NQABA FINANCE 1 (PROPRIETARY) LIMITED

(Registration Number 2005/040050/07)
(Previously “Main Street 399 (Proprietary) Limited”)

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

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COMPANY INFORMATION

Date of incorporation	11 November 2005	
Nature of business	Comprises the management of a pool of mortgage advances, funded via floating rate residential mortgage backed securities which are listed on the Bond Market of the JSE Limited, using a securitisation structure.	
Directors	BC Beaver	Appointed 9 February 2006
	TL Myburgh	Appointed 9 February 2006
	EM Southey	Appointed 31 January 2009
Secretary	Eskom Finance Company (Proprietary) Limited performs the functions of the secretary.	
Independent auditors	SizweNtsaluba VSP	
Bankers	ABSA Bank Limited	
Registered office	Building B Sunninghill Place 9 Simba Road Sunninghill Johannesburg 2157	
Postal address	c/o TL Myburgh PO Box 1091 Johannesburg 2000	
Service providers	The service management agent is ABSA Bank Limited. Eskom Finance Company (Proprietary) Limited is the servicer.	

RESPONSIBILITY FOR AND APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The company's independent external auditors, SizweNtsaluba VSP, have audited the financial statements and their unqualified report appears on page 5.

The directors are also responsible for the systems of internal control and risk management. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for the foreseeable future.

The directors endorse the Code of Corporate Practices and Conduct as set out in the King II Report issued during March 2002. By supporting the code the directors recognize the need to conduct the affairs of the company with integrity and accountability in accordance with International Financial Reporting Standards.

As the company is an insolvency remote entity and its affairs are managed in terms of the Servicing and Back-up Servicing Agreement by Eskom Finance Company (Proprietary) Limited, many of the requirements of the code are not directly applicable. The company has no employees and no administrative infrastructure of its own, having contracted these functions to Eskom Finance Company (Proprietary) Limited, which also endorses the code.

The annual financial statements set out on pages 8 to 24 were approved by the board of directors on 4 June 2010 and are signed on their behalf by:

BC Beaver	TL Myburgh
Director	Director

SizweNtsaluba VSP
25 Years of Excellence

20 Morris Street East, Woodmead, 2191
P O Box 2939, Saxonwold, 2132
Tel +27 86 11 76877, Fax +27 11 234 0933
Web www.sizwentsaluba.co.za

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF NQABA FINANCE 1 (PROPRIETARY) LIMITED

We have audited the accompanying annual financial statements, of Nqaba Finance 1 (Proprietary) Limited which comprise the statement of financial position as at 31 March 2010, the statement of comprehensive income, the statement of changes in equity, and the statement cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 7 to 24.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF NQABA FINANCE 1 (PROPRIETARY) LIMITED (continued)

Auditor's responsibility (continued)

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 judgment, 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.

Auditor's opinion paragraph

In our opinion, the financial statements present fairly, in all material respects the financial position of Nqaba Finance 1 (Proprietary) Limited as at 31 March 2010, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards and in manner required by the Companies Act in South Africa.

SizweNtsaluba vsp

SizweNtsaluba VSP
Partner: AB Mthimunye
Chartered Accountant (SA)
Registered Auditor

4 June 2010
Johannesburg

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report on the activities of the company for the year ended 31 March 2010.

Nature of business

Comprises the management of a pool of mortgage advances, funded via floating rate residential mortgage backed securities which are listed on the Bond Market of the JSE Limited, using a securitisation structure.

Operating results and financial position

The results of the company's operations and cash flows for the year, and its financial position at 31 March 2010, are set out in the financial statements and notes which accompany this report.

Share capital

Details of authorised and issued share capital are disclosed in note 8 of the notes to the annual financial statements.

Directors

BC Beaver	Appointed 9 February 2006
TL Myburgh	Appointed 9 February 2006
EM Southey	Appointed 31 January 2009

Directors interest

The directors have no other interests in contracts with the company.

Secretary

Eskom Finance Company (Proprietary) Limited performs the functions of the secretary.

Dividends

The following preference share dividend was declared and paid during the year:

2 December 2009	R16,000,000

Controlled entities

In terms of SIC 12, Consolidation of Special Purpose Entities ("SPE's"), where a company, in substance, has the rights to obtain the residual benefits of the activities of an SPE and is exposed to the majority of the risks incidental to the activities of the SPE, the SPE is considered a controlled entity and the SPE should be consolidated. Nqaba Finance 1 (Proprietary) Limited is a controlled entity of Eskom Finance Company (Proprietary) Limited and is consolidated in the annual financial statements of Eskom Finance Company (Proprietary) Limited.

Events after the balance sheet date

The Residential Mortgaged Backed Securitities in note 9 of these financial statements, scheduled for maturity on 22 May 2010, have been sucessfully re-financed on 22 May 2010. None of the notes became a"matured note" as defined in note 2.4 of these financial statements.

Statement of financial position
as at 31 March 2010

	Notes	**31 March 2010 R**	31 March 2009 R
ASSETS			
Non-current assets		**1,932,098,437**	1,927,905,129
Mortgage advances	3	**1,928,330,187**	1,924,591,945
Properties in possession	4	**3,231,055**	2,675,488
Deferred tax	17.4	**537,195**	637,696
Current assets		**69,183,723**	85,804,180
Trade and other receivables	6	**25,134,671**	27,785,136
Tax receivable		**414,329**	-
Mortgage advances	3	**567,027**	387,300
Cash and cash equivalents	7	**43,067,696**	57,631,744
Total assets		**2,001,282,160**	2,013,709,309
EQUITY AND LIABILITIES			
Capital and reserves		**15,691,998**	25,680,993
Share capital	8	**101**	101
Accumulated profit		**15,691,897**	25,680,892
Non-current liabilities			
Residential mortgage backed securities	9	**784,000,000**	1,127,000,000
Current liabilities		**1,201,590,162**	861,028,316
Residential mortgage backed securities	9	**1,103,000,000**	784,000,000
First loss credit enhancement loan	10	**63,000,000**	39,000,000
Interest accrued	11	**17,275,285**	20,586,101
Trade and other payables	12	**18,314,877**	16,222,166
Taxation		**-**	1,220,049
Total equity and liabilities		**2,001,282,160**	2,013,709,309

Statement of comprehensive income
for the year ended 31 March 2010

	Notes	**31 March 2010 R**	31 March 2009 R
Interest income	13	**199,297,338**	282,140,363
Interest expense	14	**(178,470,603)**	(243,978,463)
Net interest income		**20,826,735**	38,161,900
Expenses		**(10,255,894)**	(12,059,575)
Auditor's remuneration	15	**(244,915)**	(245,915)
Back-up servicer fees - ABSA Bank Limited		**(192,986)**	(190,836)
Impairment charge		**(595,389)**	(2,497,719)
BESA listing fees		**(71,891)**	(56,920)
Liquidity facility fees - ABSA Bank Limited		**(47,929)**	(48,765)
Management fees - ABSA Bank Limited		**(570,000)**	(570,238)
NCR fees		**(88,042)**	(153,140)
Rating fees		**(197,875)**	(134,554)
Redraw facility fees - ABSA Bank Limited		**(394,385)**	(394,943)
Safe custody and settlement agent fees - ABSA Bank Limited		**(3,901)**	(3,901)
Servicer fees - Eskom Finance Company (Proprietary) Limited		**(7,700,153)**	(7,600,760)
Tax penalties		**-**	(10,120)
Trustee fees		**(148,428)**	(151,764)
Profit before taxation		**10,570,841**	26,102,325
Taxation	17	**(4,559,836)**	(8,521,485)
Total comprehensive income for the year		**6,011,005**	17,580,840

