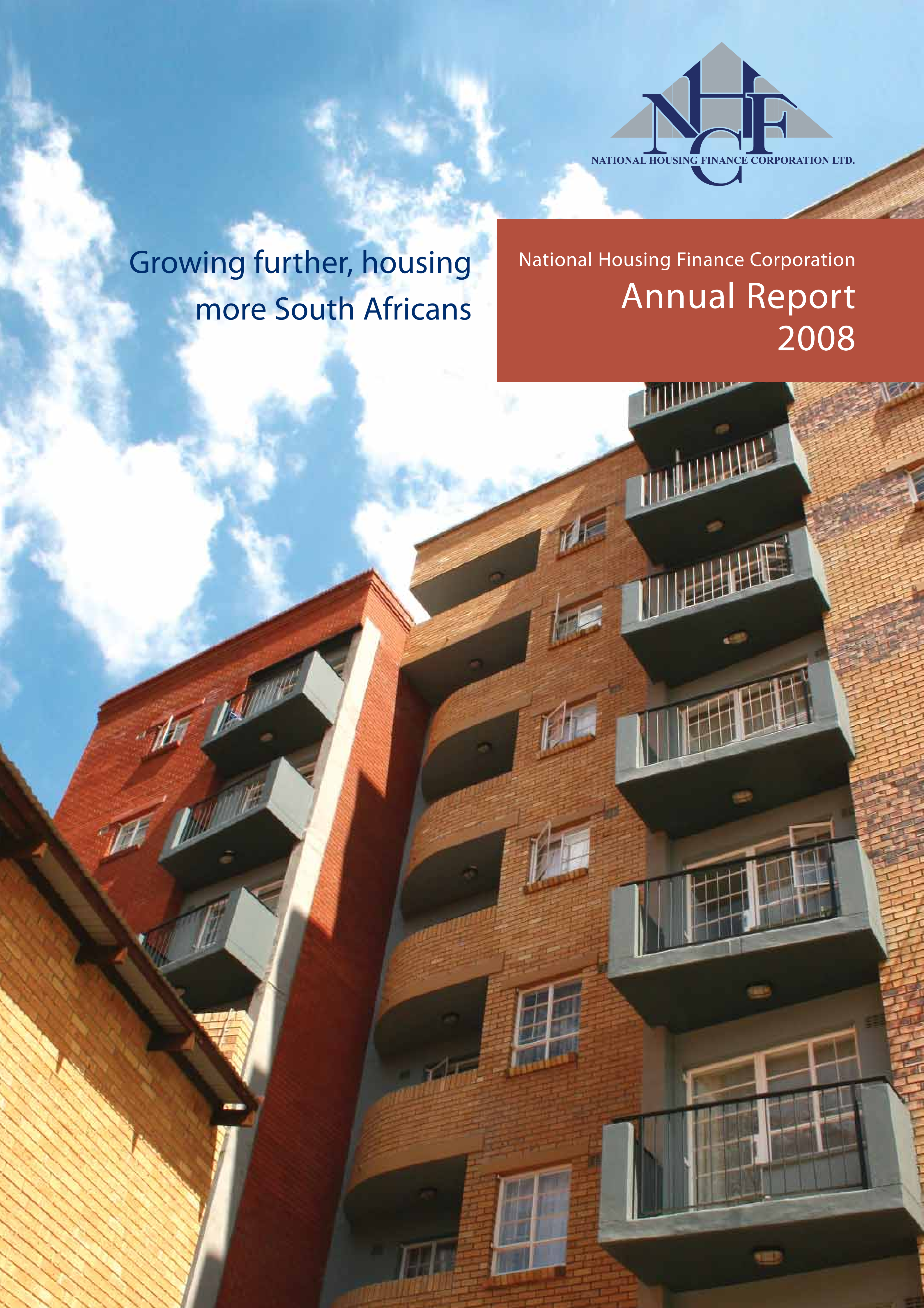
NATIONAL HOUSING FINANCE CORPORATION LTD.

Growing further, housing more South Africans

National Housing Finance Corporation Annual Report 2008



WHAT THE NHFC DOES

Making housing finance accessible and affordable for the low to middle income households

- Help the low to middle income meet their housing finance needs;
- Develop innovative housing finance products (provide choice); and
- Deliver on the Retail Offering.

Supporting the "BNG" Strategy by facilitating the development of sustainable human settlements

- Significantly expand the housing supply and tenure options;
- Promote integrated/inclusionary housing development; and
- Help in the eradication of informal settlements.

Facilitating the development of a viable and sustainable low to middle income housing finance market

- Implement risk-enhancement mechanisms for the low to middle income households market;
- Mobilise sustainable funding in the low to middle income housing market; and
- Through advocacy, promote an enabling environment in the low to middle income housing market.

PROFILE OF THE NATIONAL HOUSING FINANCE CORPORATION LIMITED

MANDATE

The National Department of Housing established the National Housing Finance Corporation Limited (NHFC) as a Development Finance Institution in 1996 with the principal mandate of broadening and deepening access to affordable housing finance for the low to middle income households.

The Corporation achieves that mandate by:

- making housing finance accessible and affordable for the low to middle income households;
- supporting the Breaking New Ground (BNG) Strategy by facilitating the development of sustainable human settlements; and
- facilitating the development of a viable and sustainable low to middle income housing finance market.

VISION

To be the leader in development finance for the low to middle income housing market.

MISSION

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

Bringing more opportunities to the people of South Africa to access the low to middle income housing market

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

1 **Prof Michael Katz**
Non Executive Chairman – NHFC
Edward Nathan Sonnenbergs
BCom LLB (Wits), LM (Harvard Law School), LLD (h.c.) (Wits)
NHFC Director from: 10 May 1996

2 **Mr Samson Moraba**
Chief Executive Officer: NHFC
BCom (Unisa), PMD (Harvard)
NHFC Director from: 11 January 1999

3 **Mr Chris Ball**
Economist
Dip Iuris (Wits), MA (Cambridge)
NHFC Director from: 07 February 2008

4 **Ms Nocawe Makiwane**
Managing Director: Avuka Investments (Pty) Limited
MBA (Exeter, UK), BA (Hons) (Wits), BSocSc (UCT)
NHFC Director from: 04 April 1996

5 **Mr Tim Middleton**
Executive Director: Intaprop (Pty) Limited
BSc (Town & Regional Planning) (Wits), MA (Systems in Management) *(cum laude)* (Lancaster, UK)
NHFC Director from: 09 December 2003

6 **Mr Sango Ntsaluba**
Chief Executive Officer: Amabubesi Group
CA (SA)
NHFC Director from: 09 December 2003

7 **Ms Toto Ndziba-Dikgole**
Businesswoman
Diploma, Business Studies, BCom (Accounting and Economics), Masters : Social Science – Development Finance
NHFC Director from: 07 February 2008

8 **Mr Sizwe Tati**
Group Managing Director: Yakani Group
BCom (Accounts and Business Management), Post Graduate Diploma in Management, Post Graduate Diploma in Company Directing, Senior Executive Programme
NHFC Director from: 02 September 1996

9 **Dr Snowy Khoza**
Group Executive: Group Strategy and Communication, Development Bank of Southern Africa
MBA (UCT), PhD (Brandeis University, USA), MA (SS) (Unisa), BA (Hons) (Fort Hare), BA (SW) (University of the North)
NHFC Director from: 07 February 2008

10 **Mr Enoch Godongwana**
Member of Policy Board for Financial Services and Regulation
Chair: Pan African Benefits Services
MA (Financial Economics) (University of London)
NHFC Director from: 07 February 2008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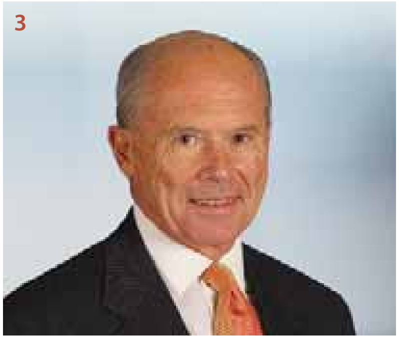
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EXECUTIVE MANAGEMENT

COMPANY SECRETARY

1 **Ms Elsabe Marx**
B Proc, LLB, LLM
Appointed: 29 October 2004

EXECUTIVE MANAGERS

2 **Ms Adrienne Egbers**
Chief Operating Officer
CA (SA)
Executive Manager from September 2001

3 **Ms Zonia Adams**
Chief Financial Officer
B Compt Honours, CA (SA)
Executive Manager from: January 2007

4 **Mr Brian Kgosi**
Information Technology
B.Eng (Mechanical), MBA (Finance)
Executive Manager from December 2006

5 **Mr Lawrence Lehabe**
Business Development and Projects
BCom, MSc (Marketing)
Executive Manager from July 2005

6 **Mr Gavin Long**
Credit
BCom
Executive Manager from January 2007

7 **Ms Nomsa Ntshingila**
Human Resources
MSc: Clinical Psychology, BSocSc Honours, HED
BA Com

Executive Manager from September 2005

8 **Mr Siegfried Mogane**
Executive Manager: Retail Business
BCom, MStrat
Executive Manager from July 2007

Prof. Michael Katz
Chairman

NHFC continues to remain at the forefront of the provision of housing finance solutions to the low income housing sector and is well positioned to continue to fulfil its mandate of broadening and deepening access to the low to middle income households.

CHAIRMAN'S REPORT

On behalf of the Board of Directors, I am pleased to present NHFC's 2008 Annual Report. It is indeed gratifying that in difficult times the NHFC has made good progress in a number of areas. In particular, I am proud that the NHFC has gone a long way in responding to the Minister's challenge of accelerating delivery and effectively supporting the BNG Strategy through the development of Sustainable Integrated Human Settlements.

The NHFC has significantly increased its impact across the housing value chain and paved the way for continuous improvement in the quality of the lives of many of the low income households.

The Board's responsibility is to ensure that NHFC continues to remain at the forefront of the provision of housing finance solutions to the low income housing sector and is well positioned to continue to fulfil its mandate of broadening and deepening access to the low to middle income households. In this regard we have, during the course of the year, worked very closely with both the National Department and the Housing Ministry.

Indeed, 2008 was a very busy year for the NHFC. Not only have we succeeded in striking new strategic partnerships with both public and private institutions, so as to increase our scale of delivery and leverage their capacity, but we have also facilitated a number of housing development projects across the country. It was therefore not surprising that Board sub-committees had a number of special meetings over and above the scheduled ones, to deal with some of the major facilities within their mandate.

We are aware that one of our challenges is the ever-changing housing finance and economic landscape. I am pleased that the Joint Venture initiative which will present an innovative housing finance product option has been operationalised. The continued rising interest rates and the energy problems have threatened both the ability of households to repay loans and the development of a number of the planned affordable housing projects. These have resulted in reduced affordability or cancellation of new housing projects in recent months. In the coming year, we will continue as a Board to remain vigilant in monitoring the housing landscape in order to ensure that we are aware of strategic issues and opportunities of the NHFC's long-term housing finance initiatives.

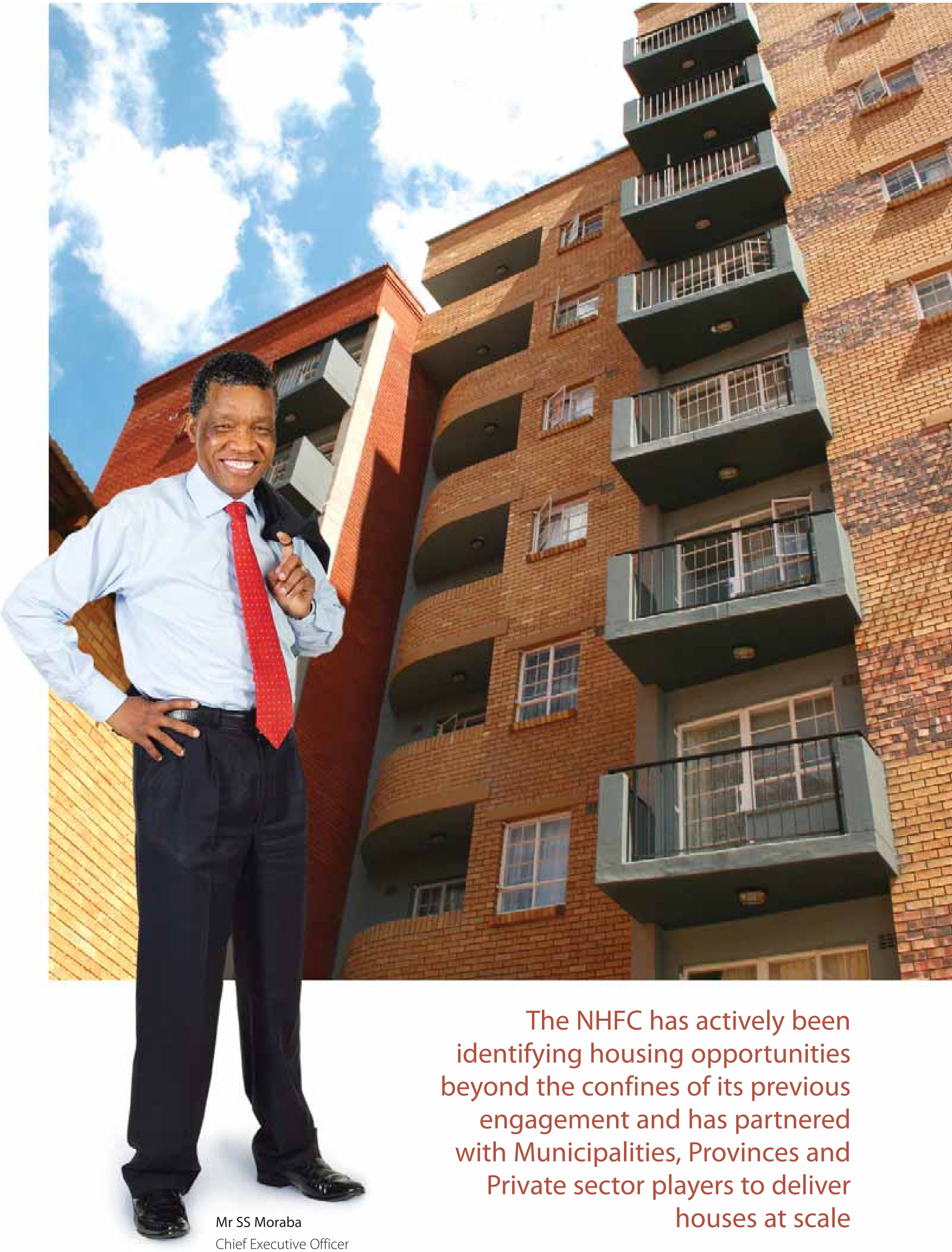
I am happy to welcome Ms Toto Ndziba-Dikgole, Dr Snowy Khoza, Mr Enoch Godongwana and Mr Chris Ball to the Board of the NHFC. They bring a wide range of experience to the activities of the NHFC which will be very relevant to the NHFC's broadened mandate responsibilities. A word of thanks to Mr Andrew Canter, who resigned from the Board due to his increased commitments. I thank Andrew for his outstanding contribution over the years as a director of NHFC and wish him well in his new capacity. We will miss him.

