Tony De Domenico OAM

Member

Term of appointment

10 April 2019 to 9 April 2024



Tony has over 40 years of experience across government, corporate, community and education sectors both domestically and internationally.

Tony is currently the Chair of Abalone Victoria (Central Zone), Chair of Plastic Oceans Australasia, Director of Common Equity Housing Ltd and Life Member of the Italian Chamber of Commerce. He is also Chairman of Bertocchi Food Group Advisory Board, a Life Member of the Urban Development Institute of Australia, and a Corporate Life Governor of The Royal Life Saving Society (ACT).

Tony was previously the Executive Director of the Urban Development Institute of Australia, Chair of Places Victoria, Deputy Chair of Development Victoria and has served on the Council of La Trobe University as Deputy Chancellor. He was Chair of the Australian Housing and Urban Research Institute (AHURI) from 2014–18.

Tony has extensive diplomacy experience, serving as a trade and investment diplomat based in Milan, and from 1992–97 he was elected to the ACT Legislative Assembly where he was appointed Deputy Chief Minister, Minister for Urban Services, and Minister for Economic Development and Regulatory Reform. Tony was awarded a Medal in The Order of Australia at the Queen's Birthday Honours List in 2018 for his contribution to urban planning, research and development in Victoria.

Board Observer

In October 2020, Robert Jeremenko was appointed by the Minister for Housing to be an observer of the NHFIC Board under section 27(2) of the NHFIC Act. Mr Jeremenko is a Commonwealth officer, and as an observer he may attend NHFIC Board meetings and report to the Minister on any matter relating to the operations of NHFIC or the Board. Mr Jeremenko's initial six-month appointment was extended for a further six-month period commencing 8 April 2021.

Board meetings

Table 19: Summary of Board member meeting attendance

Member	Board meetings		Audit and Risk Committee meetings		Bond Issue Due Diligence and Management Committee meetings		Research Board Reference Committee meetings		Remuneration Committee meetings	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Brendan Crotty (Chair)	11	11	–	–	5	6	15	17	3	3
Adrian Harrington	11	11	7	7	5	6	–	–	–	–
Teresa Dyson	11	11	7	7	–	–	–	–	3	3
Kylie Rampa	10	11	–	–	5	6	–	–	2	3
David Cant	11	11	7	7	–	–	17	17	–	–
Tony De Domenico OAM	11	11	–	–	–	–	17	17	–	–
Phillip Barresi	11	11	7	7	–	–	–	–	3	3

Members whose term ended in 2020-21

No Board member's term ended during 2020–21.

Board and Board Audit and Risk Committee appointments

No Board or Audit and Risk Committee appointments were made which took effect during 2020–21.

Transactions with Board members and related entities of Board members

Board members have made appropriate disclosures in respect of transactions that NHFIC has undertaken where they may have, or may be perceived to have, a material personal interest.

Declared conflicts and potential conflicts of interest

All Board members complete an annual declaration of personal interests to disclose any interests or other directorships held. NHFIC maintains a Register of Interests to manage any potential conflicts of interest.

Where a Board member has a declared actual, perceived or potential material personal interest in a matter, that Board member does not participate in any discussion or voting when the matter is being considered by the Board or relevant Board committee.

Our approach to risk management

We strive to maintain the highest professional and ethical standards focusing on should we do it, rather than can we do it.

Risk management

Risk management is a critical part of how NHFIC achieves its business goals. NHFIC has developed a risk management framework that defines its principles, culture, policies and processes for managing risk.

Risk culture

NHFIC's risk culture and principles guide everyday behaviour in the organisation. NHFIC strives to:

- maintain the highest professional and ethical standards focusing on embedding appropriate behaviours
- align employee incentives and rewards to encourage behaviour consistent with good governance and NHFIC's risk appetite
- provide an environment where employees are empowered to the full extent of their abilities and that fosters innovation and learning within business practices
- monitor, stress test and re-evaluate risk ensuring management information systems and risk reporting accurately reflect the underlying risk
- no tolerance of regulatory and compliance breaches.

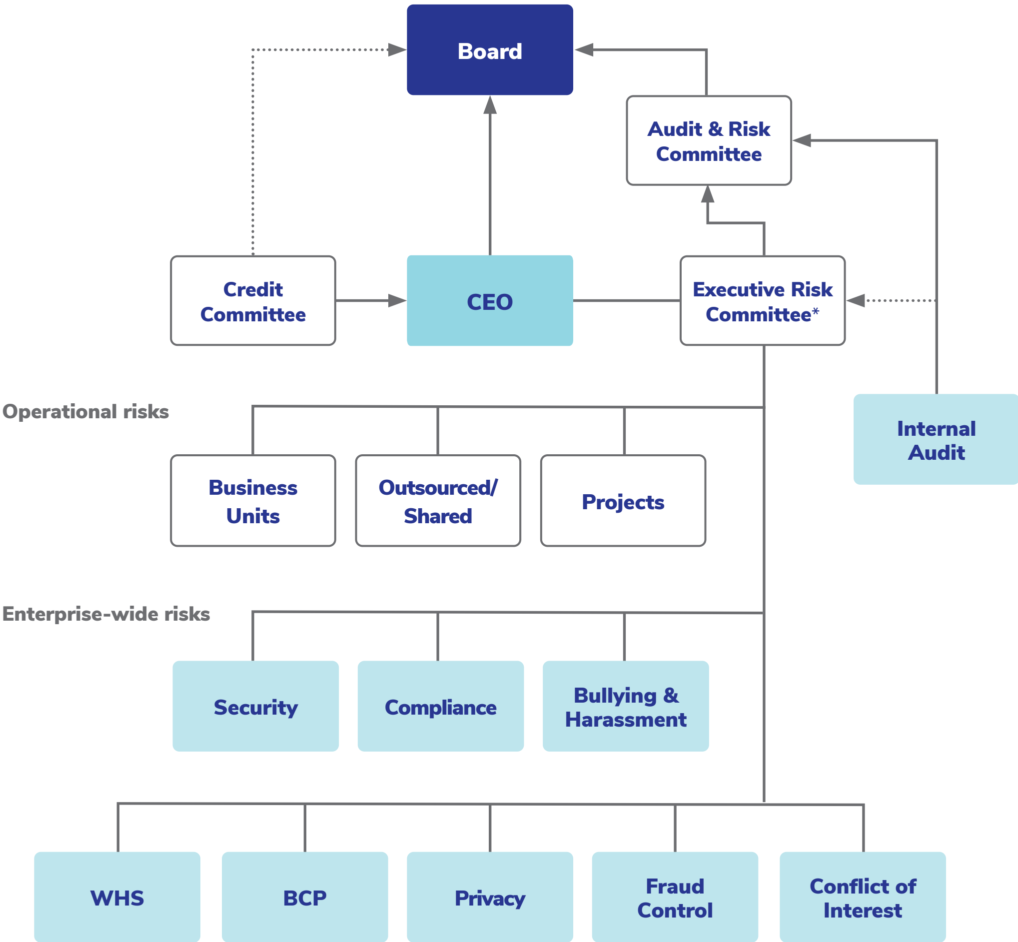
Oversight of risk management

NHFIC manages risks that emerge through its operations. The appropriate engagement with risk is guided by the NHFIC Act, Investment Mandate, PGPA Act and consistent with the Risk Appetite Statement set by the Board. NHFIC has built its risk management framework around ISO 31000: Risk Management – Guidelines and to align with the Commonwealth Risk Management Policy.

NHFIC's Board has oversight for defining the risk appetite and monitoring performance within this appetite. The Board is supported by the Audit and Risk Committee (ARC) in monitoring risk management processes and assisting in risk oversight. The Board has also established a Bond Issuance Due Diligence and Management Committee, a Research Board Reference Committee and a Remuneration Committee to assist in operational risk matters.

In recognition of NHFIC's credit risk exposure, NHFIC has established a Credit Committee comprising independent members (non-Board members) to provide oversight of our credit exposure. An Executive Risk Committee comprising senior NHFIC employees reviews operational risk and compliance exposures and the risk information provided to the ARC.

Figure 10: NHFIC risk reporting framework



* The Executive Risk Committee identifies and monitors significant risks to NHFIC, maintains and promotes NHFIC's risk management frameworks and policies, manages risks in line with those frameworks and policies, and implements and oversees control processes and risk mitigation strategies. The committee acts as a forum for the discussion of significant risks and issues. This committee consists of the CEO (or delegate) and the CEO's direct reports.

Risk Appetite Statement

NHFIC's Risk Appetite Statement both defines the risk tolerance and sets the boundaries for risks the Board is willing to accept to achieve NHFIC's objectives. The Risk Appetite Statement is supported by enterprise policies and procedures that regulate NHFIC business activities in line with the risk appetite.

Risk management framework

NHFIC's risk management framework aligns with the Commonwealth Risk Management Policy and ISO 31000. The framework recognises risks at an enterprise level and those risks facing each business activity. Business units are deeply involved in the recognition and management of risks associated with their operations to ensure an enhanced understanding and ownership of risk.

Key business risks

The key risks potentially affecting delivery of NHFIC's statutory obligations, outcomes and/or the achievement of strategic priorities, are outlined in Table 19.

Table 19: NHFIC key business risks and risk management actions

Risk and impacts/consequences	Risk management responses and controls during 2020–21
Balance sheet exposures **On balance sheet:** NHFIC operates within an intricate mix of financial arrangements (Commonwealth guarantee, liability cap and limited appropriation funding), issuing bonds and financing significant, long-term loans to CHPs to provide affordable housing. The increasing complexity and scale of exposures across the lending book, potentially increases financial exposures into the future.	• Closely monitored and reported NHFIC's financial arrangements to the Audit and Risk Committee and Board. • Continued ongoing reviews of external financial environment, CHP solvency and housing market developments. • Held external reviews of lending arrangements, including quality of the security taken, through the Credit Committee. • Obtained external expert advice prior to implementation of increasingly sophisticated financing arrangements. • Regularly communicated with the Government on liability cap and exposures.
Off balance sheet: NHFIC manages the liability associated with the FHLDS, NHG and FHG. The security of the Commonwealth guarantee is primarily reliant upon the underlying quality of bank lending practices of the participating lenders over which NHFIC has no control.	• Obtained an annual independent review of bank lending practices to ensure compliance with Scheme Rules. • Continued to liaise with banks to support lending practices that align with the policy objective of using the Commonwealth guarantee to support housing outcomes.
Financial sustainability NHFIC may incur credit losses from lending activities that impact the development of a sustainable business model to fund ongoing operations and build adequate reserves for the future.	• Conducted comprehensive long-term business planning and financial modelling activities, to stress test the portfolio and viability of the business model under different scenarios. • Monitored and reported on business outcomes and financial benchmarks to the Board. • Maintained a risk weighted balance sheet to assess capital adequacy and target capital ratios.
Relationship management NHFIC operates within a complex and dynamic relationship environment dealing with various government entities, financial institutions, investors and key borrowers. There is the potential for the interests of these various groups/stakeholders to be in conflict or competition that may result in reputational damage to NHFIC.	• Maintained regular dialogue with stakeholders through meetings, workshops and industry events to understand stakeholder interests and needs. • Provided thought leadership, as well as research data, to stimulate dialogue and informed discussion to the market. • Partnered with the private sector on innovation and collaboration opportunities to stimulate further support and/or investment in the CHP sector.
Resource constraints NHFIC may not be able to deliver functions and services within set timeframes due to insufficient employees or a shortage of skilled resources from increased competition for expertise NHFIC relies upon.	• Offered a mix of competitive remuneration and non-financial benefits to retain and attract the talent needed. • Focused on promoting of a positive culture and a flexible work environment to motivate and develop employees. • Provided assistance with employee development through targeted training and upskilling.
Operational Eligibility criteria for particular policy initiatives may restrict NHFIC's capacity to address broad community housing needs due to unintended exclusion of groups in need of affordable housing. NHFIC finance may not complement, leverage or support other Commonwealth/state finance or activities. Countermeasures built into policy, program and system design to mitigate fraud risk are ineffective.	• Continued to work closely with government policymakers on policy design to improve housing outcomes including the inclusion of housing vulnerable groups. • Maintained capacity to respond to policy-driven business changes in an agile manner. • Sustained focus on the efficiency, effectiveness, design and implementation of operational processes by management, to achieve policy outcomes. • Worked with partners to mitigate the risk that government schemes could be inappropriately accessed by misleading or fraudulent behaviour.

