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The National Housing Finance Corporation Limited

NATIONAL HOUSING FINANCE CORPORATION LTD.

The National Housing Finance Corporation

The **NHFC** is a Development Finance Institution established by the Department of Housing in 1996. Its mandate is to mobilise wholesale funds and to act as a risk manager to leverage private sector capital investment in particular types of low-cost housing opportunities. It is a registered public company and has been granted the necessary exemption in terms of the Banks Act. As a national public entity, the company adheres to the regulatory framework of the Public Finance Management Act.

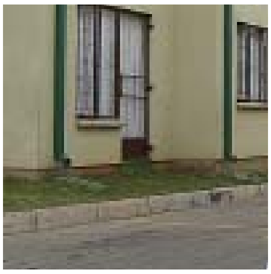
Mandate

The mandate of the **NHFC** is to search for new and better ways to mobilise, raise and deploy finance for housing from sources outside the public sector, and in partnership with a broad range of organisations.

Mission

As the **NHFC** targets households with monthly incomes of up to R7 500, it seeks to create housing opportunities for low- and moderate-income families by:

- **Funding and underwriting financing of intermediaries to promote broader access to housing;**
- **Facilitating the building of adequate and sustainable capacity within organisations that it funds; and**
- **Partnering with organisations to pioneer new approaches to housing finance and leveraging private sector capital.**



Vision

The **NHFC** is a world-class housing finance institution which is instrumental in changing the housing finance system in South Africa, facilitating the broad availability of affordable and suitable housing credit for low- and moderate-income families in the region.

Chairman - Mr Eric Molobi
Executive Chairman, Kagiso Investment Trust

Mr Samson Moraba
Chief Executive Officer

Ms Mpumi Nxumalo
Director General, Department of Housing

Prof. Michael Katz
Partner, Edward Nathan & Friedland

Ms Nocawe Makiwane
Asset Manager, SCMB

Ms Nonhlanhla Mjoli-Ncube
Housing Consultant

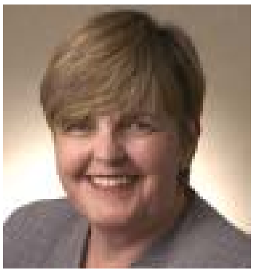
Mr Sizwe Tati
Managing Director, Khula Investments

Mr Mandla Gantsho
Chief Executive Officer, DBSA

NATIONAL HOUSING FINANCE CORPORATION LTD.

Executive Management

Samson Moraba
Chief Executive

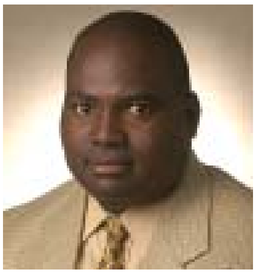


Adrienne Egbers
Chief Operating Officer

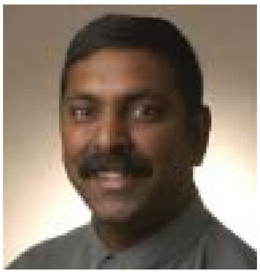
Jennifer Law
Chief Financial Officer

Luthando Vuthula
Executive Manager
Alternative Tenure

Selome Sengani
Executive Manager
Home Ownership

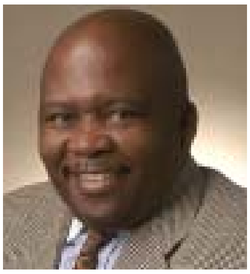


Phetolo Ramosebudi
Executive Manager
Treasury & Acting Risk Management

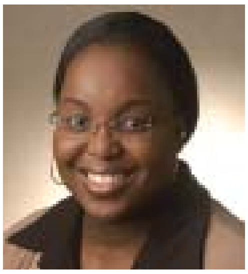


Morgan Pillay
Executive Manager
Policy and Research

John Kekana
Executive Manager
Human Resources



Moerane Maimane
Executive Manager
Incremental Housing



Lusanda Jiya
Executive Manager
Corporate Marketing & Communications

Vusi Langa

Company Secretary

NATIONAL HOUSING FINANCE CORPORATION LTD.

REVENUE

Up 16,6%

Revenue totalled R260,0 million (2002: R222,9 million).

Lending Income, although 14% below budget contributed to 30.5% (2002: 33,8%) of revenue, whilst investment income contributed to 65.2% (2002: 61,1%).

Interest Income exceeded the budget by 30%.

NET INCOME BEFORE TAX

Up 32,5%

Net income before taxation increased to R162,5 million for the year (2002: R122,7 million) exceeding the budget by 5,9%, despite a significant increase in provisions for specific doubtful debts.

ADVANCE BOOK

Up 3,5%

Advances (net of provisions) were R549,8 million (2002: R531,1 m) at 31 March 2003, but were below budgeted targets due to difficult market conditions.

PROVISIONS FOR DOUBTFUL DEBTS

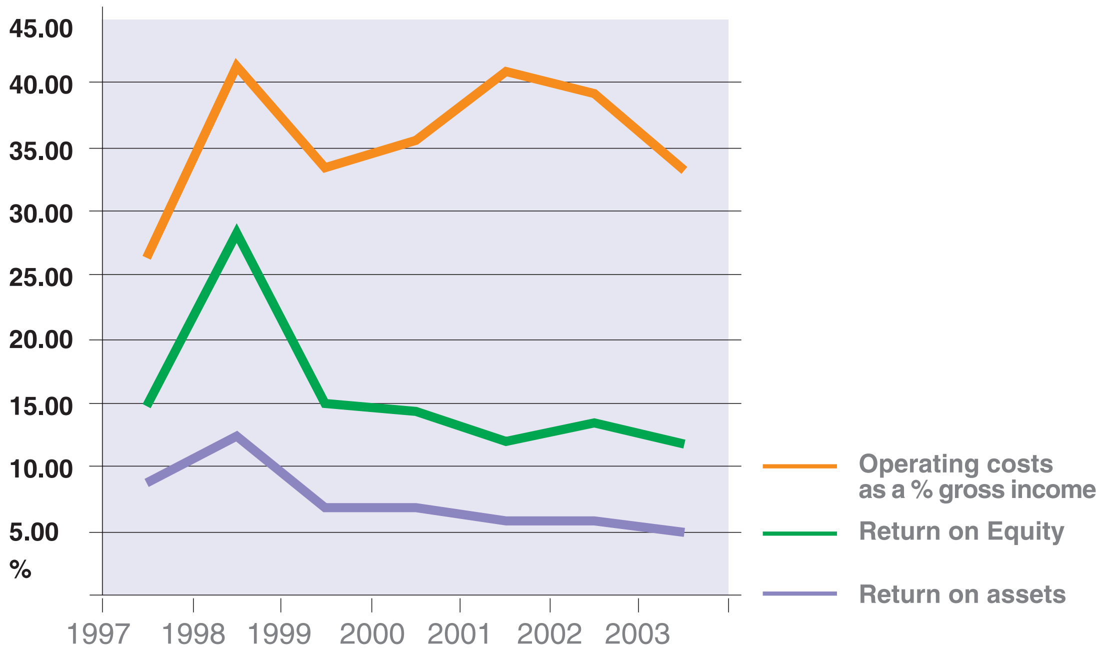
Up 191,6%

Due to defaults experienced with some clients, the NHFC increased its provisions for doubtful debts to R64,1 million (2002: R21,9 million), which represents approximately 10,4% (2002: 3,9%) of the gross advance book.

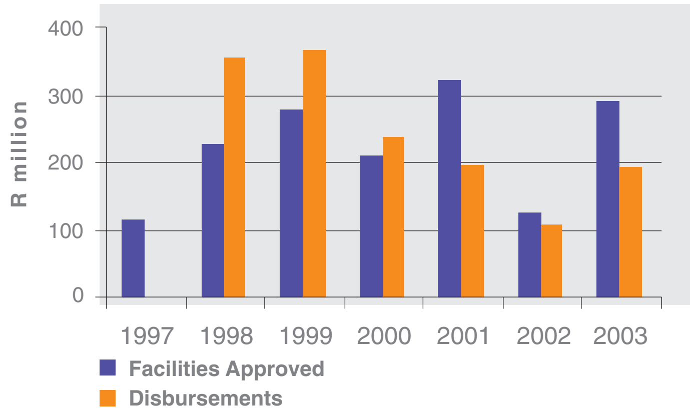
Balance Sheet Growth

The NHFC's group total assets increased by R465 million exceeding the budget by 13%. The group's capital and reserves increased to R1,738 million (7,3% increase). The increase was mainly attributed to the increase in distributable reserves of R118,4 million and the restatement of the prior year's distributable reserve by R18,2m, as a result of a change in accounting policy. A transfer of R50 million from a non-distributable secondary reserve to distributable reserves was made on 31 March 2003 to comply with Generally Accepted Accounting Practice. Included in Liabilities are the grants received from the Government (R225 million) and subsidies received from Provinces (R196 million), to be applied to the Presidential Job Summit Pilot Housing Project (PJSPHP).

Group operating results	**2003**	**2002**	**2001**	**2000 (restated)**	**1999**
Capital Adequacy	232,50	227,92	194,76	238,51	249,98
Return on assets	4,94%	5,78%	5,77%	6,89%	6,96%
Return on equity	6,82%	6,34%	6,25%	7,54%	8,01%
Operating costs as a % of advances (net of provisions)	10,20%	10,87%	10,54%	9,5%	9,52%



An analysis of the total facilities approved and disbursed to intermediary clients are as follows:

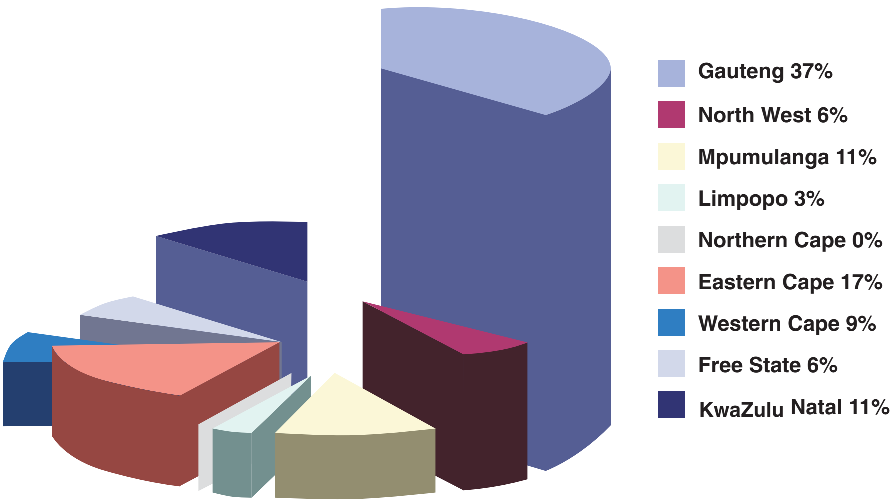


The NHFC has approved R1,570 million worth of facilities, and disbursed R1,460 million by 31 March 2003. Through lending activities, more than 41 891 new housing units have been built, and over 167 118 loans originated.

More than 1 045 045 people's lives have been improved by intermediaries financed by the NHFC.

Geographical Spread

The NHFC's geographical spread over the provinces in South Africa is depicted as follows:



The Chairman's Report

The year began with a number of set-backs, such as a sharp increase in interest rate levels (notching up 4% in a space of eight months) and the upheaval in financial markets which led to the demise of Saambou and Unifer. These developments had a profound effect on the business of the NHFC clients and therefore on their performance.

The good news for the NHFC business came from the Finance Minister's Budget for 2003-2004 with the abolishment of transfer costs on homes valued at less than R 140 000 (from R100 000 in the previous year), and the removing of stamp duty on such transactions.

This lowers the cost of housing for the targeted households and contributes to stimulating effective demands for housing. It therefore came as no surprise that the NHFC granted facilities of R140m for home ownership in the last quarter of the year under review.

The overall performance of the Corporation in pursuit of its mandate on delivering housing finance options for low-income households in South Africa has been pleasing. One cannot however, ignore some of the significant challenges the Corporation is faced with, which will determine its future success:

- **Non-performance of some retail finance intermediaries and housing institutions due to inadequate financial and institutional capacitation.**

- **Lack of co-ordinated interventions in the housing delivery process chain, thus not optimising on the complementary contribution of the various stakeholders.**

- **The need for a clear demonstration by government on the political will to stabilise and normalise the low income housing market, particularly by addressing the confusion created by rulings such as those on PIE (Prevention of Illegal Eviction from Unlawful Occupation of Land Act No. 19 of 1998).**

- **Quick resolution and adoption by all stakeholders of the funding option for the Presidential Job Summit Pilot Housing Project so as to accelerate the NHFC's implementation of the project.**

In a survey conducted on rent-boycotts and the reasons for the non-payment experienced by some of the housing institutions, the NHFC identified the following as key lessons to be learnt:

- **Affordability constraints are a reality for many low-income earners;**

- **Institutional viability is often threatened by poor governance and management, as well as the lack of adequate financial and institutional capacity;**

Until the issues of poverty and affordability are dealt with or mitigated, the sector will not be able to attract private sector investors.

