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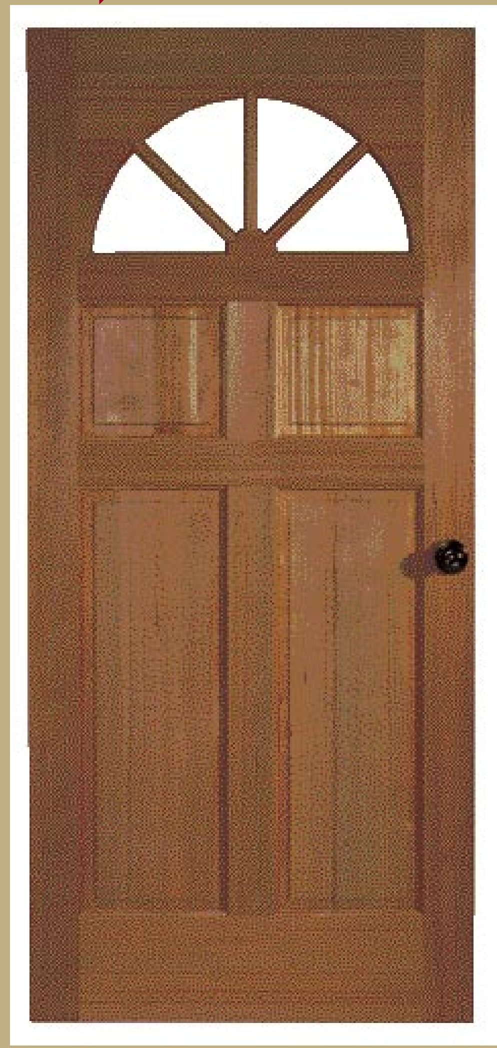
housing

Department:
Housing
REPUBLIC OF SOUTH AFRICA

NHFC
NATIONAL HOUSING FINANCE CORPORATION LTD.

ANNUAL REPORT 2006

OPENING DOORS TO THE COMMUNITY



PROFILE

The National Department of Housing established National Housing Finance Corporation Limited 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.

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.

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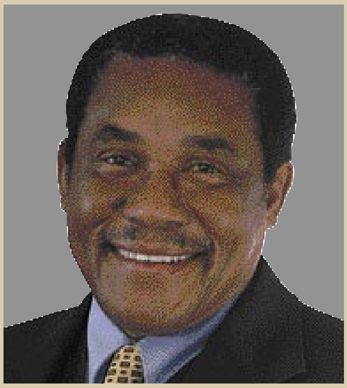
BASTION GRAPHICS



A TRIBUTE TO OUR CHAIRMAN

IN MEMORY OF MR ERIC MOLOBI, CHAIRMAN FROM 1996 – 2006

Mr Eric Molobi, having been Deputy Chairman of the National Housing Forum in 1994, was asked by Mr Joe Slovo, the first Minister of Housing in the new Democratic Republic of South Africa, to Chair the Board of National Housing Finance Corporation Limited (NHFC) at its inception.

Eric has, over the ten years of his Chairmanship, provided unparalleled kleadership of the Board and brought impressive passion for purpose, expertise and experience into all its deliberations. His love for the people and the desire to improve their well-being, led him to contribute tirelessly, in spite of his other numerous commitments, to the cause of housing and the Corporation.

He will be remembered and greatly missed by his Board colleagues, Management and staff of the Corporation for his deep commitment to housing and especially to improving the quality of life of the previously disadvantaged.

NHFC's impeccable governance record bears witness to the leadership of Eric Molobi. His humility, approachability, wisdom and integrity made him a key member of the Board and of the housing fraternity.

He will be sincerely missed as an astute leader, businessman and mentor.


MANDATE

As a wholesale funder and risk manager, the Corporation 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 housing 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.

CORE FUNCTIONS

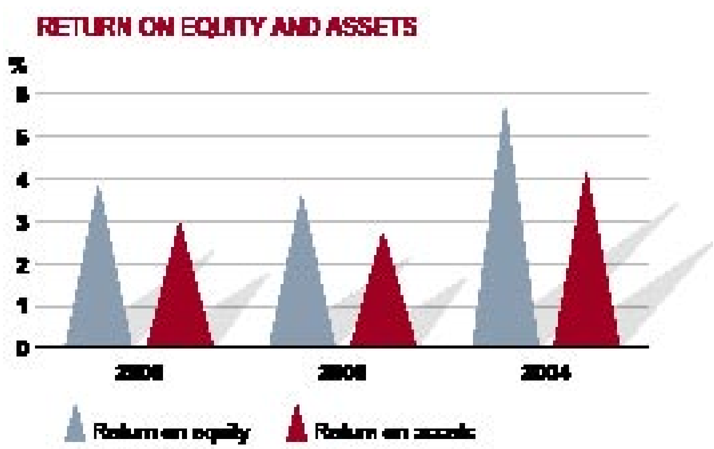
As one of the eight Development Finance Institutions in South Africa, the Corporation was established to:

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

KEY FINANCIAL **FEATURES**

	2006 %	2005 %	2004 %
Return on assets	**2,91**	2,70	4,10
Return on equity	**3,79**	3,53	5,62
Interest return on cash investments and deposits	**5,99**	6,90	7,67
Interest return on net advances	**8,35**	9,99	11,67
Operating costs to operating income	**38,86**	40,69	30,59

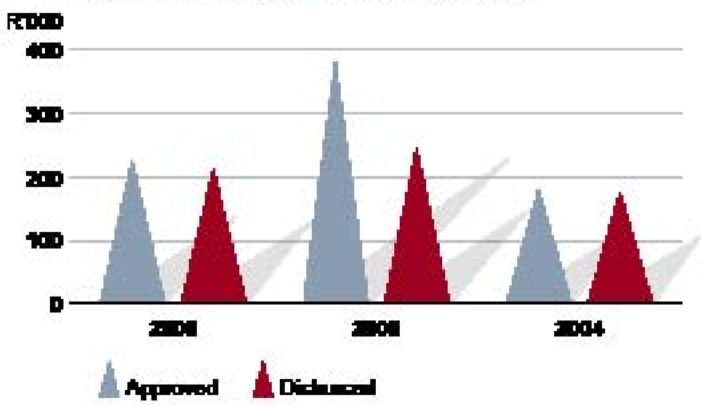
Credit rating has been maintained at SB/zaA.



IMPACT RESULTS SINCE INCEPTION

Housing opportunities	Cumulative to March 2003	Year to March 2004	Year to March 2005	Year to March 2006	Cumulative to March 2006
Housing units	42 521	5 003	4 210	6 636	58 370
Incremental housing loans	167 118	6 763	8 557	8 879	191 317
Total housing opportunities	209 639	11 766	12 767	15 515	249 687
People's lives affected	**1 048 195**	**58 830**	**63 835**	**77 575**	**1 248 435**

FACILITIES APPROVED AND DISBURSED



HIGHLIGHTS
NHFC – TEN YEARS ON

1996

NHFC registered as a public company in terms of the Companies Act, 1973 with four main divisions:

1. Niche Market Lenders – provision of debt funding to intermediaries.
2. Housing Equity Fund – provision of technical assistance and start-up capital to new and pilot ventures.
3. Housing Institutions Development Fund – provision of development capital to viable start-up social housing institutions.
4. Rural Housing Loan Fund (RHLF) – enables low- and medium-income households in rural areas to maximise their housing choices by accessing small building and renovation loans.

1997

Social Housing Foundation (SHF) established under the auspices of the NHFC, to support, capacitate and establish a viable social housing sector.

1998

Gateway Homeloans (Pty) Limited ("Gateway") established as a subsidiary of NHFC to deliver housing at scale in the gap market (R25 000 to R60 000) and to promote the secondary home loan market process in the low-income housing sector.

1999

- NHFC's loan book reaches R1 billion milestone.
- Sponsor and co-founder of Micro Finance Regulatory Council.

2000

Unblocking Affordable Housing Finance (UNFAH). First empirical national study undertaken to understand the blockages in the housing finance delivery process.

2001

NHFC restructured by consolidating existing institutions into three product streams – Alternative Tenure, Incremental Housing and Home Ownership.

RHLF and SHF became separate entities, independent of the NHFC.

2002

- Community Re-investment Bill published in Government Gazette. NHFC provided technical assistance.
- NHFC tasked to manage the implementation of Presidential Job Summit Housing Pilot project.

2003

- First Corporate Impact Study Report.
- Understanding Causes of Rental Default study commissioned.
- Facilitates the setting up of the Trust for Urban Housing Finance ("TUHF").
- Update of Borrowers Survey.

2004

- Secondment of staff to develop CRA Legislation.
- Participation in all structures of FSC process; and
- 1 131 houses delivered in Witbank in the Job Summit Project managed by NHFC.

2005

- NHFC served on the government negotiating team following signing of Memorandum of Understanding between the Minister of Housing and CEOs of four major banks.
- Implementing agent for the Kliptown project which formed part of the 50 years celebration of the Freedom Charter.
- Commenced work on the Broadened Mandate of the Corporation.

2006

- On 24 January 2006, presented the Broadened Mandate to the National Minister of Housing.
- Instrumental in the National Credit Bill process and the formation of the Regulatory Institution in terms of the National Credit Act.
- As at 31 March 2006, the NHFC has created 249 687 housing opportunities in the low- and moderate-income housing sector and has approved R2,5 billion and disbursed R2,1 billion since inception. The process of the NHFC Broadened Mandate is at an advanced stage, with the implementation date being the first quarter of 2007.

BOARD OF DIRECTORS

Mr Eric Molobi (non-executive Chairman)
Executive Chairman, Kagiso Group
(Sadly deceased 04/06/2006)

Mr Samson Moraba
NHFC Chief Executive Officer/Director

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

Mr Sizwe Tati (non-executive)
Managing Executive, ABSA Small Business, ABSA Limited

Ms Nonhlanhla Mjoli-Mncube (non-executive)
Economic Advisor to the National Deputy President

Ms Nocawe Makiwane (non-executive)
Business Person, Avuka Investments (Pty) Limited

Mr Andrew Canter (non-executive)
Head of Fixed Interest and Investment Committee Chairman
Futuregrowth Asset Management

Mr Sango Ntsaluba (non-executive)
Chief Executive Officer, Amabubesi Investments (Pty) Limited and Non-executive
Chairman, Sizwe Ntsaluba VSP

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

EXECUTIVE MANAGEMENT

Mr Samson Moraba
Chief Executive Officer

Ms Adrienne Egbers
Chief Financial Officer

Mr Lawrence Lehabe
Shared Services

Ms Salome Sengani
Corporate Strategy

Dr Morgan Pillay
Projects

Ms Nomsa Ntshingila
Human Resources

Mr Luthando Vutula
Marketing

Ms Elsabe Marx
Company Secretary

"EVERY TIME YOU ARE TEMPTED TO REACT IN THE SAME OLD WAY, ASK IF YOU WANT TO BE A PRISONER OF THE PAST OR PIONEER OF THE FUTURE" – DEEPAK CHOPRA

CHIEF EXECUTIVE'S REPORT

THE CORPORATION'S RESPONSE TO THE "BREAKING NEW GROUND IN HOUSING DELIVERY" STRATEGY AND THE MILLENNIUM GOALS WILL BE GREATLY ENHANCED IN THE ENVISAGED TRANSFORMED NHFC.

INTRODUCTION

The management of the Corporation has been challenged by the Minister of Housing, Dr Lindiwe Sisulu, and its Board, to take up the pioneering role to broaden and deepen its impact in the low- and moderate-income housing market in South Africa.

In reaching its first decade in business, the NHFC is not going to look for greater housing delivery by continuing along the same path but is changing its strategy by engaging in the "direct" financing of housing stock development and end-user lending.

