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OUR VISION

To be the dynamic leader in housing

OUR MISSION

The purpose of Housing Authority is to develop and produce affordable lots and mortgage financing with attractive loan packages on a competitive basis to all customers with special focus on low-income earners.

CORPORATE VALUES

Dynamism
Excellence in Customer Service
Innovativeness
Understand, appreciate and involve staff
Ethics and Moral Values

Letter to the Minister



Housing Authority

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All correspondence to be addressed to the Chief Executive Officer

30 May, 2006

The Honourable George Shiu Raj
Minister for Women, Social Welfare and Housing
GPO Box 14068
Suva

Re: Annual Report for 2005

Dear Honourable Minister,

In accordance with the requirement of Section 21 of the Housing Act, Cap 267, I am pleased to present the Authority's Annual Report for 2005 which incorporates a detailed summary of its operations and activities including Financial Statements for the year ended 31st December 2005.

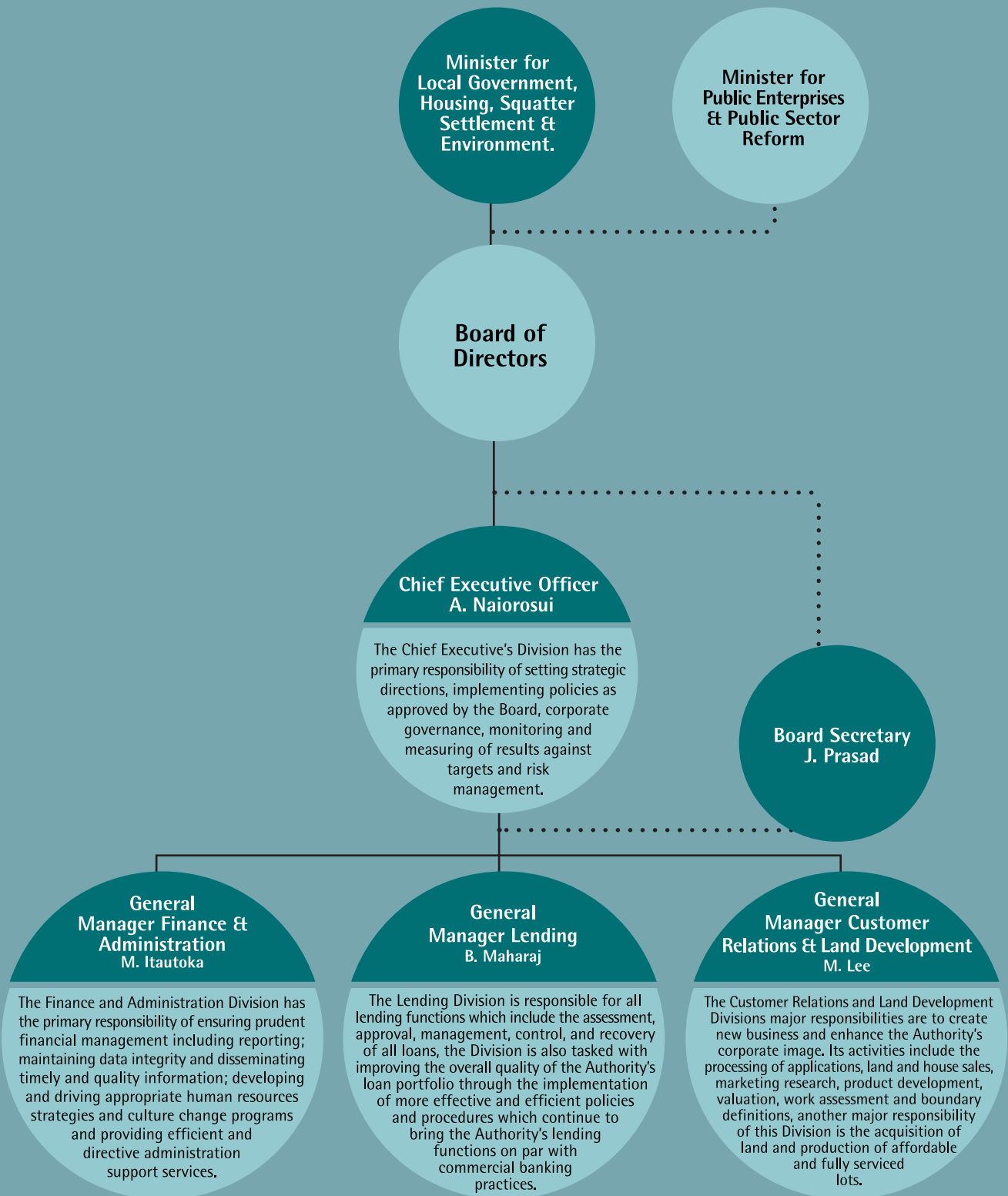
For the year 2005, the Housing Authority recorded an operating surplus of \$2.49m compared to a surplus of \$2.07m in the year 2004.

On behalf of the Members of the Authority, I take this opportunity to thank Government for its continued and unwavering support.

Yours sincerely

Sada Reddy
CHAIRMAN

Organisation Structure



Corporate Governance

Board Composition

There are six directors on the Board, all of whom are appointed by the Minister for Housing. The Chief Executive Officer is an ex-officio member of the Board but does not have the power to vote nor is regarded as a Board Director for the purpose of forming a quorum.

Board Functions

The relationship between the Board and the Management is a partnership that is crucial to the Authority's long term success. Each has functions which should be clearly defined and understood. The Chief Executive Officer is responsible to the Board for the day to day management of the Authority. The Board gives directions and exercises judgment in setting the Authority's objectives and overseeing their implementation.

The responsibilities of the Board Directors include:

- The corporate governance of the Authority, including establishment of Sub-Committees;
- Oversight of business and affairs of the Authority by:
- Establishing with Management the strategies and financial objectives;
- Approving major corporate initiatives
- Establishing appropriate system of risk management; and
- Monitoring the performance of the management.
- Communicating with shareholders, results of, and developments in the operations of the Authority;
- Appointments of the Chief Executive Officer; and
- Approval of the Authority's major Human Resources policies and overseeing the development strategies for senior and high performances executives.

Board Meetings

The number of Board Directors' meetings and number of meetings attended by each of the Board Directors of the Housing Authority during the financial year were:

Board Sub-Committees

Board of Directors	No. of meetings held	No. of meetings attended
Mr. Sada Reddy	11	10
Mr. Olota Rokovunisei	11	3
Mrs. Elenoa Gonelevu	11	9
Rev. Sereima Lomaloma	11	9
Mr. Vishnu Deo	11	8
Mr. Cama Tuiloma	11	6

To assist the Board to plan and support its activities and administration, three sub-committees were formed, namely Property, Finance, Audit & Risk Management, and Human Resources Sub-Committees. The minutes of the meetings held by these Sub-Committees were tabled at Board meetings and all resolutions of these Committees required the approval of the Board.

Property Sub-Committee

The Property Sub-Committee was chaired by Mr. Cama Tuiloma and Rev. Sereima Lomaloma and Mr. Vishnu Deo as members.

The Committee's primary role was to review management's recommendations on all land development projects, land development tenders and on all acquisition of land by the development tenders and on all acquisition of land by the Authority. The committee also evaluated and pre-qualified civil contractors/consultants eligible to carry out the Authority's projects and assisted management where necessary in dealing with contractors/consultants, municipal authorities and other stakeholders.

Finance, Audit and Risk

Management Sub-Committee

The Finance, Audit & Risk Management Sub-Committee was chaired by Mr. Vishnu Deo with Mr. Cama Tuiloma, Mr. Olota Rokovunisei and Rev. Sereima Lomaloma as members.

The Committee's main function was to assist the Board in fulfilling its responsibilities relating to the fiduciary management of the accounting policies and reporting practices of the Authority. The Committee is charged with the responsibility to oversee and appraise the quality of the audits conducted by both internal and external auditors. The Committee also maintained open lines of communications among the Board, the internal auditors and external auditors to exchange views and information.

Human Resources Sub-Committee

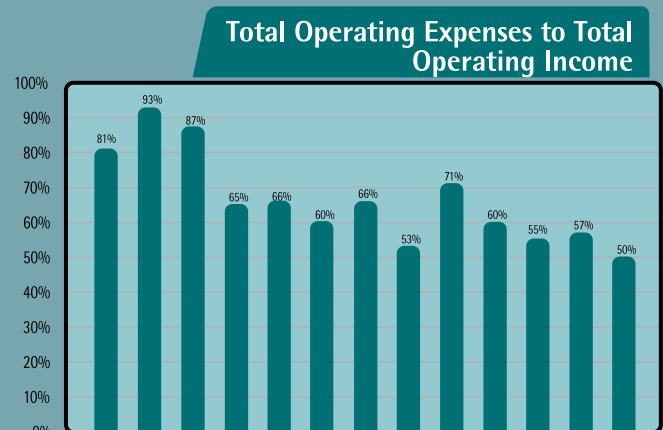
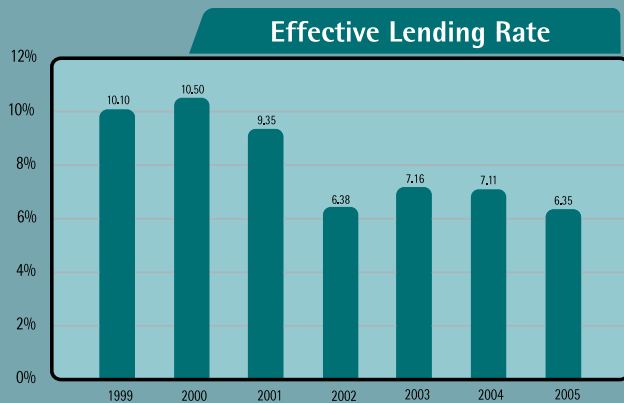
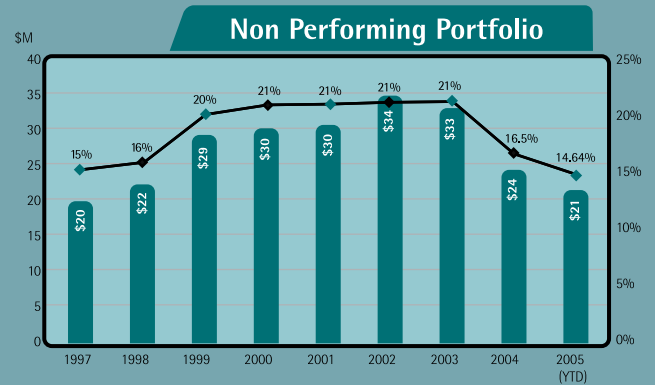
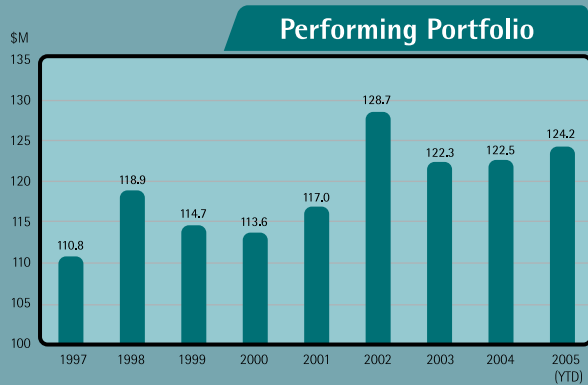
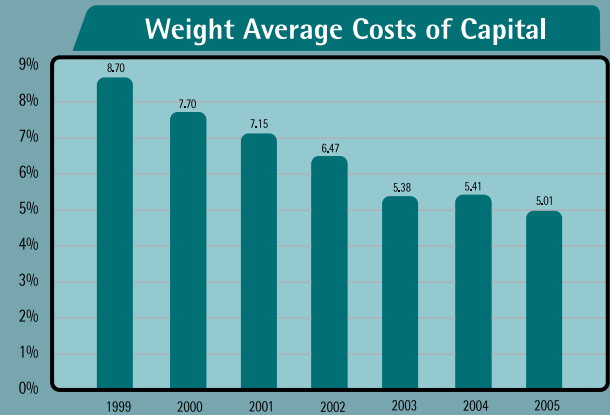
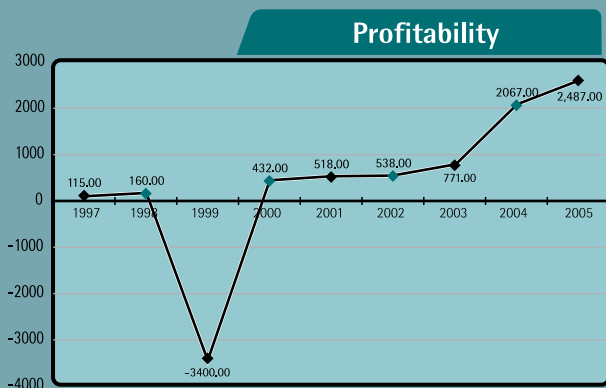
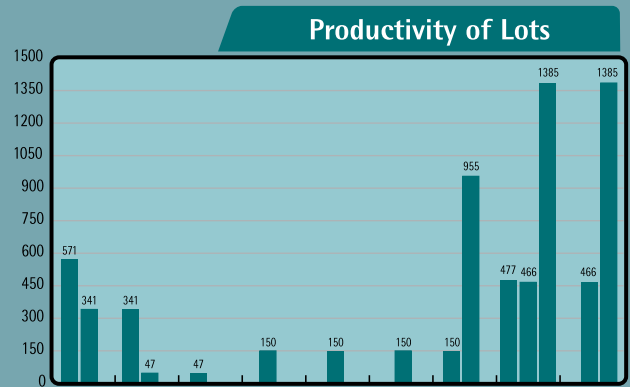
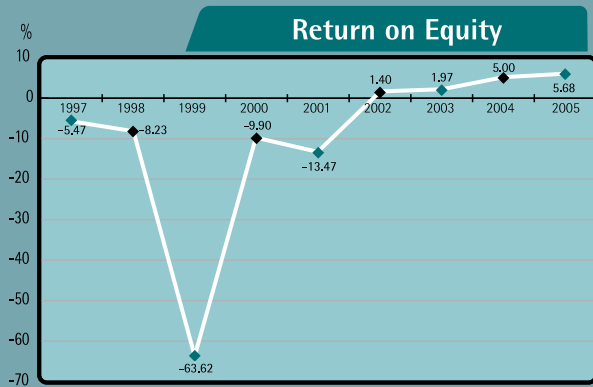
The Human Resources Sub-Committee was chaired by Mr. Sada Reddy with Mr. Cama Tuiloma, Mr. Vishnu Deo and Rev. Sereima Lomaloma as members.