Key Developments

There are a number of developments in the low-income housing sector that have had a significant impact on the Corporation:

- **An evolving normalisation of the South African credit market through the Micro Finance Regulatory Council.**

- **Government's continued efforts to promote private home ownership among the low-income households through increased lending by the banks to the sector (CRA).**

Governance

I regret to announce the resignation of Mr Mandla Gantsho, the CE and MD of DBSA as Director due to time constraints. He will, however, remain a member of the NHFC Board Audit Committee.

Appreciation

On behalf of the board, I offer our heartfelt appreciation to the former Minister, Mrs S Mthembi-Mahanyele for her support to the Board during her tenure in the housing portfolio. I also wish to extend a word of welcome to the new Minister of Housing, Mrs Brigitte Mabandla.

We look forward to her guidance and to working with her in making a difference in the quality of life of the people in the low and moderate-income sector.

I would also like to express my sincere thanks to my colleagues on the Board for their support, and, an appreciation for the effort and passion with which the NHFC staff attend to their duties and responsibilities, ever desiring to serve the under serviced communities in our country.

Effective and aggressive programmes that will expand the role the NHFC plays through facilitation, direct lending and support across the housing delivery process enhancing delivery of low income housing is included in the strategy for the corporation.

The CEO's Report

Overview

Although the year under review was an extremely difficult one for the NHFC, it nevertheless continued to make housing finance available for incremental, home ownership and alternative forms of tenure accessible to the low- and moderate-income households in South Africa.

Many thanks to the retail lending partners, housing institutions, housing agencies and both provincial and local government structures.

The year under review can be characterised as follows:

- **A continued growth in the facilities approved in the Home Ownership (HO), Incremental Housing (IH) and Alternative Tenure (AT) divisions of the Corporation.**

- **As indicated in the previous year, significant growth in the number of housing institutions formed, and therefore capacity to deliver alternative forms of tenure was made possible.**

- **A steep hike in the interest rates and therefore an increase in both the cost and price of housing.**

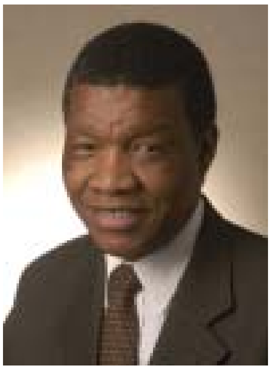
- **Increase in the number of institutions experiencing difficulties, ranging from financial distress and rent boycotts, to tough market conditions, as the result of the legacy of the 2002 "burst" of the credit bubble in the small banks and micro finance industry.**

- **An enhanced risk management capacity and competency within the Corporation.**

The Corporation emerged from the period under review better positioned to refocus its efforts of developing effective and aggressive programmes that will expand the role the NHFC plays through facilitation, direct lending and support across the housing delivery process to enhance delivery of low income housing.

The Advance Portfolio

The overall gross advance book grew by 10.37% to R617m from the 31 March 2002 figure of R559m, in spite of the repayments from two clients amounting to R85million. Due to the rapid hike in the interest rates during the year, the advance portfolio experienced slow growth until December 2002.



In the last three months of the financial year, a surge in growth in the portfolio took place, as both the NHFC clients and end beneficiaries discounted the high interest rate.

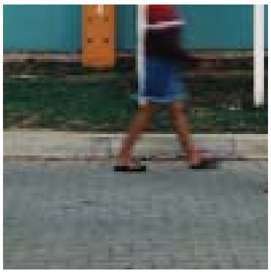
Disbursements continued to lag far behind approvals due to performance related matters or slow take-up by clients. This however, can also be seen as positive for the Corporation in that good money will not be thrown at bad projects. Considerable time and effort is spent in the first instance to resolve the issues, and thereafter, to continue with the disbursements.

Unfortunately in the latter part of the year the Corporation also experienced significant growth in non-performing loans due to:

- **Lack of timely resolution or turning around of some of the significant client performance issues.**

- **Inability of clients to effect outright evictions of non-paying tenants.**

In reporting financial performance, the Corporation has adopted a cautious approach due to the significant challenges of adverse client performance, especially in the Alternative Tenure



division as reflected in the increased provisions.

As a result of the above, the Corporation's total provisions jumped by 191% from the previous year. This is extremely conservative and the Corporation is working with the clients to improve their financial situation.

Financial Results Summary

Net Revenue for the Corporation improved primarily due to the increase in investment income. Group Operating Expenses, declined by 3%, while net income, after tax, increased from R81,3m to R118,4m (46%)

Areas that have disappointed and therefore require further attention:

- **Turn-around of a significant number of housing institutions to ensure better performance on governance, management and financial level;**
- **Concluding the consolidation of three Incremental Housing clients that have experienced significant performance difficulties;**
- **Acceleration of the implementation of the Presidential Job Summit Pilot Housing Project.**
- **Facilitation of an increase in lending by banks in the low and moderate-income housing sector.**

Strategic Positioning of the Corporation

Looking forward, the Corporation is well placed to do certain things differently to ensure that it delivers on its mandate, namely:

- **Aggressively mitigate both the perceived and actual risks of the low income-housing sector in order to facilitate increased bank lending to the sector;**
- **Assist in the financial and institutional capacitation of niche retail intermediaries and housing institutions to ensure their viability;**
- **Initiate pilot programs that will ensure the delivery of new financial products appropriate for the sector;**
- **Fund and support institutions delivering alternative forms of tenure e.g. medium density housing;**
- **Ensure that the NHFC partnerships with corporates, other housing agencies, provinces and local authorities lead to effective delivery; and lastly**
- **Be a sophisticated risk taker and mitigator for the low-income housing sector.**

People

The period under review saw staff of the Corporation identifying and adopting values for the Corporation. The challenge for the following year is to inculcate the values into every aspect of the business.

Top priority in the new year will be the up-skilling of the NHFC key staff to ensure that the Corporation is rich in talent, has depth of management and capacity at all levels.

Outlook

The outlook for 2003-2004 is positive due, in significant measure, to interventions by government.

Removing the requirement for transfer and stamp duties on housing transactions below R140 000 significantly increasing the affordability of housing in the target market, increasing demand. Similarly, a reduction in interest rates will be positive for the sector.

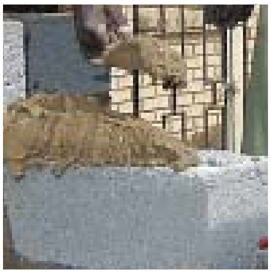
It is anticipated that greater funding will become available through promulgation of the Community Reinvestment Act (CRA), which is currently under discussion with the banks. The NHFC will aggressively facilitate increased lending by banks in the sector. In this regard the Corporation is in the process of rolling out sophisticated risk-mitigating strategies and energetically addressing risk perceptions.

The current year will see the Corporation offering a number of innovative products aimed at providing the low-income households with more choices in terms of both housing finance products and forms of tenure.

The NHFC will aggressively move to ensure more effective delivery by strengthening its partnerships in the target market.

The Corporation is engaging with large corporates in the private sector to provide joint funding in appropriate projects. An example of this is Coega, the industrial development complex and deepwater port that is the single largest infrastructure development project to be undertaken in South Africa since 1994.

The NHFC is proud to be partnering other Development Finance Institutions in providing funding for housing, a project that will bring on-going opportunities for people of the whole region while complying with international environmental standards.



Alternative Tenure Division

The NHFC's Alternative Tenure Division is tasked to provide an affordable housing alternative for people who, for various reasons, cannot own their homes immediately. These reasons range from workers unwilling to settle permanently in the urban areas, to those in need of mobility, and families still planning their finances. The options offered are Rental, Rental with an Option to Buy, and Instalment Sale.

Alternative Tenure provides housing finance to emerging and sustainable social housing institutions for the development of rental and instalment sale housing units. The focus of housing institutions is on long-term financial sustainability and not on short-term profit.

The division's objective is to provide finance to housing institutions and to be a source of best management practice. This includes:

- **Improving capacity of existing intermediaries to expand the delivery and management of affordable housing units (quantity and quality);**
- **Being competitive alternative tenure housing finance specialists;**
- **Providing new financial opportunities in unserviced areas for clients who offer alternative tenure housing options.**

The division offers the following products:

- **Project Loans for Rental and Rent to Buy Installations,**
- **Finance for Instalment Sale Projects,**
- **Presidential Job Summit Pilot Housing Project Finance**

Highlights

Specific achievements in the year under review include the disbursement of funds totalling R79.4m, and approval of new facilities of R146,1m. Housing units completed and occupied numbered 3072, while 1065 were under construction at year end.

Presidential Job Summit Pilot Housing Project

This project was born out of the Presidential Job Summit held in October 1998, at which government, business, labour and civil society committed themselves to work together on a variety of special development initiatives, all of which seek to stimulate economic development and the provision of gainful employment. Housing was identified as one of the key economic growth drivers. From this summit emerged a pilot project intended to develop a minimum of 50 000 and maximum of 150 000 units, of which 75% would be rental and 25% ownership. The first phase consists of 15 000 units in KwaZulu Natal, Mpumalanga and Gauteng.

The NHFC has the responsibility of implementing the Presidential Job Summit Pilot Housing Project. To date, the division has facilitated the establishment of:

- **A Job Summit Project team within the division comprising project management, financial analysis and technical skills;**
- **A National Steering Committee with representatives of the Banking Council, the Private-Public Partnership Unit of the National Treasury, the Department of Housing and Cosatu;**
- **The appointment of transaction advisors to advise on the roll out of the project, including feasibility studies.**

The division has also been instrumental in designing the planning processes for the building of the houses, financial and technical arrangements. The three institutions that have been afforded the right to develop the first phase are:

- **City of Johannesburg - 5000 units**
- **Emalahleni (Witbank) - 5000 units**
- **First Metro (Durban) - 3500 units**

Agreements have been signed with Mpumalanga and KwaZulu Natal Departments of Housing, in terms of which the NHFC will be responsible for the disbursement of subsidies as part of the financial arrangements.

The Emalahleni project has commenced with building on the first site. Negotiations for the financing of the Joshco (Gauteng) and Brickfields (Gauteng) projects are reaching finalisation.

In the current year the division plans to build on this promising foundation to ensure the enhanced delivery to the lower paid segments of society of good quality homes. The division has set the objective of financing more housing units through developing with other institutions to deliver houses in unserviced areas.

Challenges

The fact that social housing is a relatively new concept, with the first housing institutions established around 1997, presents Alternative Tenure with serious challenges, including:

- **Assisting in improving management capacity of housing institutions, that is: training of personnel, controls and mentoring;**

- **Assisting emerging housing institutions with the appropriate capital to undertake the projects that the NHFC funds;**

- **Facilitating the financing of rental stock by major banks; for example through partnerships or joint funding of projects. In this regard, the division has successfully concluded an agreement with Rand Merchant Bank for a 2000 unit rent-to-buy scheme in the Eastern Cape, and is engaged in negotiations with ABSA Bank and Standard Bank for similar deals.**

Home Ownership Division

The Home Ownership Division facilitates ownership of affordable homes. To promote, fund or underwrite home ownership initiatives in the low and medium income sectors, the division works through privately owned and managed intermediaries and partner banking institutions to develop innovative ways of financing home ownership. Potential homeowners can buy existing houses or build new ones. Collateral for this funding is provided by pension fund guarantees, mortgage bonds and insurance cover.

Accredited intermediaries provide mortgage and non-mortgage loans over terms of 8 - 20 years. All new houses that are financed must be enrolled with National Home Builders Registration Council (NHBRC).

The division offers two major financing options:

- **Warehoused lending (wholesale), where facilities are extended to clients to originate housing loans which are funded on their own balance sheets;**

- **The PML model under which the NHFC buys loans from intermediaries that lack the capacity to carry those loans on their own balance sheets for the entire term of the loans.**

Highlights

In the year under review a total of 1331 homes were delivered through the division's financing mechanisms.

