NATIONAL HOUSING FINANCE CORPORATION LTD.

National Housing Finance Corporation Limited

Annual Report 2005

contents

NATIONAL HOUSING FINANCE CORPORATION LTD.

profile

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

Royal Maitland One Sectional Title Development Project by the Cape Town Community Housing Company (Pty) Ltd (CTCHC)

mandate

As a wholesale funder and risk manager, the NHFC is mandated to:

- undertake funding as a wholesale intermediary to promote broader access to housing;
- underwrite the flow of wholesale funds to retail intermediaries (provide cover, security or guarantee);
- undertake proactive programmes aimed at building institutional and financial capacity at the retail level; and
- specialise in identifying, assessing, pricing, monitoring and managing risks associated with the placement of wholesale funds with retail intermediaries.

The NHFC defines the low- and moderate-income market as any South African household with regular monthly income between R1 500 and R7 500. This market sector is able to contribute towards its housing costs, but finds it hard to access bank-funded housing finance.

The corporation is a registered public company and has been granted the necessary exemption in terms of the Banks Act. As a national public entity, the NHFC adheres to the regulatory framework of the Public Finance Management Act (PFMA) of 1999.

Hope City, a Greater Middleburg Housing Association project in Earorand Middleburg, Mpumalanga

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.

core FUNCTIONS

As one of the eight DFI's in South Africa, the NHFC was established to:

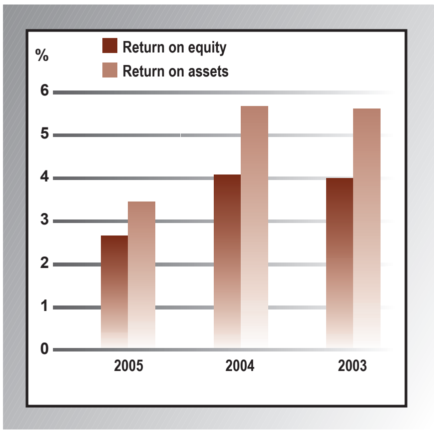
- initiate and manage programmes to promote increased engagement of the banking sector in the target market;
- fund or underwrite specialised alternative lenders who are able and equipped to operate where banks find it difficult to do so;
- manage proactive programmes aimed at building institutional and financial capacity at retail level, to broaden access to housing finance and mobilise funds for housing; and
- search for new and better ways to mobilise, raise and deploy housing finance from sources outside the public sector, and in partnership with a broad range of organisations.

financial HIGHLIGHTS

key financial FEATURES

	2005	2004	2003
	%	%	%
Return on assets	**2,70**	4,10	4,07
Return on equity	**3,53**	5,62	5,71
Interest return on cash investments and deposits	**6,90**	7,67	7,77
Interest return on net advances	**9,99**	11,67	14,53
Operating costs to operating income	**40,69**	30,59	29,72

RETURN ON EQUITY AND ASSETS



Credit rating has been maintained at SB/zaA.

The reduction in the rates charged to clients and earned from investments had an adverse effect on the returns earned. In addition, the Corporation revised rates being charged to institutions that had been set in the high interest rate period. This revision has a positive impact on the end users.

impact RESULTS

PROVINCIAL IMPACT

The segmental analysis shown in note 28 of the financial statements indicates that funding to all provinces increased during 2005.

housing OPPORTUNITIES

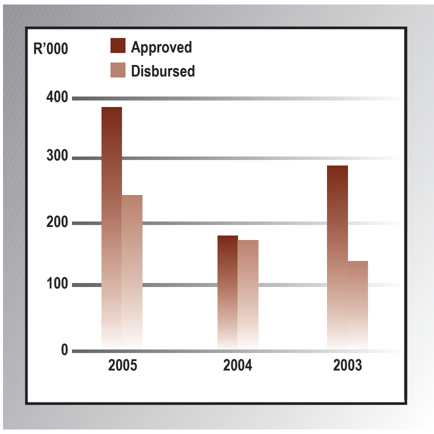
	Cumulative to March 2002	Year to March 2003	Year to March 2004	Year to March 2005	Cumulative to March 2005
Housing units	37 488	5 033	5 003	4 210	51 734
Incremental housing loans	164 482	2 636	6 763	8 557	182 438
Total housing opportunities	201 970	7 669	11 766	12 767	234 172
Peoples lives affected	**1 006 200**	**38 345**	**58 830**	**63 835**	**1 167 210**

HOUSING IMPACT – SINCE INCEPTION

The NHFC has approved R2,3 billion in facilities and disbursed R1,9 billion by 31 March 2005. Through lending activities, 51 734 new housing units have been built, and 182 438 loans originated, and therefore 234 172 housing opportunities have been created by the Corporation since inception.

To date, the lives of more than 1 167 210 people have been improved by intermediaries financed by the NHFC. In addition, the NHFC, through the Job Summit process, facilitated 1 431 units affecting 7 155 people during the current financial year.

FACILITIES APPROVED AND DISBURSED



The low disbursements experienced during the year related in the main to large facilities not taken up due to the intermediaries revising their business models.

additional sector IMPACT

Research

– Second Impact Report

– Township Property Market Survey.

Publications

– Housing Micro Lending Review

– Primary Market Monitor

– Micro Finance Housing Review

– Housing Market Bulletin

– NHFC Fact Files

– Housing Finance (1994-2004) – (Draft commemorative publication)

Data and information

– Successful implementation of the Policy & Research Information System. Ongoing population of the system with data and information on the low- and moderate-income housing sector in order to establish a corporate knowledge information repository.

– NHFC in partnership with Gauteng Partnership Fund is in the process of developing a Housing Investment System for the Gauteng province, which endeavours to mitigate investment risk in the low- and moderate-income housing sector, thereby enticing private investors to invest in this sector.

Policy and legislation

– Participation in drafting processes of the National Credit Bill

– Support in respect of Financial Services Charter negotiations

Capacitation

– In providing the North West Housing Corporation with support, that institution has identified 27 000 homes that would otherwise not have been accounted for on its asset register.

board of DIRECTORS

Mr Eric Molobi *Chairman* (non-executive)
Executive Chairman, Kagiso Investment Trust

Mr Samson Moraba
Chief Executive Officer

Mr Andrew Canter (non-executive)
Investment Committee Chairman, Futuregrowth Asset Management

Mr Tim Middleton (non-executive)
Executive Director, Kagiso Urban Management

Prof Michael Katz (non-executive)
Partner, Edward Nathan

Mr Sango Ntsaluba (non-executive)
Chief Executive Officer, Amabubesi Investments (Pty) Ltd

Ms Nonhlanhla Mjoli-Mncube (non-executive)
Managing Director, Mjoli Development Group

Mr Mziwonke Dlabantu (non-executive)
Deputy Director-General, Department of Housing

Ms Nocawe Makiwane (non-executive)
Asset Manager, STANLIB Asset Management

Mr Sizwe Tati (non-executive)
Managing Executive, ABSA Vehicle & Asset Finance

executive MANAGEMENT

Mr Phetolo Ramosebudi
Risk Management Corporate

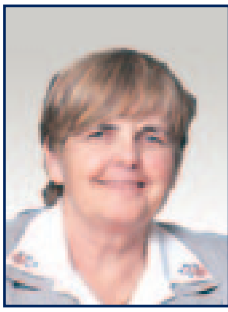
Mr Luthando Vutula
Home Ownership

Mr Lawrence Lehabe
Incremental Housing (Acting)

Dr Morgan Pillay
Alternative Tenure

Ms Salome Sengani
Corporate/Special Projects

Mr Samson Moraba
Chief Executive Officer



Ms Adrienne Egbers
Chief Financial Officer

chairman's REPORT

The year 2004/2005 was one of the most eventful in the life of the Corporation since its 1996 inception, and marks a period that was ushered in by the new Minister, additional directors and a change to the way business is conducted.

Conditions for low- and moderate-income households have improved as a result of several factors. These include a generally positive housing market environment, positive economic conditions, stable currency, declining interest rates and low inflation. The year brought new impetus to the government housing delivery agenda; largely through the "Breaking New Ground in Housing Delivery" strategy unveiled by Minister Lindiwe Sisulu. While the residential property market was buoyant, the benefits were limited in the target market due to continued focus on upper segments of the market.

We believe the interest of developers in construction of appropriately priced and well-built stock for our market will be rekindled, driven by the commitment of R42 billion funding of the low- and moderate-income housing. This funding will result from the Memorandum of Understanding (MoU) signed between the CEOs of major banks and the Minister of Housing. These initiatives will be supported through the continued role that the NHFC will play in support of the unlocking of funds for the sector.

The concern within the Corporation's Board and Management around the inadequate institutional capacity of intermediaries and insufficient scale housing impact among the low-and moderate-income households, was therefore supported by the Housing Minister's drive to fast-track housing delivery through the New Housing Plan. This has been a major catalyst for the Corporation to revisit its current business model. The ultimate goal is to ensure that the Corporation not only appropriately supports the strategy of "Breaking New Ground for Housing Delivery", but also deepens the access and the coverage to the lowest end of the housing market.

The board reviewed and approved the alternative institutional model options for further investigation. This would allow the Corporation to not only impact its target market indirectly, but also increasingly to do so directly as the prime agency of government for implementing its housing delivery agenda.

financial OVERVIEW

Whilst there was great optimism in the year under review, and the financial results for the year were in line with expectations, there was nevertheless great disappointment that draw-downs on the facilities granted seriously lagged behind approvals and as a result, the Corporation's targets were not fully realised.

the BOARD

I wish to thank all the directors for their valuable contribution to the business of the NHFC and also to acknowledge them for serving the Corporation diligently, both on the main board and on its sub-committees.

The year brought new impetus to the government housing delivery agenda; largely through the "Breaking New Ground in Housing Delivery" strategy unveiled by Minister Lindiwe Sisulu.

I also wish to thank Mrs Mpumi Mpofu, former Director General of Housing, who now serves government in the Department of Transport, for her previous participation on the Board of the NHFC. In her place we welcome Mr Mzi Dlabantu, the Deputy Director General of the National Department of Housing, who has served as an alternate to Mrs Mpofu for some time already.

appreciation

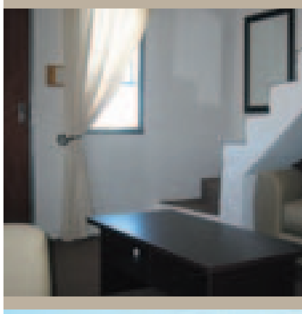
Our thanks go to the Minister of Housing, Dr Lindiwe Sisulu for her interest in the speedy delivery of housing in South Africa, and her attention to the NHFC. My board and executives pledge their support to her "Breaking New Ground in Housing Delivery" strategy and, with her, look forward to the day when adequate housing is available for all South Africans.

My board and executives pledge their support to the Minister of Housing, Dr Lindiwe Sisulu, "Breaking New Ground in Housing Delivery" strategy and, with her, look forward to the day when adequate housing is available for all South Africans.

I also wish to give my thanks to the CEO, Mr Samson Moraba, his executive team and all staff members, for their valued contribution to the Corporation. There will be many new demands made of them in the anticipated accelerated delivery plan for housing in South Africa, and I fully expect them to rise to the challenge as they have in the past years, and commit the support of the Board to their endeavours.

Without the clients of the NHFC, the intermediaries of the three operating divisions, the Corporation could not achieve the impact on the low- and moderate-income housing market, and our thanks and appreciation goes out to them.