Statement of changes in equity
for the year ended 31 March 2010

	Share capital	Accumulated profit	Total
	R	R	R
Balance at 31 March 2008	101	20,200,052	20,200,153
Total comprehensive income for the year		17,580,840	17,580,840
Preferential Share Dividends paid		(12,100,000)	(12,100,000)
Balance at 31 March 2009	101	25,680,892	25,680,993
Total comprehensive income for the year		6,011,005	6,011,005
Preference Share Dividend paid		(16,000,000)	(16,000,000)
Balance at 31 March 2010	101	15,691,897	15,691,998

Statement of cash flows
for the year ended 31 March 2010

	Notes	31 March 2010 R	31 March 2009 R
Cash flows from operating activities			
Cash generated by operations before working capital changes	A	**184,855,405**	262,567,947
Working capital changes		**1,432,360**	(9,402,746)
Decrease/(Increase) in trade and other receivables		**2,650,465**	(91,801)
Increase/(Decrease) in trade and other payables		**2,092,711**	(5,576,614)
Decrease in interest accrued		**(3,310,816)**	(3,734,331)
Cash generated by operations		**186,287,765**	253,165,201
Other interest received		**4,781,428**	10,010,560
Taxation paid	B	**(6,093,713)**	(8,524,131)
Interest expense		**(178,470,603)**	(243,978,463)
Net cash flows from operating activities		**6,504,877**	10,673,167
Cash flows from investing activities			
Increase in mortgage advances		**(4,544,948)**	(47,776,766)
Increase in properties in possession		**(523,977)**	(2,959,196)
Net cash flows from investing activities		**(5,068,925)**	(50,735,962)
Cash flows from financing activities			
Dividend paid		**(16,000,000)**	(12,100,000)
Increase in borrowings		**-**	-
Net cash flows from financing activities		**(16,000,000)**	(12,100,000)
Net (decrease)/ increase in cash equivalents		**(14,564,048)**	(52,162,795)
Cash and cash equivalents at beginning of period		**57,631,744**	109,794,539
Cash and cash equivalents at end of period		**43,067,696**	57,631,744

NOTES TO THE CASH FLOW STATEMENT
A) CASH GENERATED BY OPERATIONS BEFORE WORKING CAPITAL CHANGES

	31 March 2010 R	31 March 2009 R
Profit before taxation	**10,570,841**	26,102,325
Adjustments for:		
Bad debts	**314,801**	220,233
Impairment provisions	**280,588**	2,277,486
Other interest income	**(4,781,428)**	(10,010,560)
Interest expense	**178,470,603**	243,978,463
	184,855,405	262,567,947

B) TAXATION PAID

	31 March 2010 R	31 March 2009 R
Taxation payable at the beginning of the year	**(1,220,049)**	(585,000)
Amount charged to the income statement (net of deferred tax)	**(4,459,335)**	(9,159,180)
Taxation receivable/(payable) at the end of the year	**414,329**	(1,220,049)
	(6,093,713)	(8,524,131)

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

1.1 Basis of preparation and measurement

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act of South Africa, 61 of 1973, as amended.

The financial statements are prepared on the historical basis.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in rands, which is the company's functional and presentation currency.

Changes in accounting policies and comparability

The company has adopted certain new standards, amendments and interpretations to existing standards which were effective for the company for the financial year beginning on or after 1 April 2009.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments and interpretations to existing standards have been published that are applicable for future accounting periods but have not been adopted early by the company:

IAS 24 Related party disclosures (effective 1 January 2011) (revised)

The revised IAS 24 provides a partial exemption for government-related entities. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. The revised standard also amends the definition of a related party. The standard is applicable retrospectively. The company is still determining the impact of the revised standard on the financial statements.

IAS 32 Financial instruments: Presentation (effective 1 February 2010) (amended)

The amendment to IAS 32 in respect of the classification of rights issues states that rights issues offered pro rata to all of an entity's existing shareholders in the same class for a fixed amount of currency, should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is not expected to have an impact on the company's financial statements.

IAS 39 Financial instruments: Recognition and measurement (effective 1 July 2009) (amended)

IAS 39 provides additional guidance on the designation of a hedged item. The amendment clarifies the designation of a one-sided risk in a hedged item and inflation in a financial hedged item. The company is still determining the impact of the amendment on the financial statements.

IAS 39 Financial instruments: Recognition and measurement and IFRIC 9: Reassessment of embedded derivatives (effective 30 June 2009) (amended)

The amendments to IAS 39 and IFRIC 9 clarify that on reclassification of a financial asset out of the *fair value through profit or loss* category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements.

The amendments will not have an impact on the company's financial statements as the company does not intend to reclassify any of its financial assets out of the *fair value through profit or loss* category.

IFRS 1 First-time adoption of International Financial Reporting Standards (effective 1 July 2010)

The amendment to IFRS 1 relieves first-time adopters of IFRSs from providing the additional disclosures included in Amendments to IFRS 7 Financial instruments: Disclosures which require enhanced disclosures about fair value measurements and liquidity risk of financial instruments. The amendment will not have an impact on the company's financial statements.

IFRS 9 Financial instruments (effective 1 January 2013)

IFRS 9 addresses the initial measurement and classification of financial assets and replaces the old IAS 39 Financial instruments: recognition and measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The company is still determining the impact of the standard on the financial statements.

IFRIC 19 Extinguishing financial liabilities with equity instruments (effective 1 July 2010)

IFRIC 19 provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is not expected to have an impact on the company's financial statements.

Standards, interpretations and amendments to published standards that are effective and applicable to the company, but had no impact on the financial statements:

The following standards, interpretations and amendments were effective and applicable to the company for the year ended 31 March 2010, but had no impact on the financial statements:

- IAS 1 Presentation of Financial Statements
- IAS 23 *Borrowing costs*
- IAS 32 *Financial instruments: Presentation*
- IFRS 1 *First-time adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and separate financial statements*
- IFRS 2 *Share-based payment*
- IFRS 7 Financial instrument disclosure
- IFRIC 13 *Customer loyalty programmes*
- IFRIC 15 *Agreements for the construction of real estate*
- IFRIC 16 *Hedges of a net investment in a foreign operation*
- IFRIC 18 *Transfers of assets from customers*

Various improvements to IFRS

A number of standards have been amended as part of the International Accounting Standards Board's (IASB) annual improvement project. Management is in the process of considering the relevant amendments to the standards and determining the financial implications and impact on the company.