There was a need for greater focus on building capacity, both within the division and, most importantly, among PML clients, to ensure that they are sustainable and can improve their lending capacity. The NHFC staff worked with clients on an on-going basis to help rectify any shortcomings found in their operations. Loan audits conducted by the Risk Department of the NHFC ensure sustainability and good governance by providing information for sound decision-making and timely action. Other highlights of the year under review include:

- **The signing of new facilities totalling R140 million with two primary market lenders (PMLs), and with a wholesale lender in Limpopo Province;**

- **Approval by the Executive Committee and Board for the setting up of the Cell Captive, an insurance programme that provides the Corporation with greater protection in terms of its exposure to credit risk.**

Challenges

Detailed planning has focused the department on achieving key objectives in the 2003-2004 year and beyond. Chief among these is to make a high impact on housing delivery by:

- **Increasing home ownership through debt-funding and buying in of loans from intermediaries.**

- **Forming partnerships with private sector financiers.**

- **Accrediting banks and niche lenders and intermediaries through the provision of guarantees and warehouse funding.**

Incremental Housing Division

The Incremental Housing Division offers finance for those who wish to build their homes on an incremental basis or to extend or improve existing property.

Through accredited micro-lenders, the division extends credit for loans that may be used for adding a room, installing a geyser, enhancing security or effecting any other improvement that increases the value of the home.

This division focuses on niche lenders that can target lower income earners and provide funding for improving their homes, buying land or providing top-up credit for discount benefit or capital subsidy beneficiaries.

Highlights

The year was devoted to resuscitating existing relations with clients and developing new ones to achieve a greater impact in the market.

In total the division disbursed R34.1m resulting in granting 2636 individual loans. Interest rates charged differ according to the risk profile of individual end-users and means of collection available to the lender.

While the disbursement figure may seem modest compared with overall demand, the division is performing a much-needed function in a difficult target market that is vulnerable to job losses.

Further, incremental housing provides the NHFC with the highest returns in terms of interest earned on loans and is responsible for the second highest income after investments.

Looking at what the NHFC wants to achieve in the next 2 - 5 years and also at the need for stable long-term institutions in the market, the division has given priority to helping the institutions that are the Corporation's primary clients. In particular it has assisted in the development of plans for the possible consolidation of clients considered unsustainable on their own. These clients are facing similar problems and challenges, and it is felt they could achieve more by co-operating rather than competing in the same market.

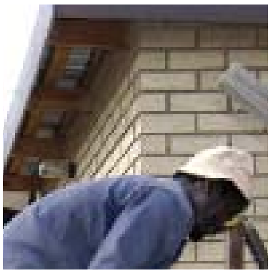
The division's on-going educational and capacity-building programmes, with the assistance of the Capacity Development and Support Programme (CDSP), continue to provide significant benefits to emerging lenders. Specific courses have been given in financial management and the training of loan officers. In addition, the lender network created by the division has enabled intermediaries to, for instance, share information about best practices. Improper use of loan funds for purposes other than incremental housing remained a concern during the year, but evidence is that measures taken and maintained helped to contain the incidence of the problem.

Challenges

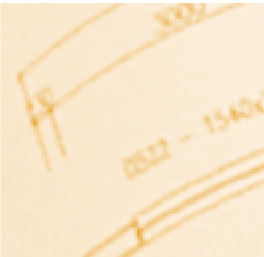
It remains the division's aim to increase the number as well as the capacity of viable providers of incremental housing loans throughout the country. This is a formidable challenge given that it is the very nature of the micro-lending environment that loans from intermediaries to end-users can rarely, if ever, be secured.

Margins are low for the level of risk. The division is nevertheless committed to the development of creative solutions and, in this regard, is confident that three new intermediaries which have received approval for the NHFC funding will perform to acceptable standards.

Staff are fully committed to meeting future challenges by continuing to extend the frontiers of properly risk-managed lending, in order to better meet the incremental housing needs of a growing proportion of lower-income earners throughout South Africa.



Policy and Research



Identifying high-priority research needs and tackling projects in a way that utilises scarce resources most effectively were the key focus issues in the Policy and Research division in the year under review.

The Policy Research & Information System (PRIS) is in an advanced stage of development. The system will provide a methodological framework within which all research needs and projects are integrated with a business process. This is designed to ensure that management and creative output are measured against performance targets.

A corporate impact study facilitated by the department measured the effectiveness of the NHFC in achieving its desired impact on the environment as specified by its mandate, vision, mission and programmes.

The study concluded that the impact of finance provided by the NHFC in improving the housing circumstances of recipient households is significant. Improvements were seen in terms of tenure, type of dwelling and access to services.

Among other key research projects undertaken by the department was the Rental Default Study, the first of its kind in South Africa.

The study obtained from end-users the underlying reasons why defaults occur. It also looked at the position of the intermediaries that advanced the funds, to see if they had adequate capacity and systems to deal effectively with defaulters.

Following the first survey of end-user needs and perceptions in 1999, the NHFC completed a second such exercise during the year under review. This empirical study provided detailed information on trends that have a fundamental bearing in developments in this critical sector. One of the pleasing results is that end-users in 2002 had a more positive outlook on the housing situation than they did in 1999.

Strategic Policy

Its exposure to the lower-income sector and consequent level of unique experience and development of skills have positioned the NHFC to provide policy input and guidance in the form of research data, and has assisted in the development of the Home Loan Mortgage Disclosure Regulations.

The NHFC has also given support to the Community Reinvestment Bill since the first recommended legislative reform back in 1999.

Both of these efforts are part of the larger objective of contributing to the Department of Housing in its task of reshaping housing policy to be sustainable, compassionate and which meets social, economic and cultural needs of South Africans.

Leadership

The Policy and Research division is supporting the NHFC's leadership role in the housing finance market through the publication of quality information and analysis. Key issues include opportunities and constraints and how both are best dealt with.

This information is circulated principally through the department's publications, which include three quarterly newsletters, the Primary Market Monitor, the Microfinance Review and the NHFC Housing Market Bulletin.

Treasury and Risk Management

The establishment during the year under review of the Treasury Department has sharpened the Corporation's focus on effective risk management and product development within a structured framework of pro-active participation in the market.

Under the auspices of the Finance and Risk Management Committee, which is responsible for managing the Corporation's assets and liabilities, the Treasury Department has worked to:

- **Ensure sufficient liquidity for lending operations;**

- **Minimise liquidity risks,**

- **Minimise transaction costs, bank charges etc.**

Since inception the Treasury Department has participated in wide-ranging discussion on key issues such as investment strategy, the return on and duration of portfolios, and averting mismatches in cashflows.

The greater attention paid to these issues and the diversification of the Corporation's investment portfolios are forecast to produce significantly higher returns in the immediate and longer terms.

Indeed, strong growth in the investment revenue contributed meaningfully to the Corporation's income in the year under review.

The role of risk management was elevated through increased capacity.

This resulted in an improved ability to track and manage credit and operational risk across the Corporation's clients. The risk management process continues to mature, with further investments in both people and technology assisting all business units during a volatile year.

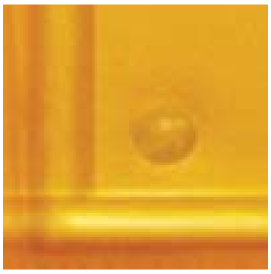
The Risk Department is currently implementing a risk rating system across all business units; this will improve efficiency in processing increased transaction volumes.

A significant achievement was the establishment of an insurance programme in the form of a Cell Captive vehicle that allows for better management of credit risk within a ring-fenced environment.

By providing a flexible insurance policy for protection against bad debt exposure, the programme enhances the Corporation's financial stability.

The micro-finance industry is investigating industry-based credit scoring methods.

This endeavour will harmonise the consumer credit rating and granting, and will limit concentration risk among micro finance institutions.



Financial Support Services

During the year under review, the Financial Support Services Division (FSS), previously known as Finance and Support Services, made progress in its aim to achieve world-class performance in all areas of activity, including finance and accounting, credit, procurement and administration.

Delivery of complete and accurate financial information, including financial forecasts and budgets, is key to informed business decisions that produce the right result at the right time, in terms of both new and repeat business. Accordingly, FSS has three overriding objectives:

- **To provide a comprehensive credit management service to all business units;**
- **To support all business units with financial analysis expertise and information;**
- **To provide accurate, timeous and appropriate financial reports to all business units and stakeholders.**

An indication of the attainments of the division is that the internal audit conducted by KPMG found no unresolved issues, confirming the high standard of internal control systems and procedures implemented by FSS.

Human Resources

An innovative programme saw all staff participating in a values programme aptly called **TOP ACT** for the six key values staff identified and committed to in a values workshop held in May 2002: **T**rustworthiness, **O**penness to new ideas, **P**assion for purpose, **A**ccountability, **C**ompetence and **T**eamwork.

The Top Act campaign consisted of a monthly values focus, participative team activities and a newsletter.

The Corporation has continued to seek enhancement of the performance management system by making it more measurable. In this regard, too, the focus is shifting from job descriptions to job competency to help meet the objectives of the NHFC.

A significant achievement during the year was the adoption of an HIV/Aids policy and programme approved by the Executive Committee. This voluntary and interface programme is confidential, open to all staff and provides off-premises testing, counselling and medication.

Corporate Marketing and Communications

The requirement for the Corporation to mobilise funds from outside the public sector has led to the development of a new marketing and communications strategy aimed at building credibility and raising the Corporation's profile with banking institutions and other private sector potential partners.

It is important for these potential partners to know that the NHFC intermediaries are accredited by an institution that is South Africa's greatest repository of expertise in this market segment.

Key marketing initiatives being undertaken involve:

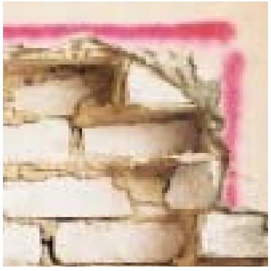
- **Brand Development and Positioning;**
- **Customer Relationship Management and Marketing; and**
- **Shareholder Positioning and Relationship Building.**

A detailed plan has been drawn up to direct the department's communications to those media that exert the biggest influence on people in the targeted organisations, which include financial institutions, employers, development finance institutions and donor organisations, housing and housing finance practitioners, and the media itself.

In support of the NHFC's commitment to housing consumer education and product innovation within housing finance lenders, the department sponsored the first annual lender competition launched by the Micro Finance Regulatory Council (MFRC).

The department also participated in various conferences and exhibitions, and arranged for 15 the NHFC volunteers to build a low-cost house as part of the housing drive by the US-based non-government organisation Habitat for Humanity.

Communications and marketing support to the NHFC's business units has been extended, and internal communications channels for staff have undergone a major revamp, including the roll-out of a corporate values campaign, quarterly staff briefing sessions, and the publication of a regular newsletter from the CEO's desk.



Introduction

The statement on corporate governance will focus on the NHFC's structures and culture of governance in order to ensure that the Corporation reports appropriately to the shareholder and all interested parties.

Principles of Corporate Governance and Structures

The NHFC Board and management re-affirm their commitment to the principles of integrity and accountability, openness and the provision of timeous, relevant and meaningful reporting to all stakeholders.

The Board ensures that the business of the NHFC is conducted in accordance with high standards of corporate governance and in line with internationally and locally accepted corporate governance practices. Some of these standards are aptly captured in the Code of Ethics adopted by the Corporation and the Board, as well as in the Corporation's established systems of internal control and procedures.

With effect from April 2002 the second King Report on Corporate Governance for South Africa (King 2) has been applicable. The Board and management have reviewed the NHFC's corporate governance and taken steps to ensure compliance. The Board is of the view that the Corporation adheres as much as practicable to the Code of Corporate Practices and Conduct contained in King 2.

The principles contained in King 2 are reflected in the Corporation's corporate governance structures, which are reviewed from time to time to take into account the latest changes in international developments in the field of corporate governance. It is the policy of the Board and management to actively review and enhance the Corporation's systems of control and governance on a continuous basis to ensure that the business is managed ethically and within prudent risk parameters in conformity with internationally accepted standards of best practice.

The NHFC Board comprises eight members, seven of whom are non-executive directors under the Chairmanship of Mr Eric Molobi. The Board members bring to the Board a wide range of expertise including significant financial, legal, and management experience, as well as independent perspectives and judgment.

The Board is responsible to the shareholder for setting the direction of the Corporation through the establishment of strategic objectives and key policies.

The Board monitors the implementation of strategies and policies through a structured approach to reporting on the basis of agreed performance criteria and defined, written delegation to management for the detailed planning and implementation of such objectives and policies. The Board meets quarterly, or more frequently if circumstances so require, to review the following:

- **Matters specifically reserved for its decision;**
- **To consider issues of strategic direction;**
- **Approval of major capital expenditure; and**
- **Approval of financial and operational results.**

The Board fulfils its role, duties, and functions with due regard to the Director's fiduciary responsibilities to the NHFC.

The Directors also have a duty to become fully acquainted with all issues pertaining to the operations of the

NHFC to enable them to properly fulfil their duties.

As required by the King 2 Report all Directors have access to the advice and services of the Company Secretary and are entitled to seek independent professional advice concerning the affairs of the NHFC.

