



What the NHFC does

NHFC supports the Breaking New Ground (“BNG”) Strategy of the National Department of Human Settlements by facilitating and funding the development of sustainable human settlements and the eradication of informal settlements.

Funding

- Providing wholesale funding to intermediaries for small home improvement loans to households.
- Funding long-term project finance to social housing and private rental landlords.
- In partnership with others, providing bridging funding for the development of affordable homes, particularly integrated developments.
- Providing retail home loans to the lower end of the housing market through various channels.

Facilitation

- Implementing risk enhancement mechanisms to encourage active participation in the low- to middle-income housing market.
- Promoting an enabling environment in the low- to middle-income housing market through advocacy and involvement in policy development.
- Improving access to housing finance for the low- to middle-income housing market to improve their living standards.



Profile of the National Housing Finance Corporation Limited

Mandate

The National Department of Human Settlements 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 supports BNG and achieves its mandate and supports BNG by:

- making housing finance accessible and affordable for the low- to middle-income households through a range of financial instruments; 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.

2009 Annual Report

Key Moments in the History of the NHFC.....	2	
Financial Highlights of the NHFC.....	6	
The Board.....	8	
Executive Committee.....	10	
Chairman's Report.....	12	
Chief Executive Officer's Report.....	16	
Sustainability Report.....	22	
Corporate Governance.....	26	
Risk Management Report.....	32	
Financial Statements.....	39	
Profile of NHFC.....	IBC	
Approval of the annual financial statements.....		40
Report of the Audit and Risk Committee.....		41
Independent Auditor's Report.....		42
Directors' Report.....		43
Balance sheets.....		44
Income statement.....		45
Statement of changes in equity.....		46
Cash flow statement.....		47
Notes to the financial statements.....		48
Performance Report of the Independent Auditor.....		78

Notes to the financial statements

For the year ended 31 March 2009

10. Instalment sale receivables

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Gross instalment sale receivables	81,650	-	-	-
Less: Unearned finance charges	(12,522)	-	-	-
Present value of minimum lease payments receivable	69,128	-	-	-
Less: Provision for impairment of receivables	(14,297)	-	-	-
	54,831	-	-	-
Non-current assets	32,085	-	-	-
Current assets	22,746	-	-	-
	54,831	-	-	-

The average term of the instalment sale receivables is five years. The interest rate in the agreement is fixed at the contract date for the full period. The average interest rate for the year was 12.01% per annum.

Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.

The impairment of R14,297 is calculated by taking into account the recoverable amount of collateral. It is calculated as the present value of future estimated cash flows of the houses under instalment sale contracts, using the prime interest rate and a period of 20 years, based on the length of a home loan obtained in the market.

11. Investment property

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Opening balance	30,000	-	30,000	-
Additions	-	-	-	-
Fair-value gain	12,100	-	12,100	-
Closing balance	42,100	-	42,100	-

The following amounts have been recognised in the income statement:

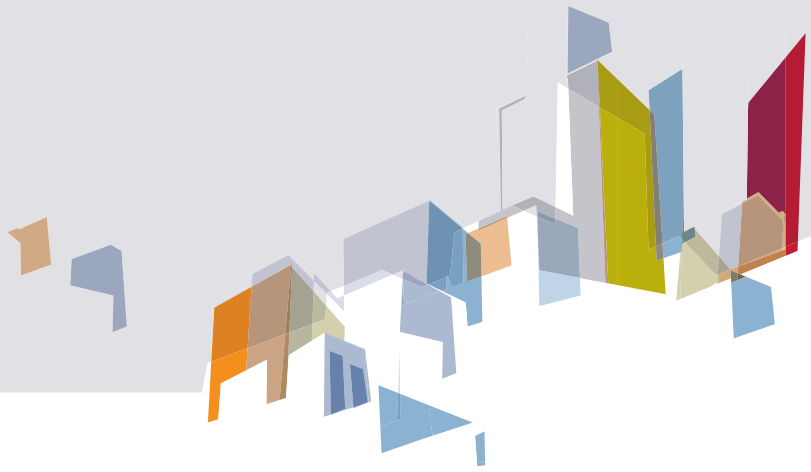
Fair-value gain	12,100	-	12,100	-
Rental income	4,647	-	4,647	-

Investment property is stated at fair value determined, based on a valuation performed by an accredited independent valuer, on 13 May 2009. The capitalisation of net income method of valuation was used, based on a capitalisation rate of 14.5%.

Details of property

- Description: Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place
- Situated at the corner of President, Human, Clark and FH Odendaal Streets

The investment property was classified as an investment property held for sale in the previous year, refer note 17.



12. Intangible assets

Goodwill

Cost:

At 1 April 2008

Acquisition of a subsidiary

Write-off to income statement

At 31 March 2009

Group	
2009 R'000	2008 R'000
-	-
2,714	-
-	-
2,714	-

13. Properties developed for sale

Properties developed for sale

Repossessed properties

Group		Company	
2009 R'000	2008 R'000	2009 R'000	2008 R'000
57,627	-	-	-
224	-	-	-
57,851	-	-	-

14. Other receivables and prepayments

Deposits and prepayments

Related parties

Staff debtors

Other receivables

Value-added tax

Interest accrued

Group		Company	
2009 R'000	2008 R'000	2009 R'000	2008 R'000
303	2	6	2
754	899	754	899
199	338	196	338
12,598	-	2,228	-
752	-	-	-
10,588	9,981	10,588	9,981
25,194	11,220	13,772	11,220

Other receivables are non-interest bearing and are considered current and are not considered impaired.

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.

Notes to the financial statements

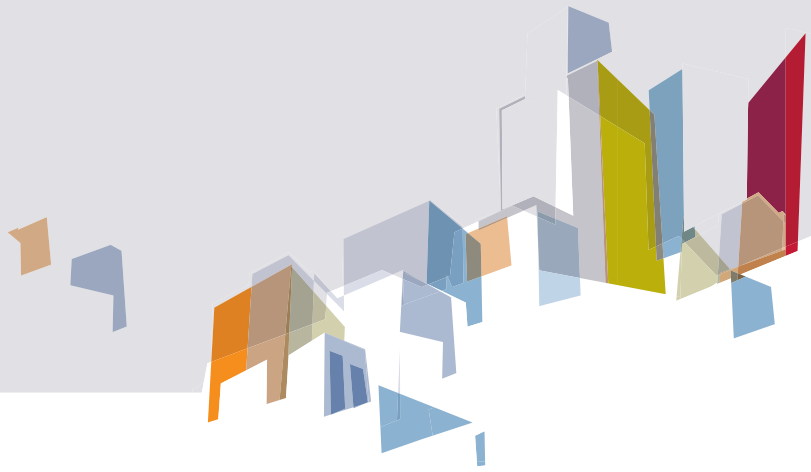
For the year ended 31 March 2009

15. Held to maturity investments

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Held to maturity money market investments – NHFC	808,801	992,402	794,254	976,154
ABSA Bank Limited	100,000	150,000	100,000	150,000
Investec Bank Limited	125,000	175,000	125,000	175,000
Standard Bank of South Africa Limited	125,000	150,000	125,000	150,000
Rand Merchant Bank a division of FirstRand Bank Limited	125,000	150,000	125,000	150,000
Nedbank Limited	125,000	175,000	125,000	175,000
Land Bank of South Africa Limited	39,014	39,627	39,014	39,627
Transnet Limited	-	19,444	-	19,444
Eskom Limited	71,948	97,284	71,948	97,284
Development Bank of South Africa Limited	20,001	-	20,001	-
Trans-Caledon Tunnel Authority (TCTA)	38,970	19,799	38,970	19,799
Telkom Limited	24,321	-	24,321	-
Funds managed by Centriq	14,547	16,248	-	-
Held to maturity money market investments – Job summit-related projects*	300,842	280,918	300,842	280,918
ABSA Bank Limited	42,657	40,126	42,657	40,126
Rand Merchant Bank a division of FirstRand Bank Limited	60,043	40,527	60,043	40,527
Standard Bank of South Africa Limited	40,000	40,287	40,000	40,287
Nedbank Limited	40,000	60,544	40,000	60,544
Investec Bank Limited	40,000	40,277	40,000	40,277
Land Bank of South Africa Limited	39,014	19,919	39,014	19,919
Eskom Limited	19,127	39,238	19,127	39,238
Development Bank of South Africa Limited	20,001	-	20,001	-
Held to maturity money market investments – Development Fund*	119,988	120,518	119,988	120,518
Eskom Limited	19,127	19,572	19,127	19,572
Land Bank of South Africa Limited	19,503	19,787	19,503	19,787
Investec Bank Limited	20,000	40,763	20,000	40,763
Nedbank Limited	20,000	20,093	20,000	20,093
Standard Bank of South Africa Limited	21,358	-	21,358	-
ABSA Bank Limited	20,000	20,303	20,000	20,303
Total held to maturity money market investments	1,229,631	1,393,838	1,215,084	1,377,590

* 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.



16. Cash and short-term deposits

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Short-term deposits – NHFC	158,977	114,873	158,977	114,873
ABSA Bank Limited	32,233	21,181	32,233	21,181
Investec Bank Limited	19,513	13,578	19,513	13,578
Nedbank Limited	15,933	5,538	15,933	5,538
Rand Merchant Bank a division of FirstRand Bank Limited	12,738	17,459	12,738	17,459
Standard Bank of South Africa Limited	19,001	10,614	19,001	10,614
Standard Bank of South Africa Limited (Stanlib)	29,306	16,232	29,306	16,232
Trans-Caledon Tunnel Authority (TCTA)	30,253	30,271	30,253	30,271
Short-term deposits – Job summit-related projects *	70,611	73,704	70,611	73,704
ABSA Bank Limited	10,062	13,616	10,062	13,616
Investec Bank Limited	28,188	15,465	28,188	15,465
Nedbank Limited	13,522	12,135	13,522	12,135
Rand Merchant Bank a division of FirstRand Bank Limited	12,856	24,163	12,856	24,163
Standard Bank of South Africa Limited	5,933	2,799	5,933	2,799
Standard Bank of South Africa Limited (Stanlib)	50	5,526	50	5,526
Short-term deposits – Development Fund *	27,970	19,324	27,970	19,324
ABSA Bank Limited	5,381	8,856	5,381	8,856
Nedbank Limited	7,623	2,697	7,623	2,697
Standard Bank of South Africa Limited	4,706	1,704	4,706	1,704
Investec Bank Limited	10,260	6,067	10,260	6,067
Short-term deposits – Siyanda *	908	1,090	908	1,090
Standard Bank of South Africa Limited	908	1,090	908	1,090
Short-term deposits – Abahlali*	873	-	873	-
Standard Bank of South Africa Limited	873	-	873	-
Cash at bank and in hand	17,506	8,926	10,394	8,926
Standard Bank of South Africa Limited	17,486	8,923	10,391	8,923
Cash on Hand	19	3	3	3
Total cash and short-term deposits	276,845	217,917	269,733	217,917
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 comprise the following at 31 March 2009:				
NHFC	176,483	123,799	169,371	123,799
Short-term deposits	158,977	114,873	158,977	114,873
Cash at bank	17,506	8,926	10,394	8,926
Job Summit *	70,611	73,704	70,611	73,704
Short-term deposits	70,611	73,704	70,611	73,704
Development fund *	27,970	19,324	27,970	19,324
Short-term deposits	27,970	19,324	27,970	19,324
Siyanda *	908	1,090	908	1,090
Short-term deposits	908	1,090	908	1,090
Abahlali*	873	-	873	-
Short-term deposits	873	-	873	-
Total	276,845	217,917	269,733	217,917

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

Notes to the financial statements

For the year ended 31 March 2009

17. Investment property held for sale

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Sectional title building held for sale	-	34,000	-	34,000
Fair-value loss	-	(4,000)	-	(4,000)
	-	30,000	-	30,000

The following amounts have been recognised in the income statement:

Fair-value loss	-	(4,000)	-	(4,000)
Rental income	-	4,570	-	4,570

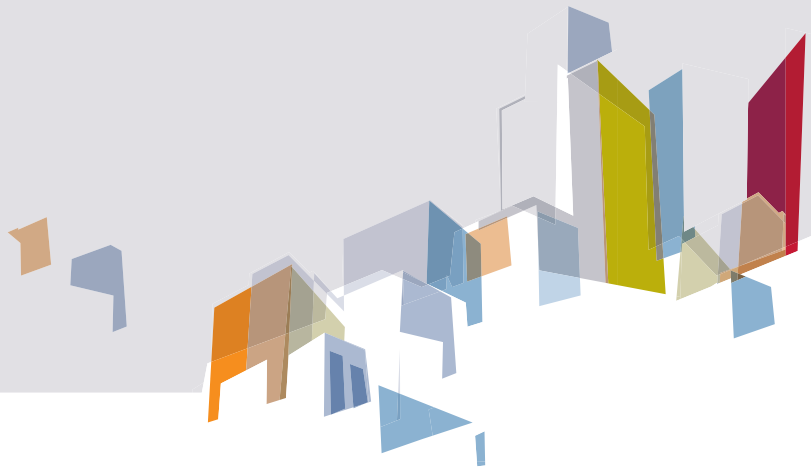
An offer to purchase the property was received in the previous financial year. The sale did not materialise and the property has therefore been reclassified as an investment property, refer note 11.

Details of property

- Description: Erven 300 and 585 West Germiston, Germiston, Gauteng, known as President Place
- Situated at: The corner of President, Human, Clark and FH Odendaal Streets

18. Income tax

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Income statement				
Current income tax				
Current income tax charge	40,280	30,221	38,777	27,734
Tax underprovision relating to previous years	-	17,112	-	17,112
Deferred tax	2,207	(1,915)	2,207	(1,837)
Rate change	-	79	-	79
Income tax expense	42,487	45,497	40,984	43,088
Deferred tax				
Description				
Balance at the beginning of the year	4,050	2,214	4,050	2,292
Rate change (29% –28%)	-	(79)	-	(79)
Recognised through the income statement	(2,207)	1,915	(2,207)	1,837
Balance at the end of the year	1,843	4,050	1,843	4,050
Deferred tax asset consists of				
– provision for leave pay	3,355	2,880	3,355	2,880
– provision for incentive bonus	8,376	7,000	8,376	7,000
– operating lease	900	585	900	585
– fair value (gain) / loss	(6,050)	4,000	(6,050)	4,000
Total	6,581	14,465	6,581	14,465
Tax rate of 28%	1,843	4,050	1,843	4,050



18. Income tax (continued)

A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2009 and 2008 is as follows:

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Accounting profit before tax from operations	150,497	106,097	148,498	97,520
At SA statutory income tax rate of 28%	43,082	30,768	41,579	28,281
Underprovision – previous years	-	17,112	-	17,112
Temporary difference	-	(1,394)	-	(1,315)
Non-taxable income	(44)	(8,752)	(44)	(8,752)
Non-deductible expenses	23	7,762	23	7,762
Capital profit	(574)	-	(574)	-
Income tax expense reported in the income statement	42,487	45,497	40,984	43,088
Taxation: Balance sheet				
Balance at the beginning of the year	(18,679)	17,882	(23,361)	10,688
Tax adjustment	(2,257)	(23,567)	-	(23,545)
Tax paid	66,905	34,341	64,080	34,341
Normal tax charge	(40,280)	(47,335)	(38,777)	(44,845)
Balance at the end of the year	5,689	(18,679)	1,942	(23,361)

19. Issued share capital and share premium

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Capital				
Ordinary shares				
Authorised				
100 000 000 ordinary shares of R0.01 each	1,000	1,000	1,000	1,000
Issued and fully paid				
84 187 332 ordinary shares of R 0.01 each	842	842	842	842
Share premium	879,158	879,158	879,158	879,158

20. Grant capital

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
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 are considered to be permanent and are therefore included in Shareholder's Equity. There are no conditions attached to these grants.

Notes to the financial statements

For the year ended 31 March 2009

21. Funds under management

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Job summit (a)				
– Poverty Relief Funds	354,822	321,091	354,822	321,091
– Subsidies – KwaZulu-Natal	16,632	34,918	16,632	34,918
Development Fund (b)	147,958	139,239	147,958	139,239
Siyanda Project (c)	908	1,090	908	1,090
Abahlali (d)	872	-	872	-
Total funds under management	521,192	496,338	521,192	496,338

- a 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 National Treasury in terms of the Poverty Relief Fund and subsidy funds from KwaZulu-Natal Province.
- b The development fund is to provide capacitation and technical assistance into the low-income housing market.
- c Siyanda project is a housing development partnership between NHFC, Eastern Cape Provincial Department of Housing and Mquma Municipality. These funds are to be used for pre-project costs. The net income on these funds is capitalised.
- d The NHFC is managing funds on behalf of the Abahlali Housing Association relating to social housing rental units.
- Funds under management are invested in held to maturity investments (note 15) and short-term deposits (note 16).

22. Deferred income

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Balance at beginning of year	20,143	23,904	20,143	23,904
Write down of deferred income	(3,808)	-	(3,808)	-
Deferred gain amortised	(6,266)	(3,761)	(6,266)	(3,761)
Balance at end of year	10,069	20,143	10,069	20,143

The South African Housing Trust (SAHT) and the NHFC were established by the 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 microlenders 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 2009 is R10 million (2008: R20 million).

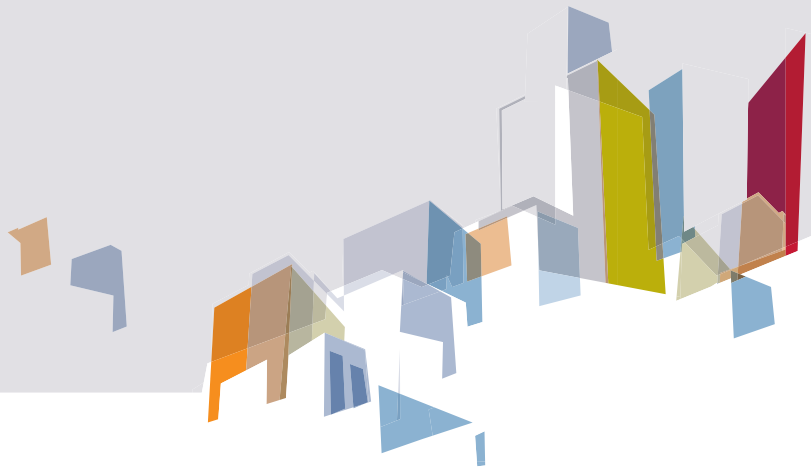
Deferred income is recognised as the difference between the initial purchase price and the fair value of advances at balance sheet date. Deferred income is amortised to the income statement as payments are received from borrowers. The balances outstanding from these debtors are included in advances.

During the year the advance to Mpumalanga Housing Finance Company was settled.

23. Debentures

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Authorised				
2,500,000 non-convertible debentures of R1 each carrying interest of 10% p.a.				
Issued				
2,500,000 non-convertible debentures of R1 each carrying interest of 10% p.a. (City of Cape Town)				
	4,788	-	-	-

The debentures are not secured and are repayable on 6 April 2011. The balance shown above includes accumulated interest of R2,288.



