

# ANNUAL INTEGRATED REPORT 2017/18



Rural Housing Loan Fund  
NPC 1996/010988/08







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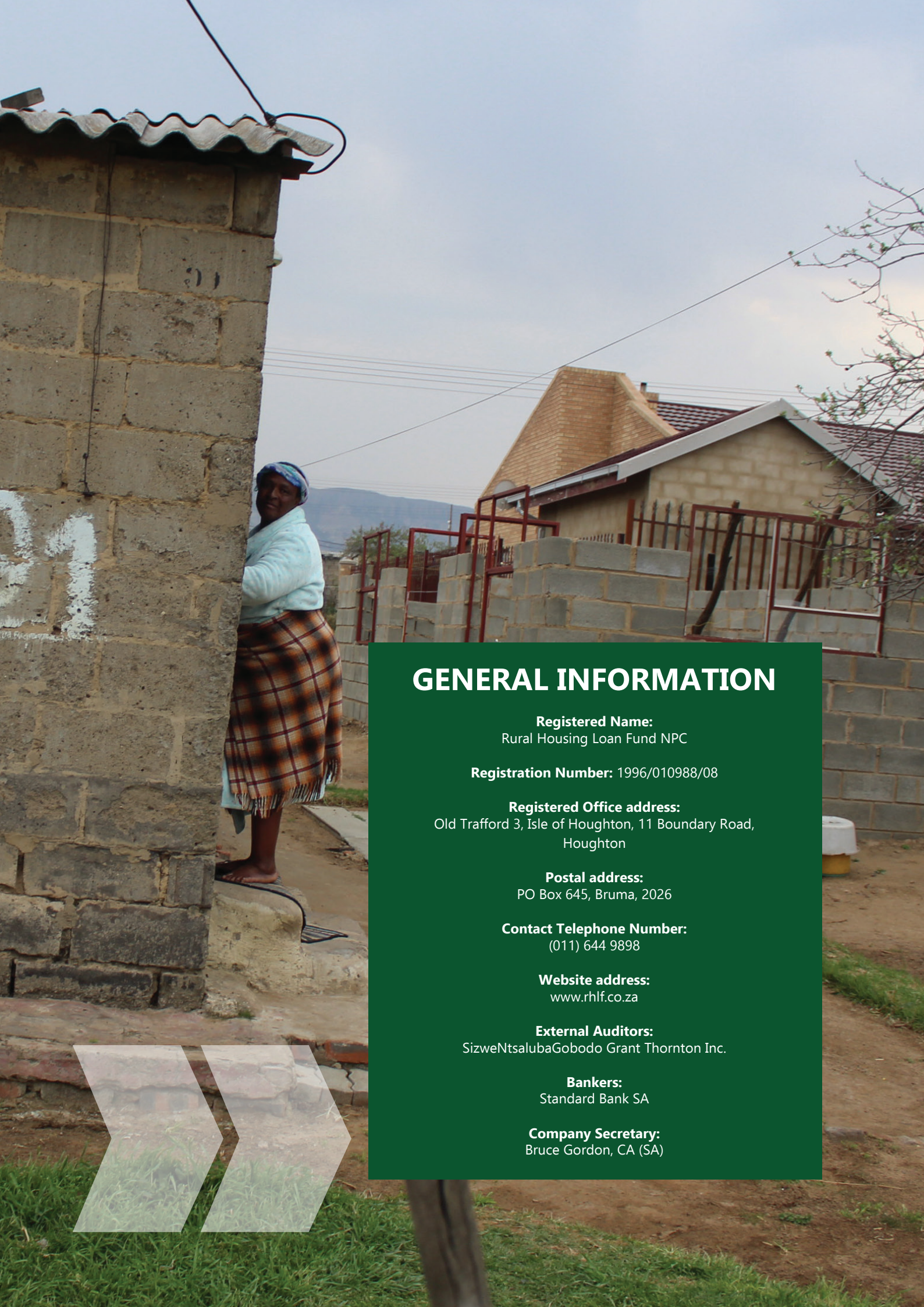
ANNUAL  
INTEGRATED REPORT  
2017/18

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## GENERAL INFORMATION

**Registered Name:**

Rural Housing Loan Fund NPC

**Registration Number:** 1996/010988/08

**Registered Office address:**

Old Trafford 3, Isle of Houghton, 11 Boundary Road,  
Houghton

**Postal address:**

PO Box 645, Bruma, 2026

**Contact Telephone Number:**

(011) 644 9898

**Website address:**

[www.rhlf.co.za](http://www.rhlf.co.za)

**External Auditors:**

SizweNtsalubaGobodo Grant Thornton Inc.

**Bankers:**

Standard Bank SA

**Company Secretary:**

Bruce Gordon, CA (SA)





## MANDATE

To facilitate access to housing finance for low income earners in rural areas to improve their living and housing conditions.



## 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 through access to housing credit.



## VALUES

We subscribe to the following values:

- Transparency
- Integrity and honesty
- Accountability and responsibility
- Passion for development
- Excellence
- Empowerment
- Respect



## FOREWORD BY THE CHAIRPERSON

The mandate of the Rural Housing Loan Fund is to facilitate access to unsecured incremental housing loans for low income rural households to improve their housing and living conditions. As a result of low income levels, slow economic growth, high unemployment and other economic challenges, this has proved to be a very difficult market to serve. Nevertheless, we are constantly impressed by the quality of the houses built, or improved upon, with limited funding. Examples of the houses visited during this financial year appear elsewhere in this Integrated Report.

Given the tough market conditions that prevailed during 2017/18 financial year, the company was unable to meet its key development targets, which are the number of loans delivered into the rural areas and the value of disbursements to our intermediary partners for on-lending.

This year, 40 921 (2016/17: 45 512) loans were provided to the market. As the budgeted number of loans was 44 738, the target was missed by 8.5%. Over the period, our intermediaries accessed R238.9 million (2016/17: R286.9 million), which resulted in a deficit of 11%.

It is important to highlight that not achieving these key targets was not a reflection of lack of demand by our target market for the housing loans. The demand for loans to improve housing in rural areas remains high, as was reflected in the volume of applications rejected at intermediary retail level. Many of the people applying for housing loans are not able to afford them, resulting in the majority of applications to our lenders being rejected. At times up to 80% of the applications fall into this category.

I am, however, pleased to report that the company met all other targets set for the year. I am particularly satisfied that the majority of the loans were accessed by women. This financial year, 63% of the loans provided were accessed by women – significantly higher than 30% target set for the company by the Department of Human Settlements. I am equally gratified to report that we continued enabling access to housing loans to the lowest income segment of our target market, those rural borrowers whose earnings are R3 500 or less per month. The company's target was 60%, but loans granted to this segment of the market reached 75.8%. These achievements show that our company continues to make a difference in the lives of many low-income earners who would otherwise struggle to improve their living conditions.

It is a pleasure for me to report that our efforts to contribute to the transformation of the housing microfinance industry continued. During the year we funded seven small intermediaries, three black women owned, 3 community based organisations and one black man owned.

Our intermediary partners use the funds we disburse to them for the mandated purpose and this is proved by our Development Compliance Monitoring team, who, from onsite verification visits, found that the funds are used in compliance with the mandate of the Rural Housing Loan Fund. This team visits a scientifically selected sample



**Thembi Chiliza**  
Board Chairperson  
Non-Executive Director

**“I AM, HOWEVER, PLEASED TO REPORT THAT THE COMPANY MET ALL OTHER TARGETS SET FOR THE YEAR. I AM PARTICULARLY SATISFIED THAT THE MAJORITY OF THE LOANS WERE ACCESSED BY WOMEN.”**

of borrowers from each of our intermediaries at least once a year in order to physically verify how funds are used. We are grateful that all our intermediaries continue to contribute to our mandate of improving living conditions in rural areas and small South African towns.

We continued to participate in the consolidation activities, currently underway, of the three Department of Human Settlements' Development Finance Institutions (DFI). While we had hoped that the consolidation would be concluded before the end of 2017/18 financial year this has, unfortunately, not been the case. This prolonged process has added to the complexities of running the company. Our employees participated in workstreams to prepare for the integration of operations of the three Human Settlements Development Financial Institutions while, at the same time, focusing on achieving the mandated goals for the year.

In August 2017, the company relocated its office from its premises in Bruma to those of the National Housing Finance Corporation in Houghton. The three-year lease at old office in Bruma had expired and the company was on month-to-month lease agreement. Taking into account that the entity was preparing for consolidation with NHFC and that NHFC had space at a relatively cheaper rate, the company decided to relocate to Houghton.

I extend my appreciation to all our staff for the dedication to their work, while at the same time being available to participate in the DFI consolidation activities. We thank them for their continued focus on supporting our intermediaries and ensuring that achievement of our mandate is not lost under these difficult conditions. In terms of governance, the company continued with only four non-executive directors and one executive director. This was due to a decision made by the previous minister not to appoint additional directors in view of the consolidation taking place. All directors have made themselves available to serve in the Board Committees to ensure that governance of the company remains sound.

I sincerely thank all members of the Board for their dedication to serving the company.

We also thank the previous Minister for Human Settlements for extending the term of office of the board members until the conclusion of the consolidation and dissolution of the company after transfer of Rural Housing Loan Fund business to National Housing Finance Corporation. This decision has ensured that during this complex transitional period, the company continues to be directed by the Board with vast expertise and the institutional memory of the mandate of the company. The Board continues to guide the consolidation to ensure it is done in a legally compliant manner, while at the same time, ensuring that the company does not lose focus on its core business.

Lastly, we welcome our new Minister for Human Settlements, the Honourable Nomaindiya Mfeketo. We will continue to work with the Ministry and the Department in our efforts to deliver on the mandate to improve the quality of life of people in the rural areas of South Africa.