The Board has established a number of standing committees, which are ultimately answerable to the Board, namely:

- **The Executive Committee;**
- **The Audit and Risk Committee;**
- **The Human Resources, Ethics and Remuneration Committee;**
- **The Board Credit Committee; and**
- **The Financial Risk Management Committee.**

The Executive Committee

This committee is constituted to assist the Chief Executive Officer (CEO) in managing the business of the NHFC subject to statutory limits and the Board's limitations on delegation of authority to the CEO. The Executive Committee assists the CEO in guiding and controlling the overall direction of the business of the NHFC and acts as a medium of communication and co-ordination between the business units.

The Audit and Risk Committee

The Audit and Risk Committee comprises of two non-executives and one executive member. A non-executive member chairs the Committee. Four Audit and Risk Committee meetings were held during the course of the 2002/3 financial year. These meetings are normally attended by the external auditors, the Chief Financial Officer, the Treasurer, internal audit and other relevant executive managers. In line with the recommendations of the King 2 Report this Committee also looks at ensuring that an effective and integrated risk management process is implemented.

The Committee monitors the quality and integrity of financial and risk reporting. It also reviews the efficacy of the internal audit function and is responsible for the evaluation of the independence, objectivity, and effectiveness of the external auditors as well as the review of accounting and auditing concerns identified by internal and external audits. The Committee reviews the annual financial statements and recommends approval by the Board.

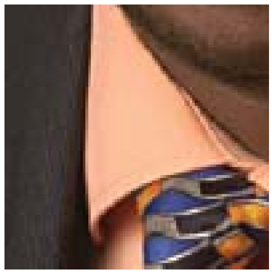
The Human Resources, Ethics and Remuneration Committee

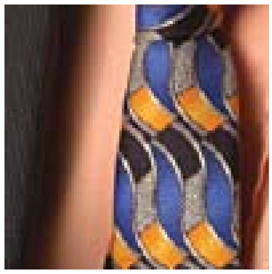
The Committee comprises three non-executive directors and the CEO and an independent non-executive director chairs it, its functions are to:

- **Influence and approve human resources policies and strategies and monitor compliance with the Employment Equity Act, 55 of 1998;**
- **Make recommendations to the shareholder on the remuneration policy for executive and non-executive directors; and**
- **Monitor the ethical conduct of the company, its management and employees.**

The Board Credit Committee

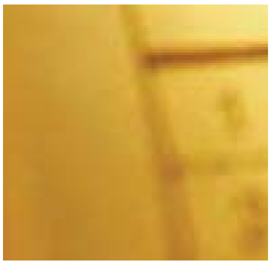
The Committee comprises of two non-executive directors, one co-opted industry specialist and the CEO. An independent non-executive director chairs it. In the last financial year the Committee met six times.





The Committee has decision-making authority in respect of the granting of loan facilities in excess of R20m per client, subject to the prior recommendation of the Management Credit Committee. The role of the Committee is to oversee credit risk management and the approval of the credit policy.

Financial Risk Management Committee



This Committee is chaired by the CEO and provides strategic direction on the NHFC's asset and liability management activities within a defined risk appetite in order to strengthen the Corporation's financial position. The Committee relies very strongly on the expertise and guidance of Treasury and Financial Support Services.

Management Credit Committee

This Committee is chaired by the CEO and meets at least twice a month for the consideration and approval of loan facilities, approval of credit policies and to make recommendations to the Board Credit Committee on applications in excess of the R20m limit.

The Committee is responsible for ensuring adherence to credit and default procedures and the collection of outstanding amounts.

Procurement Committee

This is a management sub-committee, which was formed to ensure compliance with the procurement policies of the Corporation. The Committee ensures that there is meaningful Black Economic Empowerment when service providers are approved and ensures fairness and transparency in the selection of business suppliers.

The Public Finance Management Act (PFMA)

The NHFC is governed by the Public Finance Management Act (PFMA), which focuses on the financial management with related outputs and responsibilities.

The directors comply with their fiduciary duties as required by the Act. Responsibilities of the Board as the accounting authority in terms of the provisions of the Act and its regulations include taking appropriate action to ensure:

- **Effective, efficient and economic transparent systems of financial and risk management, and internal control are in place;**

- **Implementation of appropriate and effective measures to prevent unauthorised, irregular, fruitless and wasteful expenditure, losses from criminal conduct and expenditure not complying with legislation; and**

- **Allocation of resources in economic, efficient, effective and transparent measures.**

The NHFC adherres as much as practical to the various duties and responsibilities as prescribed by the PFMA.

The NHFC Code of Ethics

The following are important aspects of the NHFC's Code of Ethics, a copy of which will be made available on request. Any contravention of the Code of Ethics is viewed as a serious matter. These sections are critical for proper governance:

Statement of Corporate Governance (cont.)

Conflict of Interest

The NHFC expects its management and employees to perform their duties in the best interests of the company and not to use their positions, or knowledge gained during the course and scope of their employment with the company for private or personal advantage.

Outside Activities and Business Interests

The NHFC encourages its employees to be active members in their communities and to participate in a variety of religious, sporting, cultural, and other activities. However such activities must not adversely affect the employees work activities.

The same consideration applies to an employee acquiring an external business interest. In such a case, the employee concerned must scrupulously avoid any conflict with the NHFC's interests.

Employees are required to declare any outside business interest e.g. shareholding, partnership, sole proprietorship, directorship, etc. to the Company Secretary.

Employees invited to hold outside directorships must also obtain advance approval from the Chief Executive Officer.

Gifts, Hospitality and Favours

An employee should not accept or solicit any extravagant gifts, hospitality or other favours from suppliers of goods and services. However the offering of the following is not contrary to the Code of Ethics:

- **Occasional entertainment of an employee and their spouse or partner, including hospitality such as tickets to local sporting events or theatre;**

- **Accommodation associated with a visit by the client, representative and their spouse or partner to the Corporation's operations; and**

- **Advertising material of limited commercial value.**

Integrated Risk Management

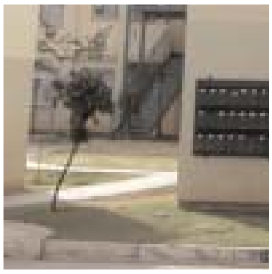
The NHFC Board delegated the risk management function to the Audit and Risk Committee. This Committee is responsible for the identification of risk areas and to report thereon for management's attention.

Internal Control

The NHFC board acknowledges that it bears ultimate responsibility for the Corporation's systems of internal and financial control. Adequate systems have been designed to provide reasonable assurance against inaccurate internal financial information and other irregularities as well as to ensure the accuracy and integrity of the Corporation's financial records.

General

The NHFC recognises that corporate governance is a dynamic area and, as such, its systems of corporate governance are reassessed on an on-going basis to ensure that they are on a world-class level and continue to be relevant to the business of the NHFC as it evolves.



Record of Attendance of Meetings

Directors	Board	Audit Committee	Board Credit Committee	Human Resource, Ethics & Remuneration Committee
Number of Meetings	4	5	5	1
Mr Eric Molobi	3	-	-	1
Mr Dev Botha[1]	-	-	5	-
Mr Mandla Gantsho[2]		5	-	-
Prof. Michael Katz	3	-	-	1
Ms Mpumi Nxumalo	0	-	-	-
Mr Mziwonke Dlabanthu[3]	3	-	-	-
Ms Nocawe Makiwane	4	-	4	1
Ms Nonhlanhla Mjoli-Mncube[4]	2	-	3	-
Mr Samson Moraba	4	5	5	1
Mr Sizwe Tati	4	5	5	-

[1] Non-executive industry specialist

[2] Resigned as Board Member w.e.f 1 April 2003

[3] Alternate to DG Ms Nxumalo

[4] Not a BCC member w.e.f September 2002

National Housing Finance Corporation

Registration Number: 1996/005577/06

Consolidated Annual Financial Statements

For the year ended 31 March 2003

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Annual Financial Statements

NATIONAL HOUSING FINANCE CORPORATION LTD.

Statement of Responsibilities & Approval

The Public Finance Management Act of 1999 (“PFMA”) requires the directors to ensure that the National Housing Finance Corporation (NHFC) keeps a full and proper record of its financial affairs. The annual financial statements should fairly present the state of affairs of the NHFC, its financial results, and its financial position at the end of the year in terms of Generally Accepted Accounting Practice.

The annual financial statements are the responsibility of the Directors. The external auditors are responsible for independently auditing and reporting on the financial statements.

The annual financial statements of the NHFC have been prepared in terms of the Statements of South African Generally Accepted Accounting Practice and the Companies Act. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates and are prepared on the going concern basis. The directors have every reason to believe that the group will be a going concern in the year ahead.

To enable the Directors to meet the above responsibilities of the NHFC, the Board of Directors sets standards and ensures that sound systems of internal control are implemented by management.

The controls are designed to provide cost effective assurance that assist in the safeguard of assets and that liabilities and working capital are efficiently managed. Policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities and contain self-monitoring mechanisms.

The controls throughout the NHFC focuses on those critical risk areas which are identified by operational risk management and confirmed by executive management. Both management and Internal Audit closely monitor the controls and ensure actions are taken to correct deficiencies as they are identified.

The Directors are of the opinion, based on the information and explanations given by Management and Internal Audit, and discussions with the Independent External Auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities are maintained.

Nothing has come to the attention of the Directors, other than the significant matters referred to in the Directors’ report, to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

In the opinion of the Directors, based on the information available to date, the annual financial statements fairly present the financial position of the NHFC at 31 March 2003, and the results of its operations and cash flow information for the year.

The annual financial statements of the NHFC for the year ended 31 March 2003, set out on pages 32 to 55, have been approved by the Board of Directors and signed on their behalf on 26 June 2003 by:

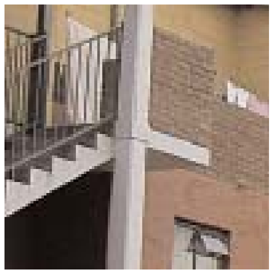
Mr E. Molobi - Chairman

Mr S. S. Moraba - Chief Executive

Report of the Independent Auditors

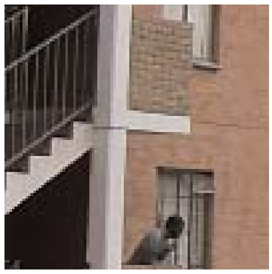
To the Minister of Housing

We have audited the group annual financial statements and the company annual financial statements of the National Housing Finance Corporation Limited set out in pages 30 to 55 for the year ended 31 March 2003. The annual financial statements are the responsibility of the NHFC's accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit. The performance information is the responsibility of the accounting authority. Our responsibility is to express an opinion on whether the performance information furnished in terms of sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, is fair in all material respects and, on a basis consistent with that of the preceding year.



Scope

We conducted our audit in accordance with the Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 60 and 61 of the Public Finance Management Act, 1 of 1999, as amended, have been complied with. An audit includes:



- **examining, on a test basis, of evidence supporting the amounts and disclosures in the financial statements;**
- **assessing of the accounting principles used and significant estimates made by management;   and**
- **evaluating of the overall financial statement presentation.**

We believe that our audit proves a reasonable basis for our opinion.

Audit opinion

In our opinion:

- **the financial statements fairly represent, in all material respects, the financial position of the NHFC at 31 March 2003. The results of their operations and cash flows for the year ended in accordance with the South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act, 61 of 1973 in South Africa, and the Public Finance Management Act , 1 of 1999, as amended;**
- **The performance information of the NHFC in terms of section 55(2)(a) of the Public Finance Management Act, 1 of 1999 as amended, fairly represents in all material respects the NHFC's performance for the year ended 31 March 2003 against predetermined objectives. Also where applicable, consistent with that of the preceding year.**

NATIONAL HOUSING FINANCE CORPORATION LTD.

- **The transactions of the NHFC that have come to the auditor's attention during auditing were in all material respects in accordance with mandatory functions of the NHFC, as determined by law or otherwise.**

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg

26 June 2003

KPMG Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg

26 June 2003

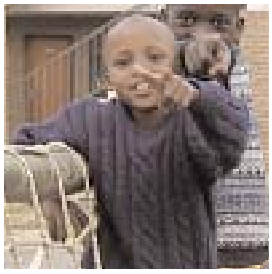
Report of the Audit Committee

Report of the Audit Committee in terms of regulations 27(1)(1))(b) and (c) of the Public Finance Management Act, 1 of 1999 as amended.