1.2 Properties in possession

Properties in possession are recognised initially at the lower of fair value of the property or outstanding loan balance. Properties in possession are subsequently measured at the lower of fair value of the property or the initially recognised value. Valuations are performed annually by independent assessors.

1.3 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment (loss)/reversal is recognised in profit or loss within *net impairment (loss)/reversal.*

1.4 Financial instruments

1.4.1 Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

Non-derivative financial assets comprise investments, financial instruments with company companies, financial trading assets, trade and other receivables, finance lease receivables and cash and cash equivalents.

Cash and cash equivalents comprise balances with local banks, monies in call accounts, short-term assets and money market assets with an original maturity of less than 90 days.

Where relevant, non-derivative financial assets are recognised on the date of commitment to purchase (trade date). Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the company has transferred substantially all the risks and rewards of ownership. Realised gains and losses on derecognition are determined using the weighted average method.

Non-derivative financial assets are recognised initially at fair value plus any directly attributable transaction costs except for financial assets at fair value through profit or loss. Directly attributable transaction costs related to financial assets at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial assets are measured per asset category (as stated below). The appropriate classification of the financial asset is determined at the time of commitment to acquire the financial asset.

When entering into a transaction, the financial instrument is recognised initially at the transaction price which is the best indicator of fair value. Where fair value of the financial instrument is different from the transaction price a day-one gain or loss may arise. The day-one gain or loss is immediately recognised in profit or loss (except for embedded derivatives and the subordinated loan from shareholder) within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives* , provided that the fair value has been determined based on market-observable data.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has both the ability and intent to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest method and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that discounts the estimated future cash receipts of the financial asset exactly to its net carrying amount.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. An instrument may only be designated at fair value through profit or loss when certain criteria are met. The company has not elected to designate financial assets at fair value through profit or loss.

Subsequent to initial recognition, changes in the fair value of these financial assets are recognised in profit or loss within impairment charge/(reversal).

Loans and receivables

The trade and other receivables of the company are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Original transaction costs and origination fees received are capitalised to the value of the loan and amortised through interest income.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

Impairment

A review for impairment indicators is carried out at each financial year end to determine whether there is any objective evidence that a financial asset not carried at fair value through profit or loss is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be an indicator that the securities are impaired.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in company's that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss within *net impairment loss* .

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets carried at amortised cost, the reversal is recognised in profit or loss within *net impairment loss* .

Recognition, measurement and derecognition of financial liabilities

Non-derivative financial liabilities comprise debt securities issued, financial instruments with company companies, financial trading liabilities, finance lease liabilities, borrowings and trade and other payables.

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs except for financial liabilities at fair value through profit or loss. Directly attributable transaction costs related to liabilities recognised at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost or fair value as per the relevant liability category (as described below).

Where relevant, non-derivative financial liabilities are recognised on the date of commitment (trade date) and are derecognised when the obligation expires, is discharged or cancelled. Realised gains and losses are determined using the weighted average method.

Financial liabilities at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. An instrument may only be designated at fair value through profit or loss when certain criteria are met. The company has not elected to designate financial liabilities at fair value through profit or loss.

A financial liability is classified as held-for-trading if it is:

- incurred principally for the purpose of selling or repurchasing it in the near term
- part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent pattern of short-term profit taking, or
- a derivative instrument

Subsequent to initial recognition, financial liabilities at fair value through profit or loss continue to be measured at fair value.

Financial liabilities at amortised cost

Financial liabilities that are not held-for-trading are classified as financial liabilities at amortised cost. Debt securities issued, including foreign loans, that are not held-for-trading are classified as held at amortised cost. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The trade and other payables of the company are classified as financial liabilities at amortised cost.

Fair value

The fair value of *financial trading liabilities* is based on quoted offer prices. For liabilities that are not quoted in an active market, valuation techniques are used. Where pricing models are used, inputs are based on market-related measures at the reporting date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a financial liability with similar terms and conditions at the reporting date.

1.4.2 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.5 Share capital

Ordinary shares are classified as equity.

1.6 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

1.7 Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction, affects neither accounting nor taxable profit or loss. However, deferred tax is provided in respect of the temporary differences arising on the assets and provisions created in respect of decommissioning and nuclear waste management and closure, pollution control and rehabilitation. Deferred tax is determined using tax rates (and laws) enacted or substantively enacted at the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reversed if it is no longer probable that the related tax benefits will be realised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

1.8 Employee benefits

The company does not have any employees. All employees are Eskom Holdings Limited employees seconded to the company.

1.9 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised as *finance cost* .

The provisions below are restated on an annual basis to reflect changes in measurement that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in discount rate, which shall be accounted for as follows:

- changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period
- the amount deducted from the cost of the asset shall not exceed its carrying amount. The excess shall be recognised in profit or loss
- any additions to the cost of an asset shall be reviewed in terms of the normal impairment principles

1.10 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown, net of value added tax, estimated returns, rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

Sale of services

Sale of services is recognised in the reporting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Other revenue

Other revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be measured reliably.

1.11 Finance income

Finance income comprises interest receivable on loans, advances, trade receivables, and income from financial market investments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Direct incremental transaction costs incurred and origination fees received are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit or loss) and amortised as interest income over the life of the asset.

1.12 Finance cost

Finance cost comprises interest payable on borrowings and interest resulting from the unwinding of discount on liabilities. Borrowing costs which are not capitalised are recognised in profit or loss using the effective interest method.

1.13 Dividend income

Dividend income is recognised when the right to receive payment is established.

1.14 Dividend distribution

Dividend distribution to the shareholder is recognised as a liability in the financial statements of the company in the period in which the dividends are approved by the shareholder.

2 FINANCIAL RISK MANAGEMENT

2.1 Introduction and overview

Nqaba's activities expose it to a variety of financial risks, including the effects of changes in the market borrowing rates, market prices and interest rates. Nqaba's overall risk management processes are managed by EFC and focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the cost of funding. Nqaba has exposure to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk
- compliance risk
- operational risk

Nqaba has adopted and folloed EFC's risk management policies.

This note presents information about Nqaba's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, as well the management of its capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework. The Board of Directors of EFC (the Servicer and Originator) has established a Risk Committee, which is responsible for developing and monitoring risk management policies. The committee has both executive and non-executive members and reports regularly to the EFC Board of Directors on its activities.

EFC's risk management policies are established to identify and analyse the risks faced by EFC and Nqaba, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and services offered.

The EFC Risk Committee is responsible for monitoring compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by EFC and Nqaba. EFC's Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to EFC's Audit Committee and Nqaba Board of Directors.

2.2 Market risk

Market risk is the potential impact on earnings of unfavorable changes in interest rates, prices, market volatilities and liquidity. Eskom Treasury monitors, analyses and reports market risk to EFC's Finance Committee. Market risk exposures for funding activities are measured using sensitivity analysis. The current sensitivity analysis measures the impact on net profit of specified movements in interest rates.

