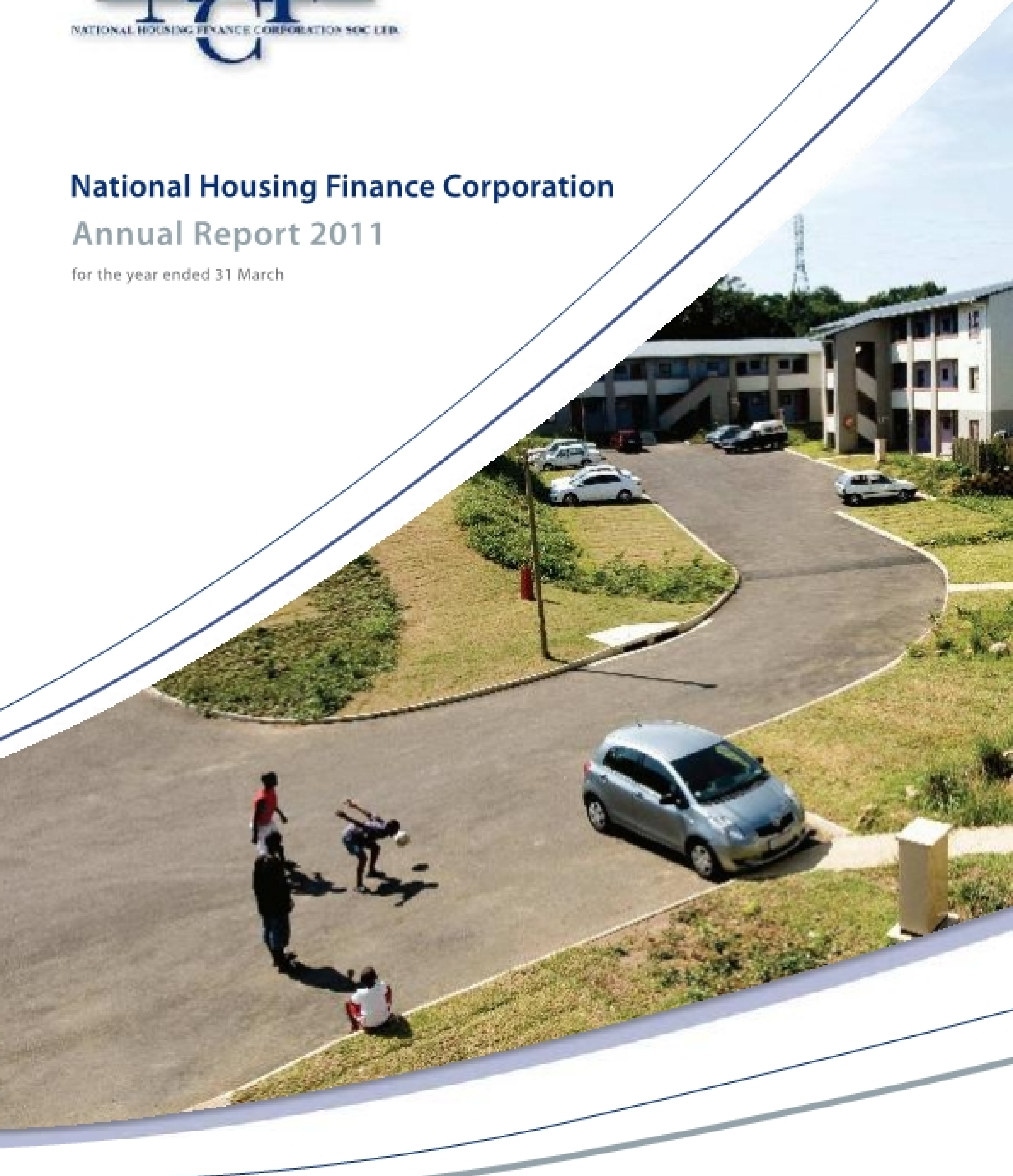
NATIONAL HOUSING FINANCE CORPORATION SOC LTD.

National Housing Finance Corporation

Annual Report 2011

for the year ended 31 March



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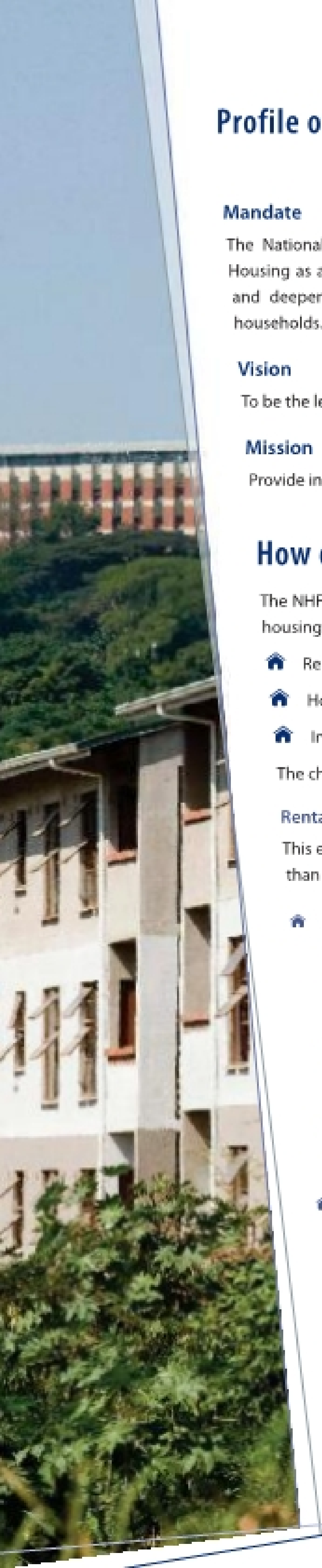
Acronyms

3A	PFMA Classification: National Public Entity (current NHFC classification)
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) Limited (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
EEXCO	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
MDI	Mortgage 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



Profile of the NHFC

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 development finance for the low-to-middle income housing market.

Mission

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

How does the NHFC deliver on its mandate?

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

- Rental Housing;
- Home Ownership through Mortgage; and
- Incremental Housing.

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

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 (SHIs) which are section 21 companies (not for profit);
  - Restructuring Capital Grants (RCGs) to the projects are allocated by NDOHS via the Social Housing Regulatory Authority (SHRA) and top-up subsidies are allocated by the Provincial Government; and
  - The NHFC provides long-term loans (up to 20 years) to the projects for the balance of the funding required to implement the project.
- **Private Rental**
  - This type of rental accommodation is provided by private landlords who do not receive any subsidies or grants. Only loan funding is used to develop the project. It however caters for the affordable markets. This also includes Inner Cities rental developments.

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, banks' 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 such intermediaries.

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.).

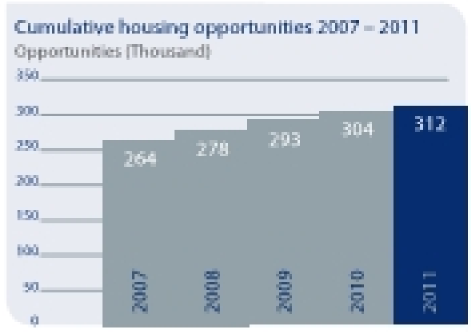
Strategic objectives of the Corporation

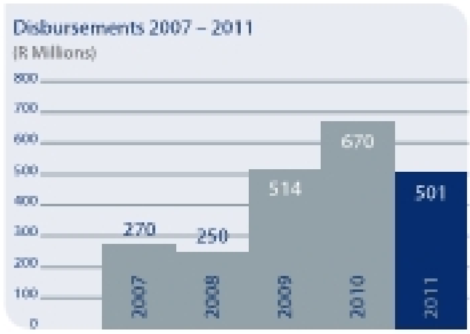
The following measurable and impactful drivers represent the Corporation's five-year strategic thrust and objectives towards achieving its mandate:

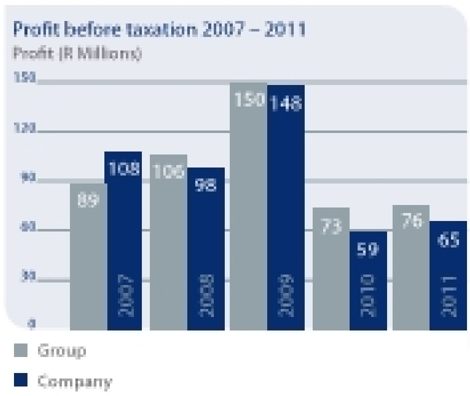
- Expand housing finance activities, through the effective provision of housing finance solutions, thus enabling low-to-middle income households to have a choice of renting, owning or incrementally building, to meet their housing needs.
- Facilitate the increased and sustained lending by financial institutions to the affordable housing market.
- Mobilise funding into the human settlement space, on a sustainable basis, in partnership with the broadest range of institutions.
- Conduct the business activities of the NHFC in a manner that ensures the continued economic sustainability of the Corporation whilst promoting lasting social, ethical and environmental development.
- Stimulate the low-to-middle income housing sector, by providing robust, relevant and timely research and market analysis to practitioners and housing consumers.

Financial highlights

		2011	2010	2009	2008	2007
Profit before tax (R'000)	Group	75,547	73,440	150,497	106,097	88,549
	Company	65,348	58,823	148,498	97,520	107,962
Return on equity (%)	Group	2.63	2.61	5.00	2.96	3.17
	Company	2.26	2.06	5.02	2.68	4.03
Cost to income ratio (%)	Group	59.10	41.32	37.04	48.28	42.80
	Company	61.68	40.58	35.63	51.88	53.88
Impairments: Gross advances (%)	Group	8.07	9.08	5.39	5.74	8.43
	Company	7.76	8.67	5.10	5.74	7.01







Key milestones

2006

- Minister of Human Settlements **broadened mandate** to include retail housing finance.
- Instrumental in 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 the **Post Bank** a division of the South African Post Office (SAPO) group.
- Undertook **End User Satisfaction Survey** on **BSB design Abod** (United States-based alternative building system).

2008

- **Launched Housing Investment Partners (HIP)** in conjunction with **Pan African Capital Holdings (PACH).**
- Co-organised the International Symposium on **Urban Development, Housing and Social Cohesion** with French Development Agency (AFD) and Brazilian counterparts.
- **Co-organised and funded the training of 400 black estate agents** with ABSA Bank.

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.

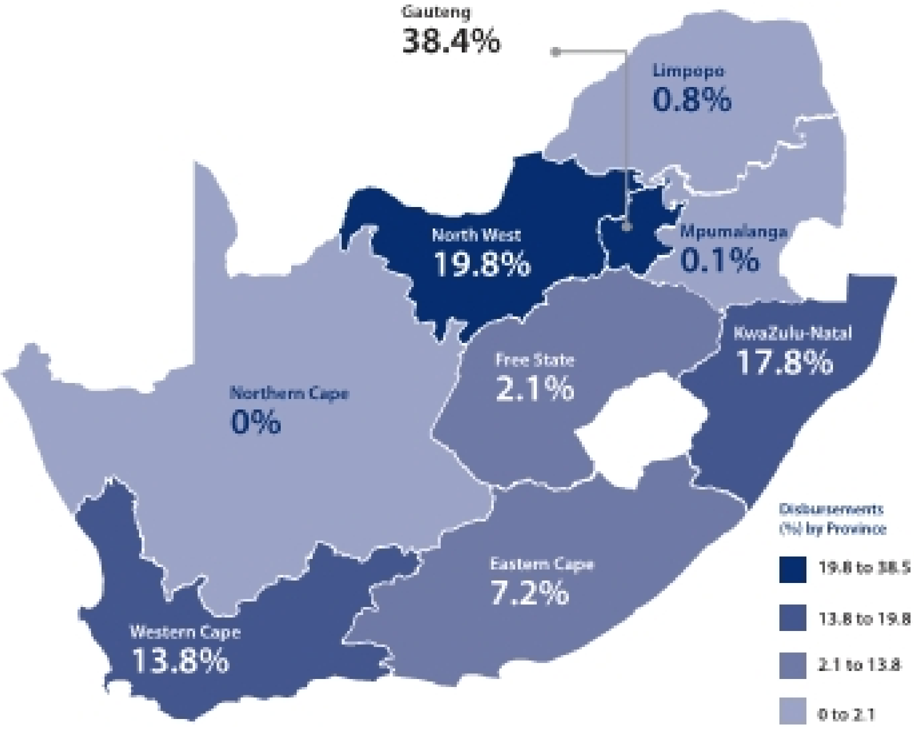
2010

- **External funding and PFMA** approvals thereof secured.
- Signed an agreement with **AFD** worth **EUR20 million** and working towards concluding an agreement with **European Investment Bank (EIB)** for **EUR30 million** towards development of the inner city with social rental housing projects.
- NHFC adapts its approach and strategies to align with the National Department of Human Settlements' (NDoHS) 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**.

2011

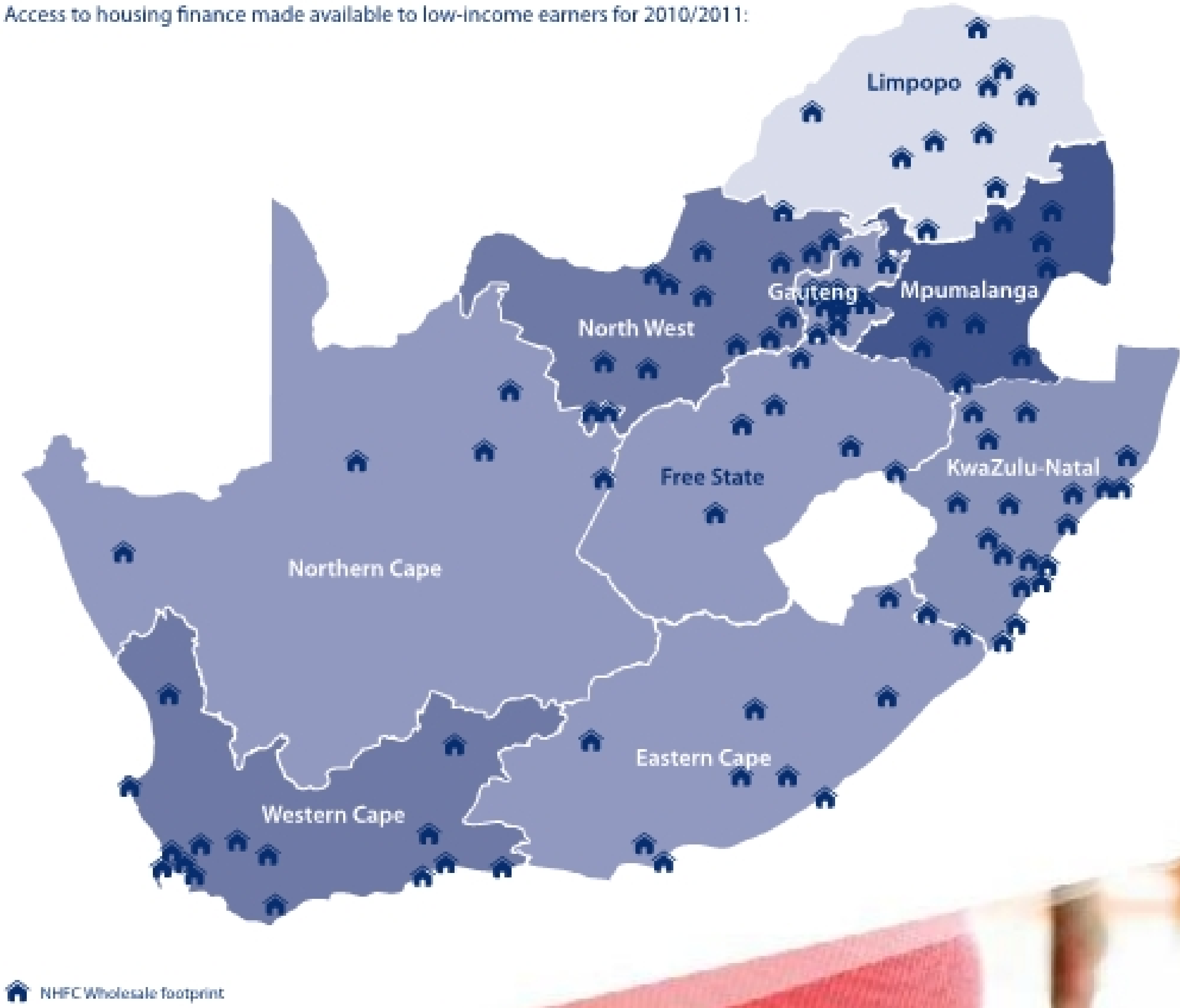
- NDoHS announcement of **R1 billion guarantee** fund to address the Gap market in the form of **Mortgage Default Insurance (MDI)** to be administered and managed by the **NHFC**.
- Signed an agreement with the **EIB** for the rand equivalent of EUR30 million.
- Concluded an agreement with **Old Mutual Life Assurance Company of South Africa and its BEE Partners** to participate in an Affordable Housing Fund with initial funding of **R900 million**. The project will eventually generate R6 billion into the economy over a 10-year period and finance the development and sale of 25,000 affordable units.
- Number of key NHFC housing **projects launched by the South Africa National President and the Minister of Human Settlements**.

