Rural Housing Loan Fund SOC NPC
1996/010988/08

2013/2014 ANNUAL REPORT

Board of Directors

Jabulani Fakazi
Chief Executive Officer

Thembi Chiliza
Board Chairperson
Non-Executive Director

Adrienne Egbers
Chair: Credit and Development Committee
Non-Executive Director

Knowles Oliver
Chair: Audit and Risk Committee
Non-Executive Director

Nancy Sihlwayi
Non-Executive Director

Molefe Mathibe
Non-Executive Director
Chair: HRER Committee

Reginald Haman
Non-Executive Director

Contents

People Who Benefit

Mrs Nomvuyiso Madala, EMdeni, Ngqeleni (Eastern Cape)

Mrs Nomvuyiso Madala(in the photo) is a 45 year old mother of three and is employed in the public sector as an educator. Mrs Madala's house has running tap water, pit latrine for a toilet and accesses power through grid electricity. She earns a monthly salary of between R9 800 – R15 000. Mrs Madala took a loan of R40 000 in September 2011 from Real People through Build-It to build herself a house and added this loan to her savings. She hired a local builder to build the house for her.

Mr Tatele Johannes Nyembe, QwaQwa, Bluegumbosch (Free State)

Mr Nyembe (in the picture) is a pensioner; he lives in a RDP house with his wife. They received the RDP house in 2001 in Mbeki Phase 2, Bluegumbosch, Qwa-Qwa. Mr Nyembe's RDP house has running tap water inside, a flush toilet and uses grid electricity for power. Johannes and his wife are both pensioners; each receive a pension grant. Mr Nyembe took a loan of R5 000 from Moliko Finance-a RHLF intermediary in order to do extensions to his RDP house. He combined the loan with his savings to buy cement and tiles. Mr Nyembe has a house plan to extend his RDP house which was approved by the local municipality. He is planning to take another loan to finish the house once the loan is repaid.

Mrs Catherine Mohotsi, Phuthaditjhaba - Witsieshoek (Free State)

Catherine is married and is employed as a domestic worker. She also receives a pension grant. Mrs Mohotsi lives with her husband (in the picture) and three children, one of whom is still school going. Mr. Mohotsi stated that the house was very small for the family. They access power through grid electricity and use a public tap for water. Her house is located near a mortuary and a local shop. Mrs Mohotsi took a loan of R5 000 in October 2012 from Moliko Finance to extend the house. She added the loan to her income and her pension grant. The house extensions were under way at the time of the visit. She stated that she is planning to take another loan after she has finished repaying the current loan.

Mr Japi Ntuli, Siyabuswa, Section C (Mpumalanga)

Mr Japi Ntuli is 55 years old and works in the private sector as a truck driver in Rosslyn earning a monthly salary between R9 800 – R15 000. He currently lives in the back rooms (as in picture above) together with his family of 8, his wife, 4 children and 2 grandchildren. He has a running tap water inside the yard, accesses power through grid electricity and uses the bucket system for a toilet. Mr Ntuli took a loan of R10 000 in June 2013 from Thuthukani Financial Services through Credit Build hardware. He bought materials to roof his new house. Mr Ntuli added his loan to another loan from a commercial bank to buy materials for a roof. Mr Ntuli stated that his living conditions have greatly improved since the loan from Thuthukani Financial Services to complete the house. He intends to apply for another loan after repaying the current one to continue with the finishing touches of house.

Ms Nomayeza Mtsila, Masemong Phase 6 (Free State)

Ms Nomayeza Mtsila (in the picture) is a member of Sweet Harmony Stokvel. She stays with her parents, two nieces and her one child in a RDP house. Ms Mtsila took a loan of R30 149.99 from the Stokvel group to continue building the house her parents had started building with their pension grant. She works for a textile firm receiving an income between R2 500 – R3 500pm. Ms Nomayeza used her parents' and own savings to add to the loan she took. She used a local builder to build the house including roofing. She has stockpiled cement and bricks to complete the structure of the house.

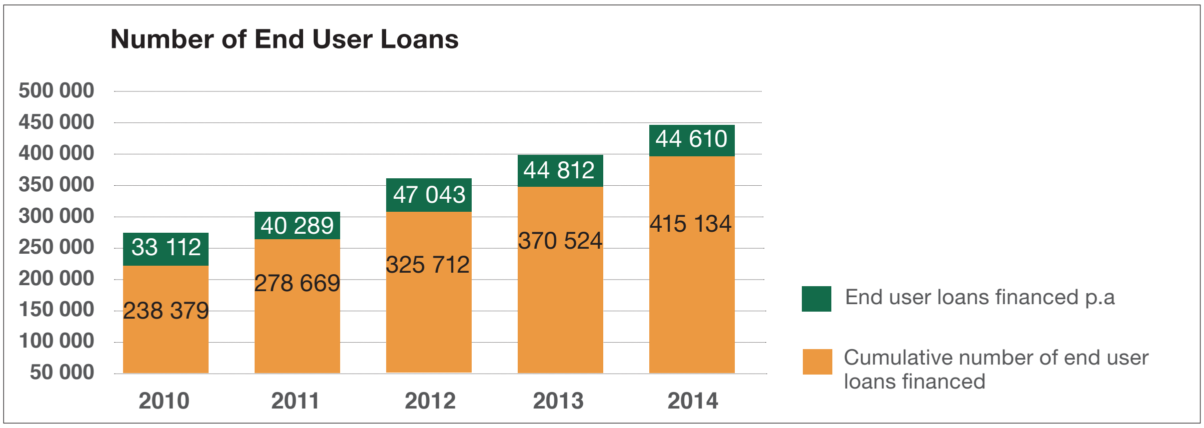
Ms Nomzwandile Ngcondlo, Lady Frere (Eastern Cape)

Mrs Nomzwandile Ngcongolo is a widow living with her two grandchildren. Mrs Ngcongolo is a retired teacher earning civil pension between R3 500 - R4 500pm and is now self-employed. She has electricity in her home through grid, gets water from a public tap outside her yard and uses pit latrine for toilet system. Mrs Ngcongolo took a loan of R 17 954 in September 2013 from Lendcor through Cashbuild, to improve her house as it had cracks. She added the loan to her savings to have her dream house.

Five year highlights of RHLF performance

1. Development achievements

Loans granted: annually and cumulatively



Developmental outcomes

Development mandate statistics compiled from the monthly housing mandate monitoring reports	2010	2011	2012	2013	2014
Number of annual new loans	**33,112**	**40,289**	**47,043**	**44,812**	**44,610**
Loan usage					
New houses	3%	4%	4%	3%	3%
Extensions	8%	10%	12%	10%	8%
Improvements	71%	68%	71%	76%	81%
Basic Services	2%	3%	3%	2%	2%
Total housing	84%	85%	90%	91%	94%
Other	16%	15%	10%	9%	6%
Repeat loan borrowers	29%	30%	29%	30%	31%
Borrowers with government subsidy	32%	29%	5%	8%	4%
Gender					
Male	41%	42%	43%	48%	38%
Female	59%	58%	57%	52%	62%
Employment					
Public sector	30%	27%	28%	23%	23%
Private sector	68%	70%	71%	72%	75%
Self-employed / informal	2%	3%	1%	5%	2%
Income					
less than R1 500	45%	40%	43%	56%	63%
R1 501 - R2 500	9%	6%	4%	5%	5%
R2 501 - R3 500	8%	7%	4%	5%	4%
	62%	53%	51%	66%	72%
R3 501 - R6 000	17%	17%	14%	11%	7%
R6 001 - R9 800		18%	18%	11%	9%
more than R9 800	21%	12%	17%	12%	12%
	100%	100%	100%	100%	100%

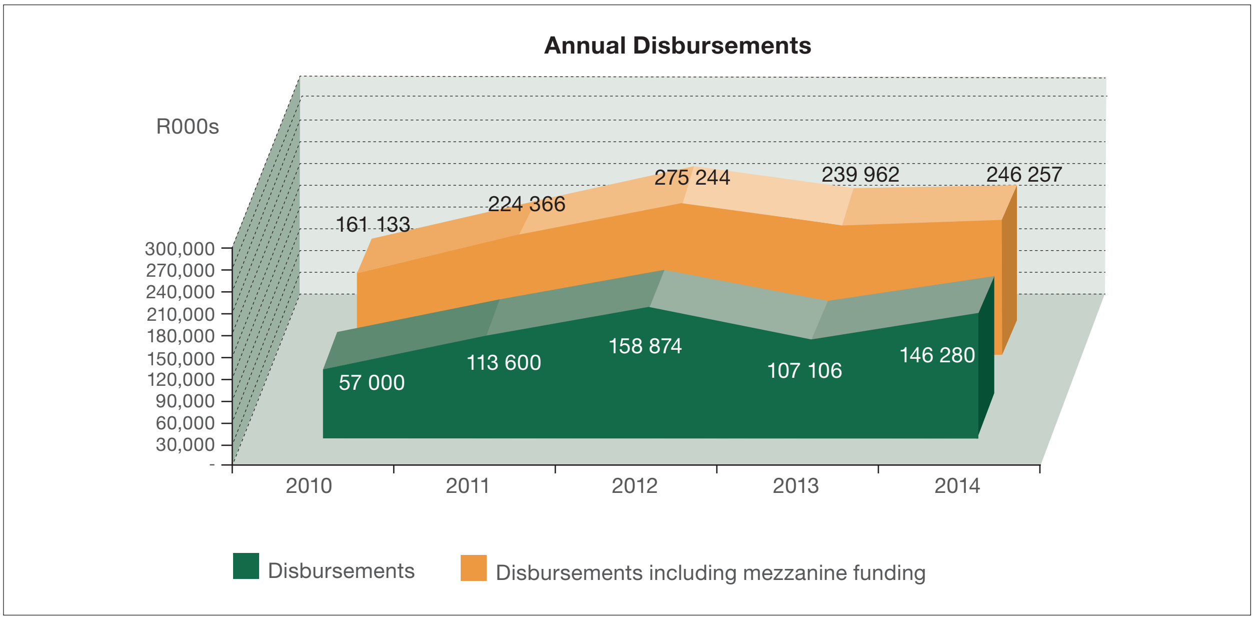
Provincial Distribution of Loans

RHLF loans reach all provinces as shown in the table below:

Province	Value Disbursed	Number of Loans	Value Disbursed %	Number of Loans %	Average Loan Size
Eastern Cape	43,766,432	11,713	18.0%	26.3%	3,737
Free State	8,457,860	1,367	3.5%	3.1%	6,187
Gauteng	58,121,730	5,510	23.9%	12.4%	10,548
KwaZulu-Natal	59,894,708	17,217	24.6%	38.6%	3,479
Limpopo	14,196,565	1,273	5.8%	2.9%	11,152
Mpumalanga	18,336,792	3,496	7.5%	7.8%	5,245
Northern Cape	1,290,937	95	0.5%	0.2%	13,589
Northwest	26,340,121	2,793	10.8%	6.3%	9,431
Western Cape	12,897,549	1,146	5.3%	2.6%	11,254
TOTAL	**243,302,694**	**44,610**	**100%**	**100%**	**5,454**

The value disbursed shown above reflects the amounts disbursed by RHLF intermediaries and includes funds disbursed by RHLF in the current financial year and the previous financial year. The table below reflects amounts disbursed by RHLF to intermediaries in the current financial year only. There will always be a timing difference between these two numbers.