The Audit Committee reports that it has adopted appropriate formal terms of reference as its audit committee charter. It has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

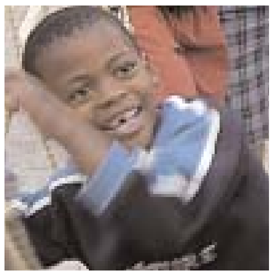
In the conduct of its duties, the Audit Committee has, inter alia, reviewed the following:

- **The effectiveness of the internal control systems;**
- **The effectiveness of internal audit;**
- **The risk areas of the entity's operations to be covered in the scope of internal and external audits;**
- **The adequacy, reliability and accuracy of financial information provided to management and other users of such information;**
- **Any accounting and auditing concerns identified as a result of internal and external audits;**
- **The entity's compliance with legal and regulatory provisions;**
- **The activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and**
- **Where relevant, the independence of and objectivity of the external auditors.**



Nothing has come to the attention of the Audit Committee, to indicate that a material breakdown in the functioning of the internal controls, procedures and systems has occurred during the year under review.

In the opinion of the Audit Committee, the internal controls have laid down procedures with regard to the NHFC which are considered to be appropriate in all material respects:



- **Meet the business objectives of the NHFC;**
- **Ensure the group's assets are adequately safeguarded; and**
- **Ensure that transactions undertaken are recorded in the group's records.**

NATIONAL HOUSING FINANCE CORPORATION LTD.

The Audit Committee has evaluated the annual financial statements of the NHFC for the year ended 31 March 2003 and based on the information provided to the Audit Committee, considered that they comply in all material respects to the requirements of the Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, 1 of 1999, as amended and the South African Statements of Generally Accepted Accounting Practice. The Audit Committee concurs that the adoption of the going concern premise in framing the annual financial statements is appropriate. The Audit Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors at their meeting on 19 June 2003.

Mr M. Gantsho CA (SA)
Chairman
19 June 2003

Report of the Directors

The Directors have pleasure in submitting their report together with the Groups' audited financial statements for the year ended 31 March 2003.

General Review

The Corporation is incorporated in terms of the Companies Act, 1973 as amended. The main business of the Corporation is wholesale funding for housing finance purposes. During the year under review, the NHFC acquired the underlying fixed assets, loan book and liabilities of Gateway Home Loans (Proprietary) Limited, a wholly owned subsidiary, at book value, as part of the final restructuring of the Corporation. The business and activities of the Corporation for the year are reviewed in the Chief Executive's report as set out on pages 10 to 12 of this report.

Financial Results

The financial results of the Corporation for the year under review are set out on pages 32 to 55 of these financial statements.

Share Capital

There were no changes in the authorised and issued share capital of the Corporation during the year under review.

Provisions And Reserves

The surplus arising from investment income, net of operational expenses, from the Job Summit funding amounting to R20 536 911 (2002: R1 447 538), and has been credited to the Income Statement, but separately disclosed in the Statement of Changes in Equity on page 36.

In compliance with Generally Accepted Accounting Practice, the General Risk Reserve, a secondary reserve, was transferred to Distributable Reserves in the year under review.

This transfer is shown on the Statements of Changes of Equity on page 36 of the financial statements. A general doubtful debts provision of R12 810 789 (2002: R10 660 585) has been established against credit risk on advances not specifically identified as doubtful. Specific provisions for doubtful debts have been increased to R51 268 411 (2001: R11 311 832) to provide against specific higher risk advances to certain housing institutions.

Dividends

All profits are retained by the Corporation to allow for maximum utilisation of funds in pursuit of its mission, as such funds are deemed to be part of government's ongoing commitment to the mission of the Corporation. The dividend policy is adopted in terms of an agreement with the Shareholder, and is subject to annual review by the Board and the shareholder.

As in the prior year, it is deemed essential to continue to enhance the Corporation's capital base in order to increase the impact of its activities, and consequently no dividend has been declared for the year under review.

The following served as directors of the Company at the financial year-end:

Mr. E Molobi
(Chairman)

Mr. SS Moraba
(Chief Executive)

Prof. MM Katz

Ms. NE Makiwane

Ms. N Mjoli-Mncube

Ms. M Nxumalo
(Alternate: Mr M. Dlabantu)

Mr. S A Tati

Mr. M Gantsho
(resigned 31 March 2003)

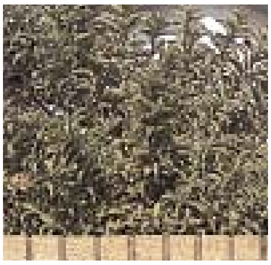
Company Secretary

V Langa

Business Address:

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

Postal Address:
PO Box 31376
Braamfontein
2017



Board Committees

Audit and Risk Committee	Board Credit Committee	Human Resource, Ethics & Remuneration Committee
M Gantsho (Chair)	S A Tati (Chair)	M M Katz (Chair)
S S Moraba	S S Moraba	E Molobi
S A Tati	N E Makiwane	
	J H D Botha	

Post Balance Sheet Events

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

Statement by the Company Secretary

In terms of Section 268G(d) of the Companies Act, 61 of 1973, Icertify that the Corporation has 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 true, correct and up to date.

Mr V. Langa
Company Secretary

Balance Sheets

As at 31 March 2003

	Notes	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
ASSETS					
Non-current assets		707 393 396	680 389 292	855 555 833	751 688 222
Advances	3	549 787 899	531 090 267	549 787 899	354 351 266
Investment in subsidiary	4	-	-	148 162 437	248 373 192
Investment in joint venture	5	8 000 000	8 000 000	8 000 000	8 000 000
Trading securities	6	138 857 280	127 990 761	138 857 280	127 990 761
Derivative instruments		456 247	10 374 321	456 247	10 374 321
Fixed assets	7	3 804 424	2 933 943	3 804 424	2 598 682
Deferred taxation	21.3	6 487 546	-	6 487 546	-
Current assets		1 689 412 426	1 251 155 187	1 547 225 718	1 201 184 607
Accounts receivable	8	44 598 945	48 623 794	25 734 162	25 644 847
Investments	9	1 343 622 949	836 190 245	1 244 916 006	717 587 317
Bank balances and cash		286 206 753	362 389 709	259 814 210	454 001 004
Taxation	22.2	14 983 779	3 951 439	16 761 340	3 951 439
TOTAL ASSETS		2 396 805 822	1 931 544 479	2 402 781 551	1 952 872 829
EQUITY AND LIABILITIES					
Capital and reserves		1 738 269 917	1 619 805 199	1 744 265 646	1 642 891 338
Share capital	10	841 873	841 873	841 873	841 873
Share premium	11	879 158 187	879 158 187	879 158 187	879 158 187
Grant capital	12	200 000 000	200 000 000	200 000 000	200 000 000
Distributable reserves		658 269 857	489 805 139	664 265 586	512 891 278
Secondary reserves	13	-	50 000 000	-	50 000 000
Minority interest		-	-	-	-
Non-current liabilities		564 863 574	300 979 091	564 863 574	300 979 091
Government grants	14	225 000 000	150 000 000	225 000 000	150 000 000
Deferred income	15	43 685 867	46 278 363	43 685 867	46 278 363
Long term liabilities	16	296 177 707	100 000 000	296 177 707	100 000 000
Deferred taxation	21.3	-	4 700 728	-	4 700 728
Current liabilities		93 672 331	10 760 189	93 652 331	9 002 400
Accounts payable		93 672 331	10 760 189	93 652 331	9 002 400
TOTAL EQUITY & LIABILITIES		2 396 805 822	1 931 544 479	2 402 781 551	1 952 872 829

NATIONAL HOUSING FINANCE CORPORATION LTD.

Income Statements

For the year ended 31 March 2003

	Notes	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
REVENUE	17	260 004 936	222 905 047	242 136 207	213 582 712
Finance costs	18	(16 639 374)	(17 786 859)	(16 639 374)	(16 597 842)
NET INTEREST INCOME		243 365 562	205 118 188	225 496 833	196 984 870
Provision for doubtful debts		(45 358 779)	(4 841 677)	(45 358 779)	(4 353 571)
NET INCOME		198 006 783	200 276 511	180 138 054	192 631 299
Net investment trading income/(loss)		20 649 970	(19 915 321)	20 649 970	(19 915 321)
OPERATING INCOME		218 656 753	180 361 190	200 788 024	172 715 978
Operating costs		(56 082 665)	(57 707 299)	(55 967 584)	(48 969 695)
NET INCOME BEFORE TAXATION	19	162 574 088	122 653 891	144 820 440	123 746 283
Taxation	21	(44 109 370)	(41 303 426)	(43 446 132)	(40 118 920)
INCOME AFTER TAXATION		118 464 718	81 350 465	101 374 308	83 627 363

Statements of Changes in Equity

For the year ended 31 March 2003

	Notes	Ordinary Share Capital R	Share Premium R	Grant Capital R	Secondary Reserves R	Distributable Reserves R	Minority Interest R	Total R
GROUP								
Balance 31 March 2001 as previously stated		841 873	879 158 187	-	50 000 000	315 458 239	3 827 780	1 249 286 079
Change in accounting policy	2					32 148 563	-	32 148 563
Balance 31 March 2001 restated		841 873	879 158 187	-	50 000 000	347 606 802	3 827 780	1 281 434 642
Transfer of reserves as a result of the restructure		-	-	200 000 000	-	60 847 872	-	260 847 872
Net profit for the year - Job Summit Housing Project	14	-	-	-	-	1 447 538	-	1 447 538
Net profit for the year		-	-	-	-	79 902 927	(3 827 780)	76 075 147
Balance 31 March 2002 - Restated		841 873	879 158 187	200 000 000	50 000 000	489 805 139	-	1 619 805 199
Balance 31 March 2002 as previously stated		841 873	879 158 187	200 000 000	50 000 000	471 597 301	-	1 601 597 361
Change in accounting policy	2					18 207 838	-	18 207 838
Secondary reserves to Distributable reserves		-	-	-	(50 000 000)	50 000 000	-	-
Net profit for the year - Job Summit Housing Project	14	-	-	-	-	20 536 911	-	20 536 911
Net profit for the year		-	-	-	-	97 927 807	-	97 927 807
Balance 31 March 2003		841 873	879 158 187	200 000 000	-	658 269 857	-	1 738 269 917
COMPANY								
Balance 31 March 2001 as previously stated		841 873	879 158 187	-	50 000 000	336 267 480	-	1 266 267 540
Change in accounting policy	2					32 148 563	-	32 148 563
Balance 31 March 2001 restated		841 873	879 158 187	-	50 000 000	368 416 043	-	1 298 416 103
Transfer of reserves as a result of the restructure		-	-	200 000 000	-	60 847 872	-	260 847 872
Net profit for the year - Job Summit Housing Project	14	-	-	-	-	1 447 538	-	1 447 538
Net profit for the year			-	-	-	82 179 825	-	82 179 825
Balance 31 March 2002 restated		841 873	879 158 187	200 000 000	50 000 000	512 891 278	-	1 642 891 338
Balance 31 March 2002 as previously stated		841 873	879 158 187	200 000 000	50 000 000	494 683 440	-	1 624 683 500
Change in accounting policy	2					18 207 838	-	18 207 838
Secondary reserves to distributable reserves		-	-	-	(50 000 000)	50 000 000	-	-
Net profit for the year - Job Summit Housing Project	14	-	-	-	-	20 536 911	-	20 536 911
Net profit for the year		-	-	-	-	80 837 397	-	80 837 397
Balance 31 March 2003		841 873	879 158 187	200 000 000	-	664 265 586	-	1 744 265 646

NATIONAL HOUSING FINANCE CORPORATION LTD.

Cash Flow Statements

For the year ended 31 March 2003

	Notes	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
CASH FLOWS FROM OPERATING ACTIVITIES		206 241 363	158 020 220	109 295 342	147 287 889
Cash generated by / (utilised in) operations	22.1	18 165 793	9 530 362	(63 010 298)	5 883 867
- Interest received		248 980 248	211 679 453	230 769 519	202 117 618
- Interest paid		(16 639 374)	(17 786 859)	(16 639 374)	(16 597 842)
- Taxation paid	22.2	(44 265 304)	(45 402 736)	(41 824 505)	(44 115 754)
CASH FLOWS FROM INVESTING ACTIVITIES		(2 952 426)	(16 775 394)	(2 952 426)	(16 759 089)
Additions to fixed assets	7	(2 841 152)	(1 382 626)	(2 841 152)	(1 366 321)
Inflow on disposal of fixed assets		24 358	107 232	24 358	107 232
Net outflow from acquisition of investment		-	(15 500 000)	-	(15 500 000)
Inflow on disposal of R184's		130 116 854	-	130 116 854	-
Net outflow from acquisitions of R194's		(129 244 827)	-	(129 244 827)	-
Inflow on disposable R194's		128 730 247	-	128 730 247	-
Net outflow from acquisition of R153's		(129 737 906)	-	(129 737 906)	-
CASH FLOWS FROM FINANCING ACTIVITIES		206 277 714	279 807 388	206 277 714	294 174 670
Cash (outfflow)/ inflow from restructuring	23	(64 899 993)	144 174 670	(64 899 993)	144 174 670
Grant funds received		75 000 000	150 000 000	75 000 000	150 000 000
Proceeds from repayment of long-term lending		-	(14 367 282)	-	-
Provincial subsidies received for the Job Summit		196 177 707	-	196 177 707	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		409 566 651	421 052 214	312 620 630	424 703 470
Cash and cash equivalents at beginning of year		1 220 263 051	777 527 740	1 192 109 586	746 884 851
CASH & CASH EQUIVALENTS AT END OF YEAR	22.3	1 629 829 702	1 198 579 954	1 504 730 216	1 171 588 321

NATIONAL HOUSING FINANCE CORPORATION LTD.