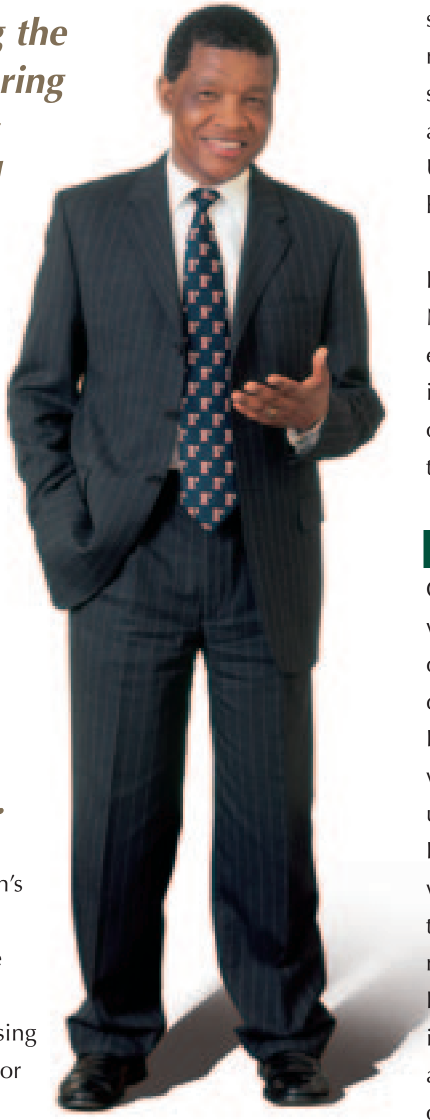
Mr E Molobi
Chairman



Morgens Village Phase 1 Institutional Social Housing Development in Mitchells Plain by the Cape Town Community Housing Company Pty Ltd. (CTCHC)

chief executive's REPORT

Our focus for 2004/2005 was on significantly growing the lending portfolio, capturing benefits from our client turnaround process and consolidation strategy and charting a new course for the Corporation. Our belief is that this focus would indeed break new grounds in housing delivery by making housing finance more accessible and affordable across the low- and moderate-income housing market.



The Corporation's developmental impact, is more than just the number of housing units delivered or value of Rands disbursed to date. The impact must also be seen in terms of the creation of new housing opportunities for the low- and moderate-income households. This mandate is achieved through the support and financing of the Social Rental Housing sector, the niche or emerging housing lenders, and the leveraging of private sector funding. This the Corporation does by taking greater risk in equity transactions involving private sector parties, thereby making the cost of housing finance more affordable.

The support lent to Trust for Urban Finance (TUHF) and participation in the Brickfields project are examples of these interventions.

The rationale for supporting TUHF was to create a vehicle which could respond effectively to needs of small inner-city landlords with funding requirements below R5 million. The NHFC has strengthened this support by appointing TUHF as its agent for the implementation of the European Union contract for the capacitation of social rental housing providers in the NHFC target market.

Finally, through its Policy and Research unit, the NHFC undertakes sector research and continues to engage and co-operate with all Stakeholders in informed debates that serve to develop solution options that will unlock or bring breakthroughs in this segment of the market.

financial PERSPECTIVE

Our immediate priority for the year under review was to increase our lending book and the rate of disbursement of the Corporation. The first two quarters in the year saw approvals reaching the R380 million mark. The disappointment, however, was that two of the approved clients did not fully utilise the facilities granted (approximately R160 million). Whilst a significant amount of work needs to be done to achieve the impact targets of 2006, it is pleasing to note the progress made in 2005. Net advances grew from R672,7 to R787,1 million this year, and to R1,9 billion since inception. Total approvals in the same period stood at R2,36 billion. The number of housing opportunities created in 2005, was 12 767, and 233 442 on a cumulative basis since inception. The income after tax for the year at R65,1 million, was substantially lower than last year's R100 million. This can be attributed to reduced interest rates and slow take-up of loans by clients, especially in the Social and Incremental housing segments of the market.

turnaround and consolidation STRATEGY

A strategic turnaround initiative was implemented last year to reverse the trend of non-performing clients. The majority of these were social housing institutions, which, among other problems, lacked adequate working capital to effectively resource their operations. This resulted in the setting up of the Work Out Unit and added momentum to the proposed and envisaged Development Fund. I am pleased to announce that significant progress has been made in the turnaround of the ailing clients and in particular:

– Greater Germiston Inner City Housing Company (GGIHC), is once again an active client, with a recovery of R7 million made on its debt.

A major consolidation of three micro-financing (Incremental Housing) clients' businesses during 2003/04 financial resulted in the emergence of a single, more robust client. The benefits of the consolidation yielded the following:

- Improved Collection of the consolidated book.
- Growing of the loan book – new business.

> We are determined to play the requisite role to make sure that the poor have greater access to housing finance and that the housing process functions effectively.

A further capacity-building impact was realised in the internal improvements at the North West Housing Corporation (NWHC), where the Corporation funded and worked productively with the North West Provincial and Local Government and the new management team, to establish an asset register and to re-establish operating systems. At least 27 000 properties were tracked down, acknowledgements of debt obtained and repayment of loans re-established.

With the envisaged launch of the Development Fund, increased support from the new Social Housing Support Programme, and thus availability of equity and working capital the turnaround impact should be greater.

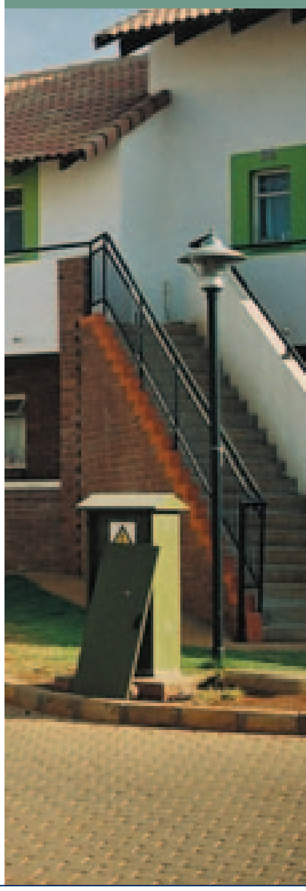
the broadened MANDATE

The Corporation was established nine years ago to make housing finance more accessible to the low- and moderate-income households through key retail lenders and banks.

This report would be incomplete if the overall environmental impact of market activity in the financial sector was not highlighted. The participation of banks has, until the current year, not been consistent. The introduction of the Financial Sector Charter (FSC) on the eve of the enactment of the Community Re-Investment Act, has triggered positive efforts on the part of banks to enter the market. We are determined to play the requisite role to make sure that the poor have greater access to housing finance and that the housing process functions effectively.

During the year, a Board Strategic review and the unveiling of the Minister's "Breaking New Ground to Housing Delivery" strategy, led to the realisation that the Strategic Vision and Mandate of the Corporation needed broadening. This was to accelerate housing delivery and address government's priority housing agenda to reduce the human settlements backlog.

As a result, the Corporation has been granted permission to broaden its mandate so that it can operate more directly into the market, where necessary, to ensure that the scale, scope and coverage to the low- and moderate-income housing market are deepened.



Hope City, a Greater Middleburg Housing Association project in Earorand Middleburg, Mpumalanga

The Corporation aims to leverage the prevailing opportunities and challenges in the low- and moderate-income housing market and effectively attack the growing housing backlog. The lack of housing that is both affordable and appropriate to the needs of low- and moderate-income households imposes heavy long-term costs on the people directly affected, their economic prospects and on quality of life of all South Africans.

social and private rental housing PORTFOLIO

Social housing institutions are beginning to show an improvement in their ability to manage housing stock. This is mainly due to continued interventions by the NHFC and the capacity support provided by the Support Programme for Social Housing, a European Union funded programme. The interest developing in the private sector to participate in funding of social housing, and its involvement in the administration thereof, is a very positive change in the market. The NHFC, through its commitment to this process, has ensured that an equitable share of the capacity support is offered to clients within its own portfolio.

The number of social housing institutions currently supported stands at 28.

During the year under review substantial progress has been made in supporting the Inner City Regeneration strategy through the NHFC-sponsored Trust for Urban Housing Finance (TUHF). TUHF has made deep inroads in stabilising the rental property market within the inner city of Johannesburg by funding deals to the value of R77 million through 61 private landlords.

home ownership and incremental housing PORTFOLIO

The increased threshold on the transfer costs exemption (now R190 000), announced in the Budget 2005/2006, and low inflation and interest rate levels, will go far to benefit households that buy affordable houses. This gives new impetus to wealth creation through asset ownership, for low- and moderate-income households. However, while there were significant approvals of wholesale funding in the year under review, disbursements lagged. The concern around the impact of the New Credit Bill, among others, deterred lenders from concluding facility agreements until finalisation of this Bill. The Corporation's drive to promote empowerment in the housing sector, has led to the support of four new empowerment housing intermediaries in the year under review.

strategic and special PROJECTS

Job Summit Housing Pilot Project

NHFC, as the appointed Project Manager for the Job Summit Programme, has overseen the development of housing in Mpumalanga, KwaZulu-Natal, and Gauteng.

The National Steering Committee met during the year to plan the second phase of the programme. This phase is expected to be a public private partnership and the option analysis and financial model have been completed and are awaiting approval from the National Department of Housing.

Kliptown – Johannesburg

NHFC has been appointed by the Gauteng Department of Housing as Project Managers for two contracts in Kliptown that will deliver 1 400 homes.

The N2 Highway Project – Cape Town

NHFC is actively involved in the structures supporting the expected delivery of 22 000 houses to households currently accommodated in informal settlements and backyard rental environments in Cape Town.

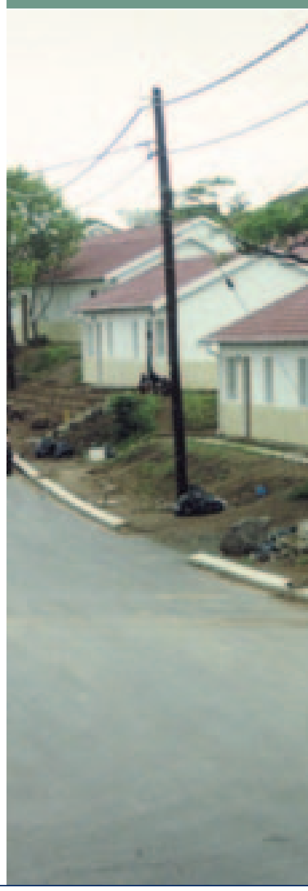
conclusion

In closing, I would like to thank the Chairman, Mr Eric Molobi, and the Board members for their support, guidance and commitment to the Corporation.

I have called on members of my staff to go beyond their normal boundaries in meeting the challenges of the "Breaking New Ground in Housing Delivery" strategy as reflected in the broadened mandate of the Corporation and the response to the FSC, and they have not been found wanting. I am confident that through our commitment and passion for low- and moderate- income housing, we will provide the impetus not only improving the quality of life of many South Africans, but also making significant contributions to the eradication of poverty in line with the Millennium Development Goals (MDG). My thanks to them for their support and hard work.

Our thanks to the Minister of Housing, Dr Lindiwe Sisulu, for her support of the Corporation and we pledge our ongoing dedication to the attainment of the objectives of the new housing plan.

Mr SS Moraba
Chief Executive Officer



Howell Road Phase 1 in Sydenham a Job Summit Project by First Metro

corporate GOVERNANCE

introduction

Corporate Governance structures and mechanisms have been in operation at the National Housing Finance Corporation ("the Corporation") since its inception in 1996 and are reviewed from time to time.