Annual disbursements to intermediaries

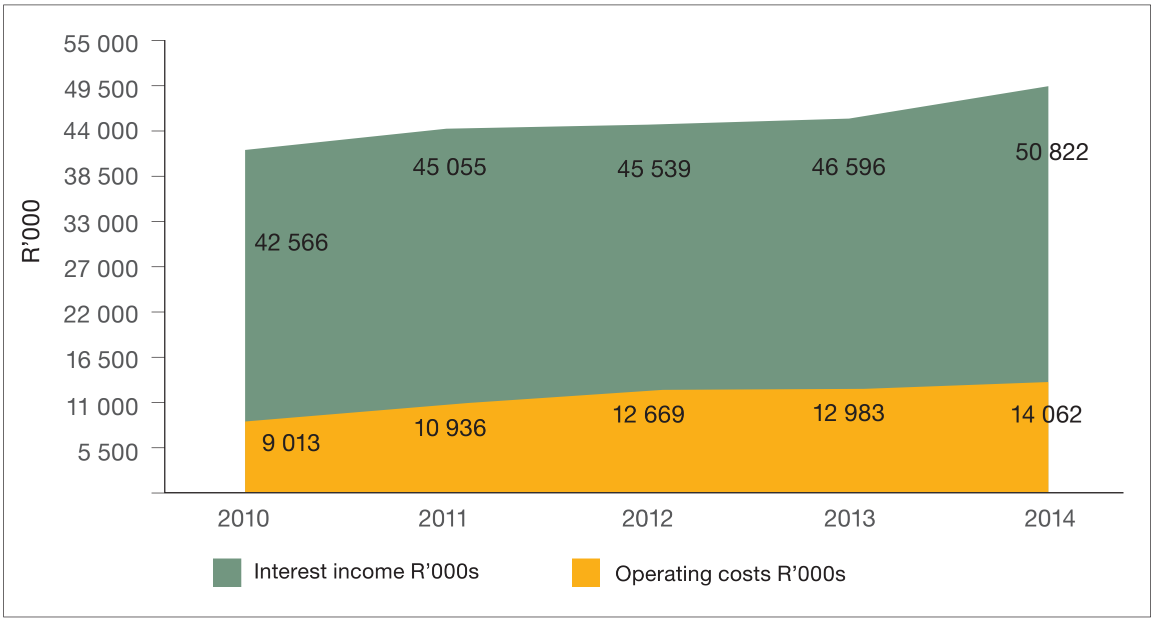


Mezzanine funding is capital repayment that, when due, is rolled over for clients who are both able to disburse the money to end users and are considered a good credit risk.

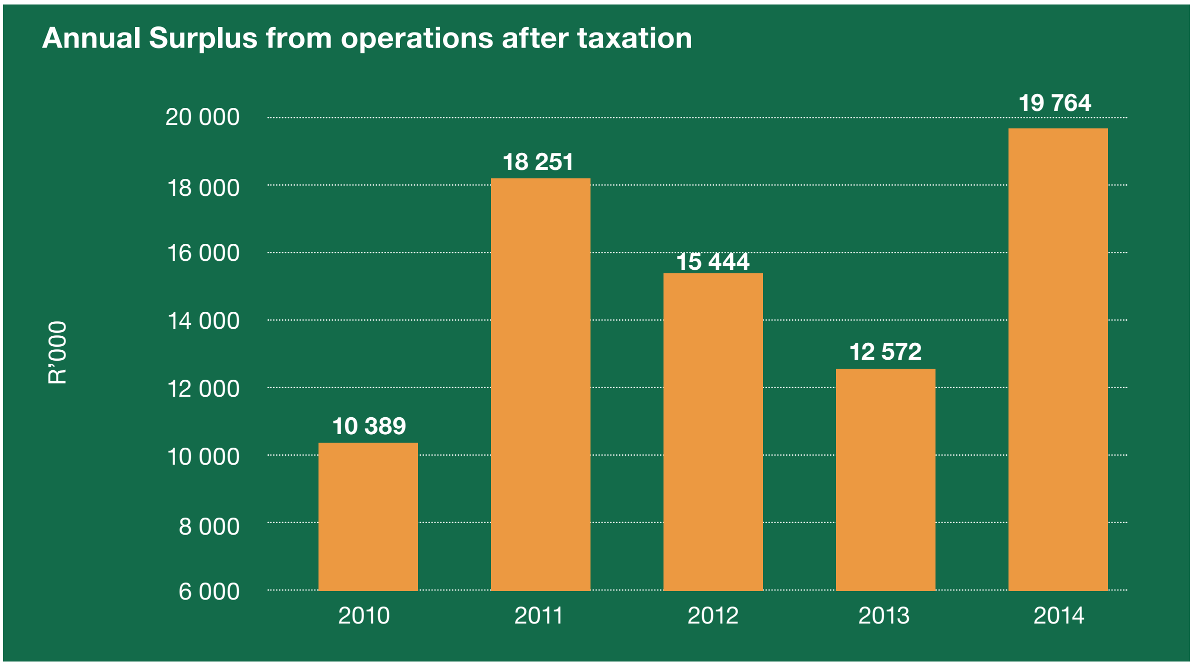
Five year highlights of RHLF performance

2. Financial Performance

Interest income against operating expenses



Annual Surplus after taxation



Part A: General Information

Part A: General Information

1. General Information

Registered Name	Rural Housing Loan Fund SOC NPC
Registration Number	1996/010988/08
Registered Office Address	Liberty Gardens, 10 South Boulevard, Bruma 2198
Postal Address	PO Box 645, Bruma, 2026
Contact Telephone Number	(011) 621 2500
Facsimile	(011) 621 2520
Website address	www.rhlf.co.za
External Auditors	SizweNtsalubaGobodo Inc.
Bankers Information	Standard Bank SA
Company Secretary	Mr Bruce Gordon, CA (SA)

2. List of Abbreviations/Acronyms

CA (SA)	Chartered Accountant (South Africa)
CFO	Chief Financial Officer
COO	Chief Operations Officer
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
MINTOP	Minister and Top Management
MINMEC	Committee of Minister and Members of Executive Council
MTEF	Medium Term Expenditure Framework
NCA	National Credit Act (No 34 of 2005) as amended
NDoHS	National Department of Human Settlements
NDP	National Development Plan
NPC	Non-Profit Company
PFMA	Public Finance Management Act (No 1 of 1999) as amended
RHLF	Rural Housing Loan Fund SOC NPC

Foreword by Chairperson

3. Foreword by the Chairperson

"The on-going demand for the housing finance provided through RHLF supports the continued existence of RHLF."

Ms Thembi Chiliza, Chairperson

Introduction

In presenting the Annual Report for 2014, I am pleased to report that RHLF has performed well in meeting the housing development challenges of rural people. Housing microfinance is a sector of unsecured credit and while the growth of unsecured lending in South Africa declined during the period, as evidenced in the National Credit Regulator's Market Report, RHLF was able to exceed its annual target both in the value of disbursements and the number of loans granted.

High level overview of RHLF's performance

The mandate of RHLF is to facilitate access to incremental housing loans for low income borrowers in order to enable them to improve their housing and living conditions in rural areas. In our mandate, rural areas include tribal land, farm areas and small towns. This is a huge market that RHLF is mandated to serve.

RHLF's main strategic objective is to broaden and deepen its reach into the rural housing market. This year, the company delivered 44 610 loans (44 814: 2013) compared to the 34 231 loans that were budgeted. 94% of the loans were used for a housing related purpose, which is substantially better than the budgeted 80%.

The underlying reason for the improvement in performance was a direct outcome of the favourable negotiations on the DBSA/KFW loan which resulted in the release of additional funds to intermediaries. This enabled RHLF to increase loans advanced from a budgeted R104million to R146 million.

Since inception in 1996, RHLF has disbursed R1.2 billion resulting in 415 132 housing opportunities being delivered to rural South Africans. This has been accomplished with limited grant capital of R285,7 million provided by NDoHS and KFW and supplemented by the abovementioned loan of R133,2 million from DBSA/KFW. While there is a demand for incremental housing finance in rural areas and borrowers who have the ability to repay, RHLF will continue to deliver to the market it serves, albeit at a scale that at present reaches less than 1% of the possible market. Further inroads could be made into the market with further capital injection into RHLF.

Strategic Relationships

RHLF's key strategic partner is its sole shareholder- the South African government represented by the NDoHS. While the NDoHS transferred an amount close to R32m in 2012/2013 financial year, no new capital was allocated to RHLF during the year under review. RHLF Board and management have made requests for additional funds from the NDoHS budget but unfortunately without success. It is our fervent hope and belief that the role that RHLF plays in meeting the housing development needs of the low income earners and the size of the largely underserved market will result in the company being adequately funded in future years. The relationship with the German Development Bank, KFW, has existed since the inception of RHLF, and still continues to be the most beneficial in terms of funding injected in the form of capital grants and the loan supported by DBSA. As this Report is being finalised, discussions are being held with KFW and DBSA on the possibility of obtaining further funding. RHLF has been unable to borrow from other agencies due to its modest balance sheet. The continuing support from KFW is really appreciated and has made a notable difference in the lives of many rural homeowners.

The importance of the network of intermediary partners operating in all Provinces, who access loan facilities from us and on-lend to individual borrowers who want to improve their housing conditions, cannot be underestimated as they form the interface between RHLF and its target market. Through them, we are able to efficiently and effectively deliver to the rural market. It is the individual borrowers who define the need for the existence of RHLF. The on-going demand for the housing finance provided through RHLF supports the continued existence of RHLF.

We consider the Parliamentary Housing Portfolio Committee as another important strategic partner as the oversight role that this Committee plays is critical in sharpening our focus on the mandate that defines RHLF's existence.

Challenges faced by the Board

It is with regret that I have to emphasise the concerning issue of limited available funding sources as the major challenge we face. As a Board, we would prefer to focus on ensuring that RHLF delivers on its housing mandate rather than the continuing distraction of trying to obtain the capital necessary to support its given mandate. The Board is certain that once RHLF is successful in securing a significant and regular capital injection from government, it can in turn aggressively continue with its efforts to increase the number of housing loans, at competitive cost, to the rural homeowners and therefore meet the wishes of both the NDoHS and the Portfolio Committee on Human Settlements.

Foreword by the Chairperson (Continued)

The year ahead

The 2014/15 financial year will be another tough year for RHLF and the industry in general given the economic headwinds. Inflation is expected to breach the upper limit of 6% and the concern is that this will further erode the quantum of disposable income of the people in our target market. Rising interest rates and the risk of unemployment are major concerns in the market in which RHLF operates and yet the demand for improved living conditions continues to grow. RHLF aims to be an important provider into a difficult market and will continue to look for innovations that will result in better accommodation of the housing needs of the widely dispersed rural market.

The company will continue to rely on the goodwill and support of all its strategic partners to ensure a better life for the people it is mandated to serve.

Appreciation

As RHLF, we are highly indebted to our intermediary partners who continue to enable RHLF to fulfil its mandate. They are a critical link between us and the people we serve. I am grateful that during borrower verification visits conducted by our staff throughout the year, we continue to receive positive feedback from the borrowers about the service they receive from our intermediaries.

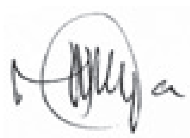
We acknowledge the oversight and support role that the Department and the Ministry of Human Settlements play in the successes achieved by RHLF. On this note we recognise that when we present this Annual Report, the Portfolio Committee of the fourth democratic Parliament would have disbanded and new members appointed. We wish all members who are not returning to Parliament or to the Portfolio Committee all the best in their future endeavours. At the same time, we wish to convey our warm welcome to the Portfolio Committee of the fifth Parliament and look forward to the interactions that encourage and support the efforts of all at RHLF.

I also would like to thank our funding partners, DBSA and KFW for their continued support resulting in RHLF exceeding its budget for loans disbursed by 10 379 loans.

During the course of the year Ms Asmita Thakor, one of the Directors, resigned. Her contribution to both the Board and the Board Credit and Development Committee will be missed.

To the other members of the Board, my deep appreciation for your support and your dedication to achieving the targets set for the company.