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**Ms Thembi Chiliza**  
**Board Chairperson**  
Non-Executive Director





# **PEOPLE WHO BENEFIT: CREATING VALUE FOR CUSTOMERS**







1

**MS SOPHY NKOSI,  
MONSTERLUS, MPUDULLE****ELIAS MOTSWALEDI LOCAL MUNICIPALITY  
LIMPOPO PROVINCE**

Ms Sophy Nkosi is employed in the public sector as a nurse whose earnings fall in the income bracket of R6 000 to R9 800 per month. She lives with her son. They have access to electricity, use a pit toilet system and used to access water from a river. The borrower said the area had been experiencing water access challenges for a long time. This is why she applied for a loan to install a borehole on her property. She took out a loan of R14 000 in June 2016 from a RHLF intermediary lender, Makoko Finance. The borrower used the loan and her savings to drill a borehole and purchase a storage tank (as shown in the picture). This has cost her approximately R22 000. The borrower said she was happy to be able to access water on her property instead of having to collect from the river. Ms Nkosi has expressed her satisfaction with the services received from Makoko Finance. She said she intended accessing another loan to renovate the house.



2

**MRS SIBONGILE SIBANYONI,  
EVATON****EMFULENI LOCAL MUNICIPALITY  
GAUTENG PROVINCE**

Mrs Sibongile Sibanyoni is a mother of four children, all of whom live with her. One of the children is still at school. The Sibanyoni household live in a house acquired from the government before 1994. They have access to electricity, running tap water and a flush toilet. Mrs Sibanyoni is self-employed. She rents out the back rooms on her property, which generates an income of between R2 500 and R3 500 per month. She is also a pensioner who receives a social grant. Mrs Sibanyoni belongs to a savings club, the Thusanang Basadi Club, which accesses funds from the Rural Housing Loan Fund and only lends to its members. She borrowed R40 000 from the club in March 2017 to do extensions to her pre-1994 house because she needed more space in the house for the privacy of the five members of her family. The borrower used the loan, with her savings, to build extensions and pay the local builder she hired to build the house. Mrs Sibanyoni said she intended taking another loan for roofing material after she has repaid the first loan. Seeing her house extension project completed will make her happy, she said.



### 3 **MR MOSES SHIMANE MOOKETSI, PHATSIMA**

RUSTENBURG LOCAL MUNICIPALITY  
NORTH WEST PROVINCE

Mr Moses Shimane Mooketsi lives with his mother and three siblings in a RDP house, belonging to his mother. They have access to electricity, running tap water and use a pit toilet system. The borrower works in the private sector, in the mining industry, and his monthly income is more than R15 000 per month. He took a loan of R30 000 in March 2017 from a RHLF intermediary, Thuthukani Housing Finance. He used the loan and his savings to extend his mother's RDP house into an 11- roomed house. Mr Mooketsi is using a local builder to build the extensions. The borrower is very happy with the service he received from Thuthukani Housing and said he would take another loan to complete the house.



### 4 **MR AND MRS RAKOMANE, DRIEFONTEIN**

RAMOTSHERE MOILA MUNICIPALITY  
NORTH WEST PROVINCE

Mr Paul and Mrs Kedibone Rakomane are husband and wife who have three children, two of whom are still at school. The Rakomane household has access to electricity, use a pit toilet system and harvest water. The couple are both recipients of social grants as they are pensioners. They receive a disability grant for one of their children. The borrowers took loans of R5 039 and R3 140 in September 2017 from Kabo Financial Enterprises, a black woman-owned start-up company funded by RHLF. The couple used the loans to extend their existing house. They purchased a water storage tank to improve their access to water, and materials to install new doors in the house. The borrowers used the services of a local builder to do the extensions.



### 5 **MRS BASHIBIDU LEKABA, DRIEFONTEIN**

RAMOTSHERE MOILA MUNICIPALITY  
NORTH WEST PROVINCE

Mrs Bashibidu Lekaba is a widower and the mother of four children who have left home. She lives with her four grandchildren, who are all still school going. The Lekaba household has access to electricity, running tap water and a pit toilet system. Mrs Lekaba is a pensioner and receives a social grant between R1 500 – R 2 499 per month. She took a loan of R5 393 in August 2017 from a RHLF intermediary lender, Kabo Financial Enterprise. The borrower used the loan to renovate her existing house. She replaced the roof, which she said was in poor condition, built a verandah and extended the house. The borrower said her daughters were helping her financially to complete the renovations on the house.





6

**MR MICHAEL MHLANGABEZI MAKUPULA,  
GWARU LOCATION, MIDDLEDRIFT****NKONKOBE LOCAL MUNICIPALITY  
EASTERN CAPE PROVINCE**

Mr Michael Makupula is married and the father of two children, both still attending school. The family of four share the house. The Makupula household has access to electricity, running tap water inside the house and another outside the property available to the public. They use a pit toilet system. Mr Makupula is a 49 year old man, employed in the private sector in Queenstown, where he stays when on duty. He goes home when he is off work and his income is between R6 001 to R9 800 per month. He took a loan of R23 000 in December 2017 from a RHLF intermediary lender, Thuthukani Housing Finance, through a building material store, Khaya Build Hardware, to build a new house (a rondavel as shown in the picture). The borrower said he received a cash amount of R4 000 for labour and the remaining R19 000 was paid direct to the merchant, where he accessed the building material. Mr Makupula mentioned he was very happy with the assistance received from Thuthukani Housing, because now there was adequate space, giving his family the privacy they require.



7

**MISS MBALI AKHONA,  
CALA, BARRACKS****SAKHISIZWE MUNICIPALITY  
EASTERN CAPE PROVINCE**

Ms Mbali Akhona is a mother of two children who have completed their secondary schooling. Ms Akhona is employed in the private sector and lives in Gauteng, where she earns in the income bracket of R9 800 and R15 000 per month. She took a loan of R10 000 in December 2017 from Thuthukani Housing Finance. The borrower used the loan to build extensions to her parents' house, and replaced the roof which was leaking. Her parents, who live in Barracks, have access to electricity, running tap water inside the house and outside the property. This is accessible to the public. They use a pit toilet system. Ms Akhona's sister assisted her by paying for the labour services of a local builder. She said her parents' house was small in terms of space, but this was solved by the addition of two rooms to the house. The family is overjoyed that the roof is no longer leaking.







# ABOUT THIS REPORT





# INTEGRATED REPORT TO 31 MARCH 2018

## ABOUT THIS REPORT

The Rural Housing Loan Fund (RHLF) produces an annual integrated report to comply with the requirements of the Public Finance Management Act of 1999, as amended. In addition, we believe an integrated report enables us to highlight the connections between our developmental, financial and other performance criteria. This more informative style of reporting gives our stakeholders a better understanding of our mandate and business. The company's future success hinges on how well we manage the social, environmental and economic contexts in which we operate.

## SCOPE AND BOUNDARY

The 2018 integrated report covers the period 1 April 2017 to 31 March 2018. No material events after 31 March 2018 until the Board's approval on 14 August 2018 occurred.

## REPORTING TO STAKEHOLDERS

The Rural Housing Loan Fund has a wide range of stakeholders with varied information needs. This annual integrated report is our primary report aimed at not only the Minister for Human Settlements as our shareholder, but all our stakeholders mentioned in this report as well as those that we will engage in the future.

## INTEGRATED THINKING

We embrace integrated thinking in our operations to improve delivery on our mandate and to supply information to our stakeholders.

The Rural Housing Loan Fund exists to create value for itself and its stakeholders and depends on various forms of capital to achieve this.

The following elements are critical in the value creation of the Rural Housing Loan Fund and our stakeholders:



### **FINANCIAL CAPITAL:**

This is the money we have and use to finance all our business activities in the implementation of our mandate of enabling people in our mandate market to access housing loans to improve their living conditions. Sources of our financial capital include South African Government transfers, grant and loan finance from our funders (KFW, the German Development Bank, and the Development Bank of Southern Africa), as well as Retained Earnings the company has accumulated during its existence.



### **HUMAN CAPITAL:**

In terms of our human resources, we recruit and develop our people with the aim of enhancing their competencies and capabilities. This gives them the experience they need to provide the excellent service we need to ensure we deliver on our mandate and add value to our various stakeholders. By end of the 2018 financial year, eight of 17 (47%) employees had joined the company as interns before being appointed in a permanent capacity.



### **INTELLECTUAL CAPITAL:**

We have built knowledge-based expertise in housing microfinance delivery. This allows us to enable low-income people in rural areas to fulfil their aspirations of improving their housing and living conditions through a process of incremental building.



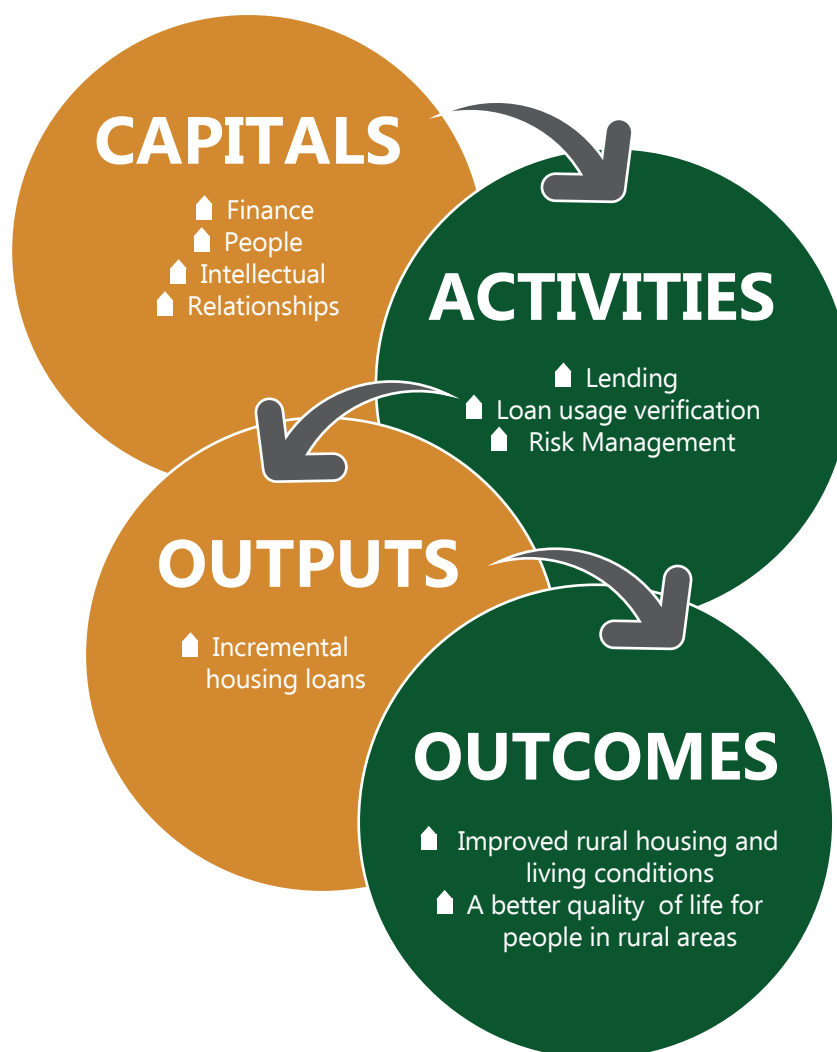
### **SOCIAL AND RELATIONSHIPS CAPITAL:**