Wholesale: Disbursements for 2010/2011



Wholesale footprint

Access to housing finance made available to low-income earners for 2010/2011:



Board of Directors

From left to right – standing: Dr Snowy Khoza, Ms Anthea Houston, Mr Sango Ntsaluba, Mr Johan Coetzee

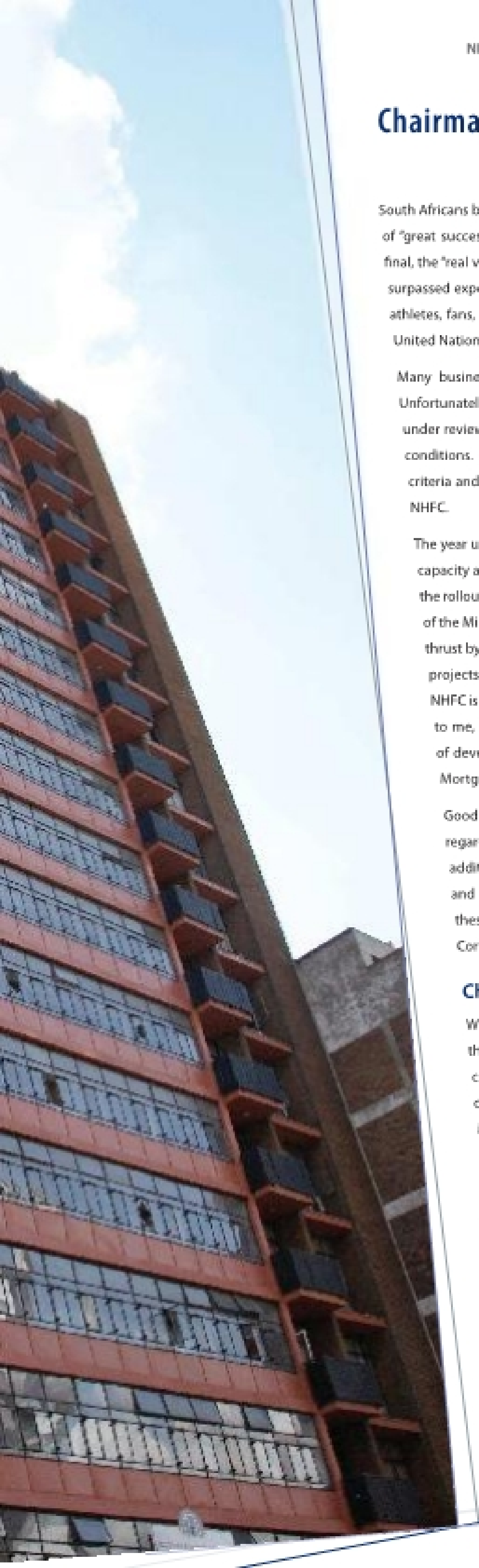
From left to right – seated: Ms Sonnet Swanepoel, Mr Samson Moraba, Prof Michael Katz, Ms Phekane Ramarumo, Mr Sizwe Tati

Name and designation	Academic qualifications	NHFC Director from
Independent Non-Executive Chairman		
Prof Michael Katz *Chairman, Edward Nathan Sonnenbergs*	BCom LLB (Wits); LLM (Harvard Law School); LLD(h.c) (Wits)	10 May 1996
Chief Executive Officer		
Mr Samson Moraba *Chief Executive Officer, NHFC*	BCom Unisa, PMD (Harvard)	11 January 1999
Independent Non-Executive Directors		
Mr Sango Ntsaluba *Chairman: Amabubesi Group*	CA (SA); BCom (Fort Hare); BCompt Honours (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 *Chief Executive Officer: Bigen Africa Services (Pty) Limited*	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 and director of companies*	BA (University of Pretoria); MBA (Graduate School of Management) (University of Pretoria)	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*	PrPln; MRP (Sunya) USA	6 May 2009
Ms Sonnet Swanepoel *CEO Ad Outpost Holding (Pty) Limited*	BSc(QS) Honours	13 December 2010
Company Secretary		
Ms Elsabe Marx	B Proc; LLB; LLM	29 October 2004

Executive Committee

Name and designation	Academic qualifications	Executive from
Mr Samson Moraba *Chief Executive Officer*	BCom Unisa; PMD (Harvard)	January 1999
Ms Zonia Adams *Chief Financial Officer*	BCompt Honours; CA (SA)	January 2007
Mr Andrew Chimphondah *Managing Executive: Strategic Investments*	CA (Z); MBA (Durham-UK)	September 2008
Mr Alan Govender *General Manager: Information Technology*	MBA (Milpark Business School Midrand Graduate Institute)	March 2009
Mr Reginald Haman[1] *Executive Manager: Enterprise Wide Risk*	NHD; GD:CD; PDBA; MBA (University of Pretoria (GIBS))	September 2009
Mr Lawrence Lehabe *Executive Manager: Projects*	BCom; MSc (Marketing)	July 2005
Dr Simphiwe Madikizela *General Manager: Commercial*	BAgric Economics; BInstAgrar Hons; MInst Agrar; PhD Economics IEDP (UK)	July 2008
Ms Masego Maluleke *General Manager: Corporate Communications and Marketing*	BA Industrial Psychology (Wits); Masters in Public and Development Management (Wits); Strategic Marketing Management (Wits); IEDP (GIBS)	September 2010
Ms Mandu Mamatele *Executive Manager: Credit*	BCom (Hons); MBA IEDP (UK)	December 2010
Mr Siegfried Mogane *Chief Operating Officer: Retail*	BCom; MStrat	July 2007
Mr Sydney Mutepe *Executive Manager: Mortgage Insurance*	BCom; MBA	August 2008
Ms Nomsa Ntshingila *Executive Manager: Human Resources*	MSc Clinical Psychology; BSoSc (Hons); HED; BA Com	September 2005
Ms Thandi Sihlaba *Executive Manager: Enterprise Wide Risk*	BCom; BCompt (Hons); CIA	March 2011
Mr Chris Moodley *General Manger: Projects*	BCom (Unisa); MBA (Wales)	September 2010

[1] *Resigned in 2010*



Chairman's Report

South Africans basked in the glory of the 2010 FIFA World Cup. It had been heralded as a tournament of "great success" for all the parties and the conclusion was that irrespective of the result of the final, the "real victor of the 2010 World Cup is Africa and the South African people". "Its organisation surpassed expectations, as the tournament took place in a positive spirit and safe environment for athletes, fans, observers, and local community members, alike," says the Secretary General of the United Nations, Mr Ban Ki Moon.

Many businesses and sectors of the economy benefited significantly from the tournament. Unfortunately this was not so for the environment in which the NHFC operated, in the year under review. This period was more characterised by slow, but moderately improving economic conditions. High unemployment, over-indebtedness of households, stricter banking lending criteria and lower average interest rates weighed negatively on the overall performance of the NHFC.

The year under review, was, however eventful for the NHFC, as it shifted gear by building both capacity and competence in the Mortgage Default Insurance (MDI) Project, which is backed by the rollout of the R1 bn guarantee. The MDI will effectively contribute towards the achievement of the Minister of Human Settlement's Outcome 8 Performance targets by 2014. The Inner City thrust by the NHFC remained a key area of focus, as the Minister launched one of the flagship projects, the Cavendish, in the Inner City of Johannesburg. No wonder therefore, that the NHFC is experiencing increased shareholder expectations, as expressed in the Minister's letter to me, indicating that "there is high expectation on the NHFC, particularly in its provision of development finance in its niche market, and the implementation of the highly critical Mortgage Default Insurance instrument."

Good corporate governance continues to be an important objective of the NHFC. In this regard I am delighted to mention that, in the year under review, the Board has set-up two additional Board sub-Committees, the Development Impact and Strategy sub-Committee and has separated the Audit from the Risk Committee, so as to sharpen its focus on these two critical roles, and thereby, pay particular attention to the risk appetite of the Corporation and align itself with the relevant recommendations of King III.

Changes to the Board

We owe a huge debt of gratitude to Mrs Nocawe Makiwane, who resigned from the Board, for her enormous contribution to the Board over so many years. Her commitment, conscientiousness and unconditional support of the vision and objectives of the NHFC was admirable. At the same time, I would also like to welcome Ms Sonnet Swanepoel to our Board and wish her well. We look forward to her making a meaningful contribution to the vision and strategy of the NHFC. Congratulations to Dr Snowy Khoza, for her appointment as the CEO of Bigen Africa.

We are also truly grateful to our Minister, Mr Tokyo Sexwale for his commitment to the NHFC and for his great support. He has shared our vision and has given us his time whenever requested. In particular he has promptly provided us with all approvals which we have required from him. Similarly, we thank the Director-General and his team for their untiring support. They have indeed worked in true partnerships with the executive management of the NHFC.

To my fellow Board members, I salute you, for your insight, depth and particularly for the strategic input and energy that have resulted in our Board meetings becoming so exciting and effective.

To the CEO and his management team our sincere congratulations and thanks. They have risen to the occasion and indeed have been trailblazers, with great confidence, maturity and diligence. Their resolve to sticking to "their knitting", even during trying economic conditions and pressures to succumb, is laudable.

Finally, we readily record that there remain some key strategic matters that are currently receiving attention, including the Human Settlement Development Finance Institutions (DFI) Review and a proposal for their Consolidation, the Outcome 8 Performance Imperative and the renewed expectation from the Shareholder of the NHFC's greater level of performance.

In all of these, and in all our tasks and challenges, I can confirm that the NHFC is ready, agile, and thoroughly equipped to exceed expectations, in terms of being the Human Settlements Development Finance Institution of choice.

Prof. Michael Katz
Chairman

The NHFC is ready, agile, and thoroughly equipped to exceed expectations, in terms of being the Human Settlements Development Finance Institution of choice.

Chief Executive Officer's Review

Introduction

The South African economy was slow to recover from its first recession in 17 years and grew by 2.2% in 2010. Low inflation interest rates and a modest recovery in house prices eased the pressure in households, leaving them in a better position to repay debt. Despite this, most households remained reluctant to take on new debt, given high household debt to income ratios. Meanwhile, the Retail and Corporate side, while generally improving in shape, also remained cautious and limited their activity in terms of draw-downs and investments. The effects of the overall economic downturn, particularly in the housing finance market, as well as the collapse of the credit and mortgage markets made lenders more risk averse, as credit to households and business fell drastically. According to the First National Bank (FNB), the residential property market remained weak, for most or part of 2010, and early in 2011, and could still experience negative growth.

Highlights of the Year Under Review

- NHFC company profit before tax is 11% higher than last year.
- The NHFC is on track with the development and implementation of the Mortgage Default Insurance (MDI) Operating Model, backed by the R1 billion Guarantee.
- Successful mobilisation of external affordable funding into Integrated Human Settlement Development (allocation and disbursement of the AFD and EIB funds, into the private and social affordable rental market).
- The distressed clients' turnaround and collection recovery strategy was successfully implemented.
- NHFC's pioneering strategic investment and partner in expanding the inner city regeneration, Trust for Urban Housing Finance (TUHF) loan portfolio reaches more than R1bn mark (R1.2bn).
- Highest number of NHFC project launches within a single year, proving the extent to which the Corporation is making a difference in the lives of the many underserved low income households.
- Readiness of the Housing Investment Partnership's (HiP) launch of the fixed income-linked housing finance instrument.

Operations

Multiple factors contributed to the overall below target performance, notwithstanding the recent seemingly improved economic climate, in the form of low inflation and interest rate levels. The key ones that had a direct impact to NHFC's performance are the following:

Constrained Banks' Lending and Households Over-indebtedness

The banks high cost to income ratios, bad debt and higher capital and liquidity requirements, put the affordable housing finance sector under pressure, resulting in significant tightening of lending criteria. On the other hand, end users' over indebtedness, also became a factor that reduced the level of take up of debt by households.

Dependence on Subsidy Funding of Social Rental Housing

In most Provinces, Restructuring Capital Grants (RCG) or subsidies for social housing projects were not available, thus limiting the NHFC from providing top up funding on a number of already approved projects.

Timing of Complex Structured Deals

The protracted nature of negotiations and complex structuring of large integrated housing development projects, delayed the need for disbursements within the year under review. For example, one of the large projects (worth R6 billion), the NHFC is co-financing with an institutional investment company, was stalled.

Financials

The financial performance of the NHFC is captured in the context of its business performance, as well as the continued challenging economic, social and political environments.

(i) The Group profit before tax of R76 million, increased marginally from 2010. The key ratios, however, remain under pressure. The benefits of reduced impairments, coupled with cost containment by management could not completely offset the decline of the revenue, as it can be seen in the high cost income ratio.

(ii) The NHFC's impairment charge of 8,07%, though lower than the previous year, is higher than the budgeted figure of 5%. This also indicates stress levels that still exist in the economy, as well as the NHFC's assumption of higher risk.

(iii) A fair amount of time and resources were deployed to work on some of the problematic clients, with the view of maximising recoveries or turn them around. Much success has been attained in this regard. Through this exercise, a considerable amount was banked by year-end.

Impact

During the year under review, the NHFC continued to be a catalyst in increasing private sector participation in the affordable housing market. This was achieved through either the NHFC supporting its key clients to a point of graduation, or in the increase of funding new entities in the affordable housing space. A case in point is the entry of large players like Old Mutual, Future Growth, Cadiz and the PIC in the affordable housing market. One area of developmental impact was the successful sourcing and allocating of alternative funding, from both the EIB and AFD into the Inner City private and social rental projects. As a result, in total a sum of R388 million was channelled into the human settlement space through this intervention.

The effects of the overall economic downturn, particularly in the housing finance market, as well as the collapse of the credit and mortgage markets made lenders more risk averse, as credit to households and business fell drastically.

The significant drop in housing opportunities is due to the impact from the Commercial unit of the business. The main reason being that, on one hand, Incremental Loan numbers were much lower, yet large in size, from an average of R5,000 to R12,000 per loan. On the other hand, the projected disbursement with key clients did not take place as envisaged, as some distressed clients had to be turned around during the period under review before they can further access the facilities they had or obtain new ones.

Divisional highlights

Projects

The Project's Division achieved 51% of its disbursements budget, and delivered 5 757 housing impact against a budget of 8 400 units. Both the bank lending contracting entry of new funding players in the affordable space, and the unavailability of the social housing subsidies, contributed much to this low level of disbursements.

Commercial

The greatest impact of the Commercial business in the year under review was financial instead of new housing opportunities, as key distressed clients were restored to normality and caught up with their arrears situation instead of taking up new facilities.

Retail

Retail disbursements were 90% of Budget, as it accelerated the process of its closure, in the middle of the new financial year.

Chief Executive Officer's Review continued

Strategic partnerships

TUHF remains a conspicuous example of the NHFC's success story of significantly expanding its impact through Strategic partnership. The NHFC's initial investment of R10 million in 2003 has translated into a viable entity, with a loan book of R1.2bn, and having created 17 000 housing opportunities mainly in the city of Johannesburg. TUHF is now expanding its reach, and has now branched out to KZN (Durban), and the Eastern Cape (Port Elizabeth).

As part of its strategy to strengthen TUHF's ability to significantly grow its business in the next five years, the NHFC will increase its shareholding in TUHF from 27% to 29%, and help raise additional capital funding, to improve TUHF's capital asset ratio.

Housing Investment Partnership (HIP)

Recent developments in HIP, post year end, saw the exit of Pan African Capital Holding (PACH) as a Shareholder, with the NHFC and Old Mutual (OMCH) remaining with 33% and 67% Shareholding, respectively.

For the NHFC, this is a significant developmental impact of facilitating large institutional investors to participate in the funding of those people who earn too much to quality for subsidies, but too little to get a mortgage loan from the Banks.

Strategic initiatives

The DFI review process

The initial summary proposal from the DFI Review Process, tabled a need for a consolidation of the three Human Settlement Housing Finance DFIs, namely NHFC, NURCHA and RHLF into a single entity. Whilst that remained under consideration, the NHFC continues to vigorously pursue its mandate and Outcome 8 imperatives, while at the same time exploring options and implications of such a consolidation. Such a consolidation however, has to yield greater developmental impact than the sum of the three individual human settlements housing finance DFIs.

Disposal of the retail business

Much progress has been made in the effort to sell the Retail book, and the necessary PFMA permissions are being sought as this represents a disposal of a significant asset. This sale would provide additional funding for the NHFC, in line with the current year business plan.

Turnaround of CTCHC

The key to the successful turnaround of CTCHC, a wholly owned subsidiary, lies in the sale of its legacy stock, which will inject new capital into the business. Other initiatives supporting this turn-around strategy includes cost containment and rationalisation of activities, the optimisation of debt collection levels and the proper project costings are being closely monitored across CTCHC.

Mortgage Default Insurance ("MDI")

A feasibility study conducted in the prior year, which included all major housing finance stakeholders, confirmed that reasonable conditions exist in South Africa to establish a MDI operation.

The Minister of Human Settlements supported the implementation of the MDI programme through the NHFC, as an optimal means to access the R1 billion guarantee. Work on the implementation plan of the Mortgage Default Insurance Operating Model is continuing and the Corporation is in the process of obtaining the necessary approvals.

The successful implementation of the MDI will promote access to affordable, quality housing on a sustainable basis for South African households as part of a larger housing finance system and contribute towards the achievement of the Minister of Human Settlement's Outcome 8 Performance targets by 2014.

Way forward

The NHFC has a significant contribution to make in the main in two of the four Outcome 8 components, namely, the improving of property markets and making affordable rental housing accessible to low- and middle-income households.

Key to the priorities of the NHFC is the successful building and implementation of the Mortgage Default Insurance (MDI) Operating Model. The NHFC is on track with the building of the MDI operating model, backed by the R1bn Guarantee.

With respect to making affordable housing accessible to low-income households, in the year under review, the NHFC has accelerated its funding for both social and private rental housing, blending its own funding with that mobilised from the multi-lateral agencies, like AFD and EIB.

The process of winding-down Retail is at an advanced stage. This should be complete in the next six months of the new financial year. The change management process is part of the process that ensures the redeployment of staff within the greater NHFC.

On the Strategic partnership front, the inclusion of a third investor in the HIP's initiative will represent great gains for the human settlements sector. As the market is turning the corner, the NHFC has embarked on a Strategy to build new capabilities, enhance its pricing and efficiency and thus improving its potential to take advantage of the change.

In view of the increased Shareholder expectations, the NHFC continues to strengthen its partnership and collaborative efforts with the Provinces. This will definitely go far, in accelerating the delivery of affordable social rental housing, supported by the provincial subsidy provision, and the increased supply of affordable housing finance, using the finance linked individual subsidy programme (FLISP).

Towards making affordable housing accessible to low-income households, the NHFC accelerated its funding for both social and private rental housing, blending its own funding with that mobilised from the multi-lateral agencies.

Appreciation

A special thanks goes to the Honourable Minister, Mr Tokyo Sexwale, for his utmost support for the Corporation, as captured in the statements made by our Chairman in his report. His visit to the Corporation and meeting all the staff was eventful and a memorable experience for them. The co-operation with which we worked together with the Department of Human Settlements (DHS), is credited to the openness and the leadership of the Director General, Mr Thabane Zulu. The opportunities we had of continued meaningful engagement and feedback aimed at improving delivery are much appreciated.

My gratitude also goes to the Chairman of the Board, Prof Michael Katz, for his passion for developmental impact, unerring vision and leadership that is reflective in the Board of the Corporation. Many thanks goes to my fellow Board members for their leadership, flexibility, insight and diligence at the Board and especially in the Board Committee meetings, that were not only fruitful and long, but more frequent as well.

Without our funding partners, AFD and EIB, we could not have achieved so much this year. I thank them for the role they played to the advantage of the many South African households, especially in the low- to middle-income bracket.

We owe much of our success to our clients and partners, through whom we were able to extend the reach and delivery of affordable housing finance to our target market.

To our strategic partners, we congratulate you for being critical in your quest to remain innovative and providing options, and therefore choice, for the low end of the housing market.

Looking forward to an improved performance of the Corporation, in the form of significantly scaled developmental impact, underpinned by creative partnerships, strong collaboration with our clients and funding partners, aligned approaches with the Provinces, and the relentless support from the Ministry and the Department of Human Settlements.

Mr Samson Moraba
Chief Executive Officer

Strategic Investments

Subsidiary Company: Cape Town Community Housing Company ("CTCHC")

The NHFC has a 100% interest in CTCHC. In view of this increased Share capital and debt capital commitment in CTCHC, the NHFC has increased its focus to turn-around this subsidiary by increasing first its Board participation with the inclusion of additional three members from the NHFC Executive Team.