24. Other financial liabilities

Held at amortised cost

Dutch International Guarantees for Housing (DIGH) loan 1

This loan bears interest at a fixed rate of 9.08% per annum and is repayable in annual instalments of R471,731 inclusive of interest. The final instalment is payable on 1 July 2016.

Dutch International Guarantees for Housing (DIGH) loan 2

This loan bears interest at a fixed rate of 6.3% per annum and is repayable in annual instalments of R1,022,083 inclusive of interest. The final instalment is payable on 3 January 2016.

Development Fund

This facility bears interest at a rate of between 13-15.5% per annum and is repayable once project income is received.

Non-current liabilities

At amortised cost

Current liabilities

At amortised cost

Group		Company	
2009 R'000	2008 R'000	2009 R'000	2008 R'000
2,575	-	-	-
6,661	-	-	-
2,864	-	-	-
12,100	-	-	-
11,238	-	-	-
862	-	-	-
12,100	-	-	-

25. Provisions

Total provisions

Provision for leave pay

Opening balance as at 01 April

Acquisition

Provision utilised for the year

Additional provision raised

Closing balance as at 31 March

Provision for incentive bonus

Opening balance as at 01 April

Provision utilised for the year

Additional provision raised

Closing balance as at 31 March

Provision for municipal rates

Opening balance as at 01 April

Provision utilised for the year

Additional provision raised

Closing balance as at 31 March

Group		Company	
2009 R'000	2008 R'000	2009 R'000	2008 R'000
14,506	9,880	11,731	9,880
14,506	9,880	11,731	9,880
2,880	2,063	2,880	2,063
235	-	-	-
(515)	(183)	(515)	(183)
1,060	1,000	990	1,000
3,660	2,880	3,355	2,880
7,000	5,929	7,000	5,929
(5,860)	(4,863)	(5,860)	(4,863)
7,236	5,934	7,236	5,934
8,376	7,000	8,376	7,000
2,470	-	-	-
-	-	-	-
-	-	-	-
2,470	-	-	-

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 2010 financial year.

Provision for municipal rates covers the rates that will become due when certain erven are transferred into the name of Cape Town Community Housing Company (Pty) Ltd.

Notes to the financial statements

For the year ended 31 March 2009

26. Trade and other payables

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Trade payables	14,679	2,026	2,606	2,676
Land accrual	5,084	-	-	-
Accrued expenses	1,566	-	-	-
Accrual for lease payments	900	586	900	586
Deferred revenue	15,086	-	-	-
	37,315	2,612	3,506	3,262

Trade payables are non-interest bearing and are settled on 30-day terms.

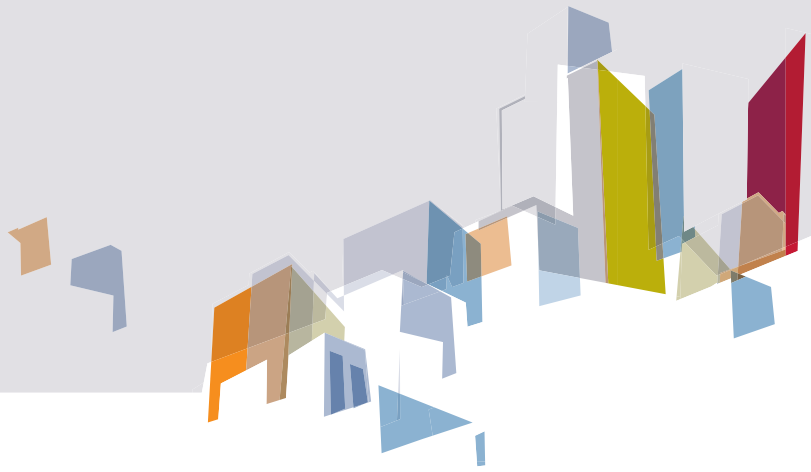
Land accruals are paid when transfer to the end-user takes place.

Accrual for lease payments is as a result of straight-lining over the term of the lease. Refer to note 32.

Deferred revenue relates to subsidy received in advance and are utilised when the building expense is booked.

27. Profit before taxation

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Profit before tax is stated after taking the following into account:				
Interest on advances	105,928	96,474	110,649	96,474
Interest on performing advances	101,694	90,130	106,415	90,130
Interest on impaired advances	4,234	6,344	4,234	6,344
Administrative expenses	88,227	71,435	81,643	79,527
- Staff costs	41,290	34,926	37,118	34,926
- Salaries	36,987	31,558	33,514	31,558
- Medical aid contributions	1,510	1,189	1,287	1,189
- Provident fund contributions	2,793	2,179	2,317	2,179
- Management costs (refer note 29)	14,064	10,282	13,176	10,282
- Administration	2,384	9,422	1,633	17,514
- Marketing	4,763	2,505	4,703	2,505
- Consultancy and advisory services	19,756	8,866	19,689	8,866
- Directors' fees	355	232	301	232
- Legal fees	1,727	2,420	1,574	2,420
- Auditors' remuneration	1,865	1,092	1,745	1,092
- Audit fees	1,865	1,089	1,745	1,089
- Other fees	-	3	-	3
- Travel and entertainment	2,023	1,690	1,705	1,690
Other expenses	11,504	40,394	10,362	40,394
- Donations	83	60	83	60
- Communication	1,998	1,617	1,759	1,617
- Impairment of property held for sale	-	4,000	-	4,000
- Loss on revaluation of bonds	-	7,871	-	7,871
- Impairment of investment	-	-	57	-
- Training and development	1,124	622	1,124	622
- Office expenses	2,198	2,091	1,861	2,091
- Depreciation	842	614	764	614
- Sundry expenses	646	19,200	448	19,200
- Operating lease payments	4,613	4,319	4,266	4,319



28. Other income

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Other income is made up as follows:				
SA Housing Trust (refer note 22)	6,266	3,761	6,266	3,761
Management fees	134	134	243	300
Bad debts recovered	1,172	495	1,172	495
Interest (reversal)/received from instalment sales	5,338	-	-	-
Adjustment for provision of impairment receivables	2,769	-	-	-
Recoveries in respect of services	1,228	-	-	-
Other rental income	948	-	-	-
Interest received on tax	-	11,815	-	11,815
Fair-value gain on investment property	12,100	-	12,100	-
Profit on dilution of investment in associate	566	-	566	-
Premiums earned	4,243	-	-	-
Sundry income	2,167	30	181	30
Other income	36,931	16,235	20,528	16,401

29. Directors and senior management emoluments

	Fees R'000	Salaries R'000	Bonuses R'000	Company contri- butions R'000	Other R'000	Total 2009 R'000	Total 2008 R'000
Directors – Non-executives	276	-	-	-	25	301	232
S Tati	66	-	-	-	-	66	53
N Makiwane	25	-	-	-	-	25	45
S Ntsaluba	53	-	-	-	-	53	22
A Canter – Future Growth Asset Management	-	-	-	-	16	16	54
T Middleton	61	-	-	-	-	61	38
C Ball	20	-	-	-	9	29	5
S Khoza	35	-	-	-	-	35	5
T Ndziba-Dikgole	8	-	-	-	-	8	5
E Godongwana	8	-	-	-	-	8	5
Chief Executive Officer and Executive Director							
S Moraba		2,052	1,328	249	7	3,636	3,189
Executive Members		6,805	1,635	1,039	61	9,540	7,093
A Egbers	1,079	357	209	7	7	1,652	1,521
S Sengani	79	-	7	1	1	87	1,373
N Ntshingila	687	137	72	7	7	903	875
S Mutepe	667	-	73	-	-	740	-
A Chimpondah	656	-	63	-	-	719	-
L Lehabe	795	240	111	9	9	1,155	1,014
S Mogane	634	213	131	8	8	986	-
S Madikizela	638	134	93	8	8	873	-
G Long	253	141	42	4	4	440	765
Z Adams	650	225	151	9	9	1,035	737
B Kgosi	667	188	87	8	8	950	807
Total	276	8,857	2,963	1,288	93	13,477	10,514

Note: Prof Katz agreed not to charge fees.

Notes to the financial statements

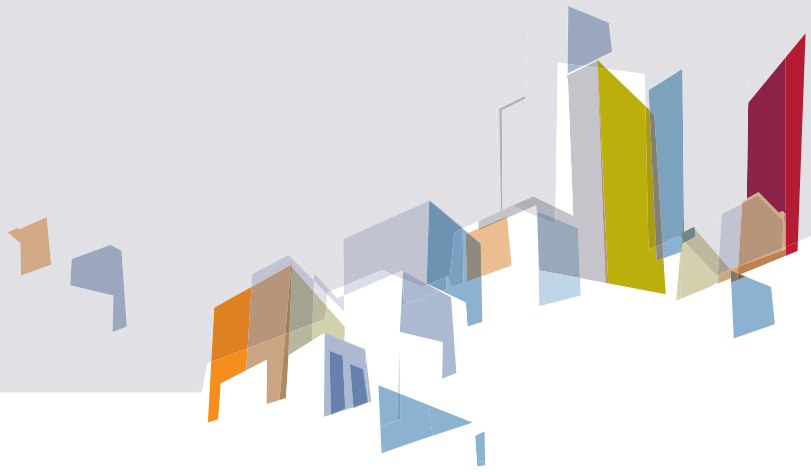
For the year ended 31 March 2009

30. Reconciliation of cash utilised in operations

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
30.1 Net income before taxation	150,497	106,097	148,498	97,520
Adjustments for the following items:	(218,805)	(182,558)	(225,586)	(181,907)
Revaluation of investments held for trading	-	7,871	-	7,871
Depreciation	842	614	764	614
Impairments	3,366	(7,141)	3,366	(7,141)
Impairment of investment in subsidiary	-	-	57	-
Profit on dilution of investment in associate	(566)	-	(566)	-
Share loss of an associate	1,262	-	-	-
Fair-value adjustment on investment property	(12,100)	4,000	(12,100)	4,000
Premium paid	1,587	2,077	1,587	2,077
Dividends received	(158)	(236)	(158)	(236)
Bad debts written off	14,373	20,857	14,373	20,857
Loss on sale of assets	2	-	-	-
CTCHC at acquisition adjustment	442	-	-	-
Finance costs	2,059	-	-	-
Interest received	(229,914)	(210,600)	(232,909)	(209,949)
Operating loss before changes in working capital	(68,308)	(76,461)	(77,088)	(84,387)
Net increase in working capital	(226,243)	(73,185)	(227,194)	(58,357)
Increase in advances	(182,817)	(80,205)	(216,149)	(80,205)
Increase in properties developed for sale	(29,911)	-	-	-
Increase in instalment sale receivable	(5,060)	-	-	-
Increase in accounts receivable	(17,026)	9,818	(13,140)	23,921
Increase in accounts payable	3,945	(5,271)	244	(4,546)
Increase in provisions	4,626	2,473	1,851	2,473
Cash utilised in operations	(294,551)	(149,646)	(304,282)	(142,744)
30.2 Tax paid				
Amounts payable/receivable 01 April	(18,679)	17,882	(23,361)	10,688
Tax charges for the year	(40,280)	(47,335)	(38,777)	(44,845)
Tax adjustments	(2,257)	(23,567)	-	(23,545)
Amounts (receivable) / payable 31 March	(5,689)	18,679	(1,942)	23,361
Tax paid	(66,905)	(34,341)	(64,080)	(34,341)

31. Held for trade investments – bonds

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Fair value at the beginning of the year	-	233,499	-	233,499
Disposals for the year at fair value	-	(225,628)	-	(225,628)
Fair-value adjustment	-	(7,871)	-	(7,871)
	-	-	-	-
Comprising				
RSA stock – R153 at fair value	-	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
Proceeds on sale	-	(93,294)	-	(93,294)
Fair-value adjustments	-	(3,388)	-	(3,388)
	-	-	-	-



32. 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% per annum.

A deposit guarantee to the lessor of R533 (2008: R533) is in place.

Future minimum rentals payable under current operating lease as at 31 March 2009:

Within one year
After one year but not more than five years

Equipment lease commitments – Group as lessee

The Group entered into an operating lease for photocopiers. The lease commenced on 1 May 2008 and runs until 1 April 2011.

Future minimum rentals payable under the lease as at 31 March 2009:

Within one year
After one year but not more than five years

Operating lease commitments – Group as lessee

Lease commitments relate to the rental of the two offices of the subsidiary. Both commenced in 2009 and runs until 2011. The annual escalation rate is 10%.

The future aggregate minimum lease payments under non-cancellable operating lease are as follows:

Within one year
After one year but not more than five years

Group		Company	
2009 R'000	2008 R'000	2009 R'000	2008 R'000
3,498	3,239	3,498	3,239
7,858	11,356	7,858	11,356
11,356	14,595	11,356	14,595
101	88	101	88
75	107	75	107
176	195	176	195
531	-	-	-
581	-	-	-
1,112	-	-	-

33. 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

Group		Company	
2009 R'000	2008 R'000	2009 R'000	2008 R'000
3,323	2,961	3,323	2,961

Notes to the financial statements

For the year ended 31 March 2009

34. 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 funds under management, borrowings 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 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.

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Loans and receivables – advances	1,053,790	929,485	1,116,234	929,485
Instalment sale receivables	69,128	-	-	-
Held to maturity investments	1,229,631	1,393,838	1,215,084	1,377,590
Cash and short-term deposits	276,845	217,917	269,733	217,917
Other receivables and prepayments	25,194	11,220	13,772	11,220

Collateral and other credit enhancements – loans and receivables advances

The Corporation endeavours to obtain collateral or other security against all advances made, dependent on the assessed risk inherent in the particular advance and in line with the NHFC's approved credit policy.

The following types of collateral are currently held against loans and receivables – advances subject to credit risk:

- Bonds over properties
- Debtors book
- Cession of income
- Personal guarantees
- Governmental guarantees

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairments losses.

34. Financial risk management (continued)

Credit quality of loans and receivables – advances

The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to internal credit ratings.

Neither past due nor impaired
Past due but not impaired
Impaired*

Less: Specific impairments
Net advances

Group	
2009 R'000	2008 R'000
840,286	869,315
128,008	19,167
145,505	97,645
1,113,799	986,127
(60,009)	(56,642)
1,053,790	929,485

* Impaired balance is not equal to specific impairments as some advances are not fully impaired considering the value of security.

Ageing analysis of advances that are past due, but not impaired:

	Total R'000	30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2009	128,008	34,701	7,234	685	36,941	48,447
2008	19,167	968	802	764	4,376	12,257

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

- Evidence of financial distress when it is considered that the borrower is unlikely to pay its credit obligation in full.
- The debt is overdue.
- Evidence that the value of the collateral is lower than the carrying value of the loan.

The fair value of collateral that the Group holds relating to past due or impaired loans and receivables at 31 March 2009 amounts to R567 million (2008: R953 million).

During the year the Group took possession of guarantees and debtors book with a carrying value of R1.6 million.

The carrying amount of advances that would otherwise be past due whose terms have been renegotiated amounts to R124 million.

Credit quality of instalment sale receivables

The credit quality of instalment sale receivables that are neither past due nor impaired can be assessed by reference to external credit ratings.

Counterparties with external ratings

69,128

As at 31 March 2009, R14,297 of the R69,128 instalment sale receivables was provided for. The individual amounts provided for relate mainly to arrear balances between the company and the customers.

Notes to the financial statements

For the year ended 31 March 2009

34. Financial risk management (continued)

Management's assessment of the ageing of the instalment sale debtors is as follows:

Up to 1 year	36,508
1 to 2 years	6,783
3 to 5 years	25,837
Over 5 years	-
	69,128

Credit quality and concentration of other financial assets

Counterparties with external ratings	
– Held to maturity investments – Money Market	1,229,631
– Cash and short-term deposits	276,825

Other receivables are considered current and are not considered impaired.

Concentration risk of loans and receivables by operations

Commercial – 33.6%
Projects – 66.1%
Retail – 0.3%

Interest rate risk

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

Assets

Loan and receivables – advances rates vary between 9% and 15.5% p.a.

Instalment sale receivables average interest rate of 12.01% p.a.

Held to maturity investments rates vary between 8.10% and 11.946% p.a.

Cash and short-term deposits rates vary between 7% and 11.27% p.a.

Liabilities

Funds under management – rates are linked to short-term investment rates

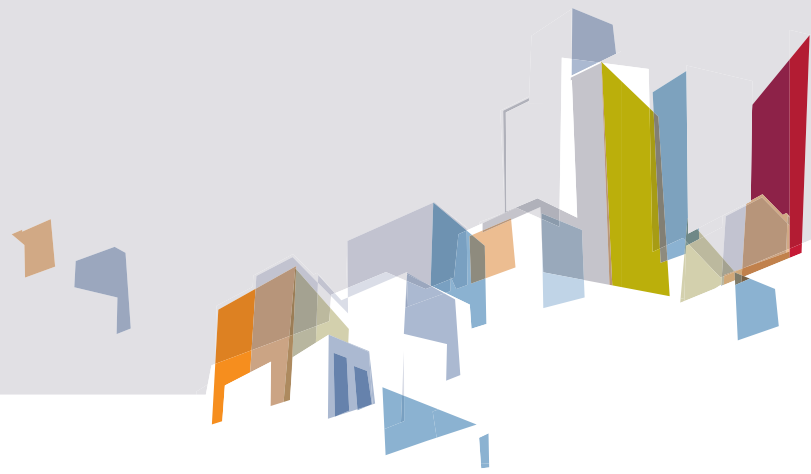
Strategy	Group 2009		Group 2008	
	Fixed rate R'000	Linked rate R'000	Fixed rate R'000	Linked rate R'000
1	385,554	668,236	230,554	698,931
1	69,128	-	-	-
2	-	1,229,631	-	1,393,838
2	-	276,845	-	217,917
	-	521,192	-	496,338

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.



34. Financial risk management (continued)

Interest rate sensitivity

The impact of 1% move in interest rates, with all other variables held constant is reflected below.

	Increase / decrease %	2009 Effect on profit before tax R'000	2008 Effect on profit before tax R'000
Loans and receivables – advances	1%	14,349	9,295
	-1%	(14,349)	(9,295)
Held to maturity investments	1%	12,296	13,938
	-1%	(12,296)	(13,938)
Cash and short-term deposits	1%	2,768	2,179
	-1%	(2,768)	(2,179)
Funds under management	1%	5,211	4,963
	-1%	(5,211)	(4,963)

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, and
- limiting Capital Market investments to 30% of the portfolio.

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2009 based on contractual undiscounted payments.

As at 31 March 2009

	On demand R'000	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
Trade and other payables	368	21,522	14,526	900	37,316
Deferred income				10,069	10,069
Funds under management				521,192	521,192
Debentures				4,788	4,788
Other financial liabilities			862	11,238	12,100
	368	21,522	15,388	548,187	585,465

As at 31 March 2008

	On demand R'000	Less than 3 months R'000	3 to 12 months R'000	>1 year R'000	Total R'000
Trade and 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

Fair value of financial instruments

The carrying value of financial assets and financial liabilities for both years approximated their fair values.

Capital management

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

NHFC Credit rating

Global Credit Rating Co
National
Long term AA-
Short term A1+

Notes to the financial statements

For the year ended 31 March 2009

35. 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	2009 % equity interest	2008 % equity interest
Gateway Homeloans (Proprietary) Limited	RSA	100	100
Gateway Homeloans 001 (Proprietary) Limited	RSA	100	100
Centriq Cellcaptive	RSA	100	100
Cape Town Community Housing Company (Pty) Limited	RSA	100	50

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.