Interest rate risk

Interest rate risk arises in a volatile market where asset-liability mismatches can occur. During increasing and decreasing interest rate market conditions the interest rate risk management strategy followed was to re-price assets in conjunction with the repo rate increases and decreases.

Sensitivity of all interest-bearing instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below.

	31 March 2010	31 March 2009
+100 basis points parallel move in all yield curves	**872,709**	736,048
-100 basis points parallel move in all yield curves	**(872,709)**	(736,048)

Financial instrument liabilities - split between exposed to cash flow interest rate risk and fair value interest rate risk

The following financial instruments liabilities, which are not held at fair value, will be directly impacted by changes in market interest rates:

Accounts payable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered material given the short-term duration of these underlying cash flows. The majority of financial instruments subject to interest rate risk are allocated to match liabilities.

Financial instrument liabilities	**Carrying value**	**Exposed to cash flow interest rate risk**	**Exposed to fair value interest rate risk**	**Effective interest rate %**
2010				
Other liabilities at amortised cost				
Residential mortgage backed securities	**1,887,000,000**	**1,887,000,000**	**-**	**8.04%**
First loss credit enhancement loan	**63,000,000**	**63,000,000**	**-**	**30.00%**
	1,950,000,000	**1,950,000,000**	**-**	
2009				
Other liabilities at amortised cost				
Residential mortgage backed securities	1,911,000,000	1,911,000,000	-	10.34%
First loss credit enhancement loan	39,000,000	39,000,000	-	30.00%
	1,950,000,000	1,950,000,000	-	

Financial instrument investments

The following investments which are held at amortised cost, will be directly impacted by changes in market interest rates:

Accounts receivable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered material given the short-term duration of their underlying cash flows.

	Carrying value	Variable Exposed to cash flow interest rate risk	Fixed Exposed to fair value interest rate risk	Effective interest rate %
2010				
Financial instrument investments				
Loans and advances	**1,928,897,214**	**1,928,897,214**	**-**	
Mortgages advances	**1,928,897,214**	**1,928,897,214**	**-**	**9.63%**
Cash and cash equivalents at amortised cost	**43,067,696**	**43,067,696**	**-**	
Total	**1,971,964,910**	**1,971,964,910**	**-**	
2009				
Financial instrument investments				
Loans and advances	1,924,979,245	1,924,979,245	-	
Mortgages	1,924,979,245	1,924,979,245	-	13.12%
Cash and cash equivalents at amortised cost	57,631,744	57,631,744	-	
Total	1,982,610,989	1,982,610,989	-	

2.3 Credit risk

Credit risk is the risk that an asset, in the form of a monetary claim against a counterparty, may not result in a cash receipt (or equivalent) in accordance with the terms of the contract. Credit risk arises from various forms of lending. Financial assets, which potentially subject the company to concentrations of high credit risk, consist primarily of mortgage advances. Loans and advances are presented net of impairment provisions. Nqaba register mortgage bonds as security against advances. Advances exceeding 80% of the property market value are further guaranteed by Eskom Holdings Limited and its respective subsidiaries ("Eskom Group"). The fair value of this guarantee approximates R91 million (2009: R95 million).

Nqaba lends money to staff employed by the Eskom Group to finance the purchase of immovable property. Policies that govern credit risk are in place. These policies require that various criteria around valuation, affordability and credit history are met prior to the approval of a loan.

The amounts advanced are secured by first mortgages on the property purchased and are repayable over an average period of 26 years. The risk of default by the employee is reduced as the monthly instalments are deducted from the employee's salary. Credit risk of Eskom group employees are re-assessed when they leave Eskom's service. These ex-employees may arrange for a monthly debit order or make over-the-counter deposits to settle the monthly instalment. Loans are extended to a maximum of 112% of the property market value to include bond and transfer costs.

The average loan amount in relation to the total home loan book value at 31 March 2010 was:

	31 March 2010	31 March 2009
Average loan amount	**201,272**	245,196
Loan amount as % of total loan book	**0.010%**	0.013%

In the event of default on the repayment, the debtor is notified of his commitment verbally and in writing. Should the position not be rectified for a period exceeding three months, a process to foreclose on the loan is initiated through EFC (the Servicer's) attorneys and the property is sold by public auction or repossessed. Should the property be sold by public auction, a reserve value is set taking into account the value of the property, arrear rates and taxes, legal costs and relevant commissions payable. Should this reserve value not be achieved, the property is bought by Nqaba for a nominal amount and is held for later resale. Such assets are disclosed as non-current assets under properties in possession.

Credit exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is detailed below.

The maximum exposure to credit risk for trade receivables and loans and advances at the reporting date by type of customer was:

	31 March 2010	31 March 2009
Loans and advances:		
	1,931,203,170	1,926,973,023
Housing loans:		
Loans and receivables from employees of the Eskom group	**1,857,275,235**	1,856,723,869
Loans and receivables from third parties	**73,927,935**	70,249,154
Other receivables:	**25,134,671**	27,785,136
Total trade and other receivables	**25,134,671**	27,785,136
	1,956,337,841	1,954,758,159

Collateral obtained

During the period Nqaba took possession of property and called up guarantees from debtors who defaulted on amounts due. The carrying amount of the mortgage bonds and guarantees which were called up was R 1 531 080 (2009: R2 959 196).

Other receivables, Loans and advances - ageing
Credit quality

31 March 2010

	Total	Not past due	Past due	
	R'000		0-90	>90
Collectively impaired				
Gross:	**1,956,337,841**	**1,917,823,632**	**16,022,423**	**22,491,786**
Housing loans	**1,931,203,170**	**1,892,688,961**	**16,022,423**	**22,491,786**
Other receivables	**25,134,671**	**25,134,671**	**-**	**-**
Impaired:	**(2,305,956)**	**(233,578)**	**(424,546)**	**(1,647,832)**
Housing loans	**(2,305,956)**	**(233,578)**	**(424,546)**	**(1,647,832)**
Other receivables	**-**	**-**	**-**	**-**
Total carrying amount	**1,954,031,885**	**1,917,590,054**	**15,597,877**	**20,843,954**

31 March 2009

	Total	Not past due	Past due	
	R'000		0-90	>90
Collectively impaired				
Gross:	1,952,764,381	1,919,101,115	20,314,782	13,348,484
Housing loans	1,924,979,245	1,891,315,979	20,314,782	13,348,484
Other receivables	27,785,136	27,785,136	-	-
Impaired:	(1,993,778)	(353,275)	(140,153)	(1,500,350)
Housing loans	(1,993,778)	(353,275)	(140,153)	(1,500,350)
Other receivables	-	-	-	-
Total carrying amount	1,950,770,603	1,918,747,840	20,174,629	11,848,134

Impaired receivables

Impaired receivables are receivables for which the Company determines that it is probable that it will be unable to collect all amounts due in accordance with the contractual payment terms.