I also wish to acknowledge the outstanding contribution made by my fellow Board colleagues and to thank them for their devotion to the work of the NHFC.

Lastly, a special thanks to the Honourable Minister of Housing for her untiring support for, and confidence in, the NHFC.

Our employees remain the backbone of the NHFC and have indeed embraced the innovative spirit that has contributed to our success over the past 11 years. We are fully aware that in more recent times a number of negative factors have emerged including negative sentiment in world financial markets arising from the sub-prime crisis, concerns about a recession in the United States, high food and energy prices locally due to similar concerns, as well as the high rate of crime. These factors will certainly impact on our economic outlook. There are, however, also positive factors including the benefits of hosting the 2010 FIFA World Cup. In spite of all these concerns we at NHFC see great opportunities to serve our people by broadening solution options to their housing finance needs.

Prof MM Katz
Chairman



Mr SS Moraba
Chief Executive Officer

The NHFC has actively been identifying housing opportunities beyond the confines of its previous engagement and has partnered with Municipalities, Provinces and Private sector players to deliver houses at scale

CHIEF EXECUTIVE OFFICER'S REPORT

INTRODUCTION

In looking back on the year ended 31 March 2008, I have pleasure in reporting significant successes in meeting the strategic objectives of the Corporation, although the operating environment had its challenges.

ENVIRONMENT

Economic

The Reserve Bank's interest rate increases had a significant impact on the ability of the low to middle income earners to meet commitments on credit agreements.

Regulatory

Credit

The implementation of the National Credit Act (NCA) on 1 June 2007, besides putting a curb on credit extension also involved substantial review of policies, systems and operating procedures for both NHFC and its clients. Although the long-term effect of the NCA will be beneficial, its immediate impact was reduction in credit extension to the consumer. As it was launched at a time of rising interest rates, fuel increases and higher inflation, the NHFC's target market was hard hit.

Housing

The year saw the progress of Social Housing Regulatory Authority (SHRA) and the Housing Development Agency (HDA). The former will seek to regulate and support Social Housing Institutions and the latter facilitate access to land for housing and facilitate or fast track processes to convert land to stands.

OVERVIEW OF THE NHFC EXPERIENCE

Last year we said we would	During 2008 we achieved
• Implement the new organisational structure in line with the target operating model.	• Implementation of the new organisational structure in line with the transformation process went smoothly and has proved beneficial to the business of the Corporation.
• Roll out the retail offering to the key provinces and thereafter national.	• In May 2007 the retail home loan offering was launched through a pilot programme using the South African Post Office (SAPO) retail infrastructure, as delivery channels.
• Effectively launch and manage the implementation of an innovative product that will assist in deepening and broadening access to the affordable housing market and thus changing the low to middle income housing finance landscape.	• An innovative retail offering with repayments based on a set percentage of a household's salary was developed in partnership with Pan African Capital Holdings ("PACH") and will shortly come to market.
• Close out on the key scale project initiatives that began during this financial year such that they significantly increase the supply of housing stock in the target market.	• With both the banks and prospective retail customers bemoaning the lack of affordable housing stock, NHFC has approved project funding for delivery of housing across the housing value chain, that will not only improve its own impact, but start to make a more serious dent in the housing backlog in South Africa.
• Work with banks by playing a facilitative and integrative role in the process and thus enhance the scale of delivery and the funds flow in the target market.	• Although NHFC has always interacted with banks, the signing of an MOU with ABSA to jointly fund suitable projects, particularly those that are able to deliver at scale, took the relationship to a higher level.
• Aggressively facilitate both public and private partnerships to significantly increase the supply of housing suitable for the low to middle income housing market.	• With the broadened mandate the NHFC has actively been identifying housing opportunities beyond the confines of its previous engagement and in this, has partnered with Municipalities, Provinces and Private sector players to deliver houses at scale. This includes signing an MOU with Basil Read to become involved in large projects, the first in Matjabeng in the Free State.

CHIEF EXECUTIVE OFFICER'S REPORT *CONTINUED*

The transformation of the NHFC in support of its broadened mandate, has gathered momentum in 2008 and in 2009 some of the benefits and impact will be realised.

DEVELOPMENT OF SUSTAINABLE HUMAN SETTLEMENTS

NHFC's aim to support the BNG Strategy by facilitating the development of sustainable human settlements was the rationale for the transformation of the Corporation and its more aggressive marketing approach.

Large scale housing provision

The planned targeting of sustainable institutions able to deliver at scale, led to partnerships with Basil Read, Seakay Engineering and co-operative arrangements with Provinces to implement projects on their behalf.

Promoting densification and integration in housing in South Africa

NHFC has always been the main source of funding for the Social Housing Institutions and this year, entered into a number of long-term funding arrangements with institutions in KwaZulu Natal, Western Cape, Gauteng, Polokwane and Eastern Cape.

Cooperation with Provinces in developing new and integrated housing projects

During the year the Corporation commenced planning integrated developments using well located state-owned land through the use of Land Availability Agreements (LAAs) in Limpopo, Eastern Cape and Western Cape.

Supporting urban renewal and inner city regeneration

NHFC has for a number of years funded inner city landlords able to provide affordable rental accommodation while contributing to inner city regeneration. Some of these clients have become household names and include JHC, TUHF and Afhco, who together have made a huge impact on the urban renewal of Johannesburg. NHFC is a willing and active participant in structures supporting the development of the National Rental Housing Strategy that aims to provide 100 000 units in five years.

Provision of information, involvement in policy development and cooperation in major research projects in the housing and housing finance field

With a dedicated team supported by a specialised information system, NHFC has been able to add value to the broader housing community. It has participated in major research projects such as the Township Residential Property Market study. Staff at NHFC also participated in the National Research Task Team initiated by the National Department of Housing.

It has also been able to provide input into policy development and provides the required commentary on all legislation affecting housing particularly for low to middle income earners.

NHFC publishes regular updates on housing matters that are distributed to a broad database of industry players.

Product and building innovation

The Corporation and staff members were involved in the development and support of the Eric Molobi Innovation Hub that showcased alternative building materials and methodologies. NHFC has, in providing project finance, encouraged the use of properly approved alternative building materials in a number of projects.

FINANCIAL REVIEW

The Group net profit for the year is R60,6 million. Although net Revenue increased by 33%, expenses were generally higher due to the planned retail infrastructure layout cost and sundry expenses which consisted mainly of tax penalties.

Advances increased by 10%.

Impairments

Impairments were at a lower level than those reported in 2007, down from R18,9 million to R13,7 million. The Corporation continues to make a follow-up on all impairments so as to maximise recoveries.

Taxation

During the 2008 financial year tax assessments for 2003 to 2006 were received which resulted in net penalties and interest of R7 million and an under provision of R17 million, the details of which are provided below:

Tax penalties

The tax penalties were the result of the Corporation offsetting provisional tax payments due against a tax credit that arose from a change in accounting policies, particularly at the inception of AC133 when the policy on bad debt provisioning changed.

Under provision relating to prior years

The under provision relates mainly to 2003 when the Corporation changed its accounting policy in line with accounting standards by designating Bonds as "held for trading" and 2004 when the NHFC debentures in Cape Town Community Housing Company (CTCHC) were impaired and not allowed as a deduction for tax purposes.

CHALLENGES AND SETBACKS

No year is without its disappointments and this year NHFC would have liked to report more success in the retail pilot that commenced in May. Very few loans were generated during the pilot with the lesson being that a single channel offering is not the optimum route to pursue. In the current Retail Model that will be implemented in the second quarter of the current year, there will be a number of additional channels including Mortgage originators, Large Employers, direct approach through a Call Centre etc. The economic climate is a challenge as the target market can ill afford increased mortgage repayments due to interest rate increases.

Another disappointment was the time taken to secure all the necessary approvals for the Joint Venture investment in the Income Linked Product initiative. This product will protect borrowers against the threat of rising interest rates by linking repayments to a percentage of household salary. The JV Company has been set up, a Board of Directors appointed and the first loans are expected in the 2008 financial year.

FUTURE OUTLOOK

The transformation of the NHFC in support of its broadened mandate, has gathered momentum in 2008 and in 2009 some of the benefits and impact will be realised.

- On the housing supply side, the Corporation intends to significantly increase the funding for rental and ownership initiatives, extensively leveraging the resources of other partners in the target market.
- On the demand side, the retail home loan product implementation will take off as the infrastructure, policies and processes will be operational by the third quarter of the current financial year.
- In order to facilitate the delivery of housing at scale, the Corporation is working with Local and Provincial Governments to accelerate the development of integrated sustainable human settlements, which includes among others, all residential, communal, infrastructural and commercial developments. NHFC provides technical assistance to bring projects to fruition, and it is expected that projects in Western Cape, Limpopo and Eastern Cape will be supported during 2009.

APPRECIATION

As we come to the end of the term of office of the Minister for Housing, Dr. Lindiwe Sisulu, we also look at how the Corporation has changed during that term. We have broadened our mandate into retail, we have transformed into a financier of a much broader range of housing solutions and we have been encouraged to be innovative. The support received from Dr. Sisulu and the absolute belief that all is possible when trying to reduce the backlog of over 2,3 million houses, has made us take steps that would otherwise not have been taken. We thank her and assure her that we are on a path that aims to significantly deliver housing at scale and improve the quality of life for the many low income household South Africans.

The NHFC Board's leadership and oversight through the changing and challenging times in the last year is something that is much appreciated. My sincere thanks to Professor Michael Katz and Board members for their professionalism and insight and their focus on engaging us to find solutions to the housing challenges we face in this unserved majority of the population.

The Executive team that has seen some changes during the last year, but has been called upon to open their minds to new ideas and provide the necessary foundation from which new markets could be tackled, have risen to the challenge and given me their commitment, my thanks to all of them. To all the staff, many of whom have remained with NHFC since the early days and who have accepted the changes in the operating model and used their diverse talents to make housing finance happen, my sincere thanks.

Mr SS Moraba
Chief Executive Officer

SUSTAINABILITY REPORT

NHFC has to take a long-term view on its sustainability and look beyond issues relating only to profit, notwithstanding that there is a need for financial stability.

The Corporation, in conducting its business, has to act in such a way that it addresses the needs of its broader stakeholder community.

SOCIAL IMPACT

- ### Customers

  NHFC has a customer-base focused entirely on the affordable housing market and provides wholesale funding to intermediaries who provide various housing opportunities from small home improvement loans to mortgage bonds. In providing funding for Social Housing and Inner City Rental projects, NHFC supports the National Rental Strategy.

  Developers of fully subsidised and integrated housing developments are assisted with bridging finance to improve on the supply side of housing and to assist in reducing the backlog of housing.

  In 2008, the Corporation entered the Retail home loan market, through initially, a pilot project with the South African Post Office (SAPO) as its partner. Later in the year, this led to the development of a more comprehensive offering that will be launched using multiple channels including a call centre, bond originators and employer based housing schemes.

- ### Human Resources

  #### Talent management

  A culture survey was conducted during the previous year and NHFC developed a Talent Management framework to address the issues identified in the Employee Cultural Survey (ECS). The framework clearly articulates how the Corporation intends addressing the acquisition and retention of employees, the implementation of a comprehensive employee development approach, together with integrated performance management and reward systems.

  Historically, NHFC has been mindful of the challenge to mirror the national demographic outlook within its employee body, although it is faced with the problem of the availability of skills within certain race groups. To this end, the NHFC has developed a robust Human Capital framework which seeks to ensure that the Corporation attracts a good calibre of employees, retains its mission critical employees and ensures a workplace conducive for employee innovation to thrive, thereby increasing employee satisfaction in the Corporation.

  #### Employment equity

  The Corporation complies with the imperatives of the Employment Equity Act. The table on the next page reflects the employment equity ratio in the organisation.

Staff profile

The table below reflects the staff profile by gender, race and level as at 31 March 2008:

	Gender								
Occupational level	Male				Female				Total
Race	A	C	I	W	A	C	I	W	
Executives	4	0	0	1	2	1	0	1	9
Management	7	0	2	1	5	0	0	1	16
Professional	10	0	0	2	13	3	1	1	30
Support	5	1	0	0	14	4	1	1	26
Total	26	1	2	4	34	8	2	4	81

KEY: A = African, C= Coloured, I = Indian, W= White

Employee wellness

Employee assistance programmes

The Corporation has developed a comprehensive wellbeing strategy that deals holistically with an individual's needs (physical, emotional, financial and spiritual). An array of service providers specialising in different fields come to the premises of NHFC where there is a need to offer such service. Where there is a call for anonymity, the employees go to the service provider's premises for help.

With the interest rates at high levels, NHFC has partnered with ABSA to offer financial counselling to employees.

HIV/AIDS initiative

During the financial year 2007/8, the NHFC partnered with various NGOs in holding workshops that culminated in the celebration of the World Aids Day, and Breast Cancer Day. Employees voluntarily participated in programmes such as Know Your Status (KYS). These programmes were aimed at ensuring continuous awareness and prevention.

NHFC has to take a long-term view on its sustainability and look beyond issues relating only to profit, notwithstanding that there is a need for financial stability.