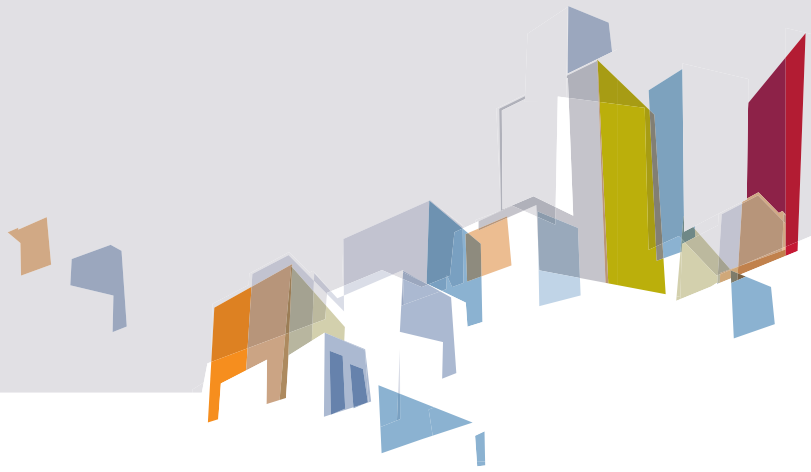
Related party	Group 2009		Group 2008	
	Amounts owed by/to related parties R'000	Transactions with related parties R'000	Amounts owed by/to related parties R'000	Transactions with related parties R'000
Transactions with other public entities				
Social Housing Foundation				
- accounts receivable (refer to note 14)	754	-	747	-
- management fees received	-	243	-	243
Thubelisha/NDoH				
Advances				
- disbursements	113,214	-	107,704	-
Telkom SA				
- Telecommunication services	-	665	-	661
SA Post Office				
- Postal services	-	1	-	2
- Retail pilot project	-	232	-	-

Terms and conditions with related parties

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

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 2009, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2008: Nil).



35. Related parties disclosure (continued)

	Company 2009		Company 2008	
	Amounts owed by/to related parties R'000	Transactions with related parties R'000	Amounts owed by/to related parties R'000	Transactions with related parties R'000
Transactions with subsidiaries				
Gateway Homeloans (Proprietary) Limited				
– intercompany (receivables)/payables	–	–	(67)	–
– management fees paid to National Housing Finance Corporation Limited	–	–	–	57
Guardrisk Cellcaptive				
– sale of shares	–	–	–	7,000
– interest received	–	–	–	1,685
Centriq Cellcaptive				
– shares at cost	–	–	–	7,000
– insurance paid	–	–	–	10,000
– interest received	–	1,300	–	–
Cape Town Community Housing Company (Pty) Limited				
– shares at cost	4,000	–	–	–
– debentures	15,856	–	3,197	–
– advances	62,444	–	26,634	–
– disbursements	–	41,263	–	17,642
– interest received	–	4,655	–	–
Transactions with other public entities				
Social Housing Foundation				
– accounts receivable (refer note 14)	754	–	747	–
– management fees received	–	243	–	243
Thubelisha/NDoH				
Advances	113,214	–	107,704	–
– disbursements	–	–	–	–
Telkom SA				
– Telecommunication services	–	665	–	661
SA Post Office				
– Postal services	–	1	–	2
– Retail pilot project	–	232	–	–

Independent Auditor's report on the performance report of the Corporation

in terms of Section 28 of the Public Audit Act 2005

Reporting on performance information

We have reviewed the performance information as set out on pages 79 to 80.

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.

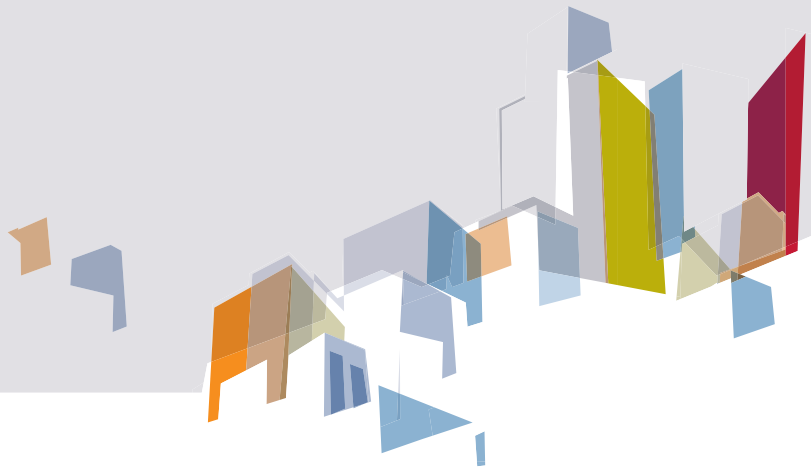
We believe that the evidence we have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of our audit.

Ernst & Young Inc.

Registered auditor

20 July 2009

Johannesburg



Performance Report for the year ended 31 March 2009 in terms of Section 55(2) of PFMA

Budgeted and audited results for the year ended 31 March 2009

	Actual R'000	Budget R'000
Income		
Lending activities	110,649	116,015
Investment activities	122,260	80,700
Other income	25,333	11,113
Total Income	258,242	207,828
Impairments	(17,739)	(12,564)
Operating expenses	(92,005)	(113,751)
Profit before tax	148,498	81,513
Tax	(40,984)	(23,639)
Profit after tax	107,514	57,874

Explanation of variances:

Investment income

Investment income is higher than budget as a result of higher than budgeted interest rates for most part of the year.

Other income

Other income includes management fees and rental income. Other income is higher than budget mainly as a result fair value gain on investment property.

Impairments

Increased level of impairments and write off on Protea Financial Services Group book sold.

Expenses

Expenses are below budget mainly due to under expenditure in employee, marketing, travel, office and computer cost relating to the delayed roll out of Retail.

Independent Auditor's report on the performance report of the Corporation

in terms of Section 28 of the Public Audit Act 2005 (continued)

Key performance indicators

The Project Division exceeded their targets for both impact and disbursements.

Commercial mortgage loans were above budget but microloans lagged for the whole year.

Impact for Commercial was below budget for two main reasons:

1. Disbursement mix favoured mortgage loans rather than incremental housing loans; and
2. The average size of the incremental loans has increased from the expected R5 000 in the budget to between R6 500 and R10 000 in practice due to the increases in material prices. This resulted in fewer loans being provided.

The rollout of the Retail offering was delayed to October 2008. The fourth quarter saw an increase in the number of applications mainly from bond originators and employers. The disbursements are however below budget due to the lag in registering the bonds.

Wholesale operations

Projects	Actual	Budget
Number of loans approved	14	18
Value of loans disbursed (R'000)	435,388	340,353
Number of units financed	11,718	7,649
Number of beneficiaries benefitting	58,590	38,245
Commercial		
Number of new facilities	3	4
Number of incremental loans provided	2,924	11,812
Number of beneficiaries benefitting	14,620	59,060
Number of mortgage bonds disbursed	221	155
Number of beneficiaries benefitting	1,105	775
Value of loans disbursed (R'000)	75,701	83,455
Value of incremental housing loans disbursed	40,204	63,055
Value of mortgage bonds disbursed	35,497	20,400
Summary of disbursements and impact for wholesale operation		
Housing opportunities funded	14,863	19,616
Incremental housing loans	2,924	11,812
Housing units provided	11,939	7,804
Value of loans disbursed (R'000)	511,089	423,808
Retail operations		
Number of loans approved	2,238	1,500
Number of housing units financed	20	300
Number of beneficiaries benefitting	100	1,500
Value of loans disbursed (R'000)	3	28

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 suggests to the Directors that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review, except as reported in the Directors' Report.

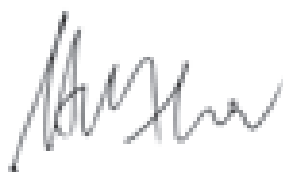
The Directors are of the opinion, based on the information and explanations given by management, the internal auditors and independent external auditors that the system of internal control provides reasonable assurance and that the financial records may be relied upon for preparing the annual financial 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 2009, as set out on pages 43 to 80 were approved by the Board of Directors on 13 July 2009 and signed on their behalf by:

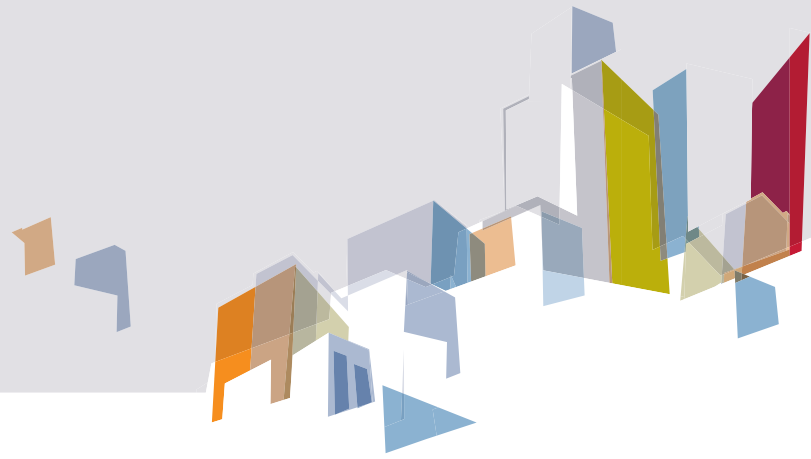


M M Katz
Chairman



S S Moraba
CEO

Report of the Audit and Risk Committee



The Board of Directors of National Housing Finance Corporation Limited (“NHFC”) reviewed and approved the Audit and Risk Committee (“the Committee”) Terms of Reference during the 2008/09 financial year.

The Committee’s responsibilities are in line with the Public Finance Management Act, Act 1 of 1999 and the Treasury Regulations and it has discharged all of its responsibilities set out in its Terms of Reference. The Committee, amongst other things, reviewed the following during the 2008/09 financial year:

- the effectiveness of the internal control systems and internal audit;
- the activities of the internal audit function, including its annual work program, coordination with the external auditors, the reports of significant findings and the responses of management to specific recommendations;
- 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 by management;
- any accounting or auditing concerns identified as a result of an internal or external audit;
- compliance with legal and regulatory provisions; and
- where relevant, the independence of and objectivity of the external auditors.

The internal controls implemented by NHFC focus on identified key risk areas. Management monitors all internal controls closely and ensures that 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 in safeguarding the Corporation’s assets, ensuring the maintenance of proper accounting records and that working capital and resources were utilised efficiently. There has not been a material breakdown in the functioning of the internal controls, procedures and systems has occurred during the year under review, except as reported on in the Directors’ Report.

Following our review of the annual financial statements of the NHFC for the year ended 31 March 2009, we are of the opinion that they comply in all material respects with the relevant provisions of the Companies Act, the Public Finance Management Act and International Financial Reporting Standards.

The Audit and Risk Committee, at its meeting held on 1 July 2009, recommended these annual financial statements, which were prepared on a going concern basis, to the Board for approval.

A handwritten signature in black ink, appearing to read 'S Ntsaluba', enclosed within a hand-drawn circular scribble.

Mr S Ntsaluba
Chairman: Audit and Risk Committee

Report of the Independent Auditor to the Minister of Human Settlement

Report on Annual Financial Statements

We have audited the group and company annual financial statements of National Housing Finance Corporation Limited (NHFC), which comprises the directors' report, the balance sheets as at 31 March 2009, the income statements, the statements of changes in equity, the cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 43 to 77.

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 of South Africa and Public Finance Management Act (PFMA). 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 our audit to ensure that we have discharged our responsibilities 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 management, 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and Company as at 31 March 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act and PFMA of South Africa.

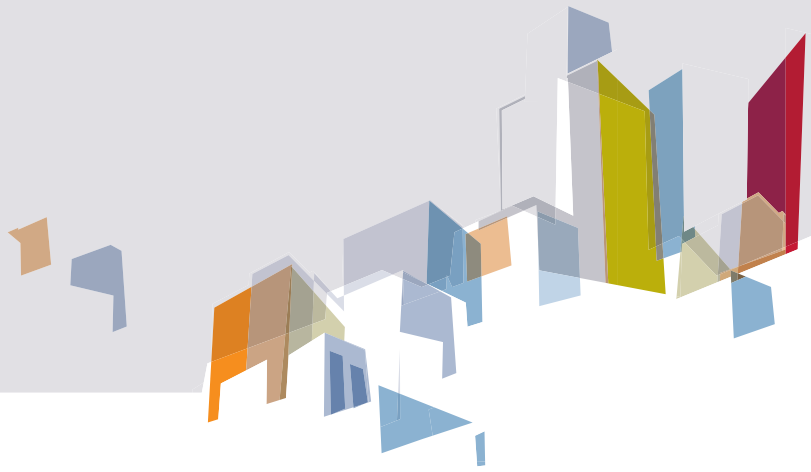
Report on other legal and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that a breach of Section 54(2) of the PFMA, which constitutes a reportable irregularity in terms of the Auditing Profession Act was brought to our attention by Management. We reported the matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity, which is no longer occurring, has been described in the directors' report. We have advised the IRBA that the reportable irregularity has been resolved.

Ernst and Young Inc.
Registered Auditor

20 July 2009
Johannesburg

Directors' Report



The Directors have pleasure in presenting their report for the year ended 31 March 2009.

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 pages 44 to 80 of these financial statements.

Share capital

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

The NHFC directors cannot, in terms of Section 221 of the Companies Act, 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

Ms T Ndziba passed away during the year under review and Mr Godongwana was appointed a member of parliament and was no longer available to serve as a member. The composition of the Board is set out on page 8 and 9. The directors' emoluments are set out on page 69 of these financial statements.

Reportable irregularity

During the year the NHFC acquired the remaining 50% shareholding in Cape Town Community Housing Company (Pty) Limited from the City of Cape Town without prior written approval of the Executive Authority as required in terms of section 54(2) of the PFMA. Verbal discussions with a senior official at NDoH had taken place and the CEO was advised that in view of the low value of the transaction, such approval

was not required. The matter was dealt with by Management and addressed by the Audit and Risk Committee. The External Auditors identified this as a reportable irregularity and reported it to the Independent Regulatory Board for Auditors in term of the Auditors Profession Act of 2005. The Minister of Housing subsequently ratified the acquisition and the reportable irregularity is no longer occurring.

Company Secretary

Ms E Marx

Business addresses

P O 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.

Ms E Marx
Company Secretary

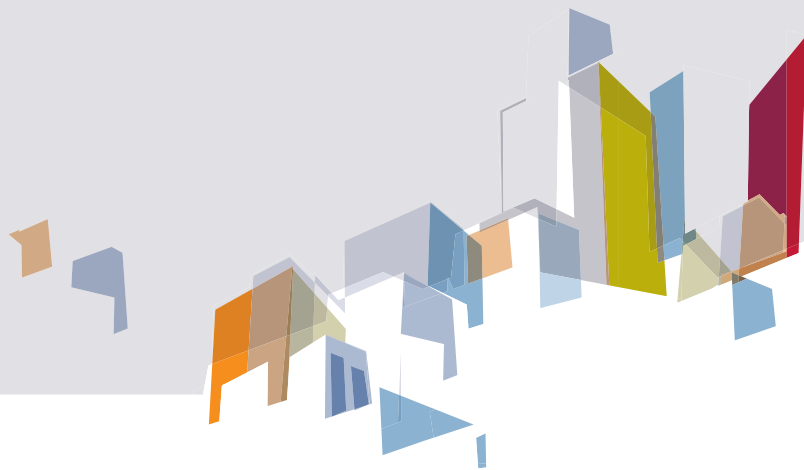
Balance sheets

As at 31 March 2009

Notes	Group		Company		
	2009 R'000	2008 R'000	2009 R'000	2008 R'000	
Assets					
Non-current assets					
	719,144	772,709	765,439	782,158	
Loans and receivables – advances	3	632,110	761,748	694,554	761,748
Investment in subsidiary – Gateway	4	-	-	2,392	2,449
Investment in subsidiary – Cape Town Community Housing	5	-	3,197	8,197	3,197
Investment – preference shares	6	2,500	2,500	2,500	2,500
Investment in cell captive	7	-	-	7,000	7,000
Investment in associate	8	4,304	-	5,566	-
Property, plant and equipment	9	1,488	1,214	1,287	1,214
Instalment sale receivables	10	32,085	-	-	-
Investment property	11	42,100	-	42,100	-
Goodwill	12	2,714	-	-	-
Deferred taxation	18	1,843	4,050	1,843	4,050
Current assets					
	2,039,636	1,820,712	1,922,211	1,804,464	
Loans and receivables – advances	3	421,680	167,737	421,680	167,737
Properties developed for sale	13	57,851	-	-	-
Instalment sale receivables	10	22,746	-	-	-
Other receivables and prepayments	14	25,194	11,220	13,772	11,220
Held to maturity investments	15	1,229,631	1,393,838	1,215,084	1,377,590
Cash and short-term deposits	16	276,845	217,917	269,733	217,917
Investment property held for sale	17	-	30,000	-	30,000
Income tax receivable	18	5,689	-	1,942	-
Total assets					
	2,758,780	2,593,421	2,687,650	2,586,622	
Equity and liabilities					
Capital and reserves					
	2,158,810	2,045,769	2,141,152	2,033,638	
Share capital	19	842	842	842	842
Share premium	19	879,158	879,158	879,158	879,158
Grant capital	20	200,000	200,000	200,000	200,000
Distributable reserves		1,078,810	965,769	1,061,152	953,638
Non-current liabilities					
	547,287	516,481	531,261	516,481	
Funds under management	21	521,192	496,338	521,192	496,338
Deferred income	22	10,069	20,143	10,069	20,143
Debentures	23	4,788	-	-	-
Other financial liabilities	24	11,238	-	-	-
Current liabilities					
	52,683	31,171	15,237	36,503	
Other financial liabilities	24	862	-	-	-
Provisions	25	14,506	9,880	11,731	9,880
Trade and other payables	26	37,315	2,612	3,506	3,262
Income tax payable	18	-	18,679	-	23,361
Total equity and liabilities					
	2,758,780	2,593,421	2,687,650	2,586,622	

Income statements

For the year ended 31 March 2009



	Notes	Group		Company	
		2009 R'000	2008 R'000	2009 R'000	2008 R'000
Interest on advances	27	105,928	96,474	110,649	96,474
Interest on investments		123,986	114,126	122,260	113,475
Rental income		4,647	4,570	4,647	4,570
Dividends received		158	236	158	236
Sale of houses		7,033	-	-	-
Revenue		241,752	215,406	237,714	214,755
Cost of sales		(7,395)	-	-	-
Net impairments	3	(17,739)	(13,715)	(17,739)	(13,715)
Revenue net of impairments		216,618	201,691	219,975	201,040
Administrative expenses	27	(88,227)	(71,435)	(81,643)	(79,527)
Other expenses	27	(11,504)	(40,394)	(10,362)	(40,394)
Operating profit		116,887	89,862	127,970	81,119
Other income	28	36,931	16,235	20,528	16,401
Finance costs		(2,059)	-	-	-
Share of loss of an associate	8	(1,262)	-	-	-
Profit before tax		150,497	106,097	148,498	97,520
Income tax expense	18	(42,487)	(45,497)	(40,984)	(43,088)
Profit for the period		108,010	60,600	107,514	54,432