Lastly, as the Board we are grateful to the whole RHLF team for its dedication and the role that each member of staff plays in ensuring that RHLF achieves its mandate.



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Ms Thembi Chiliza
Chairperson: RHLF Board

Chief Executive Officer's Overview

4. Chief Executive Officer's Overview

"RHLF remains a viable development finance institution despite the challenges..."

Jabulani Fakazi
Chief Executive Officer

RHLF's financial performance for the year under review was in line with the mandate of the company. Income from operations achieved showed a slight improvement from the previous period at just under R41million (2013: R38 million). However, it needs to be noted that while RHLF disbursed more funds than budgeted, income from core business was below the budget of R47.1 million set for the year and this was as a result of lower than the budgeted average interest rate charged to some intermediaries. This is a result of RHLF granting loans at concessionary rates to suitable intermediaries in order for them to grant loans to borrowers at lower interest rates than prescribed by the NCA and by so doing comply with the government's call for RHLF to reduce the interest charged on unsecured housing loans.

Income from financial investments achieved for the year was at R9.3m (R8.6m: 2013) against the annual budget of R9.5m. This income arises from RHLF having to keep some of its funds liquid in order to comply with liquidity covenant of its funders. However, in future, funds kept in liquid form will decline following the reduction of liquidity covenant from 30% of capital employed to 10%. Total revenue for the year achieved was R50.4m compared to R46.6m in 2013.

Operating expenditure at R14.1 million increased by R1.1 million from the 2013 total. The main portion of expenditure is staff costs. This item grew from R8.8 million in 2013 to about R9.5m in 2014. The second highest expenditure contributor was consulting, legal and audit fees which increased from R0.7 million in 2013 to a total of R1.1 million in 2014. Travel costs also increased marginally. This item is associated mainly with travel of staff as RHLF continued in the year to participate in capacity and training programmes that the Department of Human Settlements conducts at various municipalities in all provinces, in addition to travel conducted in pursuit of additional commercial intermediaries and CBOs in various provinces. For the year, surplus after tax was R19.9 million (2013: R12.6million) slightly above the budgeted amount of R18.2 million. This was achieved, despite lower income, through cost savings as well as a reduction in the doubtful debts provision and a lower income tax charge.

In spite of the relaxation of the KFW / DBSA liquidity covenant early in the year, accessing funding for scaling up the delivery of incremental housing finance remains a challenge for RHLF. For RHLF to reach new rural areas of the country, it needs to develop new loan distribution channels by bringing to the RHLF stable new intermediaries which are willing and able to access RHLF funds and disburse to the targeted rural areas. This remains a major challenge as it compromises our capacity to broaden and deepen the reach of its incremental housing finance.
No activities were discontinued during the year nor does RHLF plan to discontinue any activity. Implementation of the Individual Rural Housing Subsidy Voucher Programme remains on hold, and RHLF awaits the decision of the Executive Authority on the future of this innovative programme.

In terms of RHLF's supply chain management, all services procured in 2014 were all completed and paid

for within the year. No unsolicited bid proposals were received or concluded during the year under review. There are no events that occurred after the reporting date for 2014 that RHLF would be required to disclose in this annual report.

RHLF remains a viable development finance institution despite the challenges previously mentioned. It is well positioned to scale up its service delivery for the benefit of the low income earners in its target market, provided additional funding is obtained.

I would like to convey my sincere gratitude to the RHLF Board for its role in guiding management in ensuring that RHLF continues to focus on its core business. The support and dedication of the members of the Board Committees, the Audit and Risk Committee, the Credit and Development Committee and the Human Resources, Ethics and Remuneration Committee, to the attainment of the mandated outcomes of the Company is much appreciated. RHLF's Auditors, both Internal and External are recognised for the professional manner in which they conduct their work for RHLF.

Lastly, I would like to thank my whole RHLF team for the work they do in ensuring that RHLF achieves its development goals and financial goals and the enthusiasm they show in meeting the challenges.

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Jabulani Fakazi
Chief Executive Officer

5. Statement of responsibility and confirmation of the accuracy of the annual report

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the External Auditors.

The annual report is complete, accurate and is free from any known omissions.

The annual report has been prepared in accordance with the "Guidelines on the Annual Report" as issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with GRAP standards applicable to the public entity.

The Accounting Authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.

The Accounting Authority is responsible for establishing and implementing a system of internal control that has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the Annual Report fairly reflects the outcome of the operations, the performance information, human resources information and the financial affairs of the entity for the financial year ended 31 March 2014.

Yours faithfully

Chairperson
Thembi Chiliza

Date: 31 July 2014

6. Strategic Overview

The vision, mission and values of RHLF as per approved strategic plan are as follows:

Vision

The Rural Housing Loan Fund is a world-class rural housing social venture capital fund that creates new financial arrangements and opportunities for rural families to improve their housing, economic and living environments.

Mission

To empower people in rural areas to maximise their housing choices and improve their living conditions with access to credit from sustainable retail lenders.

Values

RHLF team's values:

- We are loyal and honest to each other and practise joint accountability.
- We practise straight talk and team work.
- We are passionate about improving living conditions of the working poor.
- We believe in sustainable and responsible development.

Strategic Outcome Oriented Goals

RHLF uses the Balanced Scorecard methodology for its business planning process and the strategic outcome oriented goals are in this way aligned to the four balanced scorecard perspectives set out below.

Stakeholder/Client Perspective Goals:

- Grow the loan book and enhance RHLF's ability to attract commercial funders and development partners for rural housing delivery.
- Broaden and deepen the reach of rural housing finance. This measures RHLF's impact as set out in its mandate.
- Build lending capacity and competitiveness of the retail intermediary network.

Financial Perspective Goal

- Real capital value preservation to ensure financial sustainability.

Business Process Goals

- Sharpen portfolio risk management and enhance early warning systems.
- Accelerate client acquisition.
- Targeted positioning and branding.

Learning and Growth Goals

- Equip all staff with the skills necessary for their roles and encourage continued skills development.
- Align staff performance to the organisational goals.
- Capacity building for the future delivery of RHLF.

7. Legislative and Other Mandates

RHLF is listed as a public entity under Schedule 3A of the PFMA.

The RHLF's mandate can be summarised as follows:

- To facilitate access to housing credit to low income borrowers in rural areas so they can improve their housing conditions. For the year under review, low income earners means borrowers earning below R9, 800 per month. Subsequent to year end this amount was increased to R15, 000.
- To support the implementation of the government's rural development programme.

8. Organisational Structure

RHLF as a wholesale development finance institution maintains a lean organisation as depicted in the organisational structure below:

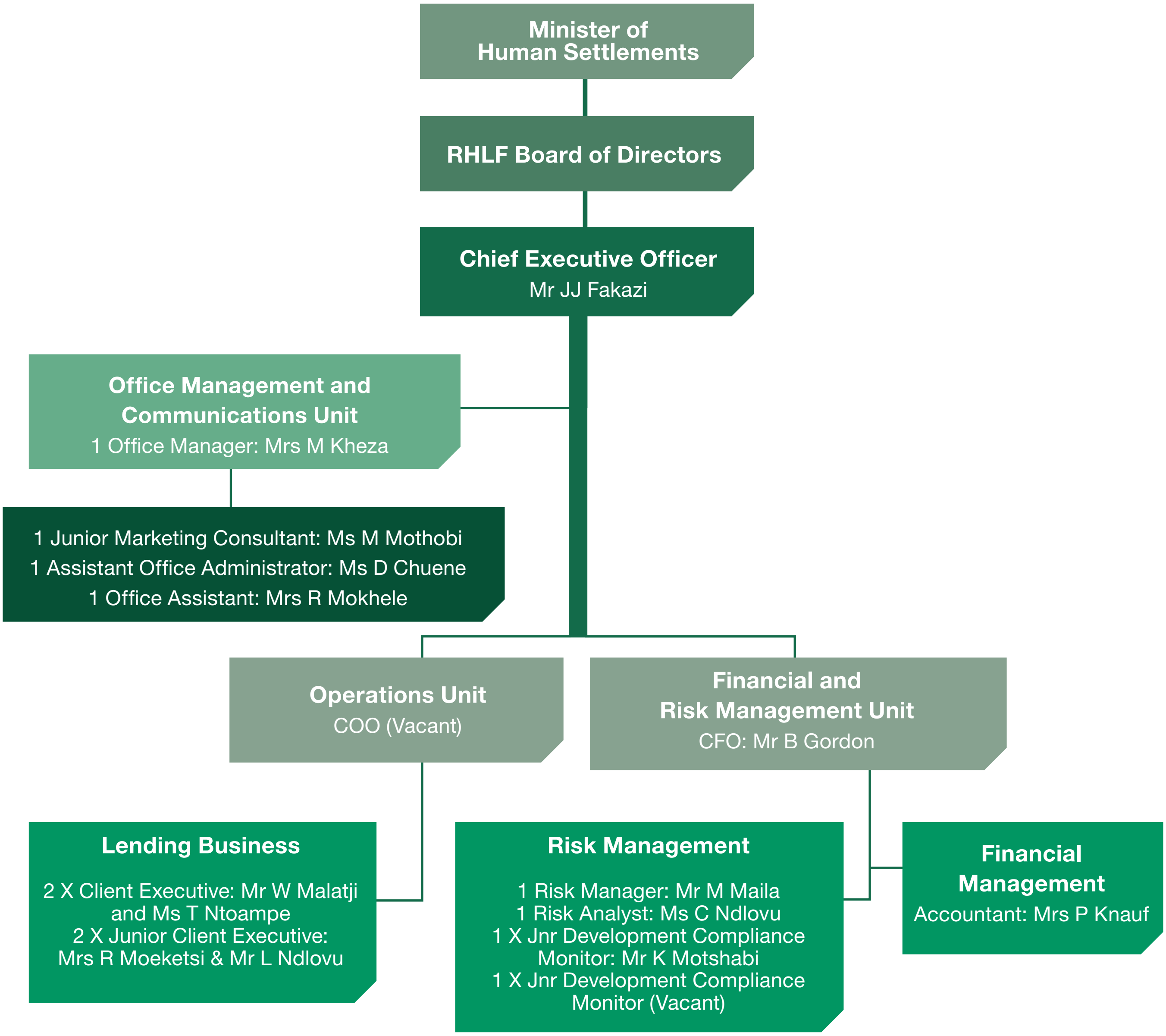


Figure 1: Organisational structure of RHLF

Part B:
Performance Information

Part B: Performance Information

1. External Auditor's Report: Predetermined Objectives

Refer to the External Auditor's report at the commencement of the Annual Financial Statements on page 46.

2. Situational Analysis

2.1 Service delivery environment

Overall performance

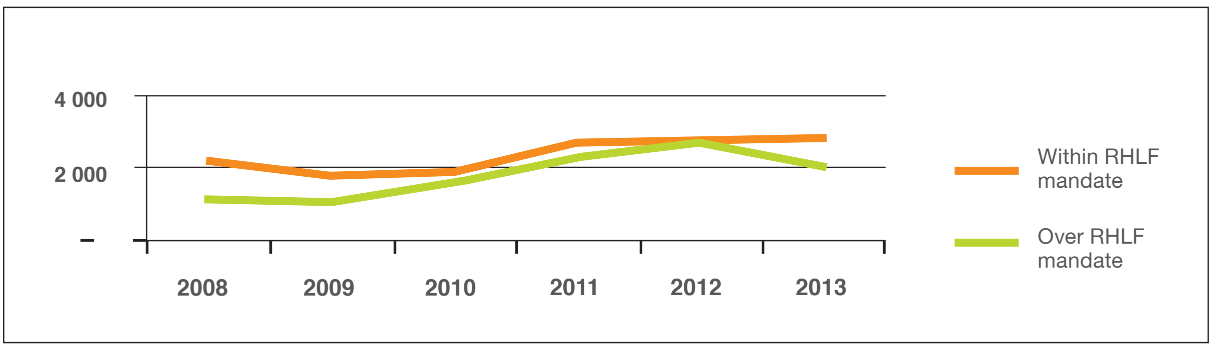
RHLF's mandate is to empower rural low income earners to improve their human settlements by ensuring that they are able to access funding to make the improvements they desire. RHLF delivers housing opportunities to market through the provision of micro-loans delivered by commercial and community based intermediaries that are approved as RHLF clients.