The co-operative relationships we have built with various stakeholders in government, the private sector, communities and non-governmental organisations allow us to consistently deliver on our mandate and create value for our various stakeholders.



### **NATURAL CAPITAL:**

We support sustainable use of the natural resources to produce building material that our money finances. In particular, we would like to see more borrowers using their loans to access renewable sources of energy and other environmentally friendly alternative building technologies.





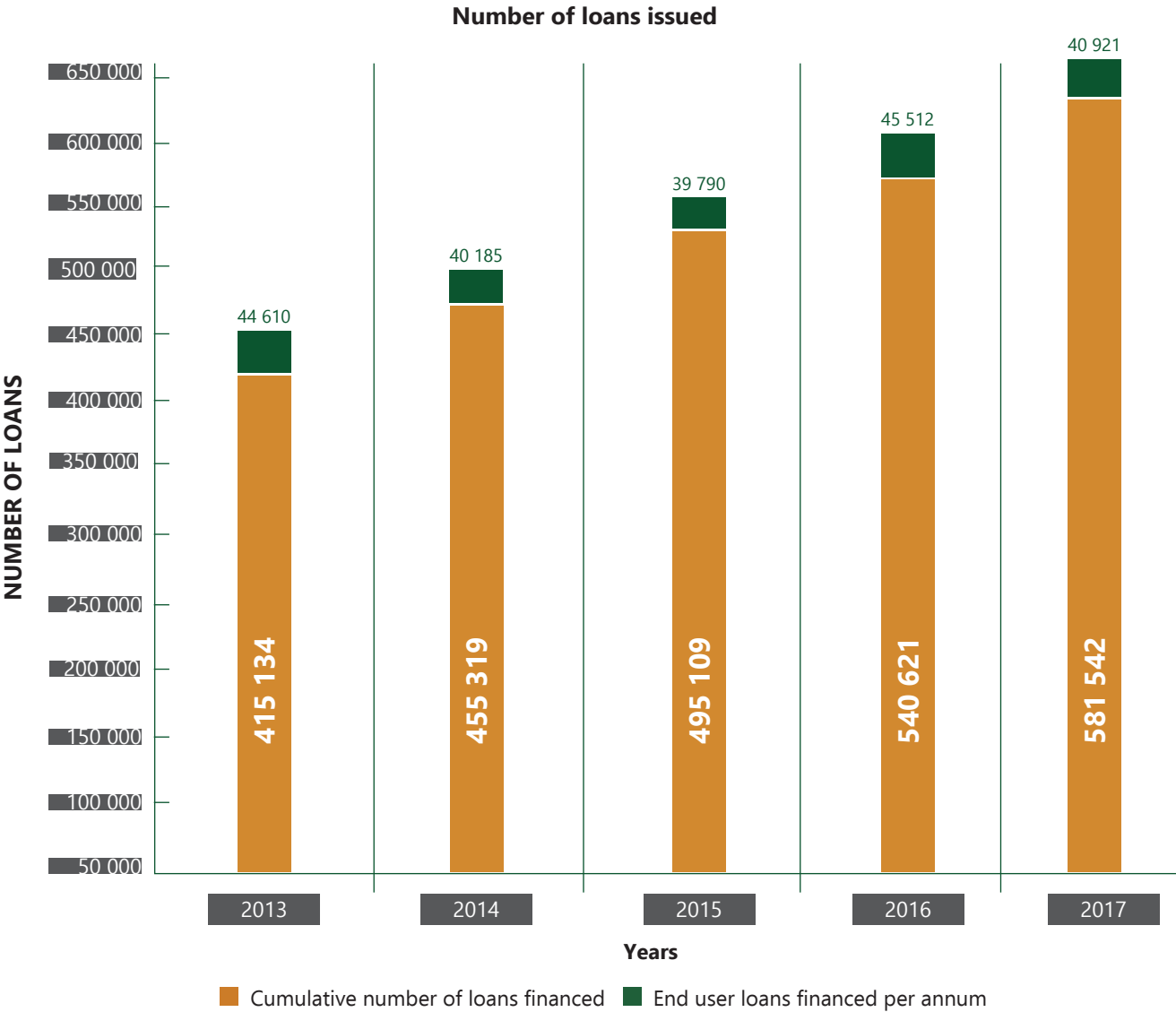


# **FIVE YEAR HIGHLIGHTS OF THE RURAL HOUSING LOAN FUND'S PERFORMANCE**





# DEVELOPMENT PERFORMANCE



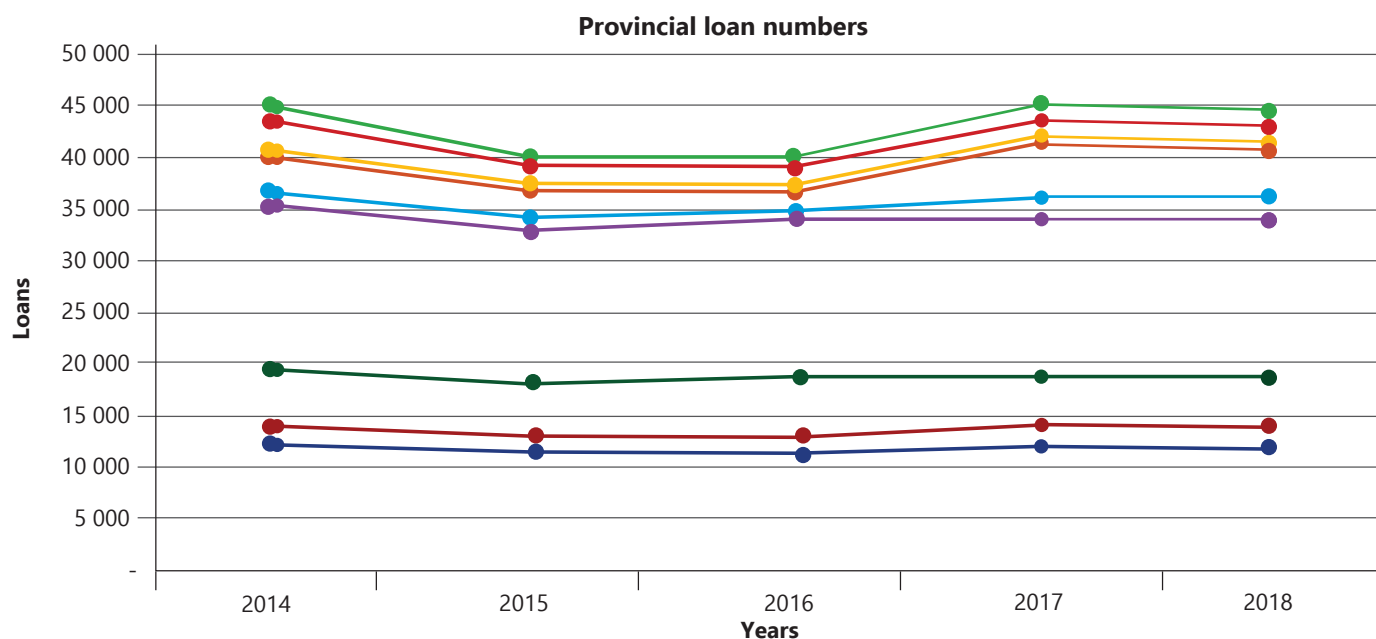
## LOAN OUTCOMES

| Mandate Compliance Information                                     |               |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
| Statistics Compiled from Monthly Housing Impact Monitoring Reports | 2014          | 2015          | 2016          | 2017          | 2018          |
| Number of new loans  | 44 610        | 40 185        | 39 790        | 45 512        | 40 921        |
| <b>Loan usage</b>  |               |               |               |               |               |
| New house  | 3,0%          | 1,0%          | 3,5%          | 0,7%          | 2,4%          |
| Extension  | 8,0%          | 8,0%          | 5,7%          | 5,8%          | 1,8%          |
| Improvement  | 82,0%         | 74,0%         | 77,2%         | 85,1%         | 87,9%         |
| Services   | 3,0%          | 14,0%         | 12,0%         | 7,7%          | 7,3%          |
| <b>Total housing usage</b>   | <b>96,0%</b>  | <b>97,0%</b>  | <b>98,4%</b>  | <b>99,3%</b>  | <b>99,4%</b>  |
| Other  | 4,0%          | 3,0%          | 1,6%          | 0,7%          | 0,6%          |
|  | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> | <b>100%</b>   |
| Repeat loan borrowers  | 31,0%         | 32,0%         | 36,1%         | 33,5%         | 37,7%         |
| Borrowers using loan together with government subsidy              | 4,0%          | 2,0%          | 2,9%          | 0,7%          | 0,8%          |
| <b>Gender of borrower</b>  |               |               |               |               |               |
| Male   | 38,0%         | 39,0%         | 39,9%         | 41,3%         | 36,8%         |
| Female   | 62,0%         | 61,0%         | 60,1%         | 58,7%         | 63,2%         |
| <b>Source of income</b>  |               |               |               |               |               |
| Private sector employment  | 23,0%         | 26,0%         | 26,7%         | 29,0%         | 23,3%         |
| Public sector (including social grants until 2015)                 | 76,0%         | 72,0%         | 7,0%          | 9,1%          | 5,4%          |