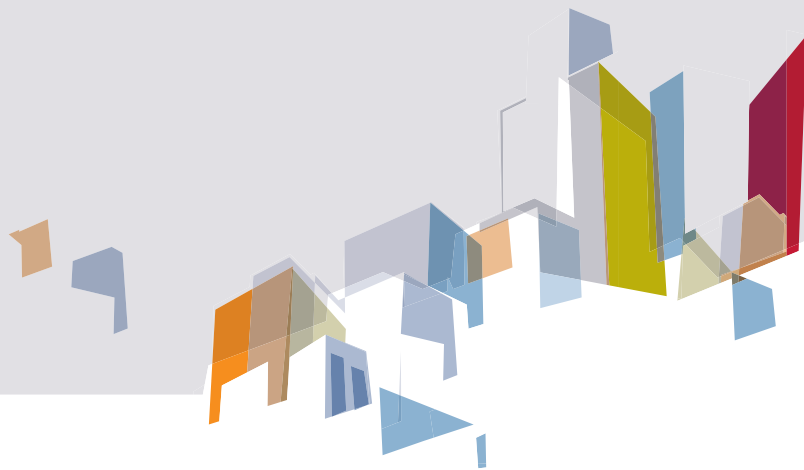
Statement of changes in equity

For the year ended 31 March 2009

	Ordinary share capital R'000	Share premium R'000	Grant capital R'000	Distributable reserves R'000	Total R'000
Group					
Balance 31 March 2007	842	879,158	200,000	905,169	1,985,169
Profit for the year	-	-	-	60,600	60,600
Balance 31 March 2008	842	879,158	200,000	965,769	2,045,769
At acquisition adjustment	-	-	-	5,031	5,031
Profit for the year	-	-	-	108,010	108,010
Balance at the end of the year	842	879,158	200,000	1,078,810	2,158,810
Company					
Balance 31 March 2007	842	879,158	200,000	899,206	1,979,206
Profit for the year	-	-	-	54,432	54,432
Balance at 31 March 2008	842	879,158	200,000	953,638	2,033,638
Profit for the year	-	-	-	107,514	107,514
Balance at the end of the year	842	879,158	200,000	1,061,152	2,141,152

Cash Flow Statements

For the year ended 31 March 2009



	Notes	Group		Company	
		2009 R'000	2008 R'000	2009 R'000	2008 R'000
Cash flows from operating activities		(122,856)	28,622	(124,707)	34,872
Cash utilised in operations	30.1	(294,551)	(149,646)	(304,282)	(142,744)
Interest received		240,501	212,530	243,497	211,878
Finance costs		(2,059)	-	-	-
Dividends received		158	79	158	79
Tax paid	30.2	(66,905)	(34,341)	(64,080)	(34,341)
Cash flows from investing activities		159,342	15,286	151,669	30,995
Additions to property plant and equipment	9	(877)	(903)	(837)	(903)
Decrease/(increase) in investments	15	164,207	(209,439)	162,506	(193,730)
Acquisition of subsidiary, net of cash acquired	5	1,012	-	(5,000)	-
Investment in associate	8	(5,000)	-	(5,000)	-
Proceeds from sale of investment in cell captive – Guardrisk	7	-	-	-	7,000
Purchase of shares in cell captive – Centriq	7	-	-	-	(7,000)
Proceeds on sale of bonds	31	-	225,628	-	225,628
Cash flows from financing activities		22,442	(50,901)	24,854	(50,901)
Increase/(decrease) in funds under management		24,854	(50,901)	24,854	(50,901)
Proceeds and repayments from borrowings		(2,412)	-	-	-
Net increase/(decrease) in cash and cash equivalents		58,928	(6,993)	51,816	14,966
Cash and cash equivalents at beginning of year		217,917	224,910	217,917	202,951
Cash and cash equivalents at end of year	16	276,845	217,917	269,733	217,917

Notes to the financial statements

For the year ended 31 March 2009

Group Accounting Policies

1. Corporate information

The consolidated financial statements of the National Housing Finance Corporation Limited ("NHFC") for the year ended 31 March 2009 were approved by the Board on 13 July 2009. 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 is 31 December and Cape Town Community Housing Company (Pty) Limited and Gateway Home Loans is 31 March. Similar accounting policies are applied across the Group.

2.1 Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2009.

Subsidiaries 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.

Subsidiaries are fully consolidated from 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, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

2.2 Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous year.

2.3 Summary of significant judgements, estimates and assumptions

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

2.4 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

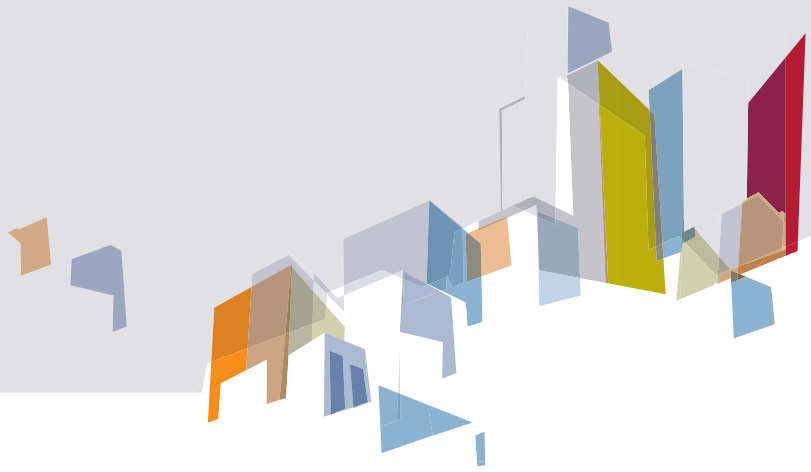
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those units.

Investment in subsidiary and cell captive

Investment in a subsidiary and a 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. Equity method has been ceased since the investment has been impaired to zero. NHFC only holds debentures in the joint venture, which are measured at cost less impairment.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes of Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The income statement reflects the share of the results of operation of the associate.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit after tax and minority interests in the subsidiaries of the associates is shown on the face of the income statement.

The financial statements of the associate are prepared for the same reporting period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on Group's investment in its associate. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

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

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

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

Properties developed for sale

Properties developed for on-selling are measured at the lower of cost and net realisable value.

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Development expenditure is capitalised and measured at cost, being all directly attributable cost necessary to prepare the property to be able to operate in the manner intended by management.

When properties developed for on-selling are sold, the carrying amount of those properties developed for on-

Notes to the financial statements

For the year ended 31 March 2009

selling is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of properties developed for on-selling to net realisable value and all losses of properties developed for on-selling is recognised as an expense in the periods the write-down or loss occurs. The amount of any reversal of any write-down of properties developed for on-selling, arising from an increase of net realisable value, is recognised as a reduction in the amount of properties developed for on-selling and recognised as an expense in the period in which the reversals occurs.

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.

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 marketplace.

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 costs 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 de-recognised 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

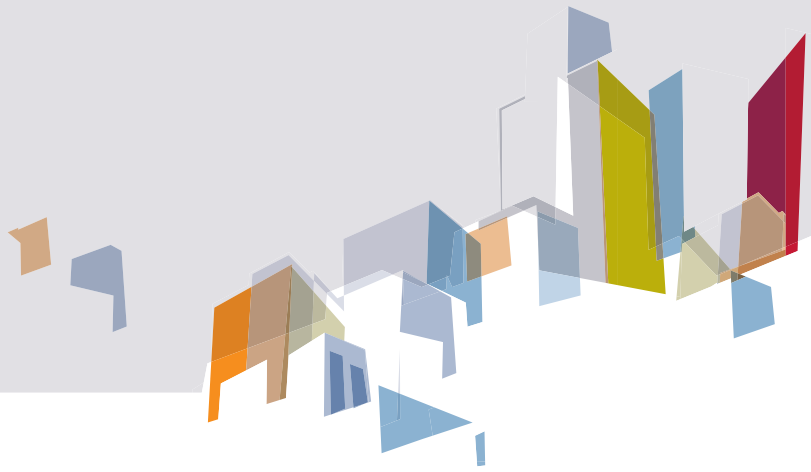
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid price at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques 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 and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Trade and other receivables

Other receivables are classified as originated by the Company. These are initially measured at the original invoice amount. Trade receivables are, subsequent to initial recognition, measured at amortised cost less provision for impairment. A provision for impairment of trade receivables is established where there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets carrying value and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.



Subsequent recoveries of the amounts previously written off are credited to the income statement.

Cash and short-term deposits

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

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

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

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 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 de-recognised when they are assessed as uncollectible. Interest income on impaired balances continues to be accrued using the rate used to discount the future cash flows for the purpose of measuring the impairment loss.

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.

Impairment of instalment sale receivables

Amounts due by clients under instalment sales, recorded as receivables, are net of the amounts provided for as Provision for Impaired Receivables. Non-performing instalment sale receivables are impaired for doubtful debts identified.

The impairment of non-performing instalment sale receivables takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. When an instalment sale receivable carried at amortised cost has been identified as impaired, the carrying amount of the receivable is reduced to an amount equal to the present value of expected future cash flows, including the recoverable amount of any collateral. The resulting loss is accounted for as a credit impairment of a financial asset in the income statement.

Financial liabilities

Other payables

Other payables are initially recognised at original invoice price and carried at amortised cost.

Notes to the financial statements

For the year ended 31 March 2009

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 de-recognised as well as through the amortisation process.

De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

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

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

Financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition 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, and 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.

Subsidies received in advance

Subsidies received prior to the period in which they are to be utilised or granted to a customer, are recorded as subsidies received in advance and disclosed under current liabilities.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

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.

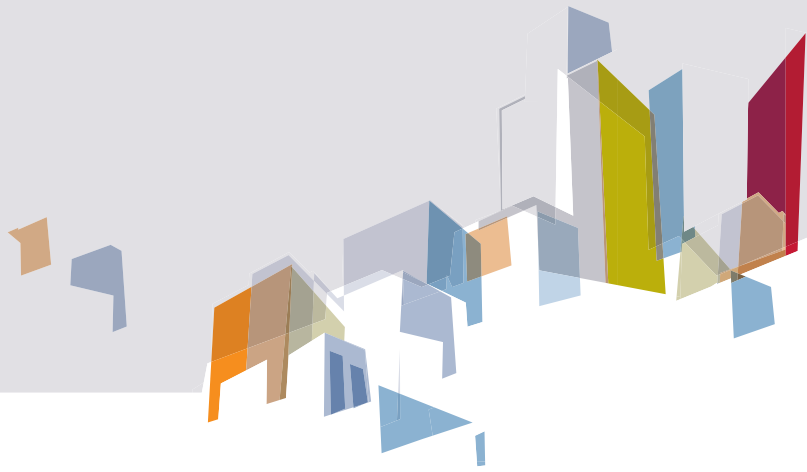
Group as lessee

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 investments, revenue from sale of houses, 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:



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 is accounted for on a straight-line basis over the lease terms.

Sale of houses

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

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

City of Cape Town, institutional and other subsidies

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

Government grants relating to expenses

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. The company has elected to offset the recognised income and expenditure relating to the grant.

Taxation

Current taxation

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

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 of any nature.

Notes to the financial statements

For the year ended 31 March 2009

Investment properties

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

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

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

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:

- **IFRS 3 Business combinations**

Effective for financial years beginning on or after 1 July 2009. IFRS3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future-reported results. IAS27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction.

- **IFRS 8 Operating segments**

Effective for financial years beginning on or after 1 January 2009. The new standard requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes.

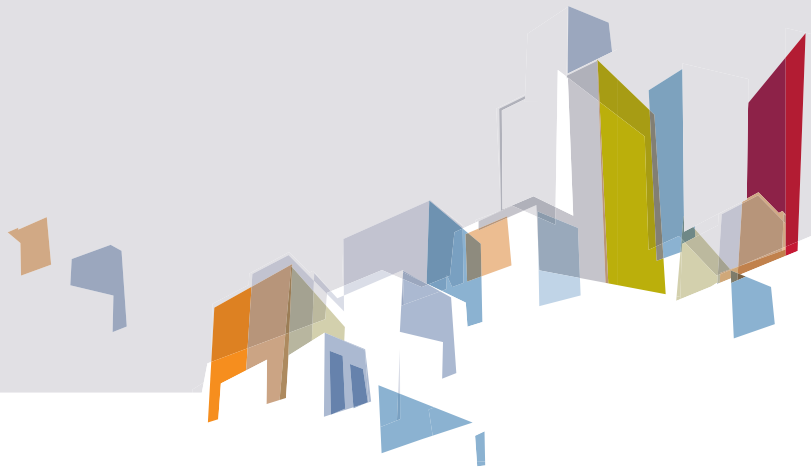
- **IAS 1 Presentation of financial statements**

Effective for financial years beginning on or after 1 January 2009. The statement requires information in the financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income.

- **IAS 23 Borrowing costs**

Effective for financial years beginning on or after 1 January 2009. The option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale will be removed.

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.



3. Loans and receivables – advances

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Gross advances				
Opening balances	986,127	924,489	986,127	910,364
Disbursements	434,735	249,084	434,735	249,084
Repayments	(292,690)	(166,589)	(230,246)	(152,464)
Amounts previously impaired, written off	(14,373)	(20,857)	(14,373)	(20,857)
Balance at the end of the year	1,113,799	986,127	1,176,243	986,127
Impairments on advances				
Balances at the beginning of the year	(56,642)	(77,909)	(56,642)	(63,784)
Amounts impaired in previous years and written off during the year	14,373	20,857	14,373	20,857
Increase in impairments on advances	(19,766)	(34,999)	(19,766)	(34,999)
Impairments reversed during the year	2,026	35,409	2,026	21,284
Balance at the end of the year	(60,009)	(56,642)	(60,009)	(56,642)
Comprising: specific impairments	(60,009)	(56,642)	(60,009)	(56,642)
Net advances	1,053,790	929,485	1,116,234	929,485
Maturity analysis				
Receivable within 1 year	421,680	167,737	421,680	167,737
Receivable within 1 to 2 years	228,520	148,186	228,520	148,186
Receivable within 2 to 3 years	212,216	136,873	212,216	136,873
Receivable beyond 3 years	191,374	476,689	253,818	476,689
Net advances	1,053,790	929,485	1,116,234	929,485
Non current assets	632,110	761,748	694,554	761,748
Current assets	421,680	167,737	421,680	167,737
	1,053,790	929,485	1,116,234	929,485

4. Investment in a subsidiary – Gateway

Gateway Homeloans (Proprietary) Limited is a wholly owned but non-trading subsidiary of National Housing Finance Corporation Limited. The recoverable amount of investment in Gateway is its fair value less cost to sell.

Shares at cost – ordinary shares
Less impairments

	Company	
	2009 R'000	2008 R'000
Shares at cost – ordinary shares	50,000	50,000
Less impairments	(47,608)	(47,551)
	2,392	2,449

Notes to the financial statements

For the year ended 31 March 2009

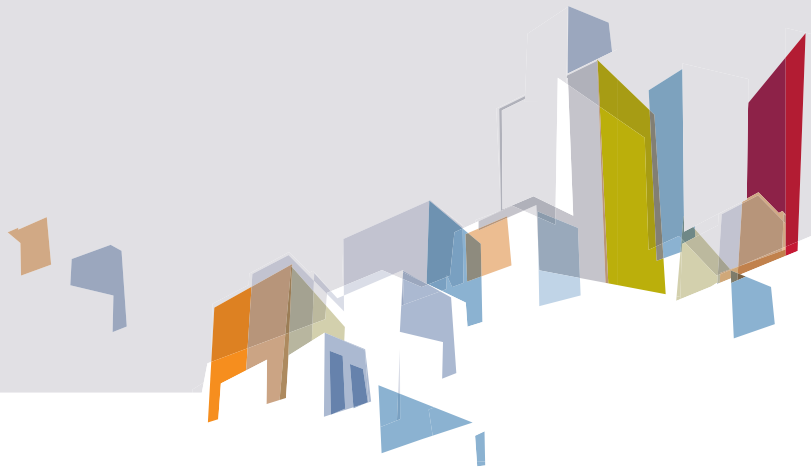
5. Business combinations

In August 2008, National Housing Finance Corporation increased its shareholding from 50% to 100% in Cape Town Community Housing Company. The company was previously jointly controlled with City of Cape Town and is involved in the low- to moderate-income housing market in the Western Cape.

The carrying value of identifiable assets and liabilities approximates its fair value. The fair value and carrying value of identifiable assets and liabilities of Cape Town Community Housing Company as at the date of acquisition were:

	Fair value recognised on acquisition R'000
Computer equipment	67
Office equipment	8
Furniture and fittings	27
Motor vehicles	101
Computer software	36
Net instalment sale receivables	50,144
Net direct sale receivables	6,336
Housing stock – repossessed units	224
Work in progress	27,715
Trade and other receivables	147
Bank and cash	6,012
Deposits and prepayments	219
Total assets	91,036
Debtentures	(19,045)
NHFC loan	(7,379)
DIGH funding	(9,818)
Land accruals	(6,311)
Trade and other payables	(5,872)
Short-term loans	(28,799)
Subsidies and funding received in advance	(12,384)
Total Liabilities	(89,608)
Net assets	1,428
50% Previously held	(714)
Total net assets acquired	714
Goodwill arising on acquisition	(2,714)
Total consideration	(2,000)
The total cost of the combination was R2 million and comprised a purchase of 2,000,000 shares at par value from the joint venture party, City of Cape Town. The company also purchased an additional 21,788,853 convertible debentures for R3million	
Cost	2,000
Cash outflow on acquisition	
Net cash acquired with the subsidiary	6,012
Cash paid	(5,000)
Net cash inflow	1,012

From the date of acquisition, Cape Town Community Housing Company has reported a loss of R2 120 395 from continuing operations, which is included in the profit for the year of National Housing Finance Corporation. If the combination had taken place at the beginning of the financial year, the loss for the year from the continuing activities of consolidated would have been R2 561 947.



5. Business combinations (continued)

Company

Investment in subsidiary – Cape Town Community Housing Company

In August 2008, National Housing Finance Corporation increased its shareholding from 50% to 100% in Cape Town Community Housing Company. The purchase consideration for the additional shares purchased is R2 million. The company also purchased an additional 21,788,853 convertible debentures for R3 million.

Reconciliation of investment in Cape Town Community Housing Company:

	2009 R'000	2008 R000
Shares at cost – ordinary shares	2,000	2,000
Accumulated impairment	(2,000)	(2,000)
Net book value of shares	-	-
Shares acquired during the year at cost – ordinary shares	2,000	-
Carrying amount of shares at 31 March	2,000	-
Debentures		
Non-convertible debentures at cost – issued prior to 31 March 2004	18,000	18,000
Non-convertible debentures at cost – issued prior to 31 March 2005	2,654	2,654
Non-convertible debentures at cost – issued prior to 31 March 2006	543	543
	21,197	21,197
Accumulated impairment	(18,000)	(18,000)
Balance as at 31 March 2008	3,197	3,197
Convertible debentures acquired during the year at cost	3,000	-
Carrying amount of debentures	6,197	3,197
Total investment in subsidiary	8,197	3,197

The National Housing Finance Corporation has subordinated their claims against the company in respect of the debenture finance in favour of other creditors of the company.