The fundamental tasks of this Committee were to monitor the performance of the Chief Executive Officer, General Managers, recommend remuneration policies and address strategic human resource matters. In addition, the Committee endorses Management's recommendations in regard to performance management system and assists Management in maintaining good industrial relations with the Union.

Attendance to Sub-Committee Meetings

The number of Board Sub-Committee meetings held during the year averaged 6 and attendance to these meetings by the Board Directors averaged 61%.

Highlights





Year at a Glance

- Housing Authority achieved an operating surplus of \$2.49m.
- Housing Authority launched the sale of 421 residential lots at its Field 40 Sub-division at Lautoka.
- Civil Works at Authority's Waila 3B Subdivision in Nausori were completed, producing 466 lots.
- Housing Development Division was established and will operate from mid 2006 with private sector on joint-venture projects.
- Housing Authority carried out Due Diligence Study to determine the Authority's readiness to go to the market and borrow without a Government Guarantee by end of 2006.
- New strategies for 2006 were set at the Corporate Planning Workshop by Board Members, Management and Staff.
- New Performance Management System [PMS] was implemented to reward staff.
- Carried out review of the operations of the Finance Division.
- Housing Authority launched its "Crystal Home Loan Package", the lowest home loan interest rate in the market - 3.99% fixed for 18 months; 7.99% variable thereafter.
- Loans totaling \$30.24m loans were granted to 2,232 customers.
- Non-performing loans were reduced from 16.5% to 14.6% of the total loan portfolio.

Board of Directors



Mr Sada Reddy Chairman

Appointed to the Board in December 1999 and became Chairman from December 2000. Mr Reddy is an Economist having attained a Masters in Economics with distinction and presently the Deputy Governor of the Reserve Bank of Fiji. He joined the Reserve Bank of Fiji in 1975 and has held other senior management positions during the period of his employment. Mr Reddy is also the Deputy Chairman of the Capital Markets Development Authority.



Mr Olota Rokovunisei

Appointed to the Board in November 1996. Mr Rokovunisei holds a Masters of Business Administration, Post Graduate Diploma in Applied Finance and Investment, Bachelor of Science in Mathematics & Physics and Bachelor of Arts in Accounting and Economics. He is presently the General Manager/Chief Executive of the Fiji National Provident Fund. Mr Rokovunisei has continued to serve on various Boards including that of Unit Trust of Fiji (Management) Ltd, Yasana Holdings, Fiji TV, Home Finance Ltd, Credit Corporation Fiji Ltd, Telecom Fiji Ltd and Amalgamated Telecom Holdings Ltd.



Mrs Elenoa Gonelevu

Appointed to the Board in February 2005. Mrs Gonelevu holds a Post Graduate Diploma in Management & Public Administration and has completed 2 units in Masters in Business Administration, Bachelor of Arts in Management and Linguistics and Vocational Teachers Certificate. She is currently involved in social/community work and is holds the position of Interim Secretary of Fijian Women's Organisation.



Rev. Sereima Lomaloma

Appointed to the Board in December 2002. Rev. Lomaloma has a Masters Degree in Social Planning from London School of Economics. She is currently serving as the General Secretary of the Anglican Church in Fiji, Tonga, Samoa and Archdeaconry in New Zealand. Rev. Lomaloma has held various senior positions in Government including being Director for Women in the Ministry of Women & Social Welfare for nine years.

Mr Vishnu Deo

Appointed to the Board in December 2002. Mr Deo is a Chartered Accountant and a retired partner of the accounting firm KPMG where he served as partner-in-charge of the Lautoka office for some 20 years. He is a past president of the Fiji Institute of Accountants. Mr Deo is currently a Business Consultant and a Board Member of Capital Markets Development Authority and holds other company directorships. He is also Chairman of Sathya Sai Service Organisation of Fiji, a spiritual and service organisation.

Mr Cama Tuiloma

Appointed to the Board in January 2004. Mr Tuiloma is the Chief Executive Officer for the Ministry of Local Government, Housing, Squatter Settlement & Environment from 2004. He had served with the Public Works Department for 24 years. Before taking up his new position, he was the Director of Buildings & Government Architect. Mr Tuiloma holds a Bachelor and Masters Degree in Architectural Studies. He also holds a Graduate Certificate in Management. Mr Tuiloma is also a Board Member of the Public Rental Board and the National Fire Authority.

Chairman's Message



SADA REDDY
Chairman

Introduction

I am very pleased to report another strong year of growth for Housing Authority in 2005 despite increased competition in the financial lending market. 2005 marked a milestone for the Authority as its operating surplus even exceeded the record-breaking results of last year.

Financial Results

In comparison to its \$2.07m operating surplus last year, the Authority recorded a surplus of \$2.49m in 2005, an increase of 20%. This impressive achievement was due to the strong strategic platform that was laid earlier by the Authority. This platform established a commercial business structure with an efficient and productive workforce, empowered to better achieve the Authority's goals and vision.

2005 saw the Authority continuing its stringent control on operating expenses and prudent debt management. In addition, the Authority took advantage of the low borrowing rates prevailing in the market in 2005 and redeemed expensive bonds early which resulted in a reduction in interest costs by \$520,300 or 8.4% against the budget. The Authority also managed to reduce its borrowing portfolio by 5% in comparison to 2004's closing balance.

Lot Production

Due to urban migration and squatter relocation, the Authority continued to face huge demand for housing lots in the Suva-Nausori corridor. The Authority's Waila 3B Subdivision at Davuilevu, Nausori – with 466 residential lots – was completed and is awaiting sub-divisional plan approval. Most of the lots in this Subdivision will be allocated to squatters in consultation with the Ministry of Housing, which provided a grant of \$1.5m that reduced the development cost of lots allocated to squatters by 50%.

At the Authority's 184 acre Tacirua East Stage 2 Subdivision, preliminary works have been completed. These work included an environmental impact study, site investigation and lot scheming. This subdivision will be developed producing about 261 up-market lots with the balance of 1,000 lots for middle to lower income earners. Due to the magnitude of the development, this Subdivision will be carried out in 3 phases. The earthworks in phase one will commence in early 2006 and will produce 400 lots for sale in the third quarter of 2007.

In the Western Division, the Authority has already completed development and is currently selling a total of 448 lots at its Field 40 and Natabua Subdivisions in Lautoka. The upgrading of a squatter settlement at Balawa in Lautoka has also been completed and the allocation of lots will be formalised in early 2006.

In addition to the above, three other projects – at Namosau in Ba; Naqere in Savusavu and Koronisalusalulu in Tavua – are at the lot-design stage with construction work scheduled to commence in 2006. A total of 360 lots will be produced.

In order to meet the future housing needs, the Authority has been engaged in ongoing discussions with the Director of Lands and the Native Land Trust Board for the supply of suitable land for housing development.

Low Income Focus

Through a Government Grant, the Authority continued to subsidise interest at the rate of 2% on housing loans for all low income earning customers. Customers under the Authority's Village Housing Scheme, whose annual household income did not exceed \$6,500, were also subsidised. Land development subsidies were also provided to squatters on resettlement and to low income earners to make lots more affordable to them.

Under the Authority's Home Ownership Plan, financial assistance through a Government Grant was provided to existing customers who were unable to repay their mortgage debt. Despite



*House construction at Housing Authority's
Caubati Stage 2 Sub-division*

*In comparison to its
\$2.07m operating surplus
last year, the Authority
recorded a surplus of
\$2.49m in 2005, an
increase of 20%*

facing financial hardship, many of our customers were able to retain their homes because of this Plan.

As part of its mandate, the Authority continued to provide services to meet Government's social objectives of providing housing to middle to low-income earners. In this regard, the Ministry of Public Enterprises and Public Sector Reform carried out a Social Costs Study in 2005 to determine the financial obligation to the Authority to fulfill the Government's objectives. The outcome of this Study will be provided in early 2006.

Home Loans

The interest rates on housing loans remained highly competitive, and in order to retain its market share, the Authority introduced its 'Crystal Home Loan Package' in September 2005 with a lending rate of 3.99% p.a. for the first 18 months and 7.99% variable thereafter. This became the lowest interest rate package in the housing loan industry.

In 2005, the Authority approved a total loan of \$30.2m to 2,232 customers and its total loan portfolio stood at \$145.5m as at the end of this year.

Through our stringent policies, the Authority was able to reduce its non-performing loans by 11.65% or \$2.8m in 2005. At the end of 2005, non-performing loans made up 14.6% of the total loan portfolio, an amount of \$21.3m. In 2006, the resolution of the long outstanding dispute regarding Matavolivoli Sub-division loan accounts will further reduce the non-performing loans.

Customer Services

The turnaround time for loan approvals throughout all Customer Relation Centres has improved. On average we are now serving customers within 15 hours, compared to 19 hours last year. With the introduction of conditional approvals for home loans and personal loans, customers are being provided with quicker credit decisions.

Customer service continued to improve and with substantial refurbishment of the Headquarters building in 2006, further improvements are expected.

Corporate Governance

Good corporate governance is a fundamental part of the Authority's values and success. The Authority has already adopted a Board Charter that spells out the roles and responsibilities of the Board of Directors including disclosure of conflict of interest of any director with a material personal interest in a matter being considered by the Board.

In 2005, with the Financial Management Act coming into effect, the Authority's financial statements were audited by

KPMG on behalf of the Auditor-General of Fiji. Internal auditors, G. Lal & Co., provided quarterly reports to ensure that the operations of the Authority were in conformity with the established policies and procedures.

Each of the Authority's staff placed special emphasis on conforming to the policies and procedures that govern all facets of the Authority's operations. Last year, corporate performance was monitored on a quarterly basis and reporting was done to the Government through the Ministry of Housing and the Ministry of Public Enterprises & Public Sector Reform.

Challenges for the Future

In today's competitive housing loan market, the Authority's challenge is to reduce its dependence on Government loan guarantees to finance its operations. In this regard, in 2005 the Authority engaged the services of KPMG to carry out a Due Diligence Study and to provide a report on the Authority's readiness to borrow commercially without a Government Guarantee. The recommendations provided to the Authority by KPMG were adopted and were then incorporated into

the Authority's Corporate Plan to be implemented in 2006. Our strategic aim in the future is to make Housing Authority more financially independent, to enable it to operate without reliance on Government for continued support and loan guarantees.

The other major challenge facing the Authority is providing housing lots that most low-income earners and squatters can afford. To achieve this challenge, the Authority is exploring joint ventures with other financial institutions acting as equity partners in the Authority's housing development projects. The Authority's Housing Development Department has also been reorganised so that it can operate as a separate business unit. This is to provide a better return on investment within the Authority's commitment to produce affordable lots and houses to meet the needs and demands of our target market.