The Corporation is committed to the principles of integrity, accountability and openness and endeavours to ensure the quality of reporting to Stakeholders by adhering to the guidelines of promptness and relevance.

The Board is of the view that the Corporation adheres as much as practical to the Code of Corporate Practices and Conduct ("the Code") contained in the King Report on Corporate Governance for South Africa, which came into effect on 1 March 2002 and the Protocol on Corporate Governance in the Public Sector ("the Protocol"). The Protocol was reviewed substantially in 2002 and seeks to provide guidance specifically in the Public Sector by taking into account the unique mandate of State Owned Enterprises. The Protocol further seeks to amplify and not supersede or conflict with the principles contained in the Code. Both the Code and Protocol apply to the Corporation.

The Corporation's systems of control and governance are reviewed on a continuous basis to:

- ensure that the business is managed ethically and within prudent risk parameters; and
- to align it with best national and international corporate governance practices.

Regulatory Environment and Statutory Compliance

The Corporation was incorporated in 1996 as a Public Company under the Companies Act, Act 61 of 1973. The main business, mission and core functions of the Corporation are reflected in a Government Gazette, in which the Corporation was designated as an Institution of which the activities do not fall within the meaning of "the Business of a Bank". This designation was renewed in a subsequent Government Gazette.

As a Development Finance Institution, the Corporation must ensure that its goals are aligned to that of its Shareholder, the Government of the Republic of South Africa and with its main objective, namely to ensure that every low- and moderate-income household gains access to housing finance.

The Corporation adheres to the regulatory framework of the Public Finance Management Act, Act 1 of 1999 ("PFMA"), as amended by Act 29 of 1999, which Act regulates all National and Public Entities.

Duties and Responsibilities

The fiduciary duties imposed on Directors are carried out in accordance with common law and Section 50 of PFMA.

Declarations of Interests are included as an agenda item at every Board meeting, in order to manage any potential conflict of interests.

The Board ensures compliance with Section 51 of PFMA, which Section deals with the general responsibilities of the Board.

All the 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 Corporation at the Corporation's expense.

Board of Directors

The NHFC Board comprises ten members, the details of which are reflected on page 6 of this report. The Board members bring to the Board a wide range of significant financial and legal expertise. They bring independent perspectives and judgement on Corporate Governance and overall strategy. The Board is responsible to the Shareholder for setting the strategic objectives of the Corporation and to determine key policies.

Effective Control and Leadership

The Board monitors the implementation of strategies and policies through:

- a structured approach to reporting on the basis of agreed performance criteria; and
- delegation to Executive Management the detailed planning and implementation of such objectives and policies.

Meetings

The Board meets quarterly or more frequently if circumstances so require, to review the following:

- matters specifically reserved for its decision;
- adoption of Strategic Plans;

- approval of major capital expenditure; and
- monitoring of financial and operational results.

The record of attendance by each Director for the year under review is reflected on page 18 of this report.

Board Committees

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

- the Audit and Risk Committee;
- the Board Credit Committee; and
- the Human Resources, Ethics and Remuneration Committee

The Audit and Risk Committee ("the Committee")

The Committee comprises two independent Directors, the Chief Executive Director and one co-opted member. The members and details of their attendance at meetings are set out on page 18 of this report. The Committee meets quarterly or more frequently if circumstances so require.

Four meetings were held during the course of the 2004/2005 financial year. These meetings are normally attended by the External and Internal auditors, Chief Financial Officer, Executive Manager – Corporate Risk and other relevant Executive Managers. The functions of the Committee include, but are not limited to the following:

- ensuring that an effective and integrated risk management process is implemented;
- monitoring the quality and integrity of financial and risk reporting;
- reviewing the efficacy of the Internal audit function;
- evaluating the independence, objectivity, and effectiveness of the External auditors;
- reviewing accounting and auditing concerns identified as a result of internal and external audits; and
- reviewing the annual financial statements and recommending them to the Board for approval.

integrated risk MANAGEMENT

The Audit and Risk Committee's functions with regards to risk management include, but are not limited to:

- reviewing the adequacy and effectiveness of the risk management philosophy, strategy and policies;
- reviewing risk identification and measurement methodologies;
- reviewing and assessing the integrity of risk control systems; and
- taking into account reports by management on financial, strategic and business risks.

internal CONTROL

The Audit and Risk Committee assists the Board to fulfil its responsibilities relating to internal and financial control. This Committee ensures that adequate systems are in place to provide reasonable assurance against inaccurate financial information, in order to ensure the accuracy and integrity of the Corporations' financial information and management is responsible for the establishment and maintenance of adequate systems of internal control.
Key internal controls in the Corporation are adequate and effective to provide reasonable assurance that the following are in place and are managed:

- that assets are safeguarded against loss from unauthorised use or disposition;
- that transactions are executed in accordance with Management's authorisation (based on statutes, regulations, organisational delegations, best practices and policies); and
- that transactions are recorded properly to allow for the preparation of financial statements in accordance with generally accepted accounting practices.

The Human Resources, Ethics and Remuneration Committee ("the Committee")

The Committee comprises four independent Directors and the CEO. The details and attendance at meetings of the Committee are reflected on page 18 of this report.

The functions of the Committee include, but are not limited to the following:

- approval of Human resources policies and strategies;
- considering and approving proposals regarding remuneration benefits and related matters;
- monitoring compliance with the Employment Equity Act, 55 of 1998;

- recommending Executive and non-executive Directors' remuneration to the Board, who in turn recommend it to the Shareholder for approval; and
- monitoring compliance with the Code of Ethics.

The Board Credit Committee ("the Committee")

The Committee comprises three independent Directors, one co-opted Industry Specialist and the CEO. The details and attendance at meetings of the Committee are reflected on page 18 of this report. Executive Managers and other Management members attend BCC meetings by invitation.

The Committee meets quarterly or more frequently if circumstances so require. The functions of the Committee include, but are not limited to:

- approval of loan facilities in excess of R20 million per client, based on recommendations by the Management Credit Committee;
- overseeing credit risk management; and
- the approval and implementation of the Credit Policy.

Management Committees

The Executive Committee ("the Committee")

The Committee is constituted to assist the Chief Executive Officer ("CEO") in managing the business of the Corporation subject to statutory limits and the Board's limitations on delegation of authority to the CEO. The details of the members of the Executive Committee are reflected on page •• of this report. The Executive Committee meets monthly or more frequently if circumstances so require to:

- assist the CEO in guiding and controlling the overall direction of the Corporation;
- provide a forum for communication and co-ordination between the Divisions; and
- deal with a wider range of matters concerning the management of the Corporation.

Management Credit Committee ("the Committee")

The Committee is chaired by the CEO and meets at least twice a month or more frequently if circumstances so require. The Committee comprises Executive Managers and appropriate Senior Managers. Each loan application is supported by a proposal by the Operating Division and an independent due diligence report prepared by the Corporate Risk Department.

The functions of the Committee include but are not limited to:

- approval of loan facilities below R20 million per client;
- consideration of credit policies and recommendation thereof to the Board Credit Committee;
- recommendation of loan facilities in excess of R20 million per client and loans which cumulatively exceed R20 million to the Board Credit Committee for approval; and
- ensuring adherence to credit and default procedures and the collection of outstanding debt.

Procurement Committee ("the Committee")

The Committee is a sub-Committee of the Executive Committee and is Chaired by an Acting Executive Manager. The Committee comprises of the following members:

- Procurement Officer;
- Executive Manager: Corporate Risk; and
- representatives from the Legal Department and Finance and Support Services.

The Committee meets monthly or more frequently if circumstances so require. The functions of the Committee include, but are not limited to:

- monitoring compliance with the Procurement Policies of the Corporation;
- ensuring meaningful Black Economic Empowerment in approving service providers; and
- ensuring fairness and transparency in the selection of Business Suppliers.

Financial Risk Management Committee ("the Committee")

The Committee is a sub-Committee of the Executive Committee and meets monthly or more frequently if circumstances so require. The Committee comprises the CEO (Chair), Chief Financial Officer, Executive Manager: Corporate Risk and Money Market Dealer.

The functions of the Committee include, but are not limited to:

- managing treasury risk; and
- managing investments made in money market instruments, government and municipal bonds.

code of ETHICS

The Corporation is managed ethically and in line with the Code of Ethics which has been developed with the input of all staff and been adopted by the Human Resources, Ethics and Remuneration Committee.

A summary of the salient features of the Code of Ethics is reflected below. The Corporation has engaged the services of "Tip-offs-Anonymous", which whistle-blowing service is rendered independently by Deloittes. Through awareness campaigns, the Corporation encourages its employees to use this service to report any wrongful, illegal or corrupt acts. Deloittes report to the Executive Manager: Corporate Risk, and quarterly reports are submitted to the Audit and Risk Committee.

summary of salient features of NHFC's code of ETHICS

The Code of Ethics is based on the following fundamental ethical principles:

- fairness;
- transparency;
- integrity;
- reliability;
- responsibility; and
- honesty.

The following ethical behavioural standards are based on these principles:

Use of the Corporation's Resources

Management and employees hold themselves responsible to apply all resources and assets of the Corporation for business purposes and do not use such assets or other resources for personal benefit.

Conflict of Interests

Management and employees avoid and declare conflicts of interests with the Corporations' interests. Employees should declare any outside business interest eg shareholding, partnership, sole proprietorship, Directorship, etc to the Company Secretary, and must obtain approval from the Chief Executive Officer before taking up any Directorship.

Gifts, Hospitality and Favours

Management and employees should not accept or solicit any extravagant gifts, hospitality or other favours.

Record of attendance at meetings

Name of Director	Category of Director	28 June 2004	28 October 2004	7 December 2004	16 March 2005
Mr Eric Molobi	Independent Chair	√	√	√	√
Mr Andrew Canter	Independent Director	√	√	√	√
Prof Michael Katz	Independent Director	√	X	X	√
Mr Mziwonke Dlabanthu	Non-executive Director	√	X	X	X
Ms Nocawe Makiwane	Independent Director	√	√	X	√
Ms Nonhlanhla Mjoli-Mncube	Independent Director	√	√	√	X
Mr Samson Moraba	Chief Executive Officer	√	√	√	√
Mr Sango Ntsaluba	Independent Director	√	√	√	√
Mr Sizwe Tati	Independent Director	X	√	X	√
Mr Tim Middleton	Independent Director	√	√	√	X

Record of attendance by members at meetings of committees held during the 2004/2005 financial year

Audit & Risk Committee

Name of Member	18 June 2004	20 October 2004	24 November 2004	3 March 2005
Mr Sizwe Tati (Chair)	√	√	√	√
Mr Mandla Gantsho	√	√	X	X
Mr Samson Moraba	√	√	√	√
Mr Sango Ntsaluba	X	√	√	√

Board Credit Committee

Name of Member	23 June 2004	19 October 2004	28 October 2004 (Special meeting)	17 March 2005
Ms Nocawe Makiwane (Chair)	X	√	√	X
Mr Andrew Canter	√	X	√	√
Mr De Villiers Botha	√	X [1]	√	√
Mr Samson Moraba	√	√	√	√
Mr Sizwe Tati	√	X	√	√