6. Investment – Preference shares

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Greenstart (Proprietary) Limited	2,500	2,500	2,500	2,500
Net investment in unlisted preference shares	2,500	2,500	2,500	2,500

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) Ltd 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.

7. Investment in a cell captive

	Company	
	2009 R'000	2008 R'000
Unlisted investments		
Centriq Insurance Company Limited		
Shares at cost	7,000	7,000
100% investment in cell captive		

Notes to the financial statements

For the year ended 31 March 2009

8. Investment in associate

Group

During the year the National Housing Finance Corporation acquired a 50% interest in Housing Investment Partners, which is involved in the development and marketing of the income-linked home financing instrument. With the entry of a third shareholder the interest of the National Housing Finance Corporation has since been diluted to 25%.

The following table illustrates the summarised financial information of National Housing Finance Corporation's investment in Housing Investment Partners:

	2009 R'000	2008 R'000
Share of the associate's balance sheet:		
Current assets	3,058	-
Non-current assets	1,281	-
Current liabilities	(35)	-
Non-current liabilities	-	-
Net asset	4,304	-
Carrying amount of the investment in company	5,566	-
Share of the associate's loss	(1,262)	-
Carrying amount of the investment	4,304	-
Company		
The following table illustrates the summarised financial information in the company's books:		
Investment in shares	5,000	-
Profit on dilution of investment	566	-
Carrying amount of the investment	5,566	-

9. Property, plant and equipment

Group	2009			2008		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Computer equipment	7,167	(6,316)	851	5,707	(4,967)	740
Computer software	4,797	(4,584)	213	4,612	(4,388)	224
Furniture and fittings	3,004	(2,886)	118	2,719	(2,561)	158
Motor vehicle	255	(161)	94	104	(104)	-
Office equipment	719	(574)	145	470	(378)	92
Leasehold improvements	421	(354)	67	293	(293)	-
Total	16,363	(14,875)	1,488	13,905	(12,691)	1,214

Reconciliation of property, plant and equipment for group – 2009	Opening balance	Acquisition of subsidiary	Additions	Disposals	Depreciation	Total
Computer equipment	740	67	564	-	(520)	851
Computer software	224	36	79	-	(126)	213
Furniture and fittings	158	27	28	-	(95)	118
Motor vehicle	-	101	-	-	(7)	94
Office equipment	92	8	79	-	(34)	145
Leasehold improvements	-	-	127	-	(60)	67
Total	1,214	239	877	-	(842)	1,488

Company	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Computer equipment	6,264	(5,453)	811	5,707	(4,967)	740
Computer software	4,686	(4,492)	194	4,612	(4,388)	224
Furniture and fittings	2,741	(2,645)	96	2,719	(2,561)	158
Motor vehicle	104	(104)	-	104	(104)	-
Office equipment	529	(409)	120	470	(378)	92
Leasehold improvements	421	(355)	66	293	(293)	-
Total	14,745	(13,458)	1,287	13,905	(12,691)	1,214

Reconciliation of property, plant and equipment for company – 2009	Opening balance	Additions balance	Disposals	Depreciation	Total
Computer equipment	740	556	-	(485)	811
Computer software	224	73	-	(103)	194
Furniture and fittings	158	22	-	(84)	96
Motor vehicle	-	-	-	-	-
Office equipment	92	59	-	(31)	120
Leasehold improvements	-	127	-	(61)	66
Total	1,214	837	-	(764)	1,287

Reconciliation of property, plant and equipment – 2008	Opening balance	Additions balance	Disposals	Depreciation	Total
Computer equipment	566	572	-	(398)	740
Computer software	58	236	-	(70)	224
Furniture and fittings	259	11	-	(112)	158
Motor vehicle	3	-	-	(3)	-
Office equipment	39	84	-	(31)	92
Leasehold improvements	-	-	-	-	-
Total	925	903	-	(614)	1,214

Fully depreciated assets that are still in use amount to R9.6 million.

Chief Executive Officer's Report

Financial review

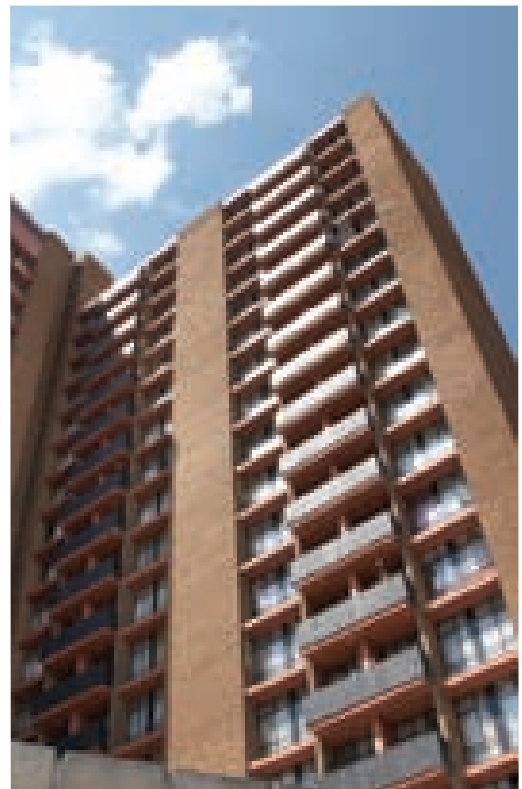
Operational sustainability

The increased disbursements during 2009 and higher interest rates that prevailed during the year, resulted in the Corporation reporting operational profits, excluding investment income. For the year disbursements increased from R249 million in 2008 to R511 million in 2009.

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Changes in housing institutions landscape

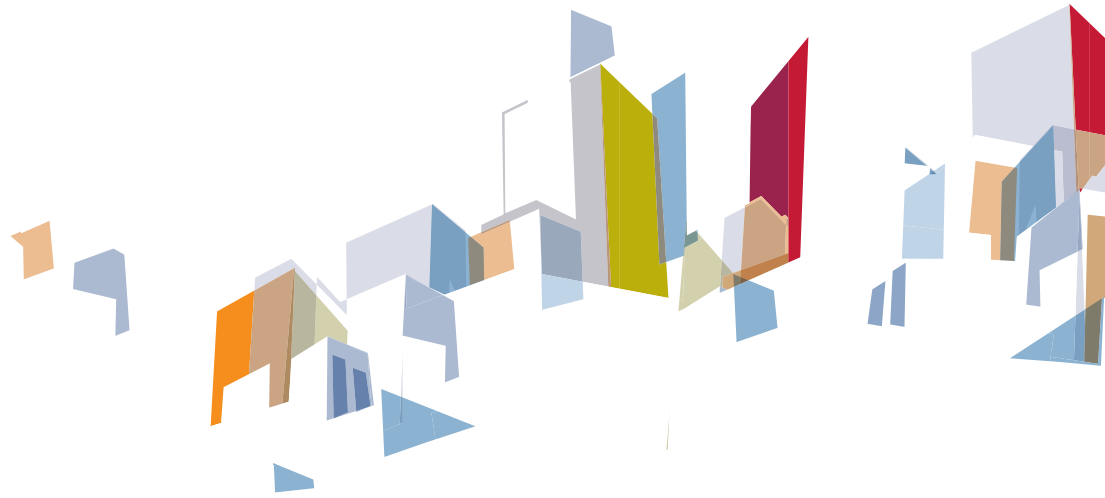
The end of the first era of housing institutions sees Servcon, Thubelisha and the Social Housing Foundation ("SHF") being phased out. The Housing Development Agency ("HDA") has been incorporated and is expected to have a very beneficial impact on housing delivery by packaging well located and appropriately serviced land for integrated housing projects. This will address what has been a serious impediment to scale delivery of housing. The NHFC will, though not exclusively, benefit from the complementary role that HDA is envisaged to fulfil.



Future outlook

In 2010 the NHFC will, in order to fulfil its mandate:

- finalise the reclassification from a 3A to a 3B entity. This will allow NHFC, with the necessary support from the shareholders, to also attract funding, outside of government, for its future operations;
- disburse R909 million in the 2010 financial year, to fund over 10 000 housing units and a similar number of home improvement loans;
- focus on funding rental initiatives in line with the National Rental Strategy; and
- ensure that its funding and services are made available to all provinces in response to their identified needs and in support of the pro-poor stance of Government.



Appreciation

Dr Sisulu now leaves housing, but the impact of her term of office will be evident in many ways, not least in the retail products of NHFC and the broadened mandate of the Corporation. Her drive and focus on delivering more innovatively to meet the housing demand of poorer South Africans has been unrelenting and imbued all with the understanding that, with hard work, everything is possible.

To our Board Chairman and his professional and competent fellow directors, my sincere thanks. All Board members demonstrated commitment to the tasks at hand and management is strengthened by their input. I have been supported through challenging times with their wise counsel and immediate responses, and this directly contributed to the achievement of improved impact.

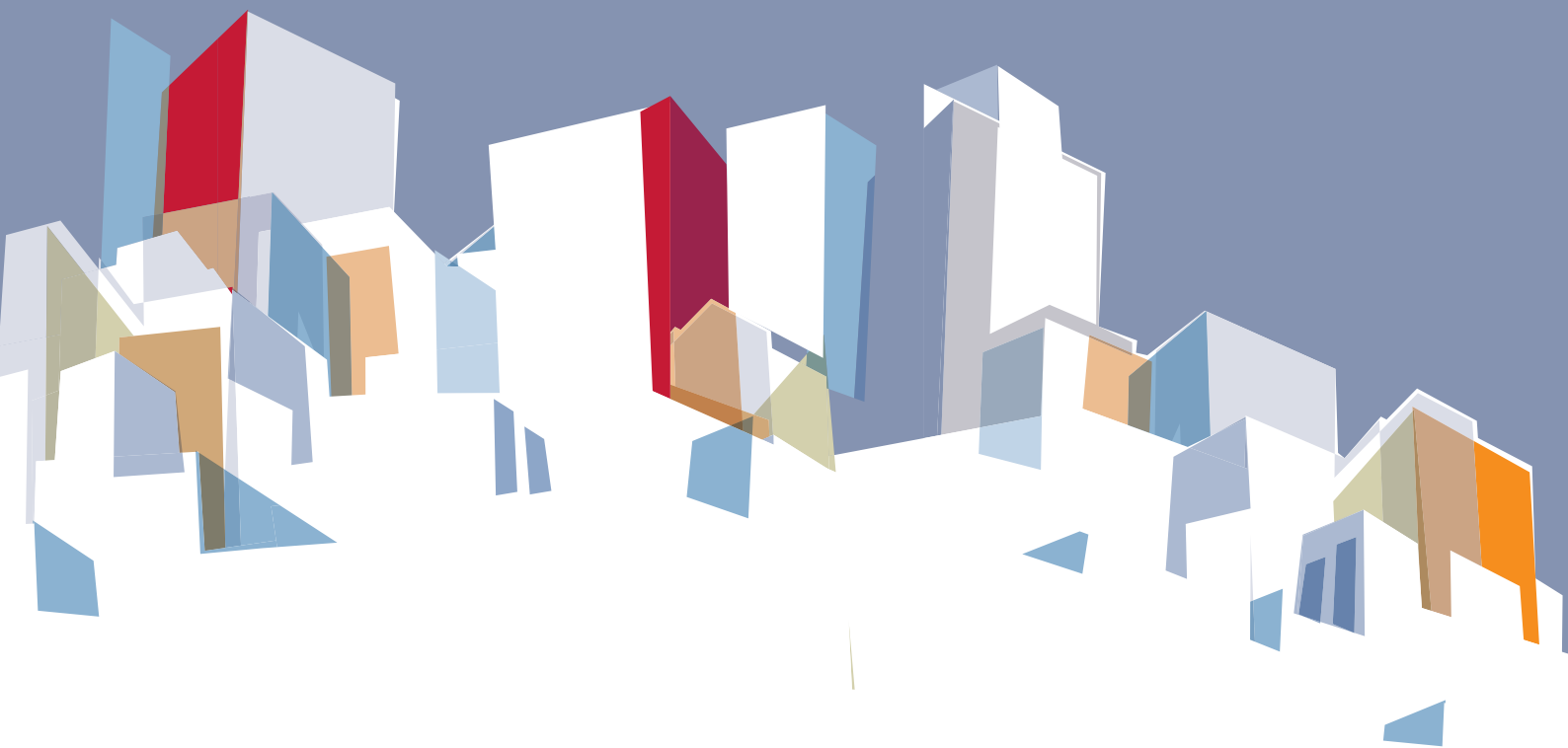
We bade farewell to Mr Brian Kgosi, the IT Executive, and Mr Gavin Long, the Credit Executive, and wish them well in their new endeavours. Needless to say, without all the employees of the Corporation working together, our accomplishments would have been fewer and once again, I thank each and every one of them for their contribution and I expect them to rise to the challenges of the Human Settlement's impact expectations.

We look forward to working with the national Minister of Human Settlements, Mr Tokyo Sexwale, and his department, to significantly reduce the backlog in housing, especially among the low-income household communities.

A handwritten signature in black ink, appearing to read 'SS Moraba', positioned above the name and title.

SS Moraba
Chief Executive Officer

Sustainability Report



NHFC is a financier to long-term partners and needs to address issues, other than profit, for its sustainability. It has to be adherent to proper business practices and values to ensure its financial sustainability and longevity.

Social Impact

The clients who obtain funding from NHFC cover a wide spectrum of participation in low- to middle-income housing and need different levels of support and attention.

In the wholesale arena we have:

- Intermediaries, providing housing improvement loans and mortgage bonds.
- Developers building homes for people requiring fully subsidised homes to GAP housing, particularly in integrated developments.
- Social housing institutions using institutional subsidies to provide long-term rental options for lower-income earners falling into the NDoH subsidy range.
- Community rental landlords focusing on transitional and very low-income rental housing, often in shared accommodation.
- Private rental landlords mainly targeting innercity regeneration projects housing low- to middle-income households.
- Individual home owners making use of our retail products.

The needs of each of the customers are different and the staff of NHFC are expected to address these in a professional and appropriate manner.

Job creation

Housing development by its nature gives rise to job opportunities, short-term during construction and longer-term through service provision in retail, schooling and healthcare. The NHFC expects clients to employ local labour in their projects funded by the Corporation.

Corporate social responsibility ("CSR")

NHFC is expected to assist in many housing-related initiatives such as participating in the Govan Mbeki Housing Awards of the NDoH, providing input into the assistance granted to the DRC on housing through multilateral agreements, etc.

Staff participate in house-building projects in various provinces, such as those for Habitat for Humanity, Mens Build, etc. as this exposes them to the practical challenges of housing delivery.

The challenges for delivery require the Corporation to develop a Corporate Social Investment Policy that will be implemented in 2010, providing the focus for budgeted expenditure on CSI.

Procurement

NHFC has a comprehensive procurement policy and related database of suppliers. It conforms to the PPPFA and is specific about BEE requirements in all procurement processes.

Government and regulators

As a public entity, NHFC is required to implement and adhere to strict governance principles in line with PFMA and other applicable legislation.

During the current year it has developed and enforced a compulsory framework with regulatory prescriptions for compliance. This has been enforced on all employees, regardless of the growth impact of the broadening mandate.

NHFC actively participates in reviewing and commenting on relevant new policies and laws affecting its business.

Sustainability Report

Environmental impact

As this aspect of business becomes more and more demanding, NHFC has continued its involvement in various ways.

A symposium on environmental issues was co-sponsored with AFD in November 2008 and the Corporation is also involved with partners in an innovative housing product competition that will see 34 homes being built, adhering to new and environmentally friendly standards.

The research unit of NHFC participates in various fora to keep the Corporation informed of environmental issues.

All building projects are expected to have an approved environmental impact assessment as required by law before funding is approved.

Economic impact

In the past NHFC was often the only funder to intermediaries and institutions but as they became sustainable businesses, they have been able to attract additional sources of funding aided and supported by the NHFC.

NHFC, with its developmental mandate, has still to be financially sustainable although the shareholder does not demand commercial returns. It is however a tax-paying entity.

Human resources

Introduction

The South African HR environment is impacted by the economic downturn in terms of employee morale and sense of security as industries retrench employees.

The opportunity presented by this period is to harness the gains of the past in areas like improving productivity levels (through coaching and mentoring employees), giving stretch assignments for employee development (leadership and technical), retention (ensuring implementation) and focusing on employee wellbeing.

For HR, efficient utilisation of our human capital becomes a key deliverable. We need to fully utilise current resources, before we consider recruiting. This requires a robust performance and cost-monitoring culture.

Human capital attraction

Employee movement

The NHFC has developed and follows recruitment strategies to hire the best talent and to utilise its resources optimally.

Staff turnover was 13.9%, the highest in three years. Most (55%) of the people who left, were in the professional categories, all citing better prospects in their target companies. The challenge is to design innovative packages that will be competitive and retain staff.

Human capital development

The Corporation trained 50% more staff than it had committed to in the Workplace Skills Plan. 75% of NHFC employees received some training.

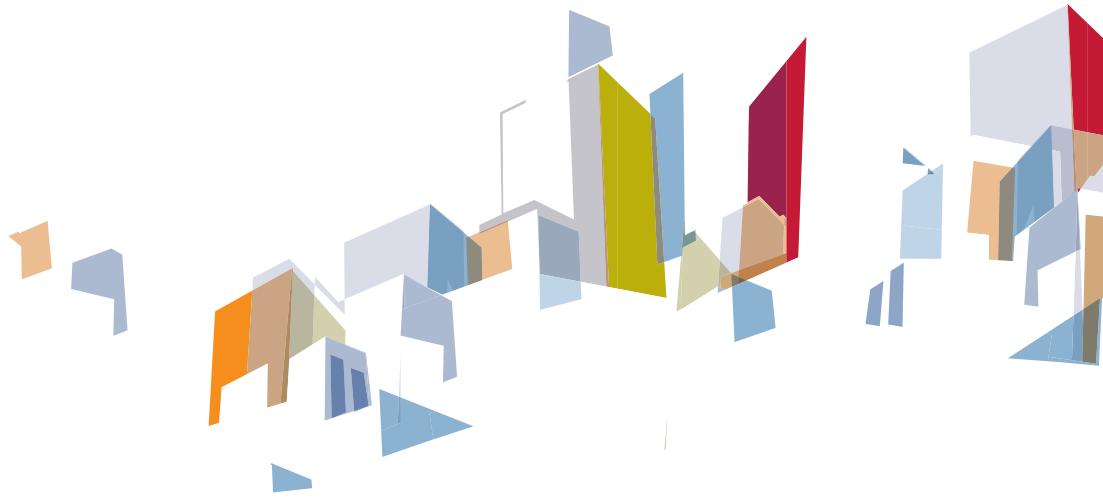
The major development gap identified was in leadership and therefore the bulk (80%) of the training budget was spent in this area.

Training in the next financial year will be geared towards technical skills.

Employee retention and succession planning

Employee retention is an increasingly important challenge for business. The move to a knowledge-based economy in the 21st century has brought about unprecedented levels of employee mobility and the challenge to retain key staff has intensified. The NHFC as an organisation is not immune to such staff mobility.