In the third quarter of 2006, the Authority's Information Technology (IT) Project will be completed with a new state-of-the-art IT System which will make information readily available to staff to serve customers more efficiently and to assist management to better

monitor performance.

Acknowledgement

On behalf of the Board, I wish to express my sincere gratitude to the Government for its continued support during the year.

I must also thank the Board Members for their support and guidance during the year. I would also like to thank the Fiji Bank and Finance Sector Union leadership for their support in successfully resolving our staff issues during the year.

Finally, I would like to congratulate the Authority's management and staff for their dedication and significant contributions throughout the year in achieving the challenging objectives we had set for ourselves. I am optimistic that 2006 will be an even better year for the Authority.



Sada Reddy
Chairman

*Waila 3B Sub-division
comprising of 460 lots*

Chief Executive's Report



ALIPATE NAIOROSUI
Chief Executive Officer

Operating Results

Last year was a difficult year for the Authority with intensive competition in the market and significant delays in our land development projects. However, I am pleased to report that the Authority again improved its performance for the fourth straight year. A \$2.49m operating profit was recorded for 2005 against \$2.07m last year, which is a remarkable achievement given the difficult operating environment and many social objectives the Authority strived to achieve.

Despite this impressive result, we were disappointed in not achieving our "stretched profit budget" target for 2005. This "stretched profit budget" is the ambitious goal we set ourselves each year in order to achieve our vision of becoming financially independent

without much reliance on Government support in 2007. It also provides a mark that we strive to reach. Nevertheless, we are still very happy with the Authority's performance because we have been able to initiate a number of new policies and implement new corporate structures and changes that will help our profitability in the future.

The factors behind our achievement were largely due to the effective implementation of most of our strategies outlined in our Corporate & Work Plans and including a better control of our expenses. We also met our targets for income through collection of budgeted fees and charges and adequate provisioning of doubtful debts.

The major reason for the shortfall in achieving our "stretched profit budget" was our low sales due to delays in the development of 460 lots at our Waila 3B Subdivision in Davuilevu and poor sales of our Field 40 Sub-division in Lautoka.

Financial Performance Highlights

- A record surplus of \$2.49m was achieved for the year against stretched budget of \$3.5m and \$2.07m recorded in the previous year. The 2005 surplus represents an increase of 20% over the last year's surplus.
- Return of Equity achieved was 5.68% against stretched target of 8%.
- Total operating income increased by 9% from \$10.9m in 2004 to \$11.9m in 2005.
- Interest income increased by 2% from \$10.7m in 2004 to \$10.9m in 2005.

- Total operating expenses increased by \$0.4m due to increase in staff costs after implementation of Unions Log of Claims 5% and the engagement of consultancies for Finance Review and Due Diligence Studies.
- Interest costs reduced by 9% from \$6.2m in 2004 to \$5.7m in 2005. This was mainly due to savings from the early redemption of expensive Bonds and low borrowing rates.
- Staff and related costs increased by 8% from \$3.7m in 2004 to \$3.9m in 2005.
- Total Performing Loans portfolio increased by \$1.7m to \$124.2m in 2005 compared to \$122.5m in 2004. The increase was due to better portfolio management and approval of quality new loans.
- Total Non-Performing portfolio reduced from \$24.1m in 2004 to \$21.3m in 2005, this represents a decrease of 11.65%. This was possible with initiatives and strategies placed by the Authority with the focus of improving the existing loan portfolio in 2005 and bad debts write-offs during the year.
- Borrowing portfolio reduced by 5% from \$110.12m in 2004 to \$104.5m in 2005.

Non Financial Performance Highlights

- Total of 2,232 customers and families were provided new housing and other related financial assistance compared to 1,988 families in 2004. This represents an increase of 12.3%. More information is provided in Customer Relations Divisional.

- 1,123 low income families with income on or below \$16,500 were assisted. This represents 50.3% (target is 50%) out of the total of 2,232.
- 56 Village Housing Schemes were approved \$2.4m to build new homes compared to only 27 schemes for \$1.1m in 2004.
- 381 low income individual families (income on or below \$6,500 per annum) and 56 Village Housing Schemes were provided with 2% interest subsidy in the sum of \$219,979 from the \$1m Government Grant in 2005 compared to 520 individual families and 65 Village Housing Schemes in 2004.

In addition, 7 families were assisted under the Home Ownership Plan scheme for them to retain their family homes in the sum of \$111,889 from the said Government Grant compared to 56 families in the sum of \$539,006 in 2004.

Housing Assistance Programme for Low Income Earners

The Authority's mandate is to provide affordable and quality housing accommodation to its customers, particularly low to middle income earners. While we have expanded our housing loans to also include higher income earners, we still ensure that we meet our original mandate by ensuring that not less than 50% of our housing assistance must go to low income earners. This commitment is also outlined in the Memorandum of Understanding signed with the Government in 2003. More assistance would be given next year once 800 new lots in Waila 3B and Field 40 Subdivisions are sold and allocated to the low income earners.

Due Diligence Study

The Authority continued to move closer to fulfilling its new vision to become self sufficient by December 2006. A Due Diligence Study was undertaken and completed in 2005 by the accounting firm of KPMG. This Study assessed the Authority's readiness to operate without

government support in the commercial housing loan market. However, the Study revealed that the Authority is not yet ready to make this leap. Indications were that it may take another one to two years to achieve this vision.

Information Technology System

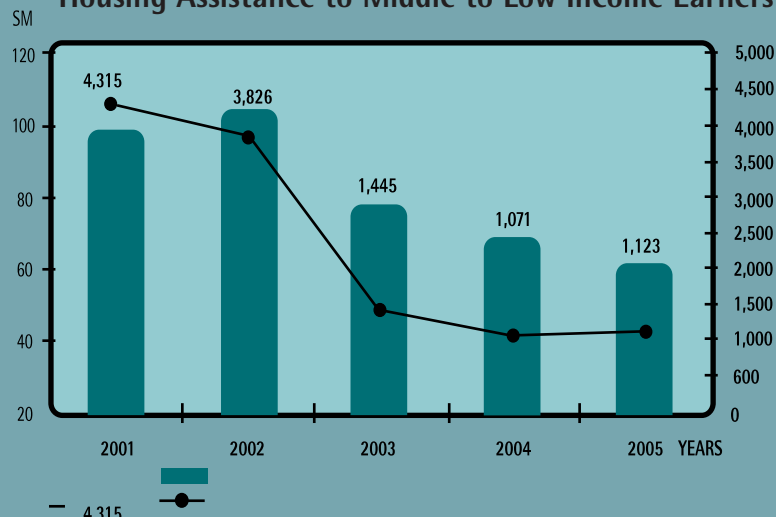
The implementation of our new IT system commenced towards the end of 2005 following the signing of a contract with Larson & Toubro Infotech Limited; an Indian-based company which will supply new accounting and lending software.

This project is a very important investment and a key strategy for the Authority to compete and be efficient in the future. The new system will help ensure that the Authority delivers effective and efficient service to its customers and track delinquent customers. With this new system, we will also be able to grade our loans in accordance with Reserve Bank guidelines and pursue our medium-term goal to acquire a Savings Deposit License from the Reserve Bank.

Housing Development

Because of the continuous delays and problems faced with our engineering consultants over the past ten years, the Housing Authority Board took a major decision in November 2005 to re-establish the Land Development Division. The Division had originally been closed down in 1996 because it was felt that out-sourcing would be more efficient. This has not proven to be the case.

Housing Assistance to Middle to Low Income Earners



The re-established Division will be called Housing Development and will operate with about ten professional staff members and be headed by a Project Manager. The Division's primary objective will be to acquire, design, develop and construct houses on all future developments.

The Division is expected to enter into joint ventures with the private sector and lenders for funding and to undertake housing developments projects. The Division is expected to be fully operational by the second quarter of 2006.

Finance Review

A Review was also commissioned and completed during 2005 with the objective to ensure that the Finance Division operates efficiently and effectively to support our core business. The Review revealed deficiencies in some key areas of operation, including staffing. The implementation of the findings will be completed in the first quarter of 2006.

Human Resources

The Authority views its human resources as its biggest asset and our strategies and plans are outlined in the Employment and Industrial Relations Plan approved by the Board, Line Ministry and Ministry of Public Enterprises.

Throughout the year, considerable training was conducted to improve performance, create attitudinal change and to further develop our professional staff. This staff development included overseas training for Management staff as well. There were no unresolved industrial disputes in 2005. Management continued to work closely with the staff and the union to resolve any matters of concern and to hold discussions on a regular basis.

Insurance Services

The Authority continued to provide its customers mortgage protection and property insurance under a group policy. This arrangement enabled a total of our 10,610 mortgage customers to enjoy a

very competitive insurance premium for both the covers. Insurance cover was reviewed annually through our brokers, Marsh Ltd and premiums remain unchanged from that of 2004.

During the year, Dominion Insurance Ltd responded to 5 fire claims and 1 property damage claim and these claims amounted to \$243,036. In respect of mortgage protection insurance claims due to loss from death or total permanent disability, the loss ratio for the year was 70%. Apart from the above claims, the Authority also processed claims relating to its vehicle fleet.

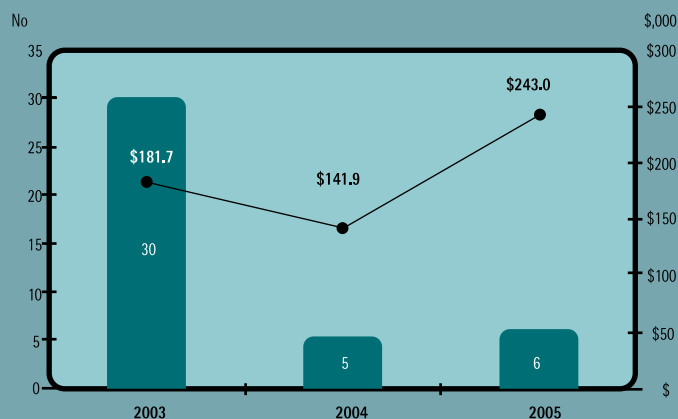
Performance Management System

A new Performance Management System was implemented for the first time in 2005. Methodology for this new system was endorsed in 2004 by the Union as well as the Board and Management. For performance appraisals, the new system takes into consideration the corporate performance, individual staff performance and their behaviour. The

Mortgage Protection Insurance Claims



Material Damage (Fire) Insurance Claims



performance management system would be reviewed next year.

Land Development

The development of land for the Authority's many projects was disappointing throughout 2005. All of our projects were delayed, including Field 40 and Waila 3B. Both of these projects were delayed by over 12 months despite efforts by Management to push the Consultants and Contractors. Waila 3B was physically completed in 2005 but the lot plans would be approved early next year. First priority shall be given to squatters facing eviction and PRB tenants at Raiwai and Raiwaqa. Other projects in the design and scheme planning stages handled by our consultants were also significantly delayed. These delays included the Scheme Plans for Waila Housing City (4,000 lots), Savusavu

(70 lots), Tavua (200 lots), Ba (90 lots) and Tacirua East (1,000 lots). The major reasons for the delays were the inability of our consultants to perform, despite considerable efforts taken by Management.

The Authority also formulated its 5-year Land Development Program in 2005, which will now be reviewed annually.

Land Acquisition

The Authority can only develop more Sub divisions in the future to meet demand if it can acquire suitable land now. In 2005, there were considerable delays in acquiring new land from both the Lands Department and the Native Land Trust Board.

In 2006, we hope to finalize plans and obtain development leases from Lands

Department for land in Wainibuku (60 acres), Vatuwaqa (10 acres), Caubati (25 acres). Land acquisition talks and plans are also underway to acquire 400-500 acres of land between Momi Bay and Natadola. On this site we plan to develop more than a 1,000 housing lots to house the hotel workers and others that are expected to work at various hotel related activities in this area.

This is a new initiative to support the tourism industry. Other sites that are being considered for similar development are along the Coral Coast and Sigatoka. The Authority is also working closely with the developers of Yaqara Studio City. Discussions are underway to develop sub-divisions for the construction of houses for the many people who are expected to work at Studio City in the future.

New Court House

During 2005, the Authority received expressions of interest from the Public Service Commission (PSC) and Ministry of Justice for the construction of a new courthouse in Nasinu. Preliminary work began in 2005 and Government has now committed to rent the building for 20 years. The new building will house the new court, which will include the Family Court, Director of Public Prosecution's office, an Administration Office, Prosecutor's Office, etc. The building is expected to be constructed during the 2nd quarter of 2006. For the future, the Authority may develop more office buildings, which will help diversify its income base to support low-income workers. The PSC currently rents our Training Building Complex to house the Nasinu Court.