1. Accounting Policies

The principal accounting policies adopted in the presentation of these consolidated financial statements are set out below:

1.1 Basis of presentation

The consolidated financial statements are prepared in accordance with General Accepted Accounting Practice. The consolidated financial statements are prepared on a basis consistant with the prior yea r, under the historical cost basis except for certain financial instruments as explained in Note 1.13.1.

1.2 Group accounts

Subsidiary companies in which the Group, directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated.

1.3 Joint Venture

The Group's interest in a jointly controlled entity is accounted for by the equity method of accounting. Equity accounting involves recognising, in the income statement, the Group's share of the joint venture's profit or loss for the period. The group's interest in the joint venture is carried in the balance sheet at an amount that reflects the net assets of the joint venture.

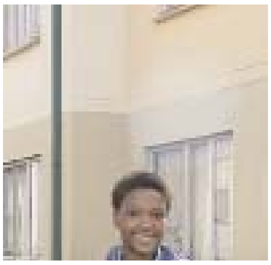
Further details regarding the Group's joint venture are shown in Note 5 in the annual financial statements.

1.4 Loans and advances

Loans and advances are recognised when cash is advanced to borrowers. Advances are reflected at the outstanding capital amounts advanced and accrued finance charges, after deductions of specific provisions to cover identified doubtful debts. A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, including amounts recoverable from guarantees and collateral. If the amount of the impairment subsequently decreases due to an event occurring after the write down, the release of the provisions is credited to the bad and doubtful debt expense. Provisions for credit risk losses are charged to the income statement.

1.5 Goodwill

Goodwill arising on consolidation rep-



resents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis following an assessment of its useful life.

Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary or jointly controlled entity, the attributed amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

1.6 Revenue recognition

Revenue is recognised in the financial statements on the following basis:

- **Interest income is recognised on a time proportion basis applying the effective yield of the asset;**

- **Dividend income is recognised once the right to receive the payment has been established; and**

- **Fee income and commissions exclusive of Value Added Tax are recognised as and when such income is earned.**

1.7 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases;

- **The Group as a lessor:**
Rental income from operating leases exclusive of Value Added Tax is recognised in the income statement as and when such income is earned.

- **The Group as a lessee:**
Rentals payable under operating leases are charged to operational income when incurred.

Operational lease commitments are reflected in note 24 to the annual financial statements.

1.8 Government grants

On restructuring of the group and Corporation the acquisition of share capital in the restructured entities was accounted for as capital grants from Government.

1.9 Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

1.10 Taxation

The charge for current tax is based on the results for the year as adjusted for items, which are not taxable or disallowed. It is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.11 Fixed Assets and Depreciation

All fixed assets are stated at cost less accumulated depreciation.
Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Computer equipment 33.33%
Computer software 33.33% to 100%
Furniture, fixtures and office equipment 16.67%
Motor vehicles 25%

Leasehold improvements are amortised over the remaining period of the lease:

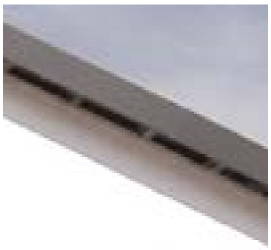
Leasehold improvements 20% to 100%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

1.12 Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.



1.13 Financial instruments

1.13.1 Financial assets

The Group's principal financial assets are cash and bank balances, trading securities and trade receivables. Financial assets are valued on the following basis:

Cash and bank balances

- Securities, which have a fixed redemption value, are stated at cost. No provision is made for the shortfall between market value of securities held for investment purposes and the carrying value as determined above where it is intended they be held to maturity;

Trading securities

- Trading securities are securities included in a portfolio in which there is a pattern of a short-term profit taking. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. All purchases and sales of trading securities that require delivery within the time frame established by regulation market conversion are recognised at trade date, which is the date that the Group commits to purchase or sell assets. Otherwise such transactions are treated as derivatives until settlement date occurs.

Derivitive financial instruments

- Derivitive financial intruments are initially recorded at cost and are remeasured to fair value at subsiquent reporting dates. Changes in the fair value of derivitive financial instruments are recognised in the income statement as they arise.

Trade receivables

- Other investments are stated at cost and provision is made where, in the opinion of the Directors, there has been a permanent diminution in value.

1.13.2 Financial liabilities and equity instruments

Significant financial liabilities include interest-bearing convertible debentures, funds received in trust for specific projects, trade and other payables.

Convertable debentures

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Group and the holder, are classified as liabilities except where the possibility of non-conversion is remote.

Interest-bearing convertible debentures are recorded at the proceeds received. Finance charges, are accounted for on an accrual basis and is charged to income. Settlement on the accrual is done semi-annually in arrears.

Funds received in trust for specific projects

Fund received in trust are recorded at the proceeds received date. Interest income is accounted for on an accrual basis.

Trade and other payables

Trade and other payables are stated at their nominal value.

1.14 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which is probable will result in an outflow of economic benefits, that can be reasonably estimated.

1.15 General Risk Reserve

A general risk reserve was a secondary, non-distributable reserve, maintained against unforeseen losses of whatever nature, not covered by specific or general doubtful debt provisions, or policies of insurance in respect of risks covered by the banker's bond, computer crime or professional indemnity cover.

The general risk reserve was transferred to Distributable Reserves on 31 March 2003.

1.16 Commitments

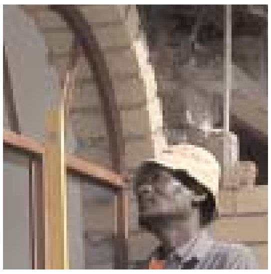
The amounts of facilities granted but not drawn are disclosed in a note to the financial statements.

1.17 Related Party Transaction

All related party transactions are at arms length and in the ordinary course of business.

1.18 Segmental Reporting

For management purposes the group is organised on a national basis into three business segments – lending (interest received on advances), investments (interest received on investments and Government stock) and fund management (fees received). The primary reporting format is therefore based on business segments, while the secondary reporting format is based on geographical location.



For the year ended 31 March 2003

2. CHANGE IN ACCOUNTING POLICY

During the year, the company changed its accounting policy relating to investments. The company reclassified a portion of its portfolio as "securities held for trading". The company records these trading securities at fair value. Comparative amounts have been restated to appropriately reflect the effect of the reclassification and any other effect in prior years. The result of the restatement is indicated below:

		Gross R	Tax R	Outside Shareholders Interest R	Net R
Increase in profit due to reclassification	2003	18 857 280	(5 657 184)	-	13 200 096
Reduction in profit due to reclassification	2002	(19 915 321)	5 974 596	-	(13 940 725)
Restatement of opening retained income in respect of the prior year	2003	26 011 197	(7 803 359)	-	18 207 838
	2002	45 926 519	(13 777 956)	-	32 148 563

3. ADVANCES

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Gross advances	617 119 095	559 130 991	617 119 095	379 603 884
Less: Provision for doubtful debts	(64 079 200)	(21 972 417)	(64 079 200)	(20 651 507)
Less: Advances written off	(3 251 996)	(6 068 307)	(3 251 996)	(4 601 111)
	549 787 899	531 090 267	549 787 899	354 351 266
Analysis of the provision for doubtful debts				
General provision	(12 810 789)	(10 660 585)	(12 810 789)	(9 339 675)
Specific provision	(51 268 411)	(11 311 832)	(51 268 411)	(11 311 832)
Balance at end of year	(64 079 200)	(21 972 417)	(64 079 200)	(20 651 507)
Reconciliation of the provision for doubtful debts				
Balance at beginning of year	(21 972 417)	(8 545 522)	(20 651 507)	(6 245 522)
Provisions acquired	-	(14 653 525)	(1 320 910)	(14 653 525)
Income statement charge	(45 358 779)	(4 841 677)	(45 358 779)	(4 353 571)
Advances written off against provision	3 251 996	6 068 307	3 251 996	4 601 111
Balance at end of year	(64 079 200)	(21 972 417)	(64 079 200)	(20 651 507)

Geographical analysis

	Other Provinces R	Mpumalanga R	Gauteng R	Kwa Zulu Natal R	Eastern Cape R	Western Cape R	Total R
Gross Advances	22 426 984	75 805 685	209 406 791	140 442 496	76 675 031	92 362 108	617 119 095
	22 426 984	75 805 685	209 406 791	140 442 496	76 675 031	92 362 108	617 119 095
Provision for Bad Debts	(5 098 389)	(20 683 261)	(18 115 011)	(1 876 822)	(5 726 325)	(12 579 392)	(64 079 200)
	17 328 595	55 122 424	191 291 780	138 565 674	70 948 706	79 782 716	553 039 895
Write-offs	(408 591)	-	(2 843 405)	-	-	-	(3 251 996)
	16 920 004	55 122 424	188 448 375	138 565 674	70 948 706	79 782 716	549 787 899

Maturity analysis	Within 1 year	1 - 2 years	2-3 years	Beyond 3 years	Total
Expected receivable	47 407 895	69 132 836	69 776 962	427 549 406	613 867 099
Provision for bad debts	(9 475 130)	(7 216 508)	(7 283 746)	(40 103 816)	(64 079 200)
	37 932 765	61 916 328	62 493 216	387 445 590	549 787 899

For the year ended 31 March 2003

4. INVESTMENT IN SUBSIDIARY

Gateway Home Loans (Proprietary) Ltd

	Issued share capital		Effective percentage holding		Book value of holding company interest Shares at cost	
	2003 R	2002 R	2003 %	2002 %	2003 R	2002 R
Shares at cost - ordinary shares	5 000 000	5 000 000	100	100	50 000 000	50 000 000
Loans owing by subsidiary					98 162 437	198 373 192
Net interest in subsidiary					148 162 437	248 373 192

The main business of the company is to acquire and administer home loans advanced by primary market lenders as part of a secondary market process with a view to providing affordable housing finance to enable the delivery of housing on scale. During the prior year a decision was taken by the Board of Directors of the NHFC to restructure certain portions of the business conducted by the NHFC group of companies with the object of consolidating certain portions of the business conducted by Gateway Home Loans (Pty) Ltd under the NHFC. The proposed structure became effective from 1 April 2002. Refer to note 23 for details of the assets and liabilities transferred from Gateway Home Loans (Pty) Ltd to the NHFC. Gateway Home Loans (Pty) Ltd and the NHFC share the same place of incorporation.

5. INVESTMENT IN JOINT VENTURE

Cape Town Community Housing (Proprietary) Limited incorporated in the Republic of South Africa

	Issued share capital		Effective percentage holding		Book value of holding company interest Shares at cost	
	2003 R	2002 R	2003 %	2002 %	2003 R	2002 R
Shares at cost	4 000 000	4 000 000	50	50	2 000 000	2 000 000
Accumulated impairment					(2 000 000)	(2 000 000)
Net book value of shares					-	-
Convertible debentures at cost					8 000 000	8 000 000
Net interest in joint venture					8 000 000	8 000 000

Shares at cost have been impaired by R2 000 000 in the company annual financial statements and are presented as a NIL balance. Losses up to R2 000 000 in the joint venture have been consolidated in the group annual financial statements and the equity accounted book value of NIL is presented.

Holding company's share of net asset value, net income and net cashflows in joint venture as at 30 June 2002

	30 June 2002 R	30 June 2001 R
Non-current assets	5 589 059	8 804 228
Current assets	28 202 626	18 453 952
Long term liabilities	(15 316 343)	(12 847 050)
Current liabilities	(33 539 827)	(21 808 186)
Holding company's share of net liabilies in joint venture	(15 064 485)	(7 397 056)
Revenue	21 205 994	35 135 456
Expenses	(17 480 090)	(36 302 191)
Abnormal item	(9 820 995)	(6 839 056)
Net Interest Paid	(1 572 337)	(488 982)
Holding company's share of net loss in joint venture	(7 667 428)	(8 494 773)
Cash flows from operating activities	14 156 023	7 401 105
Cash flows from investing activities	(2 937 870)	(16 096 551)
Cash flows from financing activities	3 506 744	12 898 623
Holding company's share of net cash inflows in joint venture	14 724 897	4 203 177

	30 June 2002	30 June 2001
	R	R

5. INVESTMENT IN JOINT VENTURE (cont.)

Lease commitments		
Payable within 1 year	366 040	151 121
Payable between 2 and 5 years	-	325 287
	366 040	476 408

Commitments relating to housing units

As part of the company's operations and in terms of instalment sale contracts entered into, the joint venture has contractual obligations to repair and maintain the housing units for the duration of the instalment sale contract until the houses are handed over after the 4 - 5 year period.