As a result, the Corporation developed and is currently implementing a retention strategy, which is aimed at ensuring that its key employees are retained.



Only two incidents were reported during the year but these did not warrant reporting to the Workman's Compensation Commissioner in terms of the Act.

Employment equity

The employment equity ratios within the NHFC mirror the national demographics. Currently there is a 77% African, 7% White, 10% Coloured and 6% Indian representation among employees. There is a 54% : 46% ratio of females to males. The NHFC is working towards a 50%:50% gender representation in the workplace. The current employment equity plan is being rigorously monitored to ensure that this balance is achieved.

Employee relations

NHFC remains a conducive labour relations environment where employees are free to express their views. This is reflected in the mood of the employees, which translates to performance.

Health and safety

The Occupational Health and Safety Act, 1993, requires the employer to bring about and maintain, as far as reasonably practicable, a work environment that is safe and without risk to the health of the workers.

The National Housing Finance Corporation continuously monitors safety in the workplace. The Health and Safety Committee meets regularly to report on workplace incidents.

Corporate Governance



The Board reaffirmed the Corporation's commitment to sound governance and practices, particularly to the principles set out in the second King report on Corporate Governance Practices and Conduct ("the Code") and it is of the view that the Corporation substantially complies with it. The Corporation conducts its business within prudent risk parameters and aligned with best practices for public entities. Policies and practices are reviewed to reflect internal developments and to ensure that the business is well-managed.

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

NHFC Board governance structures and framework

The Corporation is committed to ethical business conduct 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 and commits Management and staff to high standards of conduct in their dealings with the Corporation's clients and stakeholders.

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

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 Human Settlements ("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 Business Plan for the 2008/09 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 79 and 80 of the annual report.

Although the NHFC as a Schedule 3 (A) public entity is not bound to the Protocol on Corporate Governance in the Public Sector, nor required to enter into a Shareholder Compact with its shareholder, such a Compact was developed with NDoH and approved by the Board on 27 November 2008. It was however decided that the Compact would be implemented from the 2009/10 financial year.

Corporate Governance

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 Chief Executive Officer (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.

Founding documents

The NHFC and its external legal advisors have commenced with reviewing its founding documents during the year under review. The NHFC's broadened mandate should, once it is formalised, and its amended borrowing powers, once the Corporation is reclassified from a Schedule 3(A) National Public entity to a Schedule 3(B) National Government Business Enterprise, be incorporated into its founding documents.

The review was suspended as a full overhaul of the NHFC's founding documents would be wasteful as the new Companies Bill, which was signed by the President on 8 April 2009 requires the NHFC to review and align its governing documents with the Act, once promulgated.

Composition of the Board

The Board was appointed by the Minister in the capacity as Shareholder representative and now comprises 11 members, the details of whom are reflected on page 9 of this annual report. The directors are all non-executive, with the exception of the 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.

At its meeting held on 27 November 2008, the Board requested nominations to fill the two vacancies which resulted from Ms Ndziba Dikgole's passing away on 4 August 2008 and Mr Enoch Godongwana's unavailability since being appointed a member of Parliament. Nominations were forwarded to the Minister of Housing and the appointments will be made in the new financial year.

Subsequent to year end the Minister approved the appointment of three additional directors: Mesdames P Ramamuro; A Houston and Mr J Coetzee.

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

Board meetings and procedures

The Board meets five 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 from the discussion of that item, unless the Board resolves that the declared interest is trivial or irrelevant.

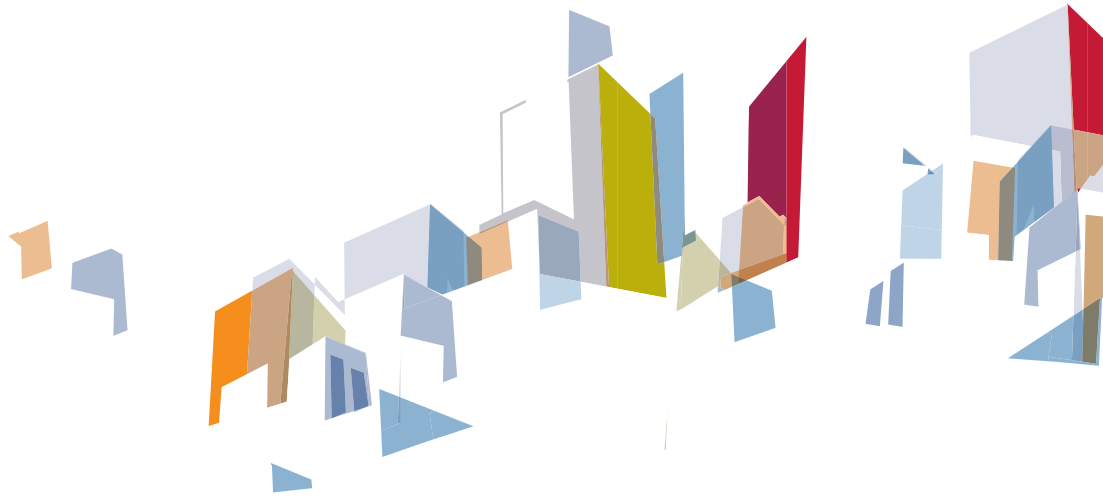
The Board's role

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:

- approving the strategy, business plan and budget and monitoring Management closely in the implementation thereof; 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 Management's Delegated Authority from the Board.



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.

Board assessment

An external service provider commenced with an appraisal of the Board, Board Committees and individual Directors towards the latter part of the 2008/09 financial year and would report the outcome to the full Board at its first meeting of the 2009/10 financial year.

Board Committees

The Board delegated certain matters to the Audit and Risk, Board Credit and Investment as well as Human Resources, Ethics and Remuneration Committees, but reserved the power to approve credit applications in excess of R100 million to itself. The minutes of the respective Committees are tabled and the respective Chairmen report back to the Board at the immediate following Board meeting.

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

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.

The A&R Committee oversees financial reporting, internal controls, funding plans and strategies, compliance, corporate governance and policies. It 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 five times a year or more frequently if circumstances so require and meetings are attended by the External and Internal Auditors as well as the CFO and COO.

Board Credit and Investment Committee ("BCIC")

BCIC comprises four Non-executive Directors and the CEO. The members are Ms Makiwane (Chair) and Messrs Middleton, Moraba and Tati and it meets four times a year or more frequently if circumstances so require. BCIC meetings are attended by the Executive Manager: Projects to present the credit application and the Executive Manager: Credit to deal with Credit's appraisal and recommendation to the Committee. BCIC meetings are also attended by the CFO, the Legal Services Manager and the COO.

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.

Corporate Governance

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

Human Resources, Ethics and Remuneration Committee ("HRER")

HRER comprises two Non-executive Directors and the CEO. The members are Messrs Middleton (Chair), Moraba and Ntsaluba. Committee meetings are attended by the Executive Manager: Human Resources.

HRER is charged with the oversight of the Human Resources Policies and Strategies, including retention and succession planning, remuneration for staff and Management and the development and implementation of the Code of Ethics. HRER approved a Business Conduct Policy, Occupational Health and Safety Policy and Code of Ethics at its meeting held on 26 March 2009.

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.

Management Committees

Executive Management Committee ("Exco")

Exco comprises of the Executive Managers reflected on page 10 of the annual report who assist the CEO in managing the day-to-day business of the Corporation within the powers delegated to them by the Board. Exco is also accountable for formulating the Corporation's strategy and implementing it once approved by the Board.

Credit Decision-making Committees

Internal Credit Committee ("ICC")

All credit applications are submitted to the Credit Division, which conducts a thorough assessment of the risks associated with the particular application and make a recommendation to ICC.

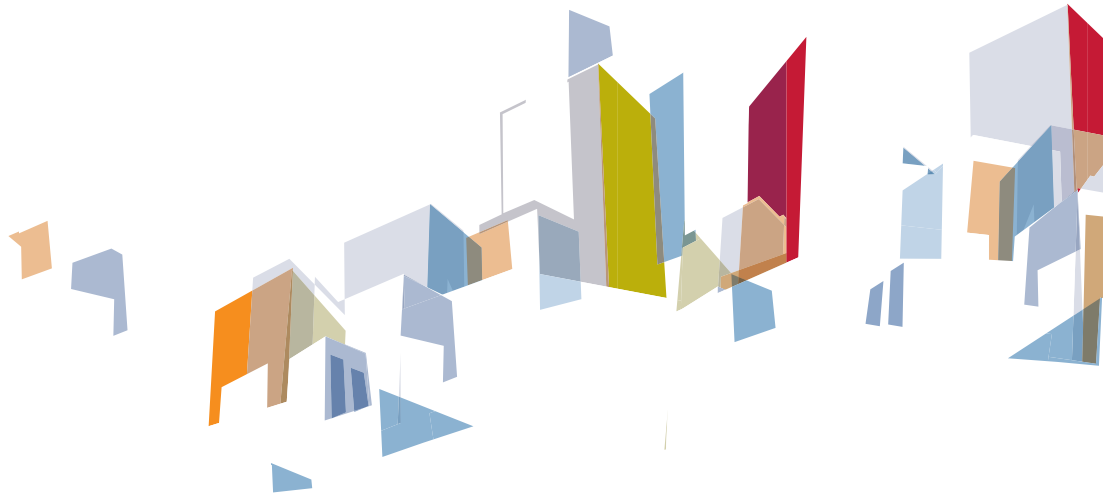
Board and Board Committee Record of attendance

	Category	Board		Audit & Risk		BCIC		HRER	
Number of meetings		5		9		4		6	
Prof M M Katz	Chair	✓	4						
Mr S S Moraba	CEO	✓	5			✓	4	✓	6
Mr C Ball	Non-executive Directors	✓	4						
Mr E Godongwana ¹		✓	1			✓	0		
Dr S J Khoza		✓	4	✓	6				
Ms N E Makiwane		✓	2			✓	4		
Mr T A Middleton		✓	5			✓	3	✓	6
Ms T Ndziba ²		✓	1					✓	1
Mr S S Ntsaluba		✓	3	✓	9			✓	4
Mr S A Tati		✓	5	✓	8	✓	3		

✓ Reflects membership

¹ The Board noted at its meeting held on 27 November 2008 that Mr Godongwana was appointed a member of Parliament and would no longer be available to serve on the Board.

² Ms Ndziba passed away on 4 August 2008



ICC is chaired by the Executive Manager Credit and comprises the Assistant Executives: Credit and Credit Administration and Legal Manager.

ICC evaluates loan applications and submits recommendations to the CEO or the Management Credit Committee ("MCC"). The CEO has authority to approve loan facilities for any amount below R10 million. Loan facilities approved by the CEO and the ICC minutes are submitted to MCC for noting.

The Board has 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.

Management Credit Committee ("MCC")

MCC, a subcommittee of BCIC is chaired by the CEO and meets when required. MCC comprises a co-opted industry specialist, the Executive Manager: Credit, the CFO, Assistant Executive Manager: Credit, the Legal Services Manager whilst the Executive Manager: Projects and the COO attend.

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.

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

Subcommittees of Exco

Procurement Committee

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

The Board has 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.

Retail Executive Committee ("Rexco")

Rexco was constituted in January 2009 to deal with matters concerning the day-to-day management and guide the overall direction of the business of the Retail Division.

Rexco is chaired by the Managing Executive: Retail and comprises of the Retail Executive Managers (COO and Sales Executive), CFO, COO and Executive Managers, Credit, Marketing and IT.

Safety and Security Committee meeting ("SASC")

SASC's main objective is to oversee the management of the health, safety, and security practices and monitor the compliance, with relevant legislation, within the Corporation. SASC is chaired by the Executive Manager: Human Resources and comprises two members of the Executive Committee, two members of a Health and Safety Committee Subcommittee, a legal representative, one representative from the Compliance Unit as well as one staff member nominated by the Committee on the basis of his/her understanding of safety and security issues within the organisation.

Financial Risk Management Committee ("FRMC")

FRMC is chaired by the CEO and comprises the CFO, the COO 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.



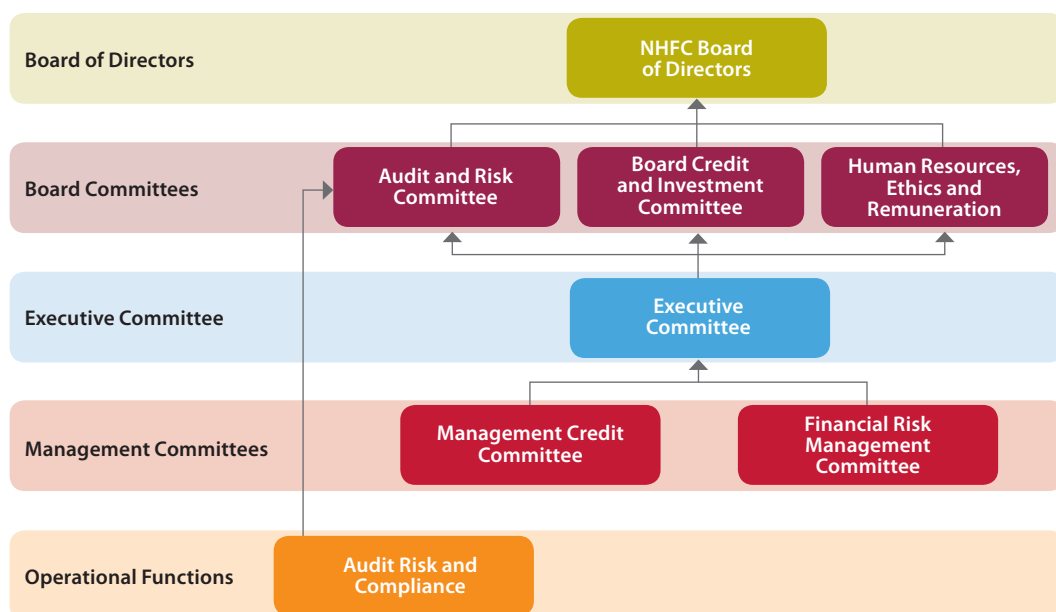
Risk Management Report

Risk management governance structures and accountability

The Board approved an Enterprise-wide Risk Management (EWRM) Framework and Plan 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 their division. The CFO oversees the EWRM function and submits quarterly reports to the Audit and Risk 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:



Risk Management Report

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

Key risk categories

Strategic

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

Strategy and objectives are aligned with the mandate and a business plan is in place to ensure that strategic objectives are achieved. The business plan is approved by the Shareholder and strong governance and reporting structures are in place to monitor delivery against it.

Credit

Credit risk arises when a counterparty to a financial transaction fails to meet its obligation in accordance with the agreed terms and conditions of the contract, either because the counterparty is experiencing financial distress, or there is a decrease in the fair value of the ceded securities.

Credit risk is incurred in the lending activities of the Corporation, through its three operating divisions, being Projects, Commercial and Retail.

Framework and governance

Credit risk is the Corporation's most material risk and it is managed in accordance with comprehensive policies and processes that ensure adequate identification, measurement, monitoring, control and reporting of credit exposures.

The objective is to ensure a sound credit risk management environment with appropriate credit-granting, administration, measurement and monitoring through the implementation of adequate risk management control.

The functional responsibility for credit risk across the Corporation's lending activities resides with the Executive Manager: Credit, who reports to the Chief Executive Officer. The Management Credit Committee ("MCC") is accountable for the oversight of the credit function and the management of credit risks. It is chaired by the CEO and reports to the Board Credit and Investment Committee (BCIC).

All committees have clearly defined mandates, memberships and delegated authorities that are regularly reviewed. During the year under review, an Internal Credit Committee ("ICC") was formed to improve the effectiveness of the credit and business decision-making.

ICC considers applications for loans up to R10 million and recommends them to the CEO for his approval in line with the authorities delegated to him.

Credit committees and their mandates:

Committee structure	Authority limit	Mandate
The NHFC Board	Above R100 million	Approve
Board Credit and Investment Committee	Up to 100 million	Approve
Management Credit Committee	Up to R30 Million	Approve
Internal Credit Committee	Up to R10 million	Recommend

The credit risk management process

Credit planning

The credit risk management process starts at the Corporation's strategic planning phase, where, among other things, the Corporation's risk appetite is reviewed in line with the strategic plan of the period under review and the Corporation's developmental mandate. Key considerations are, to:

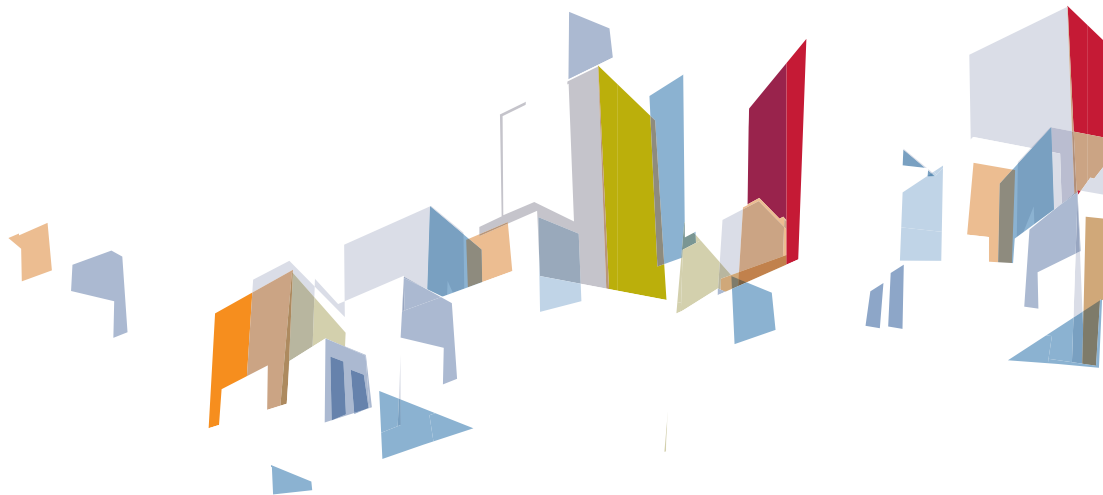
- provide confidence in the ability of NHFC to continue to deliver impact in line with the Corporation mandate;
- retain strategic flexibility;
- avoid losses which would materially affect delivery on its broadened mandate; and
- reflect the principal risk factors potentially affecting the Corporation.

Credit risk control requirements

Wholesale credit control framework

Credit risk acceptance process at origination

The NHFC has implemented a thorough credit risk acceptance process, including robust assessment and monitoring procedures at individual counterparty level, to generate quality credit assets, relative to the risk/reward inherent in the transaction.



The credit assessment process is underpinned by credit policies and procedures, and any deviation is escalated to the relevant sanctioning authority.

Credit risk measurement

The NHFC Credit Department takes a consistent approach in the identification, measurement, recording, monitoring and management of risk, by adopting a common framework and language, and continually:

- subjecting credit risk processes and systems to rigorous testing (including peer review) to ensure that they are fit for the purpose of identifying all expected and unexpected losses on both counterparty and portfolio level;
- identifying and accurately recording gross and specific provisions using processes and methodologies that are aligned to the economic substance of the underlying asset; and
- validating the credit risk control framework to ensure that credit policies and models remain relevant to the changing market dynamics and the NHFC strategy.