Financial information

Financial information

Three-year summary

The three-year summary profit and loss table presented below is in addition to (and does not form part of) the audited Financial Statements.

	2021	2020	2019
	$'000	$'000	$'000
Profit and loss			
Effective interest income – AHBA	30,133	14,280	2,285
Interest expense – AHBA	(21,617)	(11,679)	(1,964)
Effective interest income – NHIF	131	-	-
Net interest income from loans	**8,647**	2,601	321
Interest on investments	3,227	6,869	2,924
Revenue from the Australian Government	59,004	61,762	53,714
Other income	-	30	-
Operating income	**70,878**	71,262	56,959
Employee benefits	(6,633)	(5,371)	(2,910)
Suppliers	(7,360)	(8,474)	(4,317)
Allowance for credit loss expense	(2,046)	(896)	(164)
Depreciation and amortisation	(352)	(175)	-
Operating expenses	**(16,391)**	(14,916)	(7,391)
Unwinding of concessional loan discount expenses	12,068	4,583	611
Concessional loan discount expense	(112,435)	(74,464)	(61,151)
NHIF grants made	(13,296)	(268)	-
Profit/(loss)	**(59,176)**	(13,803)	(10,972)

Three-year summary (cont.)

The three-year summary balance sheet table presented below is in addition to (and does not form part of) the audited Financial Statements.

	2021	2020	2019
	$'000	$'000	$'000
Balance sheet			
ASSETS			
Cash and cash equivalents	55,069	119,186	39,347
Trade and other receivables	2,356	2,383	1,279
Loans to Community Housing Providers	2,086,469	1,190,323	308,323
National Housing Infrastructure Facility loans	52,411	-	-
Concessional loan discount	(229,867)	(114,339)	(34,997)
Provision for credit loss	(3,106)	(1,060)	(164)
Other investments – deposits	544,815	438,202	201,458
Property, plant, and equipment	-	-	18
Intangible assets	882	1,234	-
Prepayments	146	339	78
Total assets	**2,509,175**	1,636,268	515,342
LIABILITIES			
Suppliers	1,550	3,472	2,027
Other payables	6,319	2,970	2,972
Other interest-bearing liabilities	2,080,818	1,305,349	329,878
Employee leave & other entitlements	1,101	1,045	413
Other provisions	8,338	18,207	26,024
Total liabilities	**2,098,126**	1,331,043	361,314
EQUITY			
Contributed equity	495,000	330,000	165,000
Retained earnings	(83,951)	(24,775)	(10,972)
Total equity	**411,049**	305,225	154,028

Reconciliation of reported profit/(loss) to normalised earnings

The reconciliation of reported profit/(loss) to normalised earnings from operations presented below is in addition to (and does not form part of) the audited Financial Statements.

	Note	2021 $'000	2020 $'000
INCOME			
Interest income calculated using the effective interest method	1.1A	**45,559**	25,732
Revenue from Government	1.1B	**59,004**	61,762
Other revenue		**-**	30
Total income		**104,563**	87,524
EXPENSES			
Employee benefits	1.2A	**6,633**	5,371
Suppliers	1.2B	**7,360**	8,474
Finance costs	1.2C	**21,617**	11,679
Concessional loan provisions	1.2D	**112,435**	74,464
Allowance for credit loss expense	1.2E	**2,046**	896
Grants	1.2F	**13,296**	268
Depreciation and amortisation	2.2A	**352**	175
Total expenses		**163,739**	101,327
Loss from continuing operations		**(59,176)**	(13,803)
Total comprehensive income/(loss)		**(59,176)**	(13,803)
Adjustments:			
Add: Concessional loan discount expenses	1.2D,6.1	**112,435**	74,464
Less: Unwinding of concessional loan discount	1.1A	**(12,068)**	(4,583)
Less: Revenue from Australian Government for AHBA operational expenses	6.1	**(18,672)**	(18,820)
Less: Revenue from Australian Government related to NHIF grants	1.1B,6.1	**(35,000)**	(35,000)
Add: Expenses related to NHIF grants	1.2F	**13,072**	-
Add: Expenses related to capacity building programs	1.2F	**224**	268
Normalised profit/(loss) from operations		**815**	**2,526**

Independent Auditor's report

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer and Assistant Treasurer

Opinion

In my opinion, the financial statements of the National Housing Finance and Investment Corporation (the Entity) for the year ended 30 June 2021:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Entity as at 30 June 2021 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following as at 30 June 2021 and for the year then ended:

- Statement by the Board Members, Chief Executive Officer and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor- General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Entity, the Board is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Board is also responsible for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the ability of the Entity to continue as a going concern, taking into account whether the Entity's operations will cease as a result of an administrative restructure or for any other reason. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

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Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- 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.

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

Australian National Audit Office

Rahul Tejani
Executive Director
Delegate of the Auditor-General

Canberra
26 August 2021

Statement by Board Members, Chief Executive Officer, and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2021 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the National Housing Finance and Investment Corporation (NHFIC) will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the Board.

Adrian Harrington
CHAIRMAN
26th August 2021

Nathan Dal Bon
CHIEF EXECUTIVE OFFICER
26th August 2021

Stuart Neilson
CHIEF FINANCIAL OFFICER
26th August 2021

Statement of comprehensive income

for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
INCOME			
Interest income calculated using the effective interest method	1.1A	**45,559**	25,732
Revenue from Government	1.1B	**59,004**	61,762
Other revenue		**-**	30
Total income		**104,563**	87,524
EXPENSES			
Employee benefits	1.2A	**6,633**	5,371
Suppliers	1.2B	**7,360**	8,474
Finance costs	1.2C	**21,617**	11,679
Concessional loan provisions	1.2D	**112,435**	74,464
Allowance for credit loss expense	1.2E	**2,046**	896
Grants	1.2F	**13,296**	268
Depreciation and amortisation	2.2A	**352**	175
Total expenses		**163,739**	101,327
Loss from continuing operations		**(59,176)**	(13,803)
Total comprehensive income/(loss)		**(59,176)**	(13,803)

The accompanying notes form an integral part of the financial statements.

Statement of financial position

for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	**55,069**	119,186
Trade and other receivables	2.1B	**2,356**	2,383
Loans and advances	2.1C	**1,905,907**	1,074,924
Other investments - deposits	2.1D	**544,815**	438,202
Total financial assets		**2,508,147**	1,634,695
Non-financial assets			
Intangible assets	2.2A	**882**	1,234
Prepayments		**146**	339
Total non-financial assets		**1,028**	1,573
Total assets		**2,509,175**	1,636,268
LIABILITIES			
Payables			
Suppliers	2.3A	**1,550**	3,472
Other payables	2.3B	**6,319**	2,970
Total payables		**7,869**	6,442
Interest bearing liabilities			
Other interest-bearing liabilities	3.2A	**2,080,818**	1,305,349
Total interest-bearing liabilities		**2,080,818**	1,305,349
Provisions			
Employee leave & other entitlements	4.1A	**1,101**	1,045
Other provisions	2.4A	**8,338**	18,207
Total provisions		**9,439**	19,252
Total liabilities		**2,098,126**	1,331,043
Net assets		**411,049**	305,225
EQUITY			
Contributed equity		**495,000**	330,000
Retained earnings		**(83,951)**	(24,775)
Total equity		**411,049**	305,225

The accompanying notes form an integral part of the financial statements.

Statement of changes in equity

for the year ended 30 June 2021

	Note	Retained earnings $'000	Contributed equity $'000	Total equity $'000
Opening balance at 1 July 2020		**(24,775)**	**330,000**	**305,225**
Comprehensive income				
Loss for the period		**(59,176)**	**-**	**(59,176)**
Total comprehensive income		**(59,176)**	**-**	**(59,176)**
Transactions with owners				
Equity contribution		**-**	**165,000**	**165,000**
Dividends		**-**	**-**	**-**
Total transactions with owners		**-**	**165,000**	**165,000**
Transfers between equity components				
Closing balance at 30 June 2021		**(83,951)**	**495,000**	**411,049**

The accompanying notes form an integral part of the financial statements.

In 2020–21 an additional $165 million (bringing the total to $495 million) was provided by the Australian Government for National Housing Infrastructure Facility (NHIF) equity and loan arrangements, being recognised as equity contributed towards the NHIF Permanent Fund.

for the year ended 30 June 2020

	Note	Retained earnings $'000	Contributed equity $'000	Total equity $'000
Opening balance at 1 July 2019		(10,972)	165,000	154,028
Comprehensive income				
Loss for the period		(13,803)	-	(13,803)
Other comprehensive income		-	-	-
Total comprehensive income		(13,803)	-	(13,803)
Transactions with owners				
Equity contribution		-	165,000	165,000
Dividends		-	-	-
Total transactions with owners		**-**	**165,000**	**165,000**
Transfers between equity components				
Closing balance at 30 June 2020		(24,775)	330,000	305,225

Cash flow statement

for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received			
Contributions from Government		**59,004**	61,762
Interest and loan fees		**35,313**	15,824
Other		**-**	30
Total cash received		**94,317**	77,616
Cash used			
Employees		**6,532**	4,446
Suppliers (inclusive of GST)		**8,640**	9,631
Grants paid		**13,296**	-
Total cash used		**28,468**	14,077
Net cash from operating activities		**65,849**	63,539
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received			
Interest on investments		**3,019**	7,146
Total cash received		**3,019**	7,146
Cash used			
Net purchases of investments		**106,613**	236,744
Net increase/(decrease) in loans and advances		**948,405**	882,000
Purchase of property, plant and equipment, and intangibles		**-**	1,409
Total cash used		**1,055,018**	1,120,153
Net cash from/(used by) investing activities		**(1,051,999)**	(1,113,007)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received			
Proceeds from borrowings		**983,481**	1,187,399
Equity contribution		**165,000**	165,000
Total cash received		**1,148,481**	1,352,399
Cash used			
Interest paid on borrowings		**18,235**	11,092
Repayments of borrowings		**208,213**	212,000
Total cash used		**226,448**	223,092
Net cash from/(used by) financing activities		**922,033**	1,129,307
Net increase/(decrease) in cash equivalents held		**(64,117)**	79,839
Cash equivalents at beginning of financial period		**119,186**	39,347
Cash equivalents at end of financial period	2.1A	**55,069**	119,186

The accompanying notes form an integral part of the financial statements

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Overview

The National Housing Finance and Investment Corporation (NHFIC) was established in June 2018 under the National Housing Finance and Investment Corporation Act 2018 (Cth) (NHFIC Act). NHFIC is classified as a corporate Commonwealth entity and is an Australian Government owned for-profit entity. NHFIC's purpose is to improve housing outcomes for Australians.