Human Resources, Ethics and Remuneration Committee

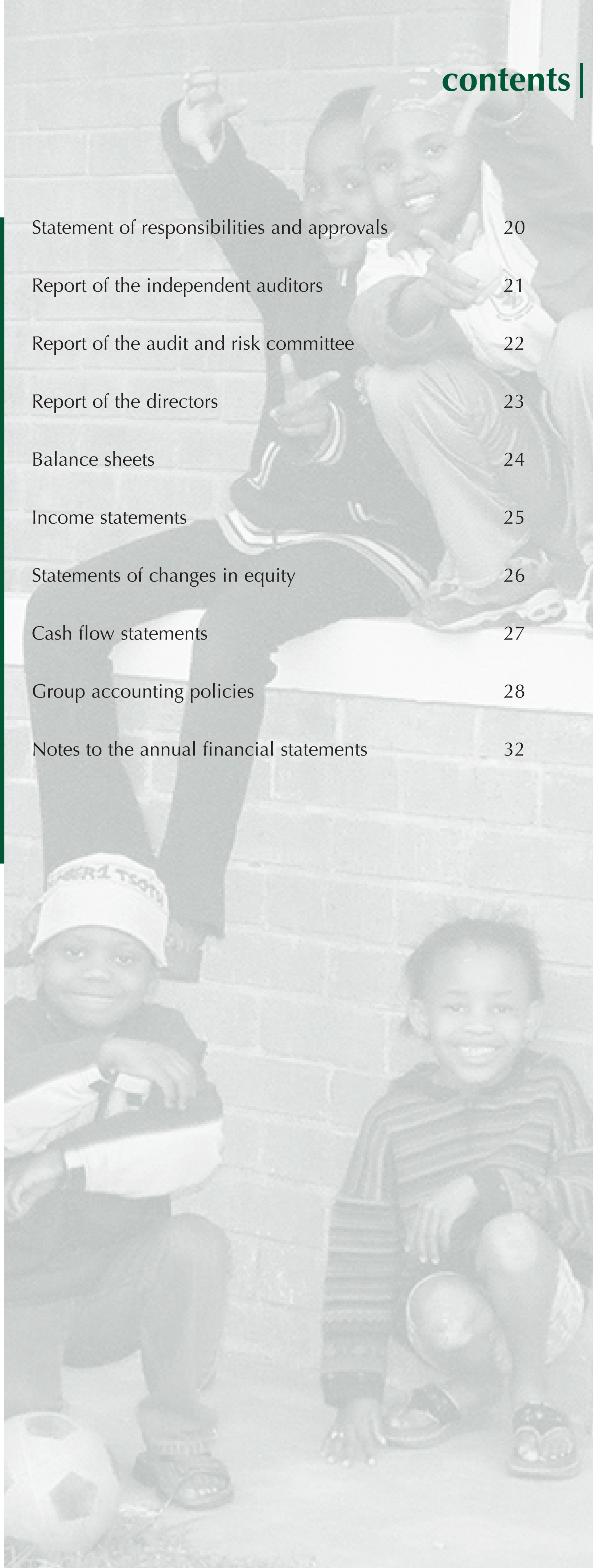
Name of Member	16 March 2005
Prof Michael Katz (Chair)	√
Mr Eric Molobi	√
Ms Nonhlanhla Mjoli-Mncube [2]	X
Mr Samson Moraba	√
Mr Tim Middleton [3]	X

[1] Mr Botha confirmed his support for the proposals in writing prior to the meeting
[2] Appointed on 28 October 2004
[3] Appointed on 28 October 2004

Annual Financial Statements

for the year ended 31 March 2005

contents



National Housing Finance Corporation Limited

Registration number 1996/005577/06

statement of responsibilities and APPROVALS

The Public Finance Management Act of 1999 (PFMA) requires the directors to ensure that the National Housing Finance Corporation Limited (NHFC) keeps full and proper records of its financial affairs. The annual financial statements should fairly present the state of affairs of 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 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 assets are safeguarded, 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 NHFC focus on those critical risk areas 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, Internal Audit, and discussions with the independent External Auditors, based on the results of their audit, that the material internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and that accountability for assets and liabilities maintained.

Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the 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 NHFC at 31 March 2005, and the results of its operations and cash flow information for the year then ended.

The annual financial statements of NHFC for the year ended 31 March 2005, set out on pages 23 to 50, have been approved by the Board of Directors and signed on their behalf on 30 June 2005 by are:

Mr Eric Molobi
Chairman

Mr Samson Moraba
Chief Executive Officer

To the Minister of Housing

We have audited the annual financial statements of NHFC set out on pages 23 to 50 for the year ended 31 March 2005. The annual financial statements are the responsibility of 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.

Scope

We conducted our audit in accordance with the Statements of South African Auditing Standards issued by the South African Institute of Chartered Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual 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 25 and 28 of the Public Audit Act, 25 of 2004, have been complied with.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating 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 present, in all material respects, the financial position of NHFC at 31 March 2005, and the results of their operations and cash flows for the year then 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; and
- the transactions of NHFC that came to the auditor's attention during auditing were in all material respects in accordance with mandatory functions of NHFC, as determined by law or otherwise.

In our opinion the statements have been properly prepared on the basis set out in the notes thereto.

Ernst + Young

Ernst & Young
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
30 June 2005

report of the audit and risk COMMITTEE

The Audit and Risk Committee reports that it has adopted appropriate formal terms of reference, regulated its affairs in compliance with the Terms of Reference and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit and Risk 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 and Risk 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 and Risk Committee, the internal controls and procedures of the NHFC are considered to be appropriate in all material respects to:

- 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.

The Audit and Risk Committee has evaluated the annual financial statements of the NHFC for the year ended 31 March 2005 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with 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 and Risk Committee concurs that the adoption of the going concern premise in framing the annual financial statements is appropriate. The Audit and Risk Committee therefore recommended the adoption of the annual financial statements by the Board of Directors at their meeting on 30 June 2005.

Mr Sizwe Tati
Chairman

The Directors are pleased to submit their report, together with the Group audited financial statements for the year ended 31 March 2005.

General review
The NHFC is incorporated in terms of the Companies Act, 1973, as amended. The main business of the Corporation is wholesale funding for housing finance purposes. The business and activities of the Corporation for the year are reviewed in the Chief Executive's report as set out in pages 10 to 13 of this report.

Financial results
The financial results of the Corporation for the year under review are set out on pages 24 to 50 of these financial statements.

Report on achievement of key performance indicators (KPIs) for the year-end 2005

	Key performance indicators	Target	Actual
1	Number of loans approved	13	8
2	Value of loans approved (R million)	502 661	380 329
3	Number of loans in place	42	38
4	Value of loans in place	1 152 080	787 056
5	Number of houses financed by loans granted	29 393	12 767
6	Income from loans and related activities	88 794	69 620
7	Average interest on the loans granted	11,4%	9,99%
8	Losses on loans (non-performance)	16 070	28 353
9	Number of financial intermediaries operating	53	48
10	Number of financial intermediaries in distress	11	13
11	Income from core business	88 794	69 620
12	Income from other activities/investments	79 279	116 231
13	Expenditure/Operating costs	60 071	64 079
14	Profit/Loss (operating surplus/deficit)	91 914	93 419
15	Total capital	1 876 351	1 845 977
16	Capital used in operations	1 179 531	695 466
17	Capital used in other investments	696 820	1 150 511

(Comparison between budget and audited results on page 48, note 30.)

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 amount has been shown as a liability on the project.

Dividends
All profits are retained by the Corporation to allow for the maximum availability of funds in pursuit of its mission. 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.

It is deemed essential to continue to build 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.

Directors and secretary
The following served as directors of the Company during the financial year:
Mr Andrew C Canter
Mr Mziwonke Dlabanthu
Prof Michael M Katz
Ms Nocawe E Makiwane
Mr Tim A Middleton
Ms Nonhlanhla Mjoli-Mncube
Mr Eric Molobi
Mr Samson S Moraba
Ms Mpumi Mpofu
Mr Sango S Ntsaluba
Mr Sizwe A Tati

Company Secretary
Ms Elsabe Marx

Business address	Postal address
1st Floor	PO Box 31376
Old Trafford Block 3	Braamfontein
Isle of Houghton	2017
11 Boundary Road	
Houghton, Johannesburg	
2193	

Board Committees

Audit and Risk Committee	Sizwe Tati (Chair) Samson Moraba Sango Ntsaluba Mandla Gantsho
Board Credit Committee	Nocawe Makiwane (Chair) Sizwe Tati Andrew Canter Samson Moraba De Villiers Botha
Human Resources, Ethics and Remuneration Committee	Michael Katz (Chair) Eric Molobi Samson Moraba Tim Middleton Nonhlanhla Mjoli-Mncube

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, I certify that the Corporation has lodged with the Registrar of Companies all such returns as required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

E Marx

Ms Elsabe Marx
Company Secretary

balance SHEETS as at 31 March 2005

	Note	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
ASSETS					
Non-current assets		**698 027**	559 394	**755 023**	616 394
Advances	3	**692 812**	553 655	**692 812**	553 655
Investment in subsidiary	4	**–**	–	**50 000**	50 000
Investment in joint venture	5	**2 654**	–	**2 654**	–
Investment in preference shares	6	**–**	2 450	**–**	2 450
Investment in cell captive	7	**–**	–	**7 000**	7 000
Property, plant and equipment	9	**2 119**	2 967	**2 119**	2 967
Deferred taxation	23.3	**442**	322	**438**	322
Current assets		**1 710 736**	1 887 974	**1 695 375**	1 813 700
Other receivables and prepayments	10	**5 538**	13 127	**15 060**	12 505
Inter-company loan	4	**–**	–	**–**	99 920
Investments held for trading	8	**243 175**	141 155	**243 175**	141 155
Money market investments – NHFC	11	**789 367**	1 061 755	**767 819**	900 459
– Job summit	11	**436 036**	425 742	**436 036**	425 742
Bank balances and cash		**167 918**	194 190	**164 911**	179 869
Taxation receivable		**68 702**	52 005	**68 374**	54 050
TOTAL ASSETS		**2 408 763**	2 447 368	**2 450 398**	2 430 094
EQUITY AND LIABILITIES					
Capital and reserves		**1 845 977**	1 785 084	**1 827 732**	1 767 924
Share capital	12	**842**	842	**842**	842
Share premium	13	**879 158**	879 158	**879 158**	879 158
Grant capital	14	**200 000**	200 000	**200 000**	200 000
Other reserves		**–**	4 185		
Distributable reserves		**765 977**	700 899	**747 732**	687 924
Non-current liabilities		**469 939**	464 243	**469 939**	464 243
Government grants under management	15	**436 036**	425 742	**436 036**	425 742
Deferred income	16	**33 903**	38 501	**33 903**	38 501
Current liabilities		**92 847**	198 041	**152 727**	197 927
Unsecured debentures	17	–	101 378	–	101 378
Inter-company loans	4	**–**	–	**60 823**	–
Other payables and provisions	18	**92 847**	96 663	**91 904**	96 549
TOTAL EQUITY AND LIABILITIES		**2 408 763**	2 447 368	**2 450 398**	2 430 094