| Self/informal employment   | 2,0%          | 2,0%          | 2,2%          | 1,0%          | 0,7%          |
| State pension  |               |               | 63,9%         | 60,4%         | 70,3%         |
| Farm worker  |               |               | 0,2%          | 0,5%          | 0,3%          |
|  | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> |
| <b>Borrower's income</b>   |               |               |               |               |               |
| Less than R1 500 per month   | 63,0%         | 64,0%         | 63,2%         | 3,0%          | 0,1%          |
| R1 500 per month-R2 499 per month                                  | 5,0%          | 6,0%          | 5,7%          | 60,7%         | 68,8%         |
| R2 500 per month-R3 499 per month                                  | 4,0%          | 5,0%          | 7,6%          | 8,1%          | 6,9%          |
| <b>Sub-total below R3 500 per month</b>                            | <b>72,0%</b>  | <b>75,0%</b>  | <b>76,5%</b>  | <b>71,8%</b>  | <b>75,8%</b>  |
| R3 500 per month-R5 999 per month                                  | 7,0%          | 6,0%          | 7,3%          | 9,4%          | 8,9%          |
| R6 000 per month-R9 799 per month                                  | 9,0%          | 6,0%          | 5,5%          | 7,7%          | 5,5%          |
| R9 800 per month-R15 000 per month                                 | 12,0%         | 11,0%         | 5,1%          | 6,5%          | 4,8%          |
| More than R15 000 per month (w.e.f. 1/4/2014)                      |               | 2,0%          | 5,6%          | 4,7%          | 5,0%          |
|  | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> | <b>100,0%</b> |

The majority of borrowers who earn below R3 500 per month receive an old age social grant. This increased from below R1 500 per month to above R1 500 per month, leading to the change from 2016 to 2017.

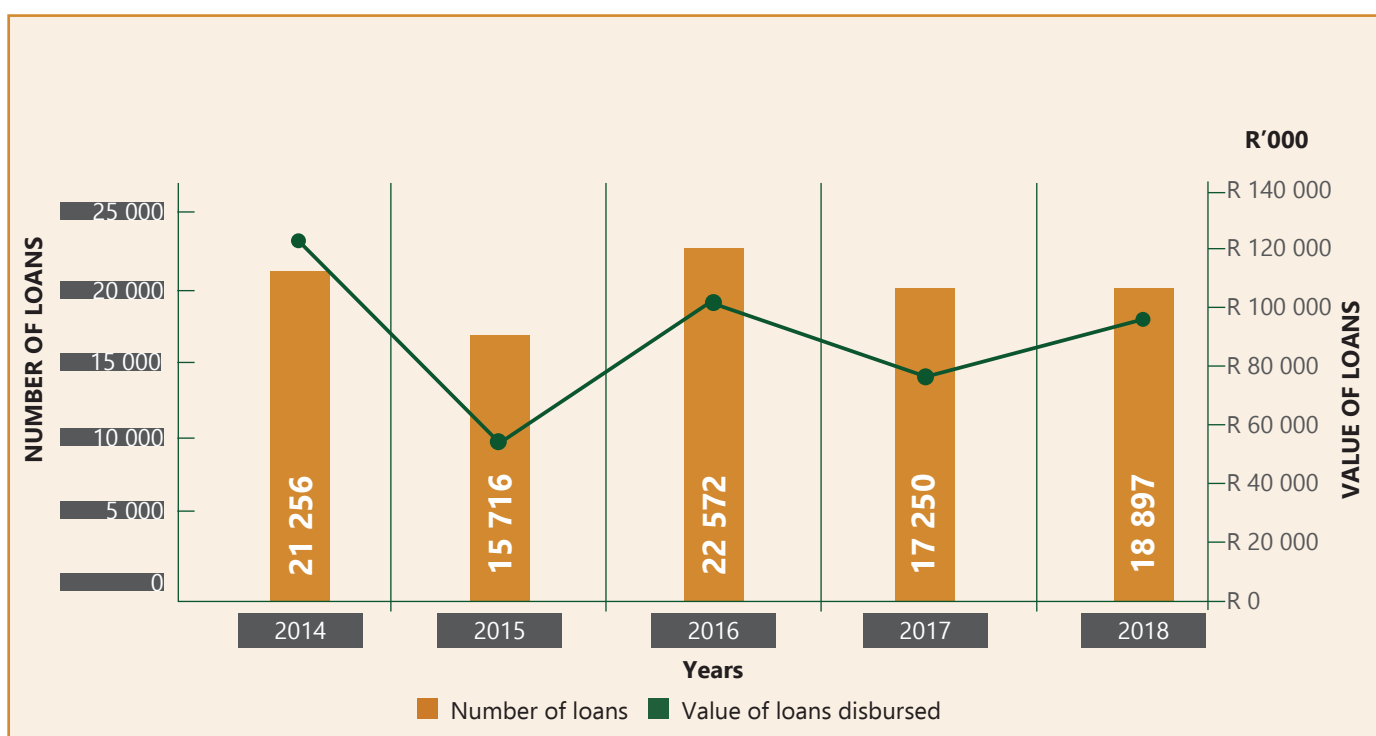


## PROVINCIAL DISTRIBUTION OF LOANS

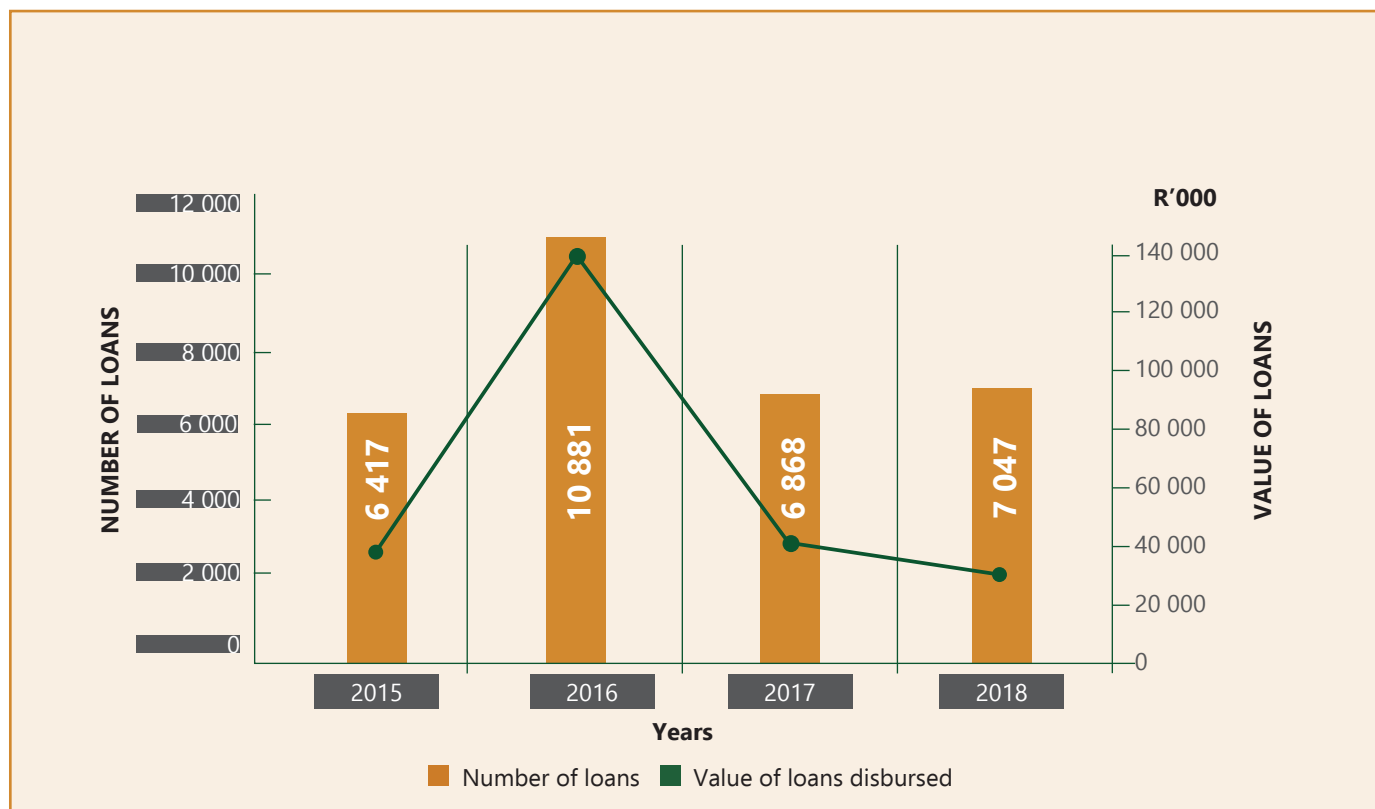


|                      | 2014   | 2015   | 2016   | 2017   | 2018   |
|----------------------|--------|--------|--------|--------|--------|
| <b>Western Cape</b>  | 1 147  | 869    | 713    | 533    | 260    |
| <b>North West</b>    | 2 793  | 2 548  | 2 315  | 3 093  | 2 393  |
| <b>Northern Cape</b> | 95     | 156    | 73     | 151    | 33     |
| <b>Mpumalanga</b>    | 3 496  | 4 179  | 4 245  | 5 210  | 4 500  |
| <b>Limpopo</b>       | 1 273  | 1 264  | 1 373  | 2 364  | 2 085  |
| <b>KwaZulu-Natal</b> | 17 301 | 14 828 | 14 147 | 15 880 | 15 997 |
| <b>Gauteng</b>       | 5 426  | 3 858  | 4 345  | 3 848  | 2 420  |
| <b>Free State</b>    | 1 367  | 1 292  | 1 358  | 1 668  | 1 447  |
| <b>Eastern Cape</b>  | 11 713 | 11 190 | 11 221 | 12 765 | 11 787 |