Cash disbursed to intermediaries amounted to R146m for the year against the target of R104m set for the year and this was enabled by the approval of the relaxation of liquidity covenant by RHLF's funders. As a result of this higher than planned cash disbursements, RHLF delivered 44 610 loans against the budget of 34 321. 94% of these loans were used for a directly housing related purpose in line with the RHLF mandate. 72% of loans delivered were accessed by borrowers earning R3, 500 and less and this was an improvement on the 60% which is the set target for this income category. Despite the success, RHLF achieved in meeting its main development goal of delivering housing finance to its market, there were many challenges observed in the business environment.

Market challenges

Information published by the National Credit Regulator indicates that while there has been a decline in unsecured loans overall during the year under review, those taken out by RHLF's target market have in fact increased slightly.

Number of Agreements (000)



Anecdotal evidence indicates that the reason for the overall decline is the tightening of credit granting by businesses targeting this market as they perceive their client base to be over-indebted and too risky. This view is supported by the massive increase in bad debt provisions being made by JSE Stock Exchange listed companies in this market.

RHLF through observation, and audit, of its client base has noted the following key points:

- Clients that focus purely on developmental lending (that is housing, education and emerging business lending) are not finding a need to increase their provisioning.
- The best performing of our commercial intermediaries are those that have never moved from the pure developmental focus of incremental housing lending.
- These high performing clients are also offering lower interest rates than are permitted by the regulations issued under the National Credit Act.

In an effort to improve the impact RHLF can have we are sharing these experiences with those clients who are not as strongly developmentally focussed. We have noted that independently of this, one of RHLF's larger intermediaries has now sold the non-developmental portion of its business to focus on the lower risk posed by people who are committed to improving their own circumstances.

The National Credit Regulator has only been gathering and publishing data on the developmental credit market for five quarters. For this reason RHLF is unable to establish trends on this data. It will be monitored going forward to ensure that discernible trends are noted.

Apart from the tightening of the granting of unsecured credit, other market challenges experienced during the year include slow economic growth and the continuing high unemployment that South Africa is experiencing. Tough market conditions in general have an adverse effect on the RHLF's target market which is low income earners.

2.2 Organisational environment

Funding

The biggest challenge faced by RHLF is the lack of regular funding. The following table analyses the sources of RHLF's funding.

RHLF Funding						
	31 Mar 2012		31 Mar 2013		31 Mar 2014	
	R000	%	R000	%	R000	%
KFW (German Development Bank)	154,763	33.9%	154,763	30.8%	154,763	29.9%
Department of Human Settlements	99,000	21.7%	130,975	26.1%	130,975	25.3%
Total Grant Funding	**253,763**	**55.5%**	**285,738**	**56.9%**	**285,738**	**55.1%**
DBSA/KFW Loan	136,660	29.9%	136,660	27.2%	133,243	25.7%
Retained income	92,295	20.2%	111,352	22.2%	137,459	26.5%
Income Tax	(25,789)	-5.6%	(31,974)	-6.4%	(38,134)	-7.4%
Total	**456,929**	**100.0%**	**501,776**	**100.0%**	**518,306**	**100.0%**

This constraint has led to RHLF being unable to scale up delivery of incremental housing loans to its target market and discourages innovative developments in reaching its target market.

As an organisation, RHLF is taking the following action to ensure that these constraints are mitigated and that service delivery can be improved.

- RHLF is in discussions with KFW, The Development Bank of South Africa, the Department of Human Settlements and National Treasury with a view to increasing the borrowing levels.
- Simultaneously, discussions are being held with the Department of Human Settlements and National Treasury in an attempt to obtain additional grant funding from the fiscus.

To reduce the cost of borrowing by rural households, the attraction of grant funding is the best outcome as this type of funding allows for competitive rates to be charged to intermediary partners for passing on to consumers.

Human resources

During the year, one of RHLF's directors resigned. While the Board is small, this has had only a minor impact on RHLF's ability to deliver. However, a recruitment process for another director is underway.

RHLF maintains a small dedicated team of employees ensuring delivery is achieved at a low cost. This is achieved by using retail intermediaries as the face of delivery to the market. While RHLF has a staff complement of only 14 people, our intermediaries between them have in excess of 8,000 employees.

The size of RHLF means that the opportunity for growth and promotion of employees is currently limited. While this can usually be expected to lead to high employee turnover, RHLF's interventions is this regard have led to a low attrition rate. These interventions include progression in responsibility and remuneration, without necessarily leading to promotions, as well as access to training to enable employees to better themselves. As a consequence of these interventions, RHLF has had minimal employee turnover, with an average of less than one employee resigning per annum.

2.3 Key policy developments and legislative changes

The key Act affecting RHLF's business is the National Credit Act since RHLF's commercial intermediaries have to be NCR registered. There have been a number of legislative interventions (amendments of this Act) during the year under review, and more are expected during the coming year.

Credit information

The most significant change to this legislation has been that made to the storing of adverse credit information on borrowers. Since the promulgation of these changes credit bureaux may no longer store adverse information on borrowers for more than two years after debt has been settled. This in effect means that where judgements have been obtained against borrowers who have subsequently settled the debt, this information must be removed by the bureaux.

3. Strategic outcome oriented goals

RHLF's goal in terms of the delivery agreement Outcome 8 is to provide housing opportunities and the number of loans granted is captured in Output 4 of the agreement. The following table shows RHLF's achievement of this goal during the government term that commenced in 2009 up to the end of March 2014.

Financial Year	Budget	Term of government
2010	37 400	33 112
2011	44 933	40 289
2012	46 959	47 043
2013	38 202	44 812
2014	34 231	44 610
Total	**201 725**	**209 866**
Outcome 8 target		181 811
Difference		28 055
Percentage achieved		115%

4. Performance information analysed by Strategic Objectives

RHLF uses the Balanced Scorecard methodology for its business planning process and the strategic outcome oriented goals are in this way aligned to the four balanced scorecard perspectives set out below.

4.1 Stakeholder objectives

Objective: Achieve visibility for RHLF and enhance its ability to attract commercial lenders and developmental partners for rural housing delivery

	2014 Year				Comment on Variance
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Value of loans in place	421,503	278 254	143 269	111.4%	With the relaxation of the DBSA/KFW covenant that had not been budgeted for, more funds became available to disburse.
Percentage impairment provision	-7.9%	-18.0%	10.1%	156.1%	During the previous financial year RHLF wrote off a number of poor performing debtors. The current intermediaries are on average a better risk.
Disbursements to retail intermediaries	146,280	104,000	42,280	140.7%	RHLF disbursed a higher amount than budgeted due to the relaxation of the DBSA/KFW liquidity covenant.
Disbursements to retail intermediaries including mezzanine	246,257	198,536	47,721	124.0%	Target exceeded.

Objective: Broaden and deepen the reach of rural housing finance

	2014 Year				Comment on Variance
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
End user loans disbursed	44 610	34 231	10 380	130.3%	Achieved well ahead of budget for the year as a result of more funds being available.
Average end user loan size	5 454	5 800	346	106.0%	Reflects the concentration of smaller loans being issued by Lendcor, to the lower income groups.
Qualifying housing use target (% of loan instances)	94.0%	80.0%	14.0%	117.5%	Good performance against mandate. Majority of loans disbursed via building merchant channels.
Percentage of loans to households earning R9,800 or more	12.7%	20.0%	7%	136.4%	Income leakage is being well managed despite the demand from those earning above the current level.
Percentage of loans to households earning R3,500 or less	72%	60.0%	5.8%	120%	Reflective of a solid effort by some intermediaries to ensure that the lower income earners access funds.

Objective: Build lending capacity and competitiveness of the retail intermediary network

		2014 Year				Comment on Variance
		Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Build lending capacity and competitiveness of the retail intermediary network	Number of retail intermediaries	7	14	(7)	50%	RHLF had to cancel facilities for 3 intermediaries not complying with the mandate. The challenge is to replace these intermediaries which is expected to start happening from Q1 2015.
	Number of community based intermediaries	5	9	(4)	56%	No new CBO's were signed in the year. Ongoing work in this area should lead to improvements in future years.

Of concern for on-going delivery has been RHLF's inability to sign up more commercial intermediaries as RHLF's processes require lenders to focus funds received from the company on housing impact and report monthly thereon. From the perspective of some lenders, this adds an administrative burden. It is important to note that a number of intermediaries are unable to target the lowest end of the market and this has led to a large dependency by RHLF on a single primary provider, Lendcor, that is responsible for 70% of RHLF's housing opportunities. Provincial distribution of loans is affected by the lack of suitable intermediaries in certain areas.
To mitigate these risks, RHLF is taking a three prolonged approach:

- Firstly by targeting smaller intermediaries who operate in deep rural areas with a client base that tends to be low income earning.
- Secondly, by encouraging existing intermediaries to also focus on low end of the market and offer housing loans appropriate for this market segment. This is done by discussing the successes of other intermediaries who have viable businesses while targeting the lower end of the market.
- Thirdly, we are making efforts to increase the number of community based organisations that are being serviced. These tend to offer funding to self-employed people who otherwise could not obtain loans.

4.2 Financial objectives

The key strategic goal of this programme is to **achieve real capital presentation in order to ensure the financial sustainability of RHLF** while fully implementing RHLF's mandate:

	2014 Year				Comment on Variance
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Income from core business	41,068	47,084	(6,016)	87%	The average rate if interest charged is lower than budgeted in line with RHLF efforts to reduce the cost of borrowing to end users.
Average interest earned on loans granted	9.7%	12.2%	2.5%	80%	In keeping with the needs of our end users RHLF remains committed to reducing this rate where it benefits RHLF borrowers.
Income from financial investments	9,291	9,359	(68)	99%	As RHLF disburses the funds freed up by the relaxation of the liquidity covenant by DBSA and KFW, this amount should decline.
Reversal of impairments on loans and investments	334	4,497	(4,163)	7%	While the debtors risk has improved during the year this has been at a lower rate than anticipated.
Impairments as a % of disbursements	-0.2%	-4.3%	4.1%	5%	The reduction in doubtful debts has led to this improvement.
Expenditure	(14,062)	(16,694)	2,632	84%	The underspend relates to research and marketing amounts that were not spent.
Operating expense ratio	-27.9%	-35.5%	7.6%	79%	This is a consequence of the lower expenses.
Operating surplus before taxation	29,253	33,490	(4,237)	87%	Profit is below that budgeted as a result of revenue earned being lower than budget as well a lower reversal of bad debts than budgeted.
Total capital	385,063	349,478	35,585	110%	The final total capital at the end of the previous year was higher than forecast during budget process.
Loan capital	139,644	138,761	884	101%	This is a timing difference
Liquid funds	119,914	167,088	(47,174)	72%	RHLF did not budget for the relaxation of the liquidity covenant. As these funds have started to be disbursed the cash on hand has reduced.
Return on equity	7.6%	9.6%	-2.0%	79%	This is a combination of the lower profit and higher asset base.

While the under achievements could cause problems from the perspective of maintaining RHLF's financial stability they are all a direct consequence of the need for RHLF to reduce the interest paid by its end users. In an attempt to reconcile these two RHLF remains convinced that extra grant funding could be disbursed with minimal increases in costs, thus enabling RHLF to leverage its current cost base with earnings from additional capital.

