

Approval of the annual financial statements

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

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

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

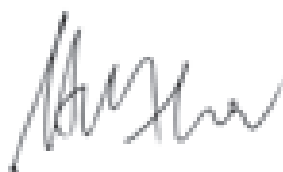
The Directors are of the opinion, based on the information and explanations given by management, the internal auditors and independent external auditors that the system of internal control provides reasonable assurance and that the financial records may be relied upon for preparing the annual financial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

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

The annual financial statements of NHFC for the year ended 31 March 2009, as set out on pages 43 to 80 were approved by the Board of Directors on 13 July 2009 and signed on their behalf by:

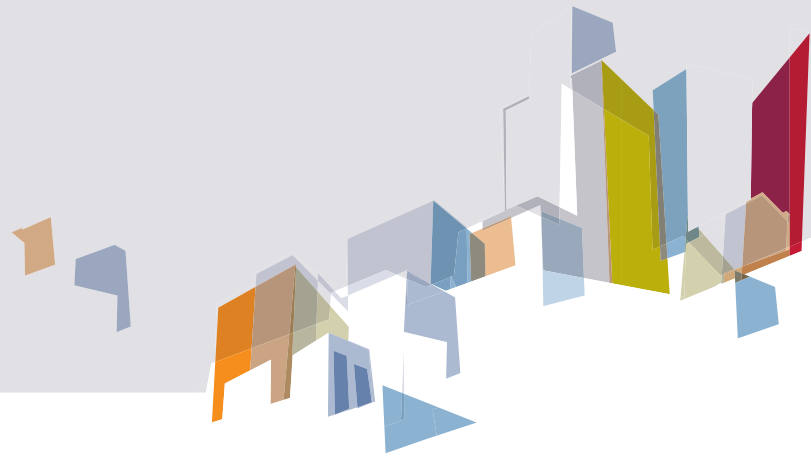


M M Katz
Chairman



S S Moraba
CEO

Report of the Audit and Risk Committee



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

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

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

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

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

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

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

Mr S Ntsaluba
Chairman: Audit and Risk Committee

Report of the Independent Auditor to the Minister of Human Settlement

Report on Annual Financial Statements

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

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa and Public Finance Management Act (PFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to

fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on other legal and regulatory requirements

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

Ernst and Young Inc.
Registered Auditor

20 July 2009
Johannesburg

Directors' Report



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

Nature of business

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

Financial results

The financial results of the Corporation for the year under review are set out on pages 44 to 80 of these financial statements.

Share capital

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

The NHFC directors cannot, in terms of Section 221 of the Companies Act, issue any shares without the consent of its shareholder in a duly convened general meeting.