The focus on the broadened mandate and the repositioning of the Corporation in the low- and moderate-income housing environment was given impetus by the approval obtained from the Minister of Housing on 24 January 2006.

A dedicated Programme Management Office has been set up with a full-time executive deployed to work with consultants on the transformation of the NHFC.

The Corporation's response to the "Breaking New Ground in Housing Delivery" strategy and the Millennium Goals will be greatly enhanced in the envisaged transformed NHFC.

The support of the Ministry, the Board of NHFC, our customers and the staff of the Corporation, is essential in taking the bold transformation steps envisaged in the Business Plan for 2007. The enthusiasm and involvement of all these stakeholders in the preliminary preparations bodes well for a smooth pathway to the "New NHFC".

A decade of operations is a significant milestone and coupled with the sad death of our Chairman, Mr Eric Molobi, who served in that capacity from the incorporation of the NHFC, I thought it appropriate to reflect on the past as we plan for a very different future.

NHFC (1996 – 2006): TEN YEARS OF AFFORDABLE HOUSING FINANCE PROVISIONING

Following South Africa's historic elections on 27 April 1994, Nelson Mandela was inaugurated as the country's first democratically elected President on 10 May 1994. The fledgling democratic government wasted little time in identifying

Mr S S Moraba Chief Executive Officer

housing as one of its priorities. In fact, within six months of taking office, Joe Slovo, the first post-apartheid Housing Minister, had signed a Memorandum of Understanding with the Association of Mortgage Lenders (precursor to the Banking Association of South Africa). During October 1994 the Botshabelo Accord was signed and by December of that year, the White Paper on Housing had been finalised and the Masakhane Campaign launched.

It was in this milieu of intense focus on the need to remedy shortcomings in the housing finance system that the National Housing Finance Corporation (NHFC) was born. NHFC was registered as a public company in terms of the Companies Act, 1973, on 10 May 1996 (as an outcome of the Botshabelo Accord and White Paper on Housing) exactly two years to the day that Nelson Mandela was inaugurated.

The Government Gazette at the time noted that NHFC was required to 'specialise in identifying, assessing, pricing, monitoring and managing the risks associated with the placement of wholesale funds with retail intermediaries active in the target market'. It also stated that NHFC would be exempted from the requirements of the Banks Act so long as it took risks for which other financiers did not have the appetite and that it therefore developed policies and processes to manage such risks.

To give effect to this vision, the Corporation formed the following subsidiaries:

- Niche Market Lenders (NML) to provide large-scale, on-balance-sheet debt funding to intermediaries such as mutual banks, development corporations, NGOs and microlenders;
- Housing Equity Fund (HEF) to provide technical assistance and start-up capital to new and pilot ventures in the home lending sector;
- Housing Institutions Development Fund (HIDF) to provide development capital at below market rates to viable, start-up social housing institutions; and
- Rural Housing Loan Fund (RHLF) to enable low- and moderate-income households in rural areas to maximise their housing choices and improve their living conditions by accessing small building and renovation loans from intermediaries.

Social Housing Foundation (SHF) (in 1997) and Gateway Home Loans (Proprietary) Limited (in 1998) were added to the NHFC stable. SHF was set up to support the establishment of a viable social housing sector and provide for its future expansion. Gateway was established to ensure the delivery of housing finance at scale to the so-called 'gap market' whereby standardised home loans were bought and funded through a securitisation process.

In October 1998, NEDLAC adopted the Presidential Job Summit Housing Pilot Project, and in 2002, the NHFC was appointed to manage the programme and to become the implementation agent.

The microfinance sector underwent significant developments in 1999:

- The Micro Finance Regulatory Council (MFRC) was established, with the assistance of the NHFC, to promote sustainable growth of the microlending industry in servicing unserved credit needs, while ensuring that consumer rights were protected; and
- The exemption ceiling under the Usury Act was increased from R6 000 to R10 000.

NHFC assisted in the drafting of the Home Loans and Mortgages Disclosure Act (HLMDA), which was promulgated in 2000.

Cumulatively, NHFC disbursements had, by then, also exceeded the R1 billion mark.

That year also saw NHFC undertake a most intensive and extensive housing finance research project. The Unblocking Finance for Affordable Housing in South Africa (UNFAH) sought to:

- create an understanding of the nature and scope of problems that impeded the housing finance process; identify any blockages in the housing finance delivery process; and
- expose issues that would be verified scientifically by conducting periodic end-user surveys.

UNFAH findings pointed to the need for NHFC to alter the way in which it did business if it desired maximum impact. So, in 2001 NHFC was restructured. The existing operational units were coalesced into three new product streams:

- Home Ownership (HOD) to facilitate the ownership of affordable homes by funding intermediaries whose business it was to expand home ownership among low and medium-income households;
- Alternative Tenure (AT) to provide project finance to emerging and sustainable social housing institutions in order to develop tenure options other than immediate ownership; and,
- Incremental Housing (IH) to fund niche lenders who assisted low and medium-income households with loans to buy land, renovate existing homes or top up their capital subsidy with credit.

Recognising the importance of accurate and reliable data and information, the Corporation also established a Policy and Research unit.

RHLF and SHF left the NHFC stable and went their separate ways.

NHFC was intrinsically involved in the conceptualisation and drafting of anti-redlining legislation, which all nine NEDLAC constituencies agreed to support at a Financial Sector Summit in August 2002. The Community Reinvestment (Housing) Bill was published in the Government Gazette for public comment on 17 May 2002.

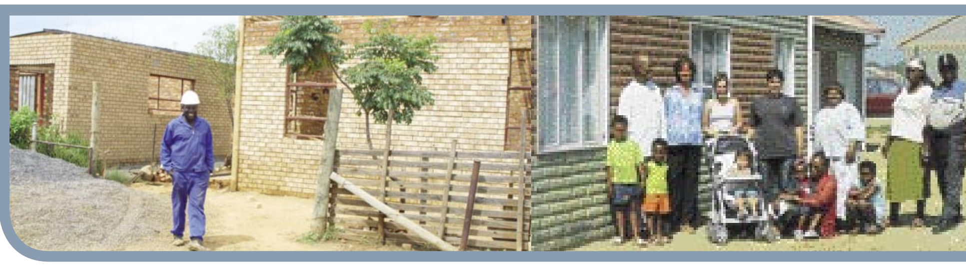
Purporting to change the whole housing finance landscape, the Financial Sector Charter was signed on 17 October 2003. Initially, this initiative pledged R20 billion, and then R42 billion, to low-income housing over a five-year period beginning on 1 January 2004. NHFC served as a key resource to the National Department of Housing in its deliberations with the banks. Cabinet agreed to withhold the promulgation of the Community Reinvestment (Housing) Bill to give the Financial Sector Charter a chance. On 31 March 2005, the new Minister of Housing, Dr Lindiwe Sisulu, signed a Memorandum of Understanding with the CEOs of the four major banks and the Managing Director of the Banking Association of South Africa.

In 2003, NHFC commissioned its first Corporate Impact Study and undertook a ground-breaking Rental Default Study. It also assisted the National Department of Housing to set up the Office of Disclosure to administer the reports required under the Home Loans and Mortgages Disclosure Act.

An additional milestone for the Corporation is the critical role it played in the transformation of ICHUT, now known as the Trust for Urban Housing Finance (TUHF), into a respected housing development finance institution, which conducts financing of private landlords involved in inner city housing projects. The Corporation provided concessionary funding of R10 million in 2003 that saw TUHF being able to raise further debt funding in excess of R250 million by 2006. TUHF has contributed 5 836 units towards the NHFC housing impact to date.

NHFC spearheaded the establishment of the Social Housing Support Programme; contributed to the formulation of the Breaking New Ground main document; and served on the advisory committees of the National Credit Bill, Dedicated Banks Bill and Co-operatives Banks Bill.

The development of a housing project in Kliptown was in commemoration of the signing of the Freedom



Charter in 1955. NHFC played a significant part by being the implementing agent for the project. During this time the second Corporate Impact Study was also completed.

OPERATIONAL REVIEW

Although lending income was below expectation, the Corporation nevertheless met its profit forecasts through investment returns and lowered costs.

The year under review saw many of the prospective wholesale borrowers playing a "wait and see" game in view of the impending National Credit Act and the Social Housing Policy. As the business of the Corporation has traditionally relied on intermediaries to achieve its impact, the delays in the legislative process affected the take-up of approved loans by and the receipt of new lending proposals from intermediaries.

The Corporation continues to participate in a wide variety of housing forums and through its Policy and Research unit provides insight and financial support to important research initiatives that inform and engender debate in the low to medium-income housing environment.

FINANCIAL REVIEW

Approvals slowed down during the period, for the reasons previously mentioned, and therefore the advance book grew to R756 million, instead of the budgeted R1,1 billion. Approvals since inception total R2,5 billion, while disbursements reached R2,1 billion by the end of the 2006 year.

The housing impact in terms of housing opportunities, in the form of incremental housing loans, social housing units and individual mortgage loans was 15 515, bringing the number for the decade to 249 687. Income after tax was R76,9 million compared to R65,1 million in 2005.

There are signs that there is a maturing social housing environment in South Africa and the changes envisaged in the new Social Housing Policy will bring the intended stabilisation and growth in the social rental sector.

LOOKING FORWARD

As we celebrate 10 years of achievements in 2006, we are also looking keenly at the future and to the opportunities to make an even greater contribution to the delivery of housing and housing finance solution options. A key focus in 2007 and beyond will be to prioritise the increasing of the supply of housing stock through interventions across the housing value chain. Another priority for 2007, would be to build the direct business model infrastructure so that the Corporation is ready to deliver, through its channels, the first retail products to the end user among the low and middle-income households.

NHFC, as a government agent, will remain committed to providing integrated housing development and sustainable human settlements.

Finally, we understand that we need to fast-track housing delivery in line with the Breaking New Ground Strategy, while we remain a strong, effective Corporation, in order to fulfil the responsibility entrusted in us by our shareholder. In 2007 we will look for leading-edge human resource practices, a strong technology platform and a sound governance framework to help us accomplish the objectives set in the broadened mandate of the Corporation.

While we have achieved many successes in the last ten years and continue to play a key role in mobilising finance to the underserved market, we also recognise that we have serious challenges to address. The scale of our impact is not great enough, especially compared


CHIEF EXECUTIVE'S REPORT CONTINUED

to the ever-increasing housing backlog in our target market. The crippling shortage of the supply and availability of affordable quality houses in our target market, to satisfy the rising demand, is another factor that makes us realise that more needs to be done across the housing value chain before we can be assured that all South Africans enjoy the benefits of a well-housed nation. As we have done in the first decade, we will work collaboratively with our many public and private sector partners and our stakeholders, and call upon the expertise, and the commitment and dedication of our employees, to work toward our dream of servicing the housing finance needs of the low and middle-income households in South Africa.