SUSTAINABILITY REPORT *CONTINUED*

- **Corporate Social Responsibility**

  The Corporation actively supports many activities in the housing field. On a regular basis staff participate in house builds for various organisations such as Habitat for Humanity, Women for Housing, Celebrating Youth Build and the Men's Build. These are great opportunities for staff to understand projects from aspects other than finance. NHFC has also joined NDoH in sponsoring youth development programmes, the Innovation Hub, and participating in the annual Randshow to promote the activities of the NDoH.

  In line with its transformational and capacity building thrust in the low to middle income housing sector, the NHFC, in partnership with ABSA and the National Housing Ministry, has committed R1 million to support the training of 400 disadvantaged real estate agents.

  From its Development Fund, the Corporation has been able to support innovative programmes in housing delivery, supported provinces with funding for feasibility studies and training programmes etc.

- **Suppliers**

  NHFC conforms to the PPPF and every tender is evaluated with attention being paid to BEE criteria.

- **Government and Regulators**

  As a Public Entity in terms of PFMA, NHFC subscribes to the highest level of Corporate Governance and ensures that all the necessary policies to adhere to the regulatory requirements are in place. During the current year, NHFC registered with the National Credit Regulator and has been involved in providing commentary on housing legislation on the Social Housing Regulatory Authority, Inclusionary Housing and Housing Development Agency.

ENVIRONMENTAL IMPACT

NHFC participates in a number of forums that develop policies and practical solutions to environmental problems affecting South Africa.

Clients, besides providing copies of approved Environment Impact Studies for each project, are encouraged to employ resource conservation methodologies and look for innovative energy efficiency solutions. The Corporation has in the past, and continues to involve itself in initiatives that promote integrated developments and energy efficient methods and materials. This includes, but is not limited to, support for and endorsement of certain alternative building systems.

NHFC is cooperating with an international agency, in organising a symposium on environmental issues in housing provisioning. The symposium is planned for November 2008.

Economic impact

NHFC provides funding on a national basis usually to those institutions that would otherwise be unable to source funds. The Corporation actively encourages Public/Private Partnerships with other funders, particularly the main banks. It is prepared to leverage funding through supportive and innovative risk sharing mechanisms.

In terms of its mandate, NHFC needs to meet its developmental objectives while ensuring long-term financial soundness.

CORPORATE GOVERNANCE

1. INTRODUCTION

NHFC was established in 1996 as a Development Finance Institution and its mandate is set out in Government Gazette No. 18377 published on 17 October 1997. The Registrar of Banks has granted the NHFC permission to operate within the published mandate without their supervision until such time that the broadened mandate is formalised.

The Board has reaffirmed the Corporation's commitment to sound governance and practices, in particular to the principles set out in the second King Report on Corporate Governance Practices and Conduct (King II) and the Protocol on Corporate Governance in the Public Sector (the Protocol), within prudent risk parameters and aligned with best practice for public entities. The Corporation reviews its policies and practices on an ongoing basis to reflect internal developments and to ensure that the business is well managed.

The NHFC is subject to provisions of the Public Finance Management Act, Act 1 of 1999 (PFMA) and the Treasury Regulations.

2. NHFC BOARD GOVERNANCE STRUCTURES AND FRAMEWORK

The Corporation is committed to conducting its business ethically and holds itself responsible and accountable towards its stakeholders. Its Code of Ethics (the Code) is based on the fundamental principles of fairness, transparency, integrity, reliability, responsibility and honesty. The Code commits Management and staff to high standards of conduct in their dealings with the Corporation's clients and stakeholders.

The Corporation also promotes sound values and staff are committed to trustworthiness, openness to new ideas, passion for purpose, accountability, commitment and teamwork.

2.1 Accountability to the Shareholder

The NHFC, through its Board of Directors (the Board), is accountable to its sole Shareholder, the Government of the Republic of South Africa. The Minister of Housing (the Minister) represents the Shareholder's interest and holds the Board accountable for overseeing the operations of the Corporation.

The Corporation acted in accordance with its approved Corporate Plan for the 2007/8 financial year, which serves as an agreement between the Corporation and its Shareholder and documents the key performance measures against which organisational performance is assessed. These are reflected on page 55 of the annual report.

The Board reports to the Shareholder by way of quarterly reports as well as the annual report and ad hoc meetings take place between the Minister and the Board. The CEO, who is charged with the day to day management of the Corporation's operations, consults and meets regularly with the National Department of Housing (NDoH) and the Minister.

2.2 Composition of the Board

The Board is appointed by the Minister in her capacity as Shareholder representative and comprises ten members, the details of whom are reflected on page 2 of the annual report. They are all non-executive, with the exception of the Chief Executive Officer (CEO).

The directors bring a wide range of financial and legal expertise to issues of strategy, performance, protection of Stakeholder's interests and the setting of the Corporation's policies.

Mr Canter resigned as a director on 21 March 2008. The Minister has during the financial year appointed Messrs Ball and Godongwana, Dr Khoza and Ms Ndziba-Dikgole as directors to strengthen the Board and to put the required capacity and skills in place for the new retail business.

The newly appointed directors have undergone induction. In addition to induction of new directors, the Board is continuously updated on developments in the regulatory environment and the Corporation's activities.

The offices of Chairman and CEO are separated. Professor Katz is the Non-Executive Chair and the CEO position is held by Mr Moraba.

2.3 Board meetings and procedures

The Board meets at least four times a year, or more frequently if circumstances so require.

Board members are reminded annually of their statutory duties pertaining to the declaration of interests and requested to submit a general declaration of interest should any of them wish to rely on it. An affected Board member is legally bound to inform the Board of a conflict or potential conflict of interests in relation to a particular item on the agenda and to recuse her or himself of the discussion of that item, unless the Board resolve that the declared interest is trivial or irrelevant.

2.4 The Board's role

The Board provides leadership, vision and strategic direction to the NHFC to enhance shareholder value and ensure long-term sustainability and growth of the Corporation. The Board retains full and effective control over the Corporation by:

CORPORATE GOVERNANCE *CONTINUED*

- approving the strategy, business plan and budget and monitoring Management closely in the implementation thereof;
- annually reviewing the key risk areas and key performance indicators; and
- monitoring operational and financial performance and effectiveness of Management on a regular basis.

The Board reviewed its Board Charter (the Charter) and Code of Conduct during the year under review. The Charter gives a concise overview of the demarcation of roles, functions, responsibilities and powers of the CEO, the Board and the Shareholder. The Code of Conduct sets out the principles to be followed by the directors and members of committees in the conduct of the business of the Corporation.

The Board also reviewed the Terms of Reference of the respective Board committees and its delegated authorities to Management.

Directors have unrestricted access to senior Management and any information they may require in discharging their duties. They also have access to the advice and services of the Company Secretary and may seek independent professional advice concerning the affairs of the Corporation.

2.5 Board assessment

The Board decided to conduct an annual assessment and an external service provider was appointed at the end of the financial year to conduct an appraisal of the Board, Board committees and individual directors in the 2008/09 financial year.

2.6 Board committees

The Board has delegated certain matters to an Audit and Risk Committee, a Board Credit and Investment Committee as well as a Human Resources, Ethics and Remuneration Committee, but reserved the power to approve credit applications above R100 million to itself. The Chairmen of the respective committees report back to the Board at Board meetings.

The main duties delegated to each Board committee are reflected below:

2.6.1 Audit and Risk ("A&R") Committee

The A&R Committee comprises three non-executive directors. The members are Messrs Tati (Chair) and Ntsaluba and Dr Khoza. Dr Khoza was appointed as a member on 27 March 2008 to replace Mr Moraba as he can, in line with legislative changes, no longer be a member of the A&R Committee.

The A&R Committee oversees financial reporting, internal controls, funding plans and strategies, compliance, corporate governance, policies and risk management. The A&R Committee reviews the Enterprise Wide Risk Management Policy and Strategy and the significant risk exposures and makes recommendations in this regard to the Board. This committee is supported by the Financial Risk Management Committee (FRMC) in fulfilling its duties pertaining to financial risks.

The A&R Committee meets at least three times a year or more frequently if circumstances so require and meetings are attended by the External and Internal Auditors as well as the Acting Chief Financial Officer and Executive Manager: Treasury.

2.6.2 Board Credit and Investment Committee (BCIC)

BCIC comprises four non-executive directors and the CEO. The members are Ms Makiwane (Chair) and Messrs Godongwana, Middleton, Moraba and Tati and it meets at least four times a year or more frequently if circumstances so require. BCIC meetings are attended by the Executive Manager: Projects to present credit applications and the Executive Manager: Credit to deal with Credit's appraisal and recommendation to the committee. BCIC meetings are also attended by the CFO and Executive Manager: Treasury as well as the Legal Services Manager.

BCIC considers all loan applications for loan facilities that exceed or cumulatively exceed R30 million up to R100 million per client upon recommendation by the Management Credit Committee. BCIC recommends loan facilities that exceed or cumulatively exceed R100 million per client to the Board. BCIC performs its assessment of the credit risks inherent to a proposed facility within the framework of an approved Credit Policy.

BCIC is also accountable for recommending the Treasury Management Policy and other long-term investment strategies, policies and proposals to the Board.

A BCIC member with an interest in a loan application should inform BCIC of a conflict or potential conflict of interests in relation to a particular item on the agenda and recuse her or himself of the discussion of that item unless the committee decides that the declared interest is trivial or immaterial.

2.6.3 Human Resources, Ethics and Remuneration Committee (HRER)

HRER comprises three non-executive directors and the CEO. The members are Mr Middleton (Chair), Messrs Moraba and Ntsaluba and Ms Ndziba-Dikgole. Committee meetings are attended by the Executive Manager: Human Resources.

HRER is charged with the oversight of the Human Resources Policies and Strategies, remuneration for staff and Management and the development and implementation of the Code of Ethics.

In discharging its duties, HRER gives due cognisance to the Corporation's remuneration philosophy to offer remuneration that will attract, incentivise, retain and reward employees with the required skills to deliver on its mandate.

2.7 Board and Board committee record of attendance

	Category	Board		Audit & Risk		BCIC		HRER	
Number of meetings	6	4		6		1			
Prof M M Katz	Chair	✓	5					✓[3]	1
Mr S S Moraba	CEO	✓	6	✓	4	✓	6	✓	1
Mr C Ball[1]	Non-executive directors	✓	1						
Mr A C Canter[2]		✓	5			✓	5		
Mr E Godongwana[1]		✓	1			–[4]	–		
Dr S J Khoza[1]		✓	1						
Ms N E Makiwane		✓	5			✓	5		
Mr T A Middleton		✓	4			✓	6	✓	1
Ms T Ndziba[1]		✓	1					✓	
Mr S S Ntsaluba		✓	2	✓	4			✓	1
Mr S A Tati		✓	4	✓	4	✓	6		

[1]*Appointed on 7 February 2008*

[2]*Resigned on 21 March 2008*

[3]*Prof Katz was replaced by Ms Ndziba-Dikgole on 27 March 2008*

[4]*Mr Godongwana was appointed as a member of BCIC on 27 March 2008*

2.8 Management committees

2.8.1 *Executive Management Committee (Exco)*

Exco is composed of the Executive Managers reflected on page 3 of the annual report who assist the CEO in managing the day-to-day business of the Corporation within the powers delegated to him by the Board. Exco is also accountable for formulating the Corporation's strategy and implementing it once approved by the Board.

2.8.2 *Management Credit Committee (MCC)*

MCC, a sub-committee of BCIC, is chaired by the CEO and meets weekly. The CEO, a co-opted industry specialist, the Executive Manager: Credit, the Acting CFO and the Legal Services Manager are members of the committee.

MCC is responsible for approving loan facilities up to or cumulatively up to R30 million per client and recommending those in excess of that amount to BCIC. All credit applications are submitted by the Credit Division, who conduct a thorough assessment of the risks associated with the particular application and make a recommendation to an Internal Credit Committee.

MCC members with an interest in a loan application must inform MCC of a conflict or potential conflict of interests in relation to a particular item on the agenda and recuse her or himself of the discussion of that item.

2.8.3 *Financial Risk Management Committee (FRMC)*

FRMC is chaired by the CEO and comprises the Acting Chief Financial Officer and Executive Manager: Treasury, Chief Operating Officer and the Money Market Dealer.

FRMC is responsible for overseeing the management of treasury risks and reviewing treasury management policies and financial risk management strategies. FRMC is also responsible for reviewing funding plans and strategies and making investment decisions in line with approved policies.

2.8.4 *Procurement Committee*

The Board approved a Procurement Policy, which guides all the NHFC procurement practices and processes by which goods, works and services are procured, to ensure that the procurement system is fair, equitable, and transparent. It has also approved clearly defined delegated authorities to avoid fruitless and wasteful expenditure.

The Procurement Committee is accountable for monitoring and overseeing the implementation of the Procurement Policy, Procedures and Code of Conduct and monitoring adherence thereto.

CORPORATE GOVERNANCE *CONTINUED*

3. INTERNAL CONTROL

The Audit and Risk Committee assists the Board in discharging its duty to ensure that the Corporation maintains adequate accounting records, internal controls and systems to provide reasonable assurance on the integrity and reliability of financial information and to safeguard its assets.

The effectiveness of these internal controls and systems is monitored through management reviews, formalised reporting and internal audits.

The internal audit function is outsourced to an independent service provider and operates in terms of an Internal Audit Charter. The internal audit function reports functionally to the A&R Committee and administratively to the Acting CFO and its staff have full and unrestricted access to the Chair of the A&R Committee. The A&R Committee conducts its own assessment of the effectiveness of the internal audit function.

The Internal Audit Plan is based on the key risks identified in the review of enterprise-wide risks. All operations, business activities and support functions are however subject to internal audit to give Management an independent assurance of the adequacy of internal systems and controls.