## HOUSING LOANS DELIVERED IN PRIORITISED RURAL NODES

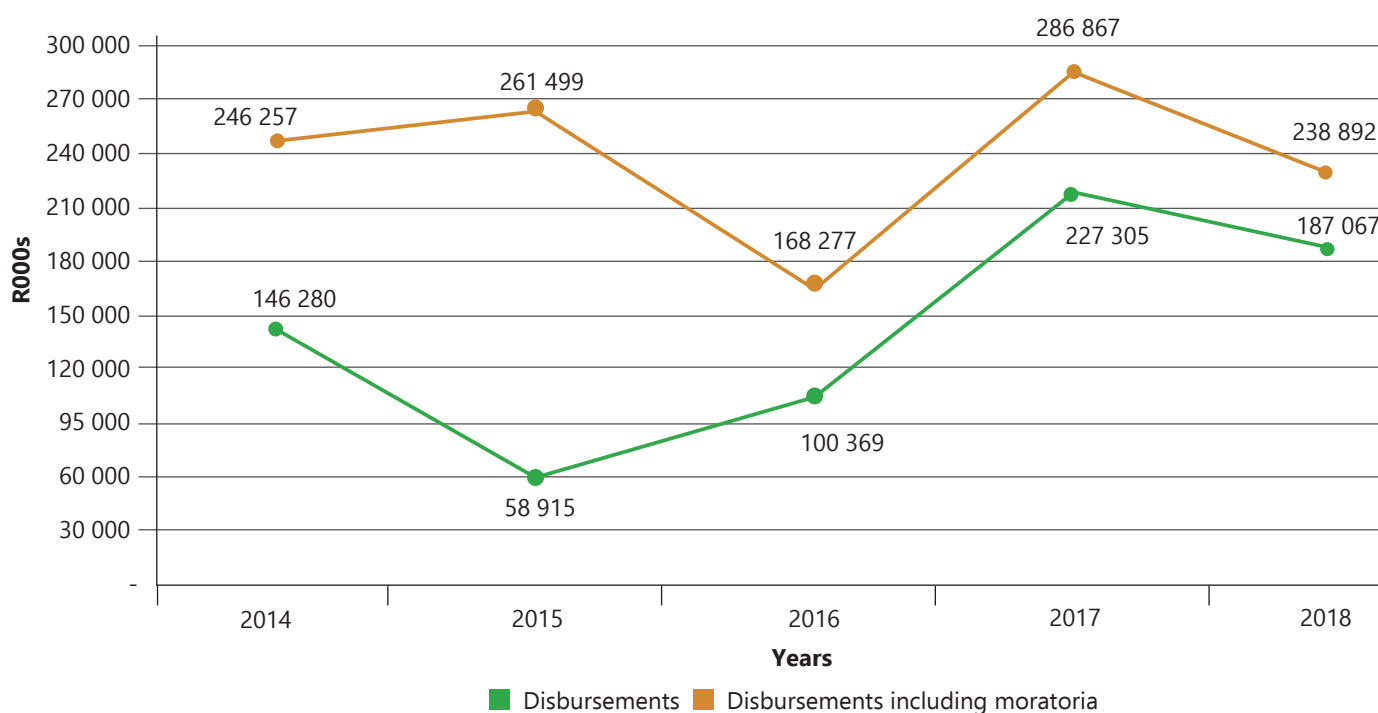


HOUSING LOANS DELIVERED IN MINING TOWNS AND LABOUR SENDING AREAS



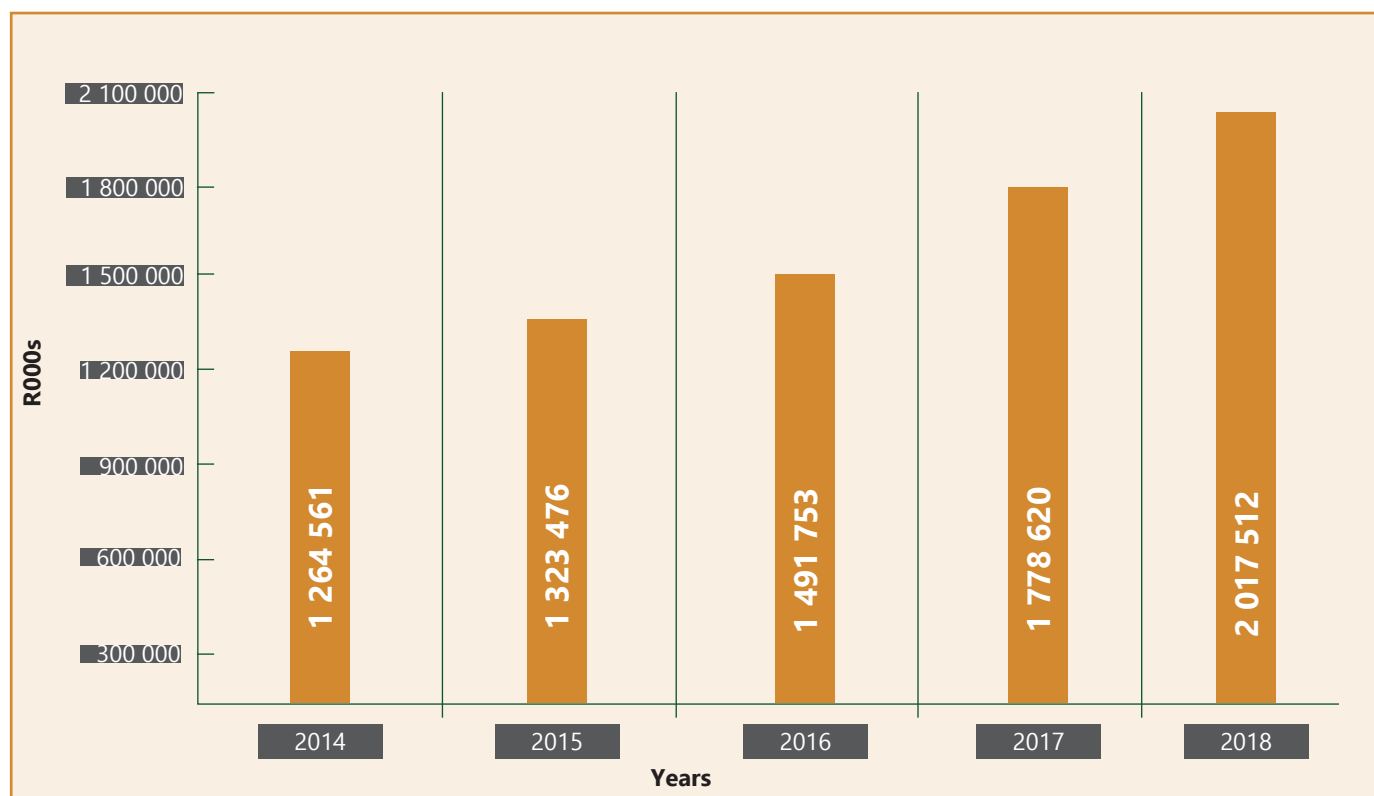
Note: Four year highlight is shown because issuing loans to these areas started in 2014/15 financial year.

ANNUAL DISBURSEMENTS

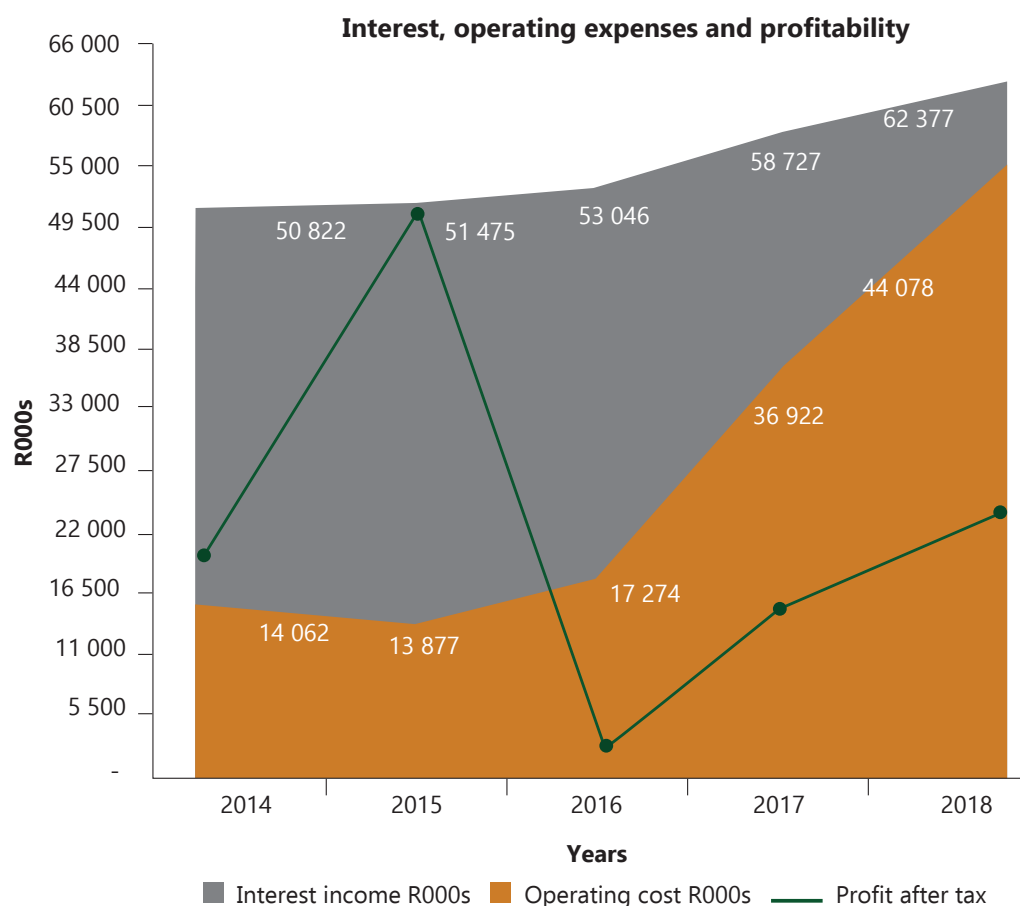




## CUMULATIVE DISBURSEMENTS



## FINANCIAL PERFORMANCE



The fluctuation in profit after tax are a result of a backdated income tax exemption. There was a dispute with the South African Revenue Service about the amount to be refunded. This led, in 2016, to a reversal of part of the amount of income tax taken to income in 2015.