At 30 June 2002 and 2001, the joint venture has commitments to repair and maintain the following housing units:

Up to 2 years	186	-
3 years	33	186
4 years	1 573	33
5 years	621	1 573
	2 413	1 792

6. TRADING SECURITY

	Group		Company	
	2003	2002	2003	2002
	R	R	R	R
Listed investments				
RSA Stock - Loan R153 fair value				
R120 million nominal				
13.0% per annum redeemable on 31/08/2010	138 857 280	-	138 857 280	-
RSA Stock - Loan R184 fair value				
R123 million nominal				
12.5% per annum redeemable on 21/12/2006	-	127 990 761	-	127 990 761

During the year the company changed its accounting policy relating to investments. The company has reclassified a portion of its portfolio of securities as securities held for trading - refer to note 2 change in accounting policy.

7. FIXED ASSETS

7.1 Group

	Depreciation Rate	Cost R	Accumulated Depreciation R	2003 Carrying Value R	2002 Carrying Value R
Computer equipment	33.33%	3 283 802	2 628 835	654 967	533 146
Computer software	33.33 - 100%	3 498 969	2 277 857	1 221 112	637 171
Furniture and fittings	16.67%	2 408 648	1 563 879	844 769	903 014
Motor vehicles	25%	69 943	69 943	-	-
Office equipment	16.67%	355 478	188 394	167 084	146 315
Leasehold improvements	20% - 50%	2 081 176	1 164 684	916 492	714 297
		11 698 016	7 893 592	3 804 424	2 933 943

Reconciliation of opening balances to closing balances

	Computer Equipment R	Computer Software R	Furniture & Fittings R	Office Equipment R	Motor Vehicles R	Leasehold Improvements R	2003 Total R
Opening balance	533 146	637 171	903 014	146 315	-	714 297	2 933 943
Additions	606 800	1 158 969	301 017	74 031	-	700 335	2 841 152
Disposals	(23 395)	-	-	-	-	-	(23 395)
Depreciation	(461 584)	(575 028)	(359 262)	(53 262)	-	(498 140)	(1 947 276)
	654 967	1 221 112	844 769	167 084	-	916 492	3 804 424

NATIONAL HOUSING FINANCE CORPORATION LTD.

7. FIXED ASSETS (cont.)

7.2 Company

	Depreciation Rate	Cost R	Accumulated Depreciation R	2003 Carrying Value R	2002 Carrying Value R
Computer equipment	33.33%	3 283 802	2 628 835	654 967	470 461
Computer software	33.33% - 100%	3 498 969	2 277 857	1 221 112	586 811
Furniture and fittings	16.67%	2 408 648	1 563 879	844 769	714 722
Motor vehicles	25%	69 943	69 943	-	-
Office equipment	16.67%	355 478	188 394	167 084	140 506
Leasehold improvements	20% - 50%	2 081 176	1 164 684	916 492	686 182
		11 698 016	7 893 592	3 804 424	2 598 682

Reconciliation of opening balances to closing balances

	Computer Equipment R	Computer Software R	Furniture & Fittings R	Office Equipment R	Motor Vehicles R	Leasehold Improvements R	Total R
Opening balance	470 461	586 811	714 722	140 506	-	686 182	2 598 682
Additions	606 800	1 158 969	301 017	74 031	-	700 335	2 841 152
Transfer from Gateway (Pty) Ltd.	62 685	50 360	188 292	5 809	-	28 115	335 261
Disposals	(23 395)	-	-	-	-	-	(23 395)
Depreciation	(461 584)	(575 028)	(359 262)	(53 262)	-	(498 140)	(1 947 276)
	654 967	1 221 112	844 769	167 084	-	916 492	3 804 424

8. ACCOUNTS RECEIVABLE

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Other receivables	16 290 229	7 570 390	1 062 392	981 275
Inter-funds and company loans	-	19 370 307	-	4 142 307
Interest Accrued	28 308 716	21 683 097	24 671 770	20 521 265
	44 598 945	48 623 794	25 734 162	25 644 847

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
9. INVESTMENTS				
Held to maturity investments:				
Listed Investments				
Amalgamated Banks of South Africa Limited	176 279 427	342 602 928	176 279 427	224 000 000
Board of Executors Bank Limited	-	175 000 000	-	175 000 000
Investec Bank Limited	275 000 000	171 000 000	275 000 000	171 000 000
Standard Commercial and Merchant Bank of South Africa Limited	248 849 849	50 287 317	214 187 050	50 287 317
Rand Merchant Bank Limited	218 160 006	-	188 952 029	-
Nedcor Bank Limited	126 648 641	30 000 000	126 648 641	30 000 000
Unlisted Investments				
Eskom	218 701 508	-	183 865 341	-
Gensec Bank Limited	50 000 000	67 300 000	50 000 000	67 300 000
Landbank	29 983 518	-	29 983 518	-
	1 343 622 949	836 190 245	1 244 916 006	717 587 317
10. SHARE CAPITAL				
Authorised				
100 000 000 ordinary shares of R0,01 each	1 000 000	1 000 000	1 000 000	1 000 000
Issued				
84 187 332 ordinary shares of R0,01 each	841 873	841 873	841 873	841 873

In terms of the resolution of members the remaining unissued ordinary shares are under the unrestricted control of the directors until the forthcoming Annual General Meeting.

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
11. SHARE PREMIUM				
Balance at end of year	879 158 187	879 158 187	879 158 187	879 158 187
12. GRANT CAPITAL				
Balance at end of year	200 000 000	200 000 000	200 000 000	200 000 000
13. SECONDARY RESERVES				
Balance at beginning of year	50 000 000	50 000 000	50 000 000	50 000 000
Transfer to distributable reserves	(50 000 000)	-	(50 000 000)	-
Balance at end of year	-	50 000 000	-	50 000 000

For the year ended 31 March 2003

	Group		Company	
	2003	2002	2003	2002
	R	R	R	R
14. GOVERNMENT GRANTS				
Balance at end of year	225 000 000	150 000 000	225 000 000	150 000 000

Surplus arising from investment income, Net operating expenditure relating to government grants.

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Interest income for the year	32 897 309	2 067 947	32 897 309	2 067 947
Expenses for the year	(3 558 864)	(35)	(3 558 864)	(35)
Net income before taxation	29 338 445	2 067 912	29 338 445	2 067 912
Taxation	(8 801 534)	(620 374)	(8 801 534)	(620 374)
Retained income for the year	20 536 911	1 447 538	20 536 911	1 447 538
Retained income at the beginning of the year	1 447 538	-	1 447 538	-
Retained income at the end of the year	21 984 449	1 447 538	21 984 449	1 447 538

At the Presidential Job Summit held in October 1998 it was resolved that there was sufficient need for a National Presidential Lead Project (NPLP) on rental housing at scale to pilot affordable mass housing delivery and alternative forms of tenure - especially rental housing. Following discussion and negotiations with National Treasury, it was decided that the NHFC would, on behalf of the Department of Housing, manage the Presidential Pilot Project. The NHFC had received R225 million in total as a grant from the Department of Housing for this purpose.

15. DEFERRED INCOME	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Balance at beginning of year	46 278 362	-	46 278 362	-
Deferred income arising	2 319 626	49 665 155	2 319 626	49 665 155
Deferred income amortised	(4 912 121)	(3 386 792)	(4 912 121)	(3 386 792)
Balance at end of year	43 685 867	46 278 363	43 685 867	46 278 363

The South African Housing Trust (SAHT) and the NHFC were established by the Department of Housing in South Africa (DHSA) to provide finance for low cost housing. The SAHT was liquidated during the prior financial year. The assets held by SAHT included advances to homebuyers, housing subcontractors and micro lenders for low cost housing. DHSA sold the advance book of SAHT to the NHFC for a consideration of R1. The fair value of the advances as at acquisition was R49 665 155.The deferred income arising in the amount of R 2 319 626 was from the consolidation of the loan books of Homebuild Discount between the NHFC and the Rural Housing Loan Fund. This deferred income will be earned within the first 6 month of the 2004 financial year.

16. LONG TERM LIABILITIES	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Debentures	100 000 000	100 000 000	100 000 000	100 000 000
Job Summit Housing Project	196 177 707	-	196 177 707	-
	296 177 707	100 000 000	296 177 707	100 000 000

The debentures consist of 100 000 000 subordinated unsecured senior convertible debentures of R1 each, redeemable on 28 February 2005. Interest is payable at a 16.53% semi-annually in arrears in equal instalments on 31 August & 28 February. With effect from 28 February 2001 holders of the debentures could, by furnishing written notice, convert their debentures in whole or in part to ordinary shares in the capital of the company. No debenture holders have exercised their rights to date. During the financial year subsidy money was received from Mpumalanga Province R 80 000 000 and Kwa-Zulu Natal R110 000 000. These funds are specifically earmarked for Job Summit Projects in these two provinces. The interest received on these funds is capitalised and is not included in the interest income of the company or the group.

17. REVENUE	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Fees received and other income	11 024 688	11 225 594	11 366 688	11 465 094
Interest on advances	79 526 041	75 437 515	79 526 041	56 568 299
Interest on deposits and Government Stock	169 454 207	136 241 938	151 243 478	145 549 319
	260 004 936	222 905 047	242 136 207	213 582 712

18. FINANCE COSTS	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Debenture interest	16 541 322	17 786 859	16 541 322	16 597 842
Finance charges	98 052	-	98 052	-
	16 639 374	17 786 859	16 639 374	16 597 842

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
19. NET INCOME BEFORE TAXATION				
Net income before taxation is arrived at after taking the following items into account:				
Goodwill written off in respect of 15% interest in Gateway Home Loans (Proprietary) Limited purchased as at 1 April 2002				
(Refer Note 3)	-	3 672 220	-	-
Bad Debts recovered	109 547	-	109 547	-
Staff costs	28 478 749	22 981 419	28 478 749	22 946 697
Auditors remuneration				
Audit fees	596 000	618 170	484 000	454 565
Prior year underprovision	274 039	-	274 039	-
	870 039	618 170	758 039	454 565
Fees for services				
Consulting and advisory	6 939 359	5 073 093	6 939 359	4 844 216
Depreciation				
Computer equipment	461 584	746 344	461 584	581 968
Computer software	575 028	624 943	575 028	601 440
Furniture and fittings	359 262	383 644	359 262	316 492
Office equipment	53 262	141 228	53 262	139 597
Motor vehicles	-	4 119	-	4 119
Leasehold improvements	498 140	302 051	498 140	291 070
	1 947 276	2 202 329	1 947 276	1 934 686
Impairment of fixed assets	-	2 094 529	-	-
Operating lease payments in respect of premises	4 391 568	3 367 879	4 391 568	3 367 879
Provident fund contributions	1 805 771	1 496 094	1 805 771	1 496 094
(Profit)/Loss on disposal of fixed assets	(963)	225 358	(963)	225 358
20. DIRECTORS EMOLUMENTS				
Non executive directors				
Fees for services as directors	74 640	116 290	74 640	116 290
Executive directors				
Bonuses	428 039	127 775	428 039	127 775
Salaries	1 020 003	1 241 818	1 020 003	831 074
Retirement Fund Contributions	102 000	126 768	102 000	83 107
Medical Aid Contributions	-	-	-	-
Fringe Benefits	164 679	296 478	164 679	146 236
Other	-	-	-	-
	1 789 361	1 909 129	1 789 361	1 304 482

For the year ended 31 March 2003

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
21. TAXATION				
21.1 Charge for the year				
Taxation on income				
South African Normal Taxation				
Current	55 297 644	46 091 045	54 634 406	44 906 539
Deferred	(11 188 274)	(4 787 619)	(11 188 274)	(4 787 619)
Total South African Taxation on income	44 109 370	41 303 426	43 446 132	40 118 920
21.2 Tax rate reconciliation	%	%	%	%
SA Normal Tax Rate	30.0	30.0	30.0	30.0
Permanent differences				
exempt income	(2.9)	-	-	-
non - allowable deductions	-	4.1	-	2.4
Deferred tax asset not recognised in Gateway Home Loans (Proprietary) Ltd		(0.4)		
Effective tax rate	27.1%	33.7%	30.0%	32.4%
21.3 Reconciliation of deferred taxation				
Balance at beginning of year	(4 700 728)	(11 639 932)	(4 700 728)	(11 639 932)
Deferred taxation acquired from HEF and HIDF	-	2 151 585	-	2 151 585
Charge for the current year	11 188 274	4 787 619	11 188 274	4 787 619
Balance at end of year	6 487 546	(4 700 728)	6 487 546	(4 700 728)

