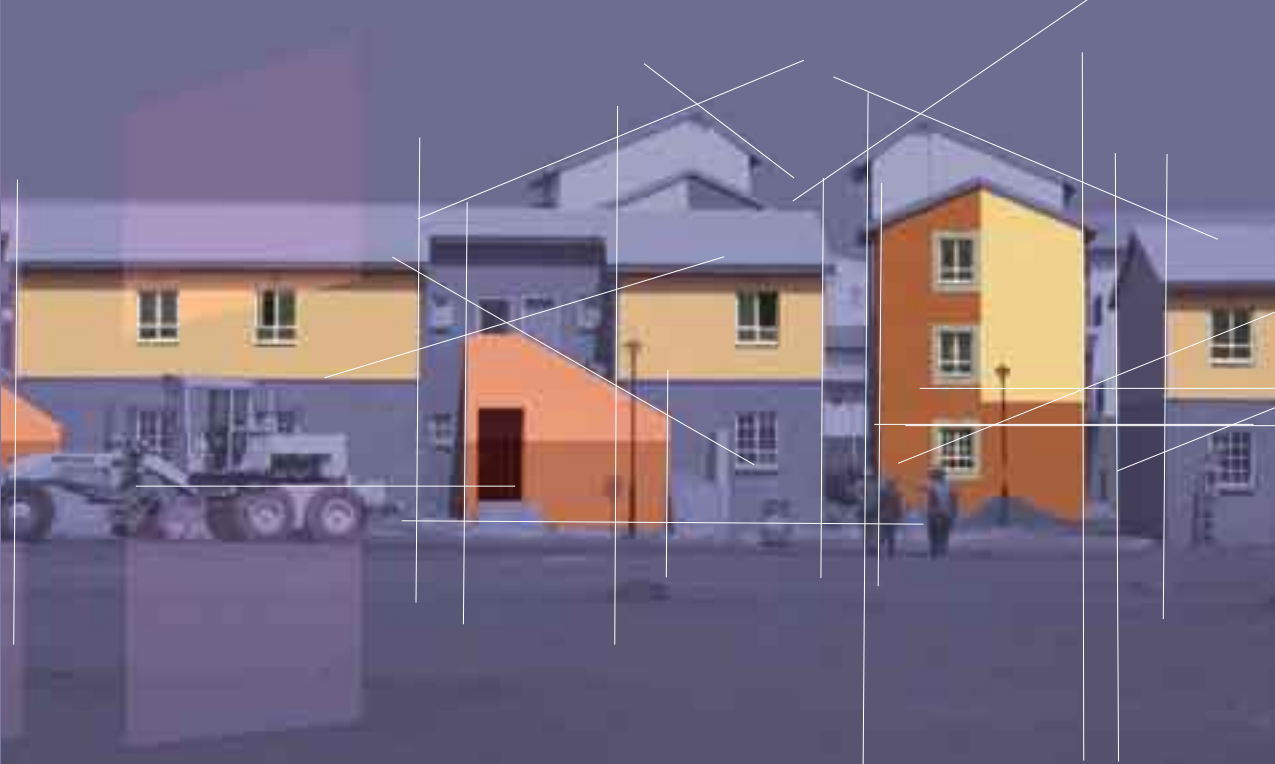


National Housing Finance Corporation Limited
2010 Annual Report



Profile of the NHFC

Innovator, Financier, Facilitator

Mandate

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

Vision

To be the leader in the development of the low- to middle-income housing market.

Mission

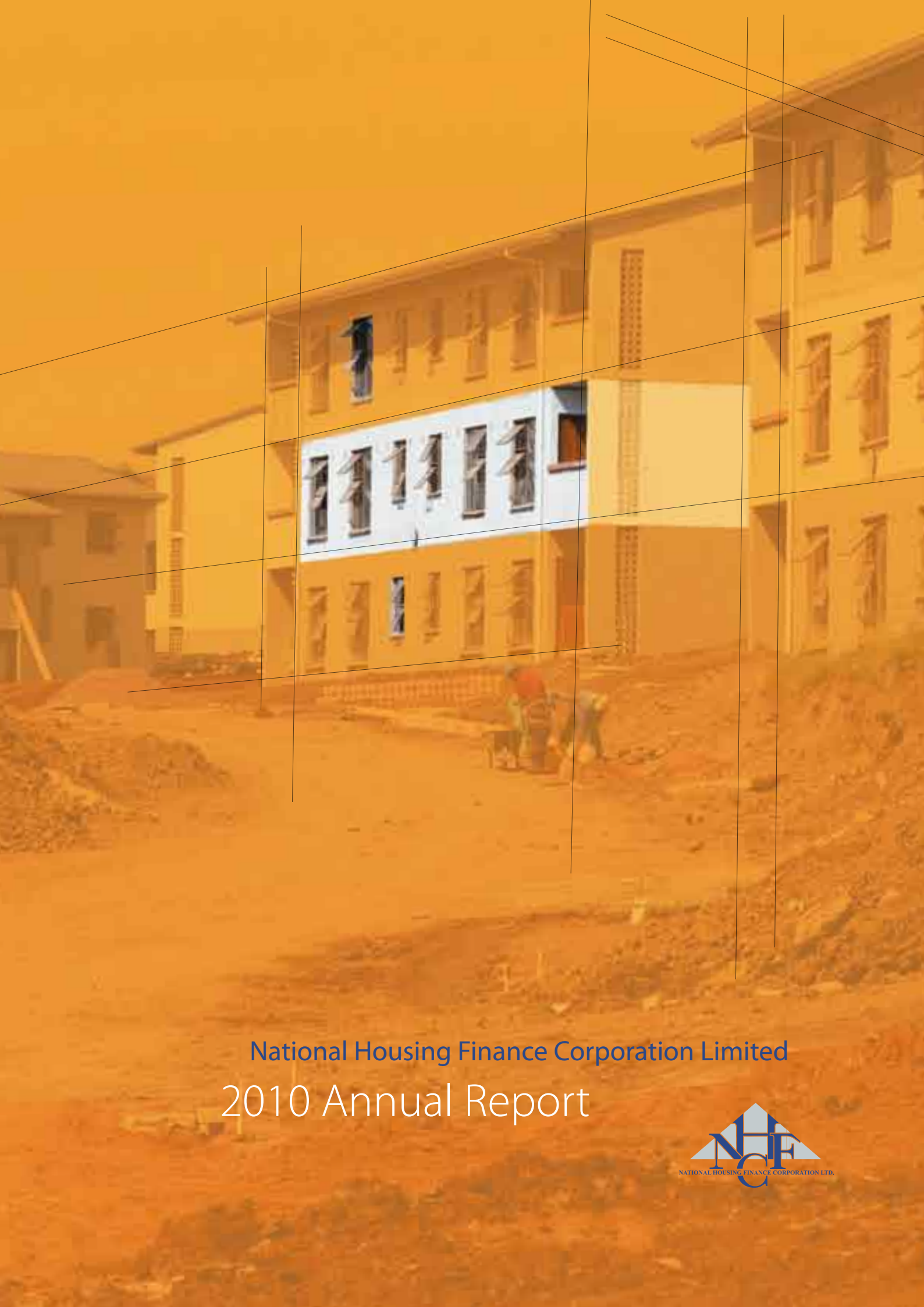
Provide innovative and affordable housing finance solutions to the low to middle income housing market.

Strategic Objectives of the NHFC

- Expand housing finance activities, through the effective provision of housing finance solutions, thus enabling low- to middle-income households to have choice of renting or owning or incrementally building, to meet their housing needs.
- Facilitate the increased and sustained lending, by financial institutions, to the lower end of the housing market.
- Mobilise finance into the human settlement space, on a sustainable basis, in partnership with the broadest range of institutions.
- Fund well-located suitable land parcels, mainly through established public agencies.
- Stimulate the low- to middle-income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing consumers.

NHFC's Target Market

Households whose income range is R1,500 – R15,000 and are South African.



National Housing Finance Corporation Limited
2010 Annual Report





Contents

Acronyms used in this report	1
Key moments in the history of the NHFC.....	2
NHFC financial highlights.....	4
The Board of Directors	6
Executive Committee	8
Chairman's Report	11
Chief Executive's Report	13
Sustainability Report.....	19
Corporate Governance	30
Risk Management Report.....	37
Financial Statements.....	51
Approval of the Annual Financial Statements	51
Report of the Audit and Risk Committee.....	52
Report of the Independent Auditor to the Minister of Human Settlements	53
Director's Report.....	55
Consolidated statement of comprehensive income	56
Consolidated statement of financial position.....	57
Statement of changes in equity.....	58
Statement of cash flows.....	59
Group accounting policies.....	60
Notes to the annual financial statements.....	70
Performance Report.....	103



Acronyms used in this report

3A	PFMA Classification: National Public Entity (current NHFC classification)
ARC	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
CMHC	Canada Mortgage and Housing Corporation
CSI	Corporate Social Investment
CTCHC	Cape Town Community Housing Company (Pty) Ltd (Wholly owned subsidiary)
DFIs	Development Finance Institutions
DHS	Department of Human Settlements
DPE	Department of Public Enterprise
DTI	Department of Trade and Industry
EES	Employee Engagement Survey
EIB	European Investment Bank
ERM	Enterprise Risk Management
Exco	Executive Committee
FLISP	Finance Linked Individual Subsidy Programme
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
ICAS	Independent Counseling and Advisory Service
ICC	Internal Credit Committee
IRC	Internal Risk Committee
MCC	Management Credit Committee
MI	Mortgage Loans Default Insurance
MoU	Memorandum of Undertaking
NCA	National Credit Act
NDoHS	National Department of Human Settlements
NHBRC	National Home Builders Registration Council
NHFC	National Housing Corporation Limited/The Corporation
PACH	Pan African Capital Holdings Limited (Partner in HIP)
PFMA	Public Finance Management Act 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act
TUHF	Trust for Urban Housing Finance
WSP	Workplace Skills Plan

Key moments in the history of the NHFC



2006

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



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).



At last, an achievable home loan!

If you earn between R1 500 and R15 000 p/m* and want to buy a home, give us a call today on 0860 011 011

For more information: homefrontfinance@nhfc.co.za www.homefrontfinance.co.za



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 (HFF)** set up.



2008

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

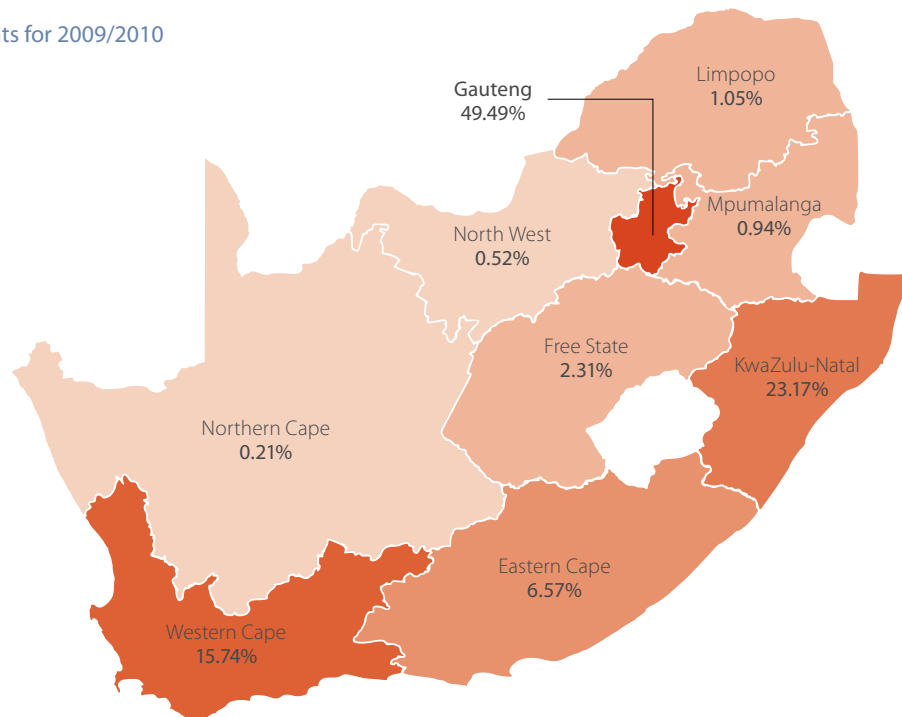
2010

- External funding and **PFMA** approvals thereof secured. Signed an agreement with **AFD** for the rand equivalent of **EUR20 million**, plus in the process of concluding an agreement with **EIB** for the rand equivalent of **EUR30 million**.
- NHFC adapts its approach and strategies to align with the Human Settlements' priorities and developmental impact expectations.
- The **Boitekong Project**, a **Public-Private Partnership** with **Implats**, to provide end user finance to their employees, won the **Southern African Housing Foundation Project of the Year 2009 International Award**.

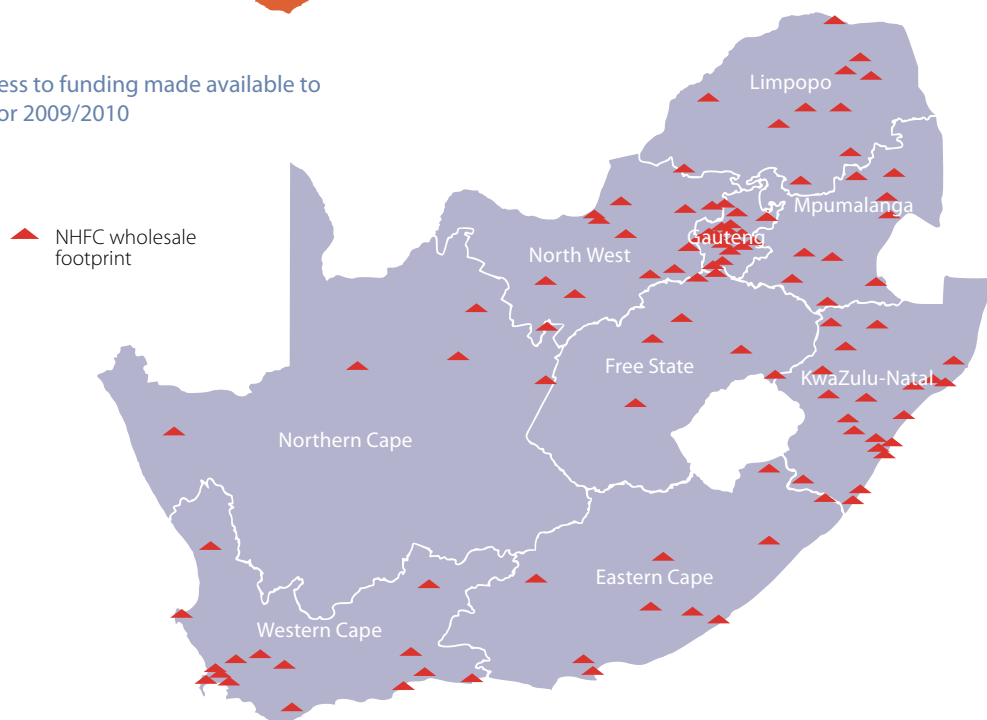


NHFC Financial Highlights

NHFC Wholesale disbursements for 2009/2010 by Province

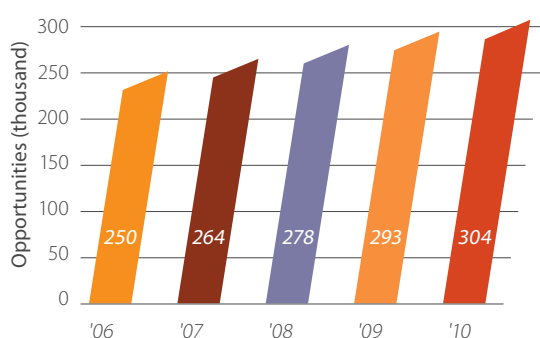


NHFC Wholesale: Access to funding made available to low-income earners for 2009/2010

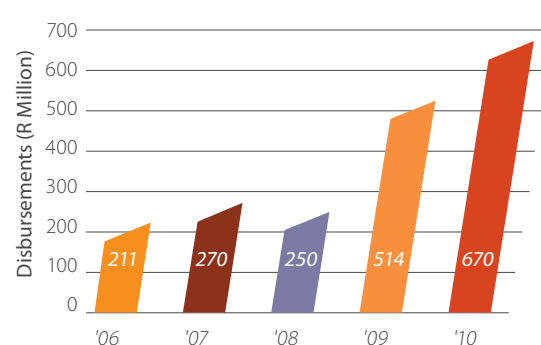


Developmental Impact

Cumulative housing opportunities 2006-2010

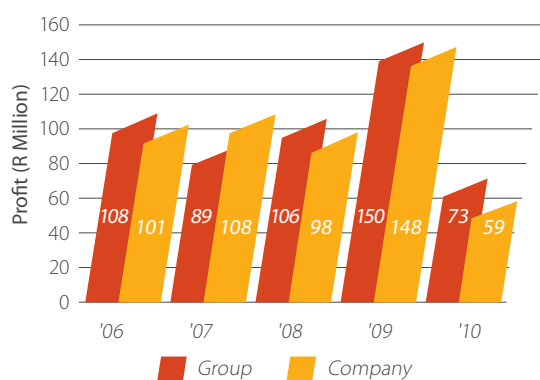


Disbursements 2006-2010



Key Financial Indicators

Profit before taxation 2006-2010



Key financial indicators		2010	2009	2008	2007	2006
Profit before tax (R'000)	Group	73,161	150,497	106,097	88,549	108,293
	Company	58,823	148,498	97,520	107,962	101,344
Return on equity (%)	Group	2.60	5.00	2.96	3.17	4.00
	Company	2.06	5.02	2.68	4.03	3.79
Cost to income ratio (%)	Group	58.20	40.64	51.32	43.59	36.46
	Company	60.46	38.26	55.15	54.96	41.40
Impairments: Gross advances (%)	Group	9.06	5.39	5.74	8.43	7.24
	Company	8.66	5.10	5.74	7.01	7.24

The Board of Directors



The board of the NHFC

from left to right:

Prof. M Katz (chair), Mr S Moraba (CEO), Ms N Makiwane,
Mr S Ntsaluba, Mr S Tati, Dr S Khoza, Mr J Coetzee,
Ms A Houston, Ms P Ramarumo