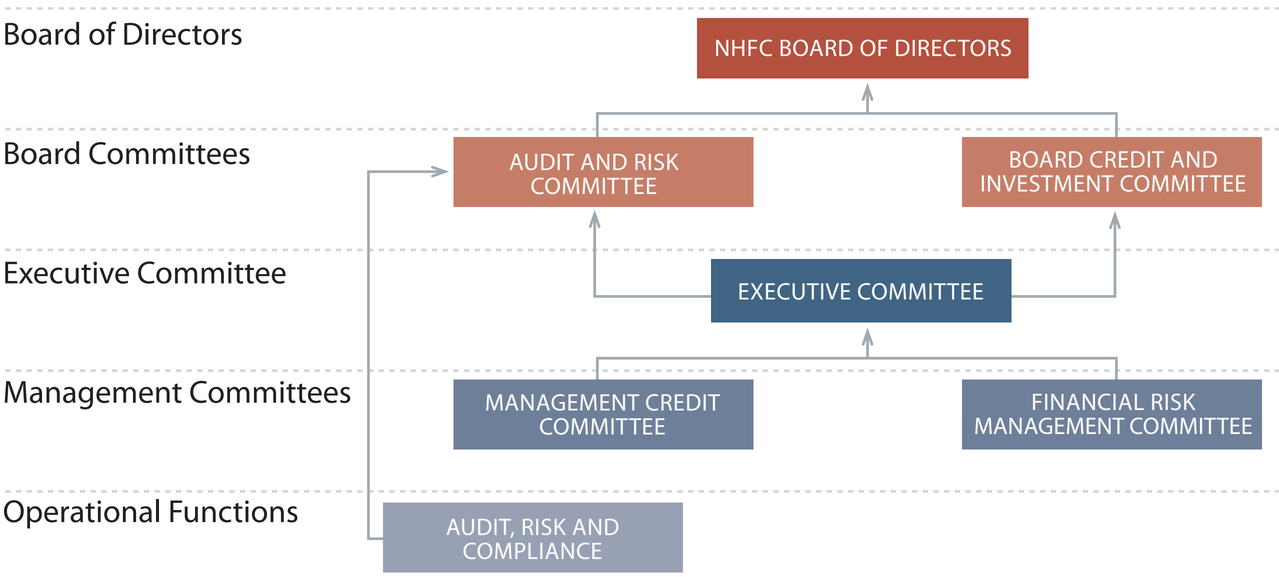
RISK MANAGEMENT REPORT

1. RISK MANAGEMENT GOVERNANCE STRUCTURES AND ACCOUNTABILITY

The Board approved an Enterprise Wide Risk Management Framework and Plan (EWRFP) and delegated its responsibility for overseeing the management of risks pertaining to the business of the Corporation to the Audit and Risk Committee.

Each Executive Manager is responsible for identifying and managing risks inherent to the operations of his/her Division. The CFO oversees the EWRM function and submits quarterly reports to the A&R Committee, which deals with the actions taken by Management to address the key risks. The outsourced internal audit function independently audits the adequacy and effectiveness of the Corporation's risk management, control and governance processes.

The governance structure for risk management is illustrated below:



Information regarding the composition and responsibilities of the Board and its various committees and management committees can be found in the corporate governance report.

2. KEY RISK CATEGORIES

The key risks of the NHFC are categorised as follows:

2.1 Strategic

Strategic risks relate to failure of the Corporation to deliver on its mandate.

Strategy and objectives are aligned with the mandate and business plan which is approved by the Shareholder.

Strong governance and reporting structures are in place to monitor delivery against the business plan.

2.2 Credit

Loans and receivables- Advances

In terms of the Basel 2 accord, the objective of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The NHFC, although not a registered banking institution, strives to adhere to the principles of the accord whilst acknowledging and indeed promoting its mandated developmental role.

Credit Risk is a critical component of the NHFC EWRFP and is accordingly managed in terms of stringent credit policies and detailed documented procedures.

Credit risk is the result of borrowers and other counterparties not being willing or able to fulfil their contractual obligations. Management of credit risk specifically addresses the following areas:

- Establishing an appropriate credit risk environment;
- Operating under a sound credit-granting process;
- Maintaining an appropriate credit administration, measurement and monitoring process; and
- Ensuring adequate controls over credit risk.

RISK MANAGEMENT REPORT *CONTINUED*

Credit Risk Environment

The NHFC, whilst focused on sustainability and sound credit decision making principles, as a Development Finance Institution faces the unique challenge of balancing sound credit decisions with a developmental bias.

The higher risk appetite of the corporation is clearly entrenched in the mandate and the approach to housing delivery. Naturally whilst acknowledging the increased risk appetite inherent in our function as a DFI, the NHFC has a responsibility to ensure that this is tempered through sustainable interventions and sound credit risk assessment. This balance is maintained through the design and implementation of clear credit policy and processes.

Credit Granting Process

Each proposal received by the NHFC is rigorously assessed by expert Project managers before it is submitted to Credit for further interrogation and assessment by dedicated Credit Analysts. After the Credit assessment:

(i) The proposal is submitted to the first tier sanctioning committee the ICC (Internal Credit Committee).

(ii) The Second Tier sanctioning committee or MCC (Management Credit Committee) on recommendation from ICC, considers all proposals. This committee includes an external expert providing objective industry related input to the credit decision making.

(iii) Proposals in excess of R30 million and up to R100 million are then considered by the Board Credit and Investment Committee after recommendation by the Management Credit Committee.

(iv) Proposals in excess of R100 million are recommended by BCIC to the Board for approval.

Credit Administration, Measurement and Monitoring

The credit and compliance monitoring function resides with the Credit division with each customer allocated to a portfolio managed by a designated credit analyst.

Monthly reports are submitted by the credit analyst to both the Relationship Manager and the Executive Manager Credit for discussion at monthly Executive Committee Meetings.

Delinquencies identified through the monthly monitoring process are immediately escalated and addressed. Where delinquency proves serious and not easily remedied, the account is moved to the NHFC turnaround specialist who focuses on rehabilitation, wherever possible.

Controls

The outsourced internal audit partner provides objective insight into the control measures in place within Credit division, making suggestions for improvement on an ongoing basis.

Loans and receivables balances

	2008 R'000	2007 R'000
Loans and receivables	**986 127**	924 489
Impairments	**(56 643)**	(77 909)
Net loans and receivables	**929 485**	846 580

Concentration risk by operations

Commercial	49%
Projects	51%

INVESTMENTS, CASH AND SHORT-TERM DEPOSITS

Counterparty risk is managed through careful selection of A1 rated counterparties, allocating limits and daily monitoring in line with the Treasury Management Policy.

Detail of the counterparty concentration risk is as follow:

ABSA Bank Limited	16%
Investec Bank Limited	18%
Standard Bank of SA Limited	13%
Standard Bank of SA Limited (Stanlib)	1%
Rand Merchant Bank a division of FirstRand Bank Limited	14%
Nedbank Limited	17%
Land Bank of South Africa	5%
Transnet	1%
Eskom	10%
TCTA	3%
Centriq	1%

2.3 Market

Market risk is the risk of a decrease in the market value of a portfolio of financial instruments caused by an adverse movement in market variables.

The Corporation is mainly exposed to downward interest rate movements on its investment and loans and receivables portfolios.

The management of financial and market risk takes place within the centralised treasury function. Treasury's approach is based on risk governance structures, risk management policies, risk ownership, risk identification, measurement, management and control and reporting. Oversight of financial risk management is provided by the Financial Risk Management Committee, a sub committee of Exco, and the Board Credit and Investment Committee.

The Treasury policy, approved by the Board, presents a framework within which management can manage and mitigate financial risk on a day-to-day business.

The objective of managing interest rate risk is to identify and quantify interest rate risk and to structure assets and liabilities to reduce the impact of changes in interest rate. The Corporation currently has no interest bearing liabilities. Liabilities relates to government funds under management.

Financial markets and positions are monitored on a daily basis. The time horizon of the investment portfolio is aligned to the cash flow requirements and strategy of the core business. The portfolio is diversified using a mixture of fixed and floating rate instruments within the policy framework.

Clients who enjoy variable interest rate facilities are subject to interest rates that reset on a change in prime interest rate or a quarterly basis in accordance with various market indices. The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.

The sensitivity of the portfolios to a 1% change in interest rate is reflected below:

	Increase/decrease %	**2008 Effect on profit before tax R'000**	2007 Effect on profit before tax R'000
Loans and receivables	1	**9 295**	8 466
Loans and receivables	-1	**(9 295)**	(8 466)
Investments	1	**16 118**	14 083
Investments	-1	**(16 118)**	(14 083)
Government funds under management	1	**4 963**	5 472
Government funds under management	-1	**(4 963)**	(5 472)

2.4 Liquidity

Liquidity risk is the risk that the Corporation may have insufficient funds or marketable assets available to fulfil future cash flow obligations timeously.

The Corporation has a strong capital base and significant cash and investment resources. The Corporation plans to mobilise funding to support its strategic objectives. A Funding Committee has been established to deal with the funding programme. Discussions are underway with funders like multi-lateral institutions, who are able to provide developmental finance.

To ensure that the Corporation is able to meet its financial obligations the liquidity management process includes:

- Short and long term cash flow forecasting;
- Establishment of investment limits per instrument; and
- Setting of maturity parameters for investments.

2.5 Compliance

Compliance risk relates to negative impact emanating from non-compliance with applicable legislation and regulations.

The Corporation has a Compliance Officer who is independent of the operational activities and assists Management in complying with all applicable statutory and regulatory requirements. The compliance risk is managed through creating awareness of the regulatory requirements and monitoring compliance with legislative requirements.

2.6 Operational

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems.

This risk category is managed through a system of internal controls, based on approved policies and procedures for initiation, verification and reconciliation of transactions, and adequate segregation of duties and delegated authorities.

The operational risk category includes fraud, financial management, legal, human resources, information risks and business continuity management.

The internal audit function is outsourced to an external service provider that reports to the Audit and Risk Committee.

The Fraud Prevention Policy and Plan, sets out the zero tolerance for fraud. A fraud hotline is available to staff and the public to report any suspected fraudulent matters on a confidential basis. No incidents of fraud or irregular activities were reported during the year under review.

2.7 Reputational

Reputational risk is the risk of damage to the Corporation's image which may impair its ability to retain and generate more business.

The Corporation manages its reputational risk through:

- A comprehensive strategy focusing on external stakeholders;
- Effective media strategy and execution plan;
- Well coordinated and structured stakeholder intervention plans;
- Crisis communication plan;
- Adherence to the communications policy;
- Effective management of the media and public; and
- Ongoing evaluation and management of the significant risk types highlighted above.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are legally bound to ensure that the Corporation keeps full and proper records of its financial affairs and for the preparation and integrity of the annual financial statements. The external auditors are engaged to conduct an audit and express an independent opinion on the financial statements.

The NHFC's annual financial statements have been prepared in terms of International Financial Reporting Standards and are in line with the Corporation's accounting policies and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the systems of internal financial control and that they place reliance on the Audit and Risk Committee to oversee Management's implementation of sound internal control systems, procedures and systems. Policies, procedures and approval frameworks are in place to maintain a strong control environment. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

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

The directors have every reason to believe that the annual financial statements, which were prepared on a going concern basis, fairly present the group's financial results and position at the end of the financial year and that the group will be a going concern for the year ahead.

The annual financial statements of NHFC for the year ended 31 March 2008, set out on page 23 to 53, were approved by way of a written resolution, signed between 17 and 23 July 2008 by the Board of Directors and signed on their behalf by:

MM Katz
Chairman

SS Moraba
Chief Executive Officer

REPORT OF THE AUDIT AND RISK COMMITTEE

The NHFC Board has reviewed and approved the Audit and Risk Committee (the Committee) Terms of Reference during the 2007/08 financial year.

The Committee's responsibilities are in line with the PFMA and Treasury Regulations and it has discharged all of its responsibilities set out in its Terms of Reference.

The Committee has amongst other things reviewed the following during the 2007/08 financial year:

- the effectiveness of the internal control systems;
- the effectiveness of internal audit;
- the Corporation's risk areas to be covered in the scope of internal and external audits;
- the adequacy, reliability and accuracy of financial information provided to Management and other users of such information;
- any accounting and auditing concerns identified as a result of internal and external audits;
- compliance with legal and regulatory provisions;
- the activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant findings and Management responses to specific recommendations; and
- where relevant, the independence of and objectivity of the external auditors.

The internal controls throughout NHFC focus on identified key risk areas. Management monitors all internal controls closely and ensures action is taken to correct deficiencies as they are identified. In the opinion of the Committee, these controls and procedures of the NHFC were during the year under review appropriate to have safeguarded the Corporation's assets, maintained proper accounting records and utilised working capital and resources efficiently.

Nothing has come to the attention of the Committee to indicate that a material breakdown in the functioning of the internal controls, procedures and systems has occurred during the year under review.

Following our review of the annual financial statements of the NHFC for the year ended 31 March 2008, we are of the opinion that they comply in all material respects with the relevant provisions of the Companies Act, the PFMA and International Financial Reporting Standards.

The Audit and Risk Committee, at its meeting held on 7 July 2008, recommended these annual financial statements, which were prepared on a going concern basis, to the Board for approval.

Mr SA Tati
Chairman

INDEPENDENT AUDITOR'S REPORT

TO THE MINISTER OF HOUSING

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements of National Housing Finance Corporation Limited, which comprise the directors' report, the balance sheet as at 31 March 2008, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 23 to 53.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act and the Public Finance Management Act of South Africa. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. We have also conducted the audit to ensure that we have discharged our responsibility in terms of section 27 and 28 of the Public Audit Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group and company as of 31 March 2008, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act and the Public Finance Management Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.
Registered Auditor

14 August 2008
Johannesburg

DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 31 March 2008.

NATURE OF BUSINESS

The NHFC is incorporated in terms of the Companies Act, Act 61 of 1973 (the Act) and its main business is to undertake funding as a wholesale intermediary and act as a fund and risk manager.

FINANCIAL RESULTS

The financial results of the Corporation for the year under review are set out on page 24 to 53 of these financial statements.

The directors have noted the tax penalties levied against the Corporation, as outlined in the CEO's report, and support the engagement of the SARS in this regard.

SHARE CAPITAL

There were no changes to the authorised and issued share capital of the Corporation during the year.

The NHFC directors can in terms of Section 221 of the Companies Act not issue any shares without the consent of its Shareholder in a duly convened general meeting.

DIVIDENDS

In terms of an agreed policy with its Shareholder, all profits are retained by the Corporation to build the Corporation's capital base and thereby increase its activities and impact.

DIRECTORS

Mr AC Canter resigned on 21 March 2008 and Dr SJ Khoza, Ms T Ndziba-Dikgole, Messrs C Ball and E Godongwana, were appointed on 7 February 2008. The composition of the Board is set out on page 2 and 13. The directors' emoluments are set out on page 46 of these financial statements.