4.3 Business process

Objective: Sharpen portfolio risk management and enhance early warning system

	2014 Year				Commentary
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Number of full client due diligence and credit committee reviews	8	10	-2	80%	A resignation led to a shortage of resources. New plans have been implemented to ensure that this will not recur.
Loan usage verification visits	8	10	-2	80%	Resignations of staff led to a shortage of resources. New plans have been implemented to ensure that this will not recur.
Number of single-issue on-site risk reviews	3	7	-4	43%	Resignations of staff led to a shortage of resources. New plans have been implemented to ensure that this will not recur.

The size of RHLF is such that a single vacancy can affect its performance. This occurred during the year with a resignation that led to a temporary reduction in the organisations capacity to perform the targeted reviews. The vacancy was filled during the last quarter of the year, effectively too late to recover lost time to meet the target of risk reviews. Operational changes have been made to ensure that this issue does not recur.

The process of conducting the loan verification visits internally is proving to be successful. Instead of outsourcing this every three years, RHLF now performs this task on an on-going basis and in much more detail than was the case in previous years. This provides comfort that funding is properly directed.

Objective: Accelerate client acquisition process

	2014 Year				Commentary
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Annual number of credit committee proposals for new clients	5	4	1	125%	Target exceeded
Annual number of credit committee proposals for existing clients	8	2	6	400%	Target exceeded

Objective: Targeted positioning and branding

	2014 Year				Commentary
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Targeted media briefings and press releases	3	3	0	100%	Target achieved
Paid editorials and advertisments, scientific articles, exhibitions	13	10	3	130%	Target exceeded
Information briefings with partner / cluster DFIs and government departments (National and provincial)	32	30	2	107%	Target exceeded

4.4 Learning and growth

Objective: Equip all staff with the skills necessary for their roles and encourage continued skills development

	2014 Year				Commentary
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Number of in-house workshops, training sessions, guest speakers	2	1	1	200%	Target exceeded
Staff training expense - excluding refund from SITA	279	108	171	259%	Target exceeded

Objective: Capacity building

	2014 Year				Commentary
	Actual R000	Budget R000	Variance R000	Percentage of Target achieved	
Fulltime Employees	14	14	0	100%	Target achieved
Interns	0	1	-1	0%	Appointment made after year end

Part C: Governance

Part C: Governance

Corporate governance embodies the processes and systems by which RHLF is directed, controlled and held to account. RHLF does not have enabling legislation so is governed legislatively in terms of the Companies Act of 2008, the Public Finance Management Act of 1999 and the Preferential Procurement Policy Framework Act of 2000. These together with the principles contained in the King Code of Governance Principles for South Africa 2009 set the base against which the quality of RHLF's corporate governance must be measured.

Parliament, through the Portfolio Committee on Human Settlements, the Minister of Human Settlements, advised by the Department of Human Settlements, and the Board of Directors are responsible for corporate governance at RHLF.

1. Parliamentary Portfolio Committee

RHLF presented its Annual Performance Plan for 2014 on 27 March 2013. At this meeting the Committee expressed its concern at RHLF's funding constraints and directed the representatives of Department of Human Settlements who were present to address the matter of providing capital injection to RHLF.

The Chief Executive Officer attended the presentation of the Department of Human Settlement's Annual Report for the year ended 31 March 2013 on 10 October 2013. At this meeting, the Committee enquired about the status of the Individual Rural Housing Subsidy Voucher Programme and the NDoHS, supported by RHLF, advised the Committee that implementation plan had been prepared for submission to MINTOP and MINMEC for approval. However, by end of the financial year, the Programme had not yet been approved for implementation

2. Executive Authority

The quarterly reports from RHLF were submitted to the Department of Human Settlements on time each quarter.

3. The Board of Directors

The Board of Directors is the accounting authority for RHLF in terms of the Public Finance Management Act. As such it is the responsible for the application of corporate governance principles in RHLF.

Board Charter

During the year under review, the Board reviewed its Charter and ensured that it was clear and easy to read. In this document the responsibilities of the members of the Board are spelled out. In addition, the requirement that the Board meets four times a year as well as the need to perform a self-assessment annually was included in the Charter. These requirements were met.

Composition of the Board

Name	Date of appointment	Years service	Non-executive	Title	Meetings attended				Special Meeting	Remuneration
					Board	Audit and Risk	Credit and Development	Human Resources, Ethics and Remuneration		
										R000
Total meetings					3	5	8	2	10	
T Chiliza	27 July 2006	7	Yes	Chairperson	2	NA	NA	2	6	45
A Egbers	22 October 2010	3	Yes	Deputy Chairperson and Credit and Development Chairperson	2	5	8	NA	5	90
K Oliver	23 February 2000	14	Yes	Audit and Risk Chairperson	3	5	8	NA	1	76
M Mathibe	22 October 2010	3	Yes	Human Resources, Ethics and Remuneration Chairperson	2	NA	NA	2	2	27
J Fakazi	05 January 2009	5	No	Chief Executive Officer	3	4	7	2	10	-
N Sihlwayi	27 July 2006	7	Yes	Director	1	NA	NA	1	-	9
A Thakor	22 October 2010	3	Yes	Director	1	NA	2	NA	-	14
R Haman	28 March 2013	1	Yes	Director	2	5	NA	NA	1	36
Total			6							297

NA indicates that the director was not on that committee.

Other meetings refer to those meetings that directors attend on behalf of RHLF in the course of their duties. These are usually meetings with the Minister or the Department of Human Settlements or other sector stakeholders.

During the year Ms A. Thakor resigned on 5 August 2013. A process is underway to recruit a replacement. All Board members who live outside of Johannesburg are flown to Johannesburg for meetings. In addition when Board members need to fly in order to attend meetings on behalf of RHLF, RHLF makes these bookings and pays for them. All air travel is in economy class. No other travel is paid for by RHLF.

National Treasury has been asked to prepare a guideline for remuneration of RHLF's directors. In the interim the directors' remuneration is not being increased. RHLF has not been categorised for inclusion in the National Treasury guideline on director's remuneration. A process has been initiated to obtain this categorisation. Until the matter is finalised the directors' remuneration will not be increased.

4. Risk management

RHLF has a risk management policy that is reviewed by the Audit and Risk Committee and the Board. The risk register is currently being refined to ensure that all relevant risks that have been identified are mitigated.

5. Internal audit

As RHLF is a small organisation its Internal Audit function has been outsourced.

The following areas were audited during the year under review:

Area	High risk findings	Medium risk findings	Housekeeping findings	Unresolved matters
Human resources	0	0	1	0
Intangible assets	0	1	0	0
Business processes and planning	0	0	1	0
Performance information	3	0	0	1

The outstanding Performance Information matter relates to the signing of the Shareholder Compact by the shareholder. This was submitted to the Department of Human Settlements on time and a reply is awaited. Internal Audit findings are presented to the Audit and Risk Committee which monitors progress towards resolving them at each of its meetings.

6. Compliance with laws and regulations

The executives of the organisation are members of the Institute of Directors in Southern Africa. They receive regular updates on legislative amendments and where necessary bring these to the attention of the directors.

7. Fraud and corruption

RHLF has a Fraud Prevention Plan in place. To date, no incidents of fraud have been uncovered, suspected or reported at RHLF.

8. Code of Ethics

During the year, RHLF reviewed its policy on ethics, and early in the current financial year adopted a new Code of Ethics.

9. Health, safety and environmental issues

Although RHLF is a small organisation operating in an office environment, it sees the issue of staff health as important. During the year the organisation has developed a policy on health issues around HIV/ AIDS. In the coming year a comprehensive policy on dread, disabling and terminal diseases will be developed. As the year ended, two staff members commenced training on First Aid.

10. Company Secretary

The Chief Financial Officer fulfils the role of Company Secretary.

11. Social responsibility

Annually, the RHLF takes part in the Rally to Read by sponsoring a box library in order to enhance levels of literacy of learners attending rural schools which have no libraries. From RHLF's perspective this project contributes immensely in promoting long term rural development through education. In addition RHLF participates in the annual Women Build and Youth Build events that are run by the Department of Human Settlements.

12. Report of the Audit and Risk Committee

Audit and Risk Committee members and attendance

The Audit and Risk Committee consists of the members listed hereunder and should meet 4 times per annum in accordance with its approved terms of reference. During the current year, 5 meetings were held:

Name of member	Number of meetings attended
K R Oliver (Chairperson)	5/5
A Egbers	5/5
R Haman	5/5

Audit and Risk Committee responsibility

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

The effectiveness of internal control

In line with the PFMA and the King Code of Governance Principles for 2009 requirements, Internal Audit provides the Audit and Risk Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the audit report on the annual financial statements, and the management report of the External Auditors, it was noted that some matters were reported that indicate some minor deficiencies in the system of internal control and deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was satisfactory. Assurance was obtained that the identified problems are receiving the necessary attention from executive management.

Evaluation of annual financial statements

The Audit and Risk Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the External Auditors and the Board;
- Reviewed the External Auditor's management report and management's response thereto;
- Reviewed the entity's compliance with legal and regulatory provisions; and
- Reviewed significant adjustments resulting from the audit.

The Audit and Risk Committee concurs with and accepts that the External Auditor's report on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the External Auditors.

Internal audit

The Audit and Risk Committee is satisfied that the internal audit function is effective and that is has addressed the risks and internal controls pertinent to the RHLF and its audits.

Auditor-General of South Africa

The Audit and Risk Committee has met with the External Auditor and the Auditor-General of South Africa to ensure that there are no unresolved issues.

Recommendation

At its meeting held on 22 May 2014, the Audit and Risk Committee recommended the adoption of the Annual Financial Statements to the Board.

Knowles R. Oliver

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Knowles Rex Oliver
Chairperson of the Audit and Risk Committee
Rural Housing Loan Fund SOC NPC
Date: 31 July 2014

Part D:
Human Resource Management

Part D: Human Resource Management

1. Overview

RHLF, as a wholesale Development Finance Institution, has a small complement of 14 employees ensuring that it is able to focus its limited funding on the delivery of incremental housing loans to low income earners in rural areas.

Whenever possible, the company hires new employees as interns—a practice started in 2009. Through this programme RHLF contributes to addressing the problem of unemployed graduates while also building its own delivery capacity. All interns have successfully completed their internship and were subsequently absorbed into permanent positions within RHLF. During the year under review, two interns were appointed into permanent positions following excellent performance during their participation in the internship programme.

As a small organisation RHLF has a challenge in that opportunities for promotion in the organisation are rare and employees need to be motivated by other forms of personal advancement. Policies to ensure that this occurs have been successfully implemented. These include training and development programme that encourage staff members at all levels to undergo skills development training. In addition, RHLF has an Incentive Scheme Policy in terms of which personnel are paid performance bonuses in line with the policy, provided a threshold for bonus payment is achieved. Furthermore, RHLF has a Succession and Retention Policy that provides for mechanisms for staff retention and succession planning at executive level.

During the year under review, the company developed an HIV and AIDS Policy which was approved by the Board early in the current financial year. In the new financial year, RHLF will develop an Employee Wellness Programme that will include not only HIV/AIDS, but also other dread diseases.

2. Human Resources Statistics

The size of RHLF makes any attempt to split costs between development and administration arbitrary. All employees take part in development and most have some form of administration function.