To achieve these outcomes, NHFIC is required to operate the Affordable Housing Bond Aggregator (AHBA), the National Housing Infrastructure Facility (NHIF) and the First Home Loan Deposit Scheme (FHLDS) - including the New Home Guarantee (NHG). NHFIC also conducts research into housing affordability in Australia and undertakes capacity building activities for registered Community Housing Providers (CHPs).

- NHFIC operates the Affordable Housing Bond Aggregator (AHBA) to provide lower cost and longer-term finance for community housing providers to support the provision of more social and affordable housing. NHFIC funds AHBA loans by issuing its own bonds into the wholesale market at a lower cost and for a longer-term than traditional bank finance. In addition, the Australian Government has provided a $1 billion line of credit facility for the operation of the AHBA.
- NHFIC administers the $1 billion National Housing Infrastructure Facility (NHIF). The NHIF offers concessional loans, grants, and equity funding for eligible infrastructure projects that would not otherwise have proceeded, or that would only have proceeded at a much later date or with a lesser impact on new affordable housing.
- The FHLDS and its related schemes the New Home Guarantee (NHG) facilitates first home buyers entering into the housing market sooner. Under the Scheme, eligible first home buyers can purchase a modest home with a deposit of as little as 5 per cent. Up to 10,000 guarantees are available each financial year.
- The purpose of the Research function is to conduct comprehensive research into housing demand, supply, and affordability in Australia, including highlighting current and potential gaps between supply and demand across housing sub-markets.
- The purpose of the capacity building program is to provide support for registered CHPs to further develop their financial and management capabilities and undertake new developments.

a Basis of preparation of the financial statements

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The financial statements have been prepared in accordance with:

- Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR); and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. The financial statements are prepared in Australian dollars ($) and rounded to the nearest thousand dollars ($'000).

b Coronavirus (COVID-19) impact

The COVID-19 pandemic has had a major impact on the health and well-being of our society as well as disrupting the broader economy with continued levels of economic uncertainty going forward. We have assessed the impact of COVID-19 on our business operations in these financial statements and where appropriate, have made additional disclosures in the notes to the accounts. The Expected Credit Loss (ECL) charge for the year and ECL provisions at 30 June 2021 has been largely based on management judgements with assumptions made based on a variety of internal and external information. Additional disclosures are made in respect of the impact of COVID-19 on applicable accounting judgements and estimates in Note 5.2E Credit Risk.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Overview (continued)

c New Australian Accounting Standards (AAS)

Consistent with government policy, no accounting standard has been adopted earlier than the application date as stated in the standard.

The following new standard came into effect this financial period and did not have a material effect on the financial statements.

AASB 1059 – Service Concession Arrangements: Grantors

AASB 1059 became effective on 1 July 2020.

The new standard addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from a grantor's perspective.

As NHFIC is not a party to any service concession arrangements there is no significant effect to the accounting results on the implementation of this standard.

d Taxation

Under section 52 of the NHFIC Act, NHFIC is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST):

- where the amount of GST incurred is not recoverable as an input tax credit from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- the net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of the receivables, payables, or commitments.

e Events after the reporting period

There have been no material events occurring after the reporting period that impact these financial statements for the year ended 30 June 2021.

On 1 July 2021 a new program in the 2021-22 Federal Budget called the Family Home Guarantee (FHG) was launched. The scheme supports single parents with dependants to enter or re-enter the housing market with 10,000 guarantees to be made available over four financial years. The guarantees are accounted for consistent with the treatment of FHLDS and NHG guarantees (see Note 5.2E Credit Risk).

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 1: Our financial performance

Note 1.1: Revenue

	Note	2021 $'000	2020 $'000
NOTE 1.1A: INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD			
Interest from loans and advances at amortised cost		**30,264**	14,280
Interest from cash and short-term investments at amortised cost		**3,227**	6,869
Unwinding of concessional loan discount provisions		**12,068**	4,583
Total interest income calculated using effective interest method		**45,559**	25,732

Accounting Policy

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to NHFIC and the revenue can be reliable measured.

For transactions at amortised cost, the income or expenses are taken through the profit or loss using the effective interest method. Establishment fees relating to the successful origination or settlement of a loan are deferred and recognised as an adjustment to the effective interest rate on the loan.

	Note	2021 $'000	2020 $'000
NOTE 1.1B: REVENUE FROM GOVERNMENT			
Revenue from the Australian Government for NHFIC operational funding		**24,004**	26,762
Revenue from the Australian Government for NHIF grants		**35,000**	35,000
Total revenue from Government		**59,004**	61,762

Revenue from the Australian Government for NHFIC operational funding includes the final year of appropriations for the operation of the AHBA. This also includes ongoing appropriations for the administration of the FHLDS and Research function.

Revenue from the Australian Government for NHIF grants relates to appropriations made to NHFIC for the purposes of providing grants to improve, directly or indirectly, housing outcomes. The related grant expense is recorded at Note 1.2F.

Accounting Policy

Revenue from Government

Amounts provided by the Australian Government for NHFIC operating funds and NHIF grants are recognised as Revenue from Government in the Statement of profit or loss and other comprehensive income when NHFIC gains control of the contribution.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 1.2: Expenses

	2021	2020
	$'000	$'000
NOTE 1.2A: EMPLOYEE BENEFITS		
Wages and salaries	**6,017**	4,150
Superannuation		
Defined contribution plans	**471**	319
Defined benefit plans	**195**	154
Leave and other entitlements	**380**	295
Other employee benefits	**(430)**	453
Total employee benefits	**6,633**	5,371

Wages and salaries increased during the period due to additional headcount to administer NHFIC's expanded functions. Provisions for bonuses in 2019–20 of $0.45 million were not paid and reversed in 2020–21. No new bonus accrual was made in 2020–21 and accordingly other employee benefits is recorded as a negative.

Accounting policy

Employee benefits

Accounting policies for employee related expenses is contained in the People and Relationships section (refer to Note 4).

	2021	2020
	$'000	$'000
NOTE 1.2B: SUPPLIER EXPENSES		
Goods and services supplied or rendered		
Contractors	**1,716**	1,390
Services provided by Export Finance Australia	**1,688**	837
Consultants	**977**	1,632
Information technology services	**891**	698
Legal fees	**768**	2,297
Insurances	**340**	228
Professional fees	**249**	89
Marketing and media	**121**	261
Credit information	**121**	451
External auditor fees	**101**	90
Recruitment services	**97**	109
Travel and incidentals	**59**	165
Staff training and development	**47**	44
Other	**186**	183
Total supplier expenses	**7,360**	8,474

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 1.2: Expenses (continued)

	2021	2020
	$'000	$'000
NOTE 1.2C: FINANCE COSTS		
Interest on loans	278	1,216
Interest on bonds	21,339	10,463
Total finance costs	21,617	11,679

	2021	2020
	$'000	$'000
NOTE 1.2D: CONCESSIONAL LOAN DISCOUNT EXPENSE		
Concessional loan discount expense	112,435	74,464
Total concessional loan discount expense	112,435	74,464

Accounting policy

Concessional loan discount expense

A concessional loan discount expense is recorded when NHFIC makes a loan at a discount to the prevailing market equivalent rates or terms. The concessional loan discount expense is a non-cash concession charge and will unwind over the term of the underlying loan and will be disclosed as concessional loan interest income. As the concessional loan discount expense is a non-cash adjustment, it does not impact the underlying operational earning of NHFIC. Over the life of the loans, the cumulative impact of the reported profit or loss of NHFIC from the concessional loan discount and income will net to $nil. During 2020–21 $12.1 million (2020: $4.6 million) of concessional loan discount expense was unwound.

The Investment Mandate which guides NHFIC's operations requires it to make loans to the CHP sector at the lowest possible interest rates, after making allowance for a margin that will cover NHFIC's operating costs. The total financial impact of the differences between market interest rates and those charged by NHFIC, which amount to $112.4 million (2020: $74.5 million) are recorded as a concessional loan discount expense and represents management's best estimate of the interest savings that will flow through to the CHP sector over the life of the current NHFIC loan portfolio.

Reference to the Statement of Cash Flows demonstrates that NHFIC should always have capacity to service AHBA interest commitments, as the concessional loan discount expense has no impact on cash flows. Furthermore, NHFIC's Statement of Financial Position discloses Net assets of $411.0 million (2020: $305.2 million) and a high level of liquidity.

Accounting judgement and estimates

NHFIC is required to record a concessional loan discount expense when it makes a loan at a discount to the prevailing market equivalent rate or terms. This requires extensive judgement in determining the 'market equivalent rate' to ascertain the extent of the implicit discount attached to the loan. To estimate the market rate, NHFIC considers key loan terms including, the term (loan tenor and drawdown and repayment profile), base rate and type (fixed or floating), level of subordination, security position and other relevant factors so the extent of concessionality being offered in the transactions can be estimated.

NHFIC's aim is to provide AHBA loans to registered CHPs at the lowest cost and most appropriate tenor. To achieve this aim, the discounts provided to the market rates can result in significant concessional loan discount expense. The weighted average tenor of the loan portfolio is 11.5 years (2020: 10 years). Discounting the difference between the future cashflows at the loan rate and the market equivalent rate results in significant concessional loan charges. As the AHBA loan portfolio increases, the concessional loan charges will also increase in line with the portfolio, depending on the tenor and amount of discount provided for each loan.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 1.2: Expenses (continued)

	2021	2020
	$'000	$'000
NOTE 1.2E: ALLOWANCE FOR CREDIT LOSS EXPENSE		
Allowance for credit loss expense	**2,046**	896
Total allowance for credit loss expense	**2,046**	896

The allowance for credit loss expense reflects the higher credit risk associated with construction and project finance transactions that NHFIC provided during 2020-21.

Accounting policy

Allowance for credit loss expense

Accounting policies for allowance for credit loss expense is contained in the Loans and advances section (refer to Note 2.1C).