COMPANY SECRETARY

Ms E Marx

BUSINESS ADDRESSES

PO Box 31376
Braamfontein
2017

1st Floor, Old Trafford Block 3
Isle of Houghton
11 Boundary Road
Houghton
2193

POST-BALANCE SHEET EVENTS

No significant events occurred between year end and the date of this report.

CERTIFICATE FROM THE COMPANY SECRETARY

In my capacity as Company Secretary, I hereby confirm in terms of the Act, that the Corporation lodged, with the Registrar of Companies, all such returns as are required of a Public Company in terms of the Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

EMarx

Ms E Marx
Company Secretary

BALANCE SHEETS

as at 31 March 2008

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**R'000**	R'000	**R'000**	R'000
ASSETS					
Non-current assets		**772 709**	678 061	**782 158**	687 588
Loans and receivables- advances	3	**761 748**	669 226	**761 748**	669 226
Investment in subsidiary	4	**–**	–	**2 449**	2 449
Loans and receivables – Preference shares and debentures	5, 6	**5 697**	5 697	**5 697**	5 697
Investment in cell captive	7	**–**	–	**7 000**	7 000
Property, plant and equipment	8	**1 214**	924	**1 214**	924
Deferred taxation	14	**4 050**	2 214	**4 050**	2 292
Current assets		**1 790 712**	1 859 541	**1 774 463**	1 843 975
Current portion of advances	3	**167 737**	177 354	**167 737**	177 354
Other receivables and prepayments	9	**11 220**	21 497	**11 220**	35 622
Held for trading investments – bonds	11	**–**	233 499	**–**	233 499
Held to maturity investments	12	**1 393 838**	1 184 399	**1 377 590**	1 183 861
Cash and short-term deposits	13	**217 917**	224 910	**217 917**	202 951
Income tax receivable	14	**–**	17 882	**–**	10 688
Investment property held for sale	10	**30 000**	34 000	**30 000**	34 000
Total assets		**2 593 421**	2 571 602	**2 586 621**	2 565 563
EQUITY AND LIABILITIES					
Capital and reserves		**2 045 769**	1 985 169	**2 033 638**	1 979 206
Share capital	15	**842**	842	**842**	842
Share premium	15	**879 158**	879 158	**879 158**	879 158
Grant capital	16	**200 000**	200 000	**200 000**	200 000
Distributable reserves		**965 769**	905 169	**953 638**	899 206
Non-current liabilities		**516 481**	571 143	**516 481**	571 143
Government funds under management	17	**496 338**	547 239	**496 338**	547 239
Deferred income	18	**20 143**	23 904	**20 143**	23 904
Current liabilities		**31 170**	15 289	**36 501**	15 213
Provisions and accruals	20	**10 465**	7 992	**10 465**	7 992
Income tax payable	14	**18 679**	–	**23 361**	–
Other payables	19	**2 026**	7 297	**2 675**	7 221
Total equity and liabilities		**2 593 421**	2 571 602	**2 586 621**	2 565 563

INCOME STATEMENTS

for the year ended 31 March 2008

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**R'000**	R'000	**R'000**	R'000
Interest on advances	22	**96 474**	70 655	**96 474**	70 655
Interest on investments		**114 126**	95 204	**113 475**	93 468
Rental income		**4 570**	4 548	**4 570**	4 548
Dividends income		**236**	79	**236**	79
Revenue		**215 406**	170 486	**214 755**	168 750
Net impairments	3	**(13 715)**	(18 938)	**(13 715)**	(4 813)
Revenue net of impairments		**201 691**	151 548	**201 040**	163 937
Other income	21	**16 235**	17 422	**16 401**	75 780
Administrative expenses	22	**(71 435)**	(59 600)	**(79 527)**	(63 132)
Other expenses	22	**(40 394)**	(20 821)	**(40 394)**	(68 623)
Profit before tax		**106 097**	88 549	**97 520**	107 963
Tax expense	14	**(45 497)**	(25 668)	**(43 088)**	(28 281)
Profit after tax attributable to ordinary shareholders		**60 600**	62 881	**54 432**	79 682

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2008

	Ordinary share capital R'000	Share premium R'000	Grant Capital R'000	Distributable reserves R'000	Total R'000
Group					
Balance 31 March 2006	842	879 158	200 000	842 288	1 922 288
Net profit for the year	–	–	–	62 881	62 881
Balance 31 March 2007	842	879 158	200 000	905 169	1 985 169
Net profit for the year	–	–	–	60 600	60 600
Balance at end of year	**842**	**879 158**	**200 000**	**965 769**	**2 045 769**
Company					
Balance 31 March 2006	842	879 158	200 000	819 524	1 899 524
Financial liability derecognised	–	–	–	57 954	57 954
Net profit for the year	–	–	–	69 279	69 279
Balance 31 March 2007	842	879 158	200 000	946 757	2 026 757
Prior year adjustment	–	–	–	(47 551)	(47 551)
Restated opening balance	842	879 158	200 000	899 206	1 979 206
Net profit for the year	–	–	–	54 432	54 432
Balance at end of year	**842**	**879 158**	**200 000**	**953 638**	**2 033 638**

CASH FLOW STATEMENTS

for the year ended 31 March 2008

	Notes	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
Cash flows from operating activities		**28 622**	(11 254)	**34 872**	(13 637)
Cash utilised in operations	25	**(149 646)**	(174 361)	**(142 744)**	(177 760)
Interest received		**212 530**	165 859	**211 878**	164 123
Dividends received		**79**	–	**79**	–
Tax paid	25	**(34 341)**	(2 752)	**(34 341)**	–
Cash flows from investing activities		**15 286**	(84 941)	**30 995**	(102 228)
Additions to fixed assets	8	**(903)**	(505)	**(903)**	(505)
Increase in investments		**(209 439)**	(86 436)	**(193 730)**	(103 723)
Proceeds from sale of investment in cell captive – Guardrisk		**–**	–	**7 000**	–
Purchase of shares in cell captive – Centriq		**–**	–	**(7 000)**	–
Proceeds on sale of bonds		**225 628**	2 000	**225 628**	2 000
Cash flows from financing activities		**(50 901)**	28 325	**(50 901)**	28 325
Decrease/increase in Government funds under management		**(50 901)**	28 325	**(50 901)**	28 325
Net decrease/(increase) in cash and cash equivalents		**(6 993)**	(67 870)	**14 966**	(87 540)
Cash and cash equivalents at beginning of year	13	**224 910**	292 780	**202 951**	290 491
Cash and cash equivalents at end of year	13	**217 917**	224 910	**217 917**	202 951

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

GROUP ACCOUNTING POLICIES

1. CORPORATE INFORMATION

The consolidated financial statements of the NHFC for the year ended 31 March 2008 were approved by the Board by way of a written resolution, signed between 17 and 23 July 2008. NHFC is a public company incorporated and domiciled in South Africa, the shares of which are held by the Government of the Republic of South Africa.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000) except when otherwise indicated. Consolidated financial statements are prepared on a going concern basis. The financial year-end for Centriq Insurance Company Limited and Cape Town Community Housing (Pty) Limited is 31 December and 30 June respectively. Similar accounting policies are applied across the Group.

Statement of compliance

The Group and Company financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

2.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2008.

Subsidiaries (including special purpose entities) are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Typically, this will be where the Group has more than 50% of the voting power. In assessing control, potential voting rights presently exercisable or convertible are taken into account.

2.2 Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous year except as follows:

The Group has adopted the following new and amended IFRS during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment – Presentation of Financial Statements

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 28.

2.3 Summary of significant judgments, estimates and assumptions

The preparation of the Group's financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

2. BASIS OF PREPARATION (continued)

2.4 Summary of significant accounting policies

Investment in subsidiary and cell captive

Investment in a subsidiary and cell captive are carried at cost less impairment.

Subsidiaries and cell captive are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Interest in a joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group's interest in its joint venture is accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The investment has been impaired to zero. NHFC only holds debentures in the joint venture, which are measured at cost less impairment.

Property, plant and equipment

Plant and equipment is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment. Depreciation is calculated on a straight-line basis over the expected useful life, using the following depreciation rates to reduce the carrying value to recoverable amount:

Computer hardware	33,33%
Computer software	33,33%
Furniture and fittings	16,67%
Motor vehicles	25%
Office equipment	16,67%
Leasehold improvements	period of lease

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstance indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying value exceeds the estimated recoverable amount, the assets are written down to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Impairment losses are recognised in the income statement.

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

The asset's residual values, useful lives and methods of depreciation are reviewed at each reporting date.

Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

Financial assets are initially recognised at fair value, plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs.

The Group determines the classification of its financial assets in line with IAS 39 after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

2. BASIS OF PREPARATION (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

All regular purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit and loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purposes of selling in the near term. Gains or losses on investments held for trading are recognised in income. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. After initial measurement loans and advances are carried at amortised cost using the effective interest method less any allowances for impairment. Gains and losses are recognised in the income statement when the loans and advances are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and impairments are recognised directly in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid price at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and valuation models.

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Other receivables

Other receivables are classified as originated by the Company. These are initially measured at original invoice amount. Other receivables are subsequent to initial recognition measured at amortised cost.

Cash and short-term deposits

Cash and short-term deposits in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of less than three (3) months.

2. BASIS OF PREPARATION (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Cash and short-term deposits (continued)

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

Cash and short-term deposits are measured at fair value.

Deferred income

Deferred income is amortised over the life of the instrument. The related underlying loans and receivables are carried at amortised cost.

Impairment of financial assets

Assets carried at amortised cost

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group or financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversal of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities

Other payables

Other payables are initially recognised at fair value and carried at original invoice price.

Interest-bearing loans and borrowings

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

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

2. BASIS OF PREPARATION (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised when:

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. The classification of the lease is determined in terms of IAS 17 Leases.

Group as a lessee

The Corporation does not have any finance leases at present.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue recognition

Revenue comprises interest received on advances, interest on investment and dividends. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

2. BASIS OF PREPARATION (continued)

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Interest income

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

Dividends

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

Rental income

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

Taxation

Current taxation

The charge for current tax is based on the results as adjusted for items which are not taxable or disallowed. It is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation

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

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

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

2. BASIS OF PREPARATION (continued)

2.4 Summary of significant accounting policies (continued)

Retirement benefits

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

The Group is not liable for post-retirement benefits.

Investment property held for sale

When the Corporation holds "investment property for resale" these are subject to negotiations with a prospective purchaser in advance of the agreement to take them on the balance sheet of the Corporation.

Any such assets are therefore likely to be on-sold within a short period of time.

Investment property held for sale is measured at fair value.

Standards and Interpretations issued, not yet effective, that the Corporation has not yet adopted

The following accounting standards, amendments to standards and new interpretations, which are not yet mandatory, have not been adopted in the current year:

- IAS 1 Presentation of Financial statements – Effective years beginning on or after 1 January 2009
- IAS 27 Consolidated and Separate Financial Statements – Effective years beginning on or after 1 July 2009
- IFRS 3 Business Combinations – Effective years beginning on or after 1 July 2009
- IFRS 8 Operating Segments – Effective years beginning on or after 1 January 2009

The Group assessed the significance of these new standards, amendments to standards and new interpretations, which will be applicable from 1 January 2009 and later years, and concluded that they will have no material financial impact. IFRS 8 will not have a current impact on the geographic segments definition but may have an impact on the amounts reported using the requirement to report data as reported to the Chief Operating Decision Maker. IAS 1 will have an impact on certain disclosures.

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
3. LOANS AND RECEIVABLES – ADVANCES				
Gross advances				
Opening balances	**924 489**	814 673	**910 364**	814 673
Disbursements	**249 084**	270 414	**249 084**	270 414
Repayments	**(166 589)**	(160 598)	**(152 464)**	(174 723)
Amounts written off previously impaired	**(20 857)**	–	**(20 857)**	–
Balance at end of year	**986 127**	924 489	**986 127**	910 364
Impairments on advances				
Balances at beginning of year	**(77 909)**	(58 971)	**(63 784)**	(58 971)
Amounts impaired in previous years and written off during year	**20 857**	–	**20 857**	–
Increase of impairments on advances	**(34 999)**	(18 938)	**(34 999)**	(4 813)
Impairments released during year	**35 408**	–	**21 284**	–
Balance at end of year	**(56 643)**	(77 909)	**(56 642)**	(63 784)
Comprising:				
Specific impairments	**(56 643)**	(77 909)	**(56 642)**	(63 784)
Net advances	**929 484**	846 580	**929 485**	846 580
Maturity analysis				
Payable within 1 year	**167 737**	177 354	**167 737**	177 354
Payable within 1 to 2 years	**148 186**	113 391	**148 186**	113 391
Payable within 2 to 3 years	**136 873**	116 824	**136 873**	116 824
Payable beyond 3 years	**476 689**	439 011	**476 689**	439 011
Net advances	**929 485**	846 580	**929 485**	846 580

As at 31 March 2008, the ageing of advances is as follows:

	Total	Neither past due nor impaired	Past due but not impaired: 30 days	30-60 days	60-90 days	90-120 days	>120 days
2008	**888 483**	**869 316**	**968**	**802**	**764**	**4 376**	**12 257**
2007	794 740	784 720	1 864	684	669	1 899	4 904

	Company 2008 R'000	Company 2007 R'000
4. INVESTMENT IN A SUBSIDIARY		
Gateway Home Loans (Proprietary) Limited is a wholly owned subsidiary of National Housing Finance Corporation Limited and is currently not trading.		
Shares at cost – ordinary shares	**50 000**	50 000
Less impairments	**(47 551)**	(47 551)
	2 449	2 449

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
5. INVESTMENT IN A JOINT VENTURE				
National Housing Finance Corporation Limited has a 50% interest in Cape Town Community Housing Company (Proprietary) Limited, a jointly controlled entity which is involved in the low-to-moderate income housing market in the Western Cape.				
The joint venture party is the City of Cape Town.				
The share of assets, liabilities, income and expenses of the jointly controlled entity as at 30 June 2007 is listed below.				
Shares at cost – ordinary shares	**2 000**	2 000	**2 000**	2 000
Accumulated impairment	**(2 000)**	(2 000)	**(2 000)**	(2 000)
Net book value of shares	**–**	–	**–**	–
Loans and receivables – Debentures				
Non-convertible debentures at cost – issued prior to 31 March 2004	**18 000**	18 000	**18 000**	18 000
Non-convertible debentures at cost – issued prior to 31 March 2005	**2 654**	2 654	**2 654**	2 654
Non-convertible debentures at cost – issued prior to 31 March 2006	**543**	543	**543**	543
	21 197	21 197	**21 197**	21 197
Accumulated impairment	**(18 000)**	(18 000)	**(18 000)**	(18 000)
Loans and receivables – Debentures	**3 197**	3 197	**3 197**	3 197
Current assets	**46 340**	55 118	**46 340**	55 118
Non current assets	**34 326**	12 379	**34 326**	12 379
	80 666	67 497	**80 666**	67 497
Current liabilities	**53 537**	50 744	**53 537**	50 744
Non-current liabilities	**17 702**	63 857	**17 702**	63 857
	71 239	114 601	**71 239**	114 601
Capital commitments	**1 797**	2 193	**1 797**	2 193
Revenue	**619**	30 084	**619**	30 084
Cost of sales	**(208)**	(24 824)	**(208)**	(24 824)
Other income	**27 402**	11 588	**27 402**	11 588
Operating costs	**(13 938)**	(23 089)	**(13 938)**	(23 089)
Finance income	**2 111**	–	**2 111**	–
Finance cost	**(2 440)**	(2 751)	**(2 440)**	(2 751)
Profit before income tax	**13 546**	(8 992)	**13 546**	(8 992)
Income tax expense	**–**	–	**–**	–
Net profit/(loss)	**13 546**	(8 992)	**13 546**	(8 992)

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
6. LOANS AND RECEIVABLES – PREFERENCE SHARES				
Greenstart (Proprietary) Limited	**2 500**	2 500	**2 500**	2 500
Masekheni (Proprietary) Limited	**–**	–	**–**	–
Shares in Masekheni	**–**	2 500	**–**	2 500
Less impairment	**–**	(2 500)	**–**	(2 500)
Net investment in unlisted preference shares	**2 500**	2 500	**2 500**	2 500

The preference shares in Masekheni have been written off.