CTCHC has now delivered close to 3 500 units of which 2 700 are for people qualifying for housing subsidies. Another 2 808 have been upgraded in its rectification programme, with new windows, gutters, ceilings, paving and painting.

During the current financial year, Morgen's Village 3, was given the best housing project award in the category for homes costing over R120 000 by the Southern African Housing Foundation.

Associate Company: Housing Investment Partnership (HiP)

The NHFC has a 25% interest in HiP, which is involved in the development and marketing of the Income-Linked Home Financing Instrument.

The HiP income-linked home loan enhances the affordability level of first time home buyers enabling the acquisition of decent housing in the housing gap market segment.

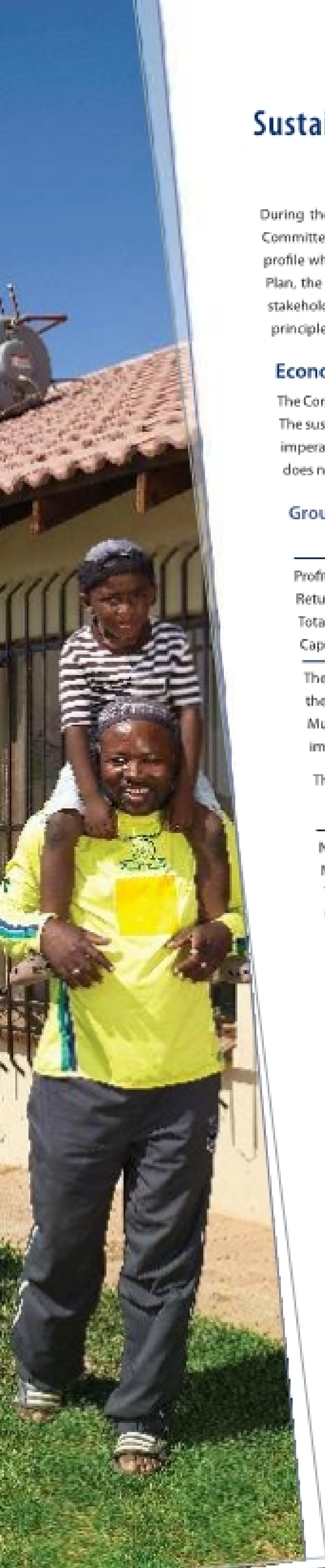
The uniqueness from the product arises from the fact that the loan repayments are disengaged from interest rate volatility.

Within the 2012 financial year, the NHFC increased its shareholding in HIP from 25% to 33%.

Associate Company: Trust for Urban Housing Finance ("TUHF")

The NHFC has a 27% interest in TUHF which is involved in the provision of commercial property finance in the form of bridging finance and long-term loans for the regeneration of South African inner city precincts and surrounding suburbs.


ALPINE COURT



Sustainability Report

During the 2011 financial year, NHFC made notable progress and constituted a Developmental Impact and Strategy Committee ("DISC"), a sub-committee of the Board. DISC developed a Developmental Impact Framework and Stakeholders profile which were approved by the Board. The Framework outlines strategic objectives that emanate from the Strategic Plan, the outputs, outcomes and developmental priorities. The Stakeholder profile includes the expectations that the stakeholders have from NHFC juxtaposed with the NHFC promise to the stakeholders. The NHFC is committed to the principles of sustainable economic, social and environmental development in its investment decisions.

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 it 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.

Group Financial Performance

		2011	2010	2009
Profit before tax	(Rm)	76	73	150
Return on equity	(%)	2.63	2.61	5.00
Total assets	(Rm)	2,991	2,886	2,759
Capital and reserves	(Rm)	2,277	2,217	2,159

The current financial year has been characterised by the difficult market conditions that continue to impact on the operations of our clients, partners, and end users, thus affecting the overall performance of the Corporation. Multiple factors contributed to the overall below target performance, notwithstanding the recent seemingly improved economic climate, in the form of low inflation and level of interest rates.

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 Board adopted an Action Plan against which Management should implement the King III principles with which the NHFC isn't fully aligned.

The Corporation reviews its policies and practices on an ongoing basis to reflect internal developments and to ensure that the business is well managed.

The NHFC 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 risk 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:

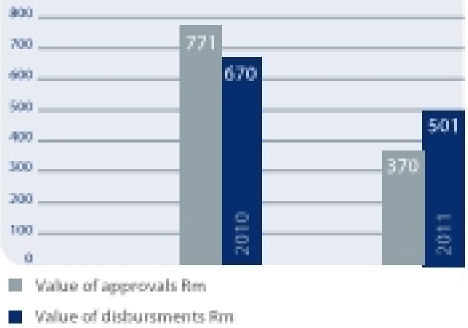
- Intermediaries – providing housing improvement loans and mortgage bonds.
- Developers – building houses for people requiring fully subsidised homes to GAP housing, particularly in integrated developments.
- Social Housing Institutions – using Restructuring Capital Grants (RCGs) and Provincial top-up 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.

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 Default 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.

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 on the right.

Funding impact 2010 – 2011



Social Sustainability

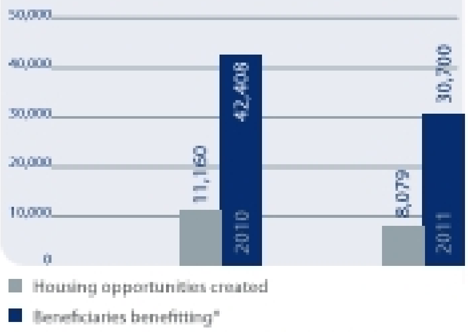
Housing opportunities created 2010/2011

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 on the right.

The decline in the housing opportunities created is indicative of the difficult market conditions that continue to impact on the operations of our clients, partners, and end-users, thus affecting the overall performance of the Corporation.

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.

Housing opportunities created 2010 – 2011



*Beneficiaries calculated as 3,8 members per household

Sustainability Report continued

The Research unit provided technical and research input to the Eastern Cape Provincial Department of Human Settlements' research proposal regarding an evaluation of housing projects in the province implemented between 1994 and 2004.

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.

A study was commissioned in 2010 by the National Department of Human Settlements, which NHFC participated in, on the economic impact of government housing programmes from 1994 – 2004 covering wealth distribution and poverty alleviation, employment creation, breaking barriers in the residential market and sustainable settlements and spatial restructuring. The winning and most beneficiary sectors according to the findings were the Construction sector (25.2%), the Manufacturing sector (19.3%) the Financial sector (11.5%) and Trade (10.9%).

In addition, the findings indicate that in terms of job creation, for every R1 million spent on human settlements related projects, a total of 11,13 jobs are leveraged, either directly or indirectly. Taking this into account and the fact that NHFC had disbursed R4,5 billion by 31 March 2011, applying the formula, the number of jobs created for stated period would be 50,085.

Enterprise Development

The NHFC's impact can also be measured on the number of clients it has funded and capacitated, some of which are no longer reliant on NHFC funding. As a result, NHFC has since inception funded and capacitated a total of 58 enterprises, 14 of which are now distressed, 13 are Social Housing Institutions (SHIs), three Integrated Housing Developments, 13 Commercial Clients and 15 Private Clients.

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. To date, 902 customers have received financial literacy, of which 820 was the number of customers that received the literacy training and 353 was the number of customers for the financial year under reporting.

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, BBBEE accredited companies, through a variety of initiatives.

Education

The NHFC oversaw the successful completion of the National Certificate: Real Estate course, by the last group of black students. This was part of the project funded jointly with ABSA and AFD and in response to the objectives of the Property Charter.

During the period the Research unit was invited to present the following lectures to:

- Masters students of the Wits Postgraduate Housing Program about the role of Government-owned international and national housing institutions as well as microfinance models in context of the Grameen Bank model.
- Housing practitioners from national, provincial and local Governments took part in the programme conducted by the Wits School of Public and Development Management. This Certificate Programme on Housing and Policy Development is conducted annually.

We see this as part of the NHFC's contribution to helping professionalise the sector.

Housing development, gives rise to job opportunities; short term during construction and longer term through service provision in retail, schooling and healthcare. A recent study on the economic impact of government housing programmes found that for every R1 million spent on human settlements projects, a total of 11,13 jobs are leveraged, directly or indirectly. By 31 March 2011 the NHFC had disbursed R4,5 billion, thereby influencing 50,085 job creation and opportunities.

Corporate Social Responsibility

Underpinning the NHFC strategic business objectives and interactions, is its developmental approach and philosophy. The NHFC is primed to finance and support housing projects that facilitate job creation, skills development and poverty alleviation, especially that of women and the youth. The Corporation also encourages staff to volunteer their time and resources towards worthy causes in the housing delivery programmes.

Sustainability Report continued

In the year under review, the NHFC was involved in a number of projects that positively contributed to sustainable social development of communities. In the North West Province, in Lichtenburg, the NHFC contributed funds towards furniture and appliances for houses built under the Women's Build Project, in partnership with the Government and the private sector. The project, in Women's month, enabled five elderly and highly indigent women to not only own their homes for the first time, but to have functional facilities.

In the Gauteng Province, the NHFC participated, in partnership with a Johannesburg local radio station, KhayaFM, and the NDoHS, toward the building of three houses and provision of food parcels for three indigent families in Alexandra. One of the families had a child with special needs, with lung and heart diseases, and who was dependent on a 24-hour life support system.

At a corporate level the NHFC partnered with ABSA Bank, the NHBRC, Agrément.S.A., Agence Franciase De Development, the Western Province, Drakenstein Municipality, the NDoHS, the Swiss Development Corporation and Pretoria University in the development of the International Housing Innovation Competition. This competition highlights and explores creativity and innovation in the construction of houses together with energy efficiency. Finalists in the competition included local and international contractors from Kuwait, Australia, Canada, the Czech Republic, the Netherlands and Namibia, constructing green building systems that are energy-efficient.

Environmental Sustainability

In addition to ensuring the financial viability of the Corporation and striving for social impact, the NHFC also places great emphasis on environmental sustainability.

To this end, we have developed an Environmental Funding policy. We also made a submission on the Green Paper on Climate Change and, as part of the DFI Forum, also participated in its review. The post of Environmental Officer was also created and filled.

The Corporation has, for the third time, committed to partner with other Stakeholders in hosting an international energy efficient building competition. Having a rural focus, the proposed event will take place in Cala in the Eastern Cape.

NHFC has in the past year also delivered papers inter alia at the Green Buildings World Africa 2011 Conference (paper entitled, "Policy framework for Climate Change and Green Buildings"); South African Human Settlements 2030 Conference (paper entitled "Financing the creation of new cities"); and, National Indaba on Home Building Technologies (paper entitled "Simpler, Better, Faster and Cheaper: A Case for Alternative Building Systems").

Our People

Employee competency is instrumental in enabling NHFC to deliver on its mandate. To this end, the talent management strategy's main objective is to ensure that NHFC's staff and new recruits are highly competent. As the focus of the end-to-end HR interventions, (recruitment, training and development, performance management, succession planning) human capital development strategies need to be more robust.

With the Corporation's mandate being expanded to do mortgage insurance, talent management's focus is in ensuring that the new entity is adequately resourced. This means the recruitment pool (whether internal or external), needs to yield good calibre candidates, who are competent to meet the expectations, and to deliver in the new areas of the NHFC business, which include the mortgage insurance unit.

As a result, in the year under review and going forward, capacity development will be amplified as a strategy to meet increasingly complex business requirements.

Employee engagement also received more attention in the period under review. To that end, project teams were given more recognition and as such, employees who participated in them got recognition during performance appraisals. The momentum in the implementation of project team will be kept, because it has proved to be one of the effective strategies for ensuring employee participation and meaningful value add in Organisation-wide initiatives.

As we get closer to two years since the last employee survey was conducted, we are earnestly faced with the challenge of concluding the implementation of the divisional recommendations of the February 2010 Employee Engagement Survey ("EES"), in the divisions.

We take part in Deloitte & Touche annual surveys, to ensure that our remuneration and recognition systems are benchmarked and reviewed annually in order to keep up with best practice.

Talent Development

The Corporation received a full rebate (25%) from the BANKSETA on the Workplace Skills Plan ("WSP") submission and implementation. This is an indication that NHFC is gaining traction in balancing employee development with business demands.

The continued partnership between NHFC and the Gordon Institute of Business Science (GIBS) is ensuring that the development of the leadership bench strength is on track. To that end, there were four employees who successfully enrolled on the leadership development program in the period under review.

The NHFC's heed to the national call on creating job opportunities for youth, is progressing according to plan. This has opened opportunities for the NHFC to sponsor five (5) previously disadvantaged university students whose studies are in the finance field.

The Corporation is also continuing with the experiential programme, which affords learners an opportunity to gain experience, thus improving chances of getting employed at the end of the learnership programme.

Performance Management

The Corporation's performance management system (Balanced Scorecard) is improving to the extent that, in the period under review, all managers and employees managed to set the performance objectives as expected for the new financial year, during the last quarter of the previous financial year. This is also an indication of the maturation of the performance management culture within the Corporation.

Sustainability Report continued

Compensation and Benefits

The NHFC's remuneration and compensation philosophy is to pay market-related salaries. To this end, we benchmark our remuneration policies to best practice.

All employees of the NHFC participate in a defined contribution fund, which ensures that at retirement/death, whichever comes first, the employees/beneficiaries are taken care of.

The primary objective of the NHFC contribution fund in the moderate investment category is to attain investment returns in excess of Consumer Price Index ("CPI") +5% p.a. net of fees over three-year rolling periods.

The secondary objective is to ensure that the risk of the portfolio measured over a three-year rolling period is appropriate for the performance that is achieved.

The NHFC employees have a disability scheme, which pays up to 75% of the employees' monthly salary, in the event of an employee being declared disabled.

All employees of the Corporation are expected to belong to a medical aid, which forms part of the total cost of employment ("TCOE").

Occupational Health and Safety

The NHFC takes employee Health and Safety issues very seriously. To this end, the executive management committee established a committee which exercises oversight to ensure that all compliance and policy issues are taken care of.

Health and Safety programmes and procedures to ensure compliance with applicable laws and regulations are in place.

In the period under review, a building audit was conducted. Recommendations were presented to management for implementation.

There have not been reportable incidents of safety breaches in the period being reviewed.

Employee Wellness

As a caring organisation, the NHFC offers in partnership with service providers its employees an Employee Wellbeing programme, which addresses Psychological, Psycho-social and Financial

Management issues at both individual and group level. The interventions are extended to employees, their families and/or staff via telephonic or direct interaction, 24 hours a day.

The utilisation statistics of the employee wellness programme in the period being reviewed, indicated a need for more financial management counselling than other offerings. As a response, NHFC has, with the assistance of financial counsellors, conducted financial planning workshops in order to assist its employees to manage their financial matters better.

Employment Equity

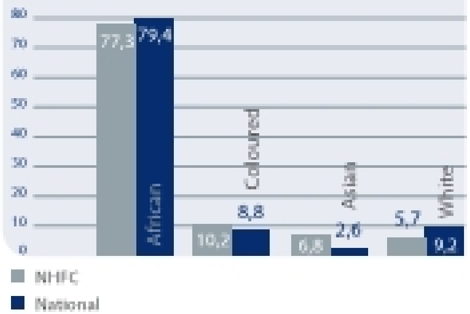
The NHFC complies with the imperatives of the Employment Equity Act. Generally when compared to national demographics, the NHFC is doing well. See graph right.

As far as gender equity is concerned, the NHFC needs to recruit more white females and a white male as well as Coloured males in order to meet its target. This should inform the recruitment strategy.

Code of Ethics ("the Code")

The Code of Ethics, which is part of the employee policies and procedures spells out the acceptable/unacceptable conduct and the appropriate sanctions against those who transgress the code.

Employment equity in comparison with national figures



Corporate Governance

NHFC's alignment with the King III Code of Corporate Practices and Conduct ("King III")

The Board of Directors ("the Board") of the National Housing Finance Corporation Limited ("NHFC") is taking overall responsibility for corporate governance and has, under the period under review, considered the implications of King III. The Board is of the view that the NHFC substantially complies with the King III requirements and it adopted an Action Plan against which Management should implement the King III principles with which the NHFC is not fully aligned.

Cape Town Community Housing (Pty) Limited ("CTCHC"), a wholly-owned subsidiary of the NHFC, alignment with King III

Whereas the NHFC Board also takes overall responsibility for the corporate governance of CTCHC, it appointed three NHFC Executive Managers to represent the NHFC on the CTCHC Board, over and above the NHFC's Chief Executive Officer ("CEO"), who is the Non-Executive Chairman of the company.

The CTCHC Board reviewed its Board and Board Committee governance documents to be aligned with the NHFC and the King III principles. The NHFC's Management has started to develop a corporate governance framework and review CTCHC's overall and ongoing governance and its alignment with King III.

NHFC Board Governance Structures and Framework

Board of Directors and Shareholder' linkages

The NHFC, as a State-Owned Entity is through its Board of Directors, accountable to the Minister of Human Settlements ("the Minister"). The Minister represents the Government's interest as sole Shareholder and holds the Board as Accounting Authority accountable for overseeing the operations of the Corporation.

Strategic objectives and performance management

In line with Section 52 of the Public Finance Management Act ("PFMA"), the NHFC submitted a Corporate Plan for the 2011 to 2013 financial year and entered into a Shareholders' Compact with its Shareholder. The Board set out the NHFC's strategic objectives in the Corporate Plan and it adopted the Balanced Scorecard methodology to implement the Strategy and measure itself against the key performance measures reflected on pages 86 to 88 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.

Memorandum of Incorporation in terms of the New Companies Act, 2008 ("the New Companies Act")

The process to align both the NHFC's and CTCHC's Memorandum of Incorporation with the new Companies Act, which came into effect on the 1st May 2011, will be embarked upon in the 2011/12 financial year.

Board Composition

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 8 of the annual report. Ms N Makiwane resigned and Ms Swanepoel was appointed during the period under review.

The Directors are all Independent Non-Executives, with the exception of the CEO, and they bring a wide range of banking, financial, regional planning and legal expertise to issues of strategy, performance, protection of Stakeholder's interests and the setting of the Corporation's policies.

The office of Chairman and CEO are separated. Prof 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 requested to submit a general declaration of interest should any of them wish to rely on it. An affected Board member is legally bound to inform the Board of a conflict or potential conflict of interests in relation to a particular 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.

Board Charter ("the Charter")

The NHFC's Board Charter is a living document and has been aligned with the Department of Human Settlements' policy framework and King III. It 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, Corporate Plan and Budget and monitoring Management closely in the implementation thereof;
- monitoring operational and financial performance against the Corporate Balanced Scorecard and the effectiveness of Management; and
- reviewing the Delegated Authority document which sets out the powers that it delegates to Management.

The Charter sets out the formal procedure for inducting new Directors and the ongoing development of Non-Executive Directors.