Receivables past due but not impaired

These are receivables where contractual payment terms are past due but the Company believes that impairment is not appropriate on the basis of the level security or collateral available and the stage of collection of amounts owed to the Company.

Receivables with renegotiated terms

Receivables with renegotiated terms are receivables that have been restructured due to the deterioration in the customer's financial position and where the Company has made concessions that it would not otherwise consider.

The value of debtors that were renegotiated eg. their payment terms have been renegotiated is indicated below.

	31 March 2010	31 March 2009
Mortgage advances	**35,198,845**	28,795,163

Impairment losses

The movement in the allowance for impairment in respect of Mortgage advances and other receivables during the year was as follows:

Balance at beginning of period	**1,993,778**	6,349
Mortgage advances	**1,993,778**	6,349
Other receivables	**-**	-
Impairment loss recognised:	**312,178**	1,987,429
Housing loans	**312,178**	1,987,429
Other receivables	**-**	-
Balance at end of the period	**2,305,956**	1,993,778

Security and collateral relating to amounts receivable

The estimate of the fair value of collateral and other securities held against Other Receivables and Loans and Advances for the Company's was as follows:

Loans and advances:		
Mortgage loans	**1,931,203,170**	1,924,979,245
Total	**1,931,203,170**	1,924,979,245

2.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. To mitigate this risk Nqaba entered into a liquidity facility agreement with ABSA Bank Limited.

The objective of the Company's liquidity and funding management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions.

The management of consolidated liquidity and funding risk is centralised in EFC's finance department in accordance with practices and limits set by EFC's Board of directors. EFC's liquidity and funding management process includes:

- projecting cash flows and considering the cash required by the Company's and optimising the short term liquidity requirements as well as the long term funding

- monitoring balance sheet liquidity ratios
- actively managing the funding risk by evaluating optimal entry points into the various markets per the official funding plan
- maintaining liquidity and funding contingency plans

Contractual cash flows

The table below indicates the gross undiscounted cash flows on Nqaba's financial assets, financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

The contractual cash flows for financial assets are reflected on gross basis (i.e. excluding impairment).

	Carrying Amount	**Gross Nominal Inflow/ (Outflow)**	**Less than 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
31 March 2010	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Inflow							
Loans and advances	**1,928,897,214**	**1,931,203,170**	**117,625,980**	**118,084,171**	**615,025**	**47,326,054**	**1,647,551,940**
Other receivables	**25,134,671**	**25,134,671**	**25,134,671**	**-**	**-**	**-**	**-**
	1,954,031,885	**1,956,337,841**	**142,760,651**	**118,084,171**	**615,025**	**47,326,054**	**1,647,551,940**
Outflow							
Residential mortgage backed securi	**(1,887,000,000)**	**(1,887,000,000)**	**(1,103,000,000)**	**-**	**(784,000,000)**	**-**	**-**
Other liabilities	**(35,590,162)**	**(35,590,162)**	**(35,590,162)**	**-**	**-**	**-**	**-**
	(1,922,590,162)	**(1,922,590,162)**	**(1,138,590,162)**	**-**	**(784,000,000)**	**-**	**-**

	Carrying Amount	Gross Nominal Inflow/ (Outflow)	Less than 6 month	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
31 March 2009	R	R	R	R	R	R	R
Inflow							
Loans and advances:	1,924,979,245	1,926,973,023	141,050,780	141,340,773	538,653	10,170,708	1,633,872,109
Other receivables	27,785,136	27,693,335	27,693,335	-	-	-	-
	1,952,764,381	1,954,666,358	168,744,115	141,340,773	538,653	10,170,708	1,633,872,109
Outflow							
Residential mortgage backed securi	(1,911,000,000)	(1,911,000,000)	(784,000,000)	-	(343,000,000)	(784,000,000)	-
Other liabilities	(36,808,267)	(36,808,267)	(36,808,267)	-	-	-	-
	(1,947,808,267)	(1,947,808,267)	(820,808,267)	-	(343,000,000)	(784,000,000)	-

The securitisation vehicle is an evergreen structure where notes issued have a final legal maturity of 32 years and a scheduled maturity of between 1 and 2 years. Matured debt will be re-financed.
In the event that notes are not refinanced on the Scheduled Maturity Date, notes will start amortising from the principal collections on the pool of assets plus the excess margin in the Priority of Payments;
In this instance the note will be termed a "matured note" and will constitute an early amortisation event or an event of default:
On each payment date after the Scheduled Maturity Date, the Issuer will partially redeem each matured note in reducing order of rank in accordance with the Revolving Period Priority of Payments;
The transaction remains in the Revolving Period but no new loans will be purchased until the matured notes are redeemed in full.

The Issuer has the option to redeem all the matured notes on any Payment Date after the scheduled Maturity at the Outstanding Principle and Accrued Interest by giving not less than 20 days notice to the noteholders and Nqaba Security SPV (Proprietary) Limited ("Security SPV").

2.5 Compliance risk

Compliance risk is the risk of non-compliance with any statutory requirement of central and local government, including regulations of the South African Reserve Bank, the Financial Services Board and the National Credit Regulator.

Nqaba is subject to supervisory and regulatory legislation including the Public Finance Management Act, Companies Act, the National Credit Act, the Financial Intelligence Centre Act, and the requirements of the Financial Services Board, Financial Advisory and Intermediary Services Act.

Nqaba is also subject to adherence to various securitisation agreements.

The approach adopted to manage these risks includes a combination of the following key activities:

- training EFC staff on their responsibilities related to the various legislation
- implementing procedures to assist in achieving adherence to the legislative requirements
- implementing effective monitoring and reporting mechanisms to ensure compliance

2.6 Operational risk

Operational risk management

Nqaba recognises operational risk, inclusive of information risk and business continuity, as a significant risk category and manages it within acceptable levels. It continues to develop and expand its guidelines, standards, methodologies and systems in order to enhance the management of operational risk.

Approach to managing operational risk

To support this, the Company's has established sound practices, including:

- policies and procedures to sustain effective risk management
- ongoing assessment of the effects of changes in the regulatory environment and acquisition of skills and knowledge of best practices to ensure Nqaba's endeavours are most appropriate for the environment

2.7 Capital management

Nqaba's capital consists of accumulated profits. There were no changes in Nqaba's approach to capital management during the year.
Nqaba is not subject to externally imposed capital requirements.

2.8 Asset and liability management

Due to the nature of the loan book and funding activities, continuous cash-flow forecasts ensure that asset and liabilities are matched. Unapplied cash is invested with ABSA Bank in terms of the Guaranteed Investment Contract.