Personnel cost

Year	Total expenditure for the entity R000	Personnel expenditure R000	Personnel expenditure as a % of total exp.	No of employees	Average cost per employee
2014	24,009	9,459	38%	14	654
2013	31,448	8,719	27%	14	604

Personnel cost by salary band

Year	Level	Personnel expenditure	% of expenditure to total personnel cost	No of employees	Average cost per employee
2014	Executive	3,143	43%	2	1,571
2014	Managers	3,295	45%	5	659
2014	Skilled	717	10%	5	143
2014	Trainees	186	3%	2	93
2013	Executive	2,980	43%	2	1,490
2013	Managers	3,081	44%	5	616
2013	Skilled	578	8%	3	193
2013	Trainees	339	5%	4	85

Performance Rewards

Year	Level	Performance awards	% of personnel expenditure to total personnel cost	No of employees	Average cost per employee
2014	Executive	612	8%	2	306
2014	Managers	495	7%	5	99
2014	Skilled	23	0%	5	5
2014	Trainees	36	0%	2	18
2013	Executive	373	5%	2	187
2013	Managers	536	8%	5	107
2013	Skilled	23	0%	3	8
2013	Trainees	-	0%	4	-

Employment and vacancies

Year	No of employees	Approved employees	Number of vacancies	% of vacancies
2014	14	15	1	7%
2013	14	14	-	0%

Part D:
Human Resource Management

Reasons for staff leaving

During the year RHLF had a single resignation. The employee had decided to focus on her studies.

Labour Relations

One staff member was given a written warning during the year for incurring fruitless and wasteful expenditure during the previous year.

Employment Equity

Level	African female	Coloured female	Indian female	White female	Total female	African male	Coloured male	Indian male	White male	Total male	Total
Executive	-	-	-	-	-	1	-	-	1	2	2
Managers	2	-	-	1	3	2	-	-	-	2	5
Skilled	3	-	-	-	3	2	-	-	-	2	5
Trainees	2	-	-	-	2	-	-	-	-	-	2
Total	7	-	-	1	8	5	-	-	1	6	14

Part E:
Financial Information

Report of the External Auditor

Report of the Independent Auditor
To The Board of Directors of Rural Housing Loan Fund SOC NPC
Report on the Financial Statements

We have audited the financial statements of Rural Housing Loan Fund SOC NPC set out on pages 49 to 80; which comprise statement of financial position as at 31 March 2014, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Recognise Accounting Practices and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Rural Housing Loan Fund SOC NPC as at 31 March 2014, and their financial performance and cash flows for the year then ended in accordance with Generally Recognise Accounting Practices and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Report of the External Auditor

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2014, we have read the Board of Directors' Report and the Report of the Audit and Risk Committee for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. The Board of Directors' Report and the Report of the Audit and Risk Committee is the responsibility of the respective preparers. Based on reading the Board of Directors' Report and the Report of the Audit and Risk Committee we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited the Board of Directors' Report and the Report of the Audit and Risk Committee and accordingly do not express an opinion thereon.

Report on Other Legal and Regulatory Requirements

Public Audit Act Requirements

In accordance with the PAA and the General Notice issued in terms thereof, we report the following findings relevant to the reported performance against predetermined objectives for selected objectives presented in the Strategic Outcome Oriented Goals, non-compliance with legislation as well as internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the Strategic Outcome Oriented Goals of the Company for the year ended 31 March 2014:

- Objective 1 - Achieve visibility for RHLF and enhance its ability to attract commercial lenders and developmental partners for rural housing delivery on page 30;
- Objective 2 - Broaden and deepen the reach of rural housing finance on page 30; and
- Objective 3 - Achieve real capital preservation in order to ensure the financial sustainability of RHLF while fully implementing RHLF's mandate on page 32.

We evaluated the reported performance against predetermined objectives and overall criteria of usefulness and reliability.

We evaluated the usefulness of information in the reported performance against predetermined objectives relates to whether it is presented in accordance with the National Treasury's annual reporting principles as to whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are well defined, verifiable, specific, measurable, time bound and relevant as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in the reported performance against predetermined objectives is assessed to determine whether it is valid, accurate and complete.

We report that there were no material findings on the Strategic Outcome Oriented Goals concerning the usefulness and reliability of the information for the selected objectives.

Report of the External Auditor

Additional matter

No material findings concerning the usefulness and reliability of the reported performance against predetermined objectives were identified.

Achievement of planned targets

Refer to the information in the Strategic Outcome Oriented Goals on performance information as set out on pages 30 to 34 for information on the achievement of planned targets for the year.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation as set out in the General Notice issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, the Strategic Outcome Oriented Goals and compliance with legislation. We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

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SizweNtsalubaGobodo Inc.
Registered Auditor
Per Darshen Govender
Chartered Accountant (SA)
Registered Auditor

Director

31 July 2014

20 Morris Street East
Woodmead
2191

Annual Financial Statements

Statement of Financial Position at 31 March 2014

	Note	31 Mar 14 R000	31 Mar 13 R000
Current assets		260,104	367,487
Cash and cash equivalents	18	119,914	157,665
Short term portion of intermediary loans	19	136,150	206,028
Receivables	20	1,032	1,028
Prepayments	21	1,142	1,187
Taxation	44	1,866	1,580
Non-current assets		268,866	140,393
Long term portion of intermediary loans	19	252,019	125,033
Investments	22	9,564	7,512
Property, plant and equipment	23	210	144
Intangible assets	24	-	43
Deferred taxation	53	7,073	7,661
Total assets		528,970	507,880
Liabilities			
Current liabilities		9,022	5,947
Payables	25	818	1,157
Current portion of long-term borrowings	27	6,402	2,985
Provisions	26	1,546	1,531
Employee benefits		256	275
Non-current liabilities		134,885	136,817
Borrowings	27	133,243	136,661
Deferred taxation	53	1,642	156
Total liabilities		143,907	142,764
Net assets		385,063	365,116
Net assets			
Grant capital		285,738	285,738
KFW Grant		154,763	154,763
Department of Human Settlements Grant		130,975	130,975
Retained earnings		99,325	79,378
Total net assets		385,063	365,116

Annual Financial Statements

Statement of Financial Performance

for the year ended 31 March 2014

	Note	31 Mar 14 R000	31 Mar 13 R000
Revenue from exchange transactions	28	41,068	37,977
Other income	30	12,193	12,202
Disposal of investments		-	2,018
Disposal of fixed assets		(22)	-
Bad debts recovered		464	618
Dividends		281	884
Investment interest		9,291	8,619
Interest earned - South African Revenue Services		127	64
Interest paid	35	**(10,280)**	**(10,278)**
Operating expenses		**(13,728)**	**(21,170)**
Amortisation	33	(20)	(23)
Audit		(576)	(157)
Consulting		(467)	(695)
Employee costs	31	(9,459)	(8,719)
Impairment provisions	32	334	(8,187)
Depreciation	34	(76)	(97)
Other		(3,464)	(3,293)
Profit before taxation		**27,480**	**18,731**
Taxation	44	**(9,305)**	**(6,160)**
Share of associates' income		1,773	-
Profit after taxation		**19,947**	**12,572**

Annual Financial Statements

Statement of changes in net assets
for year ended 31 March 2014

	Contributed Capital KFW	Contributed Capital Department of Human Settlements	Other reserves	Accumulated Surplus	Net Assets
	R '000	R '000	R '000	R '000	R '000
Balance at 31 March 2012	154,763	99,000	23,014	43,792	320,569
Changes in accounting policy					-
Correction of prior period error					-
Balance at 1 April 2012	154,763	99,000	23,014	43,792	320,569
Transfers to / from other reserves			-23,014	23,014	-
Increase in Capital Contributions		31,975			31,975
Surplus for the period				12,572	12,572
Balance at 31 March 2013	**154,763**	**130,975**	**-**	**79,378**	**365,115**
Balance at 1 April 2013	**154,763**	**130,975**	**-**	**79,378**	**365,115**
Surplus for the period				19,947	19,947
Dividends				-	-
Balance at 31 March 2014	**154,763**	**130,975**	**-**	**99,325**	**385,063**

Annual Financial Statements

Cash Flow Statement

for year ended 31 March 2014

	Notes	31 Mar 14 R000	31 Mar 13 R000
Cash flows from operating activities			
Receipts		**50,950**	**48,161**
Rendering of services		41,068	37,977
Interest, Dividends and Rent on land		9,882	10,184
Payments		**(32,125)**	**(31,586)**
Compensation of Employees		(9,493)	(8,744)
Goods and Services		(3,925)	(2,942)
Interest		(11,270)	(11,148)
Taxation Paid		(7,391)	(8,947)
Other payments		(47)	196
Net cash flows from operating activities	**45**	**18,825**	**16,575**
Cash flows from investing activities			
Purchase of assets		(143)	(34)
Loans granted to other economic entities		(146,280)	(107,338)
Loan repayments received from other economic entities		89,507	78,450
Additional movements		341	(364)
Net cash flows from investing activities.		**(56,575)**	**(29,285)**
Cash flows from financing activities			
Proceeds from grant from Department of Human Settlements		-	31,975
Net cash flows from financing activities		**-**	**31,975**
Net increase/(decrease) in cash and cash equivalents		**(37,751)**	**19,265**
Cash and cash equivalents at the beginning of the period		157,665	138,400
Cash and cash equivalents at the end of the period		**119,914**	**157,665**

1 BASIS OF PREPARATION

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), as issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act, (Act No 1 of 1999).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements.

2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

3 GOING CONCERN ASSUMPTION

These annual financial statements were prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

4 COMPARATIVE INFORMATION

Prior year comparatives

The presentation and classification of items in the current year is consistent with prior periods.

5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following Standards of GRAP and / or amendments thereto have been issued by the Accounting Standards Board, but will only become effective in future periods or have not been given an effective date by the Minister of Finance. The entity has not early-adopted any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5:

Standard number

IGRAP7 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
No effective date has yet been set.
GRAP 18 Segment Reporting No effective date has yet been set.

6 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The use of judgment, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

Judgements
In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

Depreciation and amortisation
Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

Allowance for doubtful debts
The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

7 FINANCIAL INSTRUMENTS

Initial Recognition
The entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as a financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

Initial Measurement
When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent Measurement
Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:
a) Financial instruments at fair value.
   - Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.
   - An investment in a residual interest for which fair value can be measured reliably.

Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial instruments at cost
Investments in residual interests, which do not have quoted market prices and for which fair value cannot be determined reliably.

The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

Concessionary loans
The part of the concessionary loan that is a social benefit or non-exchange revenue is determined as the difference between the fair value of the loan and the loan proceeds, either paid or received.

After initial recognition, an entity measures concessionary loans in accordance with the subsequent measurement criteria set out for all financial instruments.

Gains and losses
A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired or through the amortisation process.

Offsetting
The entity does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right of set-off exists and the parties intend to settle on a net basis.

Impairments
All financial assets measured at amortised cost, or cost, are subject to an impairment review. The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For financial assets held at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Investments at cost
Investments at cost, which represent investments in residual interest for which there is no quoted market price and for which fair value cannot be measured reliably, are subsequently measured at cost.

Cash and cash equivalents
Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Trade and other receivables
Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables
Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

8 PROPERTY, PLANT AND EQUIPMENT

Initial recognition and measurement
Property, plant and equipment are tangible non-current assets that are held for use in the supply services or for administrative purposes and are expected to be used during more than one year.

Items of property, plant and equipment are recognised as assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value of the item can be measured reliably.

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost where acquired through exchange transactions. However, when items of property, plant and equipment are acquired through non-exchange transactions, those items are initially measured at their fair values as at the date of acquisition.

The cost of an item of property, plant and equipment is the purchase price and other costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the entity. Trade discounts and rebates are deducted in arriving at the cost at which the asset is recognised. The cost also includes the estimated costs of dismantling and removing the asset and restoring the site on which it is operated.

Subsequent measurement
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation
Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciable amount is determined after taking into account an assets' residual value, where applicable entity.

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

The annual depreciation rates are based on the following estimated asset useful lives:

Vehicles and Plant	5
Office Furniture and Fittings	6
Computer Hardware	3
Office equipment	6

9 INTANGIBLE ASSETS

Initial recognition and measurement

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments.
The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in Statement of Financial Performance in the expense category consistent with the function of the intangible asset. During the period of development, the asset is tested for impairment annually.