Name and designation	Academic qualifications	NHFC Director as of
<i>Independent Non-Executive Chair</i>		
Prof Michael Katz Chairman, Edward Nathan Sonnenbergs	BCom LLB (Wits), LM (Harvard Law School), LLD(h.c) (Wits)	10 May 1996
<i>Chief Executive Officer</i>		
Mr Samson Moraba	BCom Unisa, PMD (Harvard)	11 January 1999
<i>Independent Non-Executive Directors</i>		
Ms Nocawe Makiwane Managing Director: Avuka Investments (Pty) Ltd	MBA (Exeter, UK), BA (Hons) (Wits), B.SocSci (UCT)	4 April 1996
Mr Sango Ntsaluba Chief Executive Officer: Amabubesi Group	CA (SA), BCom (Fort Hare), BCompt Honors (Unisa), NHD in Tax Law (UJ)	9 December 2003
Mr Sizwe Tati Director: Yakani Group	BCom (University of The North), Post Graduate Diploma in Management (GSMT), Diploma in Company Directing (IoD), Senior Executive Programme (Harvard)	2 September 1996
Dr Snowy Khoza Group Executive: Group Technologies and Facilities, 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)	7 February 2008
Mr Johan Coetzee Retired Banker	BA (UP) MBA (Graduate School of Management) (UP)	6 May 2009
Ms Anthea Houston Development Consultant	Post-graduate Diploma in Management: Organisation and Management (UCT), Banking Licentiate Diploma	6 May 2009
Ms Phekane Ramarumo Truly African Solutions (Planning Consultants) Chairperson of the Statutory Board of Servcon Housing Solutions	BA (Political Science) (University of the North), Masters (Regional Planning) (University of Albany) (USA), Certificate (Theology) (Theological Education College – SA) NHD: Development Areas (Wits)	6 May 2009
<i>Company Secretary</i>		
Ms Elsabe Marx	B Proc, LLB, LLM	29 October 2004

Executive Committee



The executive committee of the NHFC
from left to right:
Mr S Moraba (CEO), Mr A Chimphondah, Ms E Marx, Mr A Govender,
Mr R Haman, Mr L Lehabe, Ms Z Adams (CFO), Mr S Mogane,
Dr S Madikizela, Ms N Ntshingila, Mr S Mutepe

Name and designation Academic qualifications

Members

Mr Samson Moraba Chief Executive Officer	BCom Unisa, PMD (Harvard)
Ms Zonia Adams Chief Financial Officer	B.Compt Honours, CA (SA)
Mr Andrew Chimphondah Managing Executive: Retail	CA (Z), MBA (Durham-UK)
Mr Reginald Haman Executive Manager: Enterprise Wide Risk	NHD, GD:CD, PDBA MBA University of Pretoria (GIBS)
Mr Lawrence Lehabe Executive Manager: Projects	BCom, MSc (Marketing)
Dr Simphiwe Madikizela Executive Manager: Customer Experience (Retail)	B.Agric. Economics, B.Inst.Agrar.Hons, M.Inst.Agrar, PhD. Economics
Ms Elsabe Marx Company Secretary	B Proc, LLB, LLM
Mr Siegfried Mogane Chief Operating Officer: Retail	B.Com, M.Strat
Mr Sydney Mutepe Executive Manager: Credit	BCom and MBA
Ms Nomsa Ntshingila Executive Manager: Human Resources	MSc: Clinical Psychology, BSoSc Hons, HED BA Com
<h3>Invitee</h3>	
Mr Alan Govender General Manager: Information Technology	MBA, Milpark Business School, Midrand Graduate Institute



Chairman: Prof. Michael Katz

Chairman's Report

The year under review has been very eventful, both for the NHFC and for South Africa as a whole. As the country put in place the final touches for the hosting of the 2010 World Cup event, including road infrastructure, stadia, services, security, the team, and so forth, the pressure to host and deliver "The Best World Cup Ever" took hold of everyone. As the 2010 Cup Slogan states: "Feel it, it is here", South Africa reverberated with great enthusiasm and excitement.

The transition at the Ministry, from Housing to Human Settlements, has meant that the NHFC's context and strategy be redefined, to incorporate the fabric of Human Settlements. This consists of physical elements, including a house, infrastructure and services that a community requires for "live, work, play and pray". In this regard the NHFC is excited at the prospects of adapting its business plans to be in line with Government's Human Settlements' priority agenda. As the Minister finalises the appointment of his new team at the Human Settlements Department, the NHFC will continue to collaborate and partake of constructive engagement with the Department.

The year 2009, labelled the "market environment with greater abnormality since the Great Depression of 1929", was also challenging for the NHFC. The Corporation's performance and impact, though at depressed levels, underscores the resilience of its strategy and business model.

Part of the success of the NHFC, is the mobilisation of external funding sources, in line with one of its priority strategic interventions, in the Human Settlement space. These funds have been secured from multilateral agencies, beginning with the signing of the AfD loan facility, in November 2009.

An event following the year under review, which is of great interest, was President Jacob Zuma's successful launch, on the 19 June, of one of the NHFC lead projects, Emerald Sky Social Rental Housing Project, developed and managed by SOHCO, in East London. The project has been acknowledged as the "model project" for social rental housing development, by the National Minister of Human Settlement, Minister Tokyo Sexwale. Based on this success, the Minister has tasked the NHFC to rollout more of these projects in other provinces.

There have been a number of changes at the NHFC Board level. Tim Middleton, the Board Human Resources, Ethics and Remuneration Committee (HRER) Chairperson, has left for a sabbatical, while Chris Ball has retired from the Board. I express my sincere gratitude to Tim and Chris for the exceptional service and contribution they made to the NHFC. We welcome our new board members, namely Johan Coetzee, Anthea Houston, and Phekane Ramarumo, who have already made a great contribution to the NHFC. Ms Anthea Houston, has agreed to take over as Chair of the HRER.

Our sincere gratitude goes to Minister Tokyo Sexwale, for the belief, enthusiasm and support which he has given to the NHFC. We are greatly encouraged by Minister Sexwale's passion for his portfolio, as well as his vision for, and commitment to, Human Settlements, which undoubtedly deserves to be a priority of Government. There is a moral imperative that every South African must enjoy satisfactory accommodation in a stable communal environment.

This is a precondition to the sustainability of our nation. An indication of Minister Sexwale's support for the NHFC, is his role in expediting the process through National Treasury, of the PFMA approval, that will enable the NHFC to deliver its Human Settlements funding mandate.

Also, thank you to my colleagues on the board of NHFC, for their leadership and commitment to the affairs of the NHFC. This year has been one of the most active for the Board since the inception of the NHFC and I am grateful to be surrounded by such diligent and dedicated people.

Finally, I congratulate and thank management for taking the leap of faith when adequately analysing and responding to the Human Settlements imperatives that have resulted in a revised business model and strategy plan. Management has again done us proud.

As a Nation, we are all proud of our achievement in successfully hosting the South African 2010 FIFA World Cup. The unity of the entire nation has been truly remarkable and we have shown that we are able to achieve outstanding results. This gives me hope that we will be able to successfully tackle the fight to eradicate poverty from our nation and to ensure that every one has a home in a stable community.



Prof. Michael Katz
Chairman



CEO: Mr Samson Moraba

Chief Executive's Report

Introduction

The year 2009 was extremely difficult for the financial services sector worldwide, as the global financial crises continued to impact on the real economy. Thus, despite a trend of declining interest rates from the end of 2008 and during the course of 2009, households continued to experience a fair amount of financial pressure on the back of major job losses over a wide front, declining real disposable income and relatively high levels of debt. The cost of servicing debt for households and retail housing intermediaries declined markedly, as a result of lower interest rates.

The good news is that the South African economy emerged from recession in the second half of 2009, and the forecast is for an improved 2010. Expectations are that conditions will improve gradually during the course of the year, and that the better economic conditions will translate into the residential property market gathering further momentum during this period.

Performance review

The challenging conditions, stated above, tested the resilience of the Corporation and the robustness of its strategy. The severity of the last twelve months is evident in our financial and impact performance, especially the significant increase in our impairment charges. Impairments are a good indicator of the financial wealth of our retail intermediaries, households and the state of their finances. It is against this background that our financial performance for the year under review should be seen. Several factors impacted on the NHFC's financial and impact results in the year under review, namely:

Financial

- Overall, low volume of business in the market.
- Continued declining interest rates, though favourable to NHFC clients, led to decreased interest income for the Corporation.
- Significant impairment charges.
- Reduction in planned Retail disbursement.

Impact

- Lower than expected volume of business overall.
- Larger loan sizes for Commercial business than budgeted for (smaller numbers, high value loans).
- Reduced Retail business, leading to lower impact.

Disbursements for the year, though below budget, were 30% above those of last year.

Notwithstanding a tight rein on costs, profit before tax of R73 million was 51% lower than the previous year. As a result, both the return on equity (ROE) and return on assets (ROA) ratios were significantly dented, to levels not seen in a while. This confirms the difficult market environment we operated under and is also reflected in the high impairment charges.

Housing opportunities created through direct and leveraged funding, jumped to 33 660, compared to last year's 14 883. The significant jump is attributed to the NHFC's ability to leverage funding from the private sector.

Chief Executive's Report (continued)

Divisional highlights

Projects

The Projects disbursements were 6% lower than last year and delivered 7 869 housing units, which were 33% lower than last year.

Commercial

The Commercial division disbursements of R112 million was 47% higher than last year's, though the impact was lower, due to larger value loans being granted.

Retail

Notwithstanding the scaling down of this business in the year under review, Retail managed to disburse R151 million, financing 675 new housing units.

Impairment charges

The significant impairment charges referred to earlier, were mainly as a consequence of three key clients of the Corporation, who were not spared in the market fallout. Each experienced a unique set of risks that may be mitigated by, among others, restructuring, re-capitalisation and turnaround.

Only towards the end of the second quarter of the new financial year, would more clarity prevail on the above clients' status.

Strategic funding

The NHFC remains a schedule 3(A) entity in terms of the PFMA. However, the National Treasury and National Department of Human Settlements have given the assurance that approvals critical to the NHFC delivering on its objectives, will be considered.

The Corporation has secured external funding from the Agence Française de Développement (AFD) and the European Investment Bank (EIB) for the rand equivalent of EUR20 million and EUR30 million respectively. The agreement with AFD was signed in November 2009 and the Corporation is in the process of concluding the agreement with EIB. The concurrent approval of the Minister of Finance and the Minister of Human Settlements was received for the Corporation to enter into both these loan facilities.

Mortgage loan default insurance

In line with the Corporation's objective of scaling-up its impact in its target market, the NHFC conducted a feasibility study based on introducing a Mortgage Loans Default Insurance (MI) in South Africa, during the last quarter of the year under review.



The introduction of the MI is aimed at enhancing and expanding the housing finance system and addressing the constant challenge of affordability and accessibility, for the underserved segment of the housing market.

It is pleasing to report that the outcome of the above feasibility study, which included all major housing finance stakeholders, confirmed that reasonable conditions exist in South Africa to establish an MI operation.

The Board's approval of the above strategic option, led to the undertaking of the next step, that of developing a business case and an implementation plan.

A process has been undertaken to redesign the CTCHC Business Model in order to turn the entity into a viable and sustainable operation, ready to attract potential equity investors in the business.

Partnerships / Subsidiaries

Cape Town Community Housing Company (CTCHC)

A process has been undertaken to redesign the CTCHC Business Model in order to turn the entity into a viable and sustainable operation, ready to attract potential equity investors in the business. The rationale for the intervention is conditionality that by the end of three years of acquisition, NHFC must have diluted its majority stakeholding.

Trust for Urban Housing Finance (TUHF)

NHFC continues to extend its impact in the private rental space, particularly in the inner city of Johannesburg, through Strategic Partnering with TUHF, where the Corporation is a 30% Equity Investor. To date, TUHF has funded 14 686 rental housing units in the inner city, through rental housing entrepreneurs.

Housing Investment Partnership (HIP)

The operationalisation of HIP has been slower than expected. This delay was due to the protracted robust development of the funding framework for HIP, by both the key shareholders and other institutional investors. With the progress and agreement signed by shareholders, HIP's project pipeline will be rolled out during the current year.



Chief Executive's Report (continued)

The way forward

During 2009, in response to the Human Settlements Imperative, instead of just Housing and a quest to scale up the Corporation's impact in its target market, the NHFC reframed its Strategic Thrusts and revised its Business Plan for 2011/2013. The process culminated in the approval of the revised Business Plan 2011/2013, which was approved by the Board on 25 March 2010, before being submitted for Ministerial approval.

The new Strategic Thrust comprises of four pillars, better known as "NHFC's intervention in the Human Settlement space!", namely:

Expanding of Housing Finance Activities

The Corporation wants to provide the low-to-middle income households with choice, through the effective provision of housing finance. To achieve this objective, a portfolio of financial instruments will be used, ultimately based on the households' needs, affordability and preference or appropriate tenure option.

Facilitate Enhanced Private Sector Contribution in the Market we serve

To achieve the above objective, the Corporation will continue to promote the design and provision of mechanisms which will increase the level of Private Sector participation in its target market, using a number of instruments, ranging from subsidy provision to risk enhancement mechanisms.

In line with this thrust, the above mentioned Mortgage Loans Default Insurance exercise, is an example of the solution option the NHFC is exploring. This solution is intricately aligned and responds to one of the Minister of Human Settlements' priority programmes to improve the residential property market by facilitating an increased supply of affordable housing finance. This will be achieved through the establishment of a Guarantee Scheme (R1 billion). The said Guarantee Scheme is aimed at catalysing or unlocking private sector participation in the affordable housing market.

Mobilise Finance on a Sustainable Basis, into the Human Settlements Space

The NHFC's strategic funding activity is designed to not only increase the availability of funding but also blend its sources on a sustainable basis, to deliver better affordability levels to its target market.

The ultimate challenge though is the development of a viable and sustainable funding model for Human Settlements. As a result, at the request of the Department of Human Settlements, the NHFC plays a pivotal role in the development of this strategic lever.





Fund Well-Located, Suitable Land Parcels

With the transition from Housing to Human Settlements, land is a critical element to the ultimate delivery of Sustainable Human Settlements. Therefore, included as part of the Corporation's thrust, would be facilitating funding of well-located and suitable land, for Human Settlements development.

Appreciation

Special thanks go to the Board for its leadership, untiring support and diligence, in what was a particularly trying year. Thanks for the many Board sub-committee meetings, which not only resulted in the Corporation's ability to contain the adverse impact on its performance, but also chart a new path that would scale-up its impact in the Human Settlements' space, in the years ahead.

To our funding partners and clients, a special thank you for your faith in us, and confidence that together we can make a difference to the many, whose housing and housing finance needs have not yet been met.

To the NHFC staff, I thank you for your loyalty, passion and commitment to the mandate imperative of the Corporation, and its contribution to governments' Human Settlements delivery agenda.

Things are looking up for the year ahead, and our mandate scope is broader. I trust that, in the execution of our mandate, we have what it takes, to make a meaningful contribution, not only through the delivery of housing or housing finance, but also to go far in the development of sustainable communities.



Samson Moraba
Chief Executive Officer



National Housing Finance Corporation Limited

Sustainability Report

Sustainability Report

In line with its mandate of broadening and deepening access to affordable housing finance for the low-to-middle income households, as required by the National Department of Human Settlements (NDoHS), the National Housing Finance Corporation Ltd (NHFC) is committed to the principles of sustainable economic, social and environmental development in its investment decisions.

In terms of sustainability, the Corporation started a process to identify the gaps in its current governance process as part of the overall King III gap analysis, with the aim to close these gaps over the next financial year. To ensure sustainable business, a detailed Implementation Plan has been developed and tabled at the various NHFC governance structures, which will form the foundation of NHFC's activity.

Economic sustainability

The Corporation was capitalised at inception and receives no grant funding from the Department of Human Settlements. The sustainability of the Corporation is dependent on its building up of reserves. The long-term sustainability is therefore imperative for the future of the Corporation, especially if it is to deliver on its developmental mandate. The Corporation does not pay dividends to the shareholder but is however a tax-paying entity.

Financial Performance

	2010	2009	2008
Profit before tax (Rm)	73	150	106
Return on equity (%)	2.60	5.00	2.96
Total assets (Rm)	2,886	2,759	2,593
Capital and reserves (Rm)	2,216	2,159	2,046

The performance of the Corporation is captured in context of the challenging conditions that prevailed in the operating environment, for the greater part of 2009. These negative

environmental factors also impacted on our clients, which resulted in lower draw-downs of approved facilities and an increased level of impairments. The effect of the lower interest rates is seen in the reduced profit for the current year.

The Corporation maintained its credit rating as detailed below:

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

Governance and compliance

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

The Corporation's corporate governance structures and practices are aligned with the principles set out in the King II report on Corporate Governance Practices and Conduct (King II) and best practice for public entities falling within Schedule 3(A) of the Public Finance Management Act, Act 1 of 1999. The Corporation reviews its policies and practices on an ongoing basis to reflect internal developments and to ensure that the business is well managed.

The Board has committed the Corporation to align itself to the principles of King III, which became effective on 1 March 2010 and requested Management to submit a detailed action plan for implementing it. The Audit and Risk Committee (ARC), in line with its corporate governance



Sustainability Report (continued)

role, reviewed the plan and requested Management to benchmark the NHFC with other housing institutions and develop a road map with target dates. The revised plan will be resubmitted to the ARC for review and recommendation to the Board.

The NHFC adopted a progressive Compliance Framework covering all the regulatory requirements and aspects that NHFC complies to. Achieving a panacea of compliance that is linked strategically with performance management will enable NHFC to focus on the key areas that move the business forward. NHFC aims to ensure that compliance is embedded and that all business activities are performed in an economically, environmentally and socially responsible manner.

Risk Management

The NHFC adopted a holistic Enterprise Risk Management framework (ERM) that is based on an integrated process ensuring an enterprise view of its risks, impacts and opportunities in a highly complex, dynamic and ever-changing environment.

The framework specifically addresses the structures, processes and standards implemented to manage risks on an enterprise-wide basis in a consistent manner. These range from internal audit systems, operational risks management, IT security, compliance processes, credit management, treasury management and a range of other line management interventions. The framework further addresses the specific responsibilities and accountabilities for the ERM process and the reporting of risks and incidences at various levels within NHFC, ensuring thorough and transparent governance processes.

Contributing to the economic stability of our clients

The NHFC continues to play its part in the upliftment of communities, through the effective provision of housing finance solutions for sustainable human settlements, thus meeting the housing needs of the low-to-middle income households by enabling them to choose from renting, owning or incrementally building.

The clients who obtain funding from NHFC cover a wide spectrum of participation in low-to-middle income housing and require different levels of support and attention. The staff of the NHFC is expected to understand and address these needs in a professional and appropriate manner.

In the wholesale arena we have:

- Intermediaries - providing housing improvement loans and mortgage bonds.
- Developers - building houses 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 DHS subsidy range.
- Community rental landlords - focusing on transitional and very low-income rental housing; which is often shared accommodation.
- Private rental landlords - mainly targeting inner-city regeneration projects housing low-to-middle income households.