	Note	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
REVENUE	19	**181 085**	207 172	**175 084**	189 884
Finance costs	20	**(15 279)**	(16 727)	**(15 279)**	(16 634)
NET INTEREST INCOME		**165 806**	190 445	**159 805**	173 250
Net impairments	3	**(28 353)**	(12 381)	**(19 053)**	(12 381)
NET INCOME		**137 453**	178 064	**140 752**	160 869
Non-interest income		**20 045**	8 694	**19 925**	9 222
OPERATING INCOME		**157 498**	186 758	**160 677**	170 091
Operating costs		**(64 079)**	(50 523)	**(74 787)**	(59 743)
NET INCOME BEFORE TAXATION	21	**93 419**	136 235	**85 890**	110 348
Taxation	23	**(28 341)**	(35 841)	**(26 082)**	(33 110)
INCOME AFTER TAXATION ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		**65 078**	100 394	**59 808**	77 238

statements of changes in EQUITY for the year ended 31 March 2005

	Ordinary share capital R'000	Share premium R'000	Grant capital R'000	Secondary reserves R'000	Distri-butable reserves R'000	Total R'000
GROUP						
Balance 31 March 2003 – restated	842	879 158	200 000	–	636 285	1 716 285
Effect of adopting AC133 – impairment of advances	–	–	–	–	(31 595)	(31 595)
Net profit for the year	–	–	–	–	100 394	100 394
Transfer to reserves	–	–	–	4 185	(4 185)	–
Balance 31 March 2004	842	879 158	200 000	4 185	700 899	1 785 085
Utilisation of secondary reserve	–	–	–	(4 185)	–	(4 185)
Net profit for the year	–	–	–		65 078	65 078
Balance 31 March 2005	842	879 158	200 000	–	765 977	1 845 978
COMPANY						
Balance 31 March 2003 – restated	842	879 158	200 000	–	642 281	1 722 281
Effect of adopting AC133 – impairment of advances	–	–	–	–	(76 450)	(76 450)
Net profit for the year	–	–	–	–	77 238	77 238
Balance 31 March 2004	842	879 158	200 000	–	687 924	1 767 924
Net profit for the year	–	–	–	–	59 808	59 808
Balance 31 March 2005	842	879 158	200 000	–	747 732	1 827 732

	Note	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
CASH FLOWS FROM OPERATING ACTIVITIES		**(105 394)**	67 519	**45 668**	25 891
Cash utilised in operations	24.1	**(223 797)**	(88 434)	**(71 370)**	(115 330)
Interest received		**180 218**	204 539	**174 217**	187 251
Interest paid		**(16 657)**	(16 727)	**(16 657)**	(16 634)
Taxation paid	24.2	**(45 158)**	(31 859)	**(40 522)**	(29 396)
CASH FLOWS FROM INVESTING ACTIVITIES		**(93 266)**	(11 574)	**(93 266)**	(18 574)
Additions to property, plant and equipment	9	**(811)**	(1 612)	**(811)**	(1 612)
Proceeds on disposal of property, plant and equipment		**–**	38	**–**	38
Acquisition of investment in cell captive		**–**	–	**–**	(7 000)
Debentures purchased in Cape Town Community Housing Company		**(2 654)**	(10 000)	**(2 654)**	(10 000)
Acquisition of City of Johannesburg Bonds		**(100 000)**	–	**(100 000)**	–
Proceeds on disposal of a portion of City of Johannesburg Bonds		**10 199**	–	**10 199**	–
CASH FLOWS FROM FINANCING ACTIVITIES		**(89 706)**	(26 842)	**(89 706)**	(26 843)
Grant funds received	15	**10 294**	24 296	**10 294**	24 295
Redemption of debentures	17	**(100 000)**	–	**(100 000)**	–
Provincial subsidies received for the Job Summit		**–**	(51 138)	**–**	(51 138)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(288 366)**	29 103	**(137 304)**	(19 526)
Cash and cash equivalents at beginning of year		**1 681 687**	1 652 584	**1 506 070**	1 525 596
CASH AND CASH EQUIVALENTS AT END OF YEAR	24.3	**1 393 321**	1 681 687	**1 368 766**	1 506 070

1 ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1.1 Basis of presentation

The consolidated financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice, the going concern principle and using the historical cost basis, except for financial instruments which are accounted for in terms of the policies stated below.

The consolidated financial statements are presented in Rands and all values are rounded to the nearest thousand (R'000) except when otherwise indicated.

1.2 Statement of compliances

The consolidated financial statements of National Housing Finance Corporation Limited and all its subsidiaries have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice.

The accounting policies adopted and applied are set out below and are, in all material respects, consistent with those of the prior year.

1.3 Basis of consolidation

The financial statements of subsidiaries are consolidated from the date on which effective control is acquired by the Group, up to the date that such effective control ceases. For this purpose, subsidiaries are companies over which the Group, directly or indirectly, has an interest of more than half the voting rights or otherwise has the ability to control the financial and operating activities so as to obtain benefits from their activities.

Subsidiaries are excluded from consolidation when control is intended to be temporary due to the subsidiary being acquired and held exclusively with a view to its subsequent disposal in the near future or when an existing subsidiary is subsequently disposed of. Special purpose entities, including cell captives, are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the Group effectively controls the entity.

All inter-company transactions, balances and unrealised gains and losses are eliminated on consolidation.

The consolidated financial statements comprise the financial statements of National Housing Finance Corporation Limited, its subsidiaries, special purpose entities and joint ventures. The financial statements for subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

1.3.1 Interest in joint venture

The Group's interest in its joint venture is accounted for under the equity method of accounting. The results of the joint venture company are accounted for according to the equity method, based on their most recent audited financial statements. If the most recent available financial statements are for an accounting period which ended more than six months prior to Group's year-end, then the most recently available management accounting results have been brought into account.

The investment in an associated company or joint venture company, is written down when there is considered to be an impairment in value.

1.4 Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, loans and advances, non-convertible debentures, accounts receivable and payable, investments and investment securities.

Financial instruments are initially measured at cost, including transaction costs, when the Group becomes a party to the contractual arrangements. When the Group can legally do so and the Group intends to settle on a net basis or simultaneously, related financial liabilities and assets are offset and the net balance is reported in the balance sheet.

1.4.1 Financial investments

Investments in financial instruments are held for investment or trading purposes and recorded on a trade date basis.

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Management determines the appropriate classification at the time of purchase and may include any of the following categories:

Held to maturity
These are Investments with a fixed maturing date and where the Group has a firm intention and ability to hold the investments to maturity. This category typically includes short-term dated instruments such as promissory notes, banker's acceptances, negotiable certificates of deposit, fixed deposit investments and commercial paper.

These investments are, subsequent to initial recognition, measured at amortised cost and reviewed for impairment where appropriate.

Held-for-trading
These investments are acquired for the purpose of generating short-term fluctuations in price or dealer margins and for the interest income. These are held at fair value and unrealised gains or losses are accounted for in the income statement.

These investments are, subsequent to initial recognition, measured at fair value. Gains or losses are recognised in the income statement.

Accounts receivable
Accounts receivable are classified as originated by the enterprise and are measured at amortised cost.

1.4.2 Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

1.4.3 Investments and investment securities
Equity investments
Significant financial liabilities include funds received in trust for specific projects, and accounts payable. The Group holds financial liabilities at amortised cost unless stated otherwise.

1.4.4 Financial liabilities and equity instruments
Interest-bearing borrowings
Borrowings are initially recognised at cost, being fair value of the consideration received net of issue costs associated with the borrowing.

Interest-bearing borrowings are subsequent to initial recognition, measured at amortised cost using the effective interest method. The interest accrual, based on the amortisation process, is recognised in the income statement in the year it accrues.

Trade and other payables
Accounts payable are classified as non-trading financial liabilities and measured at amortised costs.

1.5 Advances
1.5.1 Advances originated by the Group
The Group classifies the loans and advances as originated where it provides money directly to a borrower or to an intermediary at draw down. Originated advances are initially recognised at cost, which is the fair value of the cash given to originate the advance, including any transaction costs, and are subsequently measured at amortised cost.

1.5.2 Advances purchased by the Group
The Group classifies purchased advances as held to maturity assets. These purchased advances are initially recognised at cost, which is the fair value of the cash given to originate the advance, including any transaction costs.

These are assets which are non-derivatives with a fixed maturity date and where the Group has a firm intention and ability to hold the advance to maturity. This typically includes advances purchased from sellers who classify the advances as originated in their records.

These purchased advances are, subsequent to initial recognition, measured at amortised cost using the effective interest rate method and reviewed for impairment.

1.6 Impairments for credit losses
1.6.1 General
A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

1.6.2 Impairment of advances
The Group creates a specific impairment when there is objective evidence that it will not be able to collect all amounts due. The amount of the impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance. The Group reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

Advances are stated net of specific impairment and portfolio impairments. Any change to the amount and timing of the expected future cash flows compared with previous estimates will result in a change to the charge for impairment of advances in the income statement. The estimated recoverable amount is the present value of expected future cash flow which may result from restructuring, liquidation or collateral held.

Upon impairment, the accrual of interest income on the original terms of the claim is discontinued.

1.6.3 Impairment of other financial assets carried at amortised cost

The Group calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

1.7 Leasing

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

1.8 Government grants

On restructuring of the Group the acquisition of share capital in the restructured entities HEF and HIDF was accounted for as capital grants from Government on 1 April 2001.

1.9 Deferred income

Deferred income represents the difference between the fair value of the loan book purchased from South African Housing Trust and the cost of the purchase of the advances less amounts amortised. The deferred income is recognised in the income statement as and when payment of the gross value owing is received from the underlying debtors.

1.10 Revenue recognition

Interest income is recognised at the effective rates of interest inherent in finance contracts and is brought into income in proportion to the balance outstanding on a time proportion method.

1.11 Dividends

Dividends are recognised in the period in which the right to receipt is established.

Origination costs are capitalised to the appropriate advance and amortised to interest income over the estimated period of repayment.

1.12 Retirement benefit costs

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

1.13 Taxation

1.13.1 Current 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.

1.13.2 Deferred taxation

Deferred taxation 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. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that there will be taxable profits 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.

1.13.3 Fixed assets and depreciation

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the assets. Leasehold improvements are amortised over the shorter of the remaining period of the lease or estimated useful life of the asset.

The rates used to amortise assets are as follows:

- computer equipment 33,33%;
- computer software 33,33% to 100%;
- furniture, fittings and office equipment 16,67%;
- motor vehicles 25%; and
- leasehold improvements 33,3% – 100%

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

1.14 Related party transactions

National Housing Finance Corporation Limited's ultimate shareholder is the Government of the Republic of South Africa.

All subsidiaries, special purpose entities and joint ventures of the Group are related parties.

There were no material contracts with Directors or officers other than those disclosed in the Director's report on page 23.

1.15 Provision

Provisions are recognised when the Group has a present constructive or legal obligation as a result of past events and, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

1.16 Contingencies and commitments

Transactions are classified as contingencies where the Group's obligations depend on uncertain future events.

Items are classified as commitments where the Group commits itself to future transactions or if the items will result in the acquisition of assets.

1.17 Segment information

The Group's primary reporting format is based on business segments and its secondary format is based on geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each business segment representing a strategic business unit that offers different products and serves different markets.

2 CHANGE IN ACCOUNTING POLICY

2.1 Job Summit Housing Project

During the prior year the Company changed its accounting policy with regards to the Job Summit Housing Project funds received from National Treasury – Refer note 15 (Funds under administration).

Since the funds, R225 million were received from Government in financial year 2002 and 2003, interest income was treated as income in the financial statements of National Housing Finance Corporation Limited. The income and expenditure with the related taxation on these amounts was included in the results of the Company. During financial year 2004 a decision was taken to change the accounting on these funds as to ensure that the interest earned is capitalised and the expenses recovered from the interest. This is in line with the directive from the National Department of Housing.