3 Mortgage advances

	31 March 2010	31 March 2009
Gross amount outstanding	**1,931,203,170**	1,926,973,023
Less : Impairments for loans and advances	**(2,305,956)**	(1,993,778)
	1,928,897,214	1,924,979,245
Non-current portion		
Mortgage advances	**1,930,634,241**	1,926,585,702
Impairments for loans and advances	**(2,304,054)**	(1,993,757)
	1,928,330,187	1,924,591,945
Current portion		
Mortgage advances	**568,929**	387,321
Impairments for loans and advances	**(1,902)**	(21)
	567,027	387,300
Maturity analysis		
On demand	**55,369**	48,663
Six months to one year	**513,560**	338,658
One year to five years	**65,116,923**	17,338,563
Greater than five years	**1,865,517,318**	1,909,247,139
	1,931,203,170	1,926,973,023
Sector and category analysis		
Professionals and individuals	**1,931,203,170**	1,926,973,023
	1,931,203,170	1,926,973,023
Analysis of advance by deal size		
Under R2 million	**1,898,196,025**	1,901,875,342
Over R2 million	**33,007,145**	25,097,681
	1,931,203,170	1,926,973,023

		31 March 2010	31 March 2009
4	**Properties in possession**		
	Properties in possession	**3,483,173**	2,959,196
	Less: Impairments for Properties in possession	**(252,118)**	(283,708)
		3,231,055	2,675,488

5 Financial instruments

Accounting classifications and fair values

The classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest) are as follows:

31 March 2010	Loans and Advances R	Other receivables R	Liabilities at amortised cost R	Other assets and liabilities R	Total carrying amount R	Fair value R
Financial assets						
Non-current						
Loans and Advances:						
Housing loans	**1,928,330,187**				**1,928,330,187**	**1,928,330,187**
	1,928,330,187	**-**	**-**	**-**	**1,928,330,187**	**1,928,330,187**
Current						
Loans and Advances:						
Housing loans	**567,027**				**567,027**	**567,027**
Trade and other receivables		**25,134,671**			**25,134,671**	**25,134,671**
Cash and cash equivalents				**43,067,696**	**43,067,696**	**43,067,696**
	567,027	**25,134,671**	**-**	**43,067,696**	**68,769,394**	**68,769,394**
Financial liabilities						
Non-current						
Interest-bearing debt:						
Residential mortgage backed securities			**(784,000,000)**		**(784,000,000)**	**(784,000,000)**
	-	**-**	**(784,000,000)**	**-**	**(784,000,000)**	**(784,000,000)**
Current						
Residential mortgage backed securities			**(1,103,000,000)**		**(1,103,000,000)**	**(1,103,000,000)**
Trade and other payables				**(35,590,162)**	**(35,590,162)**	**(35,590,162)**
First loss credit enhancement loan				**(63,000,000)**	**(63,000,000)**	**(63,000,000)**
	-	**-**	**(1,103,000,000)**	**(98,590,162)**	**(1,201,590,162)**	**(98,590,162)**

31 March 2009						
Financial assets						
Non-current						
Housing loans	1,924,591,945				1,924,591,945	1,924,591,945
	1,924,591,945	-	-	-	1,924,591,945	1,924,591,945
Current						
Loans and Advances:						
Housing loans	387,300				387,300	387,300
Trade and other receivables		27,785,136			27,785,136	27,785,136
Cash and cash equivalents				57,631,744	57,631,744	57,631,744
	387,300	27,785,136	-	57,631,744	85,804,180	85,804,180
Financial liabilities						
Non-current						
Interest-bearing debt:						
Residential mortgage backed securities			(1,127,000,000)		(1,127,000,000)	(1,127,000,000)
	-	-	(1,127,000,000)	-	(1,127,000,000)	(1,127,000,000)
Current						
Residential mortgage backed securities			(784,000,000)		(784,000,000)	(784,000,000)
Trade and other payables				(36,808,267)	(36,808,267)	(36,808,267)
First loss credit enhancement loan				(39,000,000)	(39,000,000)	(39,000,000)
	-	-	(784,000,000)	(75,808,267)	(859,808,267)	(859,808,267)

The methods used to determine fair values of financial instruments for the purpose of measurement and disclosure are set out in the accounting policies. The majority of the company's financial instruments measured at fair value are valued using valuation techniques based on observable market data. Observable market prices are not, however, available for many of the group's financial assets and liabilities not measured at fair value. The determination of the fair values of the assets and liabilities in the table above are as follows:

Loans and advances
The carrying amount of loans and advances approximates their fair value.

Trade and other receivables
The directors consider that the carrying amount of trade and other receivables approximates their fair value. Nqaba's credit risk is attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for credit impairments, estimated by management, based on their experience and their assessment of the current economic environment.

		31 March 2010	31 March 2009
6	**Trade and other receivables**		
	Eskom Finance Company (Proprietary) Limited	**25,033,656**	27,785,136
	Prepaid expenses - Rating fees	**101,015**	-
		25,134,671	27,785,136
7	**Cash and cash equivalents**		
	Current account - ABSA Bank Limited	**43,067,696**	57,631,744
		43,067,696	57,631,744
8	**Share capital**		
	Authorised		
	1 000 Ordinary shares of R1 each	**1,000**	1,000
	100 Cumulative redeemable preference shares of R0.01 each	**1**	1
		1,001	1,001
	Issued		
	100 Ordinary shares of R1 each	**100**	100
	100 Cumulative redeemable preference shares of R0.01 each	**1**	1
		101	101

9 Residential mortgaged backed securities

Loan interest rates and dates of repayment are as follows:

Type	Interest rate	Scheduled maturity	31 March 2010	31 March 2009
Maturity < 1 years			**1,103,000,000**	784,000,000
Class , Secured Floating Rate Notes	10.218%	22-May-09	**-**	696,000,000
Class I Secured Floating Rate Notes	10.338%	22-May-09	**-**	32,000,000
Class (Secured Floating Rate Notes	10.658%	22-May-09	**-**	32,000,000
Class I Secured Floating Rate Notes	11.608%	22-May-09	**-**	24,000,000
Class , Secured Floating Rate Notes	7.615%	22-May-10	**304,000,000**	-
Class , Secured Floating Rate Notes	8.585%	22-May-10	**696,000,000**	-
Class I Secured Floating Rate Notes	7.785%	22-May-10	**14,000,000**	-
Class I Secured Floating Rate Notes	9.185%	22-May-10	**32,000,000**	-
Class (Secured Floating Rate Notes	8.185%	22-May-10	**14,000,000**	-
Class (Secured Floating Rate Notes	9.785%	22-May-10	**32,000,000**	-
Class I Secured Floating Rate Notes	9.185%	22-May-10	**11,000,000**	-
Maturity 1 to 2 years			**784,000,000**	1,127,000,000
Class , Secured Floating Rate Notes	10.388%	22-May-10	**-**	304,000,000
Class I Secured Floating Rate Notes	10.558%	22-May-10	**-**	14,000,000
Class (Secured Floating Rate Notes	10.958%	22-May-10	**-**	14,000,000
Class I Secured Floating Rate Notes	11.958%	22-May-10	**-**	11,000,000
Class , Secured Floating Rate Notes	7.505%	22-May-11	**376,000,000**	376,000,000
Class , Secured Floating Rate Notes	7.515%	22-May-11	**320,000,000**	320,000,000
Class I Secured Floating Rate Notes	7.585%	22-May-11	**32,000,000**	32,000,000
Class (Secured Floating Rate Notes	7.925%	22-May-11	**32,000,000**	32,000,000
Class I Secured Floating Rate Notes	9.135%	22-May-11	**24,000,000**	24,000,000
			1,887,000,000	1,911,000,000
Weighted average cost of debt			**8.04%**	10.34%

All Secured Floating Rate Notes have a legal maximum maturity date of 32 years with a scheduled maturity between 1 to 2 years. For as long as the notes are in issue, interest on the Notes is payable quarterly in arrears on the 22nd day of February, May, August and November.