Preference Share in Greenstart (Proprietary) Limited

These are redeemable cumulative preference shares redeemable at an option of the issuer. The investment consists of 100 shares at par value of R1 and a share premium of R24 999 per share. The total preference shares in Greenstart (Pty) Limited is R2,5 million.

Dividends in terms of shareholders' agreement are set at 6,3% per annum on the aggregate subscription price of R2,5 million.

Dividends are up to date and are included in revenue.

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
7. INVESTMENT IN A CELL CAPTIVE				
Unlisted investments				
Guardrisk Insurance Company Limited				
Shares at cost			–	7 000
Shares in Guardrisk were sold at cost.				
Centriq Insurance Company Limited				
Shares at cost			**7 000**	–
100% investment in cell captive				
On 1 April 2007 the cell captive investment in Guardrisk Insurance Company Limited was replaced with a cell captive investment in Centriq Insurance Company Limited.				

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
8. PROPERTY, PLANT AND EQUIPMENT				
Group and company				
Fixed asset: computer equipment	**5 707**	5 135	**5 707**	5 135
Accumulated depreciation: computer equipment	**(4 967)**	(4 569)	**(4 967)**	(4 569)
Fixed assets: computer software	**4 612**	4 376	**4 612**	4 376
Accumulated depreciation: computer software	**(4 388)**	(4 318)	**(4 388)**	(4 318)
Fixed asset: furniture and fittings	**2 719**	2 708	**2 719**	2 708
Accumulated depreciation: furniture and fittings	**(2 562)**	(2 450)	**(2 562)**	(2 450)
Fixed assets: motor vehicle	**105**	105	**105**	105
Accumulated depreciation: motor vehicle	**(104)**	(102)	**(104)**	(102)
Fixed assets: office equipment	**470**	386	**470**	386
Accumulated depreciation: office equipment	**(378)**	(347)	**(378)**	(347)
Fixed asset: leasehold improvements	**293**	293	**293**	293
Accumulated depreciation: leasehold improvements	**(293)**	(293)	**(293)**	(293)
	1 214	924	**1 214**	924

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
8. PROPERTY, PLANT AND EQUIPMENT (continued)				
Reconciliation of opening balances to closing balances				
2007				
Opening balance				
Fixed asset: computer equipment	**566**	534	**566**	534
Fixed assets: computer software	**58**	220	**58**	220
Fixed asset: furniture and fittings	**258**	393	**258**	393
Fixed assets: motor vehicle	**3**	29	**3**	29
Fixed assets: office equipment	**39**	48	**39**	48
Fixed asset: leasehold improvements	**–**	–	**–**	–
	924	1 224	**924**	1 224
Additions				
Fixed asset: computer equipment	**572**	456	**572**	456
Fixed assets: computer software	**236**	37	**236**	37
Fixed asset: furniture and fittings	**11**	–	**11**	–
Fixed assets: motor vehicle	**–**	–	**–**	–
Fixed assets: office equipment	**84**	12	**84**	12
Fixed asset: leasehold improvements	**–**	–	**–**	–
	903	505	**903**	505
Depreciation				
Fixed asset: computer equipment	**(398)**	(424)	**(398)**	(424)
Fixed assets: computer software	**(70)**	(199)	**(70)**	(199)
Fixed asset: furniture and fittings	**(112)**	(136)	**(112)**	(136)
Fixed assets: motor vehicle	**(2)**	(26)	**(2)**	(26)
Fixed assets: office equipment	**(31)**	(21)	**(31)**	(21)
Fixed asset: leasehold improvements	**–**	–	**–**	–
	(613)	(806)	**(613)**	(806)
Closing balances				
Fixed asset: computer equipment	**740**	566	**740**	566
Fixed assets: computer software	**224**	58	**224**	58
Fixed asset: furniture and fittings	**157**	258	**157**	258
Fixed assets: motor vehicle	**1**	3	**1**	3
Fixed assets: office equipment	**92**	39	**92**	39
Fixed asset: leasehold improvements	**–**	–	**–**	–
	1 214	924	**1 214**	924
The useful life of the assets is estimated as follows:				
Fixed asset: computer equipment	**3 years**	3 years	**3 years**	3 years
Fixed assets: computer software	**3 years**	3 years	**3 years**	3 years
Fixed asset: furniture and fittings	**6 years**	6 years	**6 years**	6 years
Fixed assets: motor vehicle	**4 years**	4 years	**4 years**	4 years
Fixed assets: office equipment	**6 years**	6 years	**6 years**	6 years
Fixed asset: leasehold improvements	**Period of the lease**	Period of the lease	**Period of the lease**	Period of the lease

Fully depreciated assets that are still in use amounts to R1,6 million.

	Group		Company	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
9. OTHER RECEIVABLES AND PREPAYMENTS				
Deposits and prepayments	**2**	2	**2**	2
Related parties	**899**	2 635	**899**	16 760
Staff debtors	**338**	266	**338**	266
Other receivables	**–**	6 684	**–**	6 684
Interest accrued	**9 981**	11 910	**9 981**	11 910
	11 220	21 497	**11 220**	35 622

Terms and conditions of the above receivables:

Other receivables are non-interest bearing and are settled on 30 day terms.

Study loans included in staff debtors are non-interest bearing and are written off or recovered when studies are completed.

Other staff debtors are charged interest at prime.

Deposits and prepayments are settled when the services are no longer required.

For terms and conditions of related parties, refer note 28.

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
10. INVESTMENT PROPERTY HELD FOR SALE				
Sectional title building held for sale	**34 000**	21 654	**34 000**	21 654
(Impairment)/fair value gain	**(4 000)**	12 346	**(4 000)**	12 346
	30 000	34 000	**30 000**	34 000
The following amounts have been recognised in the income statement:				
(Impairment)/fair value gain	**(4 000)**	12 346	**(4 000)**	12 346
Rental Income	**4 570**	4 548	**4 570**	4 548

An offer of R30 million to purchase the property has been received and at year end the transfer had not taken place.

Details of property

(a) Description — Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place

(b) Situated at — The corner of President, Human, Clark and FH Odendaal Streets

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
11. HELD FOR TRADE INVESTMENTS – BONDS				
Fair value at the beginning of the year	**233 499**	245 757	**233 499**	245 757
Disposals for the year at fair value	**(225 628)**	–	**(225 628)**	–
Fair value adjustment	**(7 871)**	(12 258)	**(7 871)**	(12 258)
	–	233 499	**–**	233 499
Comprising				
RSA Stock – R153 at fair value	**136 817**	136 817	**136 817**	136 817
Proceeds on sale	**(132 334)**	–	**(132 334)**	–
Fair value adjustments	**(4 483)**	–	**(4 483)**	–
	–		**–**	
City of Johannesburg Bonds at fair value	**96 682**	96 682	**96 682**	96 682
Proceeds on sale	**(93 294)**	–	**(93 294)**	–
Fair value adjustments	**(3 388)**	–	**(3 388)**	–
	–	233 499	**–**	233 499
12. HELD TO MATURITY INVESTMENTS				
Held to maturity money market investments – NHFC	**992 402**	707 185	**976 154**	706 647
ABSA Bank Limited	**150 000**	100 000	**150 000**	100 000
Investec Bank Limited	**175 000**	125 000	**175 000**	125 000
Standard Bank of South Africa Limited	**150 000**	105 000	**150 000**	105 000
Rand Merchant Bank a division of FirstRand Bank Limited	**150 000**	100 000	**150 000**	100 000
Nedbank Limited	**175 000**	130 000	**175 000**	130 000
Land Bank of South Africa	**39 627**	122 197	**39 627**	122 197
Transnet	**19 444**	–	**19 444**	–
Eskom	**97 284**	24 450	**97 284**	24 450
TCTA	**19 799**	–	**19 799**	–
Centriq	**16 248**	–	**–**	–
Guardrisk	**–**	538	**–**	–
Held to maturity money market investments – Job summit related projects*	**280 918**	372 436	**280 918**	372 436
ABSA Bank Limited	**40 126**	46 818	**40 126**	46 818
Rand Merchant Bank a division of FirstRand Bank Limited	**40 527**	60 691	**40 527**	60 691
Standard Bank of South Africa Limited	**40 287**	60 794	**40 287**	60 794
Nedbank Limited	**60 544**	45 167	**60 544**	45 167
Investec Bank Limited	**40 277**	60 380	**40 277**	60 380
Land Bank of South Africa	**19 919**	78 861	**19 919**	78 861
Eskom	**39 238**	19 725	**39 238**	19 725
Held to maturity money market investments – Development Fund*	**120 518**	104 778	**120 518**	104 778
Eskom	**19 572**	19 725	**19 572**	19 725
Land Bank of South Africa	**19 787**	24 672	**19 787**	24 672
Investec Bank Limited	**40 763**	20 101	**40 763**	20 101
Nedbank Limited	**20 093**	20 120	**20 093**	20 120
ABSA Bank Limited	**20 303**	20 160	**20 303**	20 160
Total held to maturity money market investments	**1 393 838**	1 184 399	**1 377 590**	1 183 861

**Funds under management are not available for use by the Group*

Held to maturity money market investments are made for varying periods up to twelve months in line with the cash flow requirements of the Corporation and earn interest at the respective money market rates.

13. CASH AND SHORT-TERM DEPOSITS

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
Short-term deposits – NHFC	**114 873**	107 661	**114 873**	107 661
ABSA Bank Limited	**21 181**	19 668	**21 181**	19 668
Investec Bank Limited	**13 578**	8 110	**13 578**	8 110
Nedbank Limited	**5 538**	6 524	**5 538**	6 524
Rand Merchant Bank a division of FirstRand Bank Limited	**17 459**	15 703	**17 459**	15 703
Standard Bank of South Africa Limited	**10 614**	17 779	**10 614**	17 779
Standard Bank of South Africa Limited (Stanlib)	**16 232**	19 730	**16 232**	19 730
TCTA (Trans Caledon)	**30 271**	20 147	**30 271**	20 147
Short-term deposits – Job summit related projects*	**73 704**	50 989	**73 704**	50 989
ABSA Bank Limited	**13 616**	7 944	**13 616**	7 944
Investec Bank Limited	**15 465**	12 600	**15 465**	12 600
Nedbank Limited	**12 135**	14 061	**12 135**	14 061
Rand Merchant Bank a division of FirstRand Bank Limited	**24 163**	7 280	**24 163**	7 280
Standard Bank of South Africa Limited	**2 799**	4 899	**2 799**	4 899
Standard Bank of South Africa Limited (Stanlib)	**5 526**	4 205	**5 526**	4 205
Short-term deposits – Development Fund*	**19 324**	22 647	**19 324**	22 647
ABSA Bank Limited	**8 856**	–	**8 856**	–
Nedbank Limited	**2 697**	–	**2 697**	–
Standard Bank of South Africa Limited	**1 704**	–	**1 704**	–
Investec Bank Limited	**6 067**	22 647	**6 067**	22 647
Short-term deposits – Siyanda*	**1 090**	–	**1 090**	–
Standard Bank of South Africa Limited	**1 090**	–	**1 090**	–
Cash at bank and in hand	**8 926**	43 613	**8 926**	21 654
Standard Bank of South Africa Limited	**8 923**	21 778	**8 923**	21 651
Cash on hand	**3**	21 835	**3**	3
Total cash and short-term deposits	**217 917**	224 910	**217 917**	202 951

**Funds under management are not available for use by the Group*

Cash and short-term deposits earn interest at floating rates based on bank deposit rates.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises the following at 31 March 2008

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
NHFC	**123 799**	151 274	**123 799**	129 315
Short-term deposits	**114 873**	107 661	**114 873**	107 661
Cash at bank	**8 926**	43 613	**8 926**	21 654
JOB SUMMIT*	**73 704**	50 989	**73 704**	50 989
Short-term deposits	**73 704**	50 989	**73 704**	50 989
DEVELOPMENT FUND*	**19 324**	22 647	**19 324**	22 647
Short-term deposits	**19 324**	22 647	**19 324**	22 647
SIYANDA*	**1 090**	–	**1 090**	–
Short term deposits	**1 090**	–	**1 090**	–
Total	**217 917**	224 910	**217 917**	202 951