As discussed in note 34 to the annual financial statements this matter has now been settled.





# WHO ARE WE?



# OUR PEOPLE

WHO ARE WE? CONTINUED



**JABULANI FAKAZI**  
Chief Executive Officer  
Joined Rural Housing Loan  
Fund in 2002  
Appointed as CEO in 2010



**TSALIKO NTOAMPE**  
Client Executive  
Appointed in 2003  
Manages intermediary  
relationships and sources  
new intermediaries



**MAKGALABORWA MAILA**  
Risk Manager  
Appointed in 2001  
Manages intermediary risks



**BRUCE GORDON**  
Chief Financial Officer  
Company Secretary  
Appointed in 2012



**WILLIAM MALATJI**  
Client Executive  
Appointed in 2003  
Manages intermediary  
relationships and sources  
new intermediaries



# OUR PEOPLE



**DIPOLELO CHUENE**  
Junior  
Office Administrator  
Appointed in 2010  
Manages telephone  
calls and front desk



**MLUNGISI HLABANGANI**  
Junior Risk Analyst  
Joined Rural Housing Loan  
Fund June in 2014 as an Intern  
Appointed in 2015  
Assesses and consolidates  
client financial and  
development reports



**MYRIAM KHEZA**  
Office Manager  
Appointed in 1996  
Takes minutes at all  
formal meetings as well as  
managing office



**PORCHE KNAUF**  
Accountant  
Appointed in 2002  
Prepares accounts  
to trial balance and  
supervises supply chain

# OUR PEOPLE

WHO ARE WE? CONTINUED



## RELEBILE MOEKETSI

Junior Client Executive  
Joined the Rural Housing Loan Fund  
in 2011 as an Intern  
Appointed in 2012  
Manages intermediary relationships  
and sources new intermediaries with  
special focus on Community Based  
Organisations



## KENNETH MOLAPO

Development Compliance Monitor  
Joined Rural Housing Loan Fund in  
2015 as an Intern  
Appointed in 2016  
Visits beneficiaries to assess the  
usage of loans to ensure compliance  
with RHLF mandate



## RHONA MOKHELE

Office Assistant  
Appointed in 2005  
Ensures office hygiene and  
binds board and committee  
packs

## MOTLALEPULE MOTHOB

Marketing Officer  
Joined Rural Housing Loan Fund  
in 2009 as an Intern  
Appointed in 2010  
Manages marketing and  
communications, corporate  
social responsibility and the  
annual client workshop



# OUR PEOPLE

## CAROLINE NDLOVU

Risk Analyst  
Appointed in 2014  
Reviews intermediary  
practices, processes and  
financial status and conducts  
due diligence on new clients



## LINDOKUHE NDLOVU

Junior Client Executive  
Joined the Rural Housing Loan  
Fund July in 2012 as an Intern  
Appointed in 2013  
Manages intermediary  
relationships and sources new  
intermediaries with special  
focus on Community Based  
Organisations



## RAMODIKENG MOTSHABI

Development Compliance Monitor  
Joined the Rural Housing Loan  
Fund in 2012 as an Intern  
Appointed in 2013  
Visits beneficiaries to assess  
the usage of loans to ensure  
compliance with RHLF mandate



## NTOMBI RADEBE

Finance Clerk  
Joined Rural Housing Loan  
Fund in 2017 as an Intern  
Appointed in 2018  
Assists finance department  
with accounting and  
financial tasks



# HUMAN RESOURCE ANALYSIS

## Performance Expenditure Analysis

| Year | Total expenditure for the entity R000 | Personnel expenditure R000 | Personnel expenditure as a % of total exp. | No of employees | Average annual cost per employee R000 |
|------|---------------------------------------|----------------------------|--|-----------------|---------------------------------------|
| 2018 | 44 078                                | 14 458                     | 33%  | 17              | 850                                   |
| 2017 | 36 922                                | 17 559                     | 48%  | 17              | 1 033                                 |

## Training costs

| Year | Personnel expenditure R000 | Training expenditure R000 | Training expenditure as % of personnel expenditure | No of employees trained | Average cost per employee R000 |
|------|----------------------------|---------------------------|--|-------------------------|--------------------------------|
| 2018 | 14 458                     | 350                       | 2%   | 17                      | 20                             |
| 2017 | 17 559                     | 457                       | 3%   | 17                      | 27                             |

Training expenditure here is net of the refund from the Financial Services SITA.

## Executive remuneration

| 2018                    |            |              |            |                   |              |
|-------------------------|------------|--------------|------------|-------------------|--------------|
| Title                   | Incumbent  | Basic Salary | Benefits   | Performance Bonus | Total        |
|                         |            | R000         | R000       | R000              | R000         |
| Chief Executive Officer | J J Fakazi | 1 968        | 524        | 617               | 3 109        |
| Chief Financial Officer | B C Gordon | 1 616        | 248        | 393               | 2 257        |
| <b>Total</b>            |            | <b>3 584</b> | <b>772</b> | <b>1 010</b>      | <b>5 366</b> |

| 2017                    |            |              |          |                  |                   |       |
|-------------------------|------------|--------------|----------|------------------|-------------------|-------|
| Title                   | Incumbent  | Basic Salary | Benefits | Retention Amount | Performance Bonus | Total |
|                         |            | R000         | R000     | R000             | R000              | R000  |
| Chief Executive Officer | J J Fakazi | 1 882        | 512      | 1 095            | 656               | 4 145 |
| Chief Financial Officer | B C Gordon | 1 490        | 246      | 663              | 478               | 2 877 |
| Total                   |            | 3 372        | 758      | 1 758            | 1 134             | 7 022 |

Performance bonus are paid in the year after that to which they relate.

Details of the retention amount are contained in Note 29 to the annual financial statements.



# HUMAN RESOURCE ANALYSIS

## Average salary per employee category

| Year | Level     | Personnel expenditure R000 | % of expenditure to total personnel cost | No of employees | Average cost per employee R000 |
|------|-----------|----------------------------|--|-----------------|--------------------------------|
| 2018 | Executive | 5 366                      | 42%                                      | 2               | 2 683                          |
| 2018 | Managers  | 4 484                      | 36%                                      | 5               | 897                            |
| 2018 | Skilled   | 2 477                      | 20%                                      | 8               | 310                            |
| 2018 | Trainees  | 226                        | 2%                                       | 2               | 113                            |
| 2017 | Executive | 7 022                      | 41%                                      | 2               | 2 077                          |
| 2017 | Managers  | 6 384                      | 38%                                      | 5               | 803                            |
| 2017 | Skilled   | 3 103                      | 19%                                      | 7               | 288                            |
| 2017 | Trainees  | 424                        | 3%                                       | 3               | 95                             |

## Performance awards as per percentage of total personnel cost performance

| Year | Level     | Performance Awards R000 | % of expenditure to total personnel cost | No of employees | Average cost per employee R000 |
|------|-----------|-------------------------|--|-----------------|--------------------------------|
| 2018 | Executive | 1 010                   | 8%                                       | 2               | 505                            |
| 2018 | Managers  | 776                     | 6%                                       | 5               | 155                            |
| 2018 | Skilled   | 417                     | 3%                                       | 8               | 52                             |
| 2018 | Trainees  | 12                      | 0%                                       | 2               | 6                              |
| 2017 | Executive | 1 137                   | 7%                                       | 2               | 567                            |
| 2017 | Managers  | 777                     | 5%                                       | 5               | 155                            |
| 2017 | Skilled   | 398                     | 2%                                       | 7               | 66                             |
| 2017 | Trainees  | 44                      | 0%                                       | 3               | 15                             |

# HUMAN RESOURCE ANALYSIS

## Vacancies

| Year | No of employees | Approved employees | Number of vacancies | % of vacancies |
|------|-----------------|--------------------|---------------------|----------------|
| 2018 | 17              | 20                 | 3                   | 15%            |
| 2017 | 17              | 20                 | 3                   | 15%            |

These vacancies relate to the Rural Individual Housing Subsidy voucher programme. As this is on hold, no recruitment is taking place.

## 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      | 4              | -               | -             | -            | 4            | 4            | -             | -           | -          | 4          | 8         |
| Trainees     | 2              | -               | -             | -            | 2            | -            | -             | -           | -          | -          | 2         |
| <b>Total</b> | <b>8</b>       | <b>-</b>        | <b>-</b>      | <b>1</b>     | <b>9</b>     | <b>7</b>     | <b>-</b>      | <b>-</b>    | <b>1</b>   | <b>8</b>   | <b>17</b> |



# CHIEF EXECUTIVE OFFICER'S REPORT







# CHIEF EXECUTIVE OFFICER'S OVERVIEW

For the year under review, 40 921 loans were advanced through our intermediaries to rural households. This was below the budgeted result. The Rural Housing Loan Fund (RHLF) had planned to provide 44 738 loans, but fell short by 8.5%.