The Corporation facilitates increased and sustained lending to the lower end of the housing market through strategic partnerships.

In line with triple-bottom line imperatives the Research Unit has, during the year under review, completed several socio-economic studies that were used to inform lending and investment decisions by the Projects division. This has now become a standing arrangement.

The Retail offering of the Corporation is available through Home Front Finance (HFF). HFF offered its product through Mortgage Originators and Employer-based Channels.

In terms of a Public-Private Partnership home loan financing agreement with Impala Platinum Mines (Implats) and the North West Human Settlements Department, Implats built 1 559 housing units for sale to its employees and the public. HFF provided end user finance home loans, and the North West Human Settlements Department provided FLISP subsidies to qualifying beneficiaries.

The significance of this tri-partite partnership is the provision of access to housing and affordable finance for the end-user.

The Implats Housing Project won the Southern African Housing Foundation Project of the Year 2009 Award.

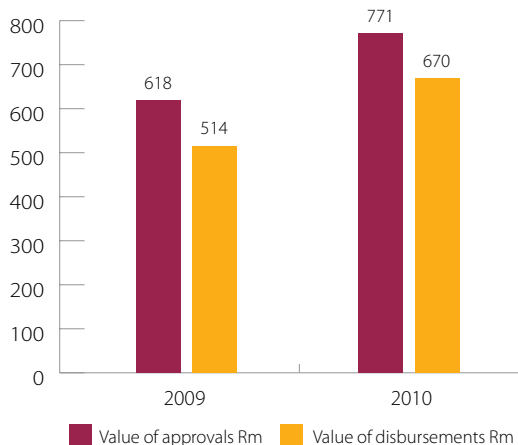
The Retail intervention in the future will take a different approach. As opposed to doing business directly with the end-user, the NHFC will facilitate, through leveraging and enhancing private sector players, to increase their impact in the lower end of the market.

The Mortgage Credit Insurance Programme is the NHFC's reframed Retail intervention specifically addressing issues of affordability, accessibility and scale at end-user level, by significantly leveraging private sector capacity. A feasibility study was conducted and the next stage, which will define the product as well as the business case, will be performed in the new financial year.

As a DFI and one of the agents in the delivery of sustainable human settlements to low income earners, the NHFC is required to fund its activities in a manner that will translate into affordable cost-of-funding to the target client and aligned with market norms.

The funding impact of the Corporation is depicted in the graph below.

Funding Impact (Rm) 2009/2010



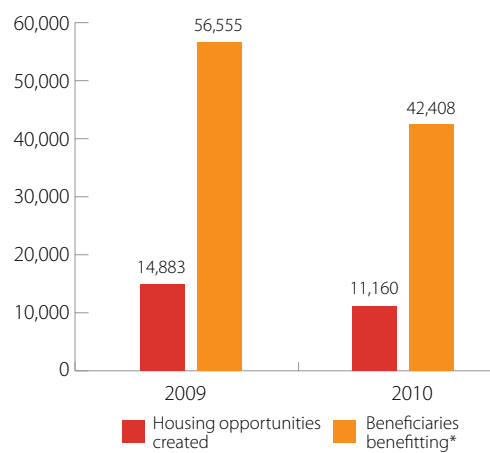
Social sustainability

Housing opportunities created

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.

The housing opportunities created through its funding is depicted in the graph below.

Housing opportunities created 2009/2010



* Beneficiaries calculated as 3.8 members per household

The decline in the housing opportunities created is indicative of the negative operating environment, in the 2010 financial year.

The Corporation facilitates Human Settlements' projects in partnership with Municipalities and Provinces. Its role in these provinces involves providing technical assistance, directly or indirectly, to reduce the turnaround time to bring viable projects to the market for development by others.

The Research Unit assisted the National Department of Human Settlements with the Social Contract. Members of this unit remain long-standing representatives on the National Housing Research Agenda Steering Committee, as well as the DFI Forum.

Sustainability Report (continued)

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 projects funded by the Corporation.

Borrower education

Borrower education and financial literacy are critical success factors for any responsible lender. It clarifies and unpacks the total makeup of the home loan offered to the client. Borrower education is a key requirement of the National Credit Act (NCA). The NHFC offered its retail clients borrower education through its contact centre, prior to them signing the loan agreement. Borrower education prior to committing to the loan, allows the borrower a context within which to accept, decline or negotiate some of the terms of the loan. After receiving the borrower education, the client contracts from an informed position.

Financial literacy teaches borrowers how to plan and manage their finances and empowers them to make financial decisions. Financial literacy is offered in an interactive and commonly used language workshop format. Key learning outcomes for the borrower, after attending a financial literacy programme, is knowledge on how to save more, spend less, borrow prudently and manage debt with discipline. The workshop places strong emphasis on defining the lenders' and borrowers' obligations and responsibilities, on the home loan taken.

The composition and delivery of financial literacy, over and above NCA Borrower Education requirements, is indicative of the NHFC's commitment to its developmental role while offering centre-of-excellence services to its target market.

All Retail clients are issued with an informative Homeowner's Home Loan Guide and Manual for keeping and reference.

Procurement

The NHFC has a comprehensive Procurement Policy and related database of suppliers.

The NHFC plays an important role in supporting local businesses, which provides employment and drives socio-economic development in local communities, ensuring that it procures from suppliers who are transformed and in line with transformation charters and Sector Codes published. The NHFC commits itself to fostering new, and developing existing, BEE accredited companies, through a variety of initiatives.

In the current year the Corporation reviewed and drafted its B-BBEE strategy, keeping in mind the alignment between the PPPFA and the DTI Codes of Good Practice thus aligning with the B-BBEE Act.

Education

The NHFC and ABSA jointly hosted a graduation ceremony of 200 estate agents, where NHFC was one of the main funders. The initiative involves the training of more than 400 estate agents in the low-to-middle income housing market. The Research Unit has been progressing with the second phase: the training of Black Estate Agents. It is anticipated that this intake of students will graduate in the next financial year.

During this period, NHFC researchers have also been helping to co-ordinate the Housing Finance Masters Programme, offered by the School of Architecture & Planning and School of Construction Economics & Management, at Wits University. Students from many parts of Africa have enrolled for this programme. We see this as part of the NHFC's contribution to helping professionalise the sector.

Corporate Social Responsibility

The Corporation participated in many housing-related initiatives, such as the Govan Mbeki Housing Awards of the NDoHS, providing input into the assistance granted to the Democratic Republic of Congo, on housing through multilateral agreements, etc. Other initiatives include exhibitions at the department's budget vote speech and the post-budget cocktail event, where the NHFC is profiled and stakeholders are educated and informed about the business of the Corporation. The Corporation also shared an exhibition stage with the NDoHS at the National Council of Provinces.

A Corporate Social Investment Policy providing the focus for budgeted expenditure on CSI, has been developed and is now being implemented with the Communications Division, identifying projects that could be supported.

The NHFC has provided funding to numerous organisations in an effort to be socially responsible. Examples of these are the procurement of school tracksuits for a school in Ugie (Idyoki Primary School), in the Eastern Cape; a monetary donation, including the donation of toys, to children affected and infected by HIV and Aids, at the Sparrow Ministries, on World Aids Day; and funding a gala dinner for the Usizo-Lwethu School for learners with special educational needs, situated in the Ekurhuleni Municipality.

The NHFC also sponsored furniture to beneficiaries of a Women's Build Project held in Nelspruit, Mpumalanga. A number of proposals and initiatives that could be funded in the next financial year are under consideration.

Staff participated in house-building projects in various provinces, such as Habitat for Humanity, Men, Youth and Women's Build projects, as this exposes them to the practical challenges of housing delivery.

Environmental sustainability

The Research Unit of the NHFC participates in various forums to keep the Corporation informed of environmental issues.

The NHFC is a leading partner in the annual International Innovative Housing and Sustainable Energy Efficiency Competition, in partnership with ABSA and the NHBRC, as part of a commitment to support the NDoHS' Comprehensive Plan on Sustainable Human Settlements to explore innovative technology and energy efficient low-cost and affordable housing solutions.

During the year under review, the NHFC Research Unit was intimately involved with the Alternative Building and Sustainable Energy Efficient Housing initiative held in Drakenstein, in the Western Cape. A social assessment survey was conducted among both subsidy beneficiaries and affordable home seekers. The unit has also been building strategic alliances with other individual rational home designers wanting to show case their products in South Africa, e.g. Humane Homes.

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

The NHFC started a process to determine the environmental and social impacts of its operations and to develop a comprehensive Environmental and Social Investment Policy, which will bind the entire value chain in its commitment to sustainability. In terms of this policy, the NHFC will make the utmost effort to ensure that all projects are implemented in compliance with all environmental and social requirements of the Policy on an ongoing basis and for the duration of the NHFC's financing.

NHFC also committed that it will endorse, where financially viable, the use of green building materials, green building technology and resource efficiency (water, waste and energy), in its investments, and encourage clients to ensure that projects are aligned with, and support, the integrated human settlement strategies of South Africa.

Our People

Key to talent management, and the reason for Human Capital Management in the NHFC, is the provision of assurance that there will be capacity to deliver on the Corporation's mandate. To this end, Human Resources (HR) take its cue from the Corporation's strategic objectives, in terms of capacity requirements and relevant HR interventions.



Sustainability Report (continued)

In the year under review, development of capacity among other HR interventions such as the creation of a succession pool, institutionalisation of the Balanced Scorecard as a performance management tool and ensuring employee wellness etc, took centre stage.

The effectiveness of our talent management strategies was tested in the recent February 2010, Employee Engagement Survey (EES), in which the NHFC was cited as Employer of Choice by staff. The overall employee satisfaction of 61% was achieved. The score is a good start, since the NHFC comes from a past of not benchmarking at all.

Our processes and practices are therefore geared to ensuring that the NHFC remains the Employer of Choice to both our employees, as well as to potential staff. We will continuously work to improve areas identified as requiring attention in the EES, through a program of implementation, over the next 18 months.

In order to keep our employees motivated and the momentum going, remuneration and recognition systems play an important role. The Executive Managers' remuneration and incentive scheme were aligned to the guidelines of the Department of Public Enterprises (DPE).

Our belief that satisfied and motivated staff translates to satisfied customers, and therefore sustainability of the organisation, has motivated us to review and enhance the generic short term incentive scheme (Roar), ensuring that it is still relevant and that it encourages certain desired employee behaviours.

While we are certain that our employees are generally satisfied with the NHFC as an employer as evidenced in the results of the EES, there is also a need to improve our talent management strategies in areas identified in the EES and to accelerate delivery on other maintenance strategies such as the creation of a succession pool, improving the Learnership program to ensure that the NHFC remains adequately resourced, and engaging employees are engaging at all levels.

In order to keep our employees motivated and the momentum going, remuneration and recognition systems play an important role.

Attraction and Retention

Recruiting the right people with the right skills will always be critical to the achievement of organisational objectives. For the year under review, HR was able to strengthen its recruitment and advertising tools, by promoting the usage of electronic technology, which accelerated the recruitment processes in critical positions. Although it could be a while before the impact of using electronic recruitment is felt, the groundbreaking experience, once it is firmly grounded will go a long way in reducing the cost of recruitment.

Staff turnover remains a critical barometer in talent management strategies. While it has a bearing on the cost of recruitment and improved morale, its greatest benefit is in the sustainability of the business.

There is a recognition that staff turnover is inevitable and, up to a point beneficial to the organisation. Nevertheless, too much of it is costly, considering the amount of time taken to recruit and gear up new employees. We are therefore tracking the regrettable resignations and have given ourselves a benchmarked target.

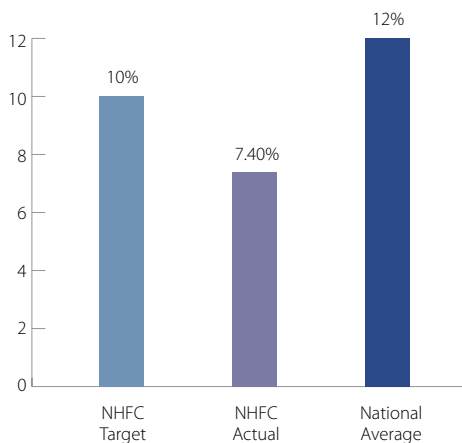




In the period under review, the NHFC had targeted a 10% staff turnover. Performance against this target was good with overall staff turnover at 7.4% (see graph below). The industry norm still stands at 12%.

The challenge for the NHFC in the next financial year is to reduce the number of regrettable resignations.

Staff turnover 2009/2010 (%)



Talent Development

The extent to which employees are aligned towards strategic objectives, ultimately influences delivery. The ability of those employees to perform at the required level is, to a large extent, influenced by, among other things, the type of training they receive, which, not only improves their levels of competence, but also ensures delivery on our mandate.

In the year under review, training and development of staff was geared at mostly addressing technical skills gaps, ensuring that employees are adequately competent to fulfill performance expectations.

Performance against target (training at least 70% of staff on technical skills within the prescribed budget) was good (74% staff trained within budget).

This was also plotted against the Workplace Skills Plan (WSP). Performance against the latter is a challenge as there is always tension between business and training demands.

In compliance with the requirements of the Skills Development Act of 2000, the NHFC continuously reports to the BANKSETA on its skills development initiatives. To this end, the Corporation received a 15% of payroll rebate.

Talent Development's focus in the next financial year, is on "return on investment" ensuring that the Corporation benefits from employee development.

Another important aspect of employee development that continues to receive attention albeit in partnership with the BANKSETA, is the development of the leadership bench strength. The partnership between the BANKSETA, the NHFC and the Gordon's Institute of Business Science (GIBS) has produced three graduates since 2008/9. Two more candidates have joined the leadership pool, by enlisting for leadership development. The partnership is proving to be mutually beneficial to all three stakeholders.

Another important partnership is the Learnership program with the BANKSETA. However, because of the restrictions in the ratio of students / employer allocation, the NHFC has seen fit to also partner with tertiary institutions, independently, to explore the possibility of pursuing an internship program.

Performance Management

Performance management within the NHFC seeks to achieve two objectives, i.e: to manage performance at corporate and individual level, while also ensuring employee personal development alignment with organisational goals.

The understanding and implementation of the Balanced Scorecard system, as the preferred performance management system, is gaining traction. At the beginning of the financial year, the organisation went through a vigorous objective setting exercise. This resulted in employee alignment to organisational objectives. The performance target of 70% was set for the organisation and cascaded. Performance is monitored through quarterly reviews.

Sustainability Report (continued)

Compensation and Benefits

The NHFC's remuneration and compensation philosophy is to pay market-related salaries. To this end, we participate in the Deloitte and Touche' annual remuneration survey, for both staff and executives, to benchmark ourselves against the market and to effect necessary alignment, where required.

The DPE remuneration guidelines for executives, not only ensure alignment to the rest of the public service, but also provide a structure to foster performance-related bonuses and, ultimately, retention of key staff for sustainability.

The NHFC considers its employees to be its most valuable assets and undertakes to safeguard them.

All employees of the NHFC belong to a Provident Fund, which ensures that at retirement/death, whichever comes first, the employees/beneficiaries are taken care of.

For the 12-month period, ending March 2010, the real return earned by the Fund was 15.6%, with inflation at 5.1% p.a. Over the longer term (5 years), the Fund has generated an excellent real return of 8.5% per annum (Robson Savage, 2010 1st Quarter report).

Occupational Health and Safety

The NHFC considers its employees to be its most valuable asset and undertakes to safeguard them through providing and maintaining, as far as reasonably practical, a working environment that is safe and without risk to the health of its employees, through the Health and Safety Committee.

We have developed programmes and procedures to ensure compliance with applicable laws and regulations. Employee representatives are trained continuously to guarantee safe and appropriate handling of safety and emergency equipment, whenever required. Through our policies, we do, however, encourage personal accountability and emphasise compliance with standards. Where necessary, we take appropriate action to correct hazards or conditions that endanger health, safety and the environment. In the reporting period, there were no reportable incidents.

Employee Wellness

The NHFC's staff, like all other South Africans, face a wide range of psychological, social and economic pressures, which have an impact, directly or indirectly, on their work output.

As a caring organisation, the NHFC partnered with ICAS to offer its staff an Employee Wellbeing program, which deals with Psychological, Psycho-social and Financial Management interventions, at both individual and group level. The interventions, offered to employees and their families can be telephonic or direct interaction, 24 hours a day.

During the year under review, the telephonic Psycho-social program was utilised more than the other two. According to the ICAS report, more referrals were Psycho-social in origin and involved mostly personal relationship issues. This is understandable, as relationships were put under stress due to the financial strain, resulting from the economic downturn globally.

Of note was that there were no records of any manager/employee relationship issues.



Employee Relations

It is the NHFC's belief that a good employer / employee relationship is mutually beneficial to both parties. Therefore, the NHFC has a Recognition Agreement with the employee representative body SASBO, which represents the interest of employees, who are its members, even though SASBO does not have sufficient membership representation within the Corporation.

In order to regulate the employer / employee relationship, our policies and procedures on disciplinary, grievance handling and dispute resolution are designed to address issues in a fair and equitable manner.

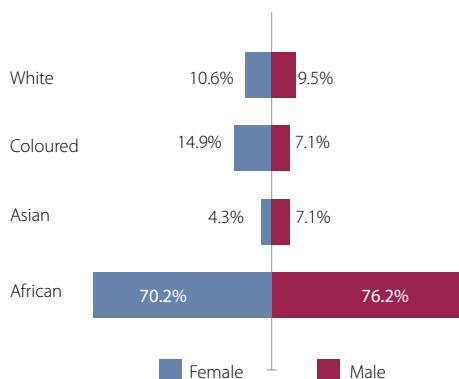
Our performance of 1% against a benchmarked Corporation target of 5%, on how we dealt with issues of disciplinary, handling grievances etc., is laudable, as it testifies to a relatively harmonious working environment.

Employment Equity

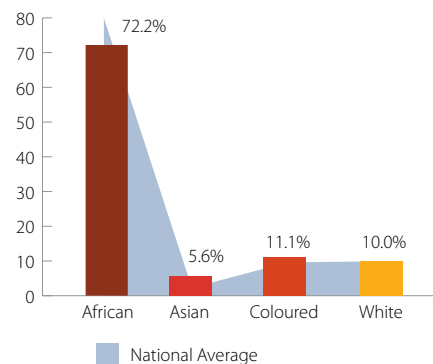
The NHFC complies with the imperatives of the Employment Equity Act. In general, we are doing well at 74% against the National Demographic target of 79%. Gender representation within the NHFC mirrors the national demographics' imperatives.