5-YEAR LAND DEVELOPMENT PLAN

YEAR	DEVELOPMENT	LAND AREA	LOCATION	NO. OF LOTS
2005	Waila - Stage 3B	15	Nausori	466
	Balawa - Stage 2	2.2	Lautoka	30
	TOTAL	17.2		496
2006	Namosau - Stage 2	4.39	Ba	83
	Nagere - Stage 2	2.45	Savusavu	53
	Koronisalusalu	13.03	Tavua	210
	TOTAL	19.87		346
2007	Tacirua East 2 - Phase 1	21.00	Suva	500
	Waqadra Stage 2 - Phase 1	19.40	Nadi	330
	Tacirua East 2 - Phase 2	6.50	Suva	65
	Nepani Flats	16.19	Nasinu	340
	Wainibuku Subdivision	25.10	Nausori	242
	TOTAL	88.18		1,477
2008	Tacirua East 2 - Phase 3	23.00	Suva	500
	Natadola/Momi Residential	15.00	Nasinu	200
	Waila City - Stage 2	30.00	Nausori	600
	Vatuwaqa Foreshore	8.50	Suva	175
	Matawaluwalu	10.20	Sigatoka	150
	TOTAL	86.70		1,625
2009	Tacirua East 2 - Phase 4	13.00	Suva	150
	Savunawai	30.00	Nadi	600
	Covata Residential	5.00	Labasa	200
	Waila City - Stage 3	35.00	Nausori	800
	TOTAL	83.00		1,750
	GRAND TOTAL	294.96		5,694

Corporate Planning

The Housing Authority Board, Management and staff representatives participated in a combined workshop at an outside venue, to revise and formulate new strategies for the Authority's 2006-2008 Corporate Plan. Divisional Work Plans were also discussed during the weekend, including Corporate and Divisional targets for 2006. Management meets monthly to monitor business performance and discuss new strategies.

Public Relations and Marketing

During 2005, Management worked hard to maintain the Authority's good public image and improve Corporate Profile. We were happy to note that there were no adverse reports in the media. To help achieve this image, the Authority issued press releases from time to time and was happy with responses to the Authority's activities and its services.

Audit

In accordance with the Financial Management Act (17 of 2004) and with effect from 1st January 2005, the Authority's financial accounts were audited by the Auditor General. Internal Audits were carried out by G. Lal & Company on a quarterly basis. Issues raised by the Internal and External Auditors were acted upon by the management and overseen by the Board's Sub-Committee responsible for Finance, Audit & Risk Management.

Risk Management

The Authority intends to carry out a risk management analysis throughout the organization to identify, evaluate, treat,

communicate and monitor risk affecting its business and in so doing, formulate a policy for the Authority.

The Year Ahead

Competition in the Home Loan Market is expected to grow in future and the Authority can only compete and provide affordable housing if it is able to secure cheaper funds for its development and mortgage lending. The Banks are encroaching into our core market with high levels of refinancing experienced in recent years. However, we are optimistic of our future which will enable us to face these challenges from a position of strength build up over the past few years.

Our interest rates have been the lowest in the market and we have continually strived to reduce our operating cost and weighted average cost of fund but have little scope to reduce it further. Nevertheless, we will continue to closely monitor and review every controllable cost item and income opportunity to sustain and/or improve performance in the medium term.

In this regard, I must thank my management team and staff for their contribution in yet another record year and will count on each one of them in the years ahead.

Finally, I wish to express my gratitude to the Board Chairman, Members of the Board and the Ministry of Housing, Finance and Public Enterprises for their continued support and direction during the year.



Alipate Naioresui
Chief Executive Officer

A \$2.49m operating profit was recorded for 2005, which is a remarkable achievement given the social objectives the Authority strives to achieve.



JAGDISH PRASAD
Manager Corporate Governance/
Board Secretary

Customer Relations Division



MICHAEL LEE
General Manager
Customer Relations/Land
Development

The primary focus of the Customer Relations Division during 2005 was to improve the delivery of quality loan products by providing a prompt and more efficient service to our customers. The Division also improved in its

provision of loans to low income earners, and increased its use of marketing tools to increase market share.

RESIDENTIAL HOME LOAN

The Authority's ability to compete in the highly competitive Home Loan market received a tremendous boost in 2005 with the introduction of a dramatic new product called the "Crystal Package." This package offered the public the lowest interest rates available in the market for new home loans. The fixed interest rate was reduced to 3.99% for the first 18 months of the loan and 7.99% variable thereafter. Table 1.0 shows the reduction in interest rates offered by the Authority over the past 6 years.

Fees and Charges

By continuing to offer the lowest loan fees and charges in the market, the Authority was again able to attract considerable interest in its home loan packages. The total loan fees collected for 2005 amounted to \$628,000. This

fees exceeded our projections by 112%. This increase was made possible through various projects carried out during the year and the Authority's improved fee collecting system.

Land Sales

The sale of lots in the Lautoka Field 40 Subdivision, which had been developed in 2004, was introduced in 2005. A total of 35 lots were sold from this Subdivision alone. Towards the end of 2005, the civil works for the Waila 3B Subdivision were completed and lots in this Subdivision will become available for sale in the first quarter of 2006. The lots at the Waila 3B Subdivision have already been pre-allocated for Public Rental Board tenants as well as those living in squatter settlements within Suva.

Loans Approved

Assisting low income earners in the country continued to be a top priority for the Authority in 2005. The number of Village Loans provided during 2005 was nearly double that of 2004, and ten times the amount provided in 2003. To broaden its income base, the Authority's loan assistance has now been extended to all income levels. Table 1.1 shows how, although the number of cash loans has decreased in 2005, the value of those loans has nearly doubled.

LOW INCOME FOCUS

The increase in the number of Low Income earners assisted in 2005 also demonstrated the Authority's focus on people living in this Low Income bracket. In total there were 1,123 Low Income clients assisted during the year which is equivalent to 50.31% of all those assisted. To be in line with its

1.0 Interest Rate Movement

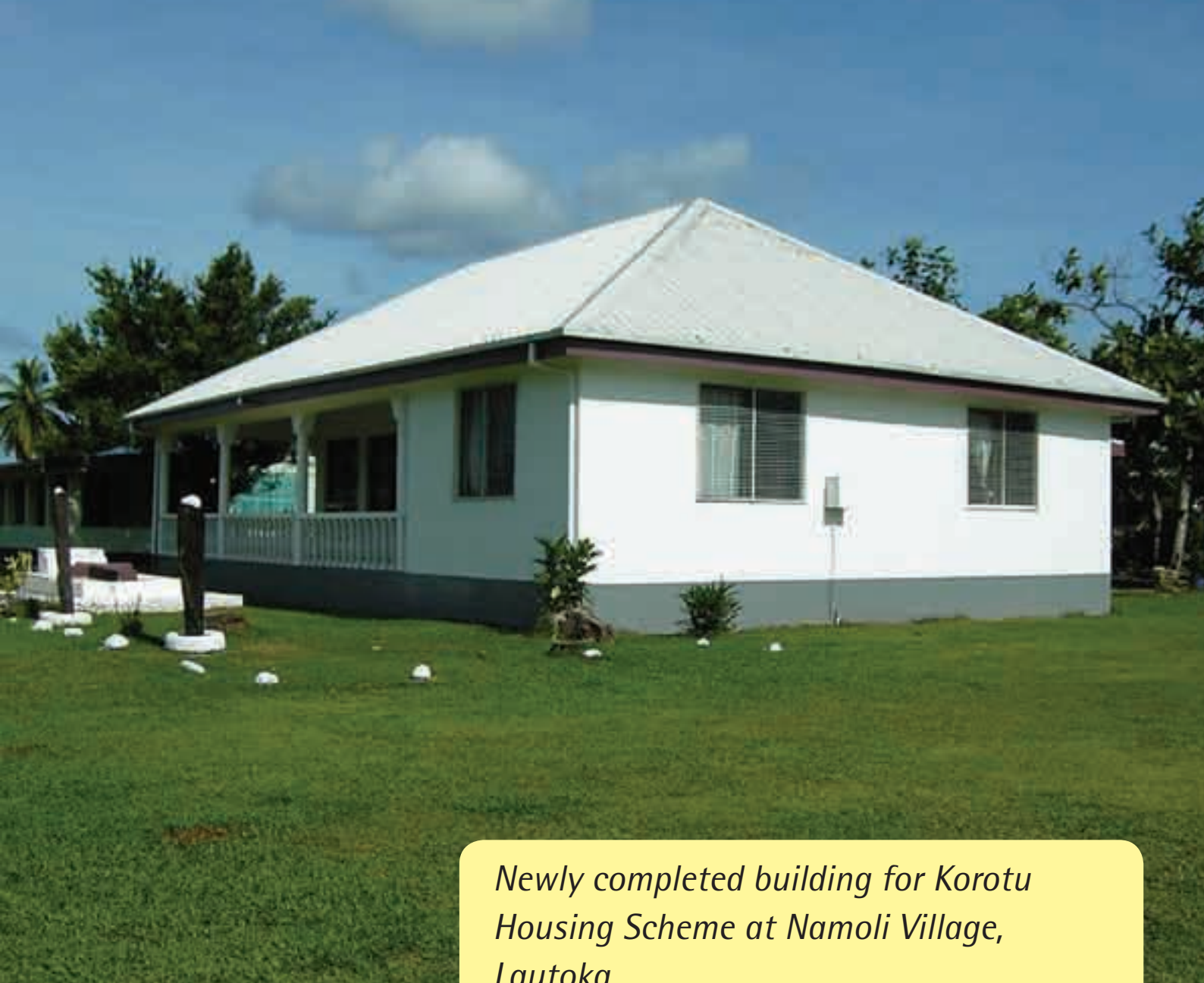
Year	Fixed Rate	Variable Rate	Fixed Rate for Low Income****
2000	9.50% *	11.5%	6.0% (5 years)
2001	5.99% **	8.35%	5.99% (5 years)
2002	5.99% **	8.35%	5.99% (5 years)
2003	4.45% **	7.99%	4.45% (2 years) 5.99% (3 years)
2004	4.45% **	7.99%	4.45% (2 years) 5.99% (3 years)
2005 (from September)	3.99% ***	7.99%	3.99% (1.5 years) 5.99% (3.5 years)

* Fixed for 1 year only

** Fixed for 2 years

*** Fixed for 1.5 years

**** Variable Rate 7.99%



Newly completed building for Korotu Housing Scheme at Namoli Village, Lautoka.

1.1 LOANS APPROVED (2003 – 2005)

PRODUCTS	2005		2004		2003	
	No	Value(\$)	No	Value(\$)	No	Value(\$)
Cash Loans	979	24,898,880	564	13,758,809	703	14,568,670
Village Loan	56	2,393,101	27	1,138,248	5	395,000
Personal, Quick Repair and Car Loans	1,162	2,453,781	1,267	2,656,325	1,074	3,059,002
Home and Land Sales	35	494,000	130	4,982,350	37	610,187
Total	2,232	30,239,762	1,988	22,535,732	1,819	18,632,859



Customer Relations Team: L-R Mikaele Tupua - Land Development Engineer, Aminio Tamani - Manager Customer Relations-North, Eapi Nabou - Manager Customer Relations-Central, Leonard Kwansing - Manager Customer Relations-West and Isikeli Navuda - Manager Land Development

Memorandum of Understanding with the Government, the Authority must ensure that at least 50% of the clients it assists are in the Low Income bracket. This requirement was achieved.

VILLAGE HOUSING LOAN SCHEMES

The Village Housing Loan Scheme continued to assist those staying in villages by helping upgrade their standard of living. The Government assisted those in the scheme by subsidising interest rates by up to 2% when the individual income of scheme members was below \$6500 per annum. 56 schemes were assisted in 2005 with interest subsidies provided by the Authority totaling \$158,000. A total of 86 village housing loans, amounting to a total of \$9m, were provided in 2005. Additional loans of \$2.4m were also approved during the year.

MARKETING

The Authority continued to conduct group and direct marketing activities to attract customers in 2005, carried out by the Authority's Customer Relations Mobile Team. Some of the other activities to increase awareness of HA products and services included the construction of six large billboards along the main roads in Valelevu, Muanikoso, Davuilevu, and Nadawa in Suva, and at Field 40 in Lautoka. Another billboard was installed at the Bowling Club in Suva.