During the period there were no loans in arrears.

Class A2, A3, A4, A5, B2, B3, B5, C2, C3, C5, D2 and D3 Secured floating rate notes
Interest on the notes is payable at an annual rate equal to the sum of the Johannesburg Interbank Acceptance Rate ("Jibar") for 3 Months Rand deposits plus a margin of:

0.32% per annum in relation to Class A2 Notes;
0.33% per annum in relation to Class A3 Notes;
0.43% per annum in relation to Class A4 Notes;
1.40% per annum in relation to Class A5 Notes;
0.40% per annum in relation to Class B2 Notes;
0.60% per annum in relation to Class B3 Notes;
2.00% per annum in relation to Class B5 Notes;
0.74% per annum in relation to Class C2 Notes;
1.00% per annum in relation to Class C3 Notes;
2.60% per annum in relation to Class C5 Notes;
1.95% per annum in relation to Class D2 Notes; and
2.00% per annum in relation to Class D3 Notes.
payable quarterly on the 22nd day of February, May, August and November or if the 22nd is not a business day, the next business day.

The rates at year end was:
7.505% per annum in relation to Class A2 Notes;
7.515% per annum in relation to Class A3 Notes;
7.615% per annum in relation to Class A4 Notes;
8.585% per annum in relation to Class A5 Notes;
7.585% per annum in relation to Class B2 Notes;
7.785% per annum in relation to Class B3 Notes;
9.185% per annum in relation to Class B5 Notes;
7.925% per annum in relation to Class C2 Notes;
8.185% per annum in relation to Class C3 Notes;
9.785% per annum in relation to Class C5 Notes;
9.135% per annum in relation to Class D2 Notes; and
9.185% per annum in relation to Class D3 Notes.

Interest payable on each class of notes will occur in descending order of rank and with notes of equal rank being paid *parri passu,* until the interest due and payable in respect of each such class of notes has been paid in full.

The application for the listing of the Class A2, A3, B2, C2, and D2 Notes on the Johannesburg Stock Exchange ("JSE") under stock code numbers NQF1A2, NQF1A3, , NQF1B2, NQF1C2 and NQF1D2 was granted with effect from 22 May 2006, and the application for listing of the Class A4, B3, C3 and D3 Notes on Bond Exchange of South Africa ("BESA") under stock code numbers NQF1A4, NQF1B3, NQF1C3 and NQF1D3 was granted with effect from 28 September 2007 and the application for listing of the Class A5, B5, and C5 Notes on BESA under stock code numbers NQF1A5, NQF1B5 and NQF1C5 was granted with effect from 22 May 2009. The Notes may be traded by or through members of BESA and trading will take place in accordance with the rules and operating procedures of BESA.

The Notes are solely the obligations of Nqaba Finance 1 (Proprietary) Limited and are neither the obligations of, nor the responsibility of and nor are they guaranteed by Eskom Finance Company (Proprietary) Limited.

Covenants
Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Board. The Company's continues to comply with all borrowing obligations and financial covenants. All financial covenants have been tested and complied with as at 31 March 2010.

		31 March 2010	31 March 2009
10	**First loss credit enhancement loan**		
	Subordinated loan - Eskom Finance Company (Proprietary) Limited	**63,000,000**	39,000,000
		63,000,000	39,000,000

The aggregate principal amount of the subordinated loan is R63 million and shall be used by the Issuer solely to:
- fund a portion of the purchase price of home loans; and
- to repay, on any scheduled maturity date, the refinanced notes and any subordinated loan associated with the refinanced notes.

The First Loss Credit Enhancement Loan, or such balance as shall remain outstanding from time to time, bears interest at a maximum rate of 30% per annum. Although interest accrues on a daily basis, it only becomes owing in respect of each Interest Period to the extent that the notional amount of net income accrued to Nqaba Finance 1 (Proprietary) Limited, after taking account of all other income and expenses, exceeds the interest to be accrued, Nqaba Finance 1 (Proprietary) Limited shall not incur any obligation, then or at any later date, to pay such excess. Any interest which is owing is payable by Nqaba Finance 1 (Proprietary) Limited in arrears on each Interest Payment Date, provided that the payment is made in accordance with the Priority of Payments.

11	**Interest accrued**		
	Class A Secured Floating Rate Notes	**-**	6,990,147
	Class A Secured Floating Rate Notes	**2,805,362**	3,798,537
	Class A Secured Floating Rate Notes	**2,390,786**	3,235,954
	Class A Secured Floating Rate Notes	**2,302,148**	3,104,225
	Class A Secured Floating Rate Notes	**6,195,620**	-
	Class B Secured Floating Rate Notes	**-**	325,173
	Class B Secured Floating Rate Notes	**241,349**	325,805
	Class B Secured Floating Rate Notes	**108,433**	145,305
	Class B Secured Floating Rate Notes	**304,845**	-
	Class C Secured Floating Rate Notes	**-**	335,273
	Class C Secured Floating Rate Notes	**252,378**	336,536
	Class C Secured Floating Rate Notes	**114,109**	150,829
	Class C Secured Floating Rate Notes	**324,834**	-
	Class D Secured Floating Rate Notes	**-**	273,943
	Class D Secured Floating Rate Notes	**218,722**	281,044
	Class D Secured Floating Rate Notes	**100,809**	129,358
	Credit enhancement loan	**1,915,890**	1,153,972
		17,275,285	20,586,101

The directors consider that the carrying amount of Interest accrued to approximate their fair value.

12	**Trade and other payables**		
	Audit fees	**259,010**	245,915
	Servicer fees - Eskom Finance Company (Proprietary) Limited	**797,679**	780,649
	Back-up servicer fees - ABSA Bank Limited	**450,602**	257,616
	Management fee - ABSA Bank Limited	**66,913**	66,913
	Trustee fees	**15,046**	15,046
	Liquidity facility fees - ABSA Bank Limited	**5,436**	4,858
	Redraw facility fees - ABSA Bank Limited	**40,808**	39,025
	Rating fees	**-**	8,736
	Safe custody and settlement agent fees - ABSA Bank Limited	**23,406**	19,505
	BESA listing fees	**74,177**	17,676
	NCR fees	**65,703**	65,722
	Redraws and further advances - Eskom Finance Company (Proprietary) Limited	**16,516,097**	14,700,505
		18,314,877	16,222,166

The directors consider that the carrying amount of trade and other payables approximates their fair value.