	2021	2020
	$'000	$'000
NOTE 1.2F: GRANTS		
NHIF grants	**13,072**	-
Capacity building activities	**224**	268
Total grants	**13,296**	268

NHIF grants are generally part of blended financing arrangements through the NHIF. Blended financing arrangements may comprise of a concessional loan and grant component, the loans are recorded as loans and advances and where there is no obligation to repay the grant, and the recipient meets certain criteria, the grants are recognised in profit or loss as an expense. The grants are funded through revenue from the Australian Government for NHIF grants (see Note 1.1B). Up to $175 million is available to fund the NHIF Grants (noting that any funding by NHFIC for capacity building contracts, up to a maximum of $1.5 million will reduce the funding available for NHIF grants from $175 million to $173.5 million).

NHFIC capacity building grants allows registered CHPs to access business advisory services and other assistance in capacity building.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2: Financial position

Note 2.1: Financial assets

	2021	2020
	$'000	$'000
NOTE 2.1A: CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	55,069	119,186
Total cash and cash equivalents	**55,069**	**119,186**

Accounting policy

Cash and cash equivalents

Cash is recognised at its nominal amount as this is considered fair value. Cash and cash equivalents includes cash at bank and in hand and deposits at call which are readily convertible to cash on hand.

	2021	2020
	$'000	$'000
NOTE 2.1B: TRADE AND OTHER RECEIVABLES		
Goods and services receivables in connection with:		
Other receivables		
Statutory receivables	266	746
Interest	2,082	1,637
Other	8	-
Total trade and other receivables (gross)	**2,356**	**2,383**
Total trade and other receivables (net)	**2,356**	**2,383**
Trade and other receivables (net) expected to be recovered in:		
No more than 12 months	2,356	2,383
Total trade and other receivables (net)	**2,356**	**2,383**

Credit terms for goods and services were within 30 days.

Interest receivable is due monthly, quarterly or upon maturity depending on the terms of the investment.

Accounting policy

Trade receivable and other receivables

Trade receivables and other receivables are held for the purpose of collecting the contractual cash flows where the cash flows are solely payments of principal and interest. They are subsequently measured at amortised cost using the effective interest method adjusted for any loss allowance.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2.1: Financial assets (continued)

	2021	2020
	$'000	$'000
NOTE 2.1C: LOANS AND ADVANCES		
Loans to Community Housing Providers	**2,086,469**	1,190,323
National Housing Infrastructure Facility loans	**52,411**	-
Gross loans and advances	**2,138,880**	1,190,323
Concessional loan discount provisions	**(222,450)**	(112,214)
Unearned income and deferred net fee income	**(7,417)**	(2,125)
Less allowance for credit loss	**(3,106)**	(1,060)
Total loans and advances (net)	**1,905,907**	1,074,924
Maturity analysis loans and advances, net of concessionality:		
Due in 1 year to 5 years	**16,840**	63,529
Due after 5 years	**1,889,067**	1,011,395
Total loans and advances	**1,905,907**	1,074,924

Accounting policy

Loans and advances

Loans are carried at amortised cost. The recoverable amount is represented by the gross value of the outstanding balances, adjusted by the allowance for credit loss, deferred net fee income, and any concessional loan discount expense. Deferred net fee income received in cash at the start of the loan are brought to income on an effective yield basis over the life of the loan by reducing the carrying amount. Interest income is recognised using the effective interest method. A loan or receivable is recognised as impaired when it is likely that the debt will not be recovered in full. In this instance a specific provision will be created for the impairment.

Impairment

For loans measured at amortised cost under AASB 9 an expected credit loss (ECL) model was used to evaluate balances at 30 June 2021. The ECL allowance is based on 12 months' expected credit losses unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the credit losses expected to arise over the life of the asset. An assessment is performed at the end of each reporting period to determine whether credit risk has increased significantly since initial recognition.

Based on the above, NHFIC groups its loans into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1: When loans are first recognised, NHFIC recognises an allowance based on 12 months expected credit losses. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, NHFIC records an allowance for the lifetime expected credit losses. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit impaired. NHFIC records an allowance for the lifetime expected credit losses.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2.1: Financial assets (continued)

ECL calculation

The allowance in respect of an individual facility or group of facilities is calculated with the three elements defined as follows:

PD - the Probability of Default is an estimate of the likelihood of default over a given time horizon.

LGD - Loss Given Default is the percentage of exposure which, on average, will be lost (net of recoveries) if a default occurs.

EAD - Exposure At Default is the estimated outstanding exposure on that facility at a future default date.

The three elements and mechanics are further explained in Note 5.2E Credit Risk.

	2021	2020
	$'000	$'000
NOTE 2.1D: OTHER INVESTMENTS		
Deposits	**544,815**	438,202
Total other investments	**544,815**	438,202
Other investments expected to be recovered in:		
No more than 12 months	**544,815**	438,202
Total other investments	**544,815**	438,202

NHFIC's investments are comprised of cash from retained earnings in the AHBA and the NHIF permanent fund and grants. All investment securities have a term to maturity of less than twelve months and are held with Australian ADIs rated AA- or higher. In accordance with the policy below it has been determined that no material ECL or impairment exists at 30 June 2021.

Accounting policy

Investment securities at amortised cost

Investments are held to collect the contractual cash flows which are 'solely payments of principal and interest on the principal amount outstanding'. NHFIC's business model is to hold these financial assets until maturity. They are short to medium-term term deposits. Interest income is taken up using the effective interest method. They are carried at amortised cost.

Impairment

All investment securities have a deal term to maturity of less than twelve months and are held with Australian ADIs rated AA- or higher. Therefore, it has been determined that no impairment should be recognised on day one or in the subsequent twelve months.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2.2: Property, plant and equipment and intangibles

Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles for 2021

	Plant and equipment $'000	Computer software $'000	Total $'000
NOTE 2.2A: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLES			
Net book value at 1 July 2020	-	1,234	1,234
Depreciation/amortisation expense	-	(352)	(352)
Net book value at 30 June 2021	-	882	882
Net book value at 30 June 2021 represented by:			
Gross book value	-	1,234	1,234
Accumulated depreciation and impairment	-	(352)	(352)
	-	882	882

The computer software recognised is an internally developed cloud-based application to manage the FHLDS. It is capitalised in accordance with *AASB 138 Intangible* assets and the accounting policy below.

Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles for 2020

	Plant and equipment $'000	Computer software $'000	Total $'000
Net book value at 1 July 2019	18	-	18
Additions	-	1,409	1,409
Depreciation/amortisation expense	-	(175)	(175)
Disposals	(18)	-	(18)
Net book value at 30 June 2020	-	1,234	1,234
Net book value at 30 June 2020 represented by:			
Gross book value	-	1,409	1,409
Accumulated depreciation and impairment	-	(175)	(175)
	-	1,234	1,234

No non-financial assets are expected to be sold or disposed of within the next 12 months. No revaluation was conducted in accordance with the revaluation policy.

There were no capital commitments relating to contractual payments for new assets and assets under construction.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2.2: Property, plant and equipment and intangibles (continued)

Accounting policy

Property, plant and equipment

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for:

- items of property with a project cost less than $15,000 (which are expensed in the year of acquisition): and
- items of plant and equipment costing less than $5,000 (which are expensed in the year of acquisition).

Property, plant and equipment are revalued periodically to fair value to ensure that the carrying amounts of assets do not differ materially from the assets, fair value at the reporting date.

The valuation of plant and equipment is based on internal assessment by management to ensure that the carrying amounts do not differ materially from their fair value.

Revaluation increments are credited directly to the asset revaluation reserve and any subsequent decreases are written back against the asset revaluation reserve. On revaluation, the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2021	2020
Plant and equipment	**3-20 years**	3-20 years

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

The profit or loss on disposal of property, plant and equipment is taken into account in determining the result for the year.

Intangibles – Computer software

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by NHFIC, and where it is probable that the future economic benefits will flow from its use over more than one year. Costs associated with maintaining the software are recognised as an expense as incurred.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Capitalised software costs are amortised on a systematic basis, using the straight-line method over its useful life.

The International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final decision in April 2021 which impacts cloud computing arrangements. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements can be recognised as an intangible asset and if not, the time period over which the expenditure should be expensed in the Statement of comprehensive income.

The above decision by IFRIC has a nil impact as the NHFIC software is internally developed and proprietary software which NHFIC controls.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2.3: Payables

	2021	2020
	$'000	$'000
NOTE 2.3A: TRADE CREDITORS		
Suppliers	**1,550**	3,472
Total supplier payables	**1,550**	3,472

	2021	2020
	$'000	$'000
NOTE 2.3B: OTHER PAYABLES		
Interest payable	**5,649**	2,467
Other accrued expenses	**670**	503
Total other payables	**6,319**	2,970
Trade and other payables expected to be settled in:		
No more than 12 months	**7,869**	6,442
Total trade and other payables	**7,869**	6,442

Accounting policy

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Credit terms for goods and services is usually within 30 days.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2.4: Provisions

	2021	2020
	$'000	$'000
NOTE 2.4A: OTHER PROVISIONS		
Irrevocable undrawn commitments	**8,338**	18,207
Financial guarantees	**-**	-
Total other provisions	**8,338**	18,207

Irrevocable undrawn commitments are NHFIC's commitments to provide loans at a below-market interest rates. Financial guarantees relate to guarantees provided to participating lenders in relation to the First Home Loan Deposit Scheme and the New Home Guarantee.

	2021	
The movement in provisions is as follows:	Financial guarantees $'000	Irrevocable undrawn commitments $'000
As at 1 July 2020	**-**	**18,207**
Additional provisions made	**-**	**3,012**
Amounts reversed	**-**	**(12,881)**
Total at 30 June 2021	**-**	**8,338**

	2020	
	Financial guarantees $'000	Irrevocable undrawn commitments $'000
The movement in provisions is as follows:		
As at 1 July 2019	-	26,024
Additional provisions made	-	2,484
Amounts reversed	-	(10,301)
Total at 30 June 2020	-	18,207

Accounting judgement and estimates

The commitments to provide a loan at a below-market interest rate is recognised as a liability measured at the higher of the fair value of the financial liability and the provision for expected credit losses. The provision recorded is the amount which represents its estimated fair value when funds are issued, discounted back to the date of contractual commitment. NHFIC estimates these by applying valuation techniques to derive forward rates from the relevant yields of Australian Government securities and market swap rates and applying them to its estimated drawdown profiles of the loan commitment.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 2.4: Provisions (continued)

NHFIC launched the First Home Loan Deposit Scheme (FHLDS) on 1 January 2020 with a limit of 10,000 guarantees available under the current Investment Mandate to be offered to an eligible lender for an eligible loan each financial year. Prior to this date, a standing appropriation was established to allow NHFIC to draw from the Consolidated Revenue Fund to meet its guarantee liabilities and a contractual funding arrangement was agreed with the Department of the Treasury (The Treasury). Any loan default amounts covered by the terms of the guarantee will be funded by Treasury and passed on by NHFIC to the underlying lender. This arrangement is enabled by the *National Housing Finance and Investment Corporation Act* s.48A(1). NHFIC considers the legislation as integral to the contractual terms of the financial guarantees issued.