In addition to the billboards, TV ads, radio spots, posters and newspaper supplements were also created to help market the Authority's products. Taxi advertising was also utilised, which brought the message of the "Crystal Home Loan" package to urban and residential areas in Suva.

NEW PRODUCT

The Authority achieved a milestone in 2005 by launching the lowest interest rate package on the market with the introduction of the "Crystal Home Loan" package in September 2005. This package offered an interest rate of 3.99% for the first 18 months with a variable rate of 7.99% for the rest of the loan term. This highly competitive interest rate demonstrated the Housing Authority's commitment to provide home loans to those from every income level.

Michael Lee
General Manager Customer Relations/Land Development

Lending Division



BAIJ MAHARAJ

General Manager Lending

As at 31 December 2005, there were 21,048 customer accounts. Performing lending portfolio stood at 124.3m compared to \$122.5m in 2004. Tailored

approvals have resulted in a net growth of 18.8% in the Authority's performing portfolio. This growth is in line with Lending Division primary functions which consists of approving and maintaining a profitable and performing loans portfolio for Housing Authority.

The Approvals department is responsible for approving quality loans strongly based on their probability of default, security coverage and repayment capacity. The Approval's team ensures that, for all loans, there is a "second way out". Continuous improvement programs, coupled with ongoing training, coaching and guidance helped identify problem areas and roadblocks. To enhance and improve customer satisfaction in 2005, the Division initiated process changes, restructured work areas and implemented other workable solutions to achieve efficiency.

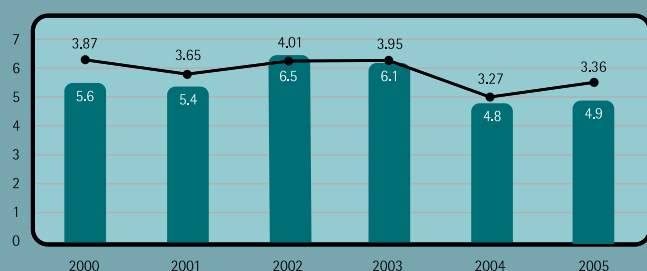
Prior to a loan being processed, new and existing loan applications are screened by Data Bureau Limited. The Authority was also able to maintain high customer satisfaction levels by approving most loans within a 24 hour period. Loan values also improved in 2005, with \$30.24m approved in 2005, compared with \$22.52m in 2004.

Mortgage Portfolio

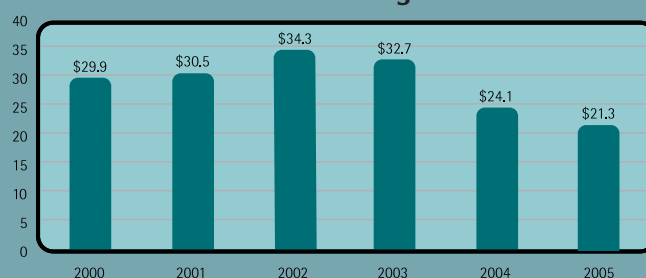
Housing Authority continued to focus on re-structuring non-performing loans in 2005. The total mortgage portfolio at the end of the year was \$145.5m, compared to \$147m in 2004. The bar graph below illustrates the trend for non-performing loans over the last six years.

Non-performing loans reduced to \$21.3m in 2005, from \$24.7m in 2004. That represents a reduction to 14.6% from the previous 16.6%, although

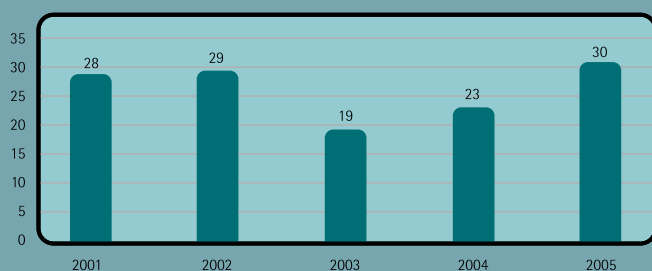
Arrears



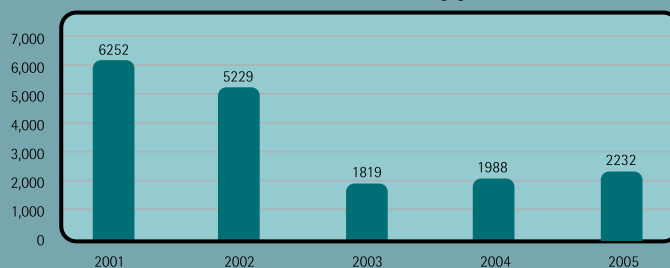
Non Performing Loans



Total Loans Approved



Total Number Approved



the target was 10%. \$6.1m of these non-performing loans is related to Matavolivoli Subdivision in Nadi. Every house in Matavolivoli was inspected, a costing has been done and an agreement has been reached to repair the houses and restructure the individual debts in 2006. The poor debt servicing of loans was mainly due to job losses and matrimonial problems for the homeowners. Following its goal not to evict tenants, the Authority continued to take innovative actions to meet its social objectives. Various Home Retention Schemes were also implemented.

Home Ownership Plan

The Home Ownership Plan was introduced in 2005 to assist those debtors who were unable to meet their financial commitments. Debtors unable to pay their mortgage were affected by old age, retirement, loss of income, sickness and there were those who had repaid their debts three or more times over their original borrowing. In total, 71 debtors were assisted with a total portfolio of \$1.4m.

Poverty Alleviation Scheme:

The Authority continued to assist low income earners whose total household income did not exceed \$6,500 per annum through interest subsidy. Both individual homeowners and those in the Village Housing Scheme enjoyed an interest rate of 5.99% per annum on their mortgage loans instead of the variable interest rate of 7.99%. 381 families benefited from this scheme in 2005 for a total portfolio of \$2.5m. An additional 56 village housing scheme customers benefited from this subsidy for a total portfolio of \$4.5m.

Write-offs

A total of \$1.8m of doubtful and insolvent debts were written off from the Authority's books during 2005.

Arrears & Non-Performing Loans

Mortgage arrears stood at \$4.9m at 31 December 2005 or 3.36% of the Authority's total loan portfolio although the target was \$4.4m or 3.0%. This resulted in an improvement of \$0.5m or

0.3% over 2004 as shown on page 21 of this Report.

Social Responsibility

The Authority was able to fulfil part of its social objectives by assisting low income earners from the 2005 Government Grant allocation of \$1.0m. Details of this assistance provided are provided in the table below.

Legal Services

A complete legal solution is provided to the Authority's customers. Part of the department's daily operations include conveyances and settlements at the Registrar of Titles Office, Fiji National Provident Fund transfers and documentation and consent to dealings and litigations.

The Legal department was also able to generate additional income through the preparation of Probates, Wills, Power of Attorney, Tenancy Agreements and Contract documents. Producing legal documents in-house gave the Authority a competitive edge, enabling legal fees

Years	2005			2004		2003	
Utilized For	No. Assisted	Amount Utilized	Amount Un-utilized	No. Assisted	Amount	No. Assisted	Amount
1. Interest Subsidy – Low Income Earners (earning below family household income of \$6,500 pa)	381	\$61,473	\$18,527	457	\$70,664	457	\$77,354
2. Interest Subsidy - Village Housing Scheme (Mataqali member earning below family household income of \$6,500 pa)	3,907	\$158,506	\$61,494	5,734	\$191,144	3,302	\$235,149
3. Home Ownership under Deferred Payment Plan/ Poverty Alleviation Scheme	17	\$111,889	-	63	\$177,475	288	\$1,233,881
4. Land Development Subsidy for Low Income Earners and Squatters	-	\$323,730	\$116,270	220	*\$449,606	164	\$231,394
5. Balawa Land Subsidy	-	-	\$37,000	-	-	-	-
6. VAT PAID		\$111,111	-		\$111,111		\$222,222
Total	4,306	\$766,709	*\$233,291	6,474	\$1,000,000	4,211	\$2,000,000

* \$233,291 – this amount will be utilized in 2006.



Lending Team: L-R Isireli Vesikula - Manager Legal Services, Ajay Singh - Manager Special Projects (Recoveries) and Muazzan Razak - Manager Credit Management

to be kept to a minimum. No legal fee is charged for any loans that the Authority refinances from its competitors.

Fiji National Provident Fund

732 customers were assisted through the transfer of their Fiji National Provident Fund monies in 2005. Although the target was \$4.8m, the Authority actually received \$5.2m.

Litigation

Litigation was brought against 61 of the

Authority' customers, and the amount that would be recovered was first weighed against the administrative costs to the Authority before proceeding.

Stakeholders

Monthly stakeholder meetings were held between the Authority and the Registrar of Titles, the Native Land Trust Board and the Fiji National Provident Fund. These meetings were held to improve the efficiency of loan approvals, preparation of legal documents and the transfer of funds.

Human Resource Development

The further development of Division staff continued in 2005, with in-service training, mentoring and daily guidance provided. The goal is to provide the Authority's customers with more efficient and professional service.

Baij Maharaj
General Manager Lending

Finance & Administration Division



MAMATUKI ITAUTOKA
General Manager Finance &
Administration

The Division's primary role is to provide prudent financial management to support all business activities and operations of the Authority. The Division prepares budgets and financial forecasts, manages cash flow, provides timely and accurate management and financial reports, and manages the corporate information technology and human resources of the Authority.

Revenue

Despite selling properties in Lautoka at losses in excess of \$100,000, the Authority's revenue continued to increase in 2005. This increase was achieved through the additional services in valuation of properties and the continued writing back of interest suspended as accounts became good. Interest from short-term investments provided additional increases.

Expenditure

Administration Expenses were well contained in 2005 despite an increase of 6.57% in the total operating expenses over 2004. This increase was primarily due to the various consultancy services used during the year to prepare the Authority for its financial independence.

Payroll and other related Expenses

Payroll increased by 7.9% in 2005 after allowing for salary adjustments and bonuses paid at the end of the year. Officers who were engaged on a short term basis also achieved good results on some of their specialised activities. This strategy will be continued in 2006 for ensuring the data to be migrated into the new IT is clean.

Administration Expenses

Achieving savings in administration expenses was at the forefront of the Authority's Strategic Plan to operate efficiently in 2005. Whilst savings were achieved in some expenses, a total increase of 5.3% or \$202,000 was achieved. A similar amount was overspent in the 2004 fiscal year.

Finance Management

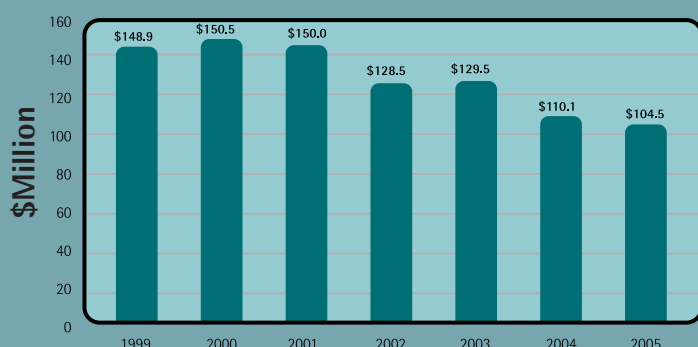
In order to strengthen the functions and effectiveness of the department, a Finance Review was carried out by the accounting firm of KPMG. Their findings and the solutions they recommended were implemented. A restructure of the department was carried out as part of their resolutions. The hiring of suitably qualified middle management staff was also carried out. A specialist was hired to handle bank reconciliations resulting in a marked improvement in the department's performance in this area.

Recognising that there is a weakness in the calibre of the Authority's finance staff, 2006 has been earmarked for further professional development.

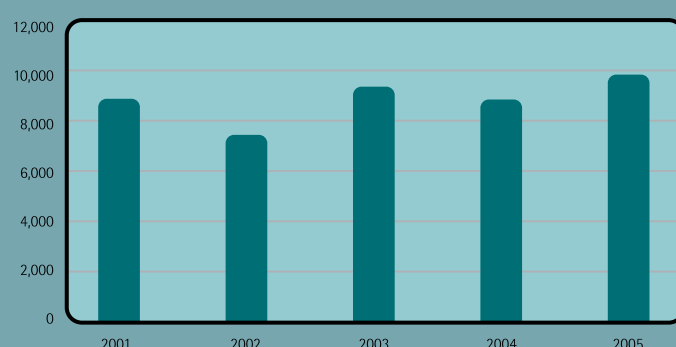
Borrowing Portfolio

The borrowing portfolio for the Authority stood at \$104.5m at the end of 2005.