Dividends

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

Directors

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

Reportable irregularity

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

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

Company Secretary

Ms E Marx

Business addresses

P O Box 31376
Braamfontein
2017

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

Post-balance sheet events

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

Certificate from the Company Secretary

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

Ms E Marx
Company Secretary

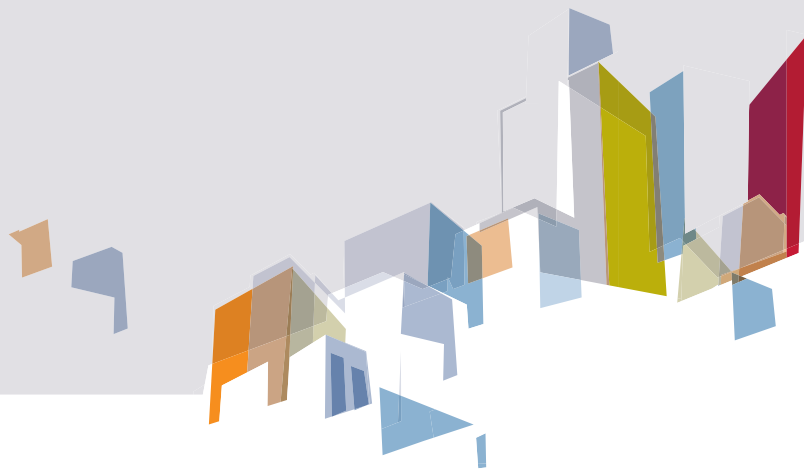
Balance sheets

As at 31 March 2009

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

Income statements

For the year ended 31 March 2009



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

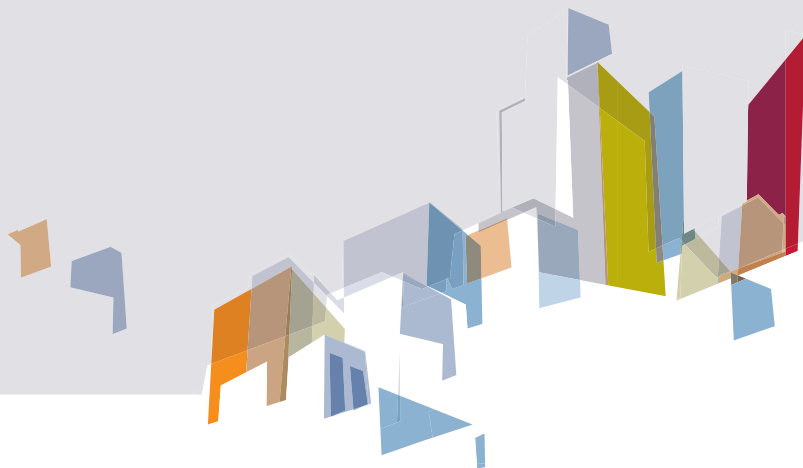
Statement of changes in equity

For the year ended 31 March 2009

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

Cash Flow Statements

For the year ended 31 March 2009



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

Notes to the financial statements

For the year ended 31 March 2009

Group Accounting Policies

1. Corporate information

The consolidated financial statements of the National Housing Finance Corporation Limited ("NHFC") for the year ended 31 March 2009 were approved by the Board on 13 July 2009. NHFC is a public company incorporated and domiciled in South Africa, the shares of which are held by the Government of the Republic of South Africa.

2. Basis of preparation

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

2.1 Statement of compliance

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

Basis of consolidation

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

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

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

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

2.2 Changes in accounting policy and disclosure

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

2.3 Summary of significant judgements, estimates and assumptions

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

2.4 Summary of significant accounting policies

Business combinations and goodwill

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

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

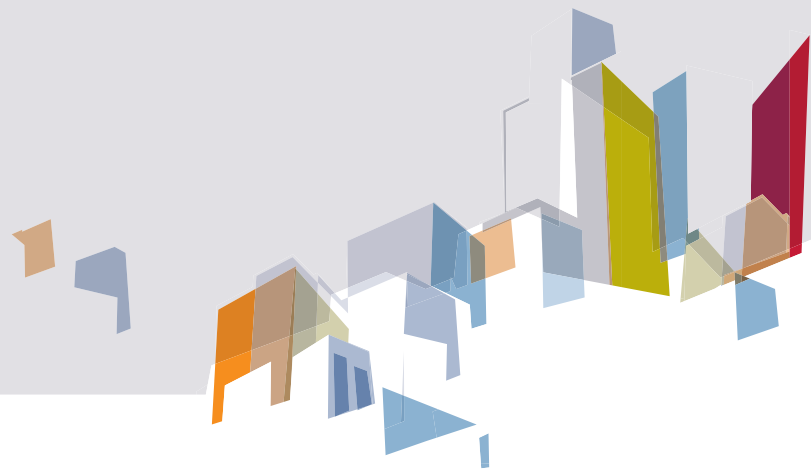
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from synergies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

Investment in subsidiary and cell captive

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

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

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



Interest in a joint venture

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

Investment in an associate

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

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

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

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

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

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

Property, plant and equipment

Plant and equipment is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and

accumulated impairment. Depreciation is calculated on a straight-line basis over the expected useful life, using the following depreciation rates to reduce the carrying value to recoverable amount:

Computer hardware	33.33%
Computer software	33.33%
Furniture and fittings	16.67%
Motor vehicles	25%
Office equipment	16.67%
Leasehold improvements	period of lease

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

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

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

Properties developed for sale

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

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

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

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

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

Notes to the financial statements

For the year ended 31 March 2009

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

Financial instruments

Financial assets

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

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

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

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

Financial assets at fair value through profit and loss

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

Held-to-maturity investments

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

Loans and advances

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

Available-for-sale financial assets

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

Fair value

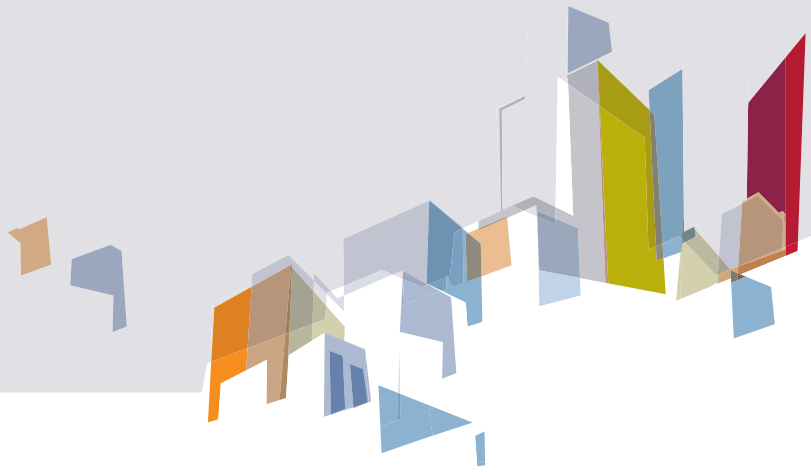
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid price at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques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