During 2020–21 NHFIC launched 10,000 places for FHLDS in July 2020 followed by the launch of a new Scheme under FHLDS called the New Home Guarantee (NHG) in November 2020 with a limit of 10,000 guarantees available to be offered to an eligible lender for an eligible loan for the 2020–21 financial year.

As at 30 June 2021, 19,322 guarantee certificates were issued under the FHLDS and 4,781 guarantee certificates were issued under the NHG. An expected credit loss model was used to measure the expected cash shortfalls, and as the liabilities are met by funding from The Treasury, NHFIC does not expect to incur any cash shortfalls and recognises a $nil ECL provision. Additional information regarding maximum exposure to credit risk excluding credit enhancements of the guarantees is detailed in Note 5.2E.

Accounting policy

Other provisions

Provisions are recognised when NHFIC has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the obligation is measured using a discount rate which reflects current market assessments and the risks specific to the liability. Increases in the provision due to the passage of time (unwinding of the discount) are then recognised as expense.

Provision for irrevocable undrawn loan commitments

NHFIC calculates a concessional loan discount expense for the undrawn component of loans that are not yet fully drawn and where future drawdowns are unconditional.

Provision for financial guarantees

NHFIC estimates expected credit losses based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. Cash flows expected from credit enhancements which are not required to be recognised separately and which are considered integral to the contractual terms of the financial guarantees subject to ECL, are included in the measurement of the ECL.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 3: Our funds management

Note 3.1: Contributions from government

The Australian Government has provided for operating funding for the first three years to assist with the establishment of the NHFIC for the AHBA and NHIF. In 2020–21 the final year of operating funding was received for the AHBA and NHIF. However, the Australian Government has provided ongoing annual operating funding for the administration of the First Home Loan Deposit Scheme and research functions. The Australian Government has also provided $1 billion over five years (2018–19 to 2022–23), with $200 million appropriated annually for the operation of the NHIF. The $1 billion funding profile consists of funding for concessional loans of $600 million, equity investments of $225 million, and grants of $175 million. NHFIC established the Permanent Fund by allocating the annual amounts appropriated for loans and equity investments to the fund with any returns on infrastructure loans and investments being returned to the fund for the funding of future projects.

This funding is appropriated to the Department of the Treasury.

NHFIC annual appropriations:

	2021 $'000	2020 $'000
Appropriations provided to Department of Treasury for the purpose of funding NHFIC operations and the NHIF	**224,004**	226,762
Funds drawn down during the financial period:		
Operational funding	**24,004**	26,762
NHIF grants	**35,000**	35,000
Equity contributed towards the NHIF permanent fund	**165,000**	165,000

In addition, the Department of the Treasury maintains the NHFIC Special Account established in accordance with section 47A of the NHFIC Act. The purpose of the Special Account is to provide NHFIC with loan funding of up to $1 billion as a warehouse facility for the operation of the AHBA. The $1 billion may be credited to the NHFIC special account over four years in accordance with section 47B of the NHFIC Act.

NHFIC Special Account:

	2021 $'000	2020 $'000
Balance brought forward from previous period	**449,817**	239,677
Appropriations credited during the year to the NHFIC Special Account maintained by the Department of the Treasury	**270,000**	310,000
Available for payments	**719,817**	549,677
Net funds drawn down/(repaid) during the year as loans to NHFIC to meet the purpose of its functions or as directed by the responsible Minister and the Finance Minister in accordance with the Investment Mandate.	**(27,452)**	99,860
Total balance carried to the next period	**747,269**	449,817

Accounting policy

Revenue from Government

Amounts provided by the Australian Government for the NHFIC operating funds and NHIF grants are recognised as Revenue from Government in the Statement of Comprehensive Income when NHFIC gains control of the contribution.

Equity contributions

Amounts provided by the Australian Government for NHIF equity and loan arrangements are recognised as an equity contribution in the Statement of Financial Position.

Drawing from the NHFIC Special Account

Amounts received from the Australian Government as drawings from the NHFIC Special Account will be recognised as a loan from the Australian Government. Repayment of loans will be credited to the NHFIC Special Account.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 3.2: Interest bearing liabilities

	2021	2020
	$'000	$'000
NOTE 3.2A: OTHER INTEREST-BEARING LIABILITIES		
Loans from the Australian Government	**87,731**	115,183
Fixed rate bonds	**1,893,087**	1,190,166
Floating rate notes	**100,000**	-
Total other interest-bearing liabilities	**2,080,818**	1,305,349
Other interest-bearing liabilities expected to be settled in:		
No more than 12 months	**15,323**	99,860
More than 12 months	**2,065,495**	1,205,489
Total other interest-bearing liabilities	**2,080,818**	1,305,349

In 2020–21 a total of $805 million was raised through three bond issuances. NHFIC issued its first fixed rate sustainable bond of $343 million for a 15-year tenor. Additionally, a 10-year fixed rate social bond for $362 million and a 10-year floating rate social bond for $100 million was also issued.

Accounting policy

The loans from the Australian Government represents amounts received as drawings from the NHFIC Special Account and is measured at amortised cost. Details regarding the special account is contained in the Our Funds Management section (refer to Note 3.1).

Fixed rate bonds and floating rate notes are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 3.3: Reconciliation of liabilities arising from financing activities

	At 1 July 2020 $'000	Cash proceeds $'000	Cash repayments $'000	Net Proceeds/ (repayments) $'000	Non-cash changes $'000	At 30 June 2021 $'000
Other interest-bearing liabilities						
Loans from the Australian Government	115,183	180,761	(208,213)	(27,452)	-	**87,731**
Fixed rate bonds	1,190,166	702,720	-	702,720	200	**1,893,087**
Floating rate notes	-	100,000	-	100,000	-	**100,000**
Total liabilities from financing activities	**1,305,349**	**983,481**	**(208,213)**	**775,268**	**200**	**2,080,818**

Cash proceeds from bonds issued are net of transaction costs and therefore differs to the face value of bonds issued.

	At 1 July 2019 $'000	Cash proceeds $'000	Cash repayments $'000	Net Proceeds/ (repayments) $'000	Non-cash changes $'000	At 30 June 2020 $'000
Other interest-bearing liabilities						
Loans from the Australian Government	15,323	311,860	(212,000)	99,860	-	**115,183**
Fixed rate bonds	314,555	875,539	-	875,539	72	**1,190,166**
Total liabilities from financing activities	**329,878**	**1,187,399**	**(212,000)**	**975,399**	**72**	**1,305,349**

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 4: People and relationships

Note 4.1: Employee benefits

	2021	2020
	$'000	$'000
NOTE 4.1A: EMPLOYEE LEAVE & OTHER ENTITLEMENTS		
Short term employee benefits		
Leave	**1,101**	595
Other entitlements	**-**	450
Total employee provisions	**1,101**	1,045
Employee provisions expected to be settled in:		
No more than 12 months	**618**	835
More than 12 months	**483**	210
Total employee provisions	**1,101**	1,045

Accounting policy

Employee benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 Employee Benefits) and termination benefits due within twelve months of the end of the reporting period are measured at their nominal amounts.

Other long-term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the applicable employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination. Long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date and discounted using appropriate market yields at reporting date. The estimate of the present value of the liability considers attrition rates and pay increases through promotion and inflation.

Superannuation

The majority of NHFIC staff are members of superannuation funds held outside the Australian Government. NHFIC makes employer contributions to these funds as per the superannuation guarantee contribution rate.

However, some NHFIC staff are members of the Public Sector Superannuation Scheme (PSS) which is a defined benefits scheme for the Australian Government. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

NHFIC makes employer contributions to the employees' defined benefit superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The entity accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised at 30 June 2021 represents outstanding contributions.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 4.2: Related party disclosures

Total remuneration received and receivable by key management personnel for the year (includes Directors). Remuneration includes all cash remuneration, superannuation, and any non-cash benefits (including applicable fringe benefits tax).

	2021	2020
	$	$
Key management remuneration expenses for the reporting period		
Short-term employee benefits	1,066,649	944,626
Post-employment benefits	114,638	110,326
Other long-term employee benefits	12,690	11,126
Total remuneration	**1,193,977**	**1,066,078**
Total key management personnel remuneration expenses	**1,193,977**	1,066,078

Total number of key management personnel that are included in the above table at 30 June 2021 is nine (9) (2020: eight (8)) comprising the Chief Executive Officer, 7 Directors, and the addition of the Chief Financial Officer who commenced on 1 April 2021.

The above key management personnel remuneration excludes the remuneration and other benefits of the Portfolio Minister. The Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by NHFIC.

The Board and CEO remuneration and other benefits are set by the Remuneration Tribunal. The Board members and CEO are not paid performance awards.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 4.3 Related party relationships

NHFIC is an Australian Government controlled entity. Related parties to the entity are the key management personnel as defined above and other Australian Government entities.

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens.

Significant transactions with related parties can include provision of corporate and administration services to NHFIC, the provision of insurance, and the purchases of goods and services.

Where a NHFIC Board member has an actual, apparent or potential conflict of interest in relation to a potential decision, that member does not receive papers or participate in discussions on that transaction. A conflicts of interest register is maintained to record Board members' disclosed interests. Minutes from Board meetings record recusals as and when they occur.

Giving consideration to relationships with related entities, and transactions entered into during the reporting period by the entity, it has been determined that there are no material related party transactions to be separately disclosed.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5: Managing uncertainties

Note 5.1: Contingencies and commitments

	2021	2020
	$'000	$'000
Commitments to provide financial facilities		
Loans	**162,098**	167,540
NHIF loan, equity, and grant arrangements	**147,248**	100,000
Total commitments to provide financial facilities	**309,346**	267,540

Accounting policy

Contingencies and commitments – assets and liabilities

Where, as a result of past events, there is a possible asset or liability whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of NHFIC this will be disclosed as a contingent asset or contingent liability. When the inflow of economic benefits is probable, but not virtually certain, NHFIC will recognise the contingent asset. When the outflow of economic benefits is probable, NHFIC will recognise the contingent liability.

Commitments to provide financial facilities are contractually based. For loans and advances NHFIC has committed to lend a fixed amount and any undrawn amounts under these facilities are shown as commitments.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments

Accounting policy

Financial assets

Consistent with AASB 9 Financial Instruments, NHFIC classifies its financial assets in the following categories:

a. financial assets measured at amortised cost;

b. financial assets at fair value through other comprehensive income; and

c. financial assets at fair value through profit or loss.

The classification depends on both NHFIC's business model for managing the financial assets and contractual cash flow characteristics at the time of initial recognition. Financial assets are recognised when NHFIC becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash and derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred upon trade date.

a *Financial assets at amortised cost*

Financial assets included in this category need to meet two criteria:

1. the financial asset is held in order to collect the contractual cash flows; and
2. the cash flows are solely payments of principal and interest (SPPI) on the principal outstanding amount. Amortised cost is determined using the effective interest method.