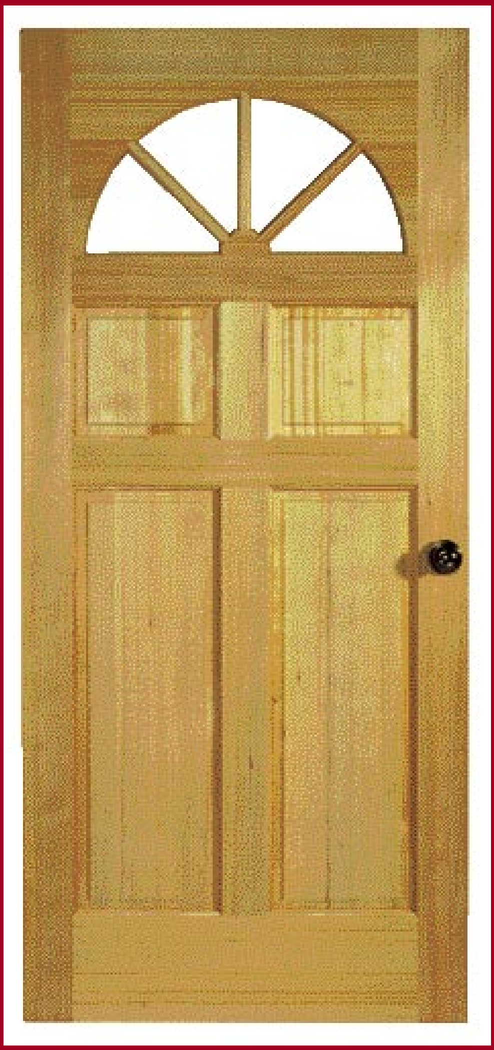
CONCLUSION

I wish to pay a special tribute to Mr Eric Molobi, our past Board Chairman, for his outstanding contribution, from the inception of the Corporation and to date, as we chart the new course for the Corporation.

A special thanks goes to all the Board members of the Corporation for their commitment and wise counsel over the years, and as we embark on the transformation of the Corporation, I will continue to rely on their support and counsel. The new NHFC is also a tribute to the National Housing Minister, Dr Lindiwe Sisulu, whose unwavering support for the Corporation is most appreciated.

As we celebrate 10 years as a National Housing Finance Agency, I have every confidence that we will continue to display the many attributes that have made NHFC the strong Corporation that it is: creativity, commitment, dedication and an ability to stay the course when needed and the vision to set new directions when challenges warrant.

Mr S S Moraba
Chief Executive Officer



The Board reaffirms the Corporation's commitment to sound governance practices underlying the Protocol and the King Code. A Special Audit and Risk Committee meeting was convened during the year to consider the key findings of a corporate governance review conducted by our internal auditors.

CORPORATE GOVERNANCE

INTRODUCTION

Corporate governance structures and processes have been in place at the National Housing Finance Corporation Limited ("the Corporation") since its inception in 1996 and they are continuously reviewed to:

- reflect internal developments;
- ensure that the business is managed ethically and within prudent risk parameters; and
- align it with national best practices.

The Protocol on Corporate Governance in the Public Sector ("the Protocol") was published in September 2002 to inculcate principles of good governance in state-owned enterprises. The Protocol should be read in conjunction with the second King Committee Report on Corporate Practices and Conduct ("the King Code") which came into effect in March 2002, as it seeks to amplify the principles underlying the King Code.

The Board reaffirms the Corporation's commitment to sound governance practices underlying the Protocol and the King Code. A Special Audit and Risk Committee meeting was convened during the year to consider the key findings of a corporate governance review conducted by our internal auditors.

THE CORPORATION'S APPLICATION OF THE PROTOCOL AND KING II RECOMMENDATIONS

The Board of Directors

The Corporation's Board comprises eight members, the details of which are reflected on page 15 of this annual report. They bring a wide range of financial and legal expertise, and independent experienced judgement to bear on issues of strategy, performance, protection of stakeholders interests and the setting of the Corporation's policies.

Board procedures and matters

The Board, that meets at least four times a year, determines the strategic direction of the Corporation and maintains full and effective control over the Corporation.

The Board monitors the implementation of Strategies and Policies through structured reporting on the basis of agreed performance criteria and accountability. The implementation of Strategies and Policies is delegated to Executive Management.

The record of attendance at the Board Committee meetings for the financial year ended 31 March 2006 is reflected below:

Board

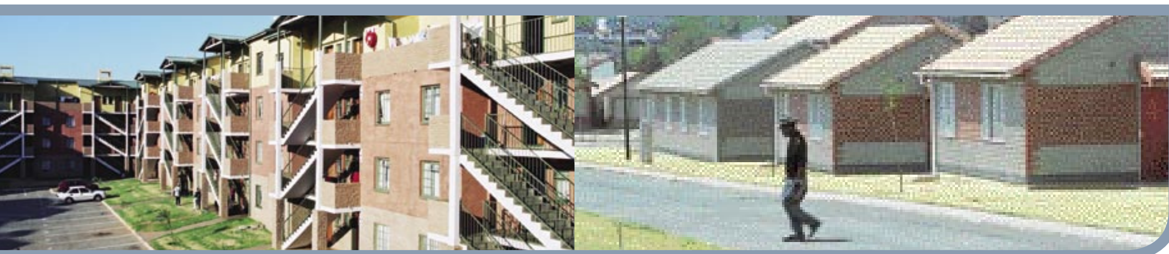
Name of Director	**Category of Director**	**30/06/2005**	**29/09/2005**	**30/01/2006**	**27/02/2006**[1]	**30/03/2006**
Mr E Molobi	Non-executive Chair	✓	*	*	*	*
Mr A C Canter	Non-executive	✓	✓	✓	✗	✓
Mr M Dlabantu** ***	Non-executive					
Prof M M Katz	Non-executive	✓	✓	✗	✓	✓
Ms N E Makiwane	Non-executive	✗	✓	✓	✓	✓
Mr T A Middleton	Non-executive	✓	✓	✓	✓	✓
Ms N Mjoli-Mncube	Non-executive	✓	✓	✗	✓	✗
Mr S S Moraba (CEO)	Executive	✓	✓	✓	✓	✓
Mr S S Ntsaluba	Non-executive	✓	✓	✗	✓	✓
Mr S A Tati	Non-executive	✓	✓	✓	✗	✗

✓ Indicates attendance.
✗ Indicates absence with apology.
*Mr Molobi had leave of absence due to illness during this period.
**A representative of the Department of Housing has attended these meetings obo the shareholder.
***Department of Housing representatives withdrawn from Board with effect from 8 March 2006.

Audit and risk committee

Name of Member	**14/06/2005**	**30/08/2005**[2]	**15/11/2005**	**23/02/2006**
Mr S A Tati (Chair)	✗	✓	✗	✓
Mr M S V Gantsho (co-opted)	✗	✓	✗	✗
Mr S S Moraba (CEO)	✓	✓	✓	✓
Mr S S Ntsaluba	✓	✓	✓	✓

[1] Special meeting
[2] Special meeting



CORPORATE GOVERNANCE CONTINUED

Board Credit Committee

Name of Member	**15/06/2005**	**15/09/2005**	**16/02/2006**
Ms N E Makiwane (Chair)	✓	✓	✗
Mr J H De V Botha	✓	✗	✗
Mr A C Canter	✓	✓	✓
Mr S S Moraba (CEO)	✓	✓	✓
Mr S A Tati	✓	✓	✓

Human Resources, Ethics and Remuneration Committee

Name of Director	**30/03/2006**
Prof M M Katz (Chair)	✓
Mr T A Middleton	✓
Ms N Mjoli-Mncube	✗
Mr E Molobi	✗
Mr S S Moraba (CEO)	✓

The Board has adopted both a Charter setting out and regulating its responsibilities and a Board Code of Conduct, which sets out the principles to be followed by the Directors and members of Committees in the conduct of the business of the Corporation.

All Directors have access to the advice and services of the Company Secretary, whose appointment is in accordance with the provisions of the Companies Act.

The Directors are entitled to seek independent professional advice concerning the affairs of the Corporation and have access to any information they may require in discharging their duties as Directors.

Board committees

To assist it in discharging its responsibilities, the Board has established the following committees:

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

The Terms of Reference for the Audit and Risk and the Board Credit Committee were reviewed and approved by the Board during the year.

The HRER Terms of Reference were reviewed by that Committee and will be tabled at the Board meeting in June 2006.

The Audit and Risk Committee ("the A&R Committee")

The A&R Committee comprises two Non-executive Directors, one Executive Director and one co-opted member. The members are Messrs Tati (Chair), Gantsho, Moraba and Ntsaluba.

The A&R Committee meets at least three times a year or more frequently if circumstances so require and meetings are attended by the External and Internal Auditors, Chief Financial Officer, Executive Manager: Corporate Risk, the Audit Risk and Compliance Manager and other relevant Executive Managers. The duties of the Committee cuts across the following:

- the audit function;
- financial statements and reports;
- internal audit;
- external audit;
- compliance;
- corporate governance; and
- risk management.

The A&R Committee met its responsibilities during the financial year under review and is satisfied that there is adequate segregation between the external and internal audit functions.

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

HRER comprises four Non-executive Directors and the CEO. The members are Prof Katz (Chair), Ms Mjoli-Mncube, and Messrs Middleton, Molobi (deceased) and Moraba. Committee meetings are attended by the Executive Manager: Human Resources.

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

- approving Human Resources Policies and Strategies;
- considering and approving salary increases, or any other remuneration matter;
- recommending Executive and Non-executive Directors' remuneration to the Board, who in turn recommends it to the shareholder for approval; and
- reviewing the Code of Ethics and monitoring compliance thereto.

In discharging its duties, HRER gives due cognisance to NHFC's remuneration philosophy to offer remuneration that will attract, incentivise, retain and reward employees with the required skills to deliver on its mandate.

The Board Credit Committee ("BCC")

BCC comprises three Non-executive Directors, one co-opted Industry Specialist and the CEO. Members are Ms Makiwane (Chair) and Messrs Canter, Botha, Moraba and Tati. Executive Managers and other Management members attend BCC meetings by invitation.

The Committee meets at least four times a year, or more frequently if circumstances so require. The duties of the Committee include, but are not limited to:

- approving loan facilities in excess of R20 million and loans which cumulatively exceed R20 million, based on recommendations by the Management Credit Committee;
- overseeing credit risk management; and
- approving credit policies.

Management committees

The Terms of Reference of the Executive Management Committee ("Exco") and Management Credit Committee ("MCC") were reviewed during the year.

Exco

Exco is a Management Committee to assist the Chief Executive Officer ("CEO") in managing the day-to-day business of the Corporation within the powers delegated to him by the Board. The details of the Exco members are reflected on page 7 of the annual report.

Exco meets monthly, or more frequently if circumstances so require, to deal with a wide range of matters concerning the management of the Corporation.

MCC

MCC is chaired by the CEO and meets at least twice a month or more frequently if circumstances so require. The Committee comprises Executive Managers, the Legal Services Manager and Senior Managers with appropriate expertise. Each loan application is supported by a proposal from an Operating division and an independent due diligence report prepared by the Corporate Risk department.

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

- approving loan facilities of R20 million and below;
- recommending loan facilities in excess of R20 million and those which cumulatively exceed R20 million to the BCC for approval;
- consideration of credit policies and recommendation thereof to BCC; and
- ensuring adherence to credit and default procedures and the collection of outstanding debt.

Procurement Committee (“the Committee”)

The Committee is a subcommittee of Exco and is chaired by an Executive Manager. The Committee comprises the following members:

- Procurement Officer; and
- representatives from the Legal department and Finance and Support Services.

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

- dealing with matters concerning procurement of services and appointment of service providers; and
- monitoring compliance with the Procurement Policy and Procedures.

Financial Risk Management Committee (“FRMC”)

FRMC is a subcommittee of Exco and meets bi-monthly or more frequently if circumstances so require. The Committee comprises the CEO (Chair), Chief Financial Officer and Money Market Dealer.

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

- managing treasury risks; and
- making investment decisions and overseeing the management of investments in terms of the mandate and policies of the Corporation.

CODE OF ETHICS (“THE CODE”)

The Corporation is managed ethically and in line with the Code which has been developed with the input of all staff and adopted by the HRER.