The low economic growth during the year, and the resultant high unemployment rate, impeded our progress in meeting our targets. Levels of indebtedness in our market remained relatively high, leading to fewer borrowers being able to afford the housing loans to improve their homes and living conditions. Nevertheless, elsewhere in the report photos are provided to show housing improvements facilitated by the funding provided to individual households by our housing microfinance lending partners in all provinces.

Despite the fact that some of our intermediaries had embarked on the growth strategies reported in last year's report, the company provided a lower level of funding into the market due to decreased demand from intermediaries. This meant that only R238.8 million was disbursed in loans to intermediaries against a budget of R268.4 million.

By the end of the financial year, we had loan commitments of R103.9 million not drawn down by lenders due to the poor lending conditions. But despite the disappointing 2017/18 results, the company reached cumulative value of disbursements of R2.01 billion since its inception. We are proud to have reached this significant milestone of R2 billion. This is a wonderful achievement given the low-income market segment we serve.

The Rural Housing Loan Fund is an important agency of government in addressing the housing needs of low-income earners in areas identified by government such as Presidential Rural Nodes and Mining Towns and labour sending areas prioritised in the Special Presidential Package for distressed mining towns. For the year, 18 897 housing loans (2016/17: 17 250) were delivered in Rural Nodes, the value of which was R92.6 million (2016/17: R73 million). Loans granted in mining towns and labour sending areas by our retail partners amounted to R34 million (2016/17: R28.5 million) resulting in 7 047 (2016/17: 6 868) housing loans made in these targeted areas.

The company achieved total revenue of R62.7 million for the year made up of R48.5 million interest from lending operations and R13.8 million from investment income. Interest income from operations was less than the budget of R53.5 million as a result of both lower disbursements and delayed drawdowns by retail lenders of approved loans.

Investment income was higher than the budget of R10.9 million because of higher undisbursed funds than budgeted earning interest from the bank.

Despite operating expenses of R44 million, which exceeded the budget of R30.4 million, the company achieved a surplus of R25.1 million, slightly above the budget of R24.6 million. The higher operating expenses included impairment provisions of R22.1 million (2016/17: R13.5 million) that had to be made as a result of challenges faced by some of our intermediaries due to tough trading conditions discussed above. The profitability of the company was maintained through our reaching a settlement with the South African Revenue Services over tax refunds due.

The improved financial results were satisfactory, given economic downgrades of the country – a phenomenon that affected both investor and consumer confidence thereby negatively affecting direct investment, economic growth and employment.

The company had no discontinued activities during the year under review and does not plan to discontinue any of its



**Jabulani Fakazi**  
Chief Executive Officer

activities. The Individual Rural Housing Voucher Programme has been planned for quite some time now. It was revised during the course of the year, but has not yet been approved for implementation. The programme might be implemented after the new Human Settlements Development Bank has been established through the consolidation of the three Development Financial Institutions. Progress on the consolidation has been made, but there are still outstanding legal issues currently being addressed.

The Rural Housing Loan Fund has sound supply chain management processes and systems, and all procurement during the year was policy compliant. No unsolicited bid proposals were concluded during the year under review. In the 2016/17 financial year, the company incurred fruitless expenditure of R32 000 due to the late payment of an instalment on the Development Bank of South Africa loan and unfortunately incurred further fruitless expenditure of R10 000 during the current year for the same reason. The person responsible for this was issued with a written warning. Mechanisms have been put in place to avoid this recurring in the future.

As reported in the previous year's integrated report, we had hoped that the consolidation of the three Development Financial Institutions into a single entity under the National Housing Finance Corporation banner would be concluded before end of 2017/18 financial year. This would have been the first phase of establishing a statutory Human Settlements Development Bank. Because the Minister of Finance has not granted approval of the consolidation of the entities in terms of Section 66 of the Public Finance Management Act (PFMA) of 1999, this was not achieved.

The major concern around this delay is that it adversely affects the future mandate delivery of the company, because National Treasury has indicated there will be no budget allocation to the consolidated entity until the enabling legislation establishing the Human Settlements Development Bank is promulgated. It is not yet clear when the Human Settlements Development Bank will become operational. Until this happens, we will have insufficient funding available to scale up delivery in our target market – especially when market conditions improve.

If recent releases by Statistics South Africa are anything to go by, the outlook of the year ahead is not promising. The economy shrank by 2.2% in the last quarter of the financial year, after growing by 3.1% in the final quarter of 2017. The inflation rate rose markedly to 4.5% in April 2018 from 3.8% in the previous month. Given the implementation of 15% VAT, weakening exchange rate and the increasing oil prices, the upside risk on inflation looms large. Of concern to us is that this shrinks disposable income, especially for the low-income earners in our target market. So, as we intensify our efforts to improve performance from that achieved in 2018, we will need to be cautious of the tougher market conditions – at least in the short term.

I would like to extend my sincere appreciation to various stakeholders and people who have assisted the Rural Housing Loan Fund. Our retail intermediary micro-lending partners deserve special mention because, without them, the company would not be able to deliver on its mandate in a cost-effective manner nor reach all South Africa's provinces. We are proud to say that the majority of borrowers in our target market are able to access loans at a much cheaper rate than is legally allowed in terms of the National Credit Act Regulations. This is because most of our intermediaries borrow funds from us at concessional interest rates and in turn charge their customers much lower interest than the regulated maximum interest allowed.

We greatly appreciate the support we have received, over the years, from our funders, KFW, the Development Bank of South Africa and the Department of Human Settlements – all of whom have contributed to the growth of our business.

Furthermore, I would like to recognise the oversight role played by the Department of Human Settlements and the Parliamentary Portfolio Committee on Human Settlements.

During the year under review, the staff of the Rural Housing Loan Fund continued to focus on ensuring that the company delivered on its mandate and supported the consolidation of the Development Finance Institutions by participating in different workstreams in preparation for operational integration into the National Housing Finance Corporation as part of first step of consolidation. I sincerely thank them all for their dedication and support.

Lastly, I would like to thank members of the Board of the Rural Housing Loan Fund. The Board has played a key role in guiding management in ensuring that all steps for consolidation are taken in a legally compliant manner. The directors continued to emphasise that delivery of our mandate should not be compromised because of the dual focus of the company on its mandate and consolidation. This emphasis has sharpened the dexterity of our team in finding the right balance of ensuring mandate delivery and supporting consolidation activities.



**Jabulani Fakazi**  
Chief Executive Officer



# BUSINESS MODEL





## BUSINESS MODEL

The Rural Housing Loan Fund is a Human Settlements Development Finance Institution that was established in 1996 by the government with a mandate to facilitate access to incremental housing finance for low-income households in rural areas so that they can improve their homes and living environments. The company implements this mandate by approving loan facilities for housing microfinance institutions who then on-lend to individual borrowers who want to improve their homes. The company's target are individuals earning an amount not exceeding R15 000 per month.

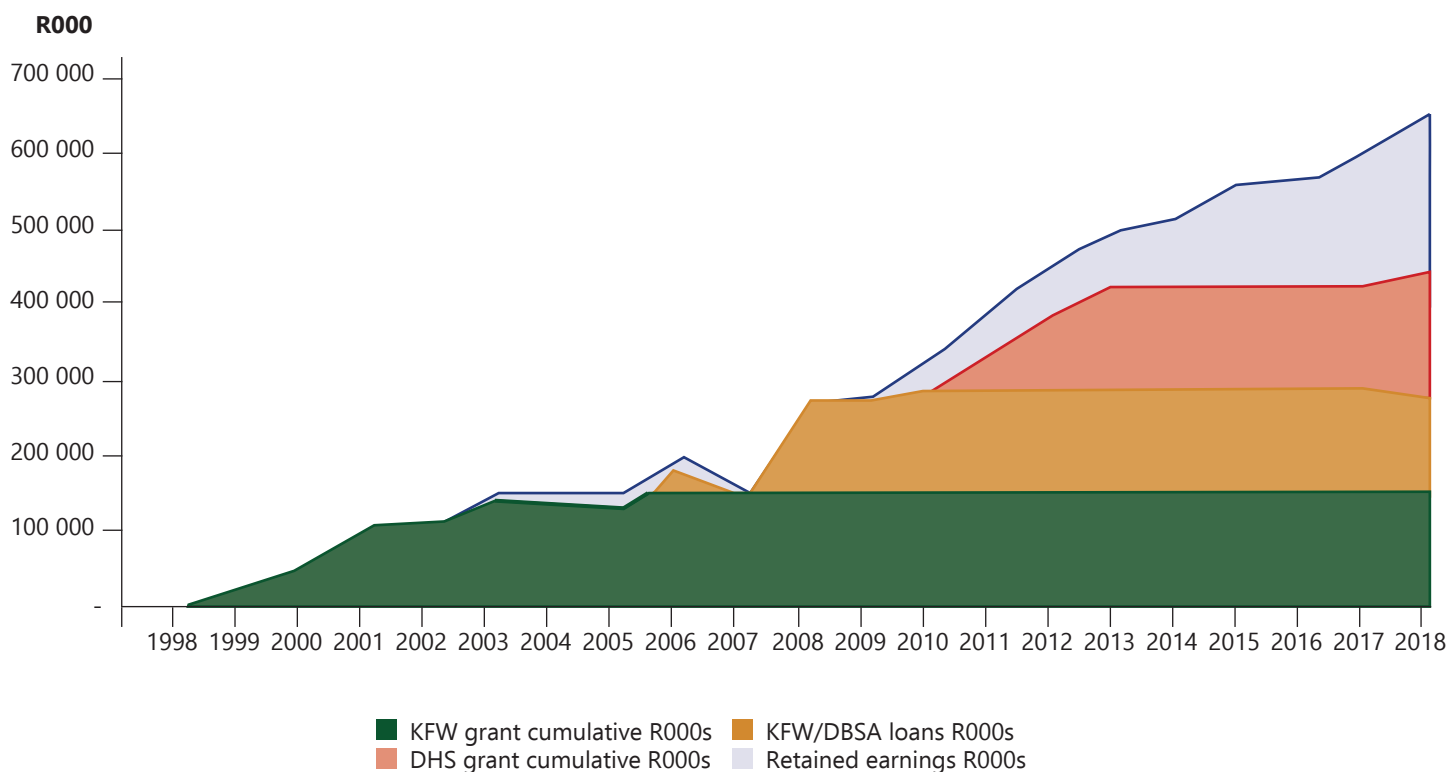
## FUNDING

The Rural Housing Loan Fund was initially capitalised with grant funding from KFW, the German Development Bank. This was a grant made in terms of Co-operation Agreement between the German and South African governments. Since then the company has borrowed additional funds from the Development Bank of Southern Africa. This loan was funded by KFW on a back-to-back basis, supported by a sovereign guarantee. This loan is now being repaid. In terms of the agreements with KFW, the funds can only be used for lending or investing in equity of intermediaries who lend to low-income earners in rural areas.