Effective Interest Method

Income is recognised on an effective interest rate basis for financial assets that are recognised at amortised cost.

b *Financial assets at Fair Value Through Other Comprehensive Income (FVOCI)*

Financial assets measured at fair value through other comprehensive income are held with the objective of both collecting contractual cash flows and selling the financial assets and the cash flows meet the SPPI test. Any gains or losses as a result of fair value measurement or the recognition of an impairment loss allowance is recognised in other comprehensive income.

c *Financial assets at fair value through profit or loss (FVTPL)*

Financial assets are classified as financial assets at fair value through profit or loss where the financial assets either doesn't meet the criteria of financial assets held at amortised cost or at FVOCI (i.e., mandatorily held at FVTPL) or may be designated.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset.

Impairment of financial assets

The general approach is used for financial assets assessed for impairment at the end of each reporting period based on Expected Credit Losses. This approach measures the loss allowance based on an amount equal to 12-month expected credit losses, or an amount equal to lifetime expected credit losses where risk has significantly increased since inception.

The simplified approach is used for trade and contract receivables assessed for impairment. This approach always measures the loss allowance as the amount equal to the lifetime expected credit loss.

A write-off constitutes a derecognition event where the write-off directly reduces the gross carrying amount of the financial asset.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL are initially measured at fair value. Subsequent fair value adjustments are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Financial liabilities at amortised cost

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

NOTE 5.2A: CATEGORIES OF FINANCIAL INSTRUMENTS

	2021	2020
	$'000	$'000
Financial assets		
Financial assets at amortised cost		
Cash and cash equivalents	**55,069**	119,186
Trade and other receivables	**2,356**	2,383
Loans and advances	**1,905,907**	1,074,924
Other investments	**544,815**	438,202
Total	**2,508,147**	1,634,695
Total financial assets	**2,508,147**	1,634,695
Financial liabilities		
Financial liabilities at amortised cost		
Supplier payables	**1,550**	3,472
Other payables	**6,319**	2,970
Loans from the Australian Government	**87,731**	115,183
Fixed rate bonds	**1,893,087**	1,190,166
Floating rate notes	**100,000**	-
Total	**2,088,687**	1,311,791
Total financial liabilities	**2,088,687**	1,311,791

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2B: NET GAINS OR LOSSES ON FINANCIAL ASSETS

	2021	2020
	$'000	$'000
Financial assets at amortised cost		
Interest revenue	**33,491**	21,149
Allowance for credit loss expense	**(2,046)**	(896)
Net gains/(losses) on financial assets at amortised cost	**31,444**	20,253
Net gains/(losses) on financial assets	**31,444**	20,253

NOTE 5.C: NET GAINS OR LOSSES ON FINANCIAL LIABILITIES

	2021	2020
	$'000	$'000
Financial liabilities at amortised cost		
Interest expense	**21,617**	11,679
Net gains/(loss) on financial liabilities at amortised cost	**21,617**	11,679
Net gains/(loss) on financial liabilities	**21,617**	11,679

NOTE 5.2D: FAIR VALUE OF FINANCIAL INSTRUMENTS

	Carrying amount 2021 $'000	Fair value 2021 $'000	Carrying amount 2020 $'000	Fair value 2020 $'000
Financial assets at amortised cost				
Cash and cash equivalents	**55,069**	**55,069**	119,186	119,186
Loans and advances	**1,905,907**	**2,314,666**	1,074,924	1,280,713
Other investments	**544,815**	**546,548**	438,202	439,508
Total financial assets	**2,505,791**	**2,916,283**	1,632,312	1,839,407
Financial liabilities at amortised cost				
Loans from the Australian Government	**87,731**	**87,491**	115,183	115,558
Fixed rate bonds	**1,893,087**	**1,941,557**	1,190,166	1,286,070
Floating rate notes	**100,000**	**101,705**	-	-
Total financial liabilities	**2,080,818**	**2,130,753**	1,305,349	1,401,628

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK

Credit risk arises from the possibility of defaults by counterparties on contractual obligations, resulting in financial loss.

Exposures to credit risk for NHFIC are as follows:

		2021	2020
	Note	$'000	$'000
Credit risk exposures			
Cash and cash equivalents	2.1A	**55,069**	119,186
Trade and other receivables	2.1B	**2,082**	1,637
Loans and advances	2.1C	**2,138,880**	1,190,323
Other investments - deposits	2.1D	**544,815**	438,202
Total*		**2,740,846**	1,749,348
Committed credit facilities	5.1	**309,346**	267,540
Total		**309,346**	267,540
Total credit risk exposure		**3,050,192**	2,016,888

* Other assets, Property, plant and equipment, loans from the Australian Government have not been included in the above table as there is no significant associated credit risk.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK (CONTINUED)

	2021		
	Not past due nor impaired $'000	Past due or impaired $'000	Total $'000
Credit quality of financial instruments not past due or individually determined as impaired			
Cash and cash equivalents	55,069	-	55,069
Trade and other receivables	2,082	-	2,082
Loans and advances	2,138,880	-	2,138,880
Investments – deposits	544,815	-	544,815
Total financial assets	2,740,846	-	2,740,846
Committed credit facilities	309,346	-	309,346
Total credit risk exposure	3,050,192	-	3,050,192

	2020		
	Not past due nor impaired	Past due or impaired	Total
	$'000	$'000	$'000
Credit quality of financial instruments not past due or individually determined as impaired			
Cash and cash equivalents	119,186	-	119,186
Trade and other receivables	1,637	-	1,637
Loans and advances	1,190,323	-	1,190,323
Investments – deposits	438,202	-	438,202
Total financial assets	**1,749,348**	**-**	**1,749,348**
Committed credit facilities	267,540	-	267,540
Total credit risk exposure	**2,016,888**	**-**	**2,016,888**

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK (CONTINUED)

Exposure to customers

NHFIC's principal exposure to credit risk arises from the financing and credit facilities extended to customers.

NHFIC evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on Management's credit evaluation of the counterparty. Collateral held will vary, but may include:

- a general security deed over all assets and undertakings of the counterparty.
- first registered mortgages over the collateral property securities.
- specific charges over defined assets of the counterparty.
- ancillary deeds where applicable.
- facility and common terms agreements which include affirmative and negative covenants and, in some instances, guarantees of counterparty obligations.

	2021	2020
	$'000	$'000
Assets held as collateral		
Fair value of assets held as collateral		
Non-financial assets pledged as collateral	**4,598,932**	3,596,940
Total assets held as collateral	**4,598,932**	3,596,940

NHFIC uses nine broad categories of risk grade, with category 1 representing the lowest risk. Within categories 1 to 6 an outlook modifier of plus or minus is used if the counterparty is particularly strong or weak for that risk grade. The equivalent risk, based on Standards and Poor's risk rating, is stated in brackets.

The gross exposures of the loan portfolio under each category are as follows:

	2021		2020	
Gross loans and advances	Loan Value $'000	%	Loan Value $'000	%
Risk category 1 (AA- to AAA)	**13,924**	**1%**	-	0%
Risk category 3 (BBB- to BBB+)	**782,205**	**36%**	638,000	54%
Risk category 4 (BB- to BB+)	**1,342,751**	**63%**	552,323	46%
Total gross loans and advances	**2,138,880**	**100%**	1,190,323	100%

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK (CONTINUED)

Impairment assessment

Probability of Default (PD) estimation uses the bond default statistics which are the average of the default rates on rated corporate bonds from Moody's and Standard & Poor's. These statistics give the probability of default for each risk grade over annual periods out to 15 to 20 years. In applying these default statistics, the risk grades and tenors of Moody's and Standard & Poor's data are aligned to NHFIC's own internal risk grades and tenors. PDs are adjusted up by a risk overlay which is consistent with the market range.

The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that NHFIC would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. NHFIC currently uses a variety of portfolio LGD rates which are based on key characteristics that are relevant to the estimation of future cash flows (e.g., loan type, collateral type, and Loan to Value Ratio). Currently the three portfolios of loans are categorised as asset backed loans, construction loans, and project finance loans.

The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

The Expected Credit Loss (ECL) at 30 June 2021 is calculated as PD x LGD x EAD for each transaction in the portfolio. Management use judgements and make assumptions based on a variety of internal and external information. Based on these judgements, NHFIC's assessment has determined that there has been no significant increase in credit risk at this time for any transaction in the portfolio.

However, we continue to actively monitor the portfolio and believe our CHP client base is well placed to actively manage and absorb the financial impacts of the COVID-19 crisis in the short to medium term.

We have reached this conclusion based on an analysis of rental market movements (% change of market rents) against the sensitivity studies performed in the prior financial year on the portfolio. The sensitivity analysis found that, in 2020–21 it would take a 16%-18% on average drop in rents before CHPs would experience an interest cover ratio of less than one (i.e., unable to service the debt from forecast income).

Whilst the rental market conditions did deteriorate, the rate of rental decline started to ease in 2020–21 and managed to avoid the scale of rental drop (16%-18% on average) that was modelled in the sensitivity analysis. Accordingly, for ECL calculation purposes, the NHFIC loan portfolio remains in Stage 1.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK (CONTINUED)

Allowance for credit risk on the above gross exposures of loans and advances is as follows:

	2021 $'000	2020 $'000
Allowance for credit loss by type:		
Allowance for credit loss on loans and advances	**(3,106)**	(1,060)
Total at 30 June 2021	**(3,106)**	(1,060)

	2021 $'000	2020 $'000
Reconciliation of the allowance for credit loss:		
Allowance for credit risk opening balance:	**(1,060)**	(164)
New exposures	**(2,367)**	(694)
Change in risk grade	**167**	(78)
Change in term to maturity	**154**	(109)
Change in probability of default rates	**-**	(15)
Allowance for credit risk closing balance:	**(3,106)**	(1,060)

	2021					
	Stage 1		Stage 2		Stage 3	
	Gross carrying amount $'000	ECL $'000	Gross carrying amount $'000	ECL $'000	Gross carrying amount $'000	ECL $'000
Allowance for credit loss by stage						
Loans and advances	2,138,880	3,106	-	-	-	-
Total	**2,138,880**	**3,106**	**-**	**-**	**-**	**-**

	2020					
	Stage 1		Stage 2		Stage 3	
	Gross carrying amount $'000	ECL $'000	Gross carrying amount $'000	ECL $'000	Gross carrying amount $'000	ECL $'000
Allowance for credit loss by stage						
Loans and advances	1,190,323	1,060	-	-	-	-
Total	**1,190,323**	**1,060**	**-**	**-**	**-**	**-**

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK (CONTINUED)

As part of its normal operations, NHFIC enters into a variety of transactions that give rise to commitments, including loans and NHIF loan, equity, and grant arrangements. The maximum exposure to credit risk is the full amount of the commitment.