The Code is based on the fundamental ethical principles of fairness, transparency, integrity, reliability, responsibility and honesty and deals with the following:

- conflict of interests;
- outside activities and business interests;
- relationships with outside parties;
- gifts, hospitality and favours (receiving and giving);
- private business on Corporation’s premises;
- moonlighting;
- use of the Corporation’s resources; and
- whistleblowing.

No incidence of unethical conduct which required investigation or further action was reported during the year under review.

The Corporation has engaged the services of “Tip-offs-Anonymous,” which whistleblowing 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 Audit, Risk and Compliance Manager and quarterly reports are submitted to the A&R Committee.

VALUES

The Corporation promotes the following values:

- trustworthiness;
- openness to new ideas;
- passion for purpose;
- accountability;
- competence; and
- teamwork.

INTEGRATED RISK MANAGEMENT

Whilst individual departments within the Corporation have the primary responsibility for identifying and managing risk inherent to their operations, Exco:

- develops and reviews risk management strategies, policies and procedures to ensure that they are appropriate for the Corporation;
- ensures that risk remains within the risk appetite set by the Board; and
- communicates the Risk Management Policy within the Corporation to ensure implementation and monitoring of compliance.

During the year, the Corporation engaged the services of a consultant to review the Enterprise Wide Risk Management Framework ("EWRMF") against best practices and to assist management in identifying the top ten risks facing the Corporation. EWRMF and the top ten risks were adopted by the Board. Management will base their action plans in the new financial year on the gaps identified by the consultant as well as their recommendations.

The A&R Committee assists the Board in discharging its responsibilities with regard to risk management and the Committee's duties include, but are not limited to:

- recommending the Risk Management Policy and Strategy to the Board;
- reviewing risk identification and measurement methodologies;
- reviewing and assessing the integrity of risk control systems; and
- taking reports by management on financial, strategic and business risks into account.

INTERNAL CONTROL

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

Internal controls and systems are based on established policies and procedures, which are updated on a regular basis. Such policies and procedures have been implemented to provide for adequate segregation of duties and effective control by management. The effectiveness of these internal control systems is monitored through:

- management review;
- formalised reporting; and
- internal audit.

The internal audit function is an outsourced independent appraisal function which provides independent assurance, through the A&R Committee, to the Board on the effectiveness of the Corporation's internal control system.

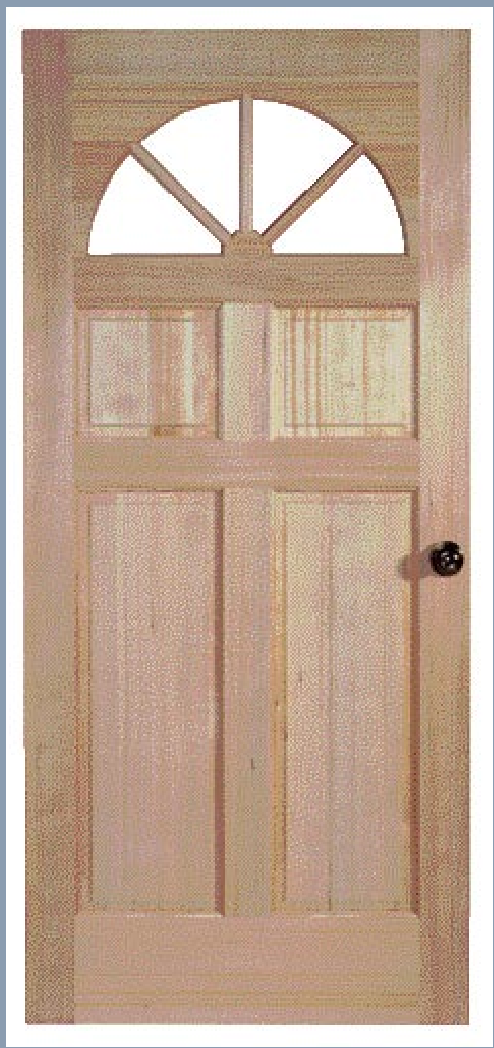
During the year under review the Corporation appointed an Audit Risk and Compliance Manager ("ARC Manager") who facilitates the implementation of the internal audit plan and ensures timely follow-up of reported audit findings. The ARC Manager also gives assurance to the A&R Committee that risk management and compliance processes are effectively implemented.

Key internal controls in the Corporation are adequate and effective to provide reasonable assurance that:

- assets are safeguarded against loss from unauthorised use or disposition;
- transactions are entered into in line with Management's authority derived from the delegated authorities and approved policies and procedures; and
- transactions are recorded properly to allow for the preparation of financial statements in accordance with IFRS.

REGULATORY AND STATUTORY COMPLIANCE

Section 51(1)(h) of the Public Finance Management Act requires the Board to ensure that the Corporation complies with all applicable legislation. The Corporation has a Compliance Officer who is independent of the operational activities and whose responsibility is to ensure that the Corporation continuously manages its regulatory risk, through compliance with applicable laws and regulations. During the year under review, the Compliance Officer finalised the Compliance Programme and updated the Regulatory Universe, which is a comprehensive listing and summary of all laws and regulations applicable to the Corporation.



The internal audit function is an outsourced independent appraisal function which provides independent assurance, through the A&R Committee, to the Board on the effectiveness of the Corporation's internal control system.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

NATIONAL HOUSING FINANCE CORPORATION LIMITED
REGISTRATION NUMBER 1996/00557/06

CONTENTS

STATEMENT OF RESPONSIBILITIES AND APPROVALS

The Public Finance Management Act (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 International Financial Reporting Standards (IFRS).

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 IFRS.

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 discharge the above responsibilities, 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.

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 action is 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 is 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 (including cash flow information), fairly present the financial position of NHFC at 31 March 2006, and the results of its operations for the year then ended.

The annual financial statements of NHFC for the year ended 31 March 2006, set out on pages 28 to 67, were approved by the Board of Directors and signed on their behalf on 29 June 2006 by:

Acting Chairman

Mr S S Moraba

Chief Executive Officer

Mr S A Tati

Non Executive Director

(Chairman of the Audit and Risk Committee)

REPORT OF THE INDEPENDENT **AUDITORS**

TO THE MINISTER OF HOUSING

We have audited the annual financial statements of NHFC set out on pages 35 to 70 for the year ended 31 March 2006. The annual financial statements are the responsibility of the Corporation'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.

We conducted our audit in accordance with the International Standards on Auditing. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion the financial statements present fairly, in all material respects, the financial position of the Corporation and Group at 31 March 2006, and the results of their operations and cash flows for the year then ended in accordance with the International Financial Reporting Standards and in the manner required by the Companies Act and the Public Finance Management Act of South Africa. The transactions of NHFC that came to our attention during auditing were in all material respects in accordance with mandatory functions of NHFC.

Ernst & Young

Registered Accountants and Auditors

Johannesburg

30 June 2006

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee ("the Committee") reports that it has discharged all of its responsibilities set out in its Terms of Reference.

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

- the effectiveness of the internal control systems;
- the effectiveness of Internal Audit;
- the risk areas of the 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;
- compliance with legal and regulatory provisions;
- the activities of the Internal Audit function, including its annual work programme, coordination 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 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 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 Committee has evaluated the annual financial statements of the NHFC for the year ended 31 March 2006 based on the information provided to it and is of the view that they comply, in all material respects, with the requirements of the Companies Act, the Public Finance Management Act and IFRS. The Committee concurs that the adoption of the going concern premise in framing the annual financial statements is appropriate.

The Committee, at its meeting of 27 June 2006, recommended these annual financial statements to the Board for appoval.

Mr S A Tati
Chairman

REPORT OF THE DIRECTORS

The Directors are pleased to submit their report, together with the Group audited financial statements for the year ended 31 March 2006.

GENERAL REVIEW

The NHFC is incorporated in terms of the Companies Act. 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 on pages 8 to 12 of this report.

FINANCIAL RESULTS

The financial results of the Corporation for the year under review are set out on pages 8 to 12 of these financial statements.

SHARE CAPITAL

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

SPECIAL RESOLUTION

A special resolution was lodged with effective date 6 September 2005 allowing the Directors the freedom to co-opt any person or persons whom they deem fit as a member of any committee.

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 an annual review by the Board and the shareholder.

To build the Corporation's capital base and thereby increase the impact of its activities, no dividend has been declared for the year under review.

DIRECTORS

The following persons served as directors of the Company during the financial year:

Messrs:	A C Canter
	*M Dlabantu
	T A Middleton
	E Molobi
	S S Moraba
	S S Ntsaluba;
	S A Tati
Prof.	M M Katz
Mesdames:	N E Makiwane
	N Mjoli-Mncube

*Mr Dlabantu represented the Department of Housing until 8 March 2006, at which date the Minister withdrew the appointment.

COMPANY SECRETARY

Ms E Marx

BUSINESS ADDRESSES

PO Box 31376
Braamfontein
2017

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

POST-BALANCE SHEET EVENTS

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

CERTIFICATE FROM THE COMPANY SECRETARY

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

Ms E Marx
Company Secretary

BALANCE SHEETS AS AT 31 MARCH 2006

		Group		Company	
	Notes	2006 R'000	2005 R'000	2006 R'000	2005 R'000
ASSETS					
Non-current assets		**767 722**	698 027	**824 727**	755 023
Advances	3	**755 702**	685 812	**755 702**	685 812
Investment in subsidiary	4	**—**	—	**50 000**	50 000
Investment in joint venture	5	**3 197**	2 654	**3 197**	2 654
Investment in preference shares	6	**7 000**	7 000	**7 000**	7 000
Investment in cell captive	7	**—**	—	**7 000**	7 000
Property, plant and equipment	8	**1 224**	2 119	**1 224**	2 119
Deferred taxation		**599**	442	**604**	438
Current assets		**1 711 752**	1 710 736	**1 689 883**	1 695 375
Other receivables and prepayments	9	**11 185**	5 538	**11 185**	15 060
Investment property held for sale	10	**21 654**	—	**21 654**	—
Investments – bonds	11	**245 757**	243 175	**245 757**	243 175
Investments – money market	12	**755 335**	773 043	**737 511**	750 517
Investments – Job Summit	12	**342 628**	372 850	**342 628**	372 850
Cash on call	13	**108 203**	100 104	**107 646**	100 104
Cash on call – Job Summit	13	**55 440**	63 186	**55 440**	63 186
Cash on call – Development Fund	13	**118 036**	80 489	**118 036**	80 489
Bank balances and cash	13	**11 101**	3 649	**9 369**	1 620
Taxation receivable	24	**42 413**	68 702	**40 657**	68 374
Total assets		**2 479 474**	2 408 763	**2 514 610**	2 450 398
EQUITY AND LIABILITIES					
Capital and reserves		**1 922 288**	1 845 977	**1 899 525**	1 827 732
Share capital	15	**842**	842	**842**	842
Share premium	15	**879 158**	879 158	**879 158**	879 158
Grant capital	16	**200 000**	200 000	**200 000**	200 000
Distributable reserves		**842 288**	765 977	**819 525**	747 732
Non-current liabilities		**547 117**	550 428	**547 117**	550 428
Government funds under management	17	**518 914**	516 525	**518 914**	516 525
Deferred income	18	**28 203**	33 903	**28 203**	33 903
Current liabilities		**10 069**	12 358	**67 968**	72 238
Intercompany loan	4	**—**	—	**58 251**	60 823
Trade payables and provisions	19	**10 069**	12 358	**9 717**	11 415
Total equity and liabilities		**2 479 474**	2 408 763	**2 514 610**	2 450 398