Portfolio management

The NHFC has established controls that regulate the growth and composition/profile of the NHFC credit assets, encompassing both the new and existing assets in accordance with the NHFC risk appetite. These will include prudential limits and exposures to a specific counterparty and or project, etc.

The NHFC manages credit risk by taking cognisance of market liquidity, customer sentiments and implied expectations of our broadened mandate.

Turn Around and Work Out

The NHFC adopted a "Turn Around and Work Out" framework to manage wholesale exposures that are irregular, and/or are showing signs of financial distress to support optimal recoveries of monies owing to the NHFC. The framework is used to:

- initiate, with other internal business units, a business solution, i.e. how the irregularity can be resolved;
- interact with other stakeholders (i.e. management, shareholders, the Board, other banks or creditors in consortiums) in order to facilitate arriving at common ground with regard to the way forward;

- implement the approved business solution;
- evaluate the appropriateness of the approved business solution during implementation and amend if necessary; and
- deliver relevant and accurate information to influence the effective management of NHFC exit strategy from the distressed operations.

The retail credit risk control framework

Overview of the Retail credit process

Credit views Retail assets broadly as a series of high-volume and low-value propositions. Decisions are therefore automated through credit-scoring models supplemented by policy and business rules, taking the place of the judgement of credit risk professionals. This ensures a high level of objectivity and consistency in decision making at the point of origination. Similarly, system overrides and/or any judgemental decision-making are controlled to ensure that similar levels of consistency and objectivity are maintained by the Executive Manager – Credit.

Retail assets are homogeneous and largely organised and managed at a portfolio level. The NHFC has developed a control framework around each element of the retail credit value chain.

Risk control framework on credit value chain

Initial assessment

The NHFC uses the credit management policy and statistically developed scoring models to support the credit assessment. Decision to accept or reject a credit application considers:

- customer creditworthiness;
- customer affordability;
- quality of the house;
- other collaterals; and
- overall portfolio mix.

Account management

All accounts which are accepted into the portfolio are subjected to continuous monitoring and analysis. Ongoing account management is aligned to clear credit policies and to inform changes in the credit profile and/or product and/or pricing.

Risk Management Report

Collections

The NHFC uses a framework to identify, monitor and manage credit exposures to counterparties that display signs of financial distress, by:

- deploying specialist technology and risk management for the effective and efficient treatment of the distressed assets; and
- employing external debt collection agencies to complement and, where necessary, substitute inhouse operations.

Recoveries

The key objective for placing accounts in recoveries is to ensure the most cost-effective recovery of the outstanding debt. NHFC maintains a relationship with a panel of external debt collectors to complement or substitute internal operations.

Write-offs

Once an asset is considered irrecoverable, the outstanding debt is written off. Processes to consider selling the written-off outstanding debt are being developed to ensure optimal recoveries.

Portfolio impairments

The Corporation applies an internally developed, internal risk classification (IRC) process to provide early warning indications of impairments.

The purpose of the IRC is to determine:

- the classification of all direct and indirect extensions of credit;
- asset quality;
- distribution of assets based on profitability; and
- distribution of loans and advances in accordance with selected geographical areas.

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 Corporation will not be able to collect all the amounts due under the original terms of the advance. The carrying amount of advances is reduced through use of an impairment process.

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 the 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 calculated at initial recognition), and the amount of the loss is recognised in profit or loss.

Impairment debts are de-recognised 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 impaired loss.

Credit quality of loans and receivables

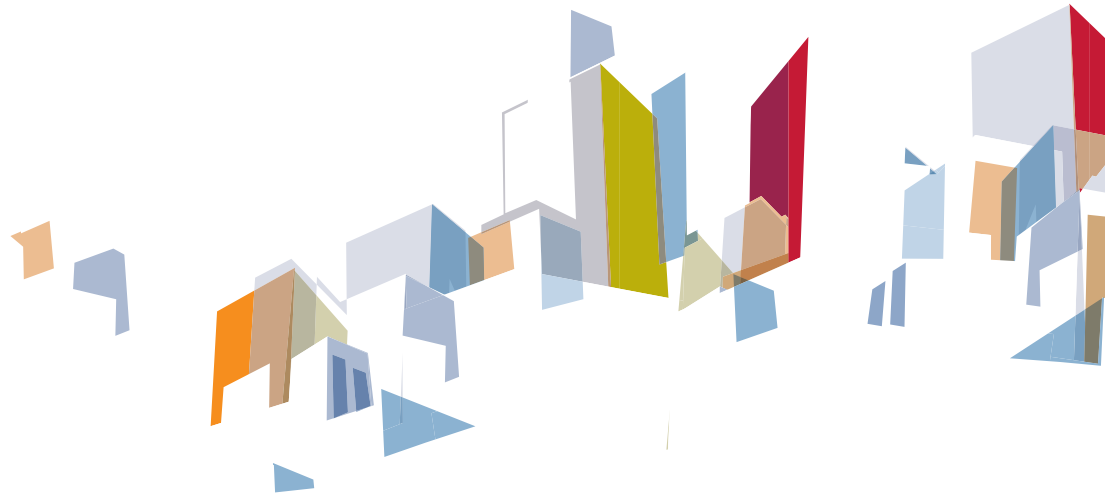
	2009 R'000	2008 R'000
Neither past due nor impaired	840,286	869,315
Past due but not impaired	128,008	19,167
Impaired	145,505	97,645
Total	1,113,799	986,127
Less: Specific impairments	(60,009)	(56,642)
Net advances	1,053,790	929,485

Ageing analysis of advances that are past due, but not impaired:

	Total	30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2009	128,008	34,701	7,234	685	36,941	48,447
2008	19,167	968	802	764	4,376	12,257

Concentration risk by operations

- Commercial 33.6%
- Projects 66.1%
- Retail 0.3%



Credit quality and concentration of 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.

Counterparties with external credit ratings:

- Held to maturity money market investments: 1,229,631
- Cash and short-term deposits: 276,825

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 subcommittee 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 relate to 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 the 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.

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	2009 Effect on profit before tax R'000
Loans and receivables	1%	14,349	9,295
Loans and receivables	-1%	(14,349)	(9,295)
Investments	1%	15,065	16,118
Investments	-1%	(15,065)	(16,118)
Funds under management	1%	5,211	4,963
Funds under management	-1%	(5,211)	(4,963)

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, at present, has a strong capital base and significant cash and investment resources. The Corporation plans to mobilize funding to support its strategic objectives in the future. 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.

Risk Management Report

Compliance

Compliance risk relates to negative impact emanating from non-compliance with applicable legislation and regulations. The risk further exposes the organisation to fines, civil claims, loss of authorisation to operate and an inability to enforce contracts.

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 identifying, assessing, advising, monitoring and reporting on the regulatory compliance risk within a compliance framework. Training is also provided to staff and management as required both in terms of prevailing law and company procedures and as part of promoting a compliance culture within the organisation.

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 and financial misconduct, as well as risks pertaining to legal, human resources, information technology and business continuity.

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 provided by an independent service provider and operates in terms of an Internal Audit Charter, which was reviewed during the year. The internal audit function reports functionally to the Audit and Risk

Committee and administratively to the CFO and its staff have full and unrestricted access to the Chair of the Audit and Risk Committee. The Audit and Risk Committee conducts its own assessment of the effectiveness of the internal audit function.

The internal audit function reports against an approved internal audit plan to the Audit and Risk Committee. The audit plan is based on the key risks identified in the review of enterprise-wide risk. All operations, business activities and support functions are subject to an internal audit to give management an independent assurance of the adequacy of internal systems and controls.

The Corporate Fraud and Financial Misconduct 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, financial misconduct or irregular activities were reported during the period under review.

A disaster recovery strategy has been developed and a service provider has been appointed to ensure business continuity in the event of a failure due to the unavailability of information technology services. The service provider has also been contracted to conduct a full business impact analysis with emphasis on business continuity.

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 including a brand management strategy;
- an effective media strategy and execution plan;
- well-coordinated and structured stakeholder intervention plans;
- a crisis communication plan;
- adherence to the communications policy;
- effective management of the media and public queries; and
- ongoing evaluation and management of the significant risk types highlighted above.



National Housing Finance
Corporation Limited
Consolidated Financial Statements

For the year ended 31 March 2009



National Housing Finance
Corporation Limited
2009 Annual Report



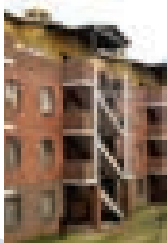
Key moments in the history of the NHFC

An overview of the highlights of the past five years of the NHFC



2005

- Headed government team on **Financial Sector Charter (FSC)** negotiations on housing component; co-ordinated programme through staff secondment and participated in all FSC work-streams.
- Implementing agent for the **Kliptown project** which formed part of the 50 years celebration of the Freedom Charter.

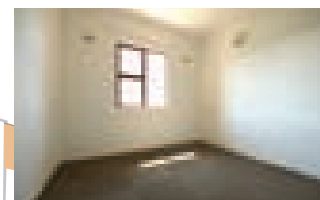


2007

- Assumed **new mandate, vision and mission**; Piloted retail product, **Vulikhaya Home Loan**, in conjunction with Post Bank.



- Undertook **End User Satisfaction Survey** on BSB Design Abod (United States-based alternative building system).



2006

- **Broadened Mandate** developed for the Minister of Housing.
- Instrumental in supporting the drafting process of the **National Credit Bill**, promulgation of the **National Credit Act** and the formation of the **National Credit Regulator**.
- Co-organised and funded **International Housing Innovation Competition** at Eric Molobi Hub, Soshanguve, Tshwane in Gauteng. Completed **End User Satisfaction Survey** in-house.



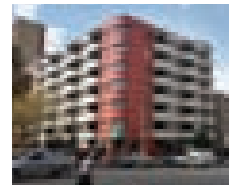
2009

- **Old Mutual Capital Holdings** incorporated as partner in HiP.
- **Highest number of units** funded in financial year since inception.
- Retail division, **Home Front Finance** set up.



2008

- **Housing Investment Partners (HiP)** launched in conjunction with Pan African Capital Holdings.
- Co-organised international symposium on **Urban Development, Housing and Social Cohesion** with French and Brazilian counterparts.
- Co-organised and funded training of **400 Black Estate Agents**.



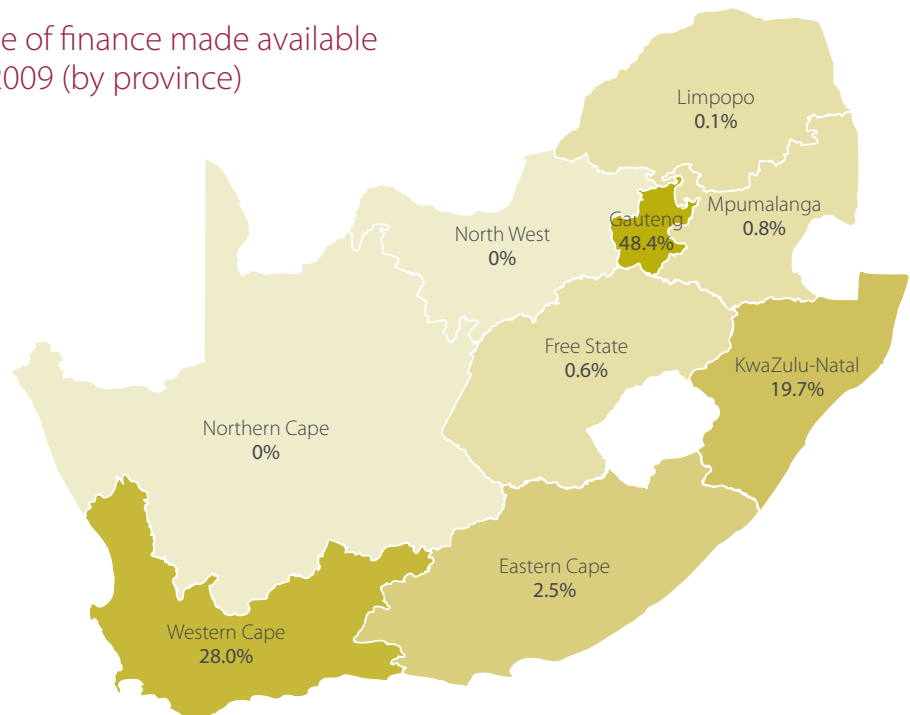


Acronyms used in this report

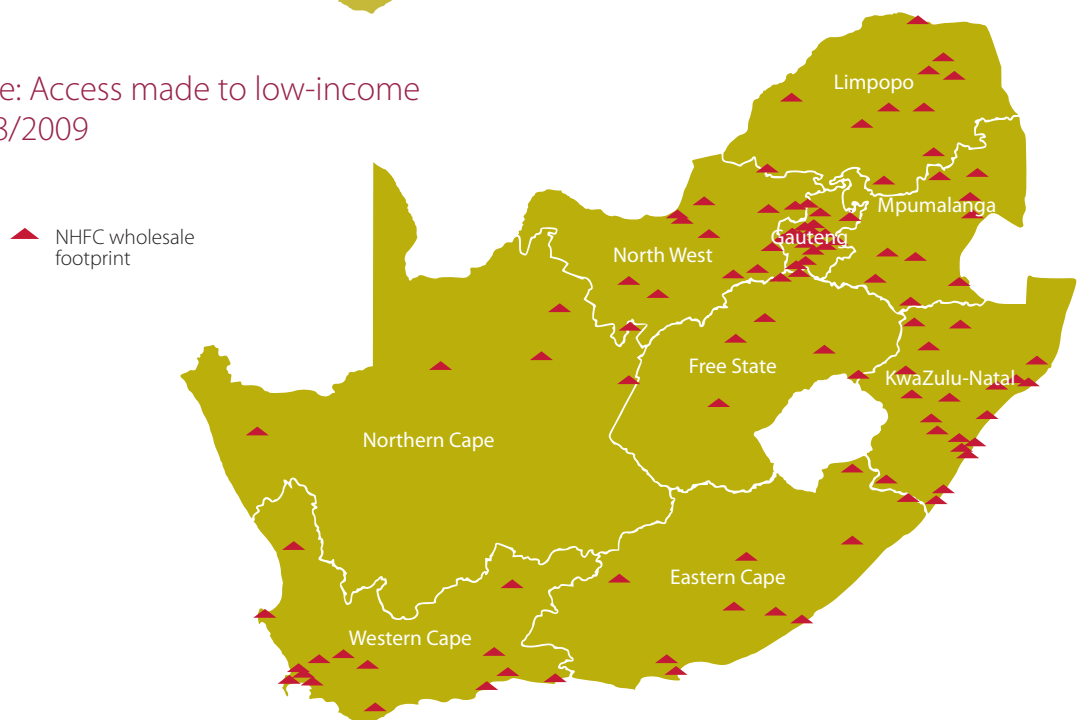
	3A	PFMA Classification: National Public Entity (current NHFC classification)
	3B	PFMA Classification: National Government Business Enterprise
A&R Committee		Audit and Risk Committee
AFD		Agence Française de Développement (French Development Agency)
BCIC		Board Credit and Investment Committee
BNG		Breaking New Ground
CEO		Chief Executive Officer
CFO		Chief Financial Officer
CSI		Corporate Social Investment
CTCHC		Cape Town Community Housing Company (Pty) Ltd (Wholly owned subsidiary)
	DFIs	Development Finance Institutions
	DoH	Department of Housing
	DRC	Democratic Republic of the Congo
EWRM		Enterprise Wide Risk Management
Exco		Executive Committee
FRMC		Financial Risk Management Committee
HDA		Housing Development Agency
HFF		Home Front Finance (NHFC Retail Division)
HIP		Housing Investment Partners (Pty) Limited
HRER		Human Resources, Ethics and Remuneration Committee
	ICC	Internal Credit Committee
	IRC	Internal Risk Committee
	JHC	Johannesburg Housing Company
	MCC	Management Credit Committee
	MoU	Memorandum of Undertaking
	NCA	National Credit Act
NDoH		National Department of Housing (Although the Minister is now in charge of Human Settlements, the Department remains NDoH)
	NHFC	National Housing Finance Corporation Limited/The Corporation
	PACH	Pan African Capital Holdings Limited (Partner in HIP)
	PFMA	Public Finance Management Act 1 of 1999
	PPPPFA	Preferential Procurement Policy Framework Act
	SHF	Social Housing Foundation
	TUHF	Trust for Urban Housing Finance

Financial highlights of the NHFC

NHFC Wholesale: Percentage of finance made available to intermediaries for 2008/2009 (by province)

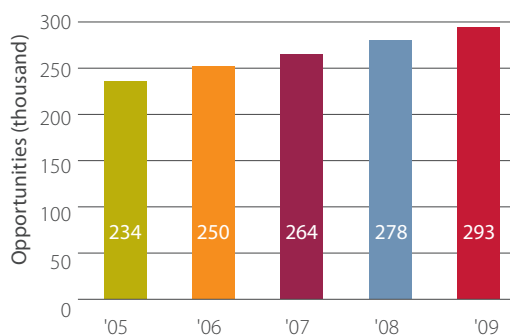


NHFC Wholesale: Access made to low-income earners for 2008/2009

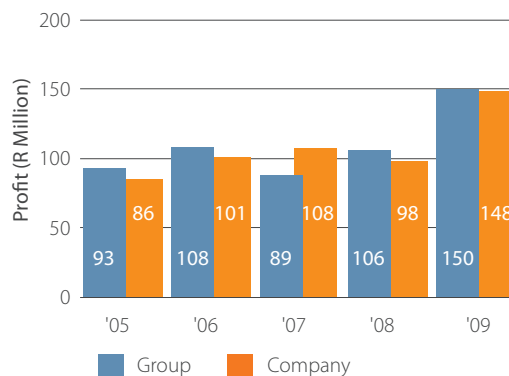




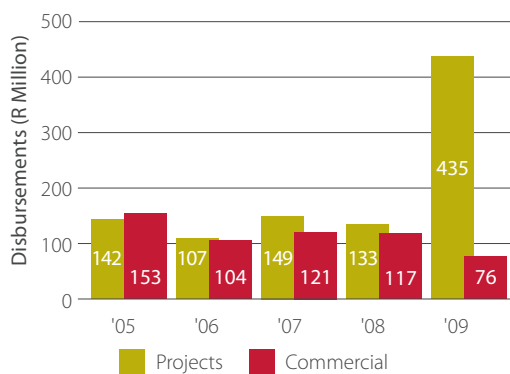
Cumulative housing opportunities 2005-2009



Profit before taxation 2005-2009



Disbursements 2005-2009



Five years of key financial indicators

Key financial indicators		2009	2008	2007	2006	2005
Profit before tax (R'000)	Group	150,497	106,097	88,549	108,293	93,419
	Company	148,498	97,520	107,962	101,344	85,890
Return on equity (%)	Group	5.00	2.96	3.17	4.00	3.53
	Company	5.02	2.68	4.03	3.79	3.27
Cost to income ratio (%)	Group	40.64	51.32	43.59	36.46	45.93
	Company	38.26	55.15	54.96	41.40	51.19
Impairments : Gross advances (%)	Group	5.39	5.74	8.43	7.24	12.08
	Company	5.10	5.74	7.01	7.24	12.08