13	**Interest income**		
	Mortgage advances	**194,515,910**	272,129,803
	Call accounts - ABSA Bank Limited	**4,781,428**	10,010,560
		199,297,338	282,140,363
14	**Interest expense**		
	Class A Secured Floating Rate Notes	**10,155,937**	83,713,965
	Class A Secured Floating Rate Notes	**30,128,664**	45,450,386
	Class A Secured Floating Rate Notes	**25,673,415**	38,713,179
	Class A Secured Floating Rate Notes	**24,693,745**	37,081,605
	Class A Secured Floating Rate Notes	**52,241,302**	-
	Class B Secured Floating Rate Notes	**472,410**	3,887,318
	Class B Secured Floating Rate Notes	**2,589,742**	3,893,718
	Class B Secured Floating Rate Notes	**1,161,012**	1,731,506
	Class B Secured Floating Rate Notes	**2,567,072**	-
	Class C Secured Floating Rate Notes	**486,998**	3,989,718
	Class C Secured Floating Rate Notes	**2,698,542**	4,002,518
	Class C Secured Floating Rate Notes	**1,217,012**	1,787,505
	Class C Secured Floating Rate Notes	**2,732,244**	-
	Class D Secured Floating Rate Notes	**397,731**	3,220,288
	Class D Secured Floating Rate Notes	**2,314,306**	3,292,288
	Class D Secured Floating Rate Notes	**1,066,224**	1,514,469
	First loss credit enhancement loan	**17,874,247**	11,700,000
		178,470,603	243,978,463
15	**Auditor's remuneration**		
	Audit fees	**244,915**	245,915
		244,915	245,915

16 Servicing and management fees

Eskom Finance Company (Proprietary) Limited has been appointed under the servicing agreement as agent for Nqaba Finance 1 (Proprietary) Limited, to administer the pool of mortgage advances, including the collection of payments, arrears and foreclosure procedures.

Eskom Finance Company (Proprietary) Limited is entitled to charge fees for its services under the servicing agreement which are payable on each interest payment date. Such fees are limited to an amount equal to 0.35% per annum of the average principal balance of the home loan pool during the immediately preceding collection period.

ABSA Corporate and Merchant Bank has been appointed under the terms of a Management Agreement as agent for Nqaba Finance 1 (Proprietary) Limited to advise Nqaba Finance 1 (Proprietary) Limited in relation to the management of the Programme. A management fee is charged and accordingly becomes due in respect of each interest period only to the extent that, on any interest payment date, cash is available for the payment of such fee in accordance with the Priority of Payments. In the event that insufficient cash is available for payment of all or part of any management fee, Eskom Finance Company (Proprietary) Limited incurs no obligation to pay that portion of the management fee in respect of which no cash is available.

		31 March 2010	31 March 2009
17	**Taxation**		
17.1	South African Income tax		
	Normal tax	**2,859,335**	7,949,181
	Secondary tax on companies	**1,600,000**	1,210,000
	Deferred tax	**100,500**	(637,696)
		4,559,835	8,521,485
17.2	Tax rate reconciliation :		
	SA normal tax	**28.00%**	28.00%
	Permanent differences	**0.00%**	0.01%
	Secondary tax on companies	**15.14%**	4.64%
	Effective rate	**43.14%**	32.65%
17.3	**Analysis of temporary differences**	**0.0000056%**	
	Credit impairment charges	**716,261**	637,696
	Other provision	**(179,066)**	-
	Rate adjustment	**-**	-
	Total deferred tax asset	**537,195**	637,696
17.4	**Reconciliation of deferred tax**		
	Asset at the beginning of the year	**637,696**	-
	Credited/(Debited) to income statement relating to current year	**(100,501)**	637,696
	Debited to income statement relating to prior years	**-**	-
	Asset at the end of the year	**537,195**	637,696

18 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The company in the ordinary course of business enters into various transactions with related parties. These transactions occur under terms and conditions that no more favourable than those entered into with third parties in an arms length transaction.

18.1 Related party transactions with Eskom Finance Company (Proprietary) Limited

Eskom Finance Company (Proprietary) Limited is a related party as Nqaba Finance 1 (Proprietary) Limited is a Special Purpose Entity, established to securitise residential mortgage backed advances originated by Eskom Finance Company (Proprietary) Limited and is the appointed service provider to Nqaba Finance 1 (Proprietary) Limited. The following transactions took place between Eskom Finance Company (Proprietary) Limited and Nqaba Finance 1 (Proprietary) Limited.

Financing

A Credit Enhancement loan has been provided by Eskom Finance Company (Proprietary) Limited, details of which are set out in note 10 above. Total interest on this loan during the period amounted to R17 874 247 (2009: R11 700 000) - see note 10 above.

Servicing fees

Eskom Finance Company (Proprietary) Limited is the appointed servicing agent to Nqaba Finance 1 (Proprietary) Limited, details of which are set out in note 16 above.

18.2 Other related party transactions

These transactions comprise those entered into with Maitland Trustees (Proprietary) Limited (formerly Steinway Trustees (Proprietary) Limited), the trustee of the Issuer and of the Security SPV and relates to Trustee fees paid during the period and owed to the Trustees at the end of the period.

Trading transactions

During the year, Nqaba entered into the following trading transactions with related parties.

	Expenses		Balances owed by related parties		Balances owed to related parties	
	2010	2009	**2010**	2009	**2010**	2009
Transactions with EFC	**41,574,400**	31,400,760	**25,033,656**	27,785,136	**82,229,666**	55,635,126
Transactions with Trustees	**148,428**	151,764	**-**	-	**15,046**	15,046

Income and expenses were mostly incurred due to management agreements. These agreements were exercised at the company's normal management fee rates.

The amounts outstanding are unsecured and will be settled in cash. No expenses have been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

		31 March 2010	31 March 2009
		R'000	R'000
19	**Commitments**		
	EFC approved loans not disbursed	**316,542**	216,263

The company has issued a cession in favour of the Nqaba Finance 1 Security SPV (Proprietary) Limited by way of cession of all company's rights, title and interest in and to the mortgage advances, the mortgage agreements and the related security in respect of the portfolio of mortgages owned by the company from time to time, the business proceeds and the bank accounts.

The company has issued an indemnity to Nqaba Finance 1 Security SPV (Proprietary) Limited indemnifying Nqaba Finance 1 Security SPV (Proprietary) Limited against any claims by secured creditors in terms of a guarantee by Nqaba Finance 1 Security SPV (Proprietary) Limited. The obligations of the company in terms of this indemnity are secured by:

A suretyship granted by the Nqaba Finance 1 Security SPV Owner Trust in favour of Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance Security SPV (Proprietary) Limited in respect of obligations of the company, limited to the shares in the company.

A cession and pledge of all of Nqaba Finance 1 Security SPV Owner Trust's shares in the company as security for the suretyship granted by the Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance 1 Security SPV (Proprietary) Limited.

A security cession in favour of Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance Security SPV (Proprietary) Limited mentioned in the first paragraph above.