Borrowing Portfolio



Revenue



This consisted of \$13.73m in long-term loans from FNPF and bonds from various other institutions totalling \$90.8m. FNPF continued to be the largest lender of Funds to the Authority.

Early Redemption of expensive bonds

Surplus cash in the financial markets had forced the commercial banks and other financial institutions to vastly reduce their interest rates on borrowings in order to attract customers. The Authority took this opportunity to pre-pay or early redeem \$3.4m of its expensive bonds. These bonds had interest rates varying from 6.9% to 8.4% which were re-structured down to interest rates of 2.9% to 5.1%.

In the process, the Authority realised savings of \$216,000 in interest costs. This directly contributed to the bottom line. This strategy will continue to be followed in 2006.

As a flow-on effect from the early redemption of \$3.4m in bonds, the Authority was able to achieve a Weighted Average Cost of Capital (WACC) below 6.0% at around 5.0%.

The WACC marginally decreased from 5.36% in January 2005 due to minimal new borrowings of \$3.0m in December which attracted increased interest rates that ranged from 2.9% for 3 year bonds (2.15% in 2004) to 5.1% for 6 year bonds.

As part of the strategic goals of the Authority, the cost of funds are to be continually reduced in order to sustain the competitive lending rate of 3.99%

for the first 18 months and 7.99% thereafter.

Information Technology

The IT Department continued to improve its IT Infrastructure Services by upgrading Email and Internet Services by deploying redundant built and fast servers. It also replaced its internet and email connectivity from slow dial-ups to Wireless Broadband enabling efficient and reliable communication to and from its existing and potential customers and other stakeholders.

The department together with an external project manager, business champions and managers compiled a requirements document to form the basis for identification and selection of a best fit Lending and Accounting Financial Information Systems. The new Lending and Accounting Financial Information System is expected to improve customer service in terms of efficient and timely information availability together with improved business processes.

The department also carried out feasibility studies on various projects such as Standardisation of Software Operating Environment together with

Voice over Internet Protocol (VoIP) Implementation to ascertain return on investment before embarking on actual project implementations

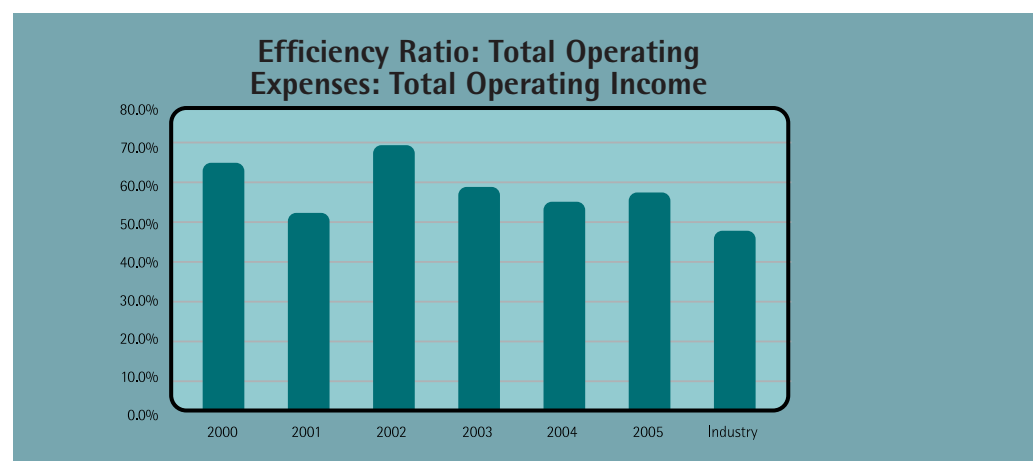
The department also continued to replace its existing dumb terminals with desktop computers enabling staff and management to have access to various tools and services available with these computers.

Estates and Physical Resources

The lifts in the Authority's headquarters, which were installed in 1976, were old and required a major overhaul. This work was awarded to the firm of AP Lifts in late 2004. It was expected that the newly fitted out lifts would be commissioned in April however, this was not completed until December 2005.

As part of cost cutting measures, office services that were awarded in 2004 continued to be reviewed for performance under the terms of their three-year contracts.

Refurbishment of the Valelevu office was deferred to 2006. This exercise was expected to begin in December and will improve the Authority's image, bringing it up to the standard of other new





Finance & Administration Team: L-R Rajeshwar Prasad - Manager MIS, Sairusi Komainavoka - Manager Special Projects (Administration), Asaeli Tokalau - Manager Human Resources & Training and Sakiusa Navunilawa - Manager Finance

buildings in Nasinu township. However, this refurbishment was further delayed after the Project Supervisor informed the board of the bad state of the service ducts. May 2006 is the new target.

The Authority continued to act as the managing agent for the Strata Units (Edenville, Cakau Estate, Rogi Place and Vesida). These four estates have 208 units. Major repairs and maintenance for all of the units, totalling \$200,000, has been earmarked to begin in 2006. Following this work, a corporate body will be formed to manage these estates.

Human Resource Development

2005 was challenging and exciting for the Human Resources department due to the rapidly changing labour environment, the manual system of record keeping

and the reduction in staff numbers. Following the Job Evaluation Exercise in 2003 and the alignment of remuneration to the Banking and Finance Sector levels, a new Performance Management System (PMS) was formulated. This new PMS was accepted by the union and adopted in 2005. However, there were a few problems that had to be addressed and a further testing of this PMS will be done in 2006.

The Authority believes that the systematic training of its staff is one of the key factors towards achieving its corporate goals. The Authority continues to change its corporate culture in order to respond rapidly to the changing needs of the community and developments in the housing market.

Training

Training programs adopted a competency based approach. To be fully competent, one must have the knowledge, be able to apply it and have the behavioural attitude. The courses taken and/or designed so that they address the competency gaps identified.

In 2005, a total of 82 in house courses were conducted earning 14,496 training hours compared to 4,836 hours in 2004 and a total of 1,123 persons attended compared to 790 persons in 2004. The total costs for training increased by a little over \$100,000 to \$241,000 in 2005. In 2006, selective training will be pursued and a lot of emphasis will be on Human Resource Development.

Staff Numbers

Staff numbers continued to reduce during 2005. By December, the total number stood at 134 permanent employees. The target to reduce staff numbers to 120 by the end of 2005 was not achieved but this will be revived with vigour in 2006. The staff numbers represent 17 Management employees and 117 who are non-management.

In 2006, the Human Resources department will concentrate on targeted training as well as improving on productivity using the experiences of Vodafone. Quality Control Circles began operating in 2005, but they are expected to be introduced in a more significant way in 2006. Housing Authority will pursue the Fiji Business Excellence Awards in 2006.

Industrial Relations

The promotion and improvement in staff relations was enhanced in 2005 through the introduction of regular monthly meetings conducted by management. These meetings aimed at informing staff of developments within the Authority. To achieve more harmonious industrial relations, meetings with the union representatives were held on a fortnightly basis. Some of the issues resolved included engaging Administration Officers as permanent staff; issues regarding duty allowances, job evaluation appeals and the day-to-day concerns raised by the union.

The union submitted a Log of Claims towards the end of the 2005 asking for a salary adjustment of 5% for 2003 and 6% for 2004. Discussions with the union started in December but could

not be finalised until a new board was appointed for the Authority. In 2005 The Union and the Authority agreed to pay the log of claims in the following manner:

- 2% increase in the Median of the Banking & Finance Market for 2003
- 2% increase in the Median of the Banking & Finance Market in 2004
- 1% increase in the median of the Banking & Finance market in 2005

A new Job-Fit System was also introduced in 2005. This ensured that an employee's placement would be based on their experience, qualifications and their performance of the previous year. New evaluation factors were also adopted which included an individual performance plan.

Medical insurance cover was also put in place for the Authority's staff for 2005 - 2007. This cover included local hospitalisation, unlimited outpatient care, and a term life cover up to \$25,000.

The improved communication with employees will continue in 2006, to continue the relationship between management and staff.

Sports & Social Activities

The Authority recognises its role as a responsible employer in ensuring its workers are healthy, and this includes having fun in the work place too. Towards this end, Sports and Social activities were revived in 2005. A Family Fun Day was held in July for all Authority employees and families. Management and Staff were divided into 4 teams each (with teams named after local birds)

headed by the CEO and the General Managers. The Kikau team won five of the seven trophies during the Day.

Other fun activities during the year included business house competitions. The Authority participated in business house competitions for basketball, volleyball, bowling and soccer. Internal "get fit" programmes were also introduced, which included aerobics, walking, soccer, touch rugby and volleyball. The Authority also recognised significant religious holidays by inviting outside guest speakers.

The Authority took part in the following religious and national events: Easter, Diwali, Holi, Prophet Mohammed's Birthday, Mother's Day, Women's Prayer Day, Ratu Sukuna Day, Fiji Day and the annual Methodist Conference choir competition.

In 2006, the Authority again expects to support these activities. It also plans to assist our former Housing Authority Estates by undertaking community work in those areas.



MAMATUKI ITAUTOKA
General Manager Finance & Administration

FINANCIAL STATEMENTS **2005**

Director's Report **29** Auditor's Report **30** Income Statement **31** Balance Sheet **32** Statement
of Changes in Equity **33** Statement of Cash Flows **34** Notes to the Financial Statements **35**
Comparative Financials 1997 - 2005 **53**

Housing Authority

Directors' Report

The directors present their report together with the financial statements of Housing Authority ("the Authority") for the year ended 31 December 2005 and the auditors' report thereon.

Directors

The directors of the Authority at the date of this report were:

Director	Appointed	Served Until
Mr. Sada Reddy (Chairman)	01 December 2000	-
Mr. Olota Rokovunisei	Pre-1999	-
Mr. Cama Tuiloma	01 January 2004	-
Mr. Vishnu Deo	01 December 2002	-
Rev. Sereima Lomaloma	01 December 2002	-
Mrs. Elenoa Gonelevu	01 February 2005	-

Principal activities

The principal activities of the Authority during the course of the financial year were to provide affordable housing through the development of land and houses for sale and the financing of these properties. There was no significant change in the nature of the activities of the Authority during the year.

Operating results

The operating results for the Authority for the year ended 31 December 2005 was:

	2005 \$'000	2004 \$'000
Operating profit before income tax	2,487	2,067
Income tax expense attributable to operating profit	-	-
Operating profit after income tax	2,487	2,067

Dividends

The directors recommend that no dividends be declared or paid during the year.

Reserves

The directors recommend that no amounts be transferred to or from reserves.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Authority, to affect significantly the operations of the Authority, the results of those operations, or the state of affairs of the Authority, in future financial years.

Dated at Suva this 26th day of April 2006.

Signed in accordance with a resolution of the directors:



Sada Reddy
Chairman



Vishnu Deo
Member



Independent Auditors' Report to the Members of **Housing Authority**

Scope

I have audited the financial statements of the Housing Authority in accordance with the provisions of caption 267 of the Housing Act and the Housing (Amendment) Decree (1989) in the manner so required and section 13 of the Audit Act. The Authority is responsible for the preparation and presentation of the financial statements and the information they contain.

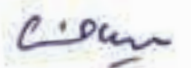
I have conducted an independent audit of these financial statements in order to express an opinion on them.

My audit has been conducted in accordance with Fiji Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. Procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Fiji Accounting Standards and statutory requirements so as to present a view which is consistent with my understanding of the Authority's financial position, the results of its operations and its cash flows for the year then ended.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In my opinion, the accompanying financial statements, present fairly the financial position of the Authority as at 31 December 2005 and the results of its operations and its cash flows for the year ended on that date.


Eroni Vatuloka
Auditor-General
Suva, Republic of Fiji Islands



Income Statement for the year ended 31 December 2005

	Note	2005 \$'000	2004 \$'000
Income			
Interest income	2	10,921	10,674
Interest expense	4	(5,667)	(6,219)
		<hr/>	<hr/>
Net interest income		5,254	4,455
Other operating income	3	6,668	6,456
		<hr/>	<hr/>
Total operating income		11,922	10,911
Staff costs	5	(3,949)	(3,659)
Bad and doubtful debts		(1,464)	(1,365)
Other operating expenses	6	(4,022)	(3,820)
		<hr/>	<hr/>
Operating profit before income tax		2,487	2,067
Income tax expense attributable to operating profit	1(k)	-	-
		<hr/>	<hr/>
Operating profit after income tax		2,487	2,067
		<hr/>	<hr/>

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 35 to 52.