The effect of the restatement on opening distributable reserves in respect of the change in accounting policy was to reduce it as follows:

	2005 R'000	2004 R'000
Net amount before taxation	–	31 406
Taxation	–	(9 422)
Net	–	21 984
The effect of the change in accounting policy is to reduce net profit for the year as follows:		
Net amount before taxation	–	24 296
Taxation	–	–
Net	–	24 296

2.2 Impact of adopting AC133

During the prior year, the Group changed its accounting policy in respect of its financial instruments to comply with South African Statements of GAAP – AC133, Financial instruments; Recognition and Measurements.

AC133 affects the recognition and measurement of financial instruments, in particular credit impairments against loans and advances. AC133 is applied respectively, and in terms of the transitional provisions, adjustments are required to the opening distributable reserves, as such comparatives have not been restated. The effect of the changes is detailed in the Statement of changes in equity.

	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
3 ADVANCES				
Gross advances				
Opening balances	**672 707**	614 669	**672 707**	614 669
Disbursements	**295 196**	174 869	**295 196**	174 869
Repayments	**(129 913)**	(116 831)	**(129 913)**	(116 831)
Amounts written off	**(50 934)**	–	**(50 934)**	–
Balance at end of year	**787 056**	672 707	**787 056**	672 707
Impairments on advances				
Balance at the beginning of the year	**119 052**	64 079	**119 052**	64 079
AC133 opening balance adjustment	**–**	57 011	**–**	57 011
– Specific impairments	**–**	121 090	**–**	121 090
– Reversal of general impairment	**–**	(64 079)	**–**	64 079
Reduction of impairment on advances	**(5 609)**	(2 038)	**(5 609)**	(2 038)
Amounts previously impaired written off during the year	**(38 854)**	–	**(38 854)**	–
Impairments raised during the year	**19 655**	–	**19 655**	–
	94 244	119 052	**94 244**	119 052
Comprising:				
Specific impairments	**(94 244)**	(119 052)	**(94 244)**	(119 052)
Total	**(94 244)**	(119 052)	**(94 244)**	(119 052)
Net advances	**692 812**	553 655	**692 812**	553 655
Maturity analysis				
Payable within 1 year	**55 113**	12 313	**55 113**	12 313
Payable within 1 to 2 years	**43 812**	59 523	**43 812**	59 523
Payable within 2 to 3 years	**72 238**	58 631	**72 238**	58 631
Payable beyond 3 years	**521 649**	423 187	**521 649**	423 187
	692 812	553 654	**692 812**	553 654
Income statement charge				
Impairments raised during the year	**19 655**	–	**19 655**	–
Reduction of impaired advances	**(5 609)**	(2 038)	**(5 609)**	(2 038)
Bad debts written off	**12 080**	–	**12 080**	–
	26 126	(2 038)	**26 126**	(2 038)
Insurance proceeds received on bad debts written off	**(223)**	–	**(9 523)**	–
Bad debts recovered	**–**	(3 581)	**–**	(3 581)
Net movement	**25 903**	(5 619)	**16 603**	(5 619)
Impairment on investments				
Impairment (refer note 5)	**–**	18 000	**–**	18 000
Write-off (refer note 6)	**2 450**	–	**2 450**	–
Net movement	**2 450**	18 000	**2 450**	18 000
Total charge to income statement	**28 353**	12 381	**19 053**	12 381

		Group		Company	
		2005	2004	**2005**	2004
		R'000	R'000	**R'000**	R'000
4	**INVESTMENT IN SUBSIDIARY**				
	Gateway Home Loans (Proprietary) Limited				
	Shares at cost – ordinary shares	**–**	–	**50 000**	50 000
	Loans owing (to)/by subsidiary	**–**	–	**(60 823)**	99 920
5	**INVESTMENT IN JOINT VENTURE**				
	(incorporated in the Republic of South Africa)				
	Shares at cost	**–**	–	**2 000**	2 000
	Accumulated impairment	**–**	–	**(2 000)**	(2 000)
	Net book value of shares	**–**	–	**–**	–
	Non-convertible debentures at cost – issued prior to 31 March 2004	**18 000**	18 000	**18 000**	18 000
	Non-convertible debentures – issued in the current year	**2 654**	–	**2 654**	–
		20 654	18 000	**20 654**	18 000
	Accumulated impairment (refer note 3)	**(18 000)**	(18 000)	**(18 000)**	(18 000)
	Net interest in joint venture	**2 654**	–	**2 654**	–
6	**INVESTMENT IN PREFERENCE SHARES**				
	Unlisted investment				
	Preference shares in Peulwana Finance	**2 450**	2 450	**2 450**	2 450
	Write-off (refer note 3)	**(2 450)**	–	**(2 450)**	–
		–	2 450	**–**	2 450
7	**INVESTMENT IN CELL CAPTIVE**				
	Unlisted investment				
	Guardrisk Insurance Company Limited				
	Shares at cost	**–**	–	**7 000**	7 000
	100% investment in Cell captive – Cell no 105				
8	**INVESTMENTS HELD FOR TRADING**				
	Fair value at beginning of the year	**141 155**	138 857	**141 155**	138 857
	Additions for the year at cost	**100 000**	–	**100 000**	–
	Disposals for the year at cost	**(10 000)**	–	**(10 000)**	–
	Fair value adjustment	**12 020**	2 298	**12 020**	2 298
	Fair value at end of the year	**243 175**	141 155	**243 175**	141 155
	Comprising:				
	RSA Stock – R153 at fair value	**144 785**	141 155	**144 785**	141 155
	R120 million nominal				
	13,0% per annum redeemable on 31 August 2010				
	City of Johannesburg Bonds at fair value	**98 390**	–	**98 390**	–
	R90 million nominal				
	11,95% per annum redeemable on 13 October 2010				
		243 175	141 155	**243 175**	141 155

9 PROPERTY, PLANT AND EQUIPMENT

Group and Company

	Depreciation rate	Cost R'000	Accumulated depreciation R'000	2005 Carrying value R'000
Computer equipment	33,33%	4 318	3 573	745
Computer software	33,33 – 100%	4 324	3 667	657
Furniture and fittings	16,67%	2 580	2 133	448
Motor vehicles	25%	105	48	57
Office equipment	16,67%	374	296	78
Leasehold improvements	33,33% – 100%	269	134	134
		11 970	9 851	2 119

Reconciliation of opening balances to closing balances – 2005

	Computer equipment R'000	Computer software R'000	Furniture & fittings R'000	Office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	2005 Total R'000
Opening balances	925	1 098	686	119	79	60	2 967
Additions	314	250	29	8	2	208	811
Depreciation	(494)	(691)	(267)	(49)	(24)	(134)	(1 659)
Closing balances	745	657	448	78	57	134	2 119

Comparative figures – 2004

	Depreciation rate	Cost R'000	Accumulated depreciation R'000	2004 Carrying value R'000
Computer equipment	33,33%	4 004	3 079	925
Computer software	33,33% – 100%	4 074	2 976	1 098
Furniture and fittings	16,67%	2 552	1 866	686
Motor vehicles	25%	103	24	79
Office equipment	16,67%	366	247	119
Leasehold improvements	33,33% – 100%	60	–	60
		11 159	8 192	2 967

Reconciliation of opening balances to closing balances – 2004

	Computer equipment R'000	Computer software R'000	Furniture & fittings R'000	Office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	2004 Total R'000
Opening balances	655	1 221	845	167	–	916	3 804
Additions	720	575	143	11	103	60	1 612
Depreciation	(450)	(698)	(302)	(59)	(24)	(916)	(2 449)
Closing balances 2004	925	1 098	686	119	79	60	2 967

The subsidiaries do not hold any property, plant and equipment.

10 OTHER RECEIVABLES AND PREPAYMENTS

Other receivables	**2 518**	4 877	**2 518**	4 876
Prepayments	**170**	48	**170**	48
Related parties	**1 983**	5 466	**11 505**	5 466
Interest accrued	**867**	2 736	**867**	2 115
	5 538	13 127	**15 058**	12 505

	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
11 MONEY MARKET INVESTMENTS				
Held to maturity investments:				
Short-term deposits				
Amalgamated Banks of South Africa Limited	**222 802**	193 537	**219 961**	193 537
Fixed deposits	**–**	51 990	**–**	51 990
Promissory notes	**220 072**	141 547	**219 961**	141 547
Asset-backed commercial paper	**977**	–	**–**	–
Negotiable certificates of deposit	**1 753**	–	**–**	–
Investec Bank Limited	**226 668**	81 358	**226 668**	50 855
Fixed deposits	**101 453**	30 503	**101 453**	
Promissory notes	**125 215**	50 855	**125 215**	50 855
Negotiable certificates of deposit	**–**	–	**–**	–
Standard Bank of South Africa Limited	**181 385**	302 871	**177 477**	272 369
Fixed deposits	**103 085**	211 324	**101 664**	211 325
Promissory notes	**–**	91 547	**–**	61 044
Negotiable certificates of deposit	**78 300**	–	**75 813**	–
Rand Merchant Bank Holdings	**55 732**	217 236	**55 732**	191 817
Fixed deposits	**–**	150 289	**–**	150 289
Promissory notes	**–**	25 419	**–**	–
Negotiable certificates of deposit	**55 732**	41 528	**55 732**	41 528
Nedcor Bank Limited	**154 958**	178 124	**153 457**	162 565
Fixed deposits	**50 633**	96 857	**50 633**	81 298
Promissory notes	**40 332**	81 267	**40 332**	81 267
Negotiable certificates of deposit	**63 993**	–	**62 492**	–
SARB Decillion	**–**	24 771	**–**	24 771
Treasury bills	**–**	24 771	**–**	24 771
First Rand Bank Limited	**1 475**	–	**–**	–
Negotiable certificates of deposit	**1 475**	–	**–**	–
Supreme Cash	**6 022**	–	**–**	–
Negotiable certificates of deposit	**6 022**	–	**–**	–

	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
11 INVESTMENTS continued				
Other short-term financial instruments				
Transnet	**446**	102 546	**–**	102 546
Commercial paper	**–**	50 011	**–**	50 011
Treasury bills	**167**	–	**–**	–
Coupon bills	**279**	52 535	**–**	52 535
Eskom	**165 319**	175 006	**163 876**	145 094
Promissory notes	**163 876**	–	**163 876**	–
Commercial paper	**1 443**	175 006	**–**	145 094
Gensec Bank Limited	**316**	–	**–**	–
Promissory notes	**316**	–	**–**	–
Landbank	**207 240**	212 048	**206 684**	182 647
Fixed deposits	**132 612**	–	**132 612**	–
Promissory notes	**74 628**	162 175	**74 072**	132 774
Treasury bills	**–**	49 873	**–**	49 873
Citi Bank	**1 456**	**–**	**–**	–
Fixed deposits	**1 140**	–	**–**	–
Commercial paper	**316**	–	**–**	–
Sasol	**156**	–	**–**	–
Promissory notes	**156**	–	**–**	–
Deutche Bank	**158**	–	**–**	–
Asset-backed commercial paper	**158**	–	**–**	–
Indwa	**1 270**	–	**–**	–
Asset-backed commercial paper	**1 270**	–	**–**	–
NHFC Investments	**789 367**	1 061 755	**767 819**	900 459
JSHP-related investments	**436 036**	425 742	**436 036**	425 742
12 SHARE CAPITAL				
Authorised				
100 000 000 ordinary shares of R0,01 each	**1 000**	1 000	**1 000**	1 000
Issued				
84 187 332 ordinary shares of R0,01 each	**842**	842	**842**	842
13 SHARE PREMIUM				
Balance at end of year	**879 158**	879 158	**879 158**	879 158
14 GRANT CAPITAL				
Balance at end of year	**200 000**	200 000	**200 000**	200 000