Amortisation and impairment
Amortisation is charged to write-off the cost of intangible assets over their estimated useful lives using the straight-line method.

The annual amortisation rates are based on the following estimated average asset lives:

	Useful life in years
Computer Software	3

The amortisation period, the amortisation method and residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Impairments

The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

De-recognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

10 EMPLOYEE BENEFITS

Short-term employee benefits
Short-term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short-term employee benefits include remuneration, compensated absences and bonuses.

Short-term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short-term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Post-employment benefits

The entity provides post-employment benefits for its officials. These benefits are provided as a defined contribution plan. The entity identifies a defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans. The entity does not offer any defined benefit plans.

Defined contribution plans

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely, an asset is recognised to the extent that any contributions have been paid in advance.

11 LEASES

The entity as Lessee
Recognition

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

12 REVENUE

Revenue is raised by way of interest charged on loans issued to intermediaries. It is recognised as it accrues.

13 SURPLUS OR DEFICIT

Gains and Losses

Gains and losses arising from fair value adjustments on investments and loans, and from the disposal of assets, are presented as other revenue in the Statement of Financial Performance.

Income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in net assets is specifically allowed or required by a Standard of GRAP.

14 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

15 POST-REPORTING DATE EVENTS

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

16 RELATED PARTIES

The entity has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the entity any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- (b) terms and conditions within the normal operating parameters established by the reporting entity's legal mandate;

Further details about those transactions are disclosed in the notes to the financial statements.

Information about such transactions is disclosed in the financial statements.

17 INVESTMENT IN AN ASSOCIATE

The Entity's investment in its associate is accounted for using the equity method. An associate is an entity in which the Entity has significant influence.

Under the equity method, the investment in the associate is carried on the Statement of Financial Position at cost plus post acquisition changes in the Entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Statement of Financial Performance reflects the Entity's share of the results of operations of the associate. When there has been a change recognised directly in the net assets of the associate, the Entity recognises its share of any changes and discloses this, when applicable, in the statement of changes in net assets. Unrealised gains and losses resulting from transactions between the Entity and the associate are eliminated to the extent of the interest in the associate.

The Entity's share of the net surplus or deficit of an associate is shown on the face of the Statement of Financial Performance. This is the surplus attributable to holders the residual interest of the associate and, therefore, is surplus after tax and minority interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Entity. When necessary, adjustments are made to bring the accounting policies in line with those of the Entity.

	Note	2014	2013
		R '000	R '000
18 Cash and Cash Equivalents			
Cash and cash equivalents consist of the following:			
Cash at bank		2,347	6,950
Call deposits		69,107	105,953
Call investments		48,461	44,761
		119,914	**157,664**

An amount of R93 000 (2013: R93,000) is held on deposit with Standard Bank as security for a guarantee for RHLF's building rental commitments.

19 Intermediary loans

Balance at 31 March 2014	**Gross Balances R '000**	**Provision for Doubtful Debts R '000**	**Net Balance R '000**
Loans to intermediaries	421,503	(33,335)	388,168
Total Trade Receivables at 31 March 2014	421,503	(33,335)	388,168

Balance at 31 March 2013	**Gross Balances R '000**	**Provision for Doubtful Debts R '000**	**Net Balance R '000**
Other receivables	364,729	(33,668)	331,061
Total Trade Receivables at 31 March 2013	**364,729**	**(33,668)**	**331,061**

	2014	2013
Long-term loans to retail intermediaries	388,169	331,061
Less: Current portion transferred to current receivables	136,150	206,028
Total	**252,019**	**125,033**

19.1 Reconciliation of doubtful debt provision

	2014	2013
	R '000	R '000
Balance at beginning of the year	(33,668.3)	(28,309.0)
Contributions to provision	333.7	(8,186.5)
Bad debts written off against provision	-	2,827.2
Balance at end of year	**(33,334.6)**	**(33,668.3)**

The quality of debtors is not determined by their payment patterns but rather by the strength of their balance sheet.

19.2 The credit quality of trade receivables from exchange transactions are determined and monitored with reference to monthly reporting data received from the debtors as well as reviews performed on the clients at regular intervals. A policy on the risk associated with each client based on the quality of RHLF's security as well as the client balance sheet and profitability is strictly applied.

19.3 Fair value of receivables

The carrying value of trade receivables is assessed based on a discounted cash flow of future payments compared with the value of the debt after any provisions. In this report, no trade receivables were marked down based on their discounted cash flows.

19.4 Trade receivables pledged as security

No receivables are pledged as security.

	2014	2013
20 Other Receivables from Non-Exchange Transactions	R '000	R '000
Dividends due	1,032	334
Total Other Debtors	**1,032**	**334**
21 Prepayments		
Deposits	20	11
Prepaid expenses relating to DBSA loan agreement	1,122	1,176
	1,142	1,187
22 Investments		
Equity investments - Lendcor (Pty) Ltd (carrying value)	6,060	3,500
Equity investments - Izwe Holdings (Pty) Ltd (carrying value)	3,503	4,012
Preference Shares - Norufin Housing (Pty) Ltd (carrying value)	-	-
	9,564	7,512

23 Property, Plant and Equipment

23.1 Reconciliation of Carrying Value

	2014			2013		
	Cost	Accummulated Depreciation and Impairment	Carrying Value	Cost	Accummulated Depreciation and Impairment	Carrying Value
	R '000	R '000	R '000	R '000	R '000	R '000
Vehicles	167	(167)	-	167	(167)	-
Furniture and Fittings	533	(517)	16	528	(512)	16
Office Equipment	228	(156)	72	202	(139)	63
Computer Equipment	449	(326)	122	336	(271)	65
Leasehold premises	60	(60)	0	60	(60)	0
Total	**1,436**	**(1,225)**	**210**	**1,292**	**(1,149)**	**144**

No assets are pledged as security.

23.2 Reconciliation of Property Plant and Equipment - 2014

	Carrying Value Opening Balance R '000	Additions R '000	Depreciation R '000	Carrying Value Closing Balance R '000
Vehicles	-	-	-	-
Furniture & Fittings	16	5	(5)	16
Office Equipment	63	26	(17)	72
Computer Equipment	65	112	(55)	122
Lease hold premises	-	-	-	-
Total	**144**	**143**	**(76)**	**210**

23.3 Reconciliation of Property Plant and Equipment - 2013

	Carrying Value Opening Balance R '000	Additions R '000	Depreciation R '000	Carrying Value Closing Balance R '000
Vehicles	-	-	-	-
Furniture & Fittings	21	-	(5)	16
Office Equipment	76	7	(20)	63
Computer Equipment	110	27	(73)	65
Leasehold premises	-	-	-	-
Total	**207**	**34**	**(97)**	**144**

24 Intangible Assets

24.1 Reconciliation of Carrying Value

	2014 Cost R '000	2014 Accummulated Amortisation and Impairment R '000	2014 Carrying Value R '000	2013 Cost R '000	2013 Accummulated Amortisation and Impairment R '000	2013 Carrying Value R '000
Computer Software	204	(204)	-	271	(229)	43
Total	**204**	**(204)**	**-**	**271**	**(229)**	**43**

24.2 Reconciliation of Intangible Assets - 2014

	Carrying Value Opening Balance R '000	Disposals R '000	Amortisation R '000	Carrying Value Closing Balance R '000
Computer Software	43	(22)	(20)	0
Total	**43**	**(22)**	**(20)**	**0**

24.3 Reconciliation of Intangible Assets - 2013

	Carrying Value Opening Balance R '000	Disposals R '000	Amortisation R '000	Carrying Value Closing Balance R '000
Computer Software	65	-	(23)	43
Total	**65**	**-**	**(23)**	**43**

25 Trade and Other Payables from Exchange Transactions

	2014 R '000	2013 R '000
Trade creditors	818	1,157

Other creditors includes an amount for lease smoothing on the property lease.

26 Current Provisions

26.1 Reconciliation of Movement in Provision - 2014

	Performance Bonus	Provision for Leave Pay	Total
	R '000	R '000	R '000
Opening Balance	1,278	253	1,531
Provisions Raised	1,437	552	1,989
Amounts Used	(1,427)	(547)	(1,974)
Closing Balance	1,288	259	1,546

26.2 Reconciliation of Movement in Provision - 2013

	Performance Bonus	Provision for Leave Pay	Total
	R '000	R '000	R '000
Opening Balance	1,067	178	1,246
Provisions Raised	1,299	75	1,374
Amounts Used	(1,089)	-	(1,089)
Closing Balance	1,278	253	1,531

27 Borrowings

	2014	2013
	R '000	R '000
Development Bank of South Africa	139,645	139,646
	139,645	139,646
Less : Current portion transferred to current liabilities	-6,402	-2,985
Total Long-Term Non-Current Borrowings	133,243	136,661

Terms and conditions

This loan is from the Development Bank of South Africa as a result of a Euro denominated loan between them and KFW (the German Development Bank). The loan is a Rand denominated loan to RHLF bearing interest at a fixed rate of 7.56% per annum payable half yearly on 15 June and 15 December. Capital is repayable in 41 half yearly instalments commencing on 14 December 2014.

28 Interest Earned - External Investments

	2014	2013
	R '000	R '000

28.1 Interest Earned - Exchange transactions

	R '000	R '000
Receivables	41,068	37,977
Total interest on exchange transactions	**41,068**	**39,996**

28.2 External investments

Bank	-	2,018
Total interest	**-**	**2,018**

29 Sale of Goods and Services, Other Income, Public Contributions and Donations

	R '000	R '000
Revenue from Exchange Transactions - Interest on funding to intermediaries	41,068	37,977

30 Other income

	R '000	R '000
Interest earned	11,729	9,566
Investment income	-	2,018
Bad debt recoveries	464	618
Total Other Income	**12,193**	**12,202**

31 Employee Related Costs

	R '000	R '000
Employee related costs - Salaries and Wages	5,995	5,539
Employee related costs - Contributions for UIF, pensions and medical aids	1,397	1,254
Travel, motor car, accommodation, subsistence and other allowances	274	274
Performance and other bonuses	1,437	1,299
Other employee related costs	357	353
Employee Related Costs	**9,459**	**8,719**

32 Debt Impairment

	2014	2013
	R '000	**R '000**
Contributions / (reversals) of to debt impairment provision	**(334)**	**8,187**

33 Amortisation

	R '000	R '000
Intangible assets	20	23

34 Depreciation

	R '000	R '000
Property, plant and equipment	76	97

35 Finance Costs

	R '000	R '000
Borrowings	10,280	10,224
Total Finance Costs	**10,280**	**10,224**

36 Interest on investments

	R '000	R '000
Interest on investments	9,291	8,619

37 Subsequent events

Subsequent to year end RHLF was granted an exemption from income tax.

38 Employee Benefits

38.1 Defined contribution plans:

	R '000	R '000
Provident fund	915	851
Total contributions expensed to the Income Statement	915	851

39 Investments in Associates

39.1 Investment in Izwe Holdings (Pty) Ltd

The entity has a 4.92% interest in Izwe Holdings (Pty) Ltd and has the right to appoint a director.

The following table illustrates summarised financial information of the Entity's investment in Izwe Holdings (Pty) Ltd

	2014
Share of the joint venture's statement of financial position:	**R '000**
Current Assets	88,076
Non current assets	2,446
Current liabilities	(14,402)
Non current liabilities	(72,774)
Equity	**3,346**
Share of the joint venture's revenue and profit:	
Revenue	16,313
Cost of sales	(1,420)
Administrative expenses	(9,523)
Finance cost	(4,099)
Profit before tax	1,270
Income tax expense	(395)
Profit for the year form continuing operations	**875**

Due to changes in corporate structure and shareholding comparative figures for Izwe would not provide meaningful information.