Balance Sheet

as at 31 December 2005

	Note	2005 \$'000	2004 \$'000
Assets			
Cash		3,095	2,347
Investments	7	1,000	5,011
Loans	8	131,662	132,201
Stock	9	13,299	10,823
Land held for future development	10	1,490	2,003
Property, plant and equipment	11	5,272	5,333
Other	12	511	977
Total assets		156,329	158,695
Liabilities			
Borrowings	13	104,533	110,123
Employee entitlements		430	409
Provisions	14	1,062	606
Other	15	6,515	6,255
Total liabilities		112,540	117,393
Net assets		43,789	41,302
Capital and reserves			
Capital		41,772	41,772
Government grant		15,958	15,958
Reserves		4,212	4,212
Accumulated losses		(18,153)	(20,640)
Total capital and reserves		43,789	41,302
Commitments and contingent liabilities	17,18		

Signed in accordance with a resolution of the Board:


Chairman


Member

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 35 to 52.

Statement of changes in equity for the year ended 31 December 2005

	Note	2005 \$'000	2004 \$'000
Capital			
Balance at start of year		41,772	41,772
Movements during the year		-	-
Balance at end of year		41,772	41,772
Government grant			
Balance at start of year		15,958	15,958
Movements during the year		-	-
Balance at end of year		15,958	15,958
Reserves			
<i>Asset revaluation reserve</i>			
Balance at start of year		3,566	3,566
Movements during the year		-	-
Balance at end of year		3,566	3,566
<i>Asset realisation reserve</i>			
Balance at start of year		646	646
Movements during the year		-	-
Balance at end of year		646	646
Total reserves		4,212	4,212
Accumulated losses			
Balance at start of year		(20,640)	(22,707)
Net profit for the year		2,487	2,067
Balance at end of year		(18,153)	(20,640)
Total capital and reserves		43,789	41,302

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 35 to 52.

Statement of cash flows for the year ended 31 December 2005

	Note	2005 \$'000	2004 \$'000
Operating activities			
Interest received		10,732	10,091
Fees, charges and other income received		6,668	6,310
Interest and other costs of finance paid		(5,663)	(6,416)
Payments to suppliers for land and houses		(3,160)	(4,323)
Operating expenses		(5,029)	(4,963)
Cash flows from operating activities		3,548	699
Investing activities			
Receipts for investment securities		-	1,000
Net customer loans issued		(1,663)	3,137
Proceeds from sale of plant and equipment		133	38
Payments for plant and equipment		(580)	(694)
Cash flows from investing activities		(2,110)	3,481
Financing activities			
Net (decrease) in borrowings		(5,590)	(19,549)
Government grant received		889	899
Cash flows from financing activities		(4,701)	(18,650)
Net (decrease)/increase in cash held		(3,263)	(14,470)
Cash at the beginning of the financial year		7,358	21,828
Cash at the end of the financial year	19	4,095	7,358

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 35 to 52.

Notes to the financial statements for the year ended 31 December 2005

1. Statement of significant accounting policies

Housing Authority is a fully owned Government of Fiji entity domiciled in Fiji. The financial statements were authorised for issue by the directors on 26 April, 2006.

The significant policies which have been adopted in the preparation of these financial statements are:

(a) Basis of preparation

The financial statements of the Authority have been drawn up in accordance with the provisions of the accounting standards and disclosure requirements of the Fiji Institute of Accountants. The financial statements are presented in Fiji dollars, rounded to the nearest thousand. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied.

(b) Income recognition

Interest income

Interest income is brought to account on an accruals basis.

When a loan is categorised as non-performing, interest on the loan ceases to be brought to account unless received or unless the loan becomes performing.

Fee and charges

Fee income is brought to account on an accrual basis.

Income from sale of land and houses

Revenue relating to the sale of land and houses is brought to account at the time of the sale.

Rental income

Rental income is recognised in the income statement over the term of the lease and is brought to account on an accrual basis.

Gain or loss on sale of fixed assets

Gain or loss on sale of fixed assets is treated as operating income or expense.

Notes to the financial statements for the year ended 31 December 2005

1. Statement of significant accounting policies (continued)

(c) Expense Recognition

Interest expense

Interest expense is brought to account on an accruals basis.

Bad and doubtful debts

The annual charge against profits for bad and doubtful debts reflects new specific provisions, reversals of specific provisions no longer required and movements in the general provision.

(d) Cash

Cash comprises cash at hand and cash at bank.

(e) Loans

Loans represent mortgage loans, village scheme loans, quick repair loans, home loans and personal loans.

Quick repair loans, home loans and personal loans can only be obtained if the borrower has an existing mortgage loan. These loans are added to the existing mortgage loan balance.

Loans are carried at recoverable amount represented by the gross value of the outstanding balance outstanding adjusted for provisions for bad and doubtful debts and unearned income.

For mortgage loans, collateral consisting of the mortgaged properties, are obtained.

Non-performing loans

Loans are classified as non-performing if arrears relating to these loans are greater than three months. Non-performing loans are treated as non-accrual assets as reasonable doubt exists as to the collectability of principal and interest.

Provisions for bad and doubtful debts

Specific provisions

Where a loan has been identified as doubtful and the estimated repayment realisable from the borrower, including collateral, is expected to fall short of the principal and interest outstanding, a specific provision is raised. Interest revenue is not brought to account where the mortgage is considered non-performing.

Notes to the financial statements for the year ended 31 December 2005

1. Statement of significant accounting policies (continued)

(e) Loans (continued)

General provisions

A general provision of 1% on accounts not specifically provided is maintained for losses that can be reasonably be expected to arise from the existing loan portfolio but which are not yet identifiable. In determining the level of the general provision, management refers to the overall state of the economy and other factors with the potential to impact on the recoverability of loans.

(f) Stock

Land and houses

Stock, comprising land and houses is carried at the lower of cost and net realisable value. At year-end, the carrying value of unsold lots and developed properties are assessed and a provision for write-down is created where carrying values are determined to be less than net realisable value.

Developed and sub-divided lots include the cost of the land and capitalised expenses directly associated with bringing the stock to its existing condition and location.

Work-in-progress

Work-in-progress is valued at the lower of cost and net realisable value. Cost includes capitalised indirect administrative costs which are incurred as a result of land development and house construction and development interest costs on the funds used to finance the development up to the time of completion.

(g) Property, plant and equipment

Acquisition

Items of property, plant and equipment are initially recorded at cost and depreciated as outlined below.

Revaluation

Land and buildings are revalued every five years on an existing use basis of valuation and included in the financial statements at the revalued amounts.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and is included in the results in the year of disposal. Any related revaluation increment standing in the asset revaluation reserve at the time of disposal is transferred to the asset realisation reserve.

Notes to the financial statements for the year ended 31 December 2005

1. Statement of significant accounting policies (continued)

(g) Property, plant and equipment (continued)

Depreciation and amortisation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated / amortised using the straight-line method over their estimated useful lives.

The annual depreciation rates used for each class of asset are as follows:

Buildings	1.5 – 3.5 %
Plant and equipment	20 – 33.3 %
Motor vehicles	20 %
Computer equipment and software	20 %
Furniture and fittings	10 %

(h) Investment securities

Investment securities include term deposits with the intent of being held to maturity. These securities are recorded at cost or face value less unearned discount to maturity. Premiums and discounts are capitalised and amortised from the date of purchase to maturity.

(i) Borrowings

Loans are brought to account at the gross value of their outstanding balance. Bonds that have been issued by the Authority are recorded at face value with an interest accrual raised at year-end. Borrowing costs are expensed in the period they are incurred.

(j) Provision for employee entitlements

The provision for employee entitlement relates to amounts expected to be paid to employees for annual leave, sick leave and long service leave. Current employee remuneration rates are used to calculate these provisions.

(k) Income tax

The Authority is exempt from income tax under Section 26 of the Housing Act, Cap. 267.

(l) Government grant

The Government provides an annual grant to the Authority to assist qualifying customers in meeting their repayments and to subsidise the cost of developed lots. This grant is in the form of a one off rebate to customer's loan balance or an annual interest subsidy. Any grants that are not utilised at year end are shown as a liability until such time as they are applied. The Government grant takes the following forms:

Notes to the financial statements for the year ended 31 December 2005

1. Statement of significant accounting policies (continued)

(l) Government grant (continued)

Poverty alleviation scheme

Funds received from Government are applied to the loan balance of qualifying customers usually at the inception of the loan. The grant to customers is a one off rebate. There are certain criteria set for customers to comply with to be eligible for financial assistance under the scheme. Financial assistance provided to a customer is up to a maximum amount of \$5,000.

Interest subsidy

Interest subsidy is provided to customers who earn below \$6,500 per annum and to village scheme customers on an accrual basis. The difference between the prevailing interest rate and subsidised rate provided to customers are brought to account in the income statement.

Deferred payment plan

Funds received from Government are applied to the loan balance of qualifying customers once the loan has been restructured to provide existing non-performing loans with an initial reduction in repayments commensurate with their ability to meet the repayments. There are certain criteria for customers to comply with to be eligible for financial assistance under the plan. Financial assistance provided to a customer is up to a maximum amount of \$5,000.

Land development subsidy

Government subsidises the cost of developed lots to make it more affordable for qualifying customers. The subsidy is applied against the prevailing selling price. There are certain criteria set for customers to comply with in order to be eligible for assistance under this scheme.

(m) Operating leases

Payments made under operating leases are recognised in the income statement in equal installments over the accounting periods covered by the lease terms.

2. Interest income

Investment securities
Loans and advances

2005 \$'000	2004 \$'000
272	245
10,649	10,429
<hr/> 10,921	<hr/> 10,674

Notes to the financial statements for the year ended 31 December 2005

	2005 \$'000	2004 \$'000
3. Other Operating Income		
Fees and charges	4,977	4,393
Gain on sale of fixed assets	-	146
Other income	501	197
Rent	116	122
Sale of land and houses	1,074	1,598
	<u>6,668</u>	<u>6,456</u>
4. Interest expense		
Long-term loans	1,278	1,606
Bonds	4,389	4,613
	<u>5,667</u>	<u>6,219</u>
5. Staff costs		
Wages and salaries	3,413	3,286
FNPF contributions	255	227
Employee entitlements	240	85
Other	41	61
	<u>3,949</u>	<u>3,659</u>
The number of permanent employees at the of the financial year was 133 (2004: 126).		
6. Other operating expenses		
Auditors' remuneration – audit fee	19	26
– other services	61	4
Cost of sales – land and houses	793	1,310
Depreciation	398	318
Loss on sale of fixed assets	109	-
Repairs and maintenance	121	224
Stock write-downs	50	250
VAT expense	103	91
Other	2,368	1,597
	<u>4,022</u>	<u>3,820</u>

Notes to the financial statements for the year ended 31 December 2005

	2005 \$'000	2004 \$'000
7. Investments		
<i>Current</i>		
Term deposits	1,000	5,011
	<hr/>	<hr/>
The interest rate on term deposit investment is 4.30% per annum.		
8. Loans		
Mortgage loans	132,035	131,605
Village scheme loans	8,912	9,494
	<hr/>	<hr/>
	140,947	141,099
Add: Accounts with credit balances	1,099	1,778
	<hr/>	<hr/>
	142,046	142,877
Less: Provision for bad and doubtful debts	(10,384)	(10,676)
	<hr/>	<hr/>
	131,662	132,201
	<hr/>	<hr/>
Provision for bad and doubtful debts is represented by:		
Specific provision		
Balance at beginning of the year	9,035	11,002
Add: Current year charge	2,185	1,461
	<hr/>	<hr/>
	11,220	12,463
Less: Amounts written off as bad debts during the year	(1,756)	(3,428)
	<hr/>	<hr/>
Balance at end of the year	9,464	9,035
	<hr/>	<hr/>
General provision		
Balance at beginning of the year	1,641	1,737
Add: Current year charge	(721)	(96)
	<hr/>	<hr/>
	920	1,641
Less: Amounts written off as bad debts during the year	-	-
	<hr/>	<hr/>
Balance at end of the year	920	1,641
	<hr/>	<hr/>
Total provision for bad and doubtful debts	<hr/> 10,384 <hr/>	<hr/> 10,676 <hr/>

Notes to the financial statements for the year ended 31 December 2005

	2005 \$'000	2004 \$'000
8. Loans (continued)		
Included in the above are receivables expected to mature as follows:		
At call and in arrears	5,453	5,396
Not later than 3 months	5,939	6,012
Later than 3 months but not later than 12 months	16,378	16,544
Later than 1 year but not later than 5 years	60,087	60,989
Later than 5 years	58,262	58,192
	146,119	147,133
Less: suspended interest	(4,073)	(4,256)
	142,046	142,877

Mortgage loans include staff housing loans and advances totalling \$2,084,821 (2004: \$2,157,404).