		Group		Company	
		2005	2004	**2005**	2004
		R'000	R'000	**R'000**	R'000
15	**GOVERNMENT GRANTS UNDER MANAGEMENT – JOB SUMMIT**				
	Poverty relief				
	Opening balance	**280 702**	246 984	**280 702**	246 984
	Interest capitalised	**19 115**	46 335	**19 115**	46 335
	Payments	**(5 858)**	(12 617)	**(5 858)**	(12 617)
	Closing balance	**293 959**	280 702	**293 959**	280 702
	Provincial subsidies				
	Opening balance	**145 040**	196 178	**145 040**	196 178
	Funds (refunded)/received	**(2 000)**	38 600	**(2 000)**	38 600
	Interest capitalised	**9 182**	17 105	**9 182**	17 105
	Payments	**(10 145)**	(106 843)	**(10 145)**	(106 843)
	Closing balance	**142 077**	145 040	**142 077**	145 040
	Total funds under management	**436 036**	425 742	**436 036**	425 742
	NHFC was appointed by the National Department of Housing to project manage the delivery of rental stock under the Job Summit. As a result of this appointment the corporation has been tasked to manage funds allocated by treasury in terms of the Poverty relief fund and subsidy funds from KwaZulu-Natal and Mpumalanga provinces. The interest income on these funds is capitalised.				
16	**DEFERRED INCOME**				
	Balance at beginning of year	**38 501**	43 686	**38 501**	43 686
	Deferred income transferred to income statement	**(4 598)**	(5 185)	**(4 598)**	(5 185)
	Balance at end of year	**33 903**	38 501	**33 903**	38 501
	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 2003 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 31 March 2005 is R33,9 million (2004: R38,5 million). The recovery from the advance book is recognised as income in the income statement as it is received from borrowers. The balances outstanding from these debtors are included in advances.				
17	**UNSECURED DEBENTURES**				
	Convertible debentures	**–**	101 378	**–**	101 378
	The debentures consisted of 100 000 000 subordinated unsecured senior convertible debentures of R1 each and were redeemed on 28 February 2005. Interest was paid semi-annually in arrears at the rate of 16,53%.				
18	**OTHER PAYABLES AND PROVISIONS**				
	Joint Venture Development Fund	**80 489**	80 489	**80 489**	80 489
	Related Parties	**1 055**	60	**125**	60
	Leave provision	**1 512**	1 073	**1 512**	1 073
	Sundry creditors and accruals	**9 791**	15 041	**9 778**	14 927
		92 847	96 663	**91 904**	96 549

		Group		Company	
		2005	2004	**2005**	2004
		R'000	R'000	**R'000**	R'000
19	**REVENUE**				
	Interest earned on advances	**69 620**	69 177	**69 620**	69 177
	Interest earned on deposits and investments held for trading	**111 465**	137 995	**105 464**	120 707
		181 085	207 172	**175 084**	189 884
20	**FINANCE COSTS**				
	Interest paid on debentures	**15 153**	16 530	**15 153**	16 530
	Sundry finance charges	**126**	197	**126**	104
		15 279	16 727	**15 279**	16 634
21	**NET INCOME BEFORE TAXATION**				
	Net income before taxation includes amongst other:				
	Income:				
	Fair value gain on held-for-trading assets	**(11 943)**	(2 298)	**(11 943)**	(2 298)
	Profit on sale of City of Johannesburg Bonds	**(199)**	–	**(199)**	–
	Staff costs (refer note 26)	**27 056**	20 766	**27 056**	20 766
	Capacitation of Northwest Housing Company	**4 819**	–	**4 819**	–
	Donation to City of Cape Town	**1 000**	–	**1 000**	–
	Auditors' remuneration	**896**	1 050	**836**	1 016
	Audit fees	**812**	573	**752**	539
	Technical fees	**–**	257	**–**	257
	Prior year underprovision	**84**	220	**84**	220
	Fees for services				
	Consulting and advisory	**4 329**	4 341	**4 329**	4 341
	Depreciation				
	Computer equipment	**495**	450	**495**	450
	Computer software	**691**	698	**691**	698
	Furniture and fittings	**266**	302	**266**	302
	Office equipment	**49**	59	**49**	59
	Motor vehicles	**24**	24	**24**	24
	Leasehold improvements	**134**	916	**134**	916
	Operating lease payments for the year	**3 843**	4 507	**3 843**	4 507
	Loss on disposal of property, plant and equipment	**–**	38	**–**	38

	Salaries/ fees	Bonuses	Company contri- butions	Other	Company Total 2005	Total 2004
22 DIRECTORS EMOLUMENTS						
Non executive directors						
Fees for services as directors	188	–	–	–	188	354
E Molobi – paid to Kagiso Trust	35	–	–	–	35	43
S Tati – paid to Khula Enterprises	31	–	–	–	31	116
N Mjoli– Mncube – paid to Nurcha	11	–	–	–	11	63
N Makiwane	19	–	–	–	19	98
S Ntsaluba	22	–	–	–	22	6
A Canter	43	–	–	–	43	–
T Middleton	15	–	–	–	15	4
Fees for services as committee members	12	–	–	–	12	24
D Botha – paid to Development Bank of South Africa	6	–	–	–	6	10
M Gantsho – paid to Development Bank of South Africa	6	–	–	–	6	14
Executive director						
SS Moraba	1 475	578	110	9	2 172	2 044
Executive Managers*	4,204	1,066	593	346	6,209	7,308
Chief Operating Officer	–	–	–	–	–	1,024
Chief Financial Officer	790	177	141	6	1,114	797
Executive manager: Corporate Strategy	768	154	48	4	974	–
Executive manager: Home Ownership division	667	186	49	4	906	909
Executive manager: Incremental Housing division	421	61	60	3	545	740
Executive manager: Alternative tenure division	625	205	108	3	941	796
Executive manager: Corporate Risk division	646	144	128	4	922	852
Executive manager: Policy and research division	–	–	–	–	–	861
Executive manager: Human resources division	246	135	54	322	757	602
Executive manager: Corporate Marketing and Communications division	41	4	5	–	50	727
	5,867	1,644	703	355	8,569	9,706

	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
23 TAXATION				
23.1 Charge for the year				
South African Normal Taxation				
Current	**28 461**	35 781	**26 198**	33 049
Deferred	**(120)**	60	**(116)**	61
Total South African Taxation on income	**28 341**	35 841	**26 082**	33 110
23.2 Tax rate reconciliation	**%**	%	**%**	%
SA Normal Tax Rate	**30,0**	30,0	**30,0**	30,0
Other permanent differences	**0,32**	(1,4)	**0,35**	–
Change in deferred tax rate	**0,02**	–	**0,02**	–
Assessed loss utilised		(2,3)	**–**	–
Effective tax rate	**30,34**	26,3	**30,37**	30,0
23.3 Reconciliation of deferred taxation				
Balance at beginning of year	**322**	6 488	**322**	6 488
AC133 adjustment on opening balance	**–**	(6 106)	**–**	(6 105)
Credit/(charge) for the current year	**120**	(60)	**116**	(61)
Balance at end of year	**442**	322	**438**	322
24 RECONCILIATION OF CASH UTILISED IN OPERATIONS				
24.1 Income before taxation	**93 419**	136 235	**85 890**	110 348
Adjustments for the following items:	**(154 776)**	(176 922)	**(145 520)**	(159 727)
Revaluation of investments held for trading	**(12 020)**	(2 298)	**(12 020)**	(2 298)
Depreciation	**1 659**	2 449	**1 659**	2 449
Impairments/Provision	**14 046**	(2 038)	**14 046**	(2 038)
Loss/(profit) on disposal of property, plant and equipment	**–**	(38)	**–**	(38)
Profit on sale of investments held for trading	**(199)**	–	**(199)**	–
Deferred income amortisation	**(4 598)**	(5 185)	**(4 598)**	(5 185)
Bad debts written off	**12 080**	–	**12 080**	–
Write-off investment preference shares	**2 450**	18 000	**2 450**	18 000
Reversal of insurance provision raised	**(3 255)**	–	**–**	–
Interest paid	**15 279**	16 727	**15 279**	16 634
Interest received	**(180 218)**	(204 539)	**(174 217)**	(187 251)
Operating loss before working capital changes in working capital	**(61 357)**	(40 687)	**(59 630)**	(49 379)
Changes in working capital: Net decrease/(increase)	**(162 440)**	(47 747)	**(11 740)**	(65 951)
(Increase)/Decrease in advances	**(165 283)**	(61 289)	**(165 283)**	(61 289)
Decrease/(Increase) in inter-company loan accounts	**–**	–	**160 743**	(1 757)
Increase in accounts receivable	**7 589**	9 175	**(2 555)**	(7 181)
Increase/(Decrease) in accounts payable	**(4 746)**	4 367	**(4 645)**	4 276
Cash generated by/(utilised in) operations	**(223 797)**	(88 434)	**(71 370)**	(115 330)

	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
24 RECONCILIATION OF CASH UTILISED IN OPERATIONS continued				
24.2 Taxation paid				
Amounts receivable – beginning of year	**52 005**	24 406	**54 050**	26 182
AC133 adjustment	**–**	31 521	**–**	31 521
Changes in accounting policy	**–**	–	**–**	–
Taxation charge for the year	**(28 461)**	(35 781)	**(26 198)**	(33 049)
Amounts receivable – end of year	**(68 702)**	(52 005)	**(68 374)**	(54 050)
Taxation paid	**(45 158)**	(31 859)	**(40 522)**	(29 396)
24.3 Cash and cash equivalents				
Investments	**1 225 403**	1 487 497	**1 203 855**	1 326 201
Bank balances and cash	**167 918**	194 190	**164 911**	179 869
	1 393 321	1 681 687	**1 368 766**	1 506 070
25 LEASE COMMITMENTS				
Minimum future lease payments under non-cancellable operating leases:				
Payable within 1 year	**2 102**	3 171	**2 102**	3 171
Property	**1 936**	2 833	**1 936**	2 833
Office equipment	**166**	338	**166**	338
Payable between 2 and 5 years	**2 332**	6 858	**2 332**	6 858
Property	**2 129**	6 466	**2 129**	6 466
Office equipment	**203**	392	**203**	392
	4 433	10 029	**4 433**	10 029
CONTINGENT LIABILITIES				
Guarantees provided	**3 700**	–	**3 700**	–
Itemba	**–**	6 870	**–**	6 870
Gensec	**533**	533	**533**	533
CTCHC	**–**	5 000	**–**	5 000
	4 533	12 403	**4 533**	12 403
26 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 Robson Savage, and subject to the Pension Funds Act of 1956.				
The Corporation is not liable for post-retirement benefits.				
Included in staff costs amongst others (refer note 21)				
Provident fund contributions	**2 240**	2 149	**2 240**	2 149
Number of staff	**73**	78	**73**	78

27 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 impairments. Credit risk on advances is limited in terms of the credit policy which provides for prudent counter party limits in respect of individual clients 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 from counter parties that 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.

The Corporation, through the board credit committee and management credit committee on application from the client, reduced rates on those loans that were issued at the high interest rates prevailing in 1998 and 1999.