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
22. RECONCILIATION OF CASH UTILISED IN OPERATIONS				
22.1 Income before taxation	162 574 088	122 653 891	144 820 440	123 746 283
Adjustments for non-cash flow items:	(179 596 599)	(157 017 198)	(161 385 870)	(156 634 074)
Revaluation of R153's	(10 866 519)	4 211 004	(10 866 519)	4 211 004
Revaluation of derivative instruments	9 918 074	15 704 317	9 918 074	15 704 317
Depreciation	1 947 276	2 202 329	1 947 276	1 934 686
Discount of Government stock	-	(2 144 345)	-	(2 144 345)
Goodwill written off	-	3 672 220	-	-
Impairment of assets	-	2 094 529	-	-
Provision for bad & doubtful debts	45 358 779	4 841 677	45 358 779	4 353 571
Bad debts written off	3 251 996	6 068 307	3 251 996	4 601 111
Interest paid	16 639 374	17 786 859	16 639 374	16 597 842
Interest received	(248 980 248)	(211 679 453)	(230 769 519)	(202 117 618)
(Profit)/loss on disposal of fixed assets	(963)	225 358	(963)	225 358
Profit on sale of R184's	(7 116 854)	-	(7 116 854)	-
Loss on sale of R194's	514 580	-	514 580	-
Premium written off on purchase of R153's	9 737 906	-	9 737 906	-
Operating profit/(loss) before working capital changes in working capital	(17 022 511)	(40 431 614)	(16 565 430)	(37 488 902)
Changes in working capital: Net decrease / (increase)	35 188 304	43 893 669	(46 444 868)	38 771 658
(Increase)/Decrease in advances	(29 885 135)	101 096 586	(210 534 519)	123 342 124
Decrease/(Increase) in intercompany loan accounts	-	-	100 210 755	(49 663 953)
Decrease/(Increase) in accounts receivable	(17 658 248)	(41 034 434)	(20 610 580)	(20 343 794)
Increase/(Decrease) in accounts payable	82 731 687	(16 168 483)	84 489 476	(14 562 719)
Cash utilised in operations	18 165 793	9 530 362	(63 010 298)	5 883 867
22.2 Taxation paid				
Amounts receivable - beginning of year	3 951 439	4 918 420	3 951 439	5 020 896
Taxation charge for the year	55 297 644	44 435 755	54 634 406	43 046 297
Amounts (receivable) - end of year	(14 983 779)	(3 951 439)	(16 761 340)	(3 951 439)
Taxation paid	44 265 304	45 402 736	41 824 505	44 115 754
22.3 Cash and cash equivalents				
Investments	1,343,622,949	836,190,245	1,244,916,006	717,587,317
Bank balances and cash	286,206,753	362,389,709	259,814,210	454,001,004
Total	1,629,829,702	1,198,579,954	1,504,730,216	1,171,588,321

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23. CASH FLOWS FROM RESTRUCTURING

The restructuring (Note 12) entailed the acquisition of all assets and liabilities of the HEF and the HIDF respectively on 1 April 2001. The assets and liabilities acquired, as well as the related cash flows are detailed below:

	HEF 2002 R	HIDF 2002 R	TOTAL 2002 R
Advances	(15 837 378)	(112 906 379)	(128 743 757)
Accounts receivable	-	(1 000 000)	(1 000 000)
Deferred tax	(542 239)	(1 609 345)	(2 151 584)
Share capital	50 000 000	150 000 000	200 000 000
Distributable reserves	13 644 353	47 203 519	60 847 872
Taxation	97 222	181 450	278 672
Accounts payable	5 554 816	9 388 651	14 943 467
Net cash inflow	52 916 774	91 257 896	144 174 670

The final restructuring of the NHFC was the acquisition of operating assets (excluding cash) and liabilities of Gateway (Pty) Ltd on 1 April 2002. The assets and liabilities acquired are detailed below:

	GATEWAY 2003 R	GATEWAY 2002 R
Advances	(64 725 187)	-
Fixed assets	(335 261)	-
Accounts payable	160 455	-
Transfer of assets and liabilities	(64 899 993)	-

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
24. COMMITMENTS AND CONTINGENCIES				
Lease commitments				
Payable within 1 year	4 935 572	4 598 864	4 935 572	4 598 864
Property	4 429 983	3 910 464	4 429 983	3 910 464
Office equipment	505 589	688 400	505 589	688 400
Payable between 2 and 5 years	307 498	4 920 481	307 498	4 920 481
Property	-	4 379 724	-	4 379 724
Office equipment	307 498	540 757	307 498	540 757
	5 243 070	9 519 345	5 243 070	9 519 345
Advances approved but not yet disbursed	178 466 804	297 467 000	178 466 804	280 470 000
	178 466 804	297 467 000	178 466 804	280 470 000
Guarantees provided				
Greater Middleburg Housing Association	4 750 000	4 700 000	4 750 000	4 700 000
King Williams Town Housing Association	3 500 000	3 600 000	3 500 000	3 600 000
	8 250 000	8 300 000	8 250 000	8 300 000

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R

25. RETIREMENT BENEFITS

Contributions to the National Housing Finance Corporation Provident Fund are charged against income as incurred. The Fund is a defined contribution fund administered by Alexander Forbes, and subject to the Pension Fund Act of 1956.

The Corporation is not liable for post retirement benefits.

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Provident fund contributions	1 805 771	1 496 094	1 805 771	1 496 094

26. FINANCIAL INSTRUMENTS

Credit Risk

Financial assets, which potentially subject the Corporation to concentrations of high credit risk, consist principally of advances. Short-term deposits are placed with high credit quality financial institutions rated at least A1 or better in terms of short term credit ratings by at least two recognised rating agencies. Advances are presented net of the allowance for doubtful debts. Credit risk with regard to advances is limited in terms of credit policy which provides for prudent counter party limits in respect of both individual clients and group exposures as a percentage of the total advances portfolio. The advances at year-end reflect that the Corporation has exposure within approved counter party limits.

The Corporation obtains collateral or other security against all advances made, other than counter parties who have been accorded acceptable external credit ratings by recognised credit rating agencies.

The Corporation's advances book comprises both fixed and variable interest rate loans.

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

Clients that enjoy variable interest rate facilities are subject to interest rates, which reset on a quarterly basis, in accordance with various agreed market indices.

The composition of the year end advances book is as follows:

	Group 2003 R	Group 2002 R	Company 2003 R	Company 2002 R
Fixed rate advances	531 132 536	455 325 558	531 132 536	277 265 647
Variable rate advances	82 734 563	97 737 126	82 734 563	97 737 126
Less: Provision for doubtful debts	(64 079 200)	(21 972 417)	(64 079 200)	(20 651 507)
	549 787 899	531 090 267	549 787 899	354 351 266

Interest rate risk

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

Strategy		2003 Fixed Rate R	2003 Floating Rate R	2002 Fixed Rate R	2002 Floating Rate R
Assets					
Advances - rates vary between 9.17% and 21.61% p.a.	1	531 132 536	82 734 563	455 325 558	97 737 126
Long term investments - refer to note 5. The rate is fixed at 12.5% p.a.	2	138 857 280	-	127 990 761	-
Short term investments - rates vary between 9.5% and 10.25% p.a.	3	-	1 343 622 949	-	836 190 245
Bank balances and cash - rates vary between 9.5% and 10.25% per annum.	3	-	286 206 753	-	362 389 709
Liabilities					
Debentures - refer to notes 15. The rates is fixed at 16.53% paid semi-annually in arrears.	2	100 000 000	196 177 707	100 000 000	-
at the 3 month JIBAR + 3.5%.	2	-	-	-	-

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26. FINANCIAL INSTRUMENTS (cont.)

Interest rate risk management strategies are as follows:

1. Clients who enjoy variable interest rate facilities are subject to interest rates that reset on a quarterly basis in accordance with various market indices. Fixed rate advances are considered under swaps and forward rate agreements mentioned below.
2. A natural hedge was instituted in previous financial years by acquisition of RSA stock out of the proceeds of the Corporation's own debenture issue. The RSA 184 stock was sold during the financial year and replaced with RSA 153 that is of a more liquid nature than the RSA 184 which became non tradeable in the market.
3. Interest rate swaps have been acquired in terms of which the Corporation receives a fixed rate of interest at an average of 15.08% on R 445 million (2000 - 12.63% on R 445 million) in lieu of the SAFEX BA rate. The last contract matures on 9 April 2003.

Fair Value

At 31 March 2003 and 2002 the carrying amounts of cash, short term, deposits, advances, accounts payable and accrued expenses and short term borrowing approximated their fair values due to the short term maturity of these assets and liabilities.

27. SEGMENTAL INFORMATION

Group business segmental analysis of income statement

	Lending Activities	Investment Activities	Management Fees	Total 2003	Total 2002
	R	R	R	R	R
Revenue - 2003	79 526 041	169 454 207	11 024 688	260 004 936	-
Revenue - 2002	75 437 515	136 241 938	11 225 594	-	222 905 047
Finance costs				(16 639 374)	(17 786 859)
Net interest income				243 365 562	205 118 188
Provision for doubtful debts				(45 358 779)	(4 841 677)
Net income				198 006 783	200 276 511
Net trading income				20 649 970	(19 915 321)
Operating income				218 656 753	180 361 190
Operating costs				(56 082 665)	(57 707 299)
Net income before taxation				162 574 088	122 653 891
Taxation				(44 109 370)	(41 303 426)
Net income after taxation				118 464 718	81 350 465

Group business segmental analysis of balance sheet

	Lending Activities	Investment Activities	Management Fees	Total 2003	Total 2002
	R	R	R	R	R
Advances - 2003	549 787 899			549 787 899	-
Advances - 2002	531 090 267			-	531 090 267
Trading Securities - 2003		138 857 280		138 857 280	-
Trading Securities - 2002		127 990 761		-	127 990 761
Investments - 2003		1 343 622 949		1 343 622 949	-
Investments - 2002		836 190 245		-	836 190 245
Bank balances & cash - 2003		286 206 753		286 206 753	-
Bank balances & cash - 2002		362 389 709		-	362 389 709
				2 318 474 881	1 857 660 982

For the year ended 31 March 2003

27. SEGMENTAL INFORMATION (cont.)

Geographical segmental analysis of income statement

	Other Provinces	Mpumalanga	Gauteng	Kwa Zulu Natal	Eastern Cape	Western Cape	Total 2003	Total 2002
	R	R	R	R	R	R	R	R
Revenue - 2003								
Lending	2 741 491	7 935 593	29 887 899	19 804 118	6 528 799	12 628 141	79 526 041	-
Investment and management							180 478 895	-
Revenue - 2002								
Lending	3 408 807	7 792 847	28 513 813	12 520 876	1 046 858	22 154 314	-	75 437 515
Investment and management							-	147 467 532
							260 004 936	222 905 047
Finance costs							(16 639 374)	(17 786 859)
Net interest income							243 365 562	205 118 188
Provision for doubtful debts							(45 358 779)	(4 841 677)
Net income							198 006 783	200 276 511
Net trading income							20 649 970	(19 915 321)
Operating income							218 656 753	180 361 190
Operating costs							(56 082 665)	(57 707 299)
Net income before taxation							162 574 088	122 653 891
Taxation							(44 109 370)	(41 303 426)
Net income after tax							118 464 718	81 350 465

Geographical segmental analysis of balance sheet

	Other Provinces	Mpumalanga	Gauteng	Kwa Zulu Natal	Eastern Cape	Western Cape	Total 2003	Total 2002
	R	R	R	R	R	R	R	R
Advances - 2003	16 920 004	55 122 424	188 448 375	138 565 674	70 948 706	79 782 716	549 787 899	-
Advances - 2002	39 284 522	76 243 600	181 643 555	135 926 300	4 765 225	93 227 065	-	531 090 267
Trade & securities - 2003			138 857 280				138 857 280	-
Trade & securities - 2002			127 990 761				-	127 990 761
Investments - 2003			1 343 622 949				1 343 622 949	-
Investments - 2002			836 190 245				-	836 190 245
Bank balances & cash - 2003			286 206 753				286 206 753	-
Bank balances & cash - 2002			362 389 709				-	362 389 709
							2 318 474 881	1 857 660 982

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