Directors have unrestricted access to the CEO and Senior Management, should they require any information 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.

The Board Committees have reviewed an External Service Provider's findings pertaining to the Board and Board Committees as well as Action Plans to address the identified areas of improvement and the Board is overseeing the implementation of these plans.

An evaluation of Board members on an individual basis will be undertaken in the new financial year.

Board Committees

The following Committees were in place during the 2010/11 financial year and their main duties are reflected below:

Audit and Risk Committee ("ARC")

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

It has discharged the following main duties during the period under review:

- oversight over financial reporting, internal controls, compliance, corporate governance, policies and risk management;
- reviewed the Enterprise Risk Management Policy and Strategy and the significant risk exposures and makes recommendations in this regard to the Board; and
- oversight over the management of financial risks and reporting by the Assets and Liability Committee.

Corporate Governance continued

ARC met six times during the year under review and will meet more frequently if circumstances so require. Meetings are attended by the External and Internal Auditors as well as the Chief Financial Officer and the Executive Manager: Enterprise Wide Risk.

The Board has during the financial year, reviewed its risk oversight role and concluded that the complexity of the risks facing the NHFC justifies the forming of a Board Risk Committee. A Board Risk Committee ("BRC") was formed with Dr Khoza as Chairperson and Ms Houston, Messrs Coetzee, Tati and Ntsaluba as members. BRC's inaugural meeting was held on 10 May 2011 to revise its Terms of Reference and will be reviewed by the Board. The respective Committees would in the 2011/12 financial year fulfil the following risk management roles:

- BRC – oversee Enterprise Wide Risk Policy matters and recommend the Risk Management Policy to the Board for approval;
- BCIC – apply the Credit and Investment Policies and consider credit and investment risks in making credit or investment decisions; and
- Audit Committee – give assurance that internal financial controls and financial risk management processes are in place and discharge its statutory duties in terms of the Companies Act and the PFMA.

Board Credit and Investment Committee ("BCIC")

BCIC comprises three Independent Non-Executive Directors and the CEO and is chaired by Mr Coetzee. The members are Messrs Coetzee, Moraba and Tati and Ms Swanepoel. The BCIC 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, the Managing Executive: Strategic Investments and the Assistant Executive Manager: Legal Services.

BCIC considers all loan applications for facilities that exceed or cumulatively exceed R30 million up to R160 million per client group upon recommendation by the Management Credit Committee. BCIC recommends loan facilities that exceed or cumulatively exceed R160 million per client group 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 interests in relation to a particular item on the agenda and recuse her/himself for the discussion of that item unless the Committee decides that the declared interest is trivial or immaterial.

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

HRER comprises 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 following main duties:

- approval of the Human Resources Policies and Strategies;
- approval of the remuneration and incentives for all staff members other than the CEO, for whom salary increases is recommended to the Board and in doing so relevant and comparable market information and guidelines is taken into account. 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;

- oversight over the implementation of the Code of Ethics;
- perform a high level review of the Trustees of the Provident Fund's half-yearly as well as year-end Reports to determine whether the Fund is adequately managed; and
- annually review the Key Performance Indicators on the Corporate Balanced Scorecard for it to be used as the basis for measuring the Corporation's performance and for measuring each individual Executive Manager's performance against his/her scorecard.

Development Impact and Strategy Committee ("DISC")

DISC comprises of four Independent Non-Executive Directors (Messrs Tati, Coetzee and Mss Houston and Ramarumo) and one Executive Director (Mr Moraba). Mr Tati is the Chairperson of the Committee.

DISC's main objectives are as follows:

- review the NHFC's Strategic direction, Policy and Operational structures and 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;
- monitor Operations' performance against the objectives set for developmental impact;
- monitor the impact of developmental activities on the Corporation's financial sustainability; and
- monitor the environmental and social sustainability of the NHFC including the transformational impact made with BBBEE.

Board and Board Committee record of attendance:

		Number of meetings and membership (✓)								
	Category	**Board**	**Audit and Risk**		**BCIC**		**HRER**		**DISC**	
	Number of meetings	5	6		8		6		4	
Prof M M Katz	*Independent Non-Executive Chair*	4								
Mr S S Moraba	*CEO*	5	✓	6	✓	8	✓	6	✓	4
Ms A Houston	*Independent Non-Executive Directors*	5					✓	6	✓	4
Dr S J Khoza		4	✓	3						
Ms N E Makiwane[1]		0				1				
Ms P V Ramarumo[2]		3					✓	3	✓	0
Ms S Swanepoel[3]		2			✓	1				
Mr J Coetzee		4			✓	8			✓	4
Mr S A Tati		5	✓	6	✓	8			✓	4
Mr S S Ntsaluba		3	✓	4	–		✓	4		

[1] *Resigned on 19 November 2010*
[2] *Leave of absence for one Board, two HRER and two DISC meetings*
[3] *Appointed on 13 December 2010*

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 Management Credit Committee ("MCC"). The CEO has the authority to approve loan facilities for any amount below R10 million. 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; Assistant Executive Manager: Credit; the Assistant Executive Legal Services 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 and recommending those in excess of that amount to BCIC.

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

Financial Risk Management Committee ("FRMC")

FRMC forms part of the NHFC's Enterprise Wide Risk Governance Framework and reports to the Executive Committee and various Board Sub-Committees.

FRMC is Chaired by the CEO and comprises of the Chief Financial Officer; Executive Manager: Enterprise Wide Risk and the Manager: Treasury and it is responsible for the overall oversight of the financial risk assessment and management of the NHFC financial risks emanating from Corporations operations and borrowing programmes that include liquidity counterparty and market risk.

In the new financial year FRMC will change to Assets and Liability Committee ("ALCO").

Retail Executive Committee ("Rexco")

Rexco deals with matters concerning the day-to-day management and guides the overall direction of the business of the Retail Division.

Rexco is chaired by the Chief Operations Officer: Retail and comprises of Retail; CFO; COO and Executive Managers; Credit; Marketing; Enterprise Wide Risk 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, to ensure that the procurement system is fair, equitable, and transparent. It has also approved clearly defined delegated authorities to avoid fruitless and wasteful expenditure.

The Procurement Committee is 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 and 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 the Health and Safety Committee, as well as one Legal, IT and Compliance representative and one staff member nominated by the Committee on the basis of his/her understanding of Safety and Security issues within the Corporation.

Risk Management Report

NHFC'S Risk Management Philosophy and Framework

During the year under review the NHFC Enterprise Risk Management function gained maturity, to ensure that the NHFC sustains 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 would 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 adopted holistic Enterprise Risk Management ("ERM") Framework 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 risk 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.

Governance of Risk

The Board is accountable for the total process of risk management and its effectiveness. The Enterprise Risk Management Framework and Policy delegated the responsibility for overseeing the management of risks pertaining to the business of the Corporation to the Board Risk Committee.

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.

Board Risk Committee

The Board 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 Board Risk Committee's role is to ensure that the approved ERM Framework and Policies are 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 (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 and to establish what the residual risk levels are where they need to focus their management attention. Quarterly reports are submitted to the Board 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

The management of Credit Risk and the Credit Value Chain is the responsibility of the Executive Manager Credit. Lending decisions are made by various sanctioning committees in line with their approved mandates, underpinned by 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 Policy is in place that governs the financial risk exposures to NHFC and a Financial Risk Management Committee (responsibility for Assets and Liabilities Management) are established to provide oversight to the treasury operations.

During the year under review, the Treasury Policy has been reviewed and updated to include the additional risks emanating from the borrowings introduced to the Corporation. In addition the Governance structure has been reviewed to provide for the Financial Risk Management Committee to be replaced with a management Assets and Liabilities Committee ("ALCO").

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 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 Corporations operational activity and assists management in complying with all applicable statutory and regulatory requirements.

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, and adequate segregation of duties and delegated authorities. The operational risk category includes fraud and financial misconduct, as well as risks pertaining to legal, human resources, information technology and business continuity.

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

Operational risks are managed through the Enterprise Risk Management Framework to ensure 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 Committee and administratively to the Risk Executive and its staff have full and unrestricted access to the Chair of the Audit Committee. The Audit Committee conducts its own assessment of the effectiveness of the internal audit function.

Fraud Prevention

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.

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. Reputational risk is one of the key strategic risks to the Corporation.

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; and
- evaluation of the reputational risks of the Corporation.

Risk Management Report continued

Credit Risk Management

Credit risk represents the largest, and the most material risk in the economic activities of the NHFC. The management of Credit risk remains critical to the sustainability of the institution.

The Corporation continually invests in the risk management capabilities to underpin the housing finance growth and development targets which the Corporation committed to the Board of Directors and the Shareholder.

The robustness of the Corporation's risk management processes continue to be tested by the economic environment in which it operates and are continually reviewed to meet the challenges thereby improving the NHFC's ability to meet the needs of the market.

Definition

In the NHFC, Credit risk arises when counterparty to a financial transaction fails to meet its obligation in accordance with the agreed terms and conditions of the contract, either because the counterparty is experiencing financial distress or there is a decrease in the fair value of the ceded securities. Credit risk is incurred in the lending activities of the Corporation, through its three operating divisions, being Projects, Commercial and Retail division.

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 assessment, 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 is 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 R160 million	Approve
Board Credit and Investment Committee	Up to R160 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 Generally Recognised Accounting Practice are disclosed within the main body of the Annual Financial Statements.

The Year under Review

The 2010/2011 financial year continued to show signs of economic recovery with the prime lending rate remaining at its lowest levels.

In the Human Settlements space, the Government announced plans to promote home ownership and address affordability challenges by announcing a reduction in the transfer duty thresholds in the lower segment of the housing market.

The Government housing subsidy and the mortgage insurance product coupled with relaxation of mortgage lending criteria are aimed at supporting the lower end of the housing market.

The NHFC has continued to focus on monitoring and proactively managing potential stress and breaches of covenants in the loan portfolio. The efforts to maximise recoveries particularly in the Turn Around and Workout portfolio has begun to bear fruit in that the total non-performing portfolio decreased significantly in the year under review.

Some of the facilities have been successfully restructured. 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 continued to directly affect the valuation assumptions such as growth rates, cash flow projections and business risk modeling.

- 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 is guided by the NHFC Impairment Policy.

Focus Areas for 2011/2012

- Definition of the NHFC's risk appetite in order to determine the risk-bearing capacity and risk tolerance levels of the Corporation.
- Maximisation of economic value through effective portfolio management.
- Review of the pricing methodology aimed at implementing risk-based and concessionary pricing.
- Blending sources of funding to support growth.
- Improvement of the Corporation's efficiency, effectiveness and agility through human resources and performance management.
- Capacity building programmes and partnerships with some of DFI's (IDC) benchmarking exercises and knowledge sharing initiatives.

Portfolio Analysis

Credit quality of loans and receivables

	2011 R'000	2010 R'000
Neither past due nor impaired	**1,357,600**	1,044,175
Past due but not impaired	**108,365**	129,796
Impaired	**233,953**	289,849
Total	**1,699,918**	1,463,819
Less: Impairments	**(137,124)**	(132,897)
Net advances	**1,562,794**	1,330,922

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

Period	**R'000 Total**	**30 days**	**30 – 60 days**	**(R'000) 60 – 90 days**	**90 – 120 days**	**>120 days**
2010	108,365	15,673	8,445	6,969	2,662	74,616
2009	129,796	94,933	1,426	1,422	4,183	27,832

Concentration risk by operations

Commercial	15%
Projects	67%
Retail	18%

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
- reflects 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.

Risk Management Report continued

Wholesale Credit Control Framework

(a) 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.

(b) 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:

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

(c) 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; and
- the NHFC manages credit risk like any other assets taking cognisance of market liquidity, customer sentiments and implied expectations of our broadened mandate.

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 are showing signs of financial distress to support optimal recoveries of monies owing to the NHFC. The framework is used to:

- develop business solutions together with other internal business units and 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 judgement of Credit risk professionals. This ensures high levels of objectivity and consistency in decision-making at the point of origination. Similarly, system overrides and/or any judgement decision-making are controlled to ensure 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

(a) **Initial Assessment**

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

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

(b) **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, to inform changes in credit profile and/or product and/or pricing.

(c) **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.

(d) **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.

(e) **Write-offs**

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

Portfolio Impairments

The Corporation applies an internally developed risk classification process for early warning indication and reporting process 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. In measuring the impairment of a secured loan the cash flows used reflect those that may result from foreclosure less costs for obtaining and selling the security.

Impairment debts are derecognised when they are assessed as uncollectible. Interest income on impaired balances continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impaired loss.

Risk Management Report continued

Financial Risk Management

Framework and Governance

The NHFC faces a range of financial risks emanating from the operational and funding activities of the Corporation that can have a significant effect on the financial stability and sustainability of the Corporation.

The management of financial and market risks resides within the centralised treasury function. The fundamental objective of financial risk management is to protect the Corporation's core business while controlling exposures consistent with the Corporation's acceptable risk tolerance and appetite.

Treasury's approach is based on risk governance structures, risk management policies, risk ownership, risk identification, measurement, management and control and 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 ("BCIC") and the Board Risk Committee ("BRC").

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

During the year under review, the Treasury policy has been reviewed and updated to include the additional risks emanating from the borrowings introduced to the Corporation. In addition the Governance structure has been reviewed to provide for the Financial Risk Management Committee to be replaced with a management Assets and Liabilities Committee ("ALCO").

Risk Profile and Risk Management

The main financial risks faced by the Corporation are credit, market and liquidity risk which are discussed under the headings below.

Credit Risk

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

The counterparty risk policy of the Corporation is aligned to the requirements of the Treasury Regulations as referred to in the PFMA which are as follows:

- Selection of counterparties through credit risk analysis;
- Establishment of investment limits per institution;
- Monitoring of investments and counterparty exposures against approved limits; and
- Re-assessment of counterparty credit risk based on credit ratings.

The Corporation's exposure to counterparty risk in respect of all Treasury activities are confined to at least F1 rated institutions. Limits are reviewed and approved by the Board on an annual basis.

Counterparties with external credit ratings	2011 R'000	2010 R'000
Held-to-maturity money market investments	932,170	1,076,683
Cash and short-term deposits	215,839	262,984

Market Risk

(a) Interest Rate Risk

Interest rate risk is the exposure of the Corporation to increased financing cost and reduced revenue due to adverse changes in interest rates.

The Corporation is mainly exposed to interest rate movements on its borrowings, investments in interest-bearing instruments and loans and receivables portfolio.

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;
- manage exposures by ensuring an appropriate ratio of floating rate exposures to fixed rate exposures; and
- take advantage of interest rate cycles.

Financial markets and positions are monitored on a daily basis. The time horison 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:

	(%)	Effect on profit before tax (R'000)	
	Increase/decrease	2011	2010
Loans and receivables	1%	**15,994**	11,511
Loans and receivables	(1%)	**(15,876)**	(11,613)
Held to maturity investments and cash and short-term deposits	1%	**5,221**	7,239
Held to maturity investments and cash and short-term deposits	(1%)	**(5,221)**	(7,239)

(b) Foreign currency risk

Foreign exchange risk is the risk that changes in exchange rates will adversely impact the financial position of the Corporation.

Operational expenditure

The foreign exchange risk arising from operational expenditure such as travel and subscriptions are not considered material.

The Corporation is however mindful of potential foreign exchange risk when entering into contracts. Whenever possible any foreign currency risk must be eliminated by entering into Rand-based contracts. All contracts with a foreign currency component are reviewed by Treasury during the establishment process.

Funding

To eliminate currency risk, all loans must be Rand denominated. All proposals for funding in foreign currency and related hedging must be submitted to ALCO for recommendation to BRC for approval.

Risk Management Report continued

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.

Liquidity risk arises mainly as a result of the Corporation's disbursements in line with the approved Strategic Plan, servicing loan obligations and operational cash requirements.

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

- ensuring adequate availability of funds to meet its budgeted financial obligations;
- short- and long-term cash flow forecasting;
- re-assessment of investing policies on a regular basis;
- ensuring appropriate liquidity levels by:
  - establishing investment limits per instrument;
  - setting of maturity parameters for investments; and
  - re-assessment of investment instruments based on liquidity requirements;
- managing the contractual maturity gap between assets and liabilities; and
- diversifying funding sources and have funding programmes available to reduce reliance on particular sources to support effective liquidity risk management.

Funding plan

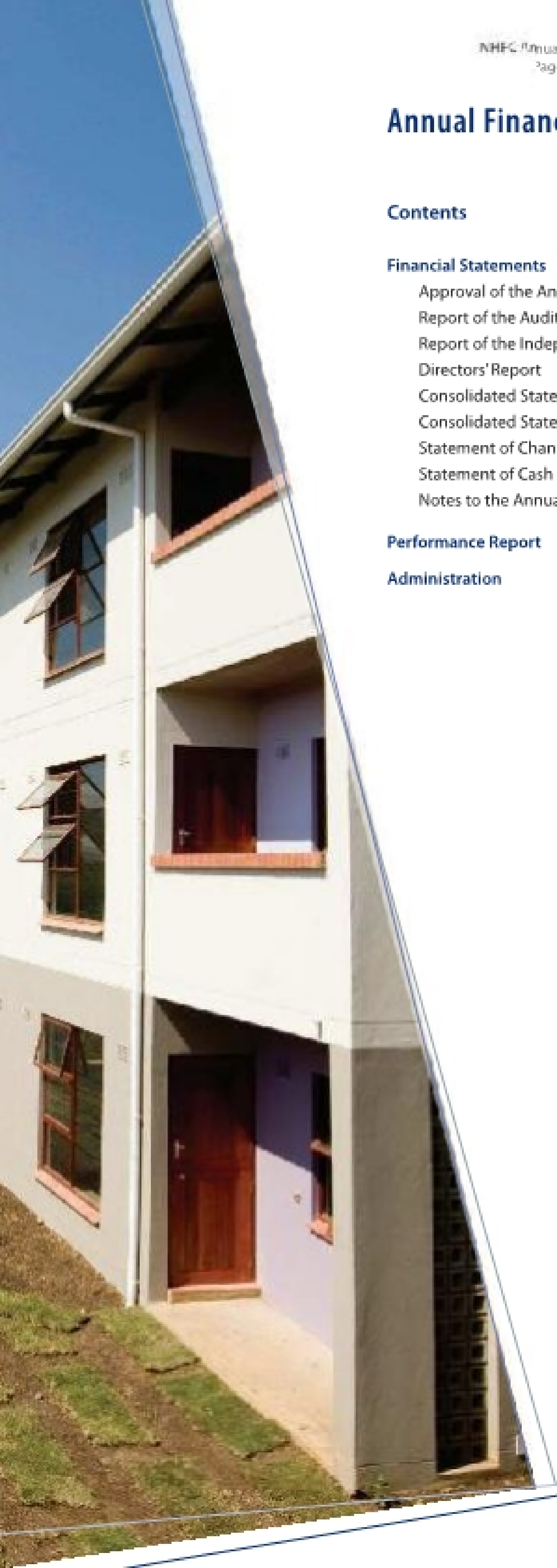
Following the approved Strategic Plan of the Corporation, funding requirements for the next three years amounts to R1.3 billion.