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

	Group		Company	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
14. INCOME TAX				
Income statement				
Current income tax				
Current income tax charge	**30 221**	27 283	**27 734**	29 969
Tax underprovision relating to previous years	**17 112**	–	**17 112**	–
Deferred tax	**(1 915)**	(1 615)	**(1 837)**	(1 688)
Rate change	**79**	–	**79**	–
Income tax expense	**45 497**	25 668	**43 088**	28 281
Deferred tax				
Description				
Balance at beginning of year	**2 214**	599	**2 292**	604
Rate change (29%-28%)	**(79)**	–	**(79)**	–
Recognised through the income statement	**1 915**	1 615	**1 837**	1 688
Balance at end of year	**4 050**	2 214	**4 050**	2 292
Deferred tax asset consists of				
– Provision for leave pay	**2 880**	2 063	**2 880**	2 063
– Provision for incentive bonus	**7 000**	5 929	**7 000**	5 929
– Operating lease	**585**	–	**585**	–
– Revaluation of bonds	**–**	12 258	**–**	12 258
– Impairment/fair value gain on property held for sale	**4 000**	(12 346)	**4 000**	(12 346)
– Guardrisk	**–**	(269)	**–**	–
Total	**14 465**	7 635	**14 465**	7 904
Tax rate of 28%	**4 050**	2 214	**4 050**	2 292
A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2008 and 2007 is as follows:				
Accounting profit before tax from operations	**106 097**	88 549	**97 520**	107 963
At SA statutory income tax rate of 29%	**30 768**	25 679	**28 281**	28 292
Underprovision – previous years	**17 112**	–	**17 112**	–
Temporary difference	**(1 394)**	–	**(1 315)**	–
Non-taxable income	**(8 752)**	(23)	**(8 752)**	(23)
Non-deductible expenses	**7 762**	12	**7 762**	12
Income tax expense reported in the income statement	**45 497**	25 668	**43 088**	28 281
Taxation: balance sheet				
Balance at the beginning of the year	**17 882**	42 413	**10 688**	40 657
Tax adjustments	**(23 567)**	2 752	**(23 545)**	–
Tax paid	**34 341**	–	**34 341**	–
Normal tax charge	**(47 335)**	(27 283)	**(44 845)**	(29 969)
Balance at end of year	**(18 679)**	17 882	**(23 361)**	10 688

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
15. ISSUED CAPITAL, SHARE PREMIUM AND RESERVES				
Capital				
Authorised	**1 000**	1 000	**1 000**	1 000
100 000 000 ordinary shares of R0,01 each				
Ordinary shares				
Issued and fully paid				
84 187 332 ordinary shares of R0,01 each	**842**	842	**842**	842
Share premium	**879 158**	879 158	**879 158**	879 158
16. GRANT CAPITAL				
Grant	**200 000**	200 000	**200 000**	200 000
The grants arose as the result of the merger of HEF and HIDF in the 2002 financial year. They were considered to be permanent and are therefore included in Shareholder's Equity. There are no conditions attached to these grants.				
17. GOVERNMENT FUNDS UNDER MANAGEMENT				
Job summit				
– Poverty Relief Funds	**321 091**	303 196	**321 091**	303 196
– Subsidies – KwaZulu – Natal	**34 918**	116 618	**34 918**	116 618
Siyanda Project	**1 090**	–	**1 090**	–
Development Fund	**139 239**	127 425	**139 239**	127 425
Total funds under management	**496 338**	547 239	**496 338**	547 239

NHFC was appointed by the National Department of Housing to project manage the delivery of rental stock under the Presidential Job Summit housing project and tasked to manage funds allocated by treasury in terms of the Poverty Relief Fund and subsidy funds from KwaZulu-Natal province.

The development fund is to provide capacitation and technical assistance into the low-income housing market.

Siyanda Project is a housing development partnership between NHFC, Eastern Cape Provincial Department of Housing and Mnquma Municipality.

These funds are meant to be used for pre-project costs. The net income on these funds is capitalised.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

	Group		Company	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
18. DEFERRED INCOME				
Balance at beginning of year	**23 904**	28 203	**23 904**	28 203
Deferred gain amortised	**(3 761)**	(4 299)	**(3 761)**	(4 299)
Balance at end of year	**20 143**	23 904	**20 143**	23 904
The South African Housing Trust (SAHT) and the NHFC were established by the National Department of Housing (NDOH) to provide finance for low cost housing.				
The SAHT was liquidated during the 2003 financial year. The assets held by SAHT included advances to homebuyers, housing subcontractors and micro lenders for low cost housing.				
The advance book of SAHT was transferred to the NHFC for a consideration of R1. The fair value of the advances as at 31 March 2008 is R20,1 million (2007: R23.9 million).				
The income from the advance book is taken into account as it is received from borrowers. The balances outstanding from these debtors are included in advances.				
19. OTHER PAYABLES				
Trade payables	**2 026**	7 297	**2 675**	7 221
Balance as at 31 March 2008	**2 026**	7 297	**2 675**	7 221
Terms and conditions of the above financial liabilities:				
Trade payables are non-interest bearing and are settled on 30 day terms.				
For terms and conditions of related parties, refer note 28.				
20. PROVISIONS AND ACCRUALS				
Provisions	**9 880**	7 992	**9 880**	7 992
Accruals	**585**		**585**	
	10 465	7 992	**10 465**	7 992
Provision for leave pay				
Opening balance as at 01 April	**2 063**	1 744	**2 063**	1 744
Provision utilised for year	**(183)**	(475)	**(183)**	(475)
Additional provision raised	**1 000**	794	**1 000**	794
Closing balance as at 31 March	**2 880**	2 063	**2 880**	2 063
Provision for incentive bonus				
Opening balance as at 01 April	**5 929**	–	**5 929**	–
Provision utilised for the year	**(4 863)**	–	**(4 863)**	–
Additional provision raised	**5 934**	5 929	**5 934**	5 929
Closing balance as at 31 March	**7 000**	5 929	**7 000**	5 929
Accrual for lease payments				
Opening balance as at 01 April	**–**	338	**–**	338
Provision utilised for the year	**–**	(338)	**–**	(338)
Additional provision raised	**585**	–	**585**	–
Closing balance as at 31 March	**585**	–	**585**	–

Leave pay provision is realised when employees take leave or terminate employment.

Provision for incentive bonus is expected to be realised when bonuses are paid in the 2009 financial year.

Accrual for lease payments is as a result of straight-lining of the lease payments over the lease term.

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
21. OTHER INCOME				
Non-interest income	**16 235**	17 422	**16 401**	75 780
Other income is made up as follows:				
SA Housing Trust (refer note 18)	**3 761**	4 299	**3 761**	4 299
Management fees – intercompany charges	**134**	182	**300**	586
Bad debts recovered	**495**	504	**495**	504
Gain on derecognition of liability	**–**	–	**–**	57 954
Fair value gain – Investment property held for sale	**–**	12 346	**–**	12 346
Interest received on tax	**11 815**	–	**11 815**	–
Sundry income	**30**	91	**30**	91
22. PROFIT BEFORE TAXATION				
Profit before tax is stated after taking the following into account:				
Interest on advances	**96 474**	70 655	**96 474**	70 655
Interest on performing advances	**90 130**	63 856	**90 130**	63 856
Interest on impaired advances	**6 344**	6 799	**6 344**	6 799
Administrative expenses	**71 435**	59 600	**79 527**	63 132
– Staff costs	**34 926**	30 162	**34 926**	30 162
Salaries	**31 558**	26 822	**31 558**	26 822
Medical aid contributions	**1 189**	997	**1 189**	997
Provident fund contributions	**2 179**	2 343	**2 179**	(698)
– Management costs (refer note 23)	**10 282**	8 776	**10 282**	8 776
– Administration	**9 422**	4 828	**17 514**	8 359
– Marketing	**2 505**	1 135	**2 505**	1 135
– Consultancy and advisory	**8 866**	12 220	**8 866**	12 220
– Directors' fees	**232**	219	**232**	219
– Legal fees	**2 420**	421	**2 420**	421
– Auditors' remuneration	**1 092**	185	**1 092**	185
– Audit fees	**1 089**	185	**1 089**	185
– Other fees	**3**	–	**3**	–
– Travel and entertainment	**1 690**	1 655	**1 690**	1 655
Other expenses	**40 394**	20 821	**40 394**	68 623
– Capacitation costs	**–**	121	**–**	121
– Donations	**60**	40	**60**	40
– Communication	**1 617**	1 427	**1 617**	1 427
– Impairment of property held for sale	**4 000**	–	**4 000**	–
– Loss on revaluation of bonds	**7 871**	12 007	**7 871**	12 258
– Impairment of investment in subsidiary	**–**	–	**–**	47 551
– Training and development	**622**	795	**622**	795
– Office expenses	**2 091**	1 761	**2 091**	1 761
– Depreciation	**614**	806	**614**	806
– Sundry expenses	**19 200**	–	**19 200**	–
– Operating lease payments	**4 319**	3 864	**4 319**	3 864

Included in sundry expenses is an amount of R18 million relating to tax penalties.

The tax penalties were the result of the Corporation offsetting provisional tax payments due against a tax credit that arose from a change in accounting policies, particularly at the inception of AC133 when the policy on bad debt provisioning changed.

Interest received from SARS relating to the credit amounts to R11.8 million and is included in other income (note 21).

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

23. DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

	Fees R	Salaries R	Bonuses R	Company contri-butions R	Other R	Total 2008 R	Total 2007 R
Directors – Non-executives	**232**					**232**	266
S Tati	**53**					**53**	54
N Makiwane	**45**					**45**	45
S Ntsaluba	**22**					**22**	27
A Canter – Future Growth Asset Management	**54**					**54**	46
T Middleton	**38**					**38**	47
C Ball	**5**					**5**	–
S Khoza	**5**					**5**	–
T Ndziba-Dikgole	**5**					**5**	–
E Godongwana	**5**					**5**	47
Chief Executive Officer							
S Moraba		**1 873**	**1 069**	**219**	**28**	**3 189**	2 836
Executive members		**5 097**	**1 199**	**734**	**63**	**7 093**	4 843
A Egbers		**985**	**338**	**188**	**10**	**1 521**	1 421
S Sengani		**949**	**334**	**83**	**7**	**1 373**	1 256
N Ntshingila		**637**	**179**	**52**	**7**	**875**	754
L Lehabe		**680**	**225**	**93**	**16**	**1 014**	827
G Long		**621**	**36**	**102**	**7**	**765**	170
Z Adams		**561**	**38**	**132**	**7**	**737**	163
B Kgosi		**665**	**50**	**85**	**7**	**807**	252
Total	**232**	**6 970**	**2 269**	**952**	**90**	**10 514**	7 945

Note: Prof Katz agreed not to charge fees.

The CEO is the only director with a service contract with the Corporation of which the notice period does not exceed one year.

24. PRIOR YEAR ADJUSTMENT

NHFC's liability of R57,9 million to Gateway (NHFC's subsidiary) was derecognised in 2007 as required under IAS 39.

The liability was however derecognised directly to the statement of changes in equity instead of reflecting it originally in the income statement prior to reflecting it in equity. In addition an impairment of the investment in the subsidiary should have been raised to account for the derecognition of this liability to Gateway.

Comparative were restated and the net effect on the income statement and balance sheet is as follows:

	Group		Company	
	2008 R'000	2007 R'000	**2008 R'000**	2007 R'000
Income statement				
Other income – increased	**–**	–	**–**	(57 954)
Other expenses – increased	**–**	–	**–**	47 551
Profit before tax – increased	**–**	–	**–**	(10 403)
Profit after tax – increased	**–**	–	**–**	(10 403)
Balance sheet				
Distributable reserves – increased	**–**	–	**–**	(10 403)
Capital and reserves – increased	**–**	–	**–**	(10 403)
Investment in subsidiary – decreased	**–**	–	**–**	47 551
Non-current assets – decreased	**–**	–	**–**	47 551
Total assets – decreased	**–**	–	**–**	47 551

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
25. RECONCILIATION OF CASH UTILISED IN OPERATIONS				
25.1 Net income before taxation	**106 097**	88 549	**97 520**	107 963
Adjustments for the following items:	**(182 558)**	(162 641)	**(181 907)**	(171 308)
Revaluation of investments held for trading	**7 871**	12 258	**7 871**	12 258
Depreciation	**614**	806	**614**	806
Impairments	**(7 141)**	–	**(7 141)**	
Gain on derecognition of liability	**–**	–	**–**	(57 954)
Impairment of investment in subsidiary	**–**	–	**–**	47 551
Fair value adjustment on investment property held for sale	**4 000**	(12 346)	**4 000**	(12 346)
Premium paid	**2 077**	–	**2 077**	–
Dividends received	**(236)**	–	**(236)**	–
Bad debts written off	**20 857**	–	**20 857**	–
Impairment of preference shares	**–**	2 500	**–**	2 500
Interest received	**(210 600)**	(165 859)	**(209 949)**	(164 123)
Operating loss before changes in working capital	**(76 461)**	(74 092)	**(84 387)**	(63 345)
Net increase in working capital	**(73 185)**	(100 269)	**(58 357)**	(114 415)
Increase in advances	**(80 205)**	(95 177)	**(80 205)**	(95 177)
Decrease in intercompany loans	**–**	–	**–**	(297)
Increase in accounts receivable	**9 818**	(10 312)	**23 921**	(24 437)
Decrease in accounts payable	**(5 271)**	(690)	**(4 546)**	(414)
Increase in provisions	**2 473**	5 910	**2 473**	5 910
Cash utilised in operations	**(149 646)**	(174 361)	**(142 744)**	(177 760)
25.2 Tax paid				
Amounts receivable 01 April	**17 882**	42 413	**10 688**	40 657
Tax charges for year	**(47 335)**	(27 283)	**(44 845)**	(29 969)
Tax adjustments	**(23 567)**	–	**(23 545)**	–
Amounts payable 31 March	**18 679**	(17 882)	**23 361**	(10 688)
Tax paid	**(34 341)**	(2 752)	**(34 341)**	–

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

	Group 2008 R'000	Group 2007 R'000	Company 2008 R'000	Company 2007 R'000
26. COMMITMENTS AND CONTINGENCIES				
Operating lease commitments – Group as lessee				
The Group entered into a commercial lease on the property from which it operates.				
The lease is effective from 1 April 2007 to 31 March 2012.				
The lease has an escalation clause of 8%.				
Future minimum rentals payable under current operating lease as at 31 March 2008				
Within one year	**3 239**	3 375	**3 239**	3 375
After one year but not more that five years	**11 356**	16 119	**11 356**	16 119
	14 595	19 494	**14 595**	19 494
Contingent liability – Deposit guarantee to lessor	**533**	533	**533**	533
Equipment lease commitments – Group as lessee				
The Group entered into an operating lease of photocopiers.				
The lease commences on 1 May 2008 and runs until 1 April 2011.				
Future minimum rentals payable under the lease as at 31 March 2008				
Within 1 year	**88**	125	**88**	125
After one year but not more than five years	**107**	19	**107**	19
	195	144	**195**	144
Capital commitments				
The Corporation has formed a joint venture with Pan African Capital Holdings Limited to launch an Income Linked Home Financing instrument for the low to middle income housing market. It is expected that the joint venture will be operational in the next financial year.				
At 31 March 2008 the Group had committed R5 million to the joint venture.				
Training commitments				
NHFC in partnership with Absa has a commitment to provide funding for the training of Estate Agents (pdi)	**1 000**	–	**1 000**	–
27. RETIREMENT BENEFITS				
The National Housing Finance Corporation Provident Fund is a defined contribution fund administered by Robson Savage, and subject to the Pensions Fund Act of 1956. All 81 employees of the Company participate in the fund and the Company makes all contributions.				
The Corporation is not liable for post-retirement benefits.				
Provident fund contributions	**2 961**	3 041	**2 961**	3 041

28. FINANCIAL RISK MANAGEMENT

The Group has various financial assets such as loans and receivables, cash and short-term deposits and held to maturity investments which arise directly from its operations.