39.2 Investment in Lendcor (Pty) Ltd

The entity has a 20% interest in Lendcor (Pty) Ltd and has the right to appoint a director.

39.3 Investment in associate

The following table illustrates summarised financial information of the Entity's investment in Lendcor (Pty) Ltd

	2014	2013	2012
Share of the associate's statement of financial position:	R '000	R '000	R '000
Current Assets	94,672	5,868	5,865
Non current assets	12,111	6,364	4,483
Current liabilities	(18,003)	(2,960)	(1,951)
Non current liabilities	(81,930)	(7,281)	(7,169)
Equity	**6,849**	**1,990**	**1,228**
Share of the associate's revenue and profit:			**14 Months**
Revenue	25,129	7,088	7,501
Impairments	(1,767)	(755)	(1,747)
Administrative expenses	(15,112)	(4,607)	(4,676)
Finance cost	(4,895)	(661)	(936)
Profit before tax	3,356	1,065	142
Income tax expense	(967)	(303)	(230)
Profit for the year from continuing operations	**2,388**	**762**	**(88)**

Lendcor changed its year end in 2012 hence a 14 month reporting period.

40 Fruitless and Wasteful Expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	-	-
Fruitless and wasteful expenditure current year	-	504
Condoned or written-off by relevant authority	405	(504)
Recovered	(405)	-
Fruitless and wasteful expenditure closing balance	**-**	**-**

This arose as a consequence of a late submission of a provisional income tax return in 2013. The responsible person received a written warning.

41 Capital Commitments

Operating leases

At the reporting date the entity had outstanding commitments under operating leases which fall due as follows:

Operating lease arrangements

Lessee

Premises

At the reporting date the entity had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	R000	R000
Up to 1 year	704	673
1 to 5 years	1,492	-
	2,196	**673**

Operating Leases consists of the following:

Property rentals are negotaited for a period of three years.
Rentals escalate at 8% per annum

Copiers

The major category of asset leased is photocopiers
At the reporting date the entity had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Up to 1 year	60	-
1 to 5 years	89	-
	149	**-**

Total

At the reporting date, the entity had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Up to 1 year	764	673
1 to 5 years	1,581	-
	2,345	**673**

42 Related Parties

Related party balances	R000	R000
Development Bank of South Africa	(138,182)	(138,145)
South African Reserve Bank	69,013	105,860
Related party transactions		
Interest earned / (paid)		
Development Bank of South Africa	(10,223)	(10,224)
South African Reserve Bank	5,252	88
South African Revenue Services	127	64
Other expenses		
South African Airways	(231)	
Telkom	(53)	(65)

Directors' remuneration

Directors' remuneration is dealt with in the Governance section of this annual report.

Executive pay

2014					
Title	**Incumbent**	**Basic Salary**	**Benefits**	**Performance bonus**	**Total**
		R000	**R000**	**R000**	**R000**
Chief Executive Officer	J J Fakazi	1,467	402	406	2,274
Chief Financial Officer	B C Gordon	1,207	214	206	1,627
Total		2,673	616	612	3,901

2013					
Title	**Incumbent**	**Basic Salary**	**Benefits**	**Performance bonus**	**Total**
		R000	**R000**	**R000**	**R000**
Chief Executive Officer	J J Fakazi	1,359	392	373	2,124
Chief Financial Officer	H Potgieter	-	-	46	46
Chief Financial Officer	B C Gordon	1,143	233	-	1,376
Total		2,502	625	419	3,546

43 Key Sources of Estimation Uncertainty and Judgements

The following areas involve a significant degree of estimation uncertainty:
RHLF has applied for an exemption from income tax. This application covers all years since 2004. Subsequent to year end an exemption was granted. The years for which it applies remain unknown.

The outcome of this case will affect both the net income reflected on the current Statement of Financial Performance as well as the retained earnings brought forward on the Statement of Financial Position.

	31 Mar 14 R000	31 Mar 13 R000
44.0 Taxation		
44.1 Taxation paid		
Opening balance	1,580	(1,263)
Interest accrued during the year	127	-
Normal taxation for the year	(7,231)	(6,104)
	(5,524)	(7,367)
Due to (by) SARS	(1,867)	(1,580)
Paid during the year	**(7,391)**	**(8,947)**
44.2 Normal taxation		
	29,252	18,731
Timing differences	(2,651)	2 072
Permanent differences	(124)	15
Taxable income	**26,477**	**20 818**
	7,414	5 829
Penalty incurred	-	504
Under provision in prior year	(183)	-
Normal tax	7,231	6 333
44.3 Taxation expense		
Normal taxation	7,231	6,333
Deferred taxation	2,074	56
Total taxation	**9,305**	**6,389**

45 Cash flows from operating activities

	31 Mar 14 R000	31 Mar 13 R000
Surplus for the year	**19,947.4**	**12,571.6**
Adjustment for:-	**(528.8)**	**5,729.1**
Depreciation	76.4	97.2
Amortisation	20.4	22.6
(Gain) / loss on sale of assets	(256.9)	(2,018.4)
Contribution to provisions - non-current	2,074.0	49.3
Contribution to provisions - current	15.1	285.2
Interest accrued	(127.0)	(63.9)
Fair value adjustments	(1,773.0)	-
Dividend Income	(281.4)	(883.5)
Impairment loss / (reversal of impairment loss)	(333.7)	8,186.5
Commitment fee	57.3	54.1
Operating surplus before working capital changes:	19,418.6	18,300.6
Working capital movements	(594.0)	(1,725.5)
(Increase)/decrease in trade and other receivables	49.6	1,069.3
(Increase)/decrease in tax receivable	(286.6)	(3,397.3)
Increase/(decrease) in trade and other payables	(357.0)	602.5
Net cash flows from operating activities	**18,824.6**	**16,575.1**

Risk Management

46 Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and long term loans to intermediaries. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Funds not immediately required are placed with the South African Reserve Bank.

Long term loans are granted to intermediaries to facilitate lending to low income earners in rural areas to enable home improvements. These loans are granted after a due diligence exercise has been satisfactorily conducted by the RHLF Risk Team. The recommendations of this team and the relevant client executive are considered by the Credit and Development Committee of the Board and when appropriate approved. RHLF receives monthly management accounts from these intermediaries and each month reviews the credit assessment. In addition at least once per annum a risk review is undertaken at each client to ongoing assurance of the risks faced by RHLF.

The financial assets carried at amortised cost expose the entity to credit risk. The value of the maximum exposure to credit risk are as follows for each of classes of financial assets at amortised cost:	31 Mar 2014	31 Mar 2013
Cash and cash equivalents	119,914	157,665
Current trade and other receivables from exchange transactions	136,150	206,028
Non-current receivables from exchange transactions	252,019	125,033
Non-Current Investments	9,564	7,512

Cash is held on a short term basis at the following institutions	Amount	Short term credit rating
South African Reserve Bank	69,013	
Standard Bank	2,162	F1+
Investec	48,740	F1+
Total	**119,914**	

47 Collateral held and other credit enhancements

The credit risk exposure, as posed by the financial assets held at amortised cost detailed above, is further mitigated by the collateral held in relation to these instruments:
Intermediaries

All intermediaries provide a cession of both their book debts funded by RHLF and their bank accounts as security for their borrowing.
In certain cases for the larger intermediaries the book debt is not differentiated and RHLF has a joint cession with other funders.

48 Concentration of credit risk

Almost all of RHLF's credit risk is contained within the long-term receivables.

49 Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and inward loan repayments and potential grant or loan funding.

Cash flow forecasts are prepared and commitments to intermediaries are monitored.
The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2014	Not later than one month	Later than one month and not later than three months
Trade and other payables	818	-

2014	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	6,402	13,667
Trade and other payables		

2013	Not later than one month	Later than one month and not later than three months
Trade and other payables	1,157	-

2013	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	-	13,667

Concentration of credit risk
Credit risk is concentrated in the intermediary loans.

50 Interest rate risk

The entity has interest rate risk associated with its long term lending. In the past these loans were issued for a fixed rate for the loan term. Newer loans are however linked to the prime lending rate of the company's bankers. There is therefore a risk of these rates reducing or increasing in line with the prime lending rate.

The long-term loan from the Development Bank of South Africa has a fixed rate of interest.
At year-end, financial instruments exposed to interest rate risk were as follows:

Call deposits
Notice deposits
Development Bank of South Africa loan

Interest rate risk sensitivity analysis

The susceptibility of the entity's financial performance to changes in interest rates can be illustrated as follows:	**Gross impact**	**Taxation effect**	**Net impact**
2014			
Interest income			
Interest rate increase of 75 basis points	3,786	1,060	2,726
Interest rate decrease 50 basis points	-2,524	-707	-1,817
Interest expense			
Interest rate increase of 75 basis points			
Interest rate decrease 50 basis points			
Borrowing interest rates are fixed			
2013			
Interest income			
Interest rate increase of 75 basis points	3,499	980	2,520
Interest rate decrease 50 basis points	(2,333)	(653)	(1,680)
Interest expense			
Interest rate increase of 75 basis points			
Interest rate decrease 50 basis points			
Borrowing interest rates are fixed			

51 Fair value disclosures

The entity uses the following hierarchy to determine the fair value of those instruments carried at fair value:

Level 1 - Fair value detemined based on unadjusted quoted prices in an active market

Level 2 - Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - Fair value determined based on inputs for the asset or liability that are not based on observable market data (unobservable inputs), i.e. Valuation techniques

At the reporting date the entity held the following financial assets carried at fair value:

Assets measured at fair value	Level 1 fair value	Level 2 fair value
Investment in associates	9,564	9,564
Total	**9,564**	**9,564**

52 Impairment and reconciliation disclosures related to financial assets

52.1 Impairment disclosures for non-current financial assets carried at amortised cost

Reconciliation between gross and net balances	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
Long term loans	421,503	(33,335)	388,168
Total	421,503	(33,335)	388,168

Reconciliation of the doubtful debts provision

	31 Mar 2014	31 Mar 2013
Balance at beginning of the year	(33,669)	(28,309)
Contributions to provision	-	(8,187)
Doubtful debts written off against provision		2,827
Reversal of provision	334	-
Balance at end of year	(33,335)	(33,669)

53 Contributed capital

	31 Mar 2014 R'000	31 Mar 2013 R'000

Contributed capital consists of grants directly paid to the entity for the purpose of funding the business of the entity.

Opening balance	285,738	285,738
Contributions	-	-
Balance at 31 March	285,738	285,738

54 Deferred taxation

Deferred taxation liabilities/(assets)		
- Opening balance	7,505	7,561
- Recognised in taxation	(2,074)	(56)
- Raised in other comprehensive income	-	-
	5,431	7,505
Analysis of temporary differences	5,431	7,505
Deferred taxation assets	5,431	7,505
- Employee benefit obligations	72	71
- Revenue received in advance and deferred income	(1,642)	(156)
- Doubtful debts	7,001	7,590
Net deferred taxation liability/(asset)	(5,431)	(7,505)

Staff Members

Jabulani Fakazi
Chief Executive Officer

Bruce Gordon
Chief Financial Officer

Tsaliko Ntoampe
Client Executive

William Malatji
Client Executive

Relebile Moeketsi
Jnr. Client Executive

Motlalepule Mothobi
Jnr. Marketing Consultant

Lindo Ndlovu
Jnr. Client Executive

Porche Knauf
Accountant

Staff Members

Makgalaborwa Maila
Risk Manager

Caroline Ndlovu
Risk Analyst

Klaas Motshabi
Jnr. Development Compliance Monitor

Myriam Kheza
Office Manager

Rhona Mokhele
Office Assistant

Dipolelo Chuene
Assistant Office Administrator

RHLF

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