	2021		2020	
Commitments	Facility Value $'000	%	Facility Value $'000	%
Risk category 1 (AA- to AAA)	**127,610**	**41%**	100,000	38%
Risk category 3 (BBB- to BBB+)	**99,314**	**32%**	17,000	6%
Risk category 4 (BB- to BB+)	**82,422**	**27%**	150,540	56%
Total commitments	**309,346**	**100%**	267,540	100%

Exposure to guarantee schemes

NHFIC launched the First Home Loan Deposit Scheme (FHLDS) on 1 January 2020 with a limit of 10,000 guarantees available to be offered to an eligible lender for an eligible loan each financial year. During 2020-21 NHFIC launched 10,000 places for FHLDS in July 2020 followed by the launch of a new Scheme under FHLDS called the New Home Guarantee (NHG) in November 2020 with a limit of 10,000 guarantees available to be offered to an eligible lender for an eligible loan for the 2020–21 financial year.

At the Portfolio Minister's direction, NHFIC rolled over 1,848 places of unutilised guarantees from financial 2019–20 in February 2021 to eligible lenders.

Under s 48A(1) of the NHFIC Act, a standing appropriation was established as the funding mechanism and will provide NHFIC with funds to meet guarantee liabilities once a claim is made. A guarantee issued by the NHFIC will only cover a payment where there is a balance owing on the guaranteed loan following the application of the proceeds of sale by the lender that was as a consequence of the default by the borrower under the terms of the loan contract. Once a verified claim has been submitted to NHFIC, NHFIC will request funding from Treasury to settle the claims. NHFIC considers the legislation integral to the contractual terms of the guarantees that it issues.

At 30 June 2021, 19,993 FHLDS places were used with 19,322 guarantee certificates issued for loans which were settled or pending settlement. 671 places were reserved and pending a property purchase or approvals,

At 30 June 2021, 6,727 NHG places were used with 4,781 guarantee certificates issued for loans which were settled or pending settlement. 1,946 places were reserved and pending a property purchase or approvals.

A legal liability is created once the application reaches pending settlement stage with the guaranteed maximum liability of each guarantee calculated at up to 15% of the value of the property and in accordance with s 29H(2) of *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*.

Credit risk arising from NHFIC through its administration of the FHLDS and guarantees issued is limited to the guaranteed maximum liability of each individual guarantee. For the exposures to credit risk, NHFIC measures an ECL.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK (CONTINUED)

The table below shows maximum credit risk exposures for all Guarantees when excluding cashflows from the Department of the Treasury:

	2021	2020
	$'000	$'000
Maximum exposure to credit risk (excluding any collateral or credit enhancement)		
Financial assets carried at amount not best representing maximum exposure to credit risk		
Guarantees for FHLDS	1,117,831	392,342
Guarantees for NHG	314,158	-
Total financial assets carried at amount not best representing maximum exposure to credit risk	**1,431,989**	392,342

However, when including cash flows from the Department of the Treasury to meet NHFIC's guarantee liabilities, NHFIC does not expect to incur any losses in respect to payment of guarantee claims. NHFIC's measurement for ECL is therefore $nil.

The table below shows credit risk exposures for all Guarantees when including cashflows from the Department of the Treasury:

	2021	2020
	$'000	$'000
Exposure to credit risk (including any collateral or credit enhancement)		
Financial assets carried amount		
Guarantees for FHLDS	-	-
Guarantees for NHG	-	-
Total financial assets carried amount	**-**	**-**

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2E: CREDIT RISK (CONTINUED)

Exposure to treasury counterparties

The PGPA Act limits investment by NHFIC of surplus monies to:

i. money with to Authorised Deposit-taking Institutions (ADIs) in Australia rated A- or above;
ii. securities issued by or guaranteed by the Commonwealth, a state or territory;
iii. money with other entities with credit ratings the equivalent of AA- or better;
iv. deposits with, or securities issued by, the above ADIs.

Credit risk arising from NHFIC through its investment portfolios is limited to ADIs rated AA- or above.

The tables below show Investment credit risk exposures by the current counterparty rating:

	2021		2020	
Other investments - deposits	Investment Value $'000	%	Investment Value $'000	%
Australian Authorised Deposit-taking Institutions				
AA+ to AA-	**544,815**	**100%**	438,202	100%
Total other investments – deposits	**544,815**	**100%**	438,202	100%

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2F: LIQUIDITY RISK

Prudent liquidity risk management is achieved by maintaining sufficient cash and liquid deposits to meet any sudden shortfalls in the ability to fund NHFIC. NHFIC also has the explicit guarantee of the Commonwealth of Australia, which is rated AAA and therefore in normal markets there is no significant liquidity risk.

The liquidity table below is based on estimated future cash flows for principal and interest. The contractual undiscounted amounts comprise principal and interest repayment obligations and are as follows:

	2021			
	Contractual undiscounted principal and interest			
	3 months or less $'000	3 months to 1 year $'000	1 year to 5 years $'000	Greater than 5 years $'000
Undiscounted financial assets				
Cash and cash equivalents	55,069	-	-	-
Trade and other receivables	1,611	745	-	-
Loans and advances	10,959	35,417	228,820	2,417,007
Investments - deposits	170,425	376,182	-	-
Total undiscounted financial assets	**238,064**	**412,344**	**228,820**	**2,417,007**
Undiscounted financial liabilities				
Other interest-bearing liabilities	4,036	43,405	215,524	2,213,825
Total undiscounted financial liabilities	**4,036**	**43,405**	**215,524**	**2,213,825**
Net undiscounted financial assets/(liabilities)	**234,028**	**368,939**	**13,296**	**203,182**

The above maturity profile shows that NHFIC is well capitalised to meet its contractual repayment obligations as and when they arise. Two construction facilities converted to term debt facilities during 2020-21 with maturities matching to bond issuance funding.

	2020			
	Contractual undiscounted principal and interest			
	3 months or less $'000	3 months to 1 year $'000	1 year to 5 years $'000	Greater than 5 years $'000
Undiscounted financial assets				
Cash and cash equivalents	119,186	-	-	-
Trade and other receivables	1,622	-	-	-
Loans and advances	6,892	20,438	170,028	1,263,128
Investments - deposits	369,585	69,995	-	-
Total undiscounted financial assets	**497,285**	**90,433**	**170,028**	**1,263,128**
Undiscounted financial liabilities				
Other interest-bearing liabilities	103,644	16,657	96,355	1,301,397
Total undiscounted financial liabilities	**103,644**	**16,657**	**96,355**	**1,301,397**
Net undiscounted financial assets/(liabilities)	**393,641**	**73,776**	**73,673**	**(38,269)**

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 5.2: Financial instruments (continued)

NOTE 5.2G: INTEREST RATE RISK

As NHFIC is involved in lending and borrowing activities, interest rate risks arise. NHFIC's policy is to minimise interest rate risk and central to its business model, loans are issued at fixed rates and tenors which are matched to a fixed rate borrowing either from issued bonds or loans from Government. Whilst the exposure to interest rate risk is eliminated on the loans portfolio, interest receivable from cash and other financial assets will be impacted prospectively from a change interest rates.

NHFIC's primary exposure to interest rate risks of interest-bearing financial assets and financial liabilities is set out below:

	2021	2020
	$'000	$'000
Interest-bearing financial assets		
Classified as floating rate		
Cash and cash equivalents	**55,069**	119,186
Loans to Community Housing Providers	**100,000**	-
Total classified as floating rate	**155,069**	119,186
Classified as fixed rate		
Investments – deposits	**544,815**	438,202
Loans to Community Housing Providers	**1,986,469**	1,190,323
National Housing Infrastructure Facility loans	**52,411**	-
Total classified as fixed rate	**2,583,695**	1,628,525
Interest-bearing financial liabilities		
Classified as floating rate		
Other interest-bearing liabilities	**100,000**	-
Total classified as floating rate	**100,000**	**-**
Classified as fixed rate		
Other interest-bearing liabilities	**1,980,818**	1,305,349
Total classified as fixed rate	**1,980,818**	1,305,349

Sensitivity analysis of the risk that the entity is exposed to for 2021

NHFIC's fixed rate assets and liabilities are held at amortised cost and not carried at fair value. The face value of the floating rate loans is directly matched against the floating rate borrowings. The impact of a shift in market interest rates of +/–74bp on 30 June 2021 has a $Nil effect on the profit or loss.

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 6: Other information

Note 6.1: Reporting of NHFIC activities

30 June 2021

	NHIF $'000	AHBA* $'000	FHLDS $'000	Research $'000	Total $'000
Income					
Interest and loan fee revenue	3,135	42,424	-	-	**45,559**
Revenue from Government	35,000	18,672	3,300	2,032	**59,004**
Other revenue	-	-	-	-	**-**
Total income	**38,135**	**61,096**	**3,300**	**2,032**	**104,563**
Expenses					
Employee benefits	-	4,926	1,118	589	**6,633**
Suppliers	1,386	2,929	2,262	783	**7,360**
Finance costs	-	21,617	-	-	**21,617**
Grants	13,296	-	-	-	**13,296**
Depreciation and amortisation	-	-	352	-	**352**
Total expenses net of provisions	**14,682**	**29,472**	**3,732**	**1,372**	**49,258**
Allowance for credit loss expense	163	1,883	-	-	**2,046**
Concessional loan discount expense	1,317	111,118	-	-	**112,435**
Total expenses	**16,162**	**142,473**	**3,732**	**1,372**	**163,739**
Total surplus/(deficit)	**21,973**	**(81,377)**	**(432)**	**660**	**(59,176)**
Assets					
Financial assets					
Cash and cash equivalents	33,759	17,946	2,187	1,177	**55,069**
Trade and other receivables[1]	929	4,127	62	19	**5,137**
Loans and advances	50,646	1,855,261	-	-	**1,905,907**
Other investments	509,315	35,500	-	-	**544,815**
Non-financial assets					
Intangible assets	-	-	882	-	**882**
Prepayments	-	146	-	-	**146**
Total assets	**594,649**	**1,912,980**	**3,131**	**1,196**	**2,511,956**
Liabilities					
Suppliers	-	1,550	-	-	**1,550**
Other payables[1]	1,374	6,128	1,348	250	**9,100**
Other interest-bearing Liabilities	-	2,080,818	-	-	**2,080,818**
Employee provisions	-	979	65	57	**1,101**
Other provisions	129	8,209	-	-	**8,338**
Total liabilities	**1,503**	**2,097,684**	**1,413**	**307**	**2,100,907**
Net assets	**593,146**	**(184,704)**	**1,718**	**889**	**411,049**
Equity					
Contributed equity	495,000	-	-	-	**495,000**
Retained earnings	76,173	(103,327)	2,150	229	**(24,775)**
Retained surplus/(deficit)	21,973	(81,377)	(432)	660	**(59,176)**
Total equity	**593,146**	**(184,704)**	**1,718**	**889**	**411,049**

*NHFIC AHBA shows a negative equity position primarily due to non-cash concessional loan charges associated with loans advanced and committed. The charges will progressively be written back over the life of the loans.

1. Trade and other receivables and other payables are grossed up by 2,781 to reflect unconsolidated payables and receivables between reporting classifications.

For purposes of sectoral classification of Government Finance Statistics (GFS) the NHIF, FHLDS, and Research are classified as general government sector (GGS) and AHBA is classified as a public financial corporation (PFC).