Below is the schematic representation of employment equity in the NHFC:

NHFC employment equity:
Gender composition 2009 (%)



NHFC employment equity:
Ethnic composition compared to national population composition 2009 (%)

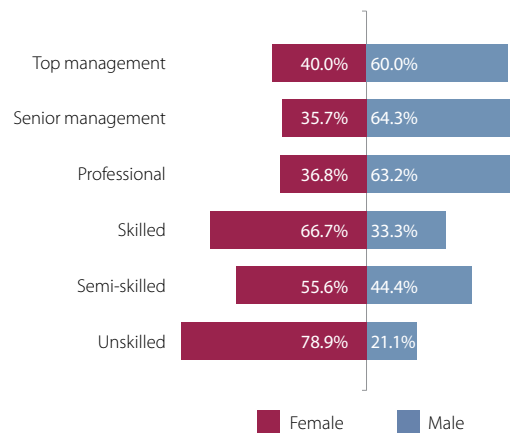


Sustainability Report (continued)

NHFC employment equity:
Staff (%) by occupational level 2009



NHFC employment equity:
gender composition by occupational level 2009



Code of Ethics (the Code)

The Code, approved by the Human Resources and Ethics Board Committee, is in place. The Code spells out the acceptable/unacceptable and expected/unexpected behaviour from the NHFC employees, as well as disciplinary action against those who transgress the code.



National Housing Finance Corporation Limited

Corporate Governance

Corporate Governance

National Housing Finance Corporation Limited (NHFC's) corporate governance structures and practices are aligned with the principles set out in the King II report on Corporate Governance Practices and Conduct (King II) and best practice for public entities falling within Schedule 3(A) of the Public Finance Management Act, Act 1 of 1999. The Corporation reviews its policies and practices on an ongoing basis to reflect internal developments and to ensure that the business is well managed.

The Board has committed the Corporation to align itself to the principles of King III, which became effective on 1 March 2010 and requested Management to submit a detailed action plan (the Plan) for implementation. In line with its corporate governance role, the Audit and Risk Committee (ARC) reviewed the Plan and requested Management to benchmark the NHFC with other housing institutions and develop a road map with target dates. The revised Plan will be resubmitted to the ARC for review and recommendation to the Board.

NHFC Board Governance Structures and Framework

Board of Directors

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 2009/10 financial year and a Shareholders Compact with its shareholder, which sets out the key performance measures against which organisational performance is assessed. These are reflected on page 104 of the annual report.

The Board reports to the Shareholder through quarterly reports as well as the annual report.

The CEO is charged with the day-to-day management of the Corporation's operations and consults and meets regularly with the Department of Human Settlements (DHS) and the Minister.

Founding Documents

A review to align the NHFC's Articles of Association with the new Companies Act, Act 71 of 2008 (the Act) was, based on advice from our external legal advisors, suspended until such time the Regulations to the Act are reviewed and promulgated.

Composition of the Board

The Board is appointed by the Minister in his capacity as Shareholder representative and comprises nine members, the details of whom are reflected on page 7 of the annual report. They are all independent non-executives, with the exception of the Chief Executive Officer (CEO).

The Directors bring a wide range of banking, financial, regional planning and legal expertise to issues of strategy, performance, protection of stakeholders' interests and the setting of the Corporation's policies.

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

Board meetings and procedures

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

Board members are reminded annually of their statutory duties pertaining to the declaration of interests and are 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 interest in relation to a particular agenda item and to recuse her/himself from the discussion of that item, unless the Board resolves that the declared interest is trivial or irrelevant.

The role of the Board and delegation of authority

The Board Charter gives a concise overview of the demarcation of roles, functions, responsibilities and powers of the CEO, the Board and the Shareholder. 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 as well as monitoring management closely in the implementation thereof; and
- monitoring operational and financial performance and effectiveness of management on a regular basis.

The Board has, during the period under review, reviewed the Delegated Authority document, which sets out the powers delegated to Management.

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

Corporate Governance (continued)

Board Code of Conduct

The Code of Conduct sets out the principles to be followed by the Directors and members of Committees in the conduction of the Corporation's business.

Induction and Training

The independent Non-Executive Directors appointed during the financial year attended an induction session and received induction material to deepen their understanding of the Corporation's business and the environment in which it operates.

Board Assessment

An external service provider performed an appraisal of the Board, and an action plan to address the identified weaknesses will be developed.

Board Committees

The Board has delegated certain matters to an Audit and Risk Committee, a Board Credit and Investment Committee, a Human Resources, Ethics and Remuneration Committee and a Development Impact Committee, but has reserved the power to approve credit applications in excess of R100 million. The minutes of the respective Committees are tabled and the respective Chairpersons report back to the Board at the next Board meeting.

The main duties delegated to each Board Committee are reflected as follows:

Audit and Risk Committee (ARC)

ARC comprises three Independent Non-Executive Directors. The members are Messrs Ntsaluba (Chair), Tati and Dr Khoza.

ARC oversees financial reporting, internal controls, funding plans and strategies, compliance, corporate governance, policies and risk management. It also reviews the enterprise risk management policy and strategy, as well as 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.

ARC meets at least 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 Chief Financial Officer and the Executive Manager: Enterprise Risk.

Board Credit and Investment Committee (BCIC)

BCIC comprises three Independent Non-Executive Directors and the CEO. The members are Ms Makiwane (Chair) and Messrs, Coetzee, Moraba and Tati, and it meets at least four times a year or more frequently if circumstances so require. BCIC meetings are attended by the Executive Manager of Projects or Commercial to present a 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 and the Legal Manager.

BCIC considers all loan applications for 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 for approval.

BCIC members, with an interest in a loan application, must inform BCIC of a conflict or potential conflict of interest in relation to a particular item on the agenda and recuse her/himself from 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 three Independent Non-Executive Directors and the CEO. The members are Mss A Houston (Chair) and P Ramarumo, and Messrs 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, remuneration for Staff and Management and the development and implementation of the Code of Ethics.

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

Development Impact Committee (DIC)

The Board during the period under review approved the constitution of a DIC and appointed four Independent Non-Executive Directors (Messrs Tati, Coetzee and Mss Houston and Ramarumo) and one Executive Director (Mr Moraba) as members and Mr Tati as Chairperson of the Committee.

DIC's main objective will be to give the Board assurance that the NHFC's strategic objectives are aligned to the Human Settlement Strategies and Policies and deal adequately with developmental impact. It will also review the Operations performance against the objectives set for developmental impact as part of this objective.

Board and Board Committee Record of attendance:

	Category	Number of meetings & Membership (✓)								
		Board	Audit & Risk		BCIC	HRER		DIC		
		6	6		5	4		1		
Prof M M Katz	Independent Non-Executive Chair	6								
Mr S S Moraba	CEO	6	✓	6	✓	5	✓	4	✓	1
Ms A Houston ¹	Independent Non-Executive Directors	5					✓	1 ²	✓	1
Dr S J Khoza		5	✓	3						
Mr J Coetzee ²		6			✓	4				
Mr C Ball ³		-								
Mr S A Tati		6	✓	5	✓	5			✓	1
Mr T A Middleton ⁴		3			✓	3	✓	3		
Ms N E Makiwane		4			✓	4				
Mr S S Ntsaluba		4	✓	6			✓	4		
Ms P V Ramarumo ⁵		4					✓	4	✓	0

Footnotes

- 1 Appointed as Director on 6 May 2009
 2 Appointed as member and Chair of HRER on 26 March 2010
 3 Resigned on 26 November 2009

- 4 Resigned on 31 December 2009
 5 Appointed as Director on 6 May 2009
 ✓ Member of Board Committee

Corporate Governance (continued)

Management Committees

Executive Management Committee (Exco)

Exco comprises of the Executive Managers reflected on page 9 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

All credit applications are submitted to the Credit Division, who conduct a thorough assessment of the risks associated with the particular application, and make a recommendation to an Internal Credit Committee (ICC).

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

MCC, a sub Committee of BCIC, is Chaired by the CEO and meets when required. The CEO, a co-opted Industry Specialist, the Executive Manager: Credit, the CFO, the Assistant Executive Manager: Credit, the Legal Manager and the Executive Manager: Projects attend MCC meetings.

MCC is responsible for approving loan facilities up to, or cumulatively up to, R30 million per client, as well as 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/himself from the discussion of that item.

Financial Risk Management Committee (FRMC)

FRMC is chaired by the CEO and comprises of the Chief Financial Officer, Executive Manager: Enterprise Risk and the Money Market Dealer.

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

The FRMC will be replaced with an Assets and Liability Committee in the new financial year and its terms of Reference updated to reflect its new responsibility in terms of liabilities, which was introduced with the signing of the Agence Française De Developpement loan agreement.

Retail Executive Committee (Rexco)

Rexco deals 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.

Procurement Committee

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

The Procurement Committee is chaired by an Executive Manager and comprises a Finance Manager, Legal Advisor and Business Development Manager. This Committee is accountable for monitoring and overseeing the implementation of the Procurement Policy, Procedures and Code of Conduct, as well as monitoring adherence thereto.

The Safety and Security Committee (SASC)

SASC is a sub-committee of Exco and its main objective is to monitor, evaluate, advise and make decisions in respect of all matters concerning health, safety and security in the Corporation. To meet this objective the Committee meets

bi-monthly or more frequently if required to inter alia review and recommend the Safety and Security Policy to Exco for approval. SASC is accountable for monitoring and implementing the Policy once it is approved by Exco.

The Committee constitutes one member of the Executive Committee, two members of its sub-committee, the Health and Safety Committee, one Legal, IT and Compliance representative respectively, and one staff member nominated by the Committee on the basis of his/her understanding of Safety and Security issues within the Corporation.





National Housing Finance Corporation Limited

Risk Management Report

Risk Management Report

NHFC'S Risk Management Philosophy and Framework

During the year under review the NHFC formally established an Enterprise Risk Management function, coupled with the formal appointment of a Risk Executive, ensuring that the NHFC build a comprehensive risk management framework and strategy to meet both statutory and best business practice requirements. The Enterprise Risk Management Framework is based on an integrated process that will ensure an enterprise view of its risks, impacts and opportunities in a highly complex, dynamic and ever-changing environment.

The underlying premise of the NHFC Risk Management philosophy is a thorough understanding of the risk exposures of the NHFC, in order that management and the Board are appropriately informed to take strategic decisions in the interests of the shareholder and other stakeholders.

The NHFC, like other similar entities, is facing uncertainty and the challenge for executive management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Considering the above, risk management and management agility have never been more relevant in the NHFC, especially given the rapidly changing global economic environment and the lagging recovery in the local economy. However, the robust risk management process assisted the organisation to reach an appropriate balance between realising opportunities for gains, while minimising adverse impacts. It is an integral part of good management practice and an essential element of good corporate governance.

The adoption of its holistic Enterprise Risk Management Framework allowed the NHFC to strike a balance between protecting the company from the downside effects of risks,

while allowing space for entrepreneurship and creation of stakeholder value, by leveraging opportunities in the market. The framework specifically addresses the structures, processes and standards implemented to manage risks on an enterprise-wide basis, in a consistent manner. These range from internal audit systems, operational risks management, IT security, compliance processes, credit management, treasury management and a range of other line management interventions. The framework further addresses the specific responsibilities and accountabilities for the ERM process and the reporting of risks and incidences at various levels within the NHFC, ensuring thorough and transparent governance processes.

In addition, the NHFC adopted a progressive Compliance Framework covering all the regulatory requirements and aspects that the NHFC, as a good corporate citizen, complies to. Achieving a panacea of compliance that is linked strategically with performance management will enable the NHFC to focus on the key areas that move the business forward. The NHFC aims to ensure that compliance is embedded and that all business activities are performed in an economically, environmentally and socially responsible manner.

Risk Management Report (continued)

Governance of Risk

The Board is accountable for the total process of risk management and forming an idea on the effectiveness thereof. The Enterprise Risk Management Framework and Policy is in line with international standard (ISO 31000) and delegated its responsibility, for overseeing the management of risks pertaining to the business of the Corporation, to the Audit and Risk Committee. The Audit and Risk Committee receives quarterly reports on the key risks and how they are being addressed, and submits a review annually to the Board. A Risk Executive was appointed to ensure that the ERM Policy and Plan is executed and embedded in the organisation.

Board

The Board has overall strategic accountability for the total process of the NHFC risk management system and control as well as forming its own opinion on the effectiveness of the process.

Audit and Risk Committee

The Audit and Risk Committee is tasked with the responsibility of assisting the Board in executing its responsibilities with respect to risk management as set out above. The Audit Committee's risk management role is to ensure that the approved ERM Framework and Policy is embedded and that the approved Risk Management Plan is implemented by Executive Management.

Chief Executive Officer

The Chief Executive Officer of the NHFC is accountable to the Accounting Authority (the Board), ensuring that the NHFC has, and maintains, an effective, efficient and transparent risk management process.

Executive Management

Each Executive Manager is responsible for identifying and managing risks inherent to the operations of his/her Division, as well as establishing what the residual risk levels are and where they need to focus their management attention. Quarterly reports are submitted to the Audit and Risk Committee, which deals with the actions taken by Management to address the key risks.

Subsidiary Companies

Subsidiary Companies are required to implement an Enterprise Risk Management Policy and Framework (including Compliance) which is fully aligned to the NHFC Policy and Framework.

Credit Risk Management

Due to the nature of the NHFC business a separate Credit and Investment Committee was established at Board level to ensure that all investment and credit decisions are made in line with the approved Credit Policy. An Executive Manager was appointed to manage the Credit Management Portfolio and a Management Credit Committee was established to ensure consistent application of the Credit Policy.

Financial Risk Management (Assets and Liabilities)

Financial/Market Risks are managed within the Treasury Department under the leadership of the Chief Financial Officer. A Treasury Management Policy is in place that governs the financial risk exposures to NHFC and a Financial Risk Management Committee (responsible for Assets and Liabilities Management) are established to provide oversight to the treasury operations.

Risk Assurance

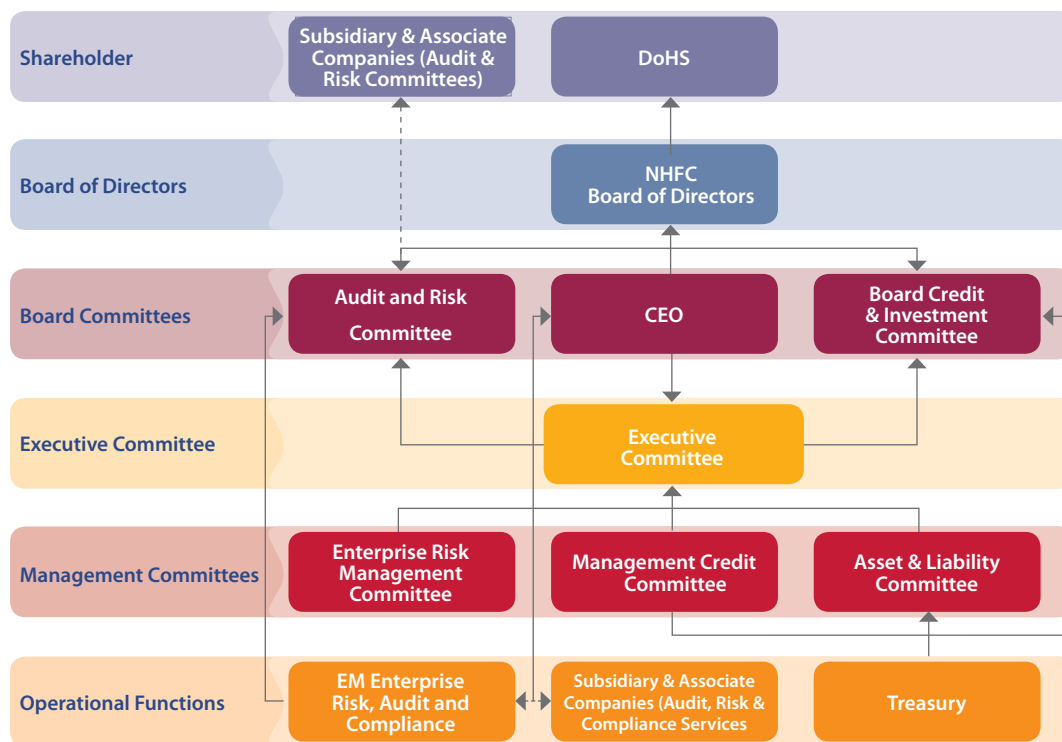
The outsourced internal audit function independently audits the adequacy and effectiveness of the Corporation's risk management, control and governance processes. Reports from auditors both internal and external, are tabled and discussed at Audit and Risk committee meetings as well as management responses to the issues raised in the respective management letters.

Compliance

The Compliance function is centralised under the leadership of the Risk Executive, with a dedicated Compliance Officer. The Compliance Officer is independent of the Corporation's operational activity and assists management in complying with all applicable statutory and regulatory requirements.

Quarterly Reports are submitted to the Exco and the Audit and Risk Committee ensuring that proper oversight is exercised.

The governance structure for Risk management is illustrated below.

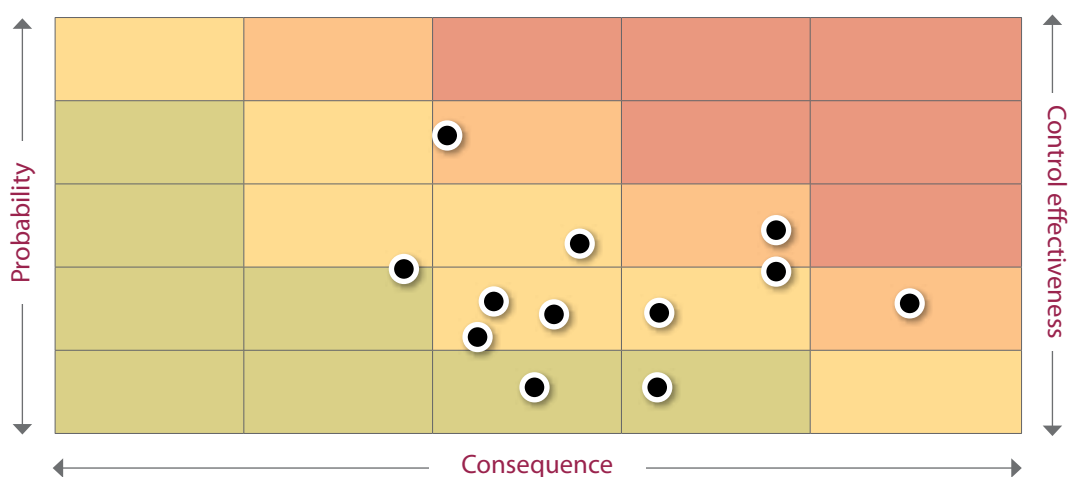


Risk Management Report (continued)

Strategic Risk Profile (Inherent and Residual)

The following are the identified NHFC strategic risks compiled after reviewing risk mitigation plans, completed audits and outcomes of various governance meetings at NHFC during the period under review.