INCOME STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

		Group		Company	
	Notes	**2006 R'000**	2005 R'000	**2006 R'000**	2005 R'000
Revenue	20	**155 930**	181 085	**154 395**	175 084
Finance costs	21	**—**	(15 279)	**—**	(15 279)
Net interest income		**155 930**	165 806	**154 395**	159 805
Net impairments		**1 092**	(28 353)	**4 604**	(19 053)
Net income		**157 022**	137 453	**158 999**	140 752
Non-interest income	20	**13 414**	20 045	**13 942**	19 925
Operating income		**170 436**	157 498	**172 941**	160 677
Operating costs	22	**(62 143)**	(64 079)	**(71 597)**	(74 787)
Profit before taxation	22	**108 293**	93 419	**101 344**	85 890
Taxation		**(31 392)**	(28 341)	**(29 263)**	(26 082)
Profit for the year		**76 901**	65 078	**72 081**	59 808

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2006

	Ordinary share capital R'000	Share premium R'000	Grant capital R'000	Secondary reserves R'000	Distrib-utable reserves R'000	Total R'000
GROUP						
Balance 31 March 2004	842	879 158	200 000	4 185	700 598	1 784 783
Utilisation of secondary reserves	—	—	—	(4 185)	—	(4 185)
Net profit for the year	—	—	—	—	65 078	65 078
Balance 31 March 2005	842	879 158	200 000	—	765 676	1 845 676
Operating lease adjustment	—	—	—	—	(289)	(289)
Net profit for the year	—	—	—	—	76 901	76 901
Balance at the end of the year	842	879 158	200 000	—	842 288	1 922 288
COMPANY						
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
Operating lease adjustment	—	—	—	—	(289)	(289)
Net profit for the year	—	—	—	—	72 081	72 081
Balance at the end of the year	842	879 158	200 000	—	819 524	1 899 524

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

	Notes	Group 2006 R'000	Group 2005 R'000	Company 2006 R'000	Company 2005 R'000
Cash flows from operating activities		**12 605**	(105 394)	**17 101**	45 668
Cash utilised in operations	24	**(139 450)**	(223 797)	**(137 349)**	(71 370)
Interest received		**155 930**	180 218	**154 395**	174 217
Interest paid		**—**	(16 657)	**—**	(16 657)
Taxation paid	24	**(3 875)**	(45 158)	**—**	(40 522)
Cash flows from investing activities		**(17 571)**	(93 266)	**(17 571)**	(93 266)
Additions to fixed assets	9	**(528)**	(811)	**(528)**	(811)
Acquisition of investments – property held for sale		**(16 500)**	—	**(16 500)**	—
Debentures purchased in Cape Town Community Housing Company		**(543)**	(2 654)	**(543)**	(2 654)
Acquisition of City of Joburg Bonds		**—**	(100 000)	**—**	(100 000)
Disposal of a portion of City of Joburg Bonds		**—**	10 199	**—**	10 199
Cash flows from financing activities		**2 388**	(89 706)	**2 388**	(89 706)
Grant funds received	15	**2 388**	10 294	**2 388**	10 294
Redemption of debentures	17	**—**	(100 000)	**—**	(100 000)
Net (decrease)/increase in cash and cash equivalents		**(2 578)**	(288 366)	**1 863**	(137 304)
Cash and cash equivalents at the beginning of the year		**1 393 321**	1 681 687	**1 368 766**	1 506 070
Cash and cash equivalents at the end of the year	22	**1 390 743**	1 393 321	**1 370 629**	1 368 766

GROUP ACCOUNTING POLICIES

1. CORPORATE INFORMATION

The consolidated financial statements of the National Housing Finance Corporation Limited ("NHFC") for the year ended 31 March 2006 were approved by the Board on 29 June 2006. National Housing Finance Corporation is a public company incorporated and domiciled in South Africa, the shares of which are held by the Government of the Republic of South Africa.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical-cost basis, except as otherwise indicated. The consolidated financial statements are presented in Rand and all values are rounded to the nearest thousand (R'000) except when otherwise indicated. Consolidated financial statements are prepared on a going-concern basis.

Statement of compliance

The NHFC has applied IFRS for the first time in preparing the consolidated financial statements and its subsidiaries.

Basis of consolidation

The consolidated financial statements comprise the financial statements of NHFC Limited and its subsidiaries as at 31 March 2006.

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

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

Summary of significant accounting policies

Interest in a joint venture

The Group's interest in its joint venture is accounted for under the equity method of accounting.

Property, plant and equipment

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

Depreciation is calculated on a straight-line basis over the useful life of the assets.

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstance indicate that the carrying value may not be recoverable.

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

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end.

2. BASIS OF PREPARATION *(continued)*

Investment in an associate

The Group's investment in an associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of the change and discloses this, when applicable, in the statement of changes in equity.

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds it recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried in a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

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

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value though profit or loss, directly attributable transaction costs.

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

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

2. BASIS OF PREPARATION *(continued)*

Financial assets at fair value through profit and loss

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed at the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount.

This calculation includes all fees received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium and discounts. For investment carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. Such assets are carried at amortised cost using the effective-interest method. Gains and losses are recognised in income when the loans and advances are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

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

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. Short-term receivables are not discounted unless the effect is material.

2. BASIS OF PREPARATION *(continued)*

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of less than twelve (12) months.

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective-interest method.

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

Derecognition of financial assets

A financial asset is derecognised when the right to receive cash flows from the asset has expired or the Group has transferred its rights to receive cash and

a) has transferred substantially all the risks and rewards of the asset; or

b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Impairment of financial assets

Assets carried at amortised cost

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

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

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

2. BASIS OF PREPARATION *(continued)*

Assets carried at cost

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not held at fair value because its fair value cannot be reliably measured, the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset is used and cannot be reversed.

Available-for-sale financial assets

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

Provisions

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

Leases

The Corporation does not have any finance leases at present.

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

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income

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

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

2. BASIS OF PREPARATION *(continued)*

Government grants

The National Housing Finance Corporation has received Government grants that form part of permanent capital. These are accounted for as shareholders' equity.

Taxes

Current tax

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

Deferred tax

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of asset and liabilities and their current values for financial reporting purposes in the financial statements. Current and substantially enacted tax rates are used to determine deferred tax.

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

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Non-current assets held for sale

When the Corporation holds "non-current assets for resale" these are subject to negotiations with a prospective purchaser in advance of the agreement to take them on the balance sheet of the Corporation. Any such assets are therefore likely to be on-sold within a short period of time.

Secondary reserves

In consolidating its interest in a cell captive the Corporation separately identifies the reserves as statutorily required for insurance companies.

2. BASIS OF PREPARATION *(continued)*

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.

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

Only those standards which could have an impact on the Corporation, as a financial institution, are identified:

IFRS 7: Financial instruments: Disclosure (including amendments to IAS 1, Presentation of financial statements: Capital disclosures).

The standard deals with the disclosure of financial instruments as well as the disclosures of qualitative and quantitative risks. This will result in more extensive disclosures of risks associated to financial instruments being made.

IAS 39: Financial instruments – recognition and measurement – fair value option.

The amendment restricts the extent to which entities can designate a financial asset or liability as fair value through profit and loss to specific situations.

Operating lease adjustment

IAS 17, Leases	Net effect on 2006 R'000	Net effect on opening balance of distributable reserves at 31 March 2005 R'000
Leases were expensed on a payment basis but have now been straight-lined	48	(289)

Conversion to IFRS

No amendments that affected either the opening distributable reserves or the current income statement were required to conform to IFRS. No exemptions were elected in the adoption of IFRS by the Corporation.

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
3. ADVANCES				
Gross advances				
Opening balances	**780 056**	665 707	**780 056**	665 707
Disbursements	**211 056**	295 196	**211 056**	295 196
Repayments	**(140 297)**	(129 913)	**(140 297)**	(129 913)
Amounts written off	**(36 142)**	(50 934)	**(36 142)**	(50 934)
Balance at the end of the year	**814 673**	780 056	**814 673**	780 056
Impairments on advances				
Balances at the beginning of the year	**(94 244)**	(119 052)	**(94 244)**	(119 052)
Reduction in impairment on advances	**13 545**	5 609	**13 545**	5 609
Amounts previously impaired and written off during the year	**31 714**	38 854	**31 714**	38 854
Increase of impairments on advances	**(9 986)**	—	**(9 986)**	—
Impairments released during the year	**—**	(19 655)	**—**	(19 655)
Balance at the end of the year	**(58 971)**	(94 244)	**(58 971)**	(94 244)
Comprising:				
Specific impairments	**(58 971)**	(94 244)	**(58 971)**	(94 244)
Net advances	**755 702**	685 812	**755 702**	685 812
Maturity analysis				
Payable within 1 year	**125 016**	55 113	**125 016**	55 113
Payable within 1 to 2 years	**150 854**	43 812	**150 854**	43 812
Payable within 2 to 3 years	**95 775**	72 238	**95 775**	72 238
Payable beyond 3 years	**384 057**	514 649	**384 057**	514 649
Net advances	**755 702**	685 812	**755 702**	685 812

	Company	
	2006 **R'000**	2005 R'000

4. INVESTMENT IN A SUBSIDIARY

	Company 2006 R'000	Company 2005 R'000
Gateway Home Loans (Proprietary) Limited is a wholly owned subsidiary of National Housing Finance Corporation Limited and is currently not trading.		
Shares at cost – ordinary shares	**50**	50
Share premium	**49 950**	49 950
	50 000	50 000
Loans owed to subsidiary	**(58 251)**	(60 823)

5. INVESTMENT IN A JOINT VENTURE

National Housing Finance Corporation Limited has a 50% interest in Cape Town Community Housing Company (Proprietary) Limited, a jointly controlled entity which is involved in the low- to moderate-income housing market in the Western Cape. The joint venture party is the City of Cape Town.

The assets, liabilities, income and expenses of the joinly controlled entity as at 31 March 2006 and for the year ended 30 June 2005 is listed below. The intention is to exit from this investment so that it becomes a wholly owned entity of the City of Cape Town.

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
Shares at cost – ordinary shares	**2 000**	2 000	**2 000**	2 000
Accumulated impairment	**(2 000)**	(2 000)	**(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 at cost – issued prior to 31 March 2005	**2 654**	2 654	**2 654**	2 654
Non-convertible debentures at cost – issued during the year	**543**	—	**543**	—
	21 197	20 654	**21 197**	20 654
Accumulated impairment	**(18 000)**	(18 000)	**(18 000)**	(18 000)
Net interest in joint venture	**3 197**	2 654	**3 197**	2 654

	Group		Company	
	31 March 2006 R'000	30 June 2005 R'000	**31 March 2006 R'000**	30 June 2005 R'000
5. INVESTMENT IN A JOINT VENTURE *(continued)*				
Current assets	**54 563**	57 463	**54 563**	57 463
Non-current assets	**27 383**	18 635	**27 383**	18 635
	81 946	76 098	**81 946**	76 098
Current liabilities	**54 921**	57 451	**54 921**	57 451
Non-current liabilities	**63 025**	56 758	**63 025**	56 758
	117 945	114 209	**117 945**	114 209
Revenue	**27 306**	35 660	**27 306**	35 660
Cost of sales	**(18 024)**	(20 835)	**(18 024)**	(20 835)
Operating costs	**(5 734)**	(23 651)	**(5 734)**	(23 651)
Finance cost	**(1 435)**	(703)	**(1 435)**	(703)
Profit before income tax	**2 113**	(9 529)	**2 113**	(9 529)
Income tax expense	**—**	—	**—**	—
Net (profit)/loss	**2 113**	(9 529)	**2 113**	(9 529)