Amortised cost

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

Trade and other receivables

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



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

Cash and short-term deposits

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

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

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

Deferred income

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

Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

Available-for-sale financial assets

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

Impairment of instalment sale receivables

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

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

Financial liabilities

Other payables

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

Notes to the financial statements

For the year ended 31 March 2009

Interest-bearing loans and borrowings

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

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

De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

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

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

Financial liabilities

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

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

Provisions

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

Subsidies received in advance

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

Borrowing costs

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

Leases

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

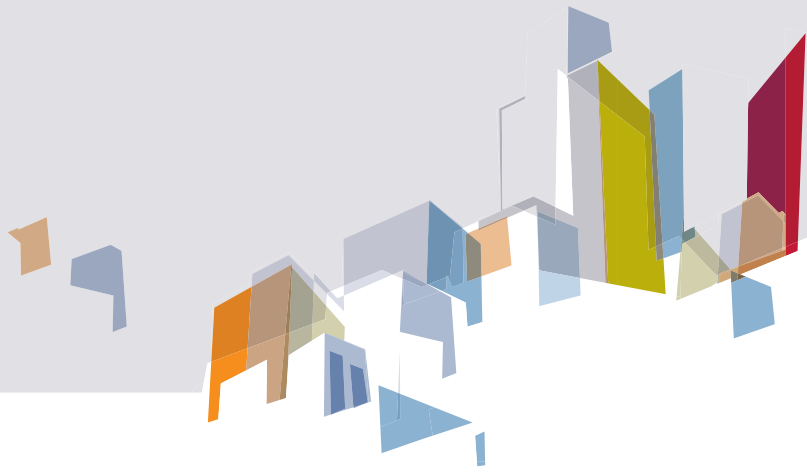
Group as lessee

The Corporation does not have any finance leases at present.

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

Revenue recognition

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



Interest income

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

Dividends

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

Rental income

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

Sale of houses

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

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

City of Cape Town, institutional and other subsidies

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

Government grants relating to expenses

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

Taxation

Current taxation

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

Deferred taxation

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

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

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

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

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

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

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

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

Retirement benefits

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

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

Notes to the financial statements

For the year ended 31 March 2009

Investment properties

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

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

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

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

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

- **IFRS 3 Business combinations**

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

- **IFRS 8 Operating segments**

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

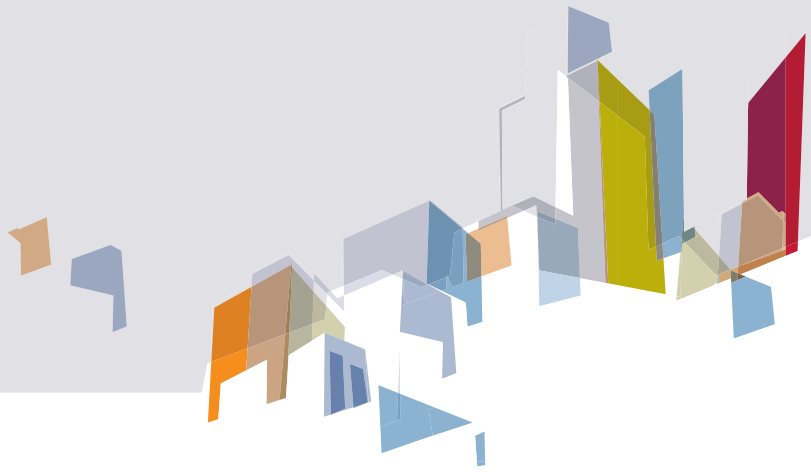
- **IAS 1 Presentation of financial statements**

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

- **IAS 23 Borrowing costs**

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

The Group assessed the significance of these new standards, amendments to standards and new interpretations, which will be applicable from 1 January 2009 and later years, and concluded that they will have no material financial impact.



3. Loans and receivables – advances

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

4. Investment in a subsidiary – Gateway

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

Shares at cost – ordinary shares
Less impairments

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

Notes to the financial statements

For the year ended 31 March 2009

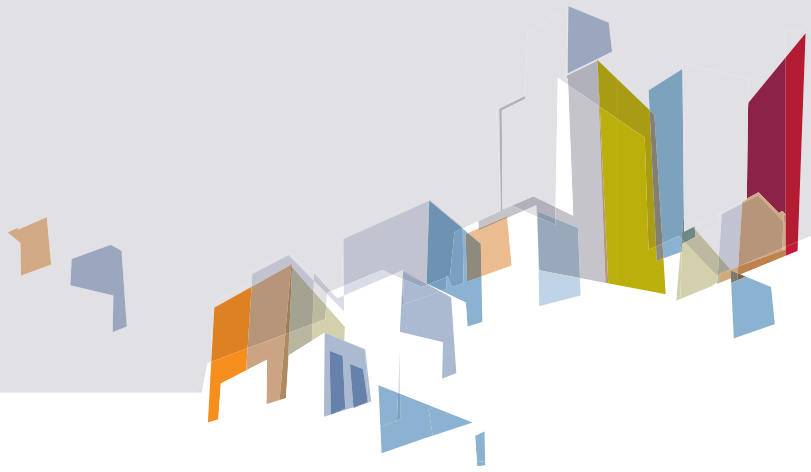
5. Business combinations

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

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

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

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



5. Business combinations (continued)

Company

Investment in subsidiary – Cape Town Community Housing Company

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

Reconciliation of investment in Cape Town Community Housing Company:

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

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

6. Investment – Preference shares

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

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

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

Dividends are up to date and are included in revenue.

7. Investment in a cell captive

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

Notes to the financial statements

For the year ended 31 March 2009

8. Investment in associate

Group

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

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

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

9. Property, plant and equipment

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

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

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

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

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

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