Risk Matrix / Heat Map (Residual Risks)



Key Strategic Risks

Risk ID nr	Risk Ranking	Risk Description
●	1	Failure of the NHFC to deliver on the expanded government mandate
●	2	Inability or unwillingness of customers or counterparties to financial obligations, to fulfill their contractual obligations (Credit / Default Risk)
●	3	Failure of turning CTCHC into profitable stand-alone business
●	4	Exposure to interest, liquidity and counterparty risk
●	5	Inability to mobilise sustainable funding
●	6	Damage to NHFC's image (Reputational Risk)
●	7	High staff turnover, inadequate succession planning for executive management, ineffective leadership & non-alignment of HR & Corporate strategy
●	8	Business interruptions due to failure to prevent business disruptions because of unavailability of IT services
●	9	Direct or indirect losses - resulting from inadequate or failed internal processes, people and systems, or external events
●	10	Misalignment between business and IT strategy
●	11	Strategic imperative to participate in retail home loan space not commercially sound
●	12	Negative impact emanating from non-compliance with Acts and Regulations

Risk ranking (Residual)	Rating	Category	Risk Treatment	Category Description
	< R50m	Extreme	Immediate action required	Management should take immediate action to reduce residual risk exposure to an acceptable level.
	R25 – R50m	High	Action required	Management should implement more controls or increase the effectiveness of current controls to reduce the residual risk to a more acceptable level.
	R5m - R25m	Medium	Acceptable	The residual risk exposure is acceptable.
	<R5m	Low	Reduce control	Management may consider reducing the cost of control.

Existing Controls are in place for the identified risks and, where additional controls are required, Management developed detailed Risk Mitigation Plans to address the residual risk exposure. All risks are reviewed on a monthly basis, whereby the status of the mitigation plans are considered, as well as the outcomes of the scheduled audits conducted by KPMG, and then reported to the Executive Committee (Exco). Quarterly update reports are submitted to the Audit and Risk Committee (ARC) ensuring that the Board can execute its risk management responsibility in terms of the PFMA and King III.

Compliance Risk

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.

During the period under review a comprehensive Compliance Framework was developed by management and approved by the Audit and Risk Committee, which provides a common framework and an integrated approach to managing all compliance requirements faced by the NHFC. It also ensures that compliance is embedded in all business activities and they are performed in an economic, environmental and socially responsible manner.

To address specific compliance risk requirements, the NHFC took a broader, more integrated approach, where it identified compliance risks, rated in terms of high, medium, and low risk, and defined accountability. A Regulatory Universe was drafted, as well as a detailed PFMA Risk Management Plan to ensure that management adequately addresses compliance risks. In addition an Anti Money-Laundering Policy was approved by the Exco and ARC.

Risk Management Report (continued)

Operational risk

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, as well as 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, ensuring that the Corporation maintains adequate accounting records, internal controls and systems, therefore providing reasonable assurance to the integrity and reliability of financial information and safeguarding its assets. Operational risks are managed through the Enterprise Risk Management Framework ensuring that the Corporation has a comprehensive view of its risk exposure, including market, credit and strategic risks.

Assurance

The internal audit function is provided by an independent service provider and operates in terms of an Internal Audit Charter. The internal audit function reports functionally to the Audit and Risk Committee and administratively to the Risk Executive, and its staff who 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 plan is based on the risks identified in the Corporation wide risk assessment, as well as all statutory audit areas, and the internal audit function reports to the Audit and Risk Committee on the approved plan.

The Corporate Fraud and Financial Misconduct, as well as the Anti-Money Laundering Policy, is set to zero tolerance for fraud in the Corporation. 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 comprehensive Business Continuity Management Plan was developed and approved during the period under review. A Disaster Recovery Plan, based on a detailed data centre risk assessment and business impact assessment, was developed and tested. The Corporation also signed an agreement with an independent service provider for an off-site disaster recovery site from where the Corporation can run its normal operations, with all required systems, in the event of a business interruption.

Reputational Risk

Reputational risk is the risk of damage to the Corporation's image, which may impair its ability to retain and generate more business. During the period under review, reputational risk was identified as one of the key strategic risks to the Corporation, more specifically because of the negative press the Corporation received due to the liquidation proceedings against Seakay Holdings as well as the Newtown Cooperation.

The Corporation manages its reputational risk through:

- a comprehensive strategy focusing on external stakeholders;
- an effective media strategy and execution plan;
- well coordinated and structured stakeholder intervention plans;
- a crisis communication plan; and
- ongoing evaluation of the reputational risks of the Corporation.



Credit Risk Management

Credit risk represents the largest, and the most material risk in the economic activities of the NHFC. The Corporation continually invests in the risk management capabilities underpinning the housing finance growth and development targets, which the Corporation committed to the Board of Directors and the shareholder.

The Corporation's risk management processes were tested by the economic downturn of 2008–2010, and it proved effective during this period.

Definition

In the NHFC, Credit risk arises when a counterparty to a financial transaction fails to meet its obligation in accordance to 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, namely the Projects, Commercial and Retail divisions.

Credit Risk Framework, Governance and Organisational structures

Credit risk is managed in accordance with the 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 risks across the Corporation's lending activities resides with the Executive Manager for credit risk, who reports to the Chief Executive Officer. The principal committees responsible for credit risk are the ICC, MCC and the BCIC.

All committees have clearly defined mandates, memberships and delegated authorities that are regularly reviewed.

The Corporation's Credit Sanctioning Tiers are as follows:

	Scale	Mandate
The NHFC Board	Above R100 million	Approve
Board Credit and Investment Committee	Up to R100 million	Approve
Management Credit Committee	Up to R30 million	Approve
Office of the CEO	Up to R10 million upon recommendation by ICC	Approve
Internal Credit Committee		Recommend

Respective credit committees will recommend all applications which are higher than the mandate to the next sanctioning tier.

The disclosure requirements, in terms of the International Financial Reporting Standards, are disclosed within the main body of the Annual Financial Statements.

The Year under Review

The 2009/2010 financial year was clearly a difficult one, particularly in the human settlements development and financing sector. This is despite the successful global policy stimuli, which have edged the world economy into a recovery and rebuilding phase.

Risk Management Report (continued)

It is likely that the recovery will be gradual for most, and fragile for many. In our markets, lenders are still cautious and access to affordable housing finance remains a fundamental challenge.

In response to the financial pressures experienced by clients, the NHFC has sought and implemented proactive interventions, which provided flexibility with repayment terms. Internally, the NHFC has devoted more focus on monitoring for potential stress and breaches of covenants in the client-base. The Turn Around and Workout unit has worked harder to implement early remedial activities and accelerate recovery processes, where the NHFC deemed recovery as an optimal loss minimisation option. In cases where the business-friendly approach was not supported by our counterparties, the Corporation followed the legal processes to effect recoveries of monies owed.

Impairments in the Spotlight

Economic uncertainty and market volatility have directly affected the valuation assumptions, such as growth rates, cash flow projections and business risk modeling. During the year, and in view of the complexities in the market, management adopted an approach which escalates impairments considerations to the highest levels of credit risk management committees. To this end, committees were involved early in the portfolio assessment and non-executive members of the BCIC provided valuable support, guidance and a level of independence in the overall outcomes of impairment assessments.

The impairments determination was guided by the NHFC Impairment Policy.

Focus Areas for 2010/2011

- Review the Internal Credit Processes to support the growth target of the Corporation.
- Aggressive investment in acquiring and developing requisite credit risk management skills, to meet the portfolio growth targets and improve the quality of the existing portfolio.
- Stress test the existing portfolio, cash flows and collateral values to improve clients' resilience against any unexpected and adverse economic conditions.
- Embed overall impairment assessment and risk appetite in portfolio planning.
- Active management of concentration risks across counterparties, regions and line of business.

Portfolio Analysis

Credit quality of loans and receivables

	2010 (R'000)	2009 (R'000)
Neither past-due nor impaired	1,046,611	840,286
Past-due but not impaired	129,796	128,008
Impaired	289,849	145,005
Total	1,466,256	1,113,799
Less: impairments	(132,897)	(60,009)
Net advances	1,333,359	1,053,790

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

Period	Total (R'000)	(R'000)				
		30 days	30-60 days	60-90 days	90-120 days	>120 days
2010	129,796	94,933	1,426	1,422	4,183	27,832
2009	128,008	34,701	7,234	685	36,941	48,447

Concentration risk by operations

Commercial	22%
Projects	67%
Retail	11%

The Credit Risk Management Process

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 being to:

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

Revision of risk appetite allocations through unforeseen organic/inorganic growth is facilitated via the Executive Manager in Credit, CEO, MCC, BCIC, and the NHFC Board dependent on the materiality of the revision.

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 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 risks processes and systems to rigorous testing (including peer review), ensuring 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 ensuring 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 like any other assets, taking cognisance of market liquidity, customer sentiments and implied expectations of its broadened mandate.

Risk Management Report (continued)

The NHFC uses credit policy and statistical developed scoring models to support the credit assessment.

Turn Around and Work Out

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

- develop business solutions together with other internal business units and the initial business solution, i.e. how can the irregularity 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 the NHFC's exit strategy from the distressed operations.

The Retail Credit Risk Control Framework

The NHFC 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 judgment 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 judgment decision making are controlled, ensuring that similar levels of consistency and objectivity are maintained by the Executive Manager in 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 credit policy and statistically developed scoring models to support the credit assessment. The decision to accept or reject a credit application considers:

- customer credit worthiness;
- 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 inform changes in credit profile and/or product and/or pricing.

Collections

The NHFC is deploying 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 substitute in-house operations.

Recoveries

The key objective for placing accounts in recoveries is to ensure the most cost-effective recovery of the outstanding debt. The 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 that consider selling the written off outstanding debt are being developed to ensure optimal recoveries.

Portfolio Impairments

The Corporation applies an internally developed risk classification process for early warning indication and reporting called Internal Risk Classification (IRC).

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 allowance.

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, utilising the rate of interest used to discount the future cash flows for the purpose of measuring the impaired loss.

Financial Risk Management

Framework and Governance

The management of financial and market risks resides 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 as well as reporting in accordance with regulatory requirements and best practice.

Oversight of financial risk management is provided by the Financial Risk Management Committee, a sub-committee of Exco, the Board Credit and Investment Committee and the Audit and Risk Committee.

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

Credit risk

Credit risk is the risk of an economic loss arising from the failure of a counterparty to fulfill its contractual obligations.

Counterparty risk is managed through the careful selection of at least F1 rated institutions, allocation of limits, including concentration limits, and daily monitoring in line with the Treasury Management Policy.

Counterparties with external credit ratings	2010 R'000	2009 R'000
Held to maturity money market investments	1 069 147	1 229 631
Cash and short-term deposits	262 984	276 845

Risk Management Report (continued)

Market risk

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 such as interest rates.

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

The objectives of managing interest rate risks are to:

- identify and quantify interest rate risk and to structure assets and liabilities, to reduce the impact of changes in interest rates;
- minimise the negative impact of adverse interest rate movement on the Corporation's returns, within an acceptable risk profile;
- reduce the cost of capital and minimise the effect of interest rate volatility on funding cost; and
- manage exposures by ensuring an appropriate ratio of floating rate to fixed rate exposures.

The Corporation currently has no interest bearing liabilities. Liabilities relates 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	Effect on profit before tax (R'000)	
		2010	2009
Loans and receivables	1%	11,511	12,839
Loans and receivables	-1%	(11,613)	(12,839)
Investments	1%	7,164	9,853
Investments	-1%	(7,164)	(9,853)

Liquidity risk

Liquidity risk is the risk that the Corporation may not be able to generate sufficient cash resources to honour its financial commitments on a cost effective and timeous basis.

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

- Short- and long-term cash flow forecasting;
- Ensuring appropriate liquidity levels by;
 - Establishing investment limits per instrument; and
 - setting of maturity parameters for investments;
- Mobilisation of funding.

The Corporation is in the process of mobilising funding to support its strategic objectives in the future. As part of its funding programme the Corporation secured funding from the Agence Française de Développement (AFD) and is in the process of concluding an agreement with the European Investment Bank (EIB).

Capital management

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

Credit rating

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



National Housing Finance Corporation Limited

Financial Statements

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 judgments 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.

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 2010, set out on pages 55 to 104, were approved by the Board of Directors on 22 July 2010 and signed on their behalf by:



M M Katz
Independent Non-Executive Chairman



S S Moraba
CEO

Report of the Audit and Risk Committee

The Board of Directors of National Housing Finance Corporation Limited (NHFC) delegated certain responsibilities to the Audit and Risk Committee (ARC) and these are set out in the Terms of Reference of the Committee.

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 has, amongst other things, reviewed the following during the 2009/10 financial year:

- the effectiveness of the internal control systems and internal audit;
- the activities of the internal audit function, including its annual work program, co-ordination 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 concern identified as a result of an internal or external audit;
- compliance with legal and regulatory provisions; and
- where relevant, the independence 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 efficiently utilised. Nothing has come to the attention of the Committee to indicate that a material breakdown in the functioning of the internal controls, procedures and systems has occurred during the year under review.

Following our review of the annual financial statements of the NHFC for the year ended 31 March 2010, 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 13 July 2010, recommended these annual financial statements, which were prepared on a going concern basis, to the Board for approval.



Mr S Ntsaluba

Chairman

Report of the Independent Auditor to the Minister of Human Settlements

Report on the Financial Statements

We have audited the annual financial statements and group annual financial statements of National Housing Finance Corporation Limited ('Group'), which comprise the directors' report, the statements of financial position as at 31 March 2010, the statements of comprehensive income, the statements of changes in equity and statements of cash flow for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 55 to 102.

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 the Public Finance Management Act, No. 1 of 1999. 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.

Auditors' 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors' consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as of 31 March 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and the Public Finance Management Act, No. 1 of 1999.

Report on Other Legal and Regulatory Requirements

In terms of the Public Audit Act of South Africa and General Notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009, we include below our findings on the report on performance against predetermined objectives, compliance with laws and regulations and internal control.

Report on performance against predetermined objectives

We are required by the Auditor-General to undertake a limited assurance engagement on the 'Performance against the strategic plan', as set out on pages 103 and 104 of the Annual Report in the section Performance Report in which the actual performance of the group for the year ended 31 March 2010 is compared with target key performance indicators (predetermined objectives), and report thereon to those charged with governance. In this Report we are required to report our findings from our engagement relating to non-compliance with regulatory requirements, where the reported information was inadequately presented or not received timeously, and where we have evaluated reported information to be not useful or reliable. We report that we have no significant findings.

Compliance with laws and regulations

As part of our audit of the financial statements we complied with the requirements of ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*. Our audit did not reveal any material non-compliance with laws and regulations relating to financial matters, financial management and related matters, as required by the Public Finance Management Act of South Africa (which includes the relevant National Treasury Regulations) and the Companies Act of South Africa.

Internal control

We considered internal control relevant to our audit of the financial statements and the report against predetermined objectives and compliance with the PFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported are limited to the deficiencies identified during the audit. No matters to report.

Ernst & Young Inc.

Registered Auditor

27 July 2010

Johannesburg

Director's Report

The Directors have pleasure in presenting their report for the year ended 31 March 2010.

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 56 to 104 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 can in terms of Section 221 of the Companies Act not issue any shares without the consent of its shareholder in a duly convened general meeting.

Dividends

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

Directors

Messrs Ball and Middleton resigned and Mr Coetzee and Mss Houston and Ramarumo were appointed directors during the year under review. The composition of the Board is set out on page 6 and 7. The directors' emoluments are set out on page 100 of these financial statements.