Village scheme loans are secured by a combination of assignments over native lease rental monies.

9. Stock

Developed lots	6,069	1,775
Less: Provision for developed lots write-down	(189)	(242)
	5,880	1,533
Unsold properties	843	974
Less: Provision for unsold properties write-down	(226)	(235)
	617	739
Development work-in-progress	6,970	8,719
Less: Pre-sold lots	(21)	(21)
	6,949	8,698
Less: Provision for development work-in-progress write-down	(147)	(147)
	6,802	8,551
Total stock	13,299	10,823

Notes to the financial statements for the year ended 31 December 2005

	2005 \$'000	2004 \$'000
10. Land held for future development (continued)		
Freehold land		
- at cost	48	48
- at valuation	571	571
	619	619
Leasehold land – at cost	871	1,384
Total land held for future development	1,490	2,003

11. Property, plant and equipment

	Properties	Furniture and fittings	Staff houses and shops	Motor vehicles	Computer equipment	Other	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cost</i>								
Balance at 1 January 2005	4,290	1,365	521	577	3,052	68	-	9,873
Acquisitions	233	72	-	28	33	-	214	580
Disposals	-	-	(280)	(24)	-	-	-	(304)
Balance at 31 December 2005	4,523	1,437	241	581	3,085	68	214	10,149
<i>Accumulated depreciation</i>								
Balance at 1 January 2005	560	1,190	68	264	2,401	57	-	4,540
Depreciation charge for the year	71	36	12	116	163	-	-	398
Disposals	-	-	(40)	(21)	-	-	-	(61)
Balance at 31 December 2005	631	1,226	40	359	2,564	57	-	4,877
<i>Carrying amount</i>								
At 1 January 2005	3,730	175	453	313	651	11	-	5,333
At 31 December 2005	3,892	211	201	222	521	11	214	5,272

* The Valelevu and Lautoka office premises and land adjoining the premises and staff houses and shops were revalued as at 31 December 2000 by the Housing Authority's internal valuer.

Notes to the financial statements for the year ended 31 December 2005

	2005 \$'000	2004 \$'000
12. Other		
Interest receivable	7	38
Staff advances	121	120
Stationery stock	16	14
Sundry debtors and prepayments	367	805
Total other assets	511	977
13. Borrowings		
<i>Current</i>		
Bonds	6,200	13,982
Loans	3,801	4,844
	10,001	18,826
<i>Non-current</i>		
Bonds	84,600	73,200
Loans	9,932	18,097
	94,532	91,297
Total borrowings	104,533	110,123

The interest rates and terms of borrowings are as follows:

	2005 \$'000	Interest rates	Maturity
Bonds	90,800	2.10% to 9.58%	2006 to 2013
Loans	13,733	7.0% to 7.875%	2006 to 2014
	104,533		

Notes to the financial statements for the year ended 31 December 2005

	Note	2005 \$'000	2004 \$'000
13. Borrowings (continued)			
Included in the above are borrowings expected to mature as follows:			
Not later than 3 months		931	1,032
Later than 3 months but not later than 12 months		9,070	17,794
Later than 1 year but not later than 5 years		67,764	49,496
Later than 5 years		26,768	41,801
		<hr/> 104,533 <hr/>	<hr/> 110,123 <hr/>
14. Provisions			
Repairs and maintenance		494	309
Insurance aggregate		568	297
		<hr/> 1,062 <hr/>	<hr/> 606 <hr/>
15. Other			
Interest payable		867	863
Mortgage accounts with credit balances		1,099	1,778
Deferred Government Grant	1(l)	2,649	2,393
Other creditors and accruals		1,900	1,221
		<hr/> 6,515 <hr/>	<hr/> 6,255 <hr/>

16. Capital and reserves

(a) Reserves

The Asset Revaluation Reserve relates to land and buildings and comprises the cumulative increase in the value of property (revalued as at 31 December 2000 by the Housing Authority's internal valuer).

Notes to the financial statements for the year ended 31 December 2005

17. Commitments

(a) Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable as follows:

	2005 \$'000	2004 \$'000
Not later than one year	78	40
Later than one year but not later than two years	43	40
Later than two years but not later than five years	54	70
	<hr/> 175	<hr/> 150

The Authority has various lease commitments for leasehold land. The leases typically run for a period of between three and ten years. It is not certain whether the land leases will offer an option of renewal after maturity. The annual lease rentals recognised as an expense in the income statement amount to \$40,000 (2004: \$53,000).

(a) Capital commitments

Approved by the Board

1,772	-
<hr/>	<hr/>

The Authority has committed \$1,772,754 for upgrading its current software, AS 400, to FINSOFT package.

18. Contingent liabilities

The details and estimated maximum amounts of contingent liabilities that may become payable by the Authority are set out below. The directors are not aware of any circumstances or information that would lead them to believe that these contingent liabilities will crystallize and consequently no provisions are included in the financial statements in respect of these matters:

(a) Indemnity

During 1989, loans owing to the Fiji National Provident Fund (FNPF) amounting to \$18,573,232 was transferred to the Public Rental Board (PRB) by Government Decree (No. 12 of 8 May, 1989). The FNPF continues to recognise the Authority as the borrower of these loans and has not released the Authority from these loans or amended the loan documentation to specify the PRB as the rightful borrower. In the meantime, the Ministry of Finance is making repayments of principal and interest to FNPF on behalf of PRB. The total loan principal and interest accrued at balance date, but not reflected in the financial statements, are as follows:

Principal	8,240	9,265
Accrued interest	91	103
	<hr/> 8,331	<hr/> 9,368

Notes to the financial statements for the year ended 31 December 2005

18. Contingent liabilities (continued)

(b) Guarantees

Fiji Electricity Authority bond

2005 \$'000	2004 \$'000
5	5

19. Notes to the statement of cash flows

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, overdraft and 'at call' and deposits with other financial institutions. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

Cash	3,095	2,347
Deposits redeemable at call	1,000	5,011
	<u>4,095</u>	<u>7,358</u>

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- i) customer borrowings and repayments on loans, advances and other receivables; and
- ii) loans, bonds and promissory note borrowings and repayments.

Notes to the financial statements for the year ended 31 December 2005

20. Related parties

Identity of related parties

The Board has a controlling related party relationship with its directors. The directors of the Board in office at the date of this report are:

Mr. Sada Reddy (Chairman)	Mr. Vishnu Deo
Mr. Olota Rokovunisei	Rev. Sereima Lomaloma
Mr. Cama Tuiloma	Mrs. Elenoa Gonelevu

(b) Transactions with related parties

	2005 \$'000	2004 \$'000
Board expenses and allowances	35	31
Government grant	2,649	2,393

21. Maturities

	At call	0 to 3 months	4 to 12 months	1 to 5 yrs	Over 5 yrs	Provision for doubtful debts	Suspended interest	Total
2005								
Financial assets								
Cash	3,095	-	-	-	-	-	-	3,095
Investments	-	-	1,000	-	-	-	-	1,000
Loans	5,453	5,939	16,378	60,087	58,262	(10,384)	(4,073)	131,662
Total financial assets	8,548	5,939	17,378	60,087	58,262	(10,384)	(4,073)	135,757
Financial liabilities								
Mortgage loans with credit balances	1,099	-	-	-	-	-	-	1,099
Borrowings	-	931	9,070	67,764	26,768	-	-	104,533
Accrued interest	-	-	8	500	181	-	-	689
Accounts payable and accrued liabilities	-	1,900	-	-	-	-	-	1,900
Total financial liabilities	1,099	2,831	9,078	68,264	26,949	-	-	108,221

Notes to the financial statements for the year ended 31 December 2005

21. Maturities (continued)

	At call	0 to 3 months	4 to 12 months	1 to 5 yrs	Over 5 yrs	Provision for doubtful debts	Suspended interest	Total
2004								
Financial assets								
Cash	2,347	-	-	-	-	-	-	2,347
Investments	-	-	5,011	-	-	-	-	5,011
Loans	5,396	6,012	16,544	60,989	58,192	(10,676)	(4,256)	132,201
Total financial assets	7,743	6,012	21,555	60,989	58,192	(10,676)	(4,256)	139,559
Financial liabilities								
Mortgage loans with credit balances	1,778	-	-	-	-	-	-	1,778
Borrowings	-	1,032	17,794	49,496	41,801	-	-	110,123
Accrued interest	-	-	45	604	214	-	-	863
Accounts payable and accrued liabilities	-	1,221	-	-	-	-	-	1,221
Total financial liabilities	1,778	2,253	17,839	50,100	42,015	-	-	113,985

Notes to the financial statements for the year ended 31 December 2005

	2005 \$'000	2004 \$'000
22. Additional financial disclosures		
(a) Asset quality		
Non-accrual loans		
Non-accrual loans without specific provisions for impairment	7,202	7,555
Non-accrual loans with specific provisions for impairment	15,801	17,846
	<u>23,003</u>	<u>25,401</u>
Less: Specific provisions	(5,079)	(5,875)
	<u>17,924</u>	<u>19,526</u>
Restructured loans		
Gross	-	266
Less: Specific provisions	-	(61)
	<u>-</u>	<u>205</u>
Total impaired loans	<u>17,924</u>	<u>19,731</u>
Past-due loans		
Gross	13,159	12,018
Less: Specific provisions	(4,385)	(3,099)
	<u>8,774</u>	<u>8,919</u>
Total net impaired and past-due loans	<u>26,698</u>	<u>28,650</u>

Notes to the financial statements for the year ended 31 December 2005

22. Additional financial disclosures (continued)

(a) Asset quality (continued)

The policies adopted by the Authority in respect of asset quality are as follows:

(i) *Non-performing loans*

Non-performing loans are those loans where arrears of principal and interest are greater than three months and where interest income has been suspended. This policy became effective on 1 April 1999.

(ii) *Non-accrual loans*

Non-accrual loans are those loans where interest income has been suspended and there is doubt over the full collectability of principal and interest in accordance with the terms of the loan agreements. Non-performing loans and doubtful loans are considered to be non-accrual loans.

(iii) *Past due loans*

Past-due loans represent those loans which have not operated within their key terms by the borrower for at least three months (typically in respect of repayment of principal and interest) and which are not non-accrual loans.

(iv) *Restructured loans*

Restructured loans are loans which are not non-accrual but where:

(a) the original terms of the loan have been changed to grant to the borrower a concession that would not otherwise be available, due to the borrower's difficulty in complying with the original terms; and the revised terms of the facility are not comparable with the terms of new facilities with comparable risks.

(v) *Real estate assets acquired through the enforcement of security*

Where auction sales and mortgagee sales of the borrowers' real estate security are unsuccessful, the Authority assumes ownership and forecloses the real estate in settlement of the outstanding debt. The real estate is valued at market value and brought to account as stock in the Authority's records.

Notes to the financial statements for the year ended 31 December 2005

22. Additional financial disclosures (continued)

(b) Credit risk

The maximum exposure to credit risk at balance date in relation to each class of financial asset is the carrying amount of these assets as indicated in the balance sheet.

	2005 \$'000	2004 \$'000
Maximum exposures to credit risk:		
Loans – mortgage	133,134	133,383
– village scheme	8,912	9,494
Accounts receivable and other debtors	511	977
	<u>142,557</u>	<u>143,854</u>

The Authority operates in the home loan mortgage sector with its primary target market being those individuals earning between \$3,500 to \$50,000 per annum. While the Authority's market poses a higher credit risk than that of typical financial institutions, the Authority attempts to minimise this risk through appropriate controls, obtaining collateral security and diversification by loan value. This diversification is reflected in the average loan balance of approximately \$13,640 (2004: \$16,400) per borrower (excluding Ground Rent customers) at balance date.

(c) Interest rate risk

Interest rates charged to borrowers on loans for the first two years are fixed, however the Authority's exposure to interest rate risk is minimised through its discretion to vary lending rates to borrowers following the first 24 months of the loan.

(d) Liquidity risk

The Authority does not fund its loan portfolio through savings or term deposits from the public, but borrows using short term and long term debt instruments such as promissory notes and bonds. Long term loans are also obtained. To minimise liquidity risk, the Authority continually assesses its funding requirements and where necessary borrows to meet these requirements.

23. Staff advances

Staff advances represent motor vehicle loans and advances. The motor vehicle loans are secured by bill of sale over the motor vehicles and incur interest at the rate of 9.5% per annum. Staff advances incur interest at the rate of 9.98% per annum.

24. Principal activities

The principal activities of the Authority during the course of the financial year were the development of land and houses for sale and the financing of these properties. There was no significant change in the nature of the activities of the Authority during the year.