The Corporation is in the process of mobilising funding. As part of its funding programme the Corporation secured funding from the Agence Française de Développement ("AFD") and 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+



Annual Financial Statements

Contents

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 Generally Recognised Accounting Practice and are in line with the Corporation's accounting policies and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the systems of internal financial control and that they place reliance on the Audit 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, and the internal 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 2011, set out on pages 45 to 88, were approved by the Board of Directors on 29 July 2011 and signed on their behalf by:

M M Katz
Independent Non-executive Chairman

S S Moraba
Chief Executive Officer

Report of the Audit Committee

The Board of Directors of National Housing Finance Corporation Limited ("NHFC") Board delegated certain responsibilities to the Audit Committee ("AC") 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 2010/11 financial year:

- the effectiveness of the internal control systems and internal audit;
- the activities of the internal audit function, including its annual work program, coordination with the external auditors, the reports of significant findings and the responses of management to specific recommendations;
- the Corporation's risk areas to be covered in the scope of internal and external audits;
- the adequacy, reliability and accuracy of financial information provided by management;
- any accounting or auditing concern identified as a result of an internal or external audit;
- compliance with legal and regulatory provisions; and
- where relevant, the independence of and objectivity of the external auditors.

The internal controls implemented by NHFC focus on identified key risk areas. Management monitors all internal controls closely and ensures that action is taken to correct deficiencies as they are identified. In the opinion of the Committee, these controls and procedures of the NHFC were, during the year under review, appropriate in safeguarding the Corporation's assets, ensuring the maintenance of proper accounting records and that working capital and resources were 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 2011, 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 Generally Recognised Accounting Practice.

The Audit Committee, at its meeting held on 27 July 2011, 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 Settlement

Report on annual financial statements

INTRODUCTION

We have audited the financial statements and group financial statements of National Housing Finance Corporation Limited ("Group"), which comprise the directors' report, the statements of financial position as at 31 March 2011, the income statements, changes in net assets and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 45 to 86.

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 Generally Recognised Accounting Practice and in the requirements of the Companies Act of South Africa and the Public Finance Management Act of South Africa, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and group as at 31 March 2011, and of their financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice and the requirements of the Companies Act of South Africa and the Public Finance Management Act of South Africa.

Report on other legal and regulatory requirements

In terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, we include below our findings on the annual performance report as set out on pages 87 to 88, and material non-compliance with laws and regulations applicable to the company.

PRE-DETERMINED OBJECTIVES

There were no material findings on the annual performance report concerning the presentation, usefulness and reliability of the information, as defined by the Auditor General of South Africa's R3 Reporting Guide, issued March 2011, read in conjunction with the National Treasury Framework for Managing Programme Performance Information, issued May 2007.

COMPLIANCE WITH LAWS AND REGULATIONS

As part of our audit of the financial statements, we complied with the requirements of ISSAI 1250: Consideration of Laws and Regulations in an Audit of Financial Statements, which incorporates ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements and Practice Note 250 issued by the International Organisation of Supreme Audit Institutions. In applying the above standards to our audit of the financial statements, there were no findings concerning material non-compliance with applicable laws and regulations regarding financial matters, financial management and other related matters that came to our attention.

INTERNAL CONTROL

In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, we considered internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. We did not identify significant deficiencies in internal control that resulted in a qualification of the auditor's opinion on the financial statements and/or findings on pre-determined objectives and/or material non-compliance with laws and regulations.

Ernst &Young Inc.
Director: Rohan Baboolal

Registered Auditor
Chartered Accountant (SA)

29 July 2011

Directors' Report

The Directors have pleasure in presenting their report for the year ended 31 March 2011.

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 46 to 88 of these financial statements.

The Annual Financial Statements was prepared on the IFRS Framework in the previous financial year and is now prepared using the GRAP Framework. This is the first year that GRAP Framework will be adopted.

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

Ms Makiwane resigned and Ms Swanepoel was appointed Director during the year under review. The composition of the Board is set out on page 8. The Directors' emoluments are set out on page 84 of these financial statements.

COMPANY SECRETARY

Ms E Marx

BUSINESS ADDRESSES

PO Box 31376
Braamfontein
2017

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

POST-BALANCE SHEET EVENTS

Within the 2012 financial year the Corporation increased its shareholding in Housing Investment Partnership (HiP) from 25% to 33%.

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.

E Marx

Ms E Marx
Company Secretary

Consolidated Statement of Financial Performance

for the year ended 31 March 2011

		GROUP		COMPANY	
		2011	2010 Restated*	2011	2010
	Note	R'000	R'000	R'000	R'000
Interest on advances	2	**118,923**	111,099	**124,758**	116,838
Interest on investments		**41,036**	75,691	**40,005**	73,287
Rental income		**5,440**	4,669	**5,440**	4,451
Dividends received		**158**	158	**7,897**	158
Sale of houses		**54,465**	61,176	**–**	–
Revenue		**220,022**	252,793	**178,100**	194,734
Cost of sales		**(47,795)**	(60,170)	**–**	–
Net impairments	7	**(4,427)**	(72,888)	**(4,427)**	(72,888)
Gross profit		**167,800**	119,735	**173,673**	121,846
Other operating income	3	**24,052**	59,764	**4,592**	26,910
Administrative expenses	4.1	**(97,632)**	(90,112)	**(84,893)**	(78,970)
Other operating expenses	4.2	**(17,682)**	(13,764)	**(27,413)**	(10,963)
Operating profit		**76,538**	75,623	**65,959**	58,823
Finance costs	5	**(1,150)**	(1,014)	**(611)**	–
Share of loss of an associate – Housing Investment Partners	12	**(1,544)**	(1,448)	**–**	–
Share of profit of an associate – Trust for Urban Housing Foundation	13	**1,703**	279	**–**	–
Surplus before tax		**75,547**	73,440	**65,348**	58,823
Income tax expense	6	**(15,689)**	(15,615)	**(14,736)**	(13,865)
Surplus for the year		**59,858**	57,825	**50,612**	44,958

**Certain amounts shown here do not correspond to the 2010 financial statements and reflects adjustments made as detailed in Note 7 and Note 13.*

Consolidated Statement of Financial Position

as at 31 March 2011

	Note	GROUP 2011 R'000	GROUP 2010 Restated* R'000	COMPANY 2011 R'000	COMPANY 2010 Restated* R'000
ASSETS					
Non-current assets					
Loans and receivables – advances	7	**1,330,393**	1,029,001	**1,397,374**	1,097,417
Investment in subsidiary – Gateway	8	**–**	–	**2,392**	2,392
Investment in subsidiary – Cape Town Community Housing	9	**–**	–	**8,197**	8,197
Investment - preference shares	10	**2,500**	2,500	**2,500**	2,500
Investment in cell captive	11	**–**	–	**–**	7,000
Investment in associate – Housing Investment Partners	12	**1,051**	2,856	**5,566**	5,566
Investment in associate – Trust for Urban Housing Foundation	13	**4,773**	2,716	**2,437**	2,437
Property, plant and equipment	14	**1,984**	1,856	**1,508**	1,428
Instalment sale receivables	15	**36,451**	25,574	**–**	–
Investment property	16	**71,252**	59,174	**51,745**	48,400
Goodwill	17	**2,714**	2,714	**–**	–
Deferred taxation	6	**3,199**	2,917	**3,199**	2,917
		1,454,317	1,129,308	**1,474,918**	1,178,254
Current assets					
Loans and receivables – advances	7	**232,401**	301,921	**232,401**	301,921
Properties developed for sale	18	**64,015**	54,334	**–**	–
Instalment sale receivables	15	**5,554**	20,594	**–**	–
Other receivables and prepayments	19	**60,848**	15,792	**55,648**	5,738
Held-to-maturity investments	20	**932,170**	1,076,683	**932,170**	1,061,534
Cash and short – term deposits	21	**215,839**	262,984	**213,139**	251,012
Income tax receivable	6	**25,377**	24,312	**21,500**	20,532
		1,536,204	1,756,620	**1,454,858**	1,640,737
Total assets		**2,990,521**	2,885,928	**2,929,776**	2,818,991
NET ASSETS AND LIABILITIES					
Net assets					
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		**1,196,586**	1,136,635	**1,156,722**	1,106,110
Total net assets		**2,276,586**	2,216,635	**2,236,722**	2,186,110
Non-current liabilities					
Funds under management	24	**625,954**	615,778	**625,954**	615,778
Debentures	25	**–**	5,000	**–**	–
Other financial liabilities	26	**55,890**	10,333	**46,521**	–
		681,844	631,111	**672,475**	615,778
Current liabilities					
Debentures	25	**5,000**	–	**–**	–
Other financial liabilities	26	**4,450**	901	**3,508**	–
Provisions	27	**12,919**	14,047	**12,468**	12,646
Trade and other payables	28	**9,722**	23,234	**4,603**	4,457
		32,091	38,182	**20,579**	17,103
Total liabilities		**713,935**	669,293	**693,054**	632,881
Total net assets and liabilities		**2,990,521**	2,885,928	**2,929,776**	2,818,991

** Certain amounts shown here do not correspond to the 2010 financial statements and reflects adjustments made as detailed in Note 7 and Note 13.*

Statement of Changes in Net Assets

for the year ended 31 March 2011

Attributable to net asset holders of the parent

	Ref	Issued capital (Note 22) R'000	Share premium (Note 22) R'000	Grant capital (Note 23) R'000	Retained earnings R'000	Total R'000
Group						
Balance at 1 April 2009		842	879,158	200,000	1,078,810	2,158,810
Surplus for the period		–	–	–	57,825	57,825
Balance at 31 March 2010		842	879,158	200,000	1,136,635	2,216,635
Share in changes in retained earnings of associate						
– Housing Investment Partners	Note 12	–	–	–	(261)	(261)
Share in changes in reserves						
– Trust for Urban Housing Foundation	Note 13	–	–	–	354	354
Balance at 31 March 2010 (restated*)		842	879,158	200,000	1,136,728	2,216,728
Surplus for the period		–	–	–	59,858	59,858
As at 31 March 2011		**842**	**879,158**	**200,000**	**1,196,586**	**2,276,586**
Company						
Balance at 1 April 2009		842	879,158	200,000	1,061,152	2,141,152
Surplus for the period		–	–	–	44,958	44,958
Balance at 31 March 2010		842	879,158	200,000	1,106,110	2,186,110
Surplus for the period		–	–	–	50,612	50,612
As at 31 March 2011		**842**	**879,158**	**200,000**	**1,156,722**	**2,236,722**

**Certain amounts shown here do not correspond to the 2010 financial statements and reflects adjustments made as detailed in Note 7 and Note 13.*

Statement of Cash Flows

for the year ended 31 March 2011

		Group		Company	
		2011	2010 Restated*	2011	2010 Restated*
	Note	R'000	R'000	R'000	R'000
Operating activities					
Receipts:					
Sale of goods and services		6,670	1,006	–	–
Interest, rental and dividend income		165,557	191,617	178,100	203,873
Other operating revenue		13,001	44,800	1,247	22,593
		185,228	237,423	179,347	226,465
Payments:					
Employee costs		(69,979)	(65,052)	(59,941)	(56,306)
Suppliers		(346,968)	(402,777)	(344,134)	(407,631)
Finance costs		(1,150)	(1,014)	(611)	–
Taxation paid		(17,036)	(35,312)	(15,986)	(33,529)
Net cash flows used in operating activities	29	(249,905)	(266,732)	(241,325)	(271,001)
Investing activities					
Additions to property, plant and equipment	14	(1,064)	(1,332)	(872)	(955)
Proceeds from sale of property, plant and equipment	14	29	–	16	–
Investment in associate	13	–	–	–	(2,437)
Decrease in held-to-maturity investments	20	144,513	160,484	129,364	161,086
Proceeds from liquidation of investment	11	–	–	14,739	–
Net cash from investing activities		143,478	159,152	143,247	157,694
Financing activities					
Increase in funds under management	24	10,176	94,586	10,176	94,586
Proceeds from borrowings	26	50,073	–	50,029	–
Repayment of borrowings	26	(967)	(866)	–	–
Net cash flows from financing activities		59,282	93,720	60,205	94,586
Net decrease in cash and cash equivalents		(47,145)	(13,860)	(37,873)	(18,721)
Cash and cash equivalents at 1 April	21	262,984	276,844	251,012	269,733
Cash and cash equivalents at 31 March	29.4	215,839	262,984	213,139	251,012

** Certain amounts shown here do not correspond to the 2010 financial statements and reflects adjustments made as detailed in Note 7 and Note 13.*

Notes to the Annual Financial Statements

for the year ended 31 March 2011

1. GROUP ACCOUNTING POLICIES

CORPORATE INFORMATION

The consolidated financial statements of the National Housing Finance Corporation Limited ("NHFC") for the year ended 31 March 2011 were approved by the Board on 29 July 2011. 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 Cape Town Community Housing Company (Pty) Limited and Gateway Home Loans (Pty) Limited is 31 March. Similar accounting policies are applied across the Group.

Statement of compliance

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2011.

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:

Related party disclosures

Related party disclosures are prepared in accordance with IPSAS 20: Related Party Disclosures (IPSAS 20). Related parties are identified as being those parties that control or have significant influence over NHFC and those parties that are controlled or significantly influenced by NHFC. Disclosure is made of all relationships involving control, even when there are no transactions between such parties during the year; all other related party transactions and management compensation.

The key revisions to the standard are to provide partial exemption for Government-related entities; and simplify the definition of related party and remove inconsistencies.

Under the previous version of IAS 24, if an entity is Government controlled, or significantly influenced, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same Government. The revised standard eliminates some of these requirements and requires disclosure about such transactions only if they are individually or collectively significant.

Summary of significant judgements, estimates and assumptions

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

Staff costs

Staff costs, management costs and Directors' fees are recognised as an expense as and when the employee or Director renders services.

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%. The capitilisation rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised income by the purchase price. This yield is based on information derived from market analysis. Comparable sales in the immediate vicinity reflect a capitilisation rate in the region of 14.4%. For the Group, the valuation was based on open market value for existing use.

Transfers are made to investment property from properties developed for sale when there is a change in use.

1. GROUP ACCOUNTING POLICIES continued

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 judgement is required in establishing fair values. The judgements 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 from 1 January 2010

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled in equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not re-assessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Investment in subsidiary

Investment in a subsidiary is carried at cost less impairment.

Subsidiaries 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.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

1. **GROUP ACCOUNTING POLICIES continued**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Interest in associates

The Group's investment in its associates is accounted for using the equity. 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 in 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 neither amortised nor individually tested for impairment.

The statement of financial performance reflects the share of the results of operation of the associate. 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 financial performance. 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 or loss of the associates is shown on the face of the statement of financial performance. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting sheet date whether there is any objective evidence that the investment in the associates 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 'share of profit of an associate' in the statement of financial performance.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

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	25.00%
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 financial performance.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits or service potential 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 financial performance 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.

Properties developed for sale are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

1. GROUP ACCOUNTING POLICIES continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Properties developed for sale continued

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.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

Development expenditure is included as directly attributable cost 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.

FINANCIAL INSTRUMENTS

Financial assets

Financial assets within the scope of IAS 39 are classified as either loans and receivables or held-to-maturity investments, 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.

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 financial performance when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

Fair value

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

Amortised cost

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

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 months. Cash and short-term deposits are considered to be loans and receivables.

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

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

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

1. **GROUP ACCOUNTING POLICIES continued**

FINANCIAL INSTRUMENTS continued

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 financial performance.

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.

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 rates were charged. Costs incurred in connection with negotiating and arranging agreements is recognised as an expense when the selling profit is recognised.

Instalment sale receivables are initially recognised at the net investment in the instalment sale agreement. The recognision of finance income is based on a constant periodic rate of return on the net investment in the instalment sale receivable.

Subsequent impairment of instalment sale 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.

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.

1. **GROUP ACCOUNTING POLICIES continued**

DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES continued

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 financial performance.

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 or service potential 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 financial performance 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 fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. The classification of the lease is determined in terms of GRAP 13.

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 financial performance.

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 financial performance 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 constant periodic rate of return on the Group's net investment in the finance lease.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

1. **GROUP ACCOUNTING POLICIES continued**

DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES continued

Revenue recognition

Revenue from exchange transactions

Revenue comprises 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 or service potential will flow to the Group and the revenue can be reliably measured. An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. 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.

Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where NHFC received revenue from another entity without directly giving approximately equal value in exchange.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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 balance sheet date between the tax bases of assets and liabilities and the carrying amounts for financial reporting purposes.

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

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

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

1. **GROUP ACCOUNTING POLICIES continued**

DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES continued

Taxation continued

Deferred taxation continued

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

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

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

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

Retirement benefits

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

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 balance sheet date. Gains and losses arising from changes in the fair values of investment properties are included in the statement of financial performance in the year in which they arise.

Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

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 or service potential 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 financial performance 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 issued, not yet effective, that the Group 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.

GRAP 18 Segment Reporting

Financial statements comprise summarised and aggregated information about a wide variety of activities undertaken by an entity. The purpose of segment reporting is to present more specific and detailed information about the major activities undertaken by an entity during a particular period, along with the resources allocated to those activities.

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to report financial information separately, for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

This standard will not be applicable to the Group therefore the impact will be immaterial.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

1. **GROUP ACCOUNTING POLICIES continued**

NEW STANDARDS AND INTERPRETATIONS continued

GRAP 21 Impairment of Non-cash-generating Assets

Non-cash-generating assets are assets other than cash-generating assets. When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The impact of this standard is not material.

This standard of GRAP is effective for financial years commencing on or after 1 April 2012.

GRAP 25 Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share-based payment transactions.

This standard is similar to IAS 19 therefore the impact on the financial statements will not be material.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

GRAP 26 Impairment of cash-generating Assets

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, an entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an entity applies the appropriate discount rate to those future cash flows.

This standard is similar to IAS 38, therefore the impact on the financial statements will not be material.

The effective date of the standard is for years beginning on or after 1 April 2012.

GRAP 104 Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or a residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

The implication of this GRAP will have an impact on the financial statements as the number of categories in GRAP 104 is reduced when compared to IAS 39. The resulting disclosure as required by GRAP 104 is significantly less than IFRS 7.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

IGRAP 2 Changes in Existing Decommissioning Restoration and Similar Liabilities

This Interpretation of the Standards of GRAP addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

a) a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) or service potential required to settle the obligation;

b) a change in the current market-based discount rate as defined in paragraph .52 of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) (this includes changes in the time value of money and the risks specific to the liability); and

c) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

This standard will not be applicable to the Group therefore the impact will be immaterial.