Company Secretary

Ms E Marx

Business Addresses

P O Box 31376
Braamfontein
2017

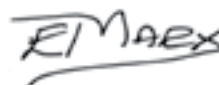
1st Floor, Old Trafford Block 3
Isle of Houghton
11 Boundary Road
Houghton
2193

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

Consolidated statement of comprehensive income for the year ended 31 March 2010

	Note	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Interest on advances	3	111,099	105,928	116,838	110,649
Interest on investments		75,691	123,986	73,287	122,260
Rental income		4,669	4,647	4,451	4,647
Dividends received		158	158	158	158
Sale of houses		61,176	7,033	-	-
Revenue		252,793	241,752	194,734	237,714
Cost of sales		(60,170)	(7,395)	-	-
Net impairments	8	(72,888)	(17,739)	(72,888)	(17,739)
Gross profit		119,735	216,618	121,846	219,975
Other operating income	4	59,764	36,931	26,910	20,528
Administrative expenses	5.1	(90,112)	(88,227)	(78,970)	(81,643)
Other operating expenses	5.2	(13,764)	(11,504)	(10,963)	(10,362)
Operating profit		75,623	153,818	58,823	148,498
Finance costs	6	(1,014)	(2,059)	-	-
Share of loss of an associate	13	(1,448)	(1,262)	-	-
Profit before tax		73,161	150,497	58,823	148,498
Income tax expense	7	(15,615)	(42,487)	(13,865)	(40,984)
Profit for the year		57,546	108,010	44,958	107,514
Other comprehensive income		-	-	-	-
Total comprehensive income		57,546	108,010	44,958	107,514

Consolidated statement of financial position

as at 31 March 2010

	Note	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Assets					
Non-Current assets					
Loans and receivables - advances	8	1,031,438	632,110	1,099,854	694,554
Investment in subsidiary - Gateway	9	-	-	2,392	2,392
Investment in subsidiary - Cape Town Community Housing	10	-	-	8,197	8,197
Investment - preference shares	11	2,500	2,500	2,500	2,500
Investment in cell captive	12	-	-	7,000	7,000
Investment in associate	13	2,856	4,304	5,566	5,566
Property, plant and equipment	14	1,856	1,488	1,428	1,287
Instalment sale receivables	15	25,574	32,085	-	-
Investment property	16	59,174	42,100	48,400	42,100
Goodwill	17	2,714	2,714	-	-
Deferred taxation	7	2,917	1,843	2,917	1,843
		1,129,029	719,144	1,178,254	765,439
Current assets					
Loans and receivables - advances	8	301,921	421,680	301,921	421,680
Properties developed for sale	18	54,334	57,851	-	-
Instalment sale receivables	15	20,594	22,746	-	-
Other receivables and prepayments	19	23,328	25,194	13,274	13,772
Held to maturity investments	20	1,069,147	1,229,631	1,053,998	1,215,084
Cash and short-term deposits	21	262,984	276,845	251,012	269,733
Income tax receivable	7	24,312	5,689	20,532	1,942
		1,756,620	2,039,636	1,640,737	1,922,211
Total assets		2,885,649	2,758,780	2,818,991	2,687,650
Equity and liabilities					
Equity					
Issued capital	22	842	842	842	842
Share premium	22	879,158	879,158	879,158	879,158
Grant capital	23	200,000	200,000	200,000	200,000
Retained earnings		1,136,356	1,078,810	1,106,110	1,061,152
Total equity		2,216,356	2,158,810	2,186,110	2,141,152
Non-current liabilities					
Funds under management	24	615,778	521,192	615,778	521,192
Deferred income	25	-	10,069	-	10,069
Debentures	26	5,000	4,788	-	-
Other financial liabilities	27	10,333	11,238	-	-
		631,111	547,287	615,778	531,261
Current liabilities					
Other financial liabilities	27	901	862	-	-
Provisions	28	14,047	14,506	12,646	11,731
Trade and other payables	29	23,234	37,315	4,457	3,506
		38,182	52,683	17,103	15,237
Total liabilities		669,293	599,970	632,881	546,498
Total equity and liabilities		2,885,649	2,758,780	2,818,991	2,687,650

Statement of changes in equity

for the year ended 31 March 2010

	Attributable to equity holders of the parent				
	Issued Capital	Share Premium	Grant Capital	Retained earnings	Total
	R'000	R'000	R'000	R'000	R'000
Group					
Balance at 1 April 2008	842	879,158	200,000	965,769	2,045,769
At acquisition adjustment	-	-	-	5,031	5,031
Total comprehensive income	-	-	-	108,010	108,010
Balance at 31 March 2009	842	879,158	200,000	1,078,810	2,158,810
Total comprehensive income	-	-	-	57,546	57,546
As at 31 March 2010	842	879,158	200,000	1,136,356	2,216,356
Company					
Balance at 1 April 2008	842	879,158	200,000	953,638	2,033,638
Total comprehensive income	-	-	-	107,514	107,514
Balance at 31 March 2009	842	879,158	200,000	1,061,152	2,141,152
Total comprehensive income	-	-	-	44,958	44,958
As at 31 March 2010	842	879,158	200,000	1,106,110	2,186,110

Statement of cash flows

for the year ended 31 March 2010

	Note	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Operating activities					
Profit before tax		73,161	150,497	58,823	148,498
Adjustments for:					
Non-cash items included in profit before tax	30	(123,689)	(218,805)	(120,949)	(225,586)
Working capital changes	30	(366,826)	(226,243)	(368,066)	(227,194)
		(417,354)	(294,551)	(430,192)	(304,282)
Interest received		186,789	240,501	190,125	243,497
Income tax paid	30	(35,312)	(66,905)	(33,529)	(64,080)
Finance costs	6	(1,014)	(2,059)	-	-
Dividends received		158	158	158	158
Net cash flows used in operating activities		(266,733)	(122,856)	(273,438)	(124,707)
Investing activities					
Additions to property plant and equipment	14	(1,332)	(877)	(955)	(837)
Decrease in investments	20	160,484	164,207	161,086	162,506
Acquisition of subsidiary, net of cash acquired	10	-	1,012	-	(5,000)
Investment in associate	13	-	(5,000)	-	(5,000)
Net cash from investing activities		159,152	159,342	160,131	151,669
Financing activities					
Increase/(decrease) in funds under management		94,586	24,854	94,586	24,854
Proceeds from borrowings		-	-	-	-
Repayment of borrowings		(866)	(2,412)	-	-
Net cash flows from financing activities		93,720	22,442	94,586	24,854
Net (decrease) / increase in cash and cash equivalents		(13,861)	58,928	(18,721)	51,816
Cash and cash equivalents at 1 April	21	276,845	217,917	269,733	217,917
Cash and cash equivalents at 31 March	21	262,984	276,845	251,012	269,733

Group accounting policies

Corporate information

The consolidated financial statements of the National Housing Finance Corporation Limited (NHFC) for the year ended 31 March 2010 were approved by the Board on 22 July 2010. 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.

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 (Pty) Ltd is 31 March. Similar accounting policies are applied across the Group.

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2010.

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.

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new or revised standards:

IAS 1 Presentation of Financial Statements

The statement requires information to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income.

IAS 23 Borrowing Costs

The revisions require that all borrowing costs incurred which are directly attributable to the acquisition, construction or production of qualifying assets must be capitalised to the costs of that asset.

The group has previously accounted for borrowing costs by expensing them as they are incurred.

The transitional provisions are such that the change in accounting policy is to be applied to borrowing costs directly attributable to qualifying assets for which the commencement date for capitalisation is in years beginning on or after 1 January 2009, or any date selected by the group for early adoption.

The change has therefore been applied prospectively, in accordance with the transitional provisions of the standard.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using three level fair value hierarchy, by class, for all financial instruments recorded at fair value. In addition, a reconciliation between

the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 33.

Summary of significant judgments, estimates and assumptions

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

Investment properties

Management reassesses annually the most appropriate allocation of housing stock between inventory and investment properties. The percentage allocation of these assets have been estimated as the most likely manner in which economic benefits will be realised from these assets, be it either in the form of proceeds on the sale of the asset or rental income received on the lease of an operating lease asset.

The fair value of the company's investment property is determined using the capitilisation of net income method of valuation based on a capitilisation rate of 14.5%. For the Group, the valuation was based on open market value for existing use.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash

flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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 the 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 statement of comprehensive income.

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.

Group accounting policies (continued)

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.

Interest 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 statement of financial position at cost plus post acquisition changes of the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The statement of comprehensive income reflects the share of the results of operation of the associate. Losses from the associate are limited to the profits and the investment amount.

Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. 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 statement of comprehensive income.

The statement of financial position for the associate is prepared for the same period as the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting 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 statement of comprehensive income.

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

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 statement of comprehensive income in the year the asset is de-recognised.

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

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 cost 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 included as directly attributable costs incurred in bringing properties developed for on-selling to the present location and condition.

When properties developed for on-selling are sold, the carrying amount of those properties developed for on-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 recognised as an expense in the period in which the reversals occurs.

Investment properties

Management reassesses annually the most appropriate allocation of housing stock between inventory and investment properties. The percentage allocation of these assets have been estimated as the most likely manner in which economic benefits will be realised from these assets, be it either in the form of proceeds on the sale of the asset or rental income received on the lease of an operating lease asset.

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.

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

Financial assets at fair value through profit and loss

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

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowances for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables 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 other comprehensive income 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 profit and loss portion of the statement

Group accounting policies (continued)

of comprehensive income. Interest and impairments are recognised directly in the profit and loss portion of the statement of comprehensive income.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

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 reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and valuation models.

Amortised Cost

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

Trade and other receivables

Other receivables are classified as loans and receivables. These are initially measured at the fair value. Other receivables are subsequent to initial recognition measured at amortised cost.

Cash and short-term deposits

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

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

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

Deferred income

Deferred income is recognised as the difference between the initial purchase price and the fair value of advances at reporting date. 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; and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss.

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

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

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 other comprehensive income to the statement of comprehensive income. 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.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the comprehensive income.

Instalment sale receivables

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

Instalment sales receivables are initially measured at the net investment in the instalment sales agreement. The recognition of finance income is based on a constant periodic rate of return on the net investment in the instalment sales agreement.

Subsequent impairment of instalment sales receivables are determined and recognised in accordance with the policy applicable to loans and receivables.

Financial liabilities

Other payables

Other payables are initially recognised at fair value and carried at fair value and subsequently at amortised cost.

Interest-bearing loans and borrowings

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

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

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.

Group accounting policies (continued)

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 statement of comprehensive income.

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 statement of comprehensive income 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.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount

of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowing.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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 fulfillment 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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Finance leases – Group as lessor

The Group recognises finance lease receivables on the balance sheet.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the group's net investment in the finance lease.

Revenue recognition

Revenue comprises of interest received on advances, interest on investments, revenue from sale of houses, and dividends received. Revenue is recognised to the extent that it is probable that economic benefits 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 statement of comprehensive income 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 substantively enacted at the statement of financial position date.

Deferred taxation

Deferred tax is provided, using the liability method, on all temporary differences at the reporting 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.

Group accounting policies (continued)

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 reporting 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 reporting date.

Deferred income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income 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 statement of comprehensive income.

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

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 reporting date. Gains and losses arising from changes in the fair values of investment properties are included in the profit and loss portion of the statement of comprehensive income 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 statement of comprehensive income 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.

New Standards and Interpretations

Standards and interpretations effective and adopted in the current financial year

In the current financial year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations.

Standards and Interpretations early adopted

The group has chosen to early adopt the following standards and interpretations:

2009 Annual Improvements Project: Amendments to IAS 1 Presentation of Financial Statements

The amendment clarifies that a liability which could, at the option of the counterparty, result in its settlement by the issue of equity instruments, does not affect its classification as current or non-current.

The effective date of the amendment is for years beginning on or after 01 January 2010.

The Group has early adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

2009 Annual Improvements Project: Amendments to IAS 7 Statement of Cash Flows

The amendment provides that expenditure may only be classified as 'cash flows from investing activities' if it resulted in the recognition of an asset on the statement of financial position.

The effective date of the amendment is for years beginning on or after 01 January 2010.

The Group has early adopted the amendment for the first time in the 2010 financial statements.

The adoption of this amendment has not had a material impact on the result of the Group, but has resulted in more disclosure than would have previously been provided in the financial statements.

2009 Annual Improvements Project: Amendments to IAS 18 Revenue

The amendment provides additional guidance in the determination of whether an entity is acting as an agent or principal in a revenue transaction.

The effective date for the amendment is for years beginning on or after 01 July 2009.

The group has early adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

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 9 Financial Instruments

Effective for financial years beginning on or after 1 January 2013. IFRS 9 requires entities to classify financial assets on the basis of the objective of the entity's business model for managing the financial assets and the characteristics of the contractual cash flows. It points out that the entity's business model should be considered first, and that the contractual cash flow characteristics should be considered only for financial assets that are eligible to be measured at amortised cost because of the business model.

IAS 24 Related party disclosures

Effective for financial years beginning on or after 1 January 2011. The standard requires disclosure of key management personnel compensation because the principle underpinning the requirements in IAS 24 is that transactions with related parties should be disclosed, and key management personnel are related parties of an entity.

The Group has assessed the significance of these new standards, amendments to standards and new interpretations from January 2011 and later years, and concluded that they will have no material financial impact.

Notes to the annual financial statements

for the year ended 31 March 2010

3. Interest on advances

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Interest on performing advances	105,959	101,694	111,698	106,415
Interest on impaired advances	5,140	4,234	5,140	4,234
	111,099	105,928	116,838	110,649

4. Other operating income

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Other operating income is made up as follows:				
SA Housing Trust (refer note 25)	8,926	6,266	8,926	6,266
Management fees	24	134	243	243
Bad debts recovered	177	1,172	177	1,172
Interest received from instalment sales	8,081	5,338	-	-
Adjustment for provision of impairment of instalment sale receivables	1,128	2,769	-	-
Levies from instalment sales	1,690	1,228	-	-
Recoveries in respect of services	4,986	-	-	-
Other rental income	1,721	948	-	-
Tax refund	11,184	-	11,184	-
Fair value gain on investment property	14,963	12,100	6,300	12,100
Profit on dilution of investment in associate	-	566	-	566
Premiums earned	4,243	4,243	-	-
Sundry income	2,641	2,167	80	181
	59,764	36,931	26,910	20,528

5. Profit before tax

Profit before tax is stated after taking the following into account:

5.1 Administrative expenses

- Staff costs
 - Salaries
 - Medical aid contributions
 - Provident fund contributions
- Management costs (refer note 35)
 - Administration
 - Marketing
 - Consultancy and advisory services
 - Directors' fees
 - Legal fees
 - Auditors' Remuneration
 - Audit fees
 - Travel and entertainment

5.2 Other operating expenses

- Donations
- Communication
- Impairment of investment
- Training and development
- Office expenses
- Depreciation
- Sundry expenses
- Operating lease payments: property and certain equipment

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
	90,112	88,227	78,970	81,643
- Staff costs	47,608	41,290	39,991	37,118
- Salaries	40,163	36,987	33,707	33,514
- Medical aid contributions	2,342	1,510	2,010	1,287
- Provident fund contributions	5,103	2,793	4,274	2,317
- Management costs (refer note 35)	17,444	14,064	16,184	13,176
- Administration	2,109	2,384	1,408	1,633
- Marketing	3,865	4,763	3,637	4,703
- Consultancy and advisory services	11,871	19,756	11,717	19,689
- Directors' fees	455	355	357	301
- Legal fees	2,963	1,727	2,570	1,574
- Auditors' Remuneration	1,719	1,865	1,528	1,745
- Audit fees	1,719	1,865	1,528	1,745
- Travel and entertainment	2,078	2,023	1,578	1,705
	13,764	11,504	10,963	10,362
- Donations	52	83	50	83
- Communication	2,145	1,998	1,778	1,759
- Impairment of investment	-	-	-	57
- Training and development	717	1,124	717	1,124
- Office expenses	3,167	2,198	2,034	1,861
- Depreciation	931	842	814	764
- Sundry expenses	1,895	646	1,245	448
- Operating lease payments: property and certain equipment	4,857	4,613	4,325	4,266

6. Finance costs

- Interest on debentures
- Interest on other financial liabilities

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Interest on debentures	212	-	-	-
Interest on other financial liabilities	802	2,059	-	-
	1,014	2,059	-	-

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

7. Income tax

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Income statement				
Current income tax				
Current income tax charge	16,689	40,280	14,939	38 777
Deferred tax	(1,074)	2,207	(1,074)	2,207
Income tax expense	15,615	42,487	13,865	40,984
Deferred tax				
Balance at the beginning of the year	1,843	4,050	1,843	4,050
Recognised through the income statement	1,074	(2,207)	1,074	(2,207)
Balance at the end of the year	2,917	1,843	2,917	1,843
Deferred tax asset consists of				
- Provision for leave pay	3,659	3,355	3,659	3,355
- Provision for incentive bonus	8,987	8,376	8,987	8,376
- Operating lease	923	900	923	900
- Fair value (gain) / loss on investment property	(3,150)	(6,050)	(3,150)	(6,050)
Total	10,419	6,581	10,419	6,581
Tax rate of 28%	2,917	1,843	2,917	1,843
A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2010 and 2009 is as follows:				
Accounting profit before tax from operations	73,161	150,497	58,823	148,498
At SA statutory income tax rate of 28%	18,221	43,082	16,471	41,579
Non-taxable income	(44)	(44)	(44)	(44)
Non deductible expenses	14	23	14	23
Capital profit	(2,576)	(574)	(2,576)	(574)
Income tax expense reported in the income statement	15,615	42,487	13,865	40,984
Taxation: Balance Sheet				
Balance at the beginning of the year	5,689	(18,679)	1,942	(23,361)
Tax adjustment	-	(2,257)	-	-
Tax Paid	24,128	66,905	22,345	64,080
Normal tax charge	(16,689)	(40,280)	(14,939)	(38,777)
Tax refund	11,184	-	11,184	-
Balance at the end of the year	24,312	5,689	20,532	1,942

8. Loans and advances to customers

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Gross advances				
Opening balances	1,113,799	986,127	1,176,243	986,127
Disbursements	631,013	434,735	631,013	434,735
Repayments	(278,556)	(292,690)	(272,584)	(230,246)
Amounts previously impaired, written off	-	(14,373)	-	(14,373)
Balance at the end of the year	1,466,256	1 113,799	1,534,672	1,176,243
Impairments on advances				
Balances at the beginning of the year	(60,009)	(56,642)	(60,009)	(56,642)
Amounts impaired in previous years and written off during the year	-	14,373	-	14,373
Increase in impairments on advances	(72,888)	(19,766)	(72,888)	(19,766)
Impairments reversed during the year	-	2,026	-	2,026
Balance at the end of the year	(132,897)	(60,009)	(132,897)	(60,009)
Comprising:				
Specific impairments	(131,233)	(60,009)	(131,233)	(60,009)
General impairments	(1,664)	-	(1,664)	-
Net advances	1,333,359	1,053,790	1,401,775	1,116,234
Maturity analysis				
Receivable within 1 year	301,921	421,680	301,921	421,680
Receivable within 1 to 2 years	275,533	228,520	275,533	228,520
Receivable within 2 to 3 years	201,725	212,216	201,725	212,216
Receivable beyond 3 years	554,180	191,374	622,596	253,818
Net advances	1,333,359	1,053,790	1,401,775	1,116,234
Non-current assets	1,031,438	632,110	1,099,854	694,554
Current assets	301,921	421,680	301,921	421,680
	1,333,359	1,053,790	1,401,775	1,116,234

9. Investment in a subsidiary - Gateway

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

Shares at cost - ordinary shares
Less impairments

Company	
2010 R'000	2009 R'000
50,000	50,000
(47,608)	(47,608)
2,392	2,392

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

10. 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 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
Debentures	(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 liabilities 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 R3 million.	
Cost	2,000

10. Investment in subsidiary - Cape Town Community Housing Company (continued)

Cash outflow on acquisition

Net cash acquired with the subsidiary	6,012
Cash paid	(5,000)
Net cash inflow	<u>1,012</u>

Company

The Cape Town Community Housing Company is a wholly owned subsidiary of National Housing Finance Corporation Limited. The investment is in ordinary shares at cost and non-convertible debentures at cost less impairment.

	2010 R'000	2009 R'000
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	2,000
Carrying amount of shares at 31 March	<u>2,000</u>	<u>2,000</u>
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	3,197	3,197
Convertible debentures acquired during the year at cost	3,000	3,000
Carrying amount of debentures	<u>6,197</u>	<u>6,197</u>
Total investment in subsidiary	<u>8,197</u>	<u>8,197</u>

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

11. Investment - Preference shares

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Greenstart (Proprietary) Limited	2,500	2,500	2,500	2,500
Net investment in unlisted preference shares	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>

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 received are up to date and included in revenue.

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

12. Investment in a cell captive

Unlisted investments
Centriq Insurance Company Limited
Shares at cost
100% investment in cell captive

Company	
2010	2009
R'000	R'000
7,000	7,000

13. Investment in associate

Group

The National Housing Finance Corporation has a 25% interest in Housing Investment Partners, which is involved in the development and marketing of the Income Linked Home Financing Instrument.