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
6. INVESTMENT IN PREFERENCE SHARES				
Unlisted investments				
Preference shares in Blue Dot (Proprietary) Limited	**2 000**	2 000	**2 000**	2 000
Preference shares in Greenstart (Proprietary) Limited	**2 500**	2 500	**2 500**	2 500
Preference shares in Masikheni (Proprietary) Limited	**2 500**	2 500	**2 500**	2 500
Net investment in unlisted preference shares	**7 000**	7 000	**7 000**	7 000

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
7. INVESTMENT IN A CELL CAPTIVE				
Ulisted investments				
Guardrisk Insurance Company Limited				
Shares at cost			**7 000**	7 000
100% investment in Cell captive – Cell No. 105				
8. PROPERTY, PLANT AND EQUIPMENT				
Group and company				
Fixed asset computer equipment	**4 679**	4 318	**4 679**	4 318
Accumulated depreciation: computer equipment	**(4 145)**	(3 573)	**(4 145)**	(3 573)
Fixed assets: computer software	**4 339**	4 324	**4 339**	4 324
Accumulated depreciation: computer software	**(4 119)**	(3 667)	**(4 119)**	(3 667)
Fixed assets: furniture and fittings	**2 708**	2 580	**2 708**	2 580
Accumulated depreciation: furniture and fittings	**(2 314)**	(2 133)	**(2 314)**	(2 133)
Fixed assets: motor vehicle	**105**	105	**105**	105
Accumulated depreciation: motor vehicle	**(76)**	(47)	**(76)**	(47)
Fixed assets: office equipment	**374**	374	**374**	374
Accumulated depreciation: office equipment	**(326)**	(296)	**(326)**	(296)
Fixed asset: leasehold improvements	**293**	269	**293**	269
Accumulated depreciation: leasehold improvements	**(293)**	(134)	**(293)**	(134)
	1 224	2 119	**1 224**	2 119

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
8. PROPERTY, PLANT AND EQUIPMENT *(continued)*				
Reconciliation of opening balances to closing balances – 2006				
Opening balance				
Fixed assets: computer equipment	**745**	925	**745**	925
Fixed assets: computer software	**657**	1 098	**657**	1 098
Fixed assets: furniture and fittings	**448**	686	**448**	686
Fixed assets: motor vehicle	**57**	79	**57**	79
Fixed assets: office equipment	**78**	119	**78**	119
Fixed assets: leasehold improvements	**134**	60	**134**	60
	2 119	2 967	**2 119**	2 967
Additions				
Fixed assets: computer equipment	**361**	314	**361**	314
Fixed assets: computer software	**15**	250	**15**	250
Fixed assets: furniture and fittings	**127**	29	**127**	29
Fixed assets: motor vehicle	**—**	2	**—**	2
Fixed assets: office equipment	**—**	8	**—**	8
Fixed assets: leasehold improvements	**25**	208	**25**	208
	528	811	**528**	811
Depreciation				
Fixed assets: computer equipment	**(571)**	(494)	**(571)**	(494)
Fixed assets: computer software	**(452)**	(691)	**(452)**	(691)
Fixed assets: furniture and fittings	**(182)**	(267)	**(182)**	(267)
Fixed assets: motor vehicle	**(28)**	(24)	**(28)**	(24)
Fixed assets: office equipment	**(30)**	(49)	**(30)**	(49)
Fixed assets: leasehold improvements	**(159)**	(134)	**(159)**	(134)
	(1 423)	(1 659)	**(1 423)**	(1 659)

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
8. PROPERTY, PLANT AND EQUIPMENT *(continued)*				
Closing balances				
Fixed assets: computer equipment	**534**	745	**534**	745
Fixed assets: computer software	**220**	657	**220**	657
Fixed assets: furniture and fittings	**393**	448	**393**	448
Fixed assets: motor vehicle	**29**	57	**29**	57
Fixed assets: office equipment	**48**	78	**48**	78
Fixed assets: leasehold improvements	**(0)**	134	**(0)**	134
	1 224	2 119	**1 224**	2 119
The useful life of the assets is estimated as follows:				
Fixed assets: computer equipment	**3 years**	3 years	**3 years**	3 years
Fixed assets: computer software	**3 years**	3 years	**3 years**	3 years
Fixed assets: furniture and fittings	**15 years**	6 years	**15 years**	6 years
Fixed assets: motor vehicle	**4 years**	4 years	**4 years**	4 years
Fixed assets: office equipment	**6 years**	6 years	**6 years**	6 years
Fixed assets: leasehold improvements	**Period of the lease**	Period of the lease	**Period of the lease**	Period of the lease
9. OTHER RECEIVABLES AND PREPAYMENTS				
Other receivables and prepayments				
Deposits and prepayments	**2**	170	**2**	170
Related parties	**2 618**	1 983	**2 618**	11 505
Staff debtors	**476**	408	**476**	408
Other receivables	**1 725**	2 110	**1 725**	2 110
Interest accrued	**6 364**	867	**6 364**	867
	11 185	5 538	**11 185**	15 060

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
10. PROPERTY HELD FOR SALE				
Sectional title building held for resale	**21 654**	—	**21 654**	—
The remainder of units in the President Place building in Germiston, Gauteng, was bought by NHFC during this financial year. NHFC previously owned 54 units in the building through the default of an advance to Molovuso (Proprietary) Limited. The building would be transferred in the 2007 financial year to Greater Germiston Inner City Housing Company.				
Fair value				
A sworn valuation was conducted and the amount shown on the balance sheet is the fair value of the asset.				
11. INVESTMENT: BONDS (HELD-FOR-TRADE)				
Fair value at the beginning of the year	**243 174**	141 155	**243 174**	141 155
Additions for the year at cost	**—**	100 000	**—**	100 000
Disposals for the year at cost	**—**	(10,000)	**—**	(10 000)
Fair value adjustment	**2 583**	12 020	**2 583**	12 020
	245 757	243 175	**245 757**	243 175
The fair value adjustment was done on 31 March at the clean price.				
Comprising				
RSA stock – R153 at fair value	**145 327**	144 785	**145 327**	144 785
R120 million nominal value				
13,00% per annum redeemable on 31 August 2010				
City of Johannesburg bonds at fair value	**100 430**	98 390	**100 430**	98 390
R90 million nominal value				
11,95% per annum redeemable on 13 October 2010				
	245 757	243 175	**245 757**	243 175

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
12. MONEY MARKET INVESTMENTS				
Short-term deposits – held to maturity				
Money market – NHFC	**755 335**	773 043	**737 511**	750 517
Amalgamated Banks of South Africa	**103 854**	180 488	**101 319**	176 669
Investec Bank	**131 584**	131 729	**131 241**	131 729
Standard Bank of South Africa	**93 321**	43 361	**90 525**	39 453
Rand Merchant Bank Holdings	**107 225**	—	**105 966**	—
Nedcor Bank	**112 910**	122 563	**111 045**	121 062
Land Bank of South Africa	**113 186**	167 850	**112 826**	167 294
FirstRand Bank	**1 055**	1 475	**—**	—
Eskom	**85 612**	115 753	**84 590**	114 310
Transnet	**—**	446	**—**	—
Gensec	**230**	316	**—**	—
Citi Bank	**240**	1 456	**—**	—
Sasol	**—**	156	**—**	—
Deutche Bank	**1 694**	158	**—**	—
First National Bank	**—**	1 270	**—**	—
Investment Solutions	**4 425**	6 022	**—**	—
Money market – Job Summit-related	**342 628**	372 850	**342 628**	372 850
Amalgamated Banks of South Africa	**55 406**	17 875	**55 406**	17 875
Rand Merchant Bank Holdings	**30 353**	46 096	**30 353**	46 096
Standard Bank of South Africa	**65 833**	127 992	**65 833**	127 992
Nedcor Bank	**46 231**	15 522	**46 231**	15 522
Investec Bank	**50 458**	76 409	**50 458**	76 409
Land Bank of South Africa	**49 695**	39 390	**49 695**	39 390
Eskom	**44 652**	49 566	**44 652**	49 566

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
13. CASH AND SHORT-TERM DEPOSITS				
Other short-term deposits				
Call accounts – NHFC	**108 203**	100 104	**107 646**	100 104
Amalgamated Banks of South Africa	**24 152**	100	**24 152**	100
Investec Bank	**8 804**	4 342	**8 804**	4 342
Nedcor Bank	**1 881**	603	**1 881**	603
Rand Merchant Bank Holdings	**4 314**	6 964	**4 314**	6 964
Standard Bank of South Africa	**6 560**	4 792	**6 003**	4 792
Barclays Banks of South Africa	**—**	15 529	**—**	15 529
Standard Bank of South Africa	**42 492**	67 773	**42 492**	67 773
TCTA (Trans Caledon)	**20 000**	—	**20 000**	—
Call accounts – Job Summit-related projects	**55 440**	63 186	**55 440**	63 186
Amalgamated Banks of South Africa	**12 510**	8 115	**12 510**	8 115
Investec Bank	**17 659**	18 531	**17 659**	18 531
Nedcor Bank	**4 330**	16 873	**4 330**	16 873
Rand Merchant Bank Holdings	**9 301**	9 635	**9 301**	9 635
Standard Bank of South Africa	**11 640**	10 031	**2 872**	10 031
Call accounts – Development Fund	**118 036**	80 489	**118 036**	80 489
Investec Bank	**118 036**	80 489	**118 036**	80 489
Cash at bank and on hand	**11 101**	3 649	**9 369**	1 620
Standard Bank of South Africa	**11 101**	3 646	**9 369**	1 617
Cash on hand	**—**	3	**—**	3

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
14. TAXATION				
Current income tax				
Current income tax charge	31 430	28 461	29 310	26 198
Deferred tax	(38)	(120)	(47)	(116)
Taxation	31 392	28 341	29 263	26 082
Deferred tax				
Balance at the beginning of the year	442	322	438	322
Credit for the year	38	120	47	116
Prior period adjustment operating lease	119	—	119	—
Balance at the end of the year	599	442	604	438
Deferred tax asset consists of				
– Provision for leave pay	1 744	1 512	1 744	1 512
– Operating lease	338	—	338	—
– Guardrisk	(17)	13	—	—
Total	2 065	1 525	2 082	1 512
Tax rate of 29%	599	442	604	438
Impact on consolidated statement of changes in equity				
Deferred income tax related to items charged or credited directly to equity:				
– straight-lining of operating lease on buildings	119	—	119	—

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
14. TAXATION *(continued)*				
A reconciliation between tax expense and the product of accounting profit multiplied by SA domestic tax rate for the years ended 31 March 2006 and 2005 is as follows:				
Profit before taxation	**108 293**	93 419	**101 344**	85 890
At SA statutory income tax rate of 29% (2005: 30%)	**31 519**	28 026	**29 390**	25 767
Rate change		15	**—**	15
Permanent differences at the effective tax rate of 29% (2005: 30%)	**(127)**	300	**(127)**	300
Preference dividend received	**(439)**	—	**(439)**	—
Non-deductible expenses	**1**	1 000	**1**	1 000
Income tax expense reported in the income statement	**31 392**	28 341	**29 263**	26 082
15. ISSUED CAPITAL, SHARE PREMIUMS AND RESERVES				
Capital				
Authorised				
100 000 000 ordinary shares of R0,01 each	**1 000**	1 000	**1 000**	1 000
Ordinary shares				
Issued and fully paid				
84 187 332 ordinary shares of R0,01 each	**842**	842	**842**	842
Share premium	**879 158**	879 158	**879 158**	879 158

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
16. GRANT CAPITAL				
Balance at 1 April 2005	**200 000**	200 000	**200 000**	200 000
Movement for the year	**—**	—	**—**	—
Balance as at 31 March 2006	**200 000**	200 000	**200 000**	200 000
The grants arose as the result of the merger of HEF and HIDF in the 2002 financial year. They were considered to be permanent and are therefore included in shareholder's equity				
17. GOVERNMENT FUNDS UNDER MANAGEMENT				
Job Summit				
– *Poverty Relief funds*	**279 652**	293 959	**279 652**	293 959
– *Subsidies – KwaZulu-Natal*	**118 980**	138 906	**118 980**	138 906
– *Subsidies – Mpumalanga*	**2 245**	3 171	**2 245**	3 171
Development Fund	**118 036**	80 489	**118 036**	80 489
Total funds under management	**518 913**	516 525	**518 913**	516 525
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 net income on these funds is capitalised. The Development Fund is to provide capacition and technical assistance into low income housing market.				
18. DEFERRED INCOME				
Balance at the beginning of the year	**33 903**	38 501	**33 903**	38 501
Deferred income received	**(5 700)**	(4 598)	**(5 700)**	(4 598)
Balance at the end of the year	**28 203**	33 903	**28 203**	33 903

18 DEFERRED INCOME *continued)*

The South African Housing Trust (SAHT) and the NHFC were established by the National Department of Housing in South Africa (NDOH) 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 microlenders for low-cost housing. The advance book of SAHT was transferred to the NHFC for a consideration of R1. The fair value of the advances as at 31 March 2006 is R28,8 million (2005: R33,9 million).