The effective date of the standard is for years beginning on or after 1 April 2011.

		GROUP		COMPANY	
		2011	2010	2011	2010
		R'000	R'000	R'000	R'000
2.	**INTEREST ON ADVANCES**				
	Interest on performing advances	111,921	105,959	117,756	111,698
	Interest on impaired advances	7,002	5,140	7,002	5,140
		118,923	111,099	124,758	116,838
3.	**OTHER OPERATING INCOME**				
	Other operating income is made up as follows:				
	SA Housing Trust	–	8,926	–	8,926
	Management fees	182	24	182	243
	Bad debts recovered	129	177	129	177
	Interest received from instalment sales	5,991	8,081	–	–
	Gain from reversal of impairment of instalment sale receivables*	1,224	1,128	–	–
	Levies from instalment sales	1,473	1,690	–	–
	Recoveries in respect of services	1,000	4,986	–	–
	Other rental income	3,257	1,721	–	–
	Tax refund	–	11,184	–	11,184
	Fair value gain on investment property	9,818	14,963	3,345	6,300
	Premiums earned	–	4,243	–	–
	Sundry income	978	2,641	936	80
		24,052	59,764	4,592	26,910
	** The credit quality of the instalment sale receivables improved substantially resulting in the reversal in the provision for impairment.*				
4.	**PROFIT BEFORE TAX**				
	Profit before tax is stated after taking the following into account:				
	4.1 Administrative expenses	97,632	90,112	84,893	78,970
	– Staff costs	46,160	47,608	37,478	39,991
	– Salaries	38,158	40,163	30,835	33,707
	– Medical aid contributions	2,438	2,342	2,072	2,010
	– Provident fund contributions	5,564	5,103	4,571	4,274
	– Management costs (refer note 34)	23,819	17,444	22,463	16,184
	– Administration	3,977	2,109	3,149	1,408
	– Marketing	2,491	3,865	2,226	3,637
	– Consultancy and advisory services	14,252	11,871	14,166	11,717
	– Directors' fees	896	455	655	357
	– Legal fees	1,986	2,963	1,509	2,570
	– Auditors' remuneration	1,808	1,719	1,584	1,528
	– Audit fees	1,808	1,719	1,584	1,528
	– Travel and entertainment	2,243	2,078	1,663	1,578
	4.2 Other operating expenses	17,682	13,764	27,413	10,963
	– Donations	–	52	–	50
	– Communication	2,227	2,145	1,830	1,778
	– Training and development	935	717	935	717
	– Office expenses	3,063	3,167	1,907	2,034
	– Depreciation	907	931	776	814
	– Bad debts	4,063	–	16,507	–
	– Sundry expenses	1,366	1,895	1,044	1,245
	– Operating lease payments: property and certain equipment	5,121	4,857	4,414	4,325

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

		GROUP		COMPANY	
		2011 R'000	2010 R'000	2011 R'000	2010 R'000
5.	**FINANCE COSTS**				
	Interest on debentures	–	212	–	–
	Interest on other financial liabilities	1,150	802	611	–
		1,150	1,014	611	–
6.	**INCOME TAX**				
	Statement of financial performance:				
	Current income tax				
	Current income tax charge	15,971	16,689	15,018	14,939
	Deferred tax	(282)	(1,074)	(282)	(1,074)
	Income tax expense	15,689	15,615	14,736	13,865
	Deferred tax asset: Statement of financial position				
	Balance at the beginning of the year	2,917	1,843	2,917	1,843
	Recognised through the income statement	282	1,074	282	1,074
	Balance at the end of the year	3,199	2,917	3,199	2,917
	Deferred tax asset consists of:				
	– Provision for leave pay	4,470	3,659	4,470	3,659
	– Provision for incentive bonus	7 998	8,987	7 998	8,987
	– Operating lease	632	923	632	923
	– Fair value gain on investment property	(1,673)	(3,150)	(1,673)	(3,150)
	Total	11 427	10,419	11 427	10,419
	Tax rate of 28%	3 200	2,917	3 200	2,917
	A reconciliation between tax expense and the product of accounting profit multiplied by South Africa domestic tax rate for the years ended 31 March 2011 and 2010 is as follows:				
	Accounting profit before tax from operations	75,547	73,440	65,348	58,823
	At South Africa statutory income tax rate of 28%	19,250	18,221	18,297	16,471
	Non-taxable income	(2,211)	(44)	(2,211)	(44)
	Non-deductible expenses	–	14	–	14
	Capital profit	(1,350)	(2,576)	(1,350)	(2,576)
	Income tax expense reported in the statement of financial performance	15,689	15,615	14,736	13,865
	Income tax receivable: Statement of financial position				
	Balance at the beginning of the year	24,312	5,689	20,532	1,942
	Tax paid	28,220	24,128	27,170	22,345
	Normal tax charge	(15,971)	(16,689)	(15,018)	(14,939)
	Tax refund	(11,184)	11,184	(11,184)	11,184
	Balance at the end of the year	25,377	24,312	21,500	20,532

		GROUP		COMPANY	
		2011	2010 Restated*	2011	2010 Restated*
		R'000	R'000	R'000	R'000
7.	**LOANS AND RECEIVABLES – ADVANCES**				
	Gross advances				
	Opening balances	**1,463,819**	1,113,799	**1,532,235**	1,176,243
	Disbursements	**427,450**	631,013	**427,450**	631,013
	Repayments	**(190,301)**	(280,993)	**(179,292)**	(275,021)
	Amounts previously impaired, written off	**(1,050)**	–	**(13,494)**	–
	Balance at the end of the year	**1,699,918**	1,463,819	**1,766,899**	1,532,235
	Impairments on advances				
	Balances at the beginning of the year	**(132,897)**	(60,009)	**(132,897)**	(60,009)
	Amounts impaired in previous years and written off during the year	**1,050**		**1,050**	–
	Increase in impairments on advances	**(46,213)**	(72,888)	**(46,213)**	(72,888)
	Impairments reversed during the year^	**40,936**		**40,936**	–
	Balance at the end of the year	**(137,124)**	(132,897)	**(137,124)**	(132,897)
	Comprising:				
	Specific impairments	**(104,217)**	(131,233)	**(104,217)**	(131,233)
	General impairments	**(32,907)**	(1,664)	**(32,907)**	(1,664)
	Net advances	**1,562,794**	1,330,922	**1,629,775**	1,399,338
	Maturity analysis				
	Receivable within 1 year	**232,401**	301,921	**232,401**	301,921
	Receivable within 1 to 2 years	**181,052**	275,533	**168,608**	275,533
	Receivable within 2 to 3 years	**150,897**	201,725	**150,897**	201,725
	Receivable beyond 3 years	**998,444**	551,743	**1,077,869**	620,159
	Net advances	**1,562,794**	1,330,922	**1,629,775**	1,399,338
	Non-current assets	**1,330,393**	1,029,001	**1,397,374**	1,097,417
	Current assets	**232,401**	301,921	**232,401**	301,921
		1,562,794	1,330,922	**1,629,775**	1,399,338

** Following the conversion of a loan advance into an equity investment, the accounting treatment of the investment in the Trust for Urban Housing Foundation (Pty) Limited has been re-assessed to account for as an associate, disclosed under Note 13. The prior year number of all related notes have been adjusted.*

^ Impairments were reversed as a result of certain loans and advances being renegotiated. Refer to Note 32.

8. 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 cost less accumulated impairment.

	GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
Shares at cost – ordinary shares			**50,000**	50,000
Less: Accumulated impairments			**(47,608)**	(47,608)
			2,392	2,392

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

9. INVESTMENT IN SUBSIDIARY – CAPE TOWN COMMUNITY HOUSING 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 fair value less impairment.

	COMPANY 2011 R'000	COMPANY 2010 R'000
Shares at cost – ordinary shares		
Opening balance	2,000	2,000
Movement	–	–
Carrying amount of shares at 31 March	2,000	2,000
Debentures		
Opening balance	6,197	6,197
Movement	–	–
Carrying amount of debentures at 31 March	6,197	6,197
Total investment in subsidiary	8,197	8,197

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.

10. INVESTMENT – PREFERENCE SHARES

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Greenstart (Proprietary) Limited	2,500	2,500	2,500	2,500
Net investment in unlisted preference shares	2,500	2,500	2,500	2,500

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

Dividends in terms of Shareholders' agreement, are set at 6.3% per annum on the aggregate subscription price of R2,5 million.

Dividends received are up to date and included in revenue.

11. INVESTMENT IN A CELL CAPTIVE

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Unlisted investments				
Centriq Insurance Company Limited				
Shares at cost			–	7,000
100% 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. The investment was settled at R14,739,235 which comprised of R7,000,000 repayment of investment and liquidation dividend of R7,739,235.

12. 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:

	2011 R'000	2010 R'000
Share of the associate's balance sheet:		
Current assets	257	1,614
Non-current assets	890	1,263
Current liabilities	(96)	(21)
Net asset	**1,051**	2,856
Carrying amount of the investment in Company	5,566	5,566
Accumulated share of the associate's loss	(2,710)	(1,262)
Current year share of loss	(1,544)	(1,448)
Share in changes in retained earnings	(261)	–
Carrying amount of the investment	**1,051**	2,856
Share of the associate's revenue	52	158
COMPANY		
The following table illustrates the summarised financial information in the Company's books:		
Investment in shares at cost	5,566	5,566
Carrying amount of the investment	**5,566**	5,566

13. INVESTMENT IN ASSOCIATE

GROUP

The National Housing Finance Corporation has a 27% interest in Trust for Urban Housing Foundation Holdings (Proprietary) Limited (TUHF), which is involved in the provision of commercial property finance in the form of bridging finance and long-term loans for the regeneration of South African inner-city precincts and surrounding suburbs.

The following table illustrates the summarised financial information of National Housing Finance Corporation's investment in TUHF Holdings (Proprietary) Limited:

	2011 R'000	2010 R'000	At acquisition 1 September 2009 R'000
Share of the associate's balance sheet:			
Current assets	–	–	748
Non-current assets	329,094	288,310	–
Non-current liabilities	(326,010)	(287,283)	–
Net asset	**3,084**	1,027	748
Carrying amount of the investment in Company	2,437	2,437	2,437
Accumulated share of the associate's profit	279	–	–
Share of changes in reserves	354	–	–
Share of profit of associate	1,703	279	–
Current year share of profit	1,869	279	
Loss on change in shareholding	(166)	–	–
Carrying amount of the investment	**4,773**	2,716	2,437
Less: Goodwill	(1,689)	(1,689)	(1,689)
	3,084	1,027	748
Share of the associate's revenue	37,679	19,422	

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

		2011 R'000	2010 R'000
13.	**INVESTMENT IN ASSOCIATE continued**		
	COMPANY		
	The following table illustrates the summarised financial information in the Company's books:		
	Investment in shares at cost	2,437	2,437
	Carrying amount of the investment	2,437	2,437
	The investment in TUHF was reassessed in the current year which resulted in the prior year restatement.		

14. PROPERTY, PLANT AND EQUIPMENT

GROUP

	2011 Cost R'000	2011 Accumulated depreciation R'000	2011 Carrying value R'000	2010 Cost R'000	2010 Accumulated depreciation R'000	2010 Carrying value R'000
Computer Equipment	8,316	(7,398)	918	7,786	(6,861)	925
Computer Software	5,188	(4,932)	256	5,066	(4,762)	304
Furniture and Fittings	3,108	(2,992)	116	3,106	(2,948)	158
Motor Vehicle	396	(217)	179	396	(169)	227
Office Equipment	829	(676)	153	792	(619)	173
Leasehold Improvements	839	(477)	362	492	(423)	69
	18,676	(16,692)	1,984	17,638	(15,782)	1,856

Reconciliation of property, plant and equipment for Group – 2011

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Computer Equipment	925	545	(16)	(536)	918
Computer Software	304	124	–	(172)	256
Furniture and Fittings	158	10	(8)	(44)	116
Motor Vehicle	227	–	–	(48)	179
Office Equipment	173	38	(5)	(53)	153
Leasehold Improvements	69	347	–	(54)	362
	1,856	1,064	(29)	(907)	1,984

Reconciliation of property, plant and equipment for Group – 2010

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
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

14. PROPERTY, PLANT AND EQUIPMENT continued

COMPANY

	2011 Cost R'000	2011 Accumulated depreciation R'000	2011 Carrying value R'000	2010 Cost R'000	2010 Accumulated depreciation R'000	2010 Carrying value R'000
Computer Equipment	7,284	(6,438)	846	6,770	(5,951)	819
Computer Software	4,997	(4,788)	209	4,877	(4,648)	229
Furniture and Fittings	2,819	(2,733)	86	2,819	(2,695)	124
Motor Vehicle	195	(137)	58	195	(114)	81
Office Equipment	561	(474)	87	547	(441)	106
Leasehold Improvements	699	(477)	222	492	(423)	69
Total	**16,555**	**(15,047)**	**1,508**	15,700	(14,272)	1,428

Reconciliation of property, plant and equipment for Company – 2011

	Opening balance R'000	Additions R'000	Disposals balance R'000	Depreciation R'000	Total R'000
Computer Equipment	819	530	(16)	(487)	846
Computer Software	229	121	–	(141)	209
Furniture and Fittings	124	–	–	(38)	86
Motor Vehicle	81	–	–	(23)	58
Office Equipment	106	14	–	(33)	87
Leasehold Improvements	69	207	–	(54)	222
	1,428	872	(16)	(776)	1,508

Reconciliation of property, plant and equipment for Company – 2010

	Opening balance R'000	Additions balance R'000	Disposals R'000	Depreciation R'000	Total R'000
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

Fully depreciated assets that are still in use amounts to R11,6 million (2010: R11,9 million).

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

		GROUP		COMPANY	
		2011 R'000	2010 R'000	2011 R'000	2010 R'000
15.	**INSTALMENT SALE RECEIVABLES**				
	Gross instalment sale receivables	79,120	63,880	–	–
	Less: Unearned finance charges	(36,297)	(8,990)	–	–
	Present value of minimum lease payments receivable	42,823	54,890	–	–
	Less: Provision for impairment of receivables	(818)	(8,722)	–	–
		42,005	46,168	–	–
	Non-current assets	36,451	25,574	–	
	Current assets	5,554	20,594	–	
		42,005	46,168	–	–
	The provision for impairment of receivables is reconciled as follows:				
	Opening balance	8,722	14,297	–	–
	Reversal of provision	(7,904)	(5,575)	–	–
	Closing balance	818	8,722	–	–
	Management's assessment of the ageing of the instalment sale debtors is as follows:				
	Up to 1 year	6,372	29,316	–	–
	1 to 2 years	1,338	6,601	–	–
	3 to 5 years	5,018	18,973		
	Over 5 years	30,095	–	–	–
		42,823	54,890	–	–

The average term of the instalment sale receivables is 14 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% (2010: 11.9% per annum). Management considers that the fair value of the instalment sale receivables does not differ materially from the carrying value.

The amount of R42,005,386 (2010: R46,168,000) is the maximum exposure to credit risk.

The impairment of R818,132 (2010: R8,712,856) takes into account the recoverable amount of collateral.

		GROUP		COMPANY	
		2011	2010	2011	2010
		R'000	R'000	R'000	R'000
16.	**INVESTMENT PROPERTY**				
	Opening balance	**59,174**	42,100	**48,400**	42,100
	Transfers from inventory	**2,260**	2,111	**–**	–
	Fair value gain	**9,818**	14,963	**3,345**	6,300
	Closing balance	**71,252**	59,174	**51,745**	48,400
	The following amounts have been recognised in the income statement:				
	Fair value gain	**9,818**	14,963	**3,345**	6,300
	Rental income	**5,440**	4,669	**5,440**	4,451

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 2011. 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%. The capitilisation rate is best determined by referring to market transactions of comparable properties and is determined by dividing the annualised income by the purchase price. This yield is based on information derived from market analysis. Comparable sales in the immediate vicinity reflect a capitilisation rate in the region of 14.4%.

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 (Proprietary) Limited was reclassified as investment property due to the directors' assessment of the allocation of houses held for investment purposes.

The houses were valued by an independent valuator, Siyakulu Property Valuers, to its fair value of R19,506,630. The effective date of the revaluation was 13 April 2011. 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.

		GROUP		COMPANY	
		2011	2010	2011	2010
17.	**GOODWILL**				
	Goodwill				
	At 31 March at cost	**2,714**	2,714		

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

		GROUP		COMPANY	
		2011	2010	**2011**	2010
		R'000	R'000	**R'000**	R'000
18.	**PROPERTIES DEVELOPED FOR SALE**				
	Properties developed for sale	**23,875**	34,318	**–**	–
	Repossessed properties	**40,140**	20,016	**–**	–
		64,015	54,334	**–**	–
	Reconciliation:				
	Properties developed for sale				
	Opening balance	**34,318**	57,627	**–**	–
	Construction costs	**37,352**	39,800	**–**	–
	Transfer to cost of sales	**(47,795)**	(63,109)	**–**	–
		23,875	34,318	**–**	–
	Repossessed properties				
	Opening balance	**20,016**	224	**–**	–
	Additions	**22,384**	21,903	**–**	–
	Transfer to investment property	**(2,260)**	(2,111)		
		40,140	20,016	**–**	–
	No inventory was pledged as security for liabilities. The carrying amount of inventories is held at fair value less costs to sell.				
19.	**OTHER RECEIVABLES AND PREPAYMENTS**				
	Deposits and prepayments	**437**	229	**2**	2
	Related parties	**–**	2,136	**–**	2,136
	Staff debtors	**1,225**	800	**1,225**	800
	Other receivables	**9,186**	12,627	**4,421**	2,800
	AFD loan receivable	**50,000**	–	**50,000**	–
		60,848	15,792	**55,648**	5,738

Deposits and prepayments are settled when the services have been provided.

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.