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

Share of the associate's balance sheet:

Current assets

Non-current assets

Current liabilities

Non-current liabilities

Net asset

Carrying amount of the investment in company

Share of the associate's loss

Carrying amount of the investment

2010	2009
R'000	R'000
1,614	3,058
1,263	1,281
(21)	(35)
-	-
2,856	4,304
5,566	5,566
(2,710)	(1,262)
2,856	4,304

Company

The following table illustrates the summarised financial information in the company's books:

Investment in shares

Profit on dilution of investment

Carrying amount of the investment

2010	2009
R'000	R'000
5,000	5,000
566	566
5,566	5,566

14. Property, plant and equipment

Group	2010			2009		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Computer Equipment	7,786	(6,861)	925	7,167	(6,316)	851
Computer Software	5,066	(4,762)	304	4,797	(4,584)	213
Furniture and Fittings	3,106	(2,948)	158	3,004	(2,886)	118
Motor Vehicle	396	(169)	227	255	(161)	94
Office Equipment	792	(619)	173	719	(574)	145
Leasehold Improvements	492	(423)	69	421	(354)	67
Total	17,638	(15,782)	1,856	16,363	(14,875)	1,488

Reconciliation of property, plant and equipment for group - 2010

	Opening balance	Acquisition of subsidiary	Additions	Disposals	Depreciation	Total
Computer Equipment	851	-	619	-	(545)	925
Computer Software	213	-	268	-	(177)	304
Furniture and Fittings	118	-	101	-	(61)	158
Motor Vehicle	94	-	199	(33)	(33)	227
Office Equipment	145	-	73	-	(45)	173
Leasehold Improvements	67	-	72	-	(70)	69
	1,488	-	1,332	(33)	(931)	1,856

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
	1,214	239	877	-	(842)	1,488

Company	2010			2009		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Computer Equipment	6,770	(5,951)	819	6,264	(5,453)	811
Computer Software	4,877	(4,648)	229	4,686	(4,492)	194
Furniture and Fittings	2,819	(2,695)	124	2,741	(2,645)	96
Motor Vehicle	195	(114)	81	104	(104)	-
Office Equipment	547	(441)	106	529	(409)	120
Leasehold Improvements	492	(423)	69	421	(355)	66
Total	15,700	(14,272)	1,428	14,745	(13,458)	1,287

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment for company - 2010

	Opening balance	Additions balance	Disposals	Depreciation	Total
Computer Equipment	811	506	-	(498)	819
Computer Software	194	191	-	(156)	229
Furniture and Fittings	96	78	-	(50)	124
Motor Vehicle	-	90	-	(9)	81
Office Equipment	120	18	-	(32)	106
Leasehold Improvements	66	72	-	(69)	69
	1,287	955	-	(814)	1,428

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
	1,214	837	-	(764)	1,287

Fully depreciated assets that are still in use amounts to R11.9 million (2009: R9.6 million).

15. Instalment sale receivables

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Gross instalment sale receivables	63,880	81,650	-	-
Less: Unearned finance charges	(8,990)	(12,522)	-	-
Present value of minimum lease payments receivable	54,890	69,128	-	-
Less: Provision for impairment of receivables	(8,722)	(14,297)	-	-
	46,168	54,831	-	-
Non-current assets	25,574	32,085	-	-
Current assets	20,594	22,746	-	-
	46,168	54,831	-	-

The provision for impairment of receivables is reconciled as follows:

Opening balance	14,297	-	-	-
Cancelled Instalment Purchase Agreements	(5,575)	-	-	-
Provision raised for the year	-	14,297	-	-
Closing balance	8,722	14,297	-	-

15. Instalment sale receivables (continued)

Group		Company	
2010	2009	2010	2009
R'000	R'000	R'000	R'000

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

Up to 1 year	29,316	36,508	-	-
1 to 2 years	6,601	6,783	-	-
3 to 5 years	18,973	25,837	-	-
	54,890	69,128	-	-

The average term of the instalment sale receivables is 5 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 11.9% (2009: 11% per annum). Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.

The amount of R54,889,813 (2009: R69,128,247) is the maximum exposure to credit risk.

The impairment of R8,721,856 (2009: R14,297,176) takes into account the recoverable amount of collateral, calculated as the present value, less costs to sell, 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.

16. Investment property

	Group		Company	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Opening balance	42,100	30,000	42,100	30,000
Additions	2,111	-	-	-
Fair value gain	14,963	12,100	6,300	12,100
Closing balance	59,174	42,100	48,400	42,100

The following amounts have been recognised in the income statement:

Fair value gain	14,963	12,100	6,300	12,100
Rental income	4,669	4,647	4,451	4,647

Investment property for the company is stated at fair value determined, based on a valuation performed by an accredited independent valuer, G Wampach (Registered Professional Valuer at Meldane Property and Valuation Services cc) on 23 March 2010. Mr Wampach is not connected to the company and has experience in property valuation. The capitalisation of net income method of valuation was used, based on a capitalisation rate of 14.5%.

Details of Property

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

In addition, for the Group, a percentage of the housing stock held by Cape Town Community Housing Corporation (Pty) Ltd was reclassified as investment property due to the directors wanting to hold the houses for investment purposes.

The houses were subsequently valued by an independent valuator, Siyakulu Property Valuers, to its fair value of R10,773 841. The effective date of the revaluation was 21 April 2010. Revaluations were done by Mr G.B. Adams, of Siyakulu Property Valuers. Mr Adams is not connected to the company and has recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

17. Goodwill

	Group	
	2010 R'000	2009 R'000
Goodwill		
Cost:		
At 1 April	2,714	-
Acquisition of a subsidiary	-	2,714
Write off to Income Statement	-	-
At 31 March	2,714	2,714

18. Properties developed for sale

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Properties developed for sale	34,318	57,627	-	-
Repossessed properties	20,016	224	-	-
	54,334	57,851	-	-
Reconciliation:				
Properties developed for sale				
Opening balance	57,627	20,926	-	-
Construction costs	39,800	45,401	-	-
Transfer to Cost of sales	(63,109)	(8,700)	-	-
Reversal of write downs	-	-	-	-
	34,318	57,627	-	-
Repossessed properties				
Opening balance	224	-	-	-
Amounts recognised as expenses during the period	-	-	-	-
Write downs	19,792	224	-	-
Reversal of write downs	-	-	-	-
	20,016	224	-	-

No inventory was pledged as security for liabilities.

19. Other receivables and prepayments

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Deposits and prepayments	229	303	2	6
Related parties	2,136	754	2,136	754
Staff debtors	800	199	800	196
Other receivables	12,627	12,598	2,800	2,228
Value added tax	-	752	-	-
Interest accrued	7,536	10,588	7,536	10,588
	23,328	25,194	13,274	13,772

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 have been provided.

20. Held-to-maturity investments

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Held to maturity money market investments - NHFC	587,203	808,801	572,054	794,254
ABSA Bank Limited	65,000	100,000	65,000	100,000
Investec Bank Limited	95,000	125,000	95,000	125,000
South African Reserve Bank	24,559	-	24,559	-
Standard Bank of South Africa Limited	75,000	125,000	75,000	125,000
Rand Merchant Bank a division of FirstRand Bank Limited	100,000	125,000	100,000	125,000
Nedbank Limited	95,000	125,000	95,000	125,000
Land Bank of South Africa Limited	19,256	39,014	19,256	39,014
Transnet Limited	24,558	-	24,558	-
Eskom Limited	49,122	71,948	49,122	71,948
Development Bank of South Africa Limited	-	20,001	-	20,001
Trans-Caledon Tunnel Authority (TCTA)	24,559	38,970	24,559	38,970
Telkom Limited	-	24,321	-	24,321
Funds managed by Centriq	15,149	14,547	-	-
Held to maturity money market investments - Job summit related projects*	381,659	300,842	381,659	300,842
ABSA Bank Limited	60,000	40,000	60,000	40,000
Rand Merchant Bank a division of FirstRand Bank Limited	60,000	60,043	60,000	60,043
Standard Bank of South Africa Limited	40,000	40,000	40,000	40,000
Nedbank Limited	60,000	40,000	60,000	40,000
Investec Bank Limited	40,000	40,000	40,000	40,000
Land Bank of South Africa Limited	38,896	39,014	38,896	39,014
Eskom Limited	58,945	19,127	58,945	19,127
Development Bank of South Africa Limited	-	20,001	-	20,001
Transnet Limited	19,647	-	19,647	-
Interest receivable	4,171	2,657	4,171	2,657

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

20. Held-to-maturity investments (continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Held to maturity money market investments - Development Fund *	100,285	119,988	100,285	119,988
Eskom Limited	19,647	19,127	19,647	19,127
Land Bank of South Africa Limited	-	19,503	-	19,503
Investec Bank Limited	20,000	20,000	20,000	20,000
Nedbank Limited	20,000	20,000	20,000	20,000
Standard Bank of South Africa Limited	-	20,000	-	20,000
ABSA Bank Limited	20,000	20,000	20,000	20,000
Trans-Caledon Tunnel Authority (TCTA)	19,661	-	19,661	-
Interest receivable	977	1,358	977	1,358
Total held to maturity money market investments	1,069,147	1,229,631	1,053,998	1,215,084

* Funds under management- refer note 24

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.

21. Cash and short-term deposits

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Short-term deposits - NHFC	103,005	158,977	103,005	158,977
ABSA Bank Limited	27,669	32,233	27,669	32,233
Investec Bank Limited	9,792	19,513	9,792	19,513
Nedbank Limited	2,065	15,933	2,065	15,933
Rand Merchant Bank a division of FirstRand Bank Limited	4,375	12,738	4,375	12,738
Standard Bank of South Africa Limited	22,421	19,001	22,421	19,001
Standard Bank of South Africa Limited (Stanlib)	16,571	29,306	16,571	29,306
Trans-Caledon Tunnel Authority (TCTA)	20,112	30,253	20,112	30,253
Short-term deposits - Job summit related projects *	80,432	70,611	80,432	70,611
ABSA Bank Limited	9,207	10,062	9,207	10,062
Investec Bank Limited	26,474	28,188	26,474	28,188
Nedbank Limited	9,179	13,522	9,179	13,522
Rand Merchant Bank a division of FirstRand Bank Limited	8,098	12,856	8,098	12,856
Standard Bank of South Africa Limited	7,976	5,933	7,976	5,933
Standard Bank of South Africa Limited (Stanlib)	19,498	50	19,498	50
Short-term deposits - Development Fund *	51,564	27,970	51,564	27,970
ABSA Bank Limited	13,368	5,381	13,368	5,381
Nedbank Limited	12,417	7,623	12,417	7,623
Standard Bank of South Africa Limited	13,588	4,706	13,588	4,706
Investec Bank Limited	12,191	10,260	12,191	10,260

21. Cash and short-term deposits (continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Short term deposits - Siyanda *	902	908	902	908
Standard Bank of South Africa Limited	902	908	902	908
Short term deposits - Abahlali*	935	873	935	873
Absa Bank Limited	935	873	935	873
Cash at bank and in hand	26,146	17,505	14,174	10,394
Standard Bank of South Africa Limited	26,131	17,486	14,170	10,391
Cash on Hand	15	19	4	3
Total cash and short-term deposits	262,984	276,845	251,012	269,733

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

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

NHFC	129,151	176,482	117,179	169,371
Short term deposits	103,005	158,977	103,005	158,977
Cash at bank	26,146	17,505	14,174	10,394
JOB SUMMIT *	80,432	70,611	80,432	70,611
Short-term deposits	80,432	70,611	80,432	70,611
DEVELOPMENT FUND *	51,564	27,970	51,564	27,970
Short term deposits	51,564	27,970	51,564	27,970
SIYANDA *	902	908	902	908
Short term deposits	902	908	902	908
AB AHLALI*	935	873	935	873
Short term deposits	935	873	935	873
TOTAL	262,984	276,845	251,012	269,733

* Funds under management - refer to note 24

22. Issued capital and share premium

	Group		Company	
	2010 R'000	2009 R'000	2010 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 R0.01 each	842	842	842	842
Share premium	879,158	879,158	879,158	879,158

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

23. Grant capital

Group		Company	
2010	2009	2010	2009
R'000	R'000	R'000	R'000
200,000	200,000	200,000	200,000

The grants arose as the result of the merger of the Housing Equity Fund and the Housing Institutions Development Fund in the 2002 financial year. They are considered to be permanent and are therefore included in Shareholder's Equity. There are no conditions attached to these grants.

24. Funds under management

	Group		Company	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Job summit (a)				
- Poverty Relief Funds	395,834	354,822	395,834	354,822
- Subsidies - Kwazulu-Natal	66,257	16,632	66,257	16,632
Development Fund (b)	151,850	147,958	151,850	147,958
Siyanda Project (c)	902	908	902	908
Abahlali (d)	935	872	935	872
Total funds under management	615,778	521,192	615,778	521,192

- a NHFC was appointed by the National Department of Human Settlements 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 20) and short-term deposits (note 21).

25. Deferred income

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Balance at beginning of year	10,069	20,143	10,069	20,143
Write down of deferred income	(1,143)	(3,808)	(1,143)	(3,808)
Deferred gain amortised	(8,926)	(6,266)	(8,926)	(6,266)
Balance at end of year	-	10,069	-	10,069

The South African Housing Trust (SAHT) and the NHFC were established by the National Department of Human Settlements to provide finance for low cost housing.

The SAHT was liquidated during the 2003 financial year. The assets held by SAHT included advances to homebuyers, housing subcontractors and micro lenders for low cost housing.

The advance book of SAHT was transferred to the NHFC for a consideration of R1. The fair value of the advances as at 31 March 2010 is Rnil (2009:R10 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 recognised in the income statement as payments are received from borrowers. The balances outstanding from these debtors are included in advances.

During the year the advance book was settled in full.

26. Debentures

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 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)	5,000	4,788	-	-

The debentures are not secured and are repayable on 6 April 2011. The balance shown above includes accumulated interest of R2,500,000 (2009: R2,287,791).

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

27. Other financial liabilities

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Held at amortised cost				
Dutch International Guarantees for Housing (DIGH) loan 1	2,306	2,575	-	-
This loan bears interest at a fixed rate of 8.72% per annum and is repayable in annual instalments of R453,731 (2009: R471 731) inclusive of interest. The final instalment is payable on 09 July 2014.				
Dutch International Guarantees for Housing (DIGH) loan 2	6,065	6,661	-	-
This loan bears interest at a fixed rate of 8.96% per annum and is repayable in annual instalments of R1,167,872 (2009: R1,022,083), inclusive of interest. The final instalment is payable on 17 January 2016.				
Development Fund	2,863	2,864	-	-
This facility bears interest at a rate of between 7-10% per annum and is repayable once project income is received.				
	11,234	12,100	-	-
Non-current liabilities at amortised cost	10,333	11,238		-
Current liabilities at amortised cost	901	862		-
	11,234	12,100	-	-

28. Provisions

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Total provisions	14,047	14,506	12,646	11,731
Provision for leave pay				
Opening balance as at 01 April	3,660	2,880	3,355	2,880
Acquisition	-	235	-	-
Provision utilised for the year	(304)	(515)	(294)	(515)
Additional provision raised	598	1,060	598	990
Closing balance as at 31 March	3,954	3,660	3,659	3,355
Provision for incentive bonus				
Opening balance as at 01 April	8,376	7,000	8,376	7,000
Provision utilised for the year	(7,807)	(5,860)	(7,807)	(5,860)
Additional provision raised	8,418	7,236	8,418	7,236
Closing balance as at 31 March	8,987	8,376	8,987	8,376

28. Provisions (continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Provision for municipal rates				
Opening balance as at 01 April	2,470	2,470	-	-
Provision utilised for the year	(1,364)	-	-	-
Additional provision raised	-	-	-	-
Closing balance as at 31 March	1,106	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 2011 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.

29. Trade and other payables

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Trade payables	8,577	14,679	3,534	2,606
Value added tax	1,326	-	-	-
Land accrual	4,960	5,084	-	-
Accrued expenses	1,273	1,566	-	-
Accrual for lease payments	923	900	923	900
Deferred revenue	1,944	15,086	-	-
Subsidies received in advance	4,231	-	-	-
	23,234	37,315	4,457	3,506

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

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

Accrual for lease payments is as a result of straight-lining over the term of the lease. Refer to note 31.

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

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

30. Cash flows from operating activities

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Non-cash items				
Depreciation	931	842	814	764
Impairments	72,888	3,366	72,888	3,366
Impairment of investment in subsidiary	-	-	-	57
Profit on dilution of investment in associate	-	(566)	-	(566)
Share of loss of an associate	1,448	1,262	-	-
Fair value adjustment on investment property	(14,963)	(12,100)	(6,300)	(12,100)
Premium paid	1,932	1,587	1,932	1,587
Dividends received	(158)	(158)	(158)	(158)
Bad debts written off	-	14,373	-	14,373
Loss on sale of assets	8	2	-	-
CTCHC at acquisition adjustment	-	442	-	-
Finance costs	1,014	2,059	-	-
Interest received	(186,789)	(229,914)	(190,125)	(232,909)
	(123,689)	(218,805)	(120,949)	(225,586)
Working capital changes				
Increase in advances	(366,332)	(182,817)	(370,430)	(216,149)
Decrease/(increase) in properties developed for sale	3,517	(29,911)	-	-
Decrease/(increase) in instalment sale receivable	8,663	(5,060)	-	-
Decrease / (Increase) in accounts receivable	1,866	(17,026)	498	(13,140)
(Decrease)/increase in accounts payable	(14,081)	3,945	951	244
(Decrease)/increase in provisions	(459)	4,626	915	1,851
Net increase in working capital	(366,826)	(226,243)	(368,066)	(227,194)
Tax paid				
Amounts receivable/(payable)	5,689	(18,679)	1,942	(23,361)
Tax charge for the year	(16,689)	(40,280)	(14,939)	(38,777)
Tax adjustments	-	(2,257)	-	-
Amounts (receivable) / payable	(24,312)	(5,689)	(20,532)	(1,942)
Tax paid	(35,312)	(66,905)	(33,529)	(64,080)

31. Contingent liabilities and commitments

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
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 R533,500 (2009: R533,500) is in place.				
Future minimum rentals payable under current operating lease as at 31 March 2010:				
Within one year	4,252	3,498	4,252	3,498
After one year but not more that five years	4,592	7,858	4,592	7,858
	8,844	11,356	8,844	11,356
Operating lease commitments - Group as lessee				
The Group entered into operating leases for photocopiers. The leases commenced on May 2008 and run until October 2011.				
Future minimum rentals payable under the lease as at 31 March 2010:				
Within one year	203	101	203	101
After one year but not more than five years	85	75	85	75
	288	176	288	176
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	558	531	-	-
After one year but not more that five years	22	581	-	-
	580	1,112	-	-

33. Financial Risk Management (continued)

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.