The income from the advance book is taken into account as it is received from borrowers. The balances outstanding from these debtors are included in advances.

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
19. TRADE PAYABLES AND PROVISIONS				
Trade payables	**7 987**	9 791	**7 635**	9 778
Related parties	**—**	1 055	**—**	125
Provisions	**2 082**	1 512	**2 082**	1 512
Balance as at 31 March 2006	**10 069**	12 358	**9 717**	11 415
Provisons comprise: accumulated leave pay	**1 744**	1 512	**1 744**	1 512
: lease payments	**338**	—	**338**	—
Provision for leave pay				
Opening balance as at 1 April	**1 512**	1 073	**1 512**	1 073
Provision utilised for the year	**(161)**	(167)	**(161)**	(167)
Additional provision raised	**393**	606	**393**	606
Closing balance as at 31 March	**1 744**	1 512	**1 744**	1 512
Provision for lease payments				
Provision raised	**338**	—	**338**	—
Closing balance as at 31 March	**338**	—	**338**	—

Terms and conditions of the above financial liabilities:

Trade payables are non-interest-bearing and are settled on a maximum of 60-day terms.

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

For terms and conditions of related parties, refer note 28.

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
20. REVENUE				
Interest income				
Interest earned on advances	**60 118**	69 620	**60 118**	69 620
Interest earned on deposits and investments held for trading	**95 812**	111 465	**94 277**	105 464
Net-interest income	**155 930**	181 085	**154 395**	175 084
Non interest income				
Other income	**13 414**	20 045	**13 942**	19 925
Other income is made up as follows:				
SA Housing Trust (refer note 19)	**5 700**	4 106	**5 700**	4 106
Management fees – intercompany charges (refer note 27)	**—**	—	**528**	539
Management fees – Government funds under management (refer note 18)	**2 754**	—	**2 754**	—
Revaluation of investments held for trading	**2 583**	12 020	**2 583**	12 020
Sundry income	**2 377**	3 919	**2 377**	3 260
21. FINANCE COSTS				
Interest paid during the year:				
– banks	**—**	126	**—**	126
– other	**—**	15 153	**—**	15 153
Net interest expenditure	**—**	15 279	**—**	15 279

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
22. PROFIT BEFORE TAXATION				
Non-interest income comprises:				
Income:	**13 414**	20 045	**13 942**	19 925
– Revaluation on investments held for trading	**2 583**	12 020	**2 583**	12 020
– Management fees on funds under management/ intercompany changes	**2 754**	—	**3 282**	539
– Sundry income	**2 377**	3 919	**2 377**	3 260
– SA Housing Trust	**5 700**	4 106	**5 700**	4 106
Operating costs				
Employment cost	**34 688**	35 625	**34 688**	35 625
Sundry costs:	**5 503**	5 189	**5 503**	5 819
– Capacitation of costs	**5 461**	4 189	**5 461**	4 819
– Donations	**42**	1 000	**42**	1 000
Auditors' remuneration:	**1 024**	896	**990**	836
– Audit fees	**950**	812	**916**	752
– Prior year underprovision	**74**	84	**74**	84
Other costs	**15 759**	16 867	**25 247**	27 005
– Consultancy and advisory	**3 845**	4 329	**3 845**	4 329
– Legal fees	**1 156**	1 312	**1 156**	1 312
– Directors' fees	**177**	218	**177**	218
– Administration	**5 713**	2 716	**15 200**	12 854
– Communication	**1 256**	1 320	**1 256**	1 320
– Training and development	**337**	458	**337**	458
– Travel and entertainment	**1 402**	1 944	**1 402**	1 944
– Marketing	**964**	3 577	**964**	3 577
– Office expenses	**909**	993	**909**	993
Depreciation	**1 423**	1 659	**1 423**	1 659
Operating lease payments for the year	**3 747**	3 843	**3 747**	3 843
Total operating costs	**62 143**	64 079	**71 597**	74 787

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
23. DIRECTORS'* AND SENIOR MANAGEMENT'S EMOLUMENTS				
Directors – Non-executive				
Fees and costs for services as directors	**217**	188	**217**	188
E Molobi – paid to Kagiso Trust	**8**	35	**8**	35
– Fees	**8**	35	**8**	35
S A Tati	**29**	31	**29**	31
– Fees	**29**	31	**29**	31
N Mjoli-Mncube	**15**	11	**15**	11
– Fees	**15**	11	**15**	11
N E Makiwane	**35**	19	**35**	19
– Fees	**35**	19	**35**	19
S S Ntsaluba	**32**	22	**32**	22
– Fees	**32**	22	**32**	22
A C Canter – paid to Futuregrowth Asset Management	**62**	43	**62**	43
– Fees	**29**	43	**29**	43
– Costs	**33**	—	**33**	—
T A Middleton	**30**	15	**30**	15
– Fees	**28**	15	**28**	15
– Costs	**2**	—	**2**	—

*Messrs Dlabantu and Moraba and Prof Katz have waived their fees

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
23. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*				
Fees for services as committee members				
D Botha – paid to Development Bank of South Africa	**3**	6	**3**	6
– Fees	**3**	6	**3**	6
M S V Gantsho – paid to Development Bank of South Africa	**3**	6	**3**	6
– Fees	**3**	6	**3**	6
Directors – Executive	**2 765**	2 172	**2 765**	2 172
S S Moraba	**2 765**	2 172	**2 765**	2 172
– Salaries	**1 724**	1 475	**1 724**	1 475
– Bonuses	**868**	578	**868**	578
– Company contributions	**158**	110	**158**	110
– Other	**15**	9	**15**	9
Executive Managers	**6 814**	6 209	**6 814**	6 209
Chief Financial Officer	**1 333**	1 114	**1 333**	1 114
– Salaries	**872**	790	**872**	790
– Bonuses	**290**	177	**290**	177
– Company contributions	**162**	141	**162**	141
– Other	**8**	6	**8**	6
Executive Manager: Special projects	**1 162**	974	**1 162**	974
– Salaries	**834**	768	**834**	768
– Bonuses	**251**	154	**251**	154
– Company contributions	**70**	48	**70**	48
– Other	**7**	4	**7**	4
Executive Manager: Home Ownership division	**1 100**	906	**1 100**	906
– Salaries	**793**	667	**793**	667
– Bonuses	**237**	186	**237**	186
– Company contributions	**62**	49	**62**	49
– Other	**7**	4	**7**	4

	Group		Company	
	2006 R'000	2005 R'000	**2026 R'000**	2005 R'000
23. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*				
Executive Manager: Incremental Housing division	**682**	545	**682**	545
– Salaries	**495**	421	**495**	421
– Bonuses	**106**	61	**106**	61
– Company contributions	**77**	60	**77**	60
– Other	**5**	3	**5**	3
Executive Manager: Alternative Tenure division	**1 095**	941	**1 095**	941
– Salaries	**666**	625	**666**	625
– Bonuses	**301**	205	**301**	205
– Company contributions	**121**	108	**121**	108
– Other	**7**	3	**7**	3
Executive Manager: Corporate Risk division	**1 052**	922	**1 052**	922
– Salaries	**706**	646	**706**	646
– Bonuses	**198**	144	**198**	144
– Company contributions	**141**	128	**141**	128
– Other	**7**	4	**7**	4
Executive Manager: Human Resources division	**391**	757	**391**	757
– Salaries	**354**	246	**354**	246
– Bonuses	**—**	135	**—**	135
– Company contributions	**34**	54	**34**	54
– Other	**3**	322	**3**	322
Executive Manager: Corporate Marketing and Communications division	**—**	50	**—**	50
– Salaries	**—**	41	**—**	41
– Bonuses	**—**	4	**—**	4
– Company contributions	**—**	5	**—**	5
– Other	**—**	—	**—**	—
	9 796	8 569	9 796	8 569

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
24. RECONCILIATION OF CASH UTILISED IN OPERATIONS				
Net income before taxation	**108 293**	93 419	**101 344**	85 890
Adjustments for the following items:	**(175 118)**	(154 776)	**(174 484)**	(145 520)
Revaluation of investments held for trading	**(2 583)**	(12 020)	**(2 583)**	(12 020)
Depreciation	**1 423**	1 659	**1 423**	1 659
Impairments	**(35 273)**	14 046	**(35 273)**	14 046
Profit on sale of investments held for trading	**—**	(199)	**—**	(199)
Preference share investments	**(7 000)**	—	**(7 000)**	—
Property held for sale	**(5 154)**	—	**(5 154)**	—
Deferred income amortisation	**(5 700)**	(4 598)	**(5 700)**	(4 598)
Bad debts written off	**36 142**	12 080	**36 142**	12 080
Non-cash adjustment on lease	**(406)**	—	**(406)**	—
Write-off investment – preference shares	**—**	2 450	**—**	2 450
Reversal of insurance provision raised	**—**	(3 255)	**—**	—
Interest on taxation	**(638)**	—	**(1 593)**	—
Interest paid	**—**	15 279	**—**	15 279
Interest received	**(155 930)**	(180 218)	**(154 395)**	(174 217)
Net outflow	**(66 825)**	(61 357)	**(73 195)**	(59 630)
Net increase in working capital	**(72 625)**	(162 440)	**(64 154)**	(11 740)
Increase in advances	**(63 759)**	(165 283)	**(63 759)**	(165 283)
(Increase)/decrease in intercompany loans	**—**	—	**(2 572)**	160 743
(Increase)/decrease in accounts receivable	**(5 647)**	7 589	**3 875**	(2 555)
Decrease in accounts payable	**(3 219)**	(4 746)	**(1 698)**	(4 645)
Cash utilised in operations	**(139 450)**	(223 797)	**(137 349)**	(71 370)
Taxation paid				
Amounts receivable 1 April	**68 702**	52 005	**68 374**	54 050
Taxation charges for the year	**(31 430)**	(28 461)	**(29 310)**	(26 198)
Interest received	**1 266**	—	**1 593**	—
Amounts receivable 31 March	**(42 413)**	(68 702)	**(40 657)**	(68 374)
Taxation paid	**(3 875)**	(45 158)	**—**	(40 522)
Cash and cash equivalents				
Investments	**1 379 642**	1 389 672	**1 361 260**	1 367 146
Bank balances and cash	**11 101**	3 649	**9 369**	1 620
Total bank balances and cash	**1 390 743**	1 393 321	**1 370 629**	1 368 766

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000

25. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee				
The Group has entered into a commercial lease on property from which it operates. The lease will end 31 March 2007 and the lease may be extended.				
Future minimum rentals payable under current operating lease is at 31 March				
Within 1 year	**1 936**	1 936	**1 936**	1 936
– Property	**1 936**	1 936	**1 936**	1 936
After one year but not more than five years	**—**	2 129	**—**	2 129
– Property	**—**	2 129	**—**	2 129
	1 936	4 065	**1 936**	4 065
Contingent liabilities				
Guarantees provided	**—**	3 700	**—**	3 700
Gensec – Lease	**533**	533	**533**	533
	533	4 233	**533**	4 233

	Group		Company	
	2006 **R'000**	2005 R'000	**2006** **R'000**	2005 R'000
26. RETIREMENT BENEFITS				
Contributions to the National Housing Finance Corporation Provident Fund (2003) 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.				
Provident fund contributions	**2 502**	2 240	**2 502**	2 240

27. FINANCIAL RISK MANAGEMENT

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 counterparty 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 counterparty limits.