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

The drawdown for the AFD loan was requested before year-end. The funds were only received after year-end, therefore a receivable was raised.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
20. HELD-TO-MATURITY INVESTMENTS				
Held-to-maturity money market investments – NHFC	**410,680**	594,739	**410,680**	579,590
ABSA Bank Limited	**60,000**	65,000	**60,000**	65,000
Investec Bank Limited	**60,000**	95,000	**60,000**	95,000
South African Reserve Bank	**27,430**	24,559	**27,430**	24,559
The Standard Bank of South Africa Limited	**60,000**	75,000	**60,000**	75,000
Rand Merchant Bank, a division of FirstRand Bank Limited	**80,000**	100,000	**80,000**	100,000
Nedbank Limited	**60,306**	95,000	**60,306**	95,000
Land Bank of South Africa Limited	**19,390**	19,256	**19,390**	19,256
Transnet Limited	**–**	24,558	**–**	24,558
Eskom Limited	**19,447**	49,122	**19,447**	49,122
Development Bank of South Africa Limited	**20,005**	–	**20,005**	–
Trans-Caledon Tunnel Authority (TCTA)	**–**	24,559	**–**	24,559
Funds managed by Centriq	**–**	15,149	**–**	–
Interest receivable	**4,102**	7,536	**4,102**	7,536
Held-to-maturity money market investments – Job summit related projects*	**402,177**	381,659	**402,177**	381,659
ABSA Bank Limited	**80,124**	60,000	**80,124**	60,000
Rand Merchant Bank, a division of FirstRand Bank Limited	**60,000**	60,000	**60,000**	60,000
Standard Bank of South Africa Limited	**80,000**	40,000	**80,000**	40,000
Nedbank Limited	**60,306**	60,000	**60,306**	60,000
Investec Bank Limited	**60,000**	40,000	**60,000**	40,000
Land Bank of South Africa Limited	**38,829**	38,896	**38,829**	38,896
Eskom Limited	**–**	58,945	**–**	58,945
Transnet Limited	**–**	19,647	**–**	19,647
Trans-Caledon Tunnel Authority (TCTA)	**19,732**	–	**19,732**	–
Interest receivable	**3,186**	4,171	**3,186**	4,171
Held-to-maturity money market investments – Development Fund*	**119,313**	100,285	**119,313**	100,285
Eskom Limited	**19,447**	19,647	**19,447**	19,647
Land Bank of South Africa Limited	**19,414**	–	**19,414**	–
Investec Bank Limited	**20,000**	20,000	**20,000**	20,000
Nedbank Limited	**20,000**	20,000	**20,000**	20,000
ABSA Bank Limited	**20,000**	20,000	**20,000**	20,000
Trans-Caledon Tunnel Authority (TCTA)	**–**	19,661	**–**	19,661
South African Reserve Bank	**19,725**	–	**19,725**	–
Interest receivable	**727**	977	**727**	977
Total held-to-maturity money market investments	**932,170**	1,076,683	**932,170**	1,061,534

* *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.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

		GROUP		COMPANY	
		2011 R'000	2010 R'000	2011 R'000	2010 R'000
21.	**CASH AND SHORT-TERM DEPOSITS**				
	Short-term deposits – NHFC	**101,086**	103,005	**101,086**	103,005
	ABSA Bank Limited	**20,253**	27,669	**20,253**	27,669
	Investec Bank Limited	**6,719**	9,792	**6,719**	9,792
	Nedbank Limited	**12,975**	2,065	**12,975**	2,065
	Rand Merchant Bank, a division of FirstRand Bank Limited	**12,015**	4,375	**12,015**	4,375
	The Standard Bank of South Africa Limited	**13,305**	22,421	**13,305**	22,421
	Standard Bank of South Africa Limited (Stanlib)	**15,731**	16,571	**15,731**	16,571
	Trans-Caledon Tunnel Authority (TCTA)	**20,088**	20,112	**20,088**	20,112
	Short-term deposits – Job summit related projects*	**69,686**	80,432	**69,686**	80,432
	ABSA Bank Limited	**9,941**	9,207	**9,941**	9,207
	Investec Bank Limited	**16,186**	26,474	**16,186**	26,474
	Nedbank Limited	**13,098**	9,179	**13,098**	9,179
	Rand Merchant Bank, a division of FirstRand Bank Limited	**10,643**	8,098	**10,643**	8,098
	The Standard Bank of South Africa Limited	**3,556**	7,976	**3,556**	7,976
	Standard Bank of South Africa Limited (Stanlib)	**16,262**	19,498	**16,262**	19,498
	Short-term deposits – Development Fund*	**33,082**	51,564	**33,082**	51,564
	ABSA Bank Limited	**7,296**	13,368	**7,296**	13,368
	Nedbank Limited	**6,447**	12,417	**6,447**	12,417
	The Standard Bank of South Africa Limited	**11,748**	13,588	**11,748**	13,588
	Investec Bank Limited	**7,591**	12,191	**7,591**	12,191
	Short-term deposits – Siyanda*	**729**	902	**729**	902
	The Standard Bank of South Africa Limited	**729**	902	**729**	902
	Short-term deposits – Abahlali*	**965**	935	**965**	935
	Absa Bank Limited	**965**	935	**965**	935
	Cash at bank and in hand	**10,291**	26,146	**7,591**	14,174
	The Standard Bank of South Africa Limited	**10,280**	26,131	**7,587**	14,170
	Cash on Hand	**11**	15	**4**	4
	Total cash and short-term deposits	**215,839**	262,984	**213,139**	251,012
	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	**111,377**	129,151	**108,677**	117,179
	Short-term deposits	**101,086**	103,005	**101,086**	103,005
	Cash at bank	**10,291**	26,146	**7,591**	14,174
	Job summit*	**69,686**	80,432	**69,686**	80,432
	Short-term deposits	**69,686**	80,432	**69,686**	80,432
	Development Fund*	**33,082**	51,564	**33,082**	51,564
	Short-term deposits	**33,082**	51,564	**33,082**	51,564
	Siyanda*	**729**	902	**729**	902
	Short-term deposits	**729**	902	**729**	902
	Abahlali*	**965**	935	**965**	935
	Short-term deposits	**965**	935	**965**	935
	Total	**215,839**	262,984	**213,139**	251,012

** Funds under management – refer Note 24.*

		GROUP		COMPANY	
		2011	2010	2011	2010
		R'000	R'000	R'000	R'000
22.	**ISSUED CAPITAL AND SHARE PREMIUM**				
	Capital				
	Ordinary shares				
	Authorised				
	100 000 000 ordinary shares of R0.01 each	**1,000**	1,000	**1,000**	1,000
	Issued and fully paid				
	84 187 332 ordinary shares of R 0.01 each	**842**	842	**842**	842
	Share premium	**879,158**	879,158	**879,158**	879,158
23.	**GRANT CAPITAL**	**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 the Shareholder's Equity. There are no conditions attached to these grants.				
24.	**FUNDS UNDER MANAGEMENT**				
	Job summit (a)				
	– *Poverty Relief Funds*	**420,986**	395,834	**420,986**	395,834
	– *Subsidies – KwaZulu-Natal*	**50,878**	66,257	**50,878**	66,257
	Development Fund (b)	**152,396**	151,850	**152,396**	151,850
	Siyanda Project (c)	**729**	902	**729**	902
	Abahlali (d)	**965**	935	**965**	935
	Total funds under management	**625,954**	615,778	**625,954**	615,778
	(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 increase capacity and technical assistance in the low-income housing market.				
	(c) Siyanda project is a housing development partnership between NHFC, Eastern Cape Provincial Department of Housing and Mnquma Municipality. These funds are to be used for pre-project costs.				
	(d) The NHFC is managing funds on behalf of the Abahlali Housing Association relating to social housing rental units.				
	The net income on these funds is capitilised.				
	Funds under management are invested in held-to-maturity investments (Note 20) and short-term deposits (Note 21).				
25.	**DEBENTURES**				
	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**	5,000	–	–
	Non-current liabilities	**–**	5,000	–	–
	Current liabilities	**5,000**	–	–	–
		5,000	5,000	–	–

The debentures are not secured. As at 31 March 2011, the Group is currently in talks with the City of Cape Town to renegotiate the repayment terms. The balance shown above includes accumulated interest of R Nil (2010: R2,500,000).

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

		GROUP		COMPANY	
		2011 R'000	2010 R'000	2011 R'000	2010 R'000
26.	**OTHER FINANCIAL LIABILITIES**				
	Held at amortised cost				
	Dutch International Guarantees for Housing (DIGH) loan 1	2,015	2,306	–	–
	This loan bears interest at a fixed rate of 8.18% per annum and is repayable in annual instalments of R433,942 (2010: R453,731) inclusive of interest. The final instalment is payable on 9 July 2014.				
	Dutch International Guarantees for Housing (DIGH) loan 2	5,389	6,065	–	–
	This loan bears interest at a fixed rate of 7% per annum and is repayable in annual instalments of R1,034,606 (2010: R1,167,872), inclusive of interest. The final instalment is payable on 17 January 2016.				
	Development Fund	2,907	2,863	–	–
	This facility bears interest at a rate of 0% per annum and is repayable once project income is received.				
	Agence Francaise de Developpement (AFD)	50,029	–	50,029	–
	This loan bears interest at a fixed rate of 7.015% per annum and is repayable in semi-annual capital instalments of R1,923,077 commencing on 31 May 2012 (2010: nil) exclusive of interest. The final instalment is payable on 24 November 2024.				
		60,340	11,234	50,029	–
	Non-current liabilities at amortised cost	55,890	10,333	46,521	–
	Current liabilities at amortised cost	4,450	901	3,508	–
		60,340	11,234	50,029	–
27.	**PROVISIONS**				
		12,919	14,047	12,468	12,646
	Total provisions	12,919	14,047	12,468	12,646
	Provision for leave pay				
	Opening balance as at 1 April	3,954	3,660	3,659	3,355
	Provision utilised for the year	(320)	(304)	(253)	(294)
	Additional provision raised	1,064	598	1,064	598
	Closing balance as at 31 March	4,698	3,954	4,470	3,659
	Provision for incentive bonus				
	Opening balance as at 1 April	8,987	8,376	8,987	8,376
	Provision utilised for the year	(9,215)	(7,807)	(9,215)	(7,807)
	Additional provision raised	8,226	8,418	8,226	8,418
	Closing balance as at 31 March	7,998	8,987	7,998	8,987
	Provision for municipal rates				
	Opening balance as at 1 April	1,106	2,470	–	–
	Provision utilised for the year	(883)	(1,364)	–	–
	Additional provision raised	–	–	–	–
	Closing balance as at 31 March	223	1,106	–	–

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 2012 financial year.

Provision for municipal rates covers the rates that are outstanding and will become payable when certain erven are transferred into the name of Cape Town Community Housing Company (Proprietary) Limited.

		GROUP		COMPANY	
		2011	2010	2011	2010
		R'000	R'000	R'000	R'000
28.	**TRADE AND OTHER PAYABLES**				
	Trade payables	**5,993**	8,577	**3,971**	3,534
	Value-added tax	**1,227**	1,326	**–**	–
	Land accrual	**–**	4,960	**–**	–
	Accrued expenses	**912**	1,273	**–**	–
	Accrual for lease payments	**632**	923	**632**	923
	Deferred revenue	**372**	1,944	**–**	–
	Subsidies received in advance	**586**	4,231	**–**	–
		9,722	23,234	**4,603**	4,457

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

The land accrual was settled by the subsidiary raising a loan account with NHFC. NHFC settled the account with the City of Cape Town.

Accrual for lease payments is as a result of straight-lining over the term of the lease. Refer to Note 30.

Deferred revenue relates to subsidies available for the retentions on NHBRC rectification work and utilised when the building expense is booked.

Subsidies received in advance are draw-downs by the subsidiary of subsidies in respect of the Westgate Mall project. These amounts will be included in revenue on the completion and hand over of the houses.

			GROUP		COMPANY	
			2011	2010	2011	2010
				Restated*		Restated*
		Note	R'000	R'000	R'000	R'000
29.	**CASH FLOWS FROM OPERATING ACTIVITIES**					
	Net profit before tax		**75,547**	73,440	65,348	58,823
	Non-cash and separately presented items	29.1	**(3,584)**	61,965	(4,832)	69,334
	Working capital changes	29.2	**(304,832)**	(366,825)	(285,855)	(365,629)
	Tax paid	29.3	**(17,036)**	(35,312)	(15,986)	(33,529)
	Net cash flows used in operating activities		**(249,905)**	(266,732)	(241,325)	(271,001)
	29.1 Non-cash and separately presented items					
	Depreciation		**907**	931	776	814
	Impairments		**4,427**	72,888	4,427	72,888
	Share of loss of an associate		**1,544**	1,448	–	–
	Share of profit of an associate		**(1,703)**	(279)	–	–
	Fair value adjustment on investment property		**(9,818)**	(14,963)	(3,345)	(6,300)
	Gain on liquidation of investment		**–**	–	(7,740)	–
	Premium paid		**–**	1,932	–	1,932
	Amounts previously impaired, written off		**1,050**	–	1,050	–
	Profit on sale of assets		**9**	8	–	–
			(3,584)	61,965	(4,832)	69,334
	29.2 Working capital changes					
	Increase in advances		**(237,358)**	(366,331)	(235,913)	(367,993)
	(Increase)/decrease in properties developed for sale		**(11,941)**	3,517	–	–
	Decrease in instalment sale receivable		**4,163**	8,663	–	–
	(Increase)/decrease in accounts receivable		**(45,056)**	1,866	(49,910)	498
	(Decrease)/increase in accounts payable		**(13,512)**	(14,081)	146	951
	(Decrease)/increase in provisions		**(1,128)**	(459)	(178)	915
	Net increase in working capital		**(304,832)**	(366,825)	(285,855)	(365,629)

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

	GROUP 2011 R'000	GROUP 2010 Restated* R'000	COMPANY 2011 R'000	COMPANY 2010 Restated* R'000
29. CASH FLOWS FROM OPERATING ACTIVITIES continued				
29.3 Tax paid				
Balance at the beginning of the year	24,312	5,689	20,532	1,942
Tax charge for the year	(15,971)	(16,689)	(15,018)	(14,939)
Balance at the end of the year	(25,377)	(24,312)	(21,500)	(20,532)
Tax paid	(17,036)	(35,312)	(15,986)	(33,529)
29.4 Cash and cash equivalents				
Cash and cash equivalents consist of cash on hand and investment in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:				
Cash on hand and balances with banks	10,291	26,146	7,591	14,174
Short term deposits	205,548	236,838	205,548	236,838
	215,839	262,984	213,139	251,012

29.5 Property, plant and equipment

During the period, the Group acquired property, plant and equipment with an aggregated cost of R1.064 million (2010: R1.332 million). None of the additions were acquired by means of government grants.

During the period, the Company acquired property, plant and equipment with an aggregated cost of R872 000 (2010: R955 000). None of the additions were acquired by means of government grants.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
30. CONTINGENT LIABILITIES AND COMMITMENTS				
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 (2010: R533,500) is in place.				
Future minimum rentals payable under current operating lease as at 31 March 2011:				
Within one year	4,592	4,252	4,592	4,252
After one year but not more that five years	–	4,592	–	4,592
	4,592	8,844	4,592	8,844
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 2011:				
Within one year	85	203	85	203
After one year but not more than five years	–	85	–	85
	85	288	85	288

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
30. CONTINGENT LIABILITIES AND COMMITMENTS continued				
Operating lease commitments – Group as lessee				
Lease commitments relate to the rental of the two offices of the subsidiary. Both commenced in 2009 and expires in 2011. The annual escalation rate is 10%.				
The future aggregate minimum lease payments under non-cancellable operating lease are as follows:				
Within one year	22	558	–	–
After one year but not more that five years	–	22	–	–
	22	580	–	–
Operating lease commitments – Group as lessee				
Lease commitments relate to the rental of the office of the subsidiary. The lease commenced on 1 March 2011 and runs until 2016. The annual escalation rate is 8%.				
The future aggregate minimum lease payments under non-cancellable operating lease are as follows:				
Within one year	422	–	–	–
After one year but not more that five years	3,940	–	–	–
	4,362	–	–	–
31. RETIREMENT BENEFITS				
The National Housing Finance Corporation Provident Fund is a defined contribution fund administered by Robson Savage, and subject to the Pension Funds Act of 1956. All 87 employees of the Company participate in the fund and the Company makes all contributions.				
All full-time employees of Cape Town Community Housing Company (Proprietary) Limited belong to the Orion provident fund which is governed by the Pension Funds Act of 1956. The Company makes all contributions on behalf of its employees.				
NHFC and CTCHC are both not liable for post-retirement benefits.				
Provident fund contributions	6,849	5,103	5,856	4,274

32. FINANCIAL RISK MANAGEMENT

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

The Group's principal financial liabilities comprise funds under management, debentures, other financial liabilities and trade and other payables.

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

The Board is ultimately responsible for the overall risk management process and reviews and approves policies for the managing of each of these risks. The Board has delegated certain matters to the Audit and Risk Committee and the Board Credit and Investment Committee.

The Group's senior management oversees the management of these risks and is supported by a Financial Risk Management Committee, Management Credit Committee and Enterprise Risk Management Framework.

These committees provide assurance that risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

32. FINANCIAL RISK MANAGEMENT continued

Credit Risk

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

Financial assets, which potentially subject the Group to concentrations of high credit risk, consist principally of advances. Short-term deposits and held-to-maturity money market investments are placed with financial institutions rated at least F1 or better in terms of short-term credit ratings by a reputable rating agency. Credit and concentration risk on advances and investments are limited in terms of the Credit and Treasury policies which provide for prudent single counterparty limits in respect of individual clients as a percentage of the total of each portfolio. The credit policy also provides for comprehensive sanctioning structures and assessment criteria. Advances are presented net of the allowance for impairment. The advances at year-end reflect that the Group has exposure within approved counterparty limits.

Maximum exposure to credit risk

	GROUP		COMPANY	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
Loans and receivables – advances	**1,562,794**	1,330,922	**1,629,775**	1,399,338
Instalment sale receivables	**42,005**	46,168	**–**	–
Held-to-maturity investments	**932,170**	1,076,683	**932,170**	1,061,534
Cash and short-term deposits	**215,839**	262,984	**213,139**	251,012
Other receivables	**60,411**	15,563	**55,646**	5,736
Investment in preference shares	**2,500**	2,500	**2,500**	2,500

Collateral and other credit enhancements – loans and receivables advances

The Group 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

	GROUP	
	2011	2010
	R'000	R'000
The credit quality of loans and receivables advances that are neither past due nor impaired can be assessed by reference to ageing.		
Neither past due nor impaired	**1,357,600**	1,044,175
Past due but not impaired	**108,365**	129,796
Impaired *	**233,953**	289,849
	1,699,918	1,463,819
Less: Specific impairments	**(104,217)**	(131,233)
General impairments	**(32,907)**	(1,664)
Net advances	**1,562,794**	1,330,922

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

		Total	30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
		R'000	R'000	R'000	R'000	R'000	R'000
Ageing analysis of advances that are past due, but not impaired	**2011**	**108,365**	**15,673**	**8,445**	**6,969**	**2,662**	**74,616**
	2010	129,796	94,933	1,426	1,422	4,183	27,832

	COMPANY 2011 R'000	COMPANY 2010 R'000
32. 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	**1,424,581**	1,044,175
Past due but not impaired	**108,365**	198,212
Impaired*	**233,953**	289,849
	1,766,899	1,532,235
Less: Specific impairments	**(104,217)**	(131,233)
General impairments	**(32,907)**	(1,664)
Net advances	**1,629,775**	1,399,338

** 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	**2011**	**108,365**	**15,673**	**8,445**	**6,969**	**2,662**	**74,616**
	2010	198,212	154,854	3,364	4,007	7,438	28,549

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 more than 90 days in arrears.