The Group's principal financial liabilities comprise government funds under management and other payables.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk.

Credit risk

Financial assets, which potentially subject the Corporation to concentrations of high credit risk, consist principally of advances. Short-term deposits and money market investments are placed with high credit financial institutions rated at least A1 or better in terms of short-term credit ratings by at least two recognised rating agencies. Credit and concentration risk on advances and investments are limited in terms of the Credit and Treasury policies which provide for prudent single counterparty limits in respect of individual clients as a percentage of the total of each portfolio. The credit policy also provides for comprehensive sanctioning structures and assessment criteria. Advances are presented net of the allowance for impairment. The advances at year-end reflect that the Corporation has exposure within approved counterparty limits.

The Corporation endeavours to obtain collateral or other security against all advances made, dependent on the assessed risk inherent in the particular advance and with due consideration of the NHFC approved Credit Sanctioning policy.

	Group		Company	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
Maximum exposure to credit risk relating to balance sheet assets				
Loans and receivables – Advances	**929 485**	846 580	**929 485**	846 580
Held for trading investments – Bonds	**–**	233 499	**–**	233 499
Held to maturity investments – Money market	**1 393 838**	1 184 399	**1 377 590**	1 183 861
Cash and short-term deposits	**217 917**	224 910	**217 917**	202 951
Other receivables	**11 220**	21 497	**11 220**	35 622

The following types of collateral are currently held against assets subject to credit risk:

Assets subject to credit risk on balance sheet	Type of collateral
Loans and receivables – Advances	Bonds over properties
	Debtors book
	Cession of income
	Personal guarantees
	Governmental guarantees

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

28. FINANCIAL RISK MANAGEMENT (continued)

Past due or impaired loans and receivables – Advances at 31 March 2008	**Outstanding balance R' 000**	**Fair value of collateral held for past due or impaired loans and receivables R' 000**	**Specific impairments R' 000**
Loans and receivables – Advances	**217 608**	**953 295**	**56 642**

The Group's credit process considers the following to be key indicators of default:

- The debt is overdue
- liquidation of the borrower
- where it is considered the the borrower is unlikely to pay its credit obligation in full due to significant financial difficulty

Concentration risk of loans and receivables by operations

Commercial – 49%

Projects – 51%

Concentration risk of held to maturity investments – money market by counterparty

ABSA Bank Limited	15%
Investec Bank Limited	18%
Standard Bank of South Africa Limited	14%
Rand Merchant Bank a division of FirstRand Bank Limited	14%
Nedbank Limited	18%
Land Bank of South Africa	6%
Transnet	1%
Eskom	11%
TCTA	1%
Centriq	1%

Concentration risk of cash and short-term deposits by counterparty

ABSA Bank Limited	20%
Investec Bank Limited	16%
Nedbank Limited	9%
Rand Merchant Bank a division of FirstRand Bank Limited	19%
Standard Bank of South Africa Limited	12%
Standard Bank of South Africa Limited (Stanlib)	10%
TCTA (Trans Caledon)	14%

28. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

The Group is exposed to interest rate risk on the following assets and liabilities:

		Group 2008		Group 2007	
	Strategy	Fixed rate R'000	Linked rate R'000	Fixed rate R'000	Linked rate R'000
Assets					
Loan and receivables – advances – rates vary between 10.5% and 14.5% p.a.	1	230 554	698 931	128 579	795 910
Held for trading investments – refer to note 11. The rate is fixed at 12.54% p.a.	2	–	–	233 499	–
Held to maturity investments – rates vary between 9.11% and 11.20% p.a.			1 393 838	–	1 184 399
Cash and short term deposits – rates vary between 7.5% and 9.5% per annum.			217 917	–	224 910
Liabilities					
Government funds under management – rates are linked to short-term investment rates			496 338	–	547 239

Interest rate risk management strategy is as follows:

1. Clients who enjoy variable interest rate facilities are subject to interest rates that reset on a change in prime interest rate or on a quarterly basis in accordance with various market indices.

   The rates applicable to fixed interest loans are based on agreed market rates at date of disbursement and remain fixed for the full term of the loan.

2. Investments are aligned to the cash flow requirements and strategy of the core business. The portfolio is diversified utilising a mix of fixed and floating rate instruments within the policy framework and is continually monitored to adapt to changing dynamics.

Interest rate sensitivity

The sensitivity of the portfolios to a 1% change in interest rate is reflected below:

	Increase/decrease %	2008 Effect on profit before tax R'000	2007 Effect on profit before tax R'000
Loans and receivables	1	9 295	8 466
Loans and receivables	-1	(9 295)	(8 466)
Investments	1	16 118	14 083
Investments	-1	(16 118)	(14 083)
Government funds under management	1	4 963	5 472
Government funds under management	-1	(4 963)	(5 472)

Liquidity risk

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:
- short and long-term cash flow management;
- diversification of investment activities with appropriate levels of short-term instruments and maturities in line with the Treasury policy;
- at least 60% of money market portfolio to mature within six months
- limiting Capital Market investments to 30% of the portfolio; and
- mobilisation of funds through funding programme.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

for the year ended 31 March 2008

28. FINANCIAL RISK MANAGEMENT (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2008 based on contractual undiscounted payments.

Year ended 31 March 2008	On demand R'000	Less than 3 months R'000	3 to 12 months R'000	>5 years R'000	Total R'000
Other payables	**289**	**1 538**	**199**		**2 026**
Deferred income				**20 143**	**20 143**
Funds under management				**496 339**	**496 339**
	289	**1 538**	**199**	**516 482**	**518 508**
Year ended 31 March 2007					
Trade and other payables	367	6 726	204	–	7 297
Deferred Income	–	–	–	23 904	23 904
Funds under management	–	–	–	547 239	547 239
	367	6 726	204	571 143	578 440

Fair value of financial instruments

At 31 March 2008 and 2007 the carrying amounts of financial assets and liabilities approximated their fair values.

	2008		2007	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
– Loans and receivables – advances	**929 485**	**929 485**	846 580	846 580
– Loans and receivables – preference shares and debentures	**5 697**	**5 697**	5 697	5 697
– Other receivables	**11 220**	**11 220**	21 497	21 497
– Investments held for trading	**–**	**–**	233 499	233 499
– Held to maturity investments	**1 393 838**	**1 393 838**	1 184 399	1 184 399
– Cash and short-term deposits	**217 917**	**217 917**	224 910	224 910
	2 558 156	**2 558 156**	2 516 582	2 516 582
Financial liabilities				
– Other payables	**31 170**	**31 170**	15 289	15 289
– Deferred Income	**20 143**	**20 143**	23 904	23 904
– Government funds under management	**496 338**	**496 338**	547 239	547 239
	547 651	**547 651**	586 432	586 432

Market values have been used to determine the fair value of investments held for trading.

Capital management

The objective of the Group's capital management is to ensure that it maintains a strong credit rating, healthy capital ratios and generates sufficient capital to support its business objectives and maximise shareholder value.

Credit rating

Global Credit Rating Co
National

Long-term	AA-
Short-term	A1+

29. RELATED PARTIES DISCLOSURE

The consolidated financial statements include the financial statements of National Housing Finance Corporation Limited and subsidiaries as listed below.

Subsidiary	Country of incorporation	**2008 % equity interest**	2007 % equity interest
Gateway Homeloans (Proprietary) Limited	RSA	**100**	100
Gateway Homeloans 001 (Proprietary) Limited	RSA	**100**	100
Centriq Cellcaptive	RSA	**100**	100

The following table provides the total amounts of transactions and outstanding balances which have been entered into with related parties for the relevant financial year.

	Group 2008		Group 2007	
	R'000	**R'000**	R'000	R'000
Related party	**Amounts owed by/to related parties**	**Transactions with related parties**	Amounts owed by/to related parties	Transactions with related parties
Subsidiaries				
Gateway Homeloans (Proprietary) Limited				
– intercompany (receivables)/payables (refer note 4)	**(67)**			–
– management fees paid to National Housing Finance Corporation Limited		**57**	342	342
Guardrisk Cellcaptive				
– accounts receivable	**–**		14 125	
– insurance proceeds received	**–**			(14 125)
– insurance paid	**–**			3 534
– sale of shares		**7 000**		–
– interest received		**1 685**		–
Centriq Cellcaptive				
– shares at cost		**7 000**		–
– insurance paid		**10 000**		–
Joint venture				
Cape Town Community Housing Company (Proprietary) Limited				
– debentures (refer note 5)	**3 197**		3 197	
– advances		**26 634**		–
– disbursements		**17 642**		–
Transactions with other public entities				
Social Housing Foundation				
– accounts receivable (refer note 9)	**747**		657	
– management fees received		**243**		244
Thubelisha/NDOH				
Advances	**107 704**		100 000	
– disbursements	**–**			100 000
Telkom SA				
– Telecommunication services		**661**		598
SA Post Office				
– Postal services		**2**		2

Terms and conditions with related parties

Transactions with related parties are done on terms equivalent to those that prevail in arm's length transactions.

Outstanding balances at year-end are unsecured except with the joint venture which is secured with the mortgage bond.

Except for advances the loans are interest free and settlement occurs in cash. There have been no guarantees provided or received for any related receivables.

For the year ended 31 March 2008, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2007: nil).

EXTERNAL AUDITOR'S REPORT PERFORMANCE INFORMATION IN TERMS OF SECTION 13 OF THE PUBLIC AUDIT ACT, 2005

REPORTING ON PERFORMANCE INFORMATION

We have reviewed the performance information as set out on pages 55 to 56.

RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE PERFORMANCE INFORMATION

The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

RESPONSIBILITY OF THE AUDITORS

We conducted our engagement in accordance with section 13 of the PAA read with General Notice 516 of 2008, issued in Government Gazette No. 21021 of 9 May 2008.

In terms of the foregoing our engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

We believe that the evidence we have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of our audit.

Ernst & Young Inc.

Ernst & Young Inc.
Registered auditor

14 August 2008
Johannesburg

PERFORMANCE REPORT

for the year ended 31 March 2008

	Actual R'000	Budget R'000
Group budgeted and audited results for the year ended 31 March 2008		
Income		
Lending activities	96 474	128 346
Investment activities	114 126	64 617
Other	21 041	7 000
Total income	231 641	199 963
Impairments	(13 715)	(8 000)
Operating expenses	(111 829)	(106 540)
Profit before tax	106 097	85 423
Tax	(45 497)	(24 773)
Profit after tax	**60 600**	**60 650**

Explanation of variances:

Lending income

Lending income is lower as a result of lower disbursements as mentioned below.

Investment income

Investment income is higher than budget due to lower disbursements and the increase in interest rate.

Other income

Other income includes management fees and rental income.

Expenses

Expenses are above budget mainly due to tax penalties and impairment of the property held for sale. The rental income received on the property held for sale is included in other income.

Tax

The variance is due to tax underprovision relating to prior years.

Key performance indicators

Approvals to lenders for the year amounted to R608 million of which R249 million was disbursed. The reasons for the lack of disbursements included:

1. A number of the approvals were for institutions that will use the subsidy funds allocated to them first and then call on the NHFC funding. The facilities are for projects that are being built.

2. The micro lenders who applied for additional funding have been affected by the NCA implementation and have not drawn down as quickly as expected.

3. A facility for inner city rental building redevelopment, approved in December, will only start to draw down in the new year.

4. The budget included 3 200 units that were to be funded through PACH but the delay in obtaining the necessary regulatory approvals has affected the timing for the start up of the joint venture.

PERFORMANCE REPORT *CONTINUED*

	Actual	Budget
Projects		
Number of loans approved	21	26
Value of loans disbursed (R'000)	132 507	278 137
Number of units financed	5 552	8 312
Commercial		
Number of loans approved	3	10
Value of loans disbursed (R'000)	116 577	146 400
Value of incremental housing loans disbursed (R'000)	46 379	45 600
Value of mortgage bonds disbursed (R'000)	69 648	81 600
Facilitation (R'000)	550	19 200
Number of incremental loans provided	6 937	6 960
Number of units financed	423	720
Number of units facilitated	216	1 200
Retail (Joint Venture with PACH)		
Number of housing units financed	–	3 200
Value of loans disbursed (R'000)	–	54 000
Summary of disbursements and impact		
Value of total loans disbursed (R'000)	249 084	478 537
Housing opportunities funded and facilitated	13 128	20 392
Incremental housing loans	6 937	6 960
Housing units provided	6 191	13 432
Job Summit Project		
Number of loans approved	3	–
Value of loans disbursed (R'000)	120 026	–
Number of units financed	993	–

ADMINISTRATION

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