The Corporation obtains collateral or other security against all advances made, other than from counterparties 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 its 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 reset on a quarterly basis, in accordance with various agreed market indices.

	Group		Company	
	2006 R'000	2005 R'000	**2006 R'000**	2005 R'000
27. FINANCIAL RISK MANAGEMENT *(continued)*				
The composition of the year-end advances book is as follows:				
Fixed-rate advances	**69 198**	71 248	**69 198**	71 248
Linked-rate advances	**745 475**	708 808	**745 475**	708 808
Less: impairments	**(58 971)**	(94 244)	**(58 971)**	(94 244)
Net advance at 31 March	**755 702**	685 812	**755 702**	685 812

Interest rate risk

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

	Fixed rate 2006 R'000	**Linked rate 2006 R'000**	Fixed rate 2005 R'000	Linked rate 2005 R'000
Assets				
Advances – rates vary between 10% and 18% p.a.	**69 198**	**745 475**	71 248	708 808
Investments held for trading – refer to note 8. The rate is fixed at 12,54% p.a.	**245 757**	**—**	243 175	—
Money market investments – rates vary between 6% and 8,75% p.a.	**—**	**1 379 642**	—	1 389 672
Bank balances and cash – rates vary between 6% and 6,5% p.a.	**—**	**11 101**	—	3 649
Liabilities				
Government grants under management – rates are linked to short-term investment rates	**—**	**518 914**	—	516 525

27. FINANCIAL RISK MANAGEMENT *(continued)*

Fair value

At 31 March 2006 and 2005 the carrying amounts of financial assets and liabilities approximated their fair values.

	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
Financial assets				
– Advances	755 702	755 702	685 812	685 812
– Accounts receivable	11 185	11 185	5 538	5 538
– Investments held for trading	245 757	245 757	243 175	243 175
– Money market investments	1 379 642	1 379 642	1 389 672	1 389 672
– Bank balances and cash	11 101	11 101	3 649	3 649
	2 403 387	2 403 387	2 327 846	2 327 846
Financial liabilities				
– Accounts payable	10 069	10 069	12 358	12 358
– Government funds under management	518 914	518 914	516 525	516 525
	528 983	528 983	528 883	528 883

Market values have been used to determine the fair value of investments held for trading.

28. RELATED-PARTIES DISCLOSURES

Related-parties disclosures

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

	Country of incorporation	% equity interest	% equity interest
Subsidiary			
Gateway Homeloans (Proprietary) Limited (non-trading)	RSA	100	100
Business Venture 568 (Proprietary) Limited trading as Gateway Homeloans 001 (Proprietary) Limited (non-trading)	RSA	100	100
Guardrisk Cellcaptive	RSA	100	100

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 as indicated).

	Company Total R'000	Company Total R'000
Related party		
Subsidiary companies		
Gateway Homeloans (Proprietary) Limited		
– intercompany (receivables)/payables (refer note 4)	(58 251)	(60 823)
– management fees paid to National Housing Finance Corporation Limited	342	342
Guardrisk Cellcaptive		
– accounts receivable	4 123	9 522
– insurance proceeds received	(4 893)	(9 522)
– premiums paid	10 602	10 602
Joint venture		
Cape Town Community Housing Company (Proprietary) Limited		
– debentures (refer note 5)	3 197	2 654
– advances	10 153	14 152
Other		
Rural Housing Loan Fund		
– accounts payable (refer note 19)	—	(124)
– management fees paid to National Housing Finance Corporation Limited	—	30
Social Housing Foundation		
– accounts receivable (refer note 10)	2 618	1 983
– management fees paid to National Housing Finance Corporation Limited	243	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 nor with any other national government entities (such as Telkom) except on an arm's length basis.

29. SEGMENTAL INFORMATION

Group business segmental analysis of income statement

	Lending activities R'000	Investment activities R'000	Total 2006 R'000	Total 2005 R'000
Revenue – 2006	60 118	95 812	155 930	—
Revenue – 2005	69 620	111 465	—	181 085
Finance costs			—	(15 279)
Net interest income			155 930	165 806
Impairments			1 092	(28 353)
Net income			157 022	137 453
Non-interest and other income			13 414	20 045
Operating income			170 436	157 498
Operating costs			(62 143)	(64 079)
Profit before taxation			108 293	93 419
Taxation			(31 392)	(28 341)
Profit after taxation			76 901	65 078
Group business segmental analysis of the balance sheet				
Advances – 2006	755 702		755 702	—
Advances – 2005	685 812		—	685 812
Debentures Cape Town Community Housing Company (Proprietary) Limited – 2006		3 197	3 197	—
Debentures Cape Town Community Housing Company (Proprietary) Limited – 2005		2 654	—	2 654
Preference shares investments – 2006		7 000	7 000	—
Preference shares investments – 2005		7 000	—	7 000
Property, plant and equipment – 2006		1 224	1 224	—
Property, plant and equipment – 2005		2 119	—	2 119
Accounts receivable – 2006		11 185	11 185	—
Accounts receivable – 2005		5 538	—	5 538
Investment: property held for sale – 2006		21 654	21 654	—
Investment: property held for sale – 2005		—	—	—
Investments held for trading – 2006		245 757	245 757	—
Investments held for trading – 2005		243 175	—	243 175
Money market investments – 2006		1 379 642	1 379 642	—
Money market investments – 2005		1 389 672	—	1 389 672
Bank balances and cash – 2006		11 101	11 101	—
Bank balances and cash – 2005		3 649	—	3 649
Taxation – 2006		43 012	43 012	—
Taxation – 2005		69 144	—	69 144
			2 479 474	2 408 763

29. SEGMENTAL INFORMATION *(continued)*

Geographical segmental analysis of income statement

	Other provinces	Mpuma-langa	Gauteng	KwaZulu-Natal	Eastern Cape	Western Cape	**Total 2006 R'000**	Total 2005 R'000
Revenue – 2006 Lending income	2 881	11 266	15 289	9 334	6 833	(411)	**60 118**	
Investment income							**95 812**	
Revenue – 2005 Lending income	1 692	11 036	33 964	6 534	6 587	4 370	**—**	69 620
Investment income							**—**	111 465
							155 930	181 085
Finance costs							**—**	(15 279)
Net interest income							**155 930**	165 806
Provision for doubtful debts							**1 092**	(28 353)
Net income							**157 022**	137 453
Non-interest and other income							**13 414**	20 045
Operating income							**170 436**	157 498
Operating costs							**(62 143)**	(64 079)
Profit before taxation							**108 293**	93 419
Taxation							**(31 392)**	(28 341)
Profit for the year							**76 901**	65 078

29. SEGMENTAL INFORMATION *(continued)*

Geographical segmental analysis of the balance sheet

	Other provinces	Mpuma-langa	Gauteng	KwaZulu-Natal	Eastern Cape	Western Cape	**Total 2006 R'000**	Total 2005 R'000
Advances – 2006	15 249	106 398	432 256	57 185	85 986	58 630	**755 702**	
Advances – 2005	17 991	99 895	374 416	88 913	66 891	37 706		685 812
Debentures Cape Town Community Housing Company (Proprietary) Limited – 2006						3 197	**3 197**	—
Debentures Cape Town Community Housing Company (Proprietary) Limited – 2005						2 654	**—**	2 654
Preference shares investments – 2006			2 500			4 500	**7 000**	—
Preference shares investments – 2005			2 500			4 500	**—**	7 000
Property, plant and equipment – 2006			1 224				**1 224**	—
Property, plant and equipment – 2005			2 119				**—**	2 119
Accounts receivable – 2006			11 185				**11 185**	—
Accounts receivable – 2005			5 538				**—**	5 538
Investment: property held for sale – 2006			21 654				**21 654**	—
Investments held for trading – 2006			245 757				**245 757**	—
Investments held for trading – 2005			243 175				**—**	243 175
Money market investments – 2006			1 379 642				**1 379 642**	—
Money market investments – 2005			1 389 672				**—**	1 389 672
Bank balances and cash – 2006			11 101				**11 101**	—
Bank balances and cash – 2005			3 649				**—**	3 649
Taxation – 2006			43 012				**43 012**	—
Taxation – 2005			69 144				**—**	69 144
							2 479 474	2 408 763

30. COMPARISON BETWEEN BUDGET AND AUDITED RESULTS AT 31 MARCH 2006

Comparison between budget and audited results at 31 March 2006

	Actual R'000	Budget R'000
Income		
Lending activities	60 118	86 252
Investment activities	95 812	81 553
Other	13 414	10 150
Total income	169 344	177 955
Impairments	1 092	(3 670)
Operating expenses	(62 143)	(73 269)
Profit before tax	108 293	101 016
Tax	(31 392)	(29 294)
Profit after tax	76 901	71 722

Explanation of variances:

Approvals to lenders for the year amounted to R225,2 million of which only R211,1 million was disbursed. The reasons for the lack of disbursements were substantially the reluctance of clients to commit themselves in view of the impending National Credit Act and the promulgation of the Social Housing Policy.

Lending income

As a result of lower disbursements the lending income is lower but this had a positive effect on investment income.

Investment income

The investment income which is higher than budgeted for, due to lower disbursements.

Other income

Other income includes management fees derived from funds under management which were not charged in the previous year.

30. COMPARISON BETWEEN BUDGET AND AUDITED RESULTS AT 31 MARCH 2006 *(continued)*

Expenses

1. Expenses are R11,26 million below budget. Major favourable variances were in:

Consultants	R5,0 million
Capacitation costs	R4,3 million

IMPACT – Units

The impact of the lending from NHFC on housing delivery was:

	Actual	Budget
Houses	6 636	6 575
Loans for incremental improvement of homes	8 879	10 000
	15 515	16 575

31. REPORT ON ACHIEVEMENT OF KEY PERFORMANCE INDICATORS (KPIS) FOR THE YEAR-END 2006

Key performance indicators	Actual	Target
1. Number of loans approved	14	20
2. Value of loans approved (R'000)	225 202	420 000
3. Number of loans in place	52	60
4. Number of houses financed by loans granted	15 515	16 575
5. Income from loans and related activities	60 118	86 252
6. Average interest on the loans granted	8,43	10,1
7. Losses on loans (non-performance)	1 092	(3 670)
8. Number of financial intermediaries operating	52	60
9. Number of financial intermediaries impaired in 2006	2	3
10. Income from other activities/investments (R'000)	95 812	81 553
11. Expenditure/Operating costs (R'000)	62 143	73 269
12. Profit/Loss (operating surplus/deficit)	76 901	71 722
13. Total capital (R'000)	1 922 288	1 943 716
14. Capital used in operations (R'000)	755 702	1 067 604
15. Capital used in other investments (R'000)	1 166 586	876 112

ADMINISTRATION

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