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 6.1: Reporting of NHFIC activities (continued)

30 June 2020

	NHIF $'000	AHBA* $'000	FHLDS $'000	Research $'000	Total $'000
Income					
Interest and loan fee revenue	5,522	20,211	-	-	**25,732**
Revenue from Government	35,000	18,820	7,001	941	**61,762**
Other revenue	-	30	-	-	**30**
Total income	**40,522**	**39,061**	**7,001**	**941**	**87,524**
Expenses					
Employee benefits	-	4,211	948	212	**5,371**
Suppliers	1,269	2,979	3,728	500	**8,474**
Finance costs	-	11,679	-	-	**11,679**
Grants	268	-	-	-	**268**
Depreciation and amortisation	-	-	175	-	**175**
Total expenses net of provisions	**1,537**	**18,869**	**4,851**	**712**	**25,967**
Allowance for credit loss expense	-	896	-	-	**896**
Concessional loan discount expense	-	74,464	-	-	**74,464**
Total expenses	**1,537**	**94,229**	**4,851**	**712**	**101,327**
Total surplus/(deficit)	**38,986**	**(55,168)**	**2,150**	**229**	**(13,803)**
Assets					
Financial assets					
Cash and cash equivalents	-	119,186	-	-	**119,186**
Trade and other receivables[1]	806	2,380	1,103	274	**4,563**
Loans and advances	-	1,074,924	-	-	**1,074,924**
Other investments	406,702	31,500	-	-	**438,202**
Non-financial assets					
Intangible assets	-	-	1,234	-	**1,234**
Prepayments	-	339	-	-	**339**
Total assets	**407,508**	**1,228,329**	**2,337**	**274**	**1,638,447**
Liabilities					
Suppliers	-	3,472	-	-	**3,472**
Other payables[1]	1,335	3,602	174	39	**5,150**
Other interest-bearing liabilities	-	1,305,349	-	-	**1,305,349**
Employee provisions	-	1,026	13	6	**1,045**
Other provisions	-	18,207	-	-	**18,207**
Total liabilities	**1,335**	**1,331,656**	**187**	**45**	**1,333,223**
Net assets	**406,173**	**(103,327)**	**2,150**	**229**	**305,225**
Equity					
Contributed equity	330,000	-	-	-	**330,000**
Retained earnings	37,187	(48,159)	-	-	**(10,972)**
Retained surplus/(deficit)	38,986	(55,168)	2,150	229	**(13,803)**
Total equity	**406,173**	**(103,327)**	**2,150**	**229**	**305,225**

*NHFIC AHBA shows a negative equity position primarily due to non-cash concessional loan charges associated with loans advanced and committed. The charges will progressively be written back over the life of the loans.

1. Trade and other receivables and other payables are grossed up by 2,781 to reflect unconsolidated payables and receivables between reporting classifications.

For purposes of sectoral classification of Government Finance Statistics (GFS) the NHIF, FHLDS, and Research are classified as general government sector (GGS) and AHBA is classified as a public financial corporation (PFC).

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 6.2: Aggregate assets and liabilities

	2021	2020
	$'000	$'000
Assets expected to be recovered in:		
No more than 12 months	**602,386**	560,109
More than 12 months	**1,906,789**	1,076,159
Total assets	**2,509,175**	1,636,268
Liabilities expected to be settled in:		
No more than 12 months	**32,148**	7,277
More than 12 months	**2,065,978**	1,323,766
Total liabilities	**2,098,126**	1,331,043
Total assets and liabilities	**411,049**	305,225

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 6.3: Remuneration of external auditors

	2021	2020
	$'000	$'000
Auditor's remuneration		
Amounts received or due and receivable by NHFIC's auditors for:		
Other services performed during the reporting period	-	122,623
An audit or review of the annual report	**101,200**	90,200
Total auditor's remuneration	**101,200**	212,823

Notes to and forming part of the financial statements

for the year ended 30 June 2021

Note 6.4: Current and non-current assets and liabilities

	2021		2020	
	$'000		$'000	
	No more than 12 months	More than 12 months	No more than 12 months	More than 12 months
Assets				
Current assets				
Cash and cash equivalents	55,069	-	119,186	-
Trade and other receivables	2,356	-	2,383	-
Prepayments	146	-	339	-
Other investments – deposits	544,815	-	438,202	-
Total current assets	602,386	-	560,110	-
Non-current assets				
Intangible assets	-	882	-	1,234
Loans and advances	-	1,905,907	-	1,074,924
Total non-current assets	-	1,906,789	-	1,076,158
Total assets	602,386	1,906,789	560,110	1,076,158
Liabilities				
Current liabilities				
Suppliers	1,550	-	3,472	-
Other payables	6,319	-	2,970	-
Other interest-bearing liabilities	15,323	-	99,860	-
Employee leave & other entitlements	618	-	835	-
Other provisions	8,338	-	18,207	-
Total current liabilities	32,148	-	125,344	-
Non-current liabilities				
Other interest-bearing liabilities	-	2,065,495	-	1,205,489
Employee leave & other entitlements	-	483	-	210
Total non-current liabilities	-	2,065,978	-	1,205,699
Total liabilities	32,148	2,065,978	125,344	1,205,699

Index of statutory reporting requirements

Section	Subject	Location	Page
Public Governance, Performance and Accountability Act 2013			
s.39	The Board must prepare annual performance statements.	Annual Performance Statement	13
s.43	A copy of the annual financial statements and the Auditor-General's report must be included in an annual report.	Financial information and Independent Auditors Report	62
s.46	The Board must prepare and give an annual report to the entity's responsible Minister, for presentation to the Parliament, on NHFIC's activities during the period.	Annual Report	All
Public Governance, Performance and Accountability Rule 2014			
s.17BB	The Board must approve the annual report by the resolution of directors and signed by a director and include how and when approval was given.	Message from the Chair and CEO	4
s.17BE (a)–(b)	The annual report must detail NHFIC's enabling legislation, its objects and functions and its purposes as set in its corporate plan for the period.	About NHFIC Our purpose and activities	7
s.17BE (c)–(f)	The annual report must detail the particulars of the responsible Minister and any directions given or policy orders applied during the financial year.	Our purpose and activities Our governance and accountability	7 46
17BE(g)	The annual report must include NHFIC's annual performance statements.	Annual Performance Statement	13
s.17BE (h)–(i)	The annual report must detail any significant issues reported to the Minister.	No issues reported	n/a
s.17BE (j)	The annual report must detail particulars of the Board.	The Board Our governance and accountability	48
s.17BE (k)–(l)	The annual report must detail particulars of NHFIC's organisational structure and outline the location of NHFIC's major activities or facilities.	About NHFIC Our people and culture	7 38
s.17BE (m)–(p)	The annual report must outline the main corporate governance principles.	Our governance and accountability	46
s.17BE (q)–(s)	The annual report must detail any judicial and administrative decisions or reviews or reports that have a significant effect on NHFIC.	No judicial and administrative decisions or reviews or reports	n/a
s.17BE (t)	The report must detail any indemnity applied during the year.	Indemnities and insurance Our people and culture	45
s.17BE (taa)	The report must detail information about NHFIC's audit committee.	Board and other committees Our governance and accountability	49
s. 17BE(ta)	The report must contain Information about Executive remuneration.	Remuneration Our people and culture	40
s. 17BE(u)	The annual report must include an index of NHFIC's statutory reporting requirements.	Index of statutory reporting requirements	112

Section	Subject	Location	Page
National Housing Finance and Investment Corporation Act 2018			
s.56	The annual report must include: a. particulars of any changes to the Investment Mandate during the period and their impact on the operations of NHFIC b. In relation to each financial support provided by NHFIC during the period, a summary of: i. The amount of that kind of financial support ii. The risks and returns to the Commonwealth c. the particulars of the NHFIC's research during the period into housing affordability in Australia.	Our purpose and activities Annual Performance Statement	7 13
Environment Protection and Biodiversity Conversation Act 1999			
s. 516A	Ecological sustainable development and environmental performance.	Environmental reporting Our governance and accountability	52
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
s. 9(4)	Report on Equal Employment Opportunity program.	Structure and workforce profile Our people and culture	38
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Abbreviations and acronyms

Term	Description
ABS	Australian Bureau of Statistics
ACGB	Australian Commonwealth Government Benchmark
ADIs	Authorised deposit-taking institutions
AHBA	Affordable Housing Bond Aggregator
AHURI	Australian Housing and Urban Research Institute (AHURI)
AIHW	Australian Institute of Health and Welfare
AML/CTF	Anti-Money Laundering/Counter Terrorism Financing
ANAO	Australian National Audit Office
APS	Australian Public Service
APSC	Australian Public Service Commission
ARC	Audit and Risk Committee
AUSTRAC	Australian Transaction Reports and Analysis Centre
Board	Board of NHFIC
CEO	Chief Executive Officer of NHFIC
CFO	Chief Financial Officer of NHFIC
COO	Chief Operating Officer of NHFIC
Chair	Chair of NHFIC
CHIA	Community Housing Industry Association
CHP	Community housing provider
EAD	Exposure at default
EBITDA	Earnings before interest, taxes, depreciation, and amortisation
ECL	Expected credit loss
EEO	Equal Employment Opportunity
EPBC Act	*Environmental Protection and Biodiversity Conservation Act 1999*
ESG	Environmental, social and governance
Executive	Members of the executive leadership team of NHFIC
FAR	Fixed annual remuneration
FBT	Fringe Benefits Tax
FHG	Family Home Guarantee
FHLDS	First Home Loan Deposit Scheme
FIRG	Financial Institutions Remunerations Group
FTE	*Full time equivalent*
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GBPs	Green Bond Principles

Term	Description
GGS	General government sector
GST	Goods and Services Tax
ICMA	International Capital Market Association
ICR	Interest cover ratio
Investment Mandate	National Housing Finance and Investment Corporation Investment Mandate Direction 2018
KMP	Key management personnel
KYC	Know your customer
LAHC	Land and Housing Corporation
LGA	Local government area
LGD	Loss given default
LVR	Loan to value ratio
Minister	Assistant Treasurer, Minister for Housing and Minister for Homelessness, Social and Community Housing
NESB	Non-English speaking background
NHFIC	National Housing Finance and Investment Corporation
NHFIC Act	*National Housing Finance and Investment Corporation Act 2018*
NHG	New Home Guarantee
NHIF	National Housing Infrastructure Facility
PD	Probability of default
PFC	Public financial corporation
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PGPA Rule	*Public Governance, Performance and Accountability Rule 2014*
PID Act	*Public Interest Disclosures Act 2013*
PPP	Public private partnership
Review	Review of the operations of the NHFIC Act and NHFIC's activities assisting first home buyers as required under sections 57 and 57A of the NHFIC Act
SAHA	South Australian Housing Authority
SBGs	Sustainability Bond Guidelines
SBPs	Social Bond Principles
SES	Senior Executive Service
SLA	Service level agreement
SPPI	Solely payments of principal and interest
Tribunal	Australian Government Remuneration Tribunal
WHS	Work health and safety
WHS Act	*Work Health and Safety Act 2011*