The fair value of collateral that the Group holds relating to past due or impaired loans and receivables at 31 March 2011 amounts to R236 million (2010: R485 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 R220,3 million (2010: R16,9 million).

The bulk of these renegotiated advances involves a key client who fell into arrears as a result of counterparty delay in meeting contractual obligations. The matter has since been resolved. The rest are resheduled advances after some clients were behind schedule with project implementation thus resulting in temporary arrears due to timing differences.

	GROUP 2011 R'000	GROUP 2010 R'000
Credit quality of instalment sale receivables		
Neither past due nor impaired	**–**	–
Past due but not impaired	**–**	–
Impaired *	**42,823**	54,890
	42,823	54,890
Less: Specific impairments	**(818)**	(8,722)
Net advances	**42,005**	46,168

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

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

		GROUP		COMPANY	
		2011	2010	2011	2010
		R'000	R'000	R'000	R'000
32.	**FINANCIAL RISK MANAGEMENT continued**				
	Credit quality and concentration of other financial assets				
	Counterparties with external credit ratings of at least F1				
	– Held-to-maturity investments – Money Market	932,170	1,076,683	932,170	1,061,534
	– Cash and short-term deposits	215,839	262,984	213,139	251,012
	Counterparties assessed by reference to historical information about counterparty default rates				
	– Instalment sale receivables	42,005	46,168	–	–

Other receivables and prepayments are considered current and are not considered impaired.

The investment in preference shares is not considered impaired.

Concentration risk of loans and receivables by operations

Commercial	15%
Projects	67%
Retail	18%

Interest rate risk

Interest rate risk is the exposure of the Group to increased financing cost and reduced revenue due to adverse changes in interest rates.

The objectives of managing interest rate risk 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 Group's returns within an acceptable risk profile;
- reduce the cost of capital and minimise the effect of interest rate volatility on funding cost;
- manage exposures by ensuring an appropriate ratio of floating rate exposures to fixed rate exposures;
- take advantage of interest rate cycles.

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

		GROUP 2011		GROUP 2010	
	Strategy	Fixed rate R'000	Linked rate R'000	Fixed rate R'000	Linked rate R'000
Assets					
Loan and receivables – advances rates vary between 5% and 14.5% p.a.	1	127,159	1,435,635	124,955	1,205,967
Instalment sale receivables average interest rate of 11% p.a.	1	42,005	–	46,168	–
Held-to-maturity investments rates vary between 5.5% and 8.005% p.a.	2	–	932,170	–	1,076,683
Cash and short-term deposits rates vary between 5% and 7.502% p.a.	2	–	215,839	–	262,984
Liabilities					
Funds under management – rates are linked to short-term investment rates		–	625,954	–	615,778
AFD loan the rate is at 7.015%		50,029	–	–	–
Other financial liabilities – rates between 7% and 8.18%		7,404	–	8,371	–

		Strategy	COMPANY 2011 Fixed rate R'000	COMPANY 2011 Linked rate R'000	COMPANY 2010 Fixed rate R'000	COMPANY 2010 Linked rate R'000
32.	**FINANCIAL RISK MANAGEMENT continued**					
	Interest rate risk					
	The Company is exposed to interest rate risk on the following assets and liabilities:					
	Assets					
	Loan and receivables – advances rates vary between 5% and 14.5% p.a.	1	127,159	1,502,616	124,955	1,274,383
	Held-to-maturity investments rates vary between 5.5% and 8.005% p.a.	2	–	932,170	–	1,061,534
	Cash and short-term deposits rates vary between 5% and 7.502% p.a.	2	–	213,139	–	251,012
	Liabilities					
	Funds under management – rates are linked to short-term investment rates		–	625,954	–	615,778
	AFD loan the rate is at 7.015%		50,029	–	–	–

Interest rate risk management strategy is as follows:

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

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

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

Interest rate sensitivity

The impact of 1% move in interest rates, which is deemed reasonable based on the interest rate forecasts, with all other variables held constant is reflected below.

	Increase/ Decrease %	GROUP 2011 Effect on profit before tax R'000	GROUP 2010 Effect on profit before tax R'000	COMPANY 2011 Effect on profit before tax R'000	COMPANY 2010 Effect on profit before tax R'000
Loans and receivables – advances	1	15,994	11,511	16,756	11,904
	(1)	(15,876)	(11,613)	(16,631)	(11,799)
Held-to-maturity investments	1	4,107	5,947	4,107	5,796
	(1)	(4,107)	(5,947)	(4,107)	(5,796)
Cash and short-term deposits	1	1,114	1,292	1,087	1,172
	(1)	(1,114)	(1,292)	(1,087)	(1,172)

Notes to the Annual Financial Statements continued

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	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
32. FINANCIAL RISK MANAGEMENT continued				
The Group earns interest as follows:				
Interest on advances	**118,923**	111,099	**124,758**	116,838
Interest on cash and cash equivalents	**41,036**	75,691	**40,005**	73,287
	159,959	186,790	**164,763**	190,125
The Group's interest obligations are as follows:				
Interest on debentures	**–**	212	**–**	–
Interest on other financial liabilities	**1,150**	802	**611**	–
	1,150	1,014	**611**	–

Liquidity risk

Liquidity risk is the risk that the Group 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 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;
- the Group is in the process of mobilisation funding. As part of its funding programme the Group secured funding from the Agence Francaise de Developpement ("AFD") and the European Investment Bank ("EIB").

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2011 based on contractual undiscounted payments:

As at 31 March 2011	**Less than 3 months R'000**	**3 to 12 months R'000**	**>1 year R'000**	**Total R'000**
Trade and other payables	**6,905**	**–**	**–**	**6,905**
Funds under management	**–**	**–**	**625,954**	**625,954**
Debentures	**5,000**	**–**	**–**	**5,000**
Other financial liabilities	**–**	**4,450**	**83,935**	**88,385**
	11,905	**4,450**	**709,889**	**726,244**
As at 31 March 2010				
Trade and other payables	9,851	–	–	9,851
Funds under management	–	–	615,778	615,778
Debentures	–	–	5,000	5,000
Other financial liabilities	–	901	12,575	13,476
	9,851	901	633,353	644,105

32. 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.

	2011 R'000	2010 R'000
Total equity	2,276,586	2,216,635

Credit rating

The credit ratings below are provided by the Global Credit Rating Co:

National

Long term AA-

Short term A1+

Financial assets by category

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

Group – 2011	Loans and receivables R'000	Held-to-maturity investments R'000	Total R'000
Loans and receivables – advances	1,562,794	–	1,562,794
Instalment sale receivables	42,005	–	42,005
Held-to-maturity investments	–	932,170	932,170
Cash and short-term deposits	215,839	–	215,839
Other receivables	60,411	–	60,411
Investment in preference shares	–	2,500	2,500
	1,881,049	934,670	2,815,719
Company – 2011			
Loans and receivables – advances	1,629,775	–	1,629,775
Instalment sale receivables	–	–	–
Held-to-maturity investments	–	932,170	932,170
Cash and short-term deposits	213,139	–	213,139
Other receivables	55,646	–	55,646
Investment in preference shares	–	2,500	2,500
	1,898,560	934,670	2,833,230

Group – 2010	Loans and receivables R'000	Held-to-maturity investments R'000	Total R'000
Loans and receivables – advances	1,330,922	–	1,330,922
Instalment sale receivables	46,168	–	46,168
Held-to-maturity investments	–	1,076,683	1,076,683
Cash and short-term deposits	262,984	–	262,984
Other receivables	15,563	–	15,563
Investment in preference shares	–	2,500	2,500
	1,655,637	1,079,183	2,734,820

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32. FINANCIAL RISK MANAGEMENT continued

Financial assets by category continued

Company – 2010	Loans and receivables R'000	Held-to-maturity investments R'000	Total R'000
Loans and receivables – advances	1,399,338	–	1,399,338
Instalment sale receivables	–	–	–
Held-to-maturity investments	–	1,061,534	1,061,534
Cash and short-term deposits	251,012	–	251,012
Other receivables	5,736	–	5,736
Investment in preference shares	–	2,500	2,500
	1,656,086	1,064,034	2,720,120

Financial liabilities by category

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

Group – 2011	**Financial liabilities at amortised cost R'000**
Other financial liabilities	**60,340**
Trade and other payables	**6,905**
Debentures	**–**
Funds under management	**625,954**
	693,199
Company – 2011	
Other financial liabilities	**50,029**
Trade and other payables	**3,971**
Debentures	**–**
Funds under management	**625,954**
	679,954
Group – 2010	
Other financial liabilities	11,234
Trade and other payables	9,851
Debentures	5,000
Funds under management	615,778
	641,863
Company – 2010	
Other financial liabilities	–
Trade and other payables	14,810
Debentures	–
Funds under management	615,778
	630,588

33. RELATED PARTIES DISCLOSURE

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

	2011 Country of incorporation	2011 % equity interest	2010 % equity interest
Subsidiary			
Gateway Homeloans (Proprietary) Limited	RSA	100	100
Gateway Homeloans 001 (Proprietary) Limited	RSA	100	100
Centriq Cellcaptive	RSA	–	100
Cape Town Community Housing Company (Proprietary) Limited	RSA	100	100

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

	GROUP 2011		GROUP 2010	
	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
Related party				
Transactions with other public entities:				
Social Housing Foundation				
– accounts receivable (refer Note 19)	–	–	2,136	–
– management fees received	–	182	–	243
Thubelisha/NDOH				
Advances	14,316	–	14,316	–

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 2011, with the exception of the amount owed by Thubelisha which is fully impaired, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: Nil).

Transactions with key management personnel is disclosed under note 34.

	COMPANY 2011		COMPANY 2010	
	Amounts owed by/to related parties R'000	Transactions with related parties R'000	Amounts owed by/to related parties R'000	Transactions with related parties R'000
Transactions with subsidiaries:				
Gateway Homeloans (Proprietary) Limited				
– inter-company (receivables)	(67)		(67)	–
Centriq Cellcaptive				
– interest received	–		–	2,326
Cape Town Community Housing Company (Proprietary) Limited				
– shares at cost	4,000		4,000	–
– debentures	19,657		17,653	–
– advances	66,891		68,416	–
– disbursements		44,548	–	51,027
– interest received		5,835	–	5,739
Transactions with other public entities				
Social Housing Foundation				
– accounts receivable			2,136	–
– management fees received		182	–	243
Thubelisha/NDOH				
Advances	14,316		14,316	–

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for the year ended 31 March 2011

34. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

The amounts disclosed in the table below are the amounts recognised as an expense during the reporting period related to key management personnel:

	Fees	Short-term employee benefits		Post-employment pension and medical benefits	Other*	Total 2011	Total 2010
		Salaries	Bonuses				
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Directors:							
Independent Non-Executives	641	–	–	–	14	655	357
S Tati	156	–	–	–	–	156	51
N Makiwane	22	–	–	–	–	22	26
S Ntsaluba	85	–	–	–	–	85	101
T Middleton	–	–	–	–	–	–	29
S Khoza	63	–	–	–	–	63	30
S Swanepoel	31	–	–	–	–	31	–
A W Houston	83	–	–	–	14	97	55
J Coetzee	165	–	–	–	–	165	39
P Ramarumo	36	–	–	–	–	36	26
Chief Executive Officer and Executive Director							
S Moraba		2,693	1,731	300	43	4,767	3,908
Executive Members		11,243	4,540	1,715	198	17,696	12,276
A Egbers		–	–	–	–	–	1,476
N Ntshingila		945	422	119	16	1,502	1,199
S Mutepe		1,178	782	113	20	2,093	1,539
A Chimpondah		1,201	765	137	20	2,123	1,423
L Lehabe		1,108	485	158	19	1,770	1,416
S Mogane		928	207	183	16	1,334	1,133
S Madikizela		820	218	115	17	1,170	1,030
Z Adams		1,065	510	220	18	1,813	1,420
A Govender		747	182	156	13	1,098	765
R Haman		790	638	92	15	1,535	875
M Mamatela		867	115	80	14	1,076	–
R Moodley		801	123	175	15	1,114	–
M Maluleke		707	93	154	13	967	–
T Sihlaba		86	–	13	2	101	–
Total	641	13,936	6,271	2,015	255	23,118	16,541

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.

* *Other includes travel costs for directors and risk benefits.*

35. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Retail operations

In line with the Group's strategic plan, the Retail business will be sold in the future. The Retail business has been curtailed and only existing obligations are being fulfilled. The Retail advances did not meet the requirements of IFRS 5 to be classified as held for sale.

Investment in associate

The Corporation currently has an interest of 25% in Housing Investment Partners (HIP). Within the 2012 financial year, the NHFC increased its shareholding in HIP from 25% to 33%.

HIP is now set for launch in August 2011. The funding for the launch will amount to R100 million which will come from the shareholders in direct proportion of their respective shareholdings.

Mortgage Default Insurance ("MDI")

A feasibility study conducted in the prior year, which included all major housing finance stakeholders, confirmed that reasonable conditions exist in South Africa to establish a MDI operation. Work on the implementation plan of the programme is continuing and the Corporation is in the process of obtaining the necessary approvals.

The key business objective of a viable MDI is to promote access to affordable, quality housing on a sustainable basis for South African households as part of a larger housing finance system.

36. WORLD CUP EXPENDITURE

	GROUP		
	2010/11		2009/10
Purchase of other World Cup apparel	**Quantity**	**R'000**	R'000
T-shirts			62
	–	–	62
Total World Cup expenditure		–	62

	COMPANY		
	2010/11		2009/10
Purchase of other World Cup apparel	**Quantity**	**R'000**	R'000
T-shirts			62
	–	–	62
Total World Cup expenditure		–	62

	GROUP		
	2010/11		2009/10
Purchase of other World Cup apparel	**Quantity**	**R'000**	R'000
T-shirts			20
Office decorations			3
Staff functions			11
	–	–	34
Total World Cup expenditure		–	34

	COMPANY		
	2010/11		2009/10
Purchase of other World Cup apparel	**Quantity**	**R'000**	R'000
T-shirts			14
Office decorations			3
Staff functions			10
	–	–	27
Total World Cup expenditure		–	27

Notes to the Annual Financial Statements continued

for the year ended 31 March 2011

37. BUDGETED AND ACTUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2011

	Actual R'000	Budget R'000
Income		
Lending income	118,923	171,386
Investment income	41,036	29,762
Sale of houses	54,465	169,752
Other income	29,650	19,521
Total income	244,074	390,421
Impairments	(4,427)	(23,708)
Cost of sales	(47,795)	(140,752)
Operating expenses	(115,314)	(133,543)
Operating profit	76,538	92,418
Share of loss of an associate – Housing Investment Partners	(1,544)	(626)
Share of profit of an associate – Trust for Urban Housing Foundation	1,703	–
Interest paid	(1,150)	(13,863)
Profit before tax	75,547	77,929
Tax	(15,689)	(17,573)
Profit after tax	59,858	60,356

The results of the Cape Town Community Housing Company (CTCHC) are consolidated into the financial statements. The approved budget includes the operations of the CTCHC.

The financial performance of the Corporation was impacted by the following:

Lending income impacted by below budgeted disbursements.

Sale of houses were mainly impacted by the delay in bond approvals which in turn led to a delay in transferring of completed units as well as construction of top structures.

The positive variance in other income is mainly as the result of the revaluation of the investment properties.

Reversal of impairments previously raised following conclusion of settlement agreement.

The Corporation achieved savings in operational expenses.

Later than anticipated drawdown of borrowings resulting in reduced borrowing costs.

Performance Report

for the year ended 31 March 2011 in terms of Section 55 of PFMA

KEY PERFORMANCE INDICATORS

The current financial year has been characterised by the difficult market conditions that continue to impact on the operations of our clients, partners, and end-users, thus affecting the overall performance of the Corporation.

Multiple factors contributed to the overall below target performance, notwithstanding the recent seemingly improved economic climate, in the form of low inflation and level of interest rates. Key to those, amongst others, that had a direct negative impact to NHFC's performance are:

BANKS CONSTRAINED LENDING

Though Banks came out of the global depression relatively unscathed, declining revenues, lower corporate and household activity, depressed earnings, high cost to income ratios, bad debt and higher capital and liquidity requirements, put the banking sector under pressure. The result being significant tightening in their lending criteria. Two key projects were affected by this where mortgage uptake was not as envisaged.

DEPENDENCE ON SUBSIDY FUNDING OF SOCIAL RENTAL HOUSING

A significant amount of funding for Rental Social Housing Projects did not materialise due to unavailability of subsidies for these projects.

TIMING OF COMPLEX STRUCTURED DEALS

Due to the nature, size, complexity and partnerships in respect of some of the projects, considerable time is taken to conclusion and signing of the contracts.

OVER INDEBTEDNESS OF THE END USER

Most households are so over indebted that they have no capacity to take more or are being declined by banks for the same reason. Unemployment and job losses are also factors that impacted negatively to the end user situation. This end user situation, also affected the Commercial business of the Corporation.

GRADUATION OF SOME OF THE NHFC CLIENTS

In the pipeline used for budgeting purposes, some of the existing NHFC clients, have reached a matured and stable state, that they can seek alternative funding, including from Commercial banks. As a result, some of the NHFC Project funding was not taken up, as alternative funding was used instead.

ENTRY OF NEW FUNDING ENTITIES IN THE AFFORDABLE SPACE

In the year under review, there was a significant rise in new funding players, especially in the private rental inner city space. Although it is a good thing for the market, it means pipeline not drawn for the NHFC.

SINGLE OBLIGER LIMIT/CONCENTRATION RISK

The issue of Single Obliger Limit, also defines for NHFC, the maximum the Corporation can lend to a single client, based on its size and capacity. In some instances, the consideration is that of risk concentration. These factors tend to limit any other exposure to a client or sector.

The above low levels of disbursements, definitely had a bearing on the housing impact and on the number of beneficiaries. The leveraging of private sector capacity was also subdued, due to the slow lending patterns, during the year under review.

Performance Report continued

for the year ended 31 March 2011 in terms of Section 55 of PFMA

	Actual	Budget
Funding Impact		
Number of approvals		
Projects	8	14
Commercial	1	5
Retail	443	390
Total number of approvals	452	409
Value of approvals (R'm)		
Projects	277	810
Commercial	10	205
Retail	83	66
Total value of approvals (R'm)	370	1,081
Disbursements (R'm)		
Projects	339	660
Commercial	55	183
Retail	107	120
Total value of disbursements (R'm)	501	963
Leveraged funds (R'm)	520	1,767
Total Funding Impact	1,021	2,730
Developmental Impact		
Housing opportunities		
Housing units	5,757	8,400
Incremental loans	1,613	10,333
Mortgage loans	709	1,159
Total Impact	8,079	19 892
Impact leveraged through others	1,460	2,464
Total Impact	9,539	22,356
Beneficiaries benefiting	36,248	84,953
Number of jobs created	1,171	2,800
Value of disbursements targeted towards women-managed/owned companies (R'm)	32	50

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