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

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

	Group		**Company**	
	2005 **R'000**	2004 R'000	**2005** **R'000**	2004 R'000
Fixed rate advances	**71 248**	115 766	**71 248**	115 766
Linked rate advances	**715 808**	556 941	**715 808**	556 941
Less: impairments	**(94 244)**	(119 052)	**(94 244)**	(119 052)
	692 812	553 655	**692 812**	553 655

Interest rate risk

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

	Strategy	**2005 Fixed rate R'000**	**2005 Linked rate R'000**	**2004 Fixed rate R'000**	**2004 Linked rate R'000**
Assets					
Advances – rates vary between 10% and 18% pa	1	71 248	715 808	115 766	556 941
Investments held for trading (refer to note 8)					
The rate is fixed at 12,54% per annum		243 175	–	–	141 155
Money market investments – rates vary between 7,4% and 8,01% per annum		–	1 225 403	–	1 487 497
Bank balances and cash – rates vary between 6% and 6,5% per annum.		–	167 918	–	194 190
Liabilities					
Debentures (refer to note 17). The rate was fixed at 16,53% paid semi-annually in arrears.		–	–	101 378	–
Government grants under management – rates are linked to short-term investment rates.		–	436 036	–	425 742

Interest rate risk management strategy is as follows:

Strategy

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

27 FINANCIAL INSTRUMENTS continued

Fair value

At 31 March 2005 and 2004 the carrying amounts of financial assets and liabilities approximated their fair values.

	Carrying amount 2005	Fair value 2005	Carrying amount 2004	Fair value 2004
Assets				
– Advances	**692 812**	**692 812**	553 655	553 655
– Debentures Cape Town Community Housing Company (Proprietary) Limited	**2 654**	**2 654**	–	–
– Preference share in Peulwana	**–**	**–**	2 450	2 450
– Accounts receivable	**5 538**	**5 538**	13 127	13 127
– Investments held for trading	**243 175**	**243 175**	141 155	141 155
– Money market investments	**1 225 403**	**1 225 403**	1 487 497	1 487 497
– Bank balances and cash	**167 918**	**167 918**	194 190	194 190
	2 337 500	**2 337 500**	2 392 074	2 392 074
Liabilities				
– Debentures	**–**	**–**	101 378	106 470
– Accounts payable	**92 847**	**92 847**	96 663	96 663
– Government grants under management	**436 036**	**436 036**	425 742	425 742
	528 883	**528 883**	623 783	628 875

28 SEGMENTAL INFORMATION

Group business segmental analysis of income statement

	Lending activities R'000	Investment activities R'000	Non-interest and other income R'000	Total 2005 R'000	Total 2004 R'000
Revenue – 2005	69 620	111 465	20 045	**181 085**	–
Revenue – 2004	69 177	137 995	8 694	**–**	207 172
Finance costs				**(15 279)**	(16 727)
Net interest income				**165 806**	190 445
Net impairments				**(28 353)**	(12 381)
Net income				**137 453**	178 064
Non-interest income				**20 045**	8 694
Operating income				**157 498**	186 758
Operating costs				**(64 079)**	(50 523)
Net income before taxation				**93 419**	136 235
Taxation				**(28 341)**	(35 841)
Net income after taxation				**65 078**	100 394

Group business segmental analysis of the balance sheet

	Lending activities R'000	Investment activities R'000	Non-interest and other income R'000	Total 2005 R'000	Total 2004 R'000
Advances – 2005	692 812	–	–	**692 812**	–
Advances – 2004	553 655	–	–	**–**	553 655
Debentures Cape Town Community Housing Company (Proprietary) Limited – 2005		2 654		**2 654**	–
Preference share in Peulwana – 2004		2 450		**–**	2 450
Accounts receivable – 2005		5 538		**5 538**	–
Accounts receivable – 2004		13 127		**–**	13 127
Investments held for trading – 2005		243 175		**243 175**	–
Investments held for trading – 2004		141 155		**–**	141 155
Money market investments – 2005		1 225 403		**1 225 403**	–
Money market investments – 2004		1 487 497		**–**	1 487 497
Bank balances and cash – 2005		167 918		**167 918**	–
Bank balances and cash – 2004		194 190		**–**	194 190
				2 337 500	2 392 074

Geographical segmental analysis of income statement

	Other provinces	Mpuma-langa	Gauteng	KwaZulu-Natal	Eastern Cape	Western Cape	Total 2005 R'000	Total 2004 R'000
Revenue – 2005								
Lending income	1 692	11 036	33 964	6 534	6 587	4 370	**69 620**	–
Investment income							**111 465**	–
Revenue – 2004								
Lending	473	8 777	31 710	8 227	9 691	5 707	**–**	69 177
Investment income							**–**	137 995
							181 085	**207 172**
Finance costs							**(15 279)**	(16 727)
Net interest income							**165 806**	**190 445**
Net impairments							**(28 353)**	(12 381)
Net income							**137 453**	**178 064**
Non-interest and other income							**20 045**	8 694
Operating income							**157 498**	**186 758**
Operating costs							**(64 079)**	(50 523)
Net income before taxation							**93 419**	**136 235**
Taxation							**(28 341)**	(35 841)
Net income after tax							**65 078**	**100 394**

28 SEGMENTAL INFORMATION continued

Geographical segmental analysis of the balance sheet

	Other provinces	Mpuma-langa	Gauteng	KwaZulu-Natal	Eastern Cape	Western Cape	Total 2005 R'000	Total 2004 R'000
Advances – 2005	17 991	99 895	381 416	88 913	66 891	37 706	**692 812**	–
Advances – 2004	13 561	76 628	355 797	66 406	26 548	14 715	**–**	553 655
Debentures Cape Town Community Housing Company (Proprietary) Limited – 2005						2 654	**2 654**	–
Debentures Cape Town Preference share in Peulwana – 2004						2 450	**–**	2 450
Accounts receivable – 2005			5 338				**5 538**	–
Accounts receivable – 2004			13 127				**–**	13 127
Investments held for trading – 2005			243 175				**243 175**	–
Investments held for trading – 2004			141 155				**–**	141 155
Money market investments – 2005			1 225 403				**1 225 403**	–
Money market investments – 2004			1 487 497				**–**	1 487 497
Bank balances and cash – 2005			167 918				**167 918**	–
Bank balances and cash – 2004			194 190				**–**	194 190
							2 337 500	2 392 074

29 RELATED PARTY DISCLOSURES

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

	Country of incorporation	% equity interest 2005	% equity interest 2004
Subsidiaries			
Gateway Homeloans (Proprietary) Limited	RSA	**100**	100
Gateway Homeloans 001 (Proprietary) Limited	RSA	**100**	100
Guardrisk Cell captive	RSA	**100**	100
Joint venture			
Cape Town Community Housing (Pty) Ltd	RSA	**50**	50

The following table provides the total amounts of transactions which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances refer to notes 4, 5 and 7).

	Company Total 2005 R'000	Company Total 2004 R'000

30 COMPARISON BETWEEN BUDGET AND AUDITED RESULTS AT 31 MARCH 2005

	Budget	Actual
Income	**R'000**	**R'000**
Lending activities	**88 794**	69 620
Investment activities	**71 030**	96 186
Other	**8 249**	20 045
Total income	**168 073**	185 851
Impairments	**(16 088)**	(28 353)
Operating expenses	**(60 071)**	(64 079)
Profit before tax	**91 914**	93 419
Tax	**(27 574)**	(28 341)
Profit after tax	**64 340**	65 078

Income

Explanation of variances

Although approvals to lenders for the year amounted to R380,2 million, only R244,2 million was disbursed. The reasons for the lack of disbursements included:

1 Certain institutions that expected to build additional units had capacity and financial constraints in managing their current projects.

2 Liquidation of a client.

3 Bedding down the consolidation of three lenders took longer than envisaged.

4 Lack of available stock, primary or secondary in this market.

5 Changes to business model of prospective clients, leading to their not taking up substantial facilities.

	Company Total 2005 R'000	Company Total 2004 R'000
29 RELATED PARTY DISCLOSURES continued		
Related party		
Subsidiary companies		
Gateway Homeloans (Proprietary) Limited		
– inter-company (receivables)/payables (refer to note 4)	**(60 823)**	99 920
– management fees paid to National Housing Finance Corporation Limited	**342**	342
Guardrisk Cell captive		
– accounts receivable	**9 522**	340
– insurance proceeds received	**(9 522)**	–
– premiums paid	**10 602**	10 511
Joint venture		
Cape Town Community Housing Company (Proprietary) Limited		
– debentures (refer to note 5)	**2 654**	–
– advances	**14 152**	12 216
Other directors' interest		
Rural Housing Loan Fund		
– other payables and provisions (refer to note 18)	**(124)**	(60)
– management fees paid to National Housing Finance Corporation Limited	**30**	33
Social Housing Foundation		
– account receivable (refer to note 10)	**1 983**	5 126
– management fees paid to National Housing Finance Corporation Limited	**167**	167
The Government of the Republic of South Africa is the ultimate shareholder of the Group. No significant transactions were entered into between the Group and the shareholder.	**–**	–

Interest

The reduced interest income from intermediaries (because of lower disbursements) resulted in investment income exceeding budget by a considerable margin due to higher investment values. This increase was also due to improved market conditions in terms of investments in bonds that are now "marked to market" in terms of AC133.

Expenses

Although expenses were R4 008 million above budget two items caused the major variances:

1 An amount of R4 819,2 million was advanced to Northwest Housing Corporation (NHFC partnered the Provincial Housing Department in this exercise) to reconstruct their asset register on houses owned. Through this exercise 27 000 units have been identified and work is in hand to rehabilitate the business of NWHC by proper collection of amounts due.

2 A donation of R1 million was made to the City of Cape Town for the Joe Slovo Park reconstruction after the devastating fire in the area.

30 COMPARISON BETWEEN BUDGET AND AUDITED RESULTS AT 31 MARCH 2005 continued

IMPACT

	Budget R'000	Actual R'000
The impact of the lending from NHFC on housing delivery was:		
Houses	8 764	4 210
Loans for incremental improvement of homes *	20 629	8 557
	29 393	12 767

In addition, 1 431 homes were provided through the Job Summit process – project managed by NHFC.

A further 27 000 units were identified through funds provided to North West Housing Corporation.

(*) A client that had a facility of R70 million approved but decided not to use it and 10 000 loans had been budgeted from the facility.

31 MATERIALITY FRAMEWORK

In terms of Section 50(1) and Section 55(2) and significance Section 54(2) of the Act.

The following materiality framework was submitted to the Department of Housing and approved for the year ended 31 March 2005:

	2005 R'000
Planning materiality set at	**12 500**
Tolerable level set at 50% of planning materiality	**6 250**
Normal value set at 1% of planned materiality	**125**

32 IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

In terms of Section 55 2(b) of the Public Finance and Management Act, the Corporation reports as follows:

No material losses though criminal conduct, any irregular, fruitless or wasteful, expenditure have occurred during the financial year and no criminal or disciplinary steps needed to be taken as a consequence thereof.

Impact from intermediaries that are impaired in the balance sheet at 31 March 2005

	Number	Progress
Abahlali Housing Association	284	Evictions overturned but negotiations are continuing
Greater Germiston Inner City Housing Co	987	Impairment value reduced and institution being rehabilitated
Housing Association Blaauwberg	676	Plans to rehabilitate being developed
King Williams Town Housing Association	438	Being rescheduled as institution can now meet commitments
Leamohetswe	240	Discussions in hand to complete these units in partnership with other stakeholders
Reatlehile	227	Experiencing interference from local councillors, making rehabilitation impossible
Semag	1 800	In negotiations with Gauteng Department of Housing to resolve this issue
Greater Middelburg Housing Association	501	Paying but waiting for new business plan
Yeast City Housing	202	Currently busy assisting the client with balance reconciliations

National Housing Finance Corporation Limited (NHFC)

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