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

 General impairments

Net advances

Group	
2010	2009
R'000	R'000
1,046,611	840,286
129,796	128,008
289,849	145,505
1,466,256	1,113,799
(131,233)	(60,009)
(1,664)	-
1,333,359	1,053,790

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

	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	
Ageing analysis of advances that are past due, but not impaired:	2010	129,796	94,933	1,426	1,422	4,183	27,832
	2009	128,008	34,701	7,234	685	36,941	48,447

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 2010 amounts to R485 million (2009: R567 million).

During the year the Group did not take possession of any guarantees and debtors books.

The carrying amount of advances that would otherwise be past due whose terms have been renegotiated amounts to R16,9 million (2009: R124 million).

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

33. 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

 General impairments

Net advances

Company	
2010	2009
R'000	R'000
1,046,611	840,286
198,212	190,452
289,849	145,505
1,534,672	1,176,243
(131,233)	(60,009)
(1,664)	-
1,401,775	1,116,234

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

	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
Ageing analysis of advances that are past due, but not impaired:						
2010	198,212	154,854	3,364	4,007	7,438	28,549
2009	190,452	89,457	9,660	2,615	40,273	48,447

Credit quality of instalment sale receivables

Neither past due nor impaired

Past due but not impaired

Impaired*

Less: Specific impairments

Net advances

Group	
2010	2009
R'000	R'000
-	-
-	-
54,890	69,128
54,890	69,128
(8,722)	(14,297)
46,168	54,831

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

Credit quality and concentration of other financial assets

Counterparties with external credit ratings of at least F1

- Held to maturity investments - Money Market

- Cash and short-term deposits

Group		Company	
2010	2009	2010	2009
R'000	R'000	R'000	R'000
1,069,147	1,229,631	1,053,998	1,215,084
262,984	276,845	251,012	269,733

Other receivables are considered current and are not considered impaired

33. Financial Risk Management (continued)

Concentration risk of loans and receivables by operations

Commercial	22%
Projects	67%
Retail	11%

Interest rate risk

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

Strategy	Group 2010		Group 2009		
	Fixed Rate	Linked Rate	Fixed Rate	Linked Rate	
	R'000	R'000	R'000	R'000	
Assets					
Loan and receivables - advances rates vary between 6.5% and 15.5% p.a.	1	124,955	1,208,404	385,554	668,236
Instalment sale receivables average interest rate of 11.9% p.a.	1	46,168	-	54,831	-
Held to maturity investments rates vary between 6.60% and 10.80% p.a.	2	-	1,069,147	-	1,229,631
Cash and short term deposits rates vary between 6% and 9.757% p.a.	2	-	262,984	-	276,845
Liabilities					
Funds under management - rates are linked to short term investment rates		-	615,778	-	521,192

Interest rate risk

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

Strategy	Company 2010		Company 2009		
	Fixed Rate	Linked Rate	Fixed Rate	Linked Rate	
	R'000	R'000	R'000	R'000	
Assets					
Loan and receivables - advances rates vary between 6.5% and 15.5% p.a.	1	124,955	1,276,820	385,554	730,680
Held to maturity investments rates vary between 6.60% and 10.80% p.a.	2	-	1,053,998	-	1,215,084
Cash and short term deposits rates vary between 6% and 9.757% p.a.	2	-	251,012	-	269,733
Liabilities					
Funds under management - rates are linked to short term investment rates		-	615,778	-	521,192

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.

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

33. Financial Risk Management (continued)

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

Interest rate sensitivity

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

	Group			Company	
	Increase/ decrease	2010 Effect on profit before tax	2009 Effect on profit before tax	2010 Effect on profit before tax	2009 Effect on profit before tax
	%	R'000	R'000	R'000	R'000
Loans and receivables - advances	1%	11,511	12,839	11,904	14,349
	-1%	(11,613)	(12,839)	(11,799)	(14,349)
Held to maturity investments	1%	5,872	8,088	5,721	7,943
	-1%	(5,872)	(8,088)	(5,721)	(7,943)
Cash and short-term deposits	1%	1,292	1,765	1,172	1,694
	-1%	(1,292)	(1,765)	(1,172)	(1,694)

Liquidity risk

To ensure that the Group is able to meet its financial commitments the liquidity management process includes:

- short and long term cash flow management;
- diversification of investment activities with appropriate levels of short term instruments and maturities in line with the Treasury policy;
 - at least 60 % of Money Market portfolio to mature within six months;
 - limiting Capital Market investments to 30% of the portfolio; and
 - mobilisation of funding

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2010 based on contractual undiscounted payments.

As at 31 March 2010	On demand	Less than 3 months	3 to 12 months	>1 year	Total
	R'000	R'000	R'000	R'000	R'000
Trade and other payables		9,850	12,461	923	23,234
Funds under management				615,778	615,778
Debentures				5,000	5,000
Other financial liabilities			901	10,333	11,234
	-	9,850	13,362	632,034	655,246
As at 31 March 2009	On demand	Less than 3 months	3 to 12 months	>1 year	Total
	R'000	R'000	R'000	R'000	R'000
Trade and other payables	367	21,522	14,526	900	37,315
Funds under management				521,192	521,192
Debentures				4,788	4,788
Other financial liabilities			862	11,238	12,100
	367	21,522	15,388	538,118	575,395

33. Financial Risk Management (continued)

Fair value of financial instruments

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

Capital management

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

	2010 R'000	2009 R'000
Total equity	2,216,356	2,158,810

Credit rating

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

Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

Group - 2010	Loans and receivables	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Other receivables and prepayments	23,328	-	-	-	-	23,328
Cash and short term deposits	262,984	-	-	-	-	262,984
Loans and receivables - advances	1,333,359	-	-	-	-	1,333,359
Held to maturity investments	-	-	-	1,069,147	-	1,069,147
	1,619,671	-	-	1,069,147	-	2,688,818
Company - 2010	Loans and receivables	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Other receivables and prepayments	13,274	-	-	-	-	13,274
Cash and short term deposits	251,012	-	-	-	-	251,012
Loans and receivables - advances	1,401,775	-	-	-	-	1,401,775
Held to maturity investments	-	-	-	1,053,998	-	1,053,998
	1,666,061	-	-	1,053,998	-	2,720,059

Notes to the annual financial statements
for the year ended 31 March 2010 (continued)

33. Financial Risk Management (continued)

	Loans and receivables	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Group - 2009						
Other receivables and prepayments	25,194	-	-	-	-	25,194
Cash and short term deposits	276,845	-	-	-	-	276,845
Loans and receivables - advances	1,053,790	-	-	-	-	1,053,790
Held to maturity investments	-	-	-	1,229,631	-	1,229,631
	1,355,829	-	-	1,229,631	-	2,585,460

	Loans and receivables	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Company - 2009						
Other receivables and prepayments	13,772	-	-	-	-	13,772
Cash and short term deposits	269,733	-	-	-	-	269,733
Loans and receivables - advances	1,116,234	-	-	-	-	1,116,234
Held to maturity investments	-	-	-	1,215,084	-	1,215,084
	1,399,739	-	-	1,215,084	-	2,614,823

Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

	Financial liabilities at amortised cost	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Total
	R'000	R'000	R'000	R'000
Group - 2010				
Other financial liabilities	11,234	-	-	11,234
Trade and other payables	23,234	-	-	23,234
Debentures	5,000	-	-	5,000
Funds under management	615,778	-	-	615,778
	655,246	-	-	655,246

33. Financial Risk Management (continued)

	Financial liabilities at amortised cost	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Total
	R'000	R'000	R'000	R'000
Company - 2010				
Other financial liabilities	-	-	-	-
Trade and other payables	4,457	-	-	4,457
Debentures	-	-	-	-
Funds under management	615,778	-	-	615,778
	620,235	-	-	620,235
Group - 2009				
Other financial liabilities	12,100	-	-	12,100
Trade and other payables	37,315	-	-	37,315
Debentures	4,788	-	-	4,788
Funds under management	521,192	-	-	521,192
	575,395	-	-	575,395
Company - 2009				
Other financial liabilities	-	-	-	-
Trade and other payables	3,506	-	-	3,506
Debentures	-	-	-	-
Funds under management	521,192	-	-	521,192
	524,698	-	-	524,698

34. Related parties disclosure

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

Subsidiary	2010		2009	
	Country of incorporation	% equity interest	% equity interest	
Gateway Homeloans (Proprietary) Limited	RSA	100	100	
Gateway Homeloans 001 (Proprietary) Limited	RSA	100	100	
Centriq Cell captive	RSA	100	100	
Cape Town Community Housing Company (Pty) Limited	RSA	100	100	

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

34. Related parties disclosure (continued)

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 2010		Group 2009	
	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 note 19)	2,136		754	
- management fees received		243		243
Thubelisha/NDOH				
Advances	14,316		113,214	
- disbursements				-
Telkom SA				
- Telecommunication services	-	417	-	665
SA Post Office				
- Postal services	-	1	-	1
- 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, accounts receivable 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 2010, with the exception of the amount owed by Thubelisha, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2009: Nil).

Transactions with subsidiaries	Company 2010		Company 2009	
	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
Gateway Homeloans (Proprietary) Limited				
- intercompany (receivables)/payables	(67)	-	(67)	-
Centriq Cellcaptive				
- interest received	-	2,326	-	1,300

34. Related parties disclosure (continued)

	Company 2010		Company 2009	
	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
Cape Town Community Housing Company (Pty) Limited				
- shares at cost	4,000	-	4,000	-
- debentures	17,653	-	15,856	-
- advances	68,416	-	62,444	-
- disbursements	-	51,027	-	41,263
- interest received	-	5,739	-	4,655
Transactions with other public entities				
Social Housing Foundation				
- accounts receivable	2,136	-	754	-
- management fees received	-	243	-	243
Thubelisha/NDoH				
Advances	14,316	-	113,214	-
Telkom SA				
- Telecommunications services	-	417	-	665
SA Post Office				
- Postal services	-	1	-	1
- Retail pilot project	-	-	-	232

Notes to the annual financial statements for the year ended 31 March 2010 (continued)

35. Directors and senior management emoluments

	Fees	Salaries	Bonuses	Company Contributions	Other	Total 2010	Total 2009
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Independent Non Executive Directors	326	-	-	-	31	357	301
S Tati	51	-	-	-	-	51	66
N Makiwane	26	-	-	-	-	26	25
S Ntsaluba	101	-	-	-	-	101	53
A Canter - Future Growth Asset Management	-	-	-	-	-	-	16
T Middleton	29	-	-	-	-	29	61
C Ball	-	-	-	-	-	-	29
S Khoza	30	-	-	-	-	30	35
T Ndziba-Dikgole	-	-	-	-	-	-	8
E Godongwana	-	-	-	-	-	-	8
AW Houston	24	-	-	-	31	55	-
J Coetzee	39	-	-	-	-	39	-
P Ramarumo	26	-	-	-	-	26	-
CEO and Executive Director							
S Moraba		2 226	1 467	200	16	3 908	3 636
Executive Members		8 504	2 414	947	411	12 276	9 540
A Egbers		965	394	112	5	1 476	1 652
S Sengani		-	-	-	-	-	87
N Ntshingila		782	282	77	58	1 199	903
S Mutepe		999	432	100	8	1 539	740
A Chimpondah		1 097	198	93	35	1 423	719
L Lehabe		999	276	87	54	1 416	1 155
S Mogane		770	204	101	58	1 133	986
S Madikizela		699	225	60	46	1 030	873
G Long		-	-	-	-	-	440
Z Adams		859	312	172	77	1 420	1 035
B Kgosi		-	-	-	-	-	950
A Govender		539	91	71	64	765	-
R Haman		795	-	74	6	875	-
Total	326	10 730	3 881	1 147	458	16 541	13 477

Note: Prof Katz agreed not to charge fees.

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

36. Events after the statement of financial position date

Retail operations

The Retail business in its current form has been curtailed and only commitments at hand will be processed. The Retail intervention in the future will take a different approach. As opposed to the Corporation doing business directly with the end user, the Corporation will facilitate, through leveraging and enhancing, private sector players to increase their impact in the lower end of the market.

Mobilisation of funding

The Corporation signed an agreement with the Agence Française de Développement and is in the process of concluding an agreement with the European Investment Bank for the Rand equivalent of EUR20 million and EUR30 million respectively.

The concurrent approval of the Minister of Human Settlements and Minister of Finance was received for both these facilities as required by the PFMA.

Investment in Cell Captive

The three year Cell Captive insurance expired at the end of March 2010. A decision was made not to renew the Cell Captive arrangement.

Notes to the annual financial statements
for the year ended 31 March 2010 (continued)

37. World Cup Expenditure

Purchase of other World Cup apparel

T-shirts

Total World Cup expenditure

Group		
	2010	2009
	Quantity	R'000
	120	62
	120	62
		62
		-

Purchase of other World Cup apparel

T-shirts

Total World Cup expenditure

Company		
	2010	2009
	Quantity	R'000
	120	62
	120	62
		62
		-

World Cup expenditure after year-end

Purchase of other World Cup apparel

T-shirts

Office decorations

Staff functions

Total World Cup expenditure

Group	
Quantity	R'000
54	20
	3
	11
54	34
	34

T-shirts

Office decorations

Staff functions

Total World Cup expenditure

Company	
Quantity	R'000
25	14
	3
	10
25	27
	27

The above expenditure was incurred to promote the Soccer World Cup, foster good team spirit and boost staff morale as well as to maintain good relations with stakeholders.

No tickets were purchased nor any travel expenditure incurred.

Performance Report for the year ended 31 March 2010

in terms of section 55(2) of PFMA

Budgeted and actual results for the year ended 31 March 2010

	Actual R'000	Budget R'000
Income		
Lending activities	111,099	183,489
Investment activities	75,691	71,022
Sale of houses	61,176	-
Other income	64,591	6,966
Total income	312,557	261,477
Impairments	(72,888)	(16,214)
Cost of sales	(60,170)	-
Operating expenses	(103,876)	(136,429)
Operating profit	75,623	108,834
Share of loss of associate	(1,014)	-
Interest paid	(1,448)	-
Profit before tax	73,161	108,834
Tax	(15,615)	(30,473)
Profit after tax	57,546	78,361

The results of the Cape Town Community Housing Company (CTCHC) are consolidated into the financial statements. The approved budget however does not include the operations of the CTCHC.

The lower than budgeted disbursements coupled with the low interest rates that prevailed for most part of the year impacted on lending income.

The positive variance in other income is mainly as the result of the revaluation of the investment property and a refund of tax penalties previously incurred.

The level of impairments increased significantly, the Corporation however achieved savings in the operational expenses.

Key performance indicators

The performance of the Corporation is captured in the context of the challenging conditions that prevailed in the operating environment for most part of 2009. Whilst approvals exceeded the budget the actual disbursements were below budget.

In line with its objective to facilitate increased lending through strategic partnerships to the lower end of the housing market, the Corporation attracted R662 million from the private sector.

Housing impact at 11,160 is 65% of the budget, and including leveraged impact, a total impact of 91% of the budget was achieved.

The housing impact for the Project Division was on target and 75% of the disbursement budget was achieved.

The Commercial business performed better in terms of disbursements than housing opportunities created. The mix in the commercial book has changed with more funding going to financing housing units than is disbursed for home improvements or incremental loans.

In line with a decision that the retail intervention in future will take a different approach, Impala Platinum Mines remains the only Retail client whose home loan applications are received and processed. The results accordingly takes into account the reduction in Retail business from planned disbursements of R245 million to R200 million.

Performance Report for the year ended 31 March 2010

in terms of section 55(2) of PFMA

	Actual	Budget
Funding Impact		
Number of approvals		
Projects	10	8
Commercial	3	3
Retail	920	1,428
Total number of approvals	933	1,439
Value of approvals (R'm)		
Projects	455	325
Commercial	90	140
Retail	226	131
Total value of approvals (R'm)	771	596
Disbursements (R'm)		
Projects	407	546
Commercial	112	117
Retail	151	200
Total value of disbursements (R'm)	670	863
Leveraged funds (R'm)	662	610
Total Funding Impact	1,332	1,473
Developmental Impact		
Housing opportunities		
Housing units	7,869	7,760
Incremental loans	2,218	8,000
Mortgage loans	1,073	1,282
Total Impact	11,160	17,042
Impact leveraged through others	22,500	20,000
Total Impact	33,660	37,042
Beneficiaries benefitting	127,908	140,760
Number of jobs created	1,418	-

How does the NHFC deliver on its mandate?

The NHFC achieves its mandate through the provision of wholesale financing of the three following housing options for households.

- A. Rental Housing;
- B. Home ownership through Mortgage;
- C. Incremental housing.

The choice of the option depends on the customers affordability at the time.

1. Rental Housing

This entails the provision of loans to institutions that provide various housing tenure options other than ownership. The types of rental products are as follows:

- **Social Housing Rental**
 - This type of rental accommodation is more affordable than private / commercial accommodation and is provided by social housing institutions which are section 21 companies (not for profit)
 - Subsidies are allocated to the project by the Provincial Government and capital restructuring grants are made available for the NDoHS
- **Private Rental**
 - This type of rental accommodation is provided by private landlords who do not receive any subsidies or grants. It however caters for the affordable markets. This also includes Inner Cities rental developments.

2. Home Ownership

Home Ownership is achieved through the provision of mortgage bonds for either buying an existing home or building one.

- **Partnership with Banks**

Through co-financing and risk-enhancement mechanisms, bank's lending in this segment of the market, is increased and sustained.
- **Non-Banking Retail Intermediaries**

NHFC provides loans to non-banking retail intermediaries, who on-lend to households in the NHFC target market. Access to home loans is increased and delivered through the branch networks of intermediaries.

3. Incremental Housing:

Funding is made available via intermediaries, to end users whose household income ranges between R1,500 to R15,000 and for loans usually between R1,000 and R20,000. The end user may use these loans to:

- Obtain building supplies
- Buy land on which to build
- Service land
- Lay foundations
- Pay for building works
- Top up subsidy amounts; and
- Fund any form of use relating to housing that is permanent (not furnishing, etc.)

Administration

Registration number:
1996/005577/06

Physical address:
Isle of Houghton, Old Trafford 3
11 Boundary Road, Houghton, 2193

Postal address:
P.O. Box 31376, Braamfontein, 2017

Auditors:
Ernst & Young Inc.

Bankers:
Standard Bank

Telephone:
+27 (0)11 644 9800

Fax:
+27 (0)11 484 0204

email:
info@nhfc.co.za

web:
www.nhfc.co.za