Directors

Front row from left to right:

Mr Samson Moraba (CEO)

Prof Michael Katz (Chairman)

Mr Sizwe Tati

Mr Chris Ball

Back row from left to right:

Ms Nocawe Makiwane

Mr Sango Ntsaluba

Mr Tim Middleton

Dr Snowy Khoza

The Board

Name and designation	Academic qualifications	NHFC Director as from
Prof Michael Katz Non Executive Chair, NHFC Chairman: Edward Nathan Sonnenbergs	BCom LLB (Wits), LM. (Harvard Law School), LLD(h.c) (Wits)	10 May 1996
Mr Samson Moraba Chief Executive Officer, NHFC	BCom Unisa, PMD (Harvard)	11 January 1999
Mr Chris Ball Economist	Dip Juris (Wits) and MA (Cambridge)	07 February 2008
Ms Nocawe Makiwane Managing Director: Avuka Investments (Pty) Ltd	MBA (Exeter, UK) BA (Hons) (Wits), B.SocSci (UCT)	04 April 1996
Mr Tim Middleton Executive Director: Intaprop (Pty) Ltd	BSc (Town & Regional Planning) (Wits), MA (Systems Management) (cum laude) (Lancaster, UK)	09 December 2003
Mr Sango Ntsaluba Chief Executive Officer: Amabubesi Group	CA (SA), BCom (Fort Hare), BCompt (Hons) (Unisa), HDip Tax (RAU)	09 December 2003
Mr Sizwe Andrew Tati Group Managing Director of the Yakani Group	BCom: (Accounts and Business Management), Postgraduate Diploma in Management, Postgraduate Diploma in Company Directing, Senior Executive Programme.	02 September 1996
Dr Snowy Khoza Group Executive: Group Strategy and Communication, the Development Bank of Southern Africa	MBA (UCT), PhD (Brandeis University, USA), MA (SS) (UNISA), BA (Hons) (Fort Hare), BA (SW) (University of the North)	07 February 2008



Executive

Front row from left to right:

Ms Elsabe Marx: Company Secretary

Ms Adrienne Egbers: Chief Operating Officer

Mr Samson Moraba: Chief Executive Officer

Ms Zonia Adams: Chief Financial Officer

Ms Nomsa Ntshingila: Human Resources Executive

Back row from left to right:

Mr Sydney Mutepe: Executive Manager – Credit

Dr Simphiwe Madikizela: Executive Manager – Retail Sales

Mr Andrew Chimpondah: Managing Executive – Retail

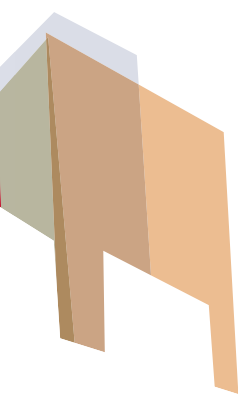
Mr Lawrence Lehabe: Executive Manager – Projects

Mr Alan Govender: Acting Executive – IT

Mr Siegfried Mogane: Chief Operating Officer – Retail

Executive Committee

Name and designation	Academic qualifications	Executive Manager as from
Mr Samson Moraba Chief Executive Officer, NHFC	BCom Unisa, PMD (Harvard)	11 January 1999
Ms Zonia Adams Chief Financial Officer	B. Compt Honours, CA (SA)	January 2007
Mr Andrew Pandeka Chimphondah Managing Executive: Retail	CA (Z),MBA (Durham-UK)	September 2008
Ms Adrienne Egbers Chief Operating Officer	CA (SA)	September 2001
Mr Alan Govender Acting Executive Manager: IT	MBA, Milpark Business School, Midrand Graduate Institute	March 2009 (acting)
Mr Lawrence Lehabe Executive Manager: Business Development and Projects	BCom, MSc (Marketing)	July 2005
Dr Simphiwe Madikizela Executive Manager: Customer Experience (Retail)	B.Agric. Economics, B.Inst.Agrar.Hons, M.Inst.Agrar., PhD. Economics	July 2008
Ms Elsabe Marx Company Secretary	B Proc, LLB, LLM	29 October 2004
Mr Siegfried Mogane Chief Operating Officer: Retail	B.Com, M.Strat	July 2007
Mr Sydney Mutepe Executive Manager: Credit	BCom and MBA	August 2008
Ms Nomsa Ntshingila Executive Manager: Human Resources	MSc: Clinical Psychology, BSoSc Hons, HED BA Com	September 2005



Chairman's Report



Professor Michael Katz
Chairman

This report is released at a time when, both internationally and locally, the mortgage-backed financing business, particularly at the lower end of the market, is out of favour. The sub-prime fiasco has certainly had a negative impact. Conditions in the market in which the NHFC operates have influenced many players, particularly banks, to adopt very conservative lending practices. This has resulted in borrowers not easily accessing bonds, generally having to provide a deposit, and developers having greater difficulty in accessing funding. It is therefore gratifying that in these very difficult conditions the NHFC has been able to exceed its budget in disbursing funds and delivering more units than it had previously funded in a single year.

The 4.5% interest rate reduction, while easing the debt burden on the lower-to-middle income earner, did not enable the majority to escape the debt trap. This was exacerbated by increased unemployment. Lenders in the market, including even the larger players, have been affected by the adverse economic environment, increased defaults and generally difficult trading conditions. The reduction in interest rates is expected to have a negative impact on the revenue of the NHFC in the 2010 year, reliant as it is on interest earned from both its lending business and investments. Management will need to address this aspect very seriously in the coming year by significantly increasing disbursements and controlling expenditure.

The demand for houses in the lower-middle income market continues to exceed the supply thereof, particularly in the R200 000 to R300 000 range. NHFC is always seeking innovative solutions to address the affordable housing problem, hence its investments in Housing Investment Partners (Pty) Limited, Cape Town Community Housing Company (Pty) Limited and Trust for Urban Housing Finance. In addition, through partnerships with larger developers, banks and financial institutions, the NHFC has leveraged substantial amounts into the low-income housing market.

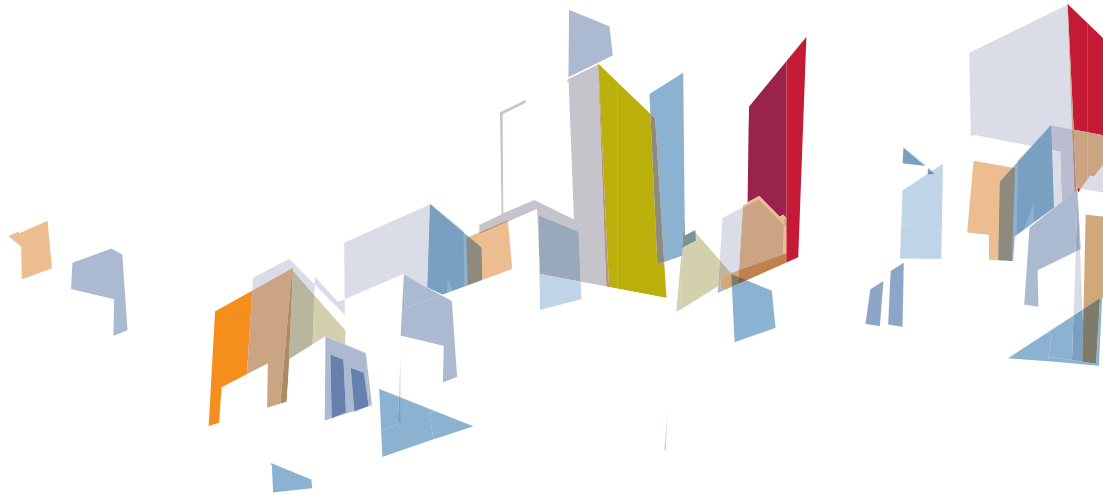


Prior to her taking up her new portfolio as Minister of Defence and Veterans, the former Minister of Housing, Dr Lindiwe Sisulu, discussed a number of issues with the Board which are now being addressed. These include :

1. The reclassification of the NHFC from a 3A "National Public Entity" to a 3B "National Business Enterprise" in terms of the Public Finance Management Act. This action is designed to allow for the expanded mandate of the NHFC and to facilitate its leveraging funds from third parties to supplement its capital and expand its reach in the market; and
2. The finalisation of the updated mandate, introduced to support the Breaking New Ground Strategy.

National Treasury has undertaken a review of all Development Finance Institutions in the country, including those falling under the National Department of Human Settlements. The intention of this review is to make Development Finance Institutions more effective in their particular areas of operation. There is ongoing interaction between the institutions concerned and the National Department of Housing in relation to the review and the potential effect of any changes which may be made during the current financial year.

In what has been an exciting and successful year for the NHFC, I have had the constant and competent support of all Board members and, for this, I thank them very much. During the year we were saddened by the death of Mrs Toto Ndziba-Dikgole, who had joined the Board in early 2008. In addition, Mr Godogwana resigned as a director to join Parliament and has been appointed as the Deputy Minister of Public Enterprises. We congratulate him on this appointment and wish him well in his new position. I am also pleased to welcome three new non-executive directors to the Board, being



Mr Johan Coetzee, Ms Anthea Houston and Ms Phekane Ramarumo. I believe that these new directors will add great value to the Board and to the work of the NHFC and thank them for making themselves available. We wish them a long and successful tenure of office as directors of the NHFC.

The former Minister of Housing, Dr Lindiwe Sisulu has been appointed as the new Minister of Defence and Veterans. As Minister of Housing, Dr Sisulu engaged on a regular basis with the Board and added great vision and encouragement to the work of the Board. Her dedication to her portfolio was an inspiration. We will miss her very much and take this opportunity to congratulate her on her new appointment and extend to her our good wishes for her happiness and success in her new position.

We would also like to welcome the new Minister of Human Settlements, Mr Tokyo Sexwale, and to wish him well in his new position. The Board assures him of its full support in his activities as Minister.

We also take this opportunity to thank the Director-General of the Ministry of Housing for his dedication and commitment to the work of the NHFC and to the vision that he has provided to us. Our thanks also go to all officials in the Department of Housing who have co-operated so well with the NHFC.

As a Board, we are very much aware that there is a great responsibility in addressing the plight of the lower-income earners in need of housing and we have over the years supported new developments to extend the NHFC's impact in the target market. In this regard, the Board fully acknowledges the great efforts, commitment and dedication on the part of management and all employees of the NHFC who

have the task of ensuring the implementation of the NHFC's vision. As always, I congratulate them on their achievements in the year under review and we have every expectation that they will achieve even greater developmental impact in the future. We know that they will spare no effort to contribute, on a significant basis, toward improving the quality of the life of all low-income households, in every manner possible, including economically, socially and environmentally, through the provision of human settlements.

Prof Michael Katz
Chairman

Chief Executive Officer's Report



Mr SS Moraba
CEO

NHFC is not immune to changes in the marketplace and the year under review has been a demanding one. In particular, the Corporation was inundated with applications for funding as a direct result of conventional lenders changing their lending criteria in response to the "Credit Crunch". In spite of the increased demand the applications were often not sound or did not fit our profile and had to be rejected. It is nevertheless pleasing to report that disbursements for the year exceeded budget by 20%.

NHFC is always aware of the duality of its role as a developmental financier. The increase in disbursements for 2009 supports the fact that NHFC is prepared to take more risk to deliver impact and that it was called upon to do exactly that when private institutions moved away from low-income housing.

Environment

The recent 4.5% reduction in interest rates, while having a positive impact on housing consumers, puts pressure on the income of NHFC that is dependent on interest earned on its book and from investments.

The National Credit Act has proved its worth, together with other prudential financial practices in South Africa, in limiting the effect of the international financial crisis.

Housing

The demand for housing in the affordable target market supported by NHFC continues to be far greater than the supply thereof and the Corporation continues to seek out opportunities to enhance delivery.

The demand for project funding was buoyant during the year as developers moved down market in an attempt to address ongoing demand for affordable homes. Compared to 2008, disbursements increased to 228% and exceeded budget by 28%.

The demand for incremental housing loans was slow in the first half of the year but picked up and by year-end, 90% of the budget had been achieved although for higher individual loan amounts, therefore fewer in number.

Retail

The NHFC retail division, known as Home Front Finance ("HFF"), opened for business on 20 October 2008, and found a ready market through mortgage originators and employers. Although only 20 loans were disbursed by year end, some 2 238 loans were approved.

Strategic partnerships

NHFC continues to look to partnerships with the private and public sectors to deliver on its mandate.

An innovative offering, that of an income-linked housing finance product, has been developed and will come to market during the 2010 financial year. NHFC has a 25% shareholding in HIP with Pan African Capital Holdings Limited ("PACH") which also has 25%. The remaining 50% is owned by Old Mutual Capital Investments Limited.

TUHF, a Section 21 company, involved in innercity regeneration, has been commercialised to attract additional funding to grow its market into other centres in South Africa, a move from its previous concentration in Gauteng. NHFC was instrumental in the formation of TUHF and is likely to own some 15% in the commercialised entity. Since 2003, this company has provided 13 000 units, in the innercity, targeted at low-to-middle income households.

When the City of Cape Town decided to sell its 50% shareholding in CTCHC, NHFC bought the shares, with the intention of turning around the business and divesting of it in the medium term. This company has been responsible for delivering over 3 500 new housing units in Cape Town since its incorporation.

Chief Executive Officer's Report

Financial Sector Charter

Following on the signing of a Memorandum of Undertaking ("MoU") with a major bank in the previous financial year, NHFC has committed to partnering with the bank in projects worth R1 billion, and NHFC will have a 20% share in this funding. The NHFC is currently also engaged in discussions with the three other major banks on opportunities for co-funding and facilitation that would assist in scaling-up the supply of affordable housing in the low- to middle-income housing sector.

Response to the Breaking New Ground (BNG)

The development of the Sustainable Human Settlement Strategy or BNG, of our shareholder, NDoH is supported by the NHFC through the finance provided for the various housing initiatives listed below:

Large-scale housing provision

Large-scale housing delivery is supported by NHFC through strategic partnerships mentioned above. In addition, the Corporation has taken on an implementation role for substantial projects with Eastern Cape, Limpopo and Western Cape Provinces.

Social housing institutions in South Africa and funding thereof

NHFC continues to be a funder of social housing institutions and in the current year has provided funding to projects in all provinces where such projects are being built. Discussions in provinces where projects are being considered are ongoing.

Integrated housing development

NHFC encourages developers looking for finance to deliver units to attract homeowners with varying low-to-middle income earnings. These projects take time to come to fruition, particularly during the current economic times and the problems with the availability of infrastructure requirements, e.g. power, water and sewerage.

Urban renewal and inner city regeneration – support of the National Rental Strategy

Clients such as TUHF, Afcho, Johannesburg Housing Company ("JHC"), Ownhaven and Sohco who are all making inroads into the regeneration of the cities in which they operate, continue to increase their outreach with funding from NHFC and either operate as landlords themselves or fund small and large operators in the affordable market.

Incremental or Home Improvement Loans

Through partnerships with sustainable intermediaries, NHFC has been able to provide access to finance across all provinces and in rural areas for home improvements. The incremental housing division saw the effect of this in a lower number of loans although of higher value, indicating that those with some affordability are improving their homes rather than moving.

This is an important link in the housing finance chain as not every homeowner can afford to access mortgage finance. Although such finance is slightly more expensive compared to secured lending, the introduction of the National Credit Act ("NCA") has resulted in more appropriate lending that prevents homeowners from being over-indebted while improving their living conditions.

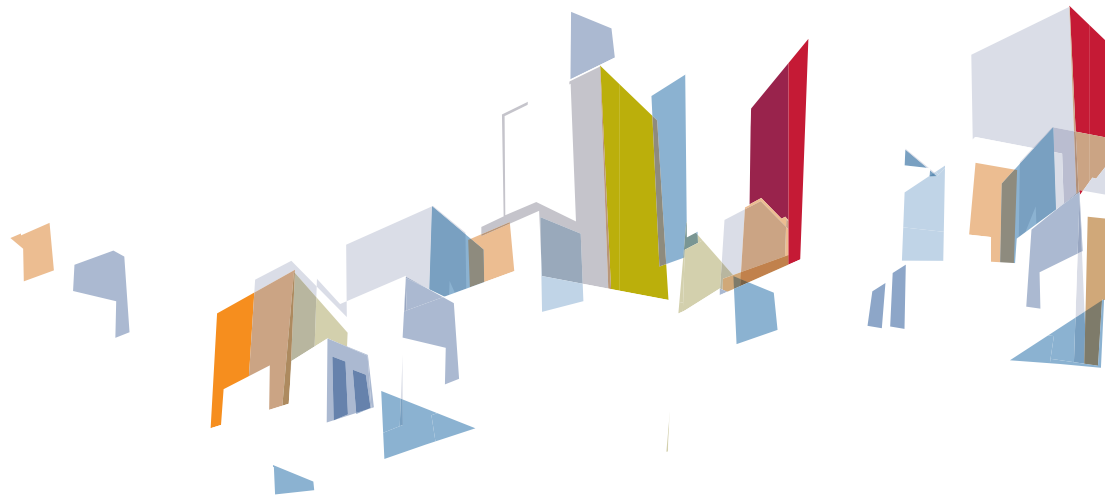
Knowledge management

NHFC has a small but effective team supporting housing research, policy development and information custodianship.

During the year the NHFC with French Development Agency, Agence Française de Développement ("AFD"), organised a very successful seminar that attracted influential stakeholders in low-income housing, both national and international.

Innovation

Great ideas are often developed in challenging times. This is true in the low-income housing environment as well. New finance products, alternative building materials and improved delivery channels are all part of the innovation in low-income housing.



Overview of the NHFC experience

Last year we said we would	Achieved 2009
Significantly increase funding for rental and ownership initiatives and leverage funding from partners.	11 939 units were financed through direct and leveraged funding. This is the highest number of units financed in one year in the 13 years of NHFC operations and R435 million was disbursed.
On the demand side, the retail home loan product implementation will be operational by the 3rd quarter.	HFF became operational on 20 October 2008 and by year-end had approved 2 238 loans.
NHFC will provide technical assistance to Local and Provincial Governments to accelerate the development of integrated sustainable human settlements with projects in Eastern Cape, Limpopo and Western Cape in 2009.	Progress has been made on all projects mentioned. The Corporation is also in discussion with other provinces embarking on such projects with the intention of providing technical assistance and/or funding.

In search for ways to accelerate and make housing affordable, the NHFC has partnered with the private sector to explore the use of alternative materials in the construction of houses.

Ownership in HIP with PACH and Old Mutual will bring an income-linked product to the market during the 2010 financial year.

In search for ways to accelerate and make housing affordable, the NHFC has partnered with private sector to explore the use of alternative materials in the construction of houses, such as replacing the use of bricks with a cost-effective and durable material. One such example is an innovation pilot project in Drakenstein in the Western Cape, where 34 homes will be built as a joint project with Absa, AFD and NHFC.

In addition, the NHFC is looking into the viability of a number of housing finance solutions that may provide options to the low-income household's challenge of meeting its housing finance needs.

The Corporation continues to be a funder of social housing institutions and in the current year, has provided funding or facilitated projects in all provinces, where such projects are being built.





Administration

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1996/005577/06

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