Additional funding has been received from the Department of Human Settlements in the current year of an amount of R50 million. This brings the total received to R181 million.

The final source of funds is the retained earnings accumulated since inception. The graph below shows different sources of funding since the company started lending operations.

**Sources of total capital**



## OPERATIONS

The nature of the Rural Housing Loan Fund's business is that the company lends to intermediaries who on-lend to end users to improve their human settlement situation on an incremental basis. These intermediaries are subject to the provisions of the National Credit Act, which limits interest rates, fees and insurance charges.

The National Credit Act regulations allow the following maximum interest rate to be charged on different types of unsecured loans. The illustration in the table below is calculated on the REPO rate of 6.5% announced by the Monetary Policy Committee in March 2018.

| Type of credit  | New max interest rate effective May 2016 |
|---|--|
| (1) Unsecured credit                                  | 27.5%                                    |
| (2) Developmental credit (small business and housing) | 33.5%                                    |

Our concern is that government allows developmental credit to be accessed at a higher cost compared to unsecured credit for consumption. This is not in line with government efforts, as advocated in the National Developmental Plan, to encourage active citizenry as people take it upon themselves to embark on their development needs.

### Pricing Policy

The maximum interest rate for unsecured developmental credit allowed by the NCA Regulations is extremely high, especially considering the low income level of the people who access our funds. For this reason, the Rural Housing Loan Fund has put in place a policy to ensure that our intermediaries charge lower than the legal rate set. This policy provides discounts to intermediaries of approximately half the discount that they provide to the end users to a minimum of Prime – 1,5%. This minimum is unfortunately necessary to ensure that the company remains financially sustainable. A significant majority of loans issued by intermediaries during the year were issued at 15%, or less than half the maximum permissible rate. This is a continuing pattern in the last few years. In addition, the pricing policy also provides for pricing of Prime minus 2.5% for community-based organisations such as stokvels and cooperatives.

## INTERMEDIARIES

Funds are lent on to approved intermediaries. The following types of intermediaries access our various products.

### Start-up companies

When the company first commenced operations, it invested in start-up businesses to ensure that a market was developed for facilitating access to incremental housing finance in rural areas. As with any start-up some of these businesses thrived, and some failed following the small banking crisis in the early 2000's that led to the demise of many microfinance companies. Following this crisis, the Rural Housing Loan Fund took a strategic business decision to balance its portfolio of intermediaries by signing up well managed and capitalised microfinance institutions. This was done in order to ensure that channels to distribute loans to the market were maintained. The company is currently in the drive to sign up more start-ups with the objective of transforming the microfinance industry, in addition to building more loan delivery channels to the market we serve. We are targeting mainly start-ups owned by black and women entrepreneurs.

The following companies were financed using a combination of equity and loan funding during the year under review:

#### Black and women owned small companies:

| Name                     | Location                     | Black Shareholding | Black woman shareholding | RHLF interest    |
|--------------------------|------------------------------|--------------------|--------------------------|------------------|
| Kabo                     | Zeerust, North West          | 80%                | 75%                      | 20% ords + Prefs |
| Home Improvement Finance | Somerset West, Western Cape  | 30%                | 30%                      | Nil              |
| Lehae                    | Maluti-a-Phofung, Free State | 80%                | 80%                      | 20% ords + Prefs |
| Makoko                   | Sekhukhune, Limpopo          | 100%               | Nil                      | Nil              |
| Igatsha                  | KwaDukuza, KwaZulu-Natal     | 100%               | 60%                      | Negotiating      |

### Community-based organisations

During the year under review, the following community-based organisations continued to be funded by the entity.

| Name                                 | Location                | Black shareholding | Black woman shareholding | RHLF interest |
|--------------------------------------|-------------------------|--------------------|--------------------------|---------------|
| Thusanang Basadi (CBO) Building Club | Orange Farm, Gauteng    | 100%               | 100%                     | Nil           |
| Boikago (CFI/CBO)                    | Mahikeng, North West    | 100%               | 52%                      | Nil           |
| Shiyendlele (CBO) Building Club      | Umtshezi, KwaZulu-Natal | 100%               | 67%                      | Nil           |

We would like to see more community-based organisations in our stable as we intensify efforts to reach more self-and informally -employed people in our target market.

### Established commercial intermediaries

While a big effort is expended on community-based and start-up intermediaries, the bulk of the company's performance is delivered by the large established commercial intermediaries. This is evident from the table below, which shows all intermediaries and the delivery they provided during the year. Established commercial intermediaries are able to deliver more loans because most of them have grown to the stage of having national footprint compared to small start-ups and community-based organisations who lend in local areas. The table also shows the average loan size has decreased from the previous year. This is indicative of the lower levels of disposable income.

| Name                            |                              | 2016/17              |                  |                       | 2017/18              |                  |                       |
|---------------------------------|------------------------------|----------------------|------------------|-----------------------|----------------------|------------------|-----------------------|
|                                 |                              | Value disbursed R000 | Number of loans  | Average loan size (R) | Value disbursed R000 | Number of loans  | Average loan size (R) |
| <b>Bayport</b>                  | Value<br>Percentage of total | 44 866<br>13%        | 2 568<br>6%      | 17 471                | 4 767<br>18%         | 151<br>0,4%      | 31 571                |
| <b>Boikago</b>                  | Value<br>Percentage of total | 482<br>0,1%          | 12<br>0,03%      | 40 143                | 287<br>0,1%          | 6<br>0,01%       | 47 907                |
| <b>iBuild</b>                   | Value<br>Percentage of total | -<br>0%              | -<br>0%          | -                     | 2 607<br>1,0%        | 20<br>0%         | 130 332               |
| <b>Igatsha</b>                  | Value<br>Percentage of total | -<br>0%              | -<br>0%          | -                     | 96%                  | 7<br>0,02%       | 13 657                |
| <b>Izwe</b>                     | Value<br>Percentage of total | 7 701<br>2%          | 592<br>1%        | 13 009                | -<br>0%              | -<br>0%          | -<br>0%               |
| <b>Lendcor</b>                  | Value<br>Percentage of total | 135 163<br>39,5%     | 34 110<br>74,95% | 3 963                 | 158 202<br>58,7%     | 36 038<br>88,07% | 4 390                 |
| <b>Home Improvement Finance</b> | Value<br>Percentage of total | -<br>0%              | -<br>0%          | -                     | 607<br>0,2%          | 16<br>0,0%       | 37 939                |
| <b>Homefin</b>                  | Value<br>Percentage of total | 47<br>0%             | 2<br>0%          | 23 251                | -<br>0%              | -<br>0%          | -                     |
| <b>Kabo</b>                     | Value<br>Percentage of total | 544<br>0%            | 80<br>0%         | 6 797                 | 1 863<br>0,7%        | 367<br>0,9%      | 5 077                 |
| <b>Lehae</b>                    | Value<br>Percentage of total | 323<br>0,1%          | 79<br>0,17%      | 4 083                 | 363<br>0,1%          | 77<br>0,19%      | 4 709                 |



| Name                    |                              | 2016/17              |                 |                       | 2017/18              |                 |                       |
|-------------------------|------------------------------|----------------------|-----------------|-----------------------|----------------------|-----------------|-----------------------|
|                         |                              | Value disbursed R000 | Number of loans | Average loan size (R) | Value disbursed R000 | Number of loans | Average loan size (R) |
| <b>Makoko</b>           | Value<br>Percentage of total | 1 179<br>0%          | 71<br>0%        | 16 610                | 573<br>0,3%          | 30<br>0,2%      | 19 108                |
| <b>Norufin</b>          | Value<br>Percentage of total | 23 716<br>6,9%       | 1 778<br>3,91%  | 13 339                | 1 470<br>0,5%        | 127<br>0,31%    | 11 576                |
| <b>Real People</b>      | Value<br>Percentage of total | -<br>0%              | -<br>0%         | -                     | 3 259<br>1,2%        | 168<br>0,4%     | 19 400                |
| <b>Thusanang Basadi</b> | Value<br>Percentage of total | 320<br>0,1%          | 8<br>0,02%      | 40 000                | -<br>0%              | -<br>0%         | -                     |
| <b>Thuthukani</b>       | Value<br>Percentage of total | 34 269<br>10%        | 2 036<br>4%     | 16 831                | 27 459<br>10,2%      | 1 466<br>3,6%   | 18 731                |
| <b>Umuzi</b>            | Value<br>Percentage of total | 93 799<br>27,4%      | 4 176<br>9,18%  | 22 461                | 74 541<br>27,6%      | 2 448<br>5,98%  | 30 450                |
| <b>Total</b>            |                              | <b>342 408</b>       | <b>45 512</b>   | <b>7 523</b>          | <b>269 622</b>       | <b>40 921</b>   | <b>6 589</b>          |

It must be noted that the amounts shown here as disbursed by the intermediaries do not reflect the same amounts as disbursed by the Rural Housing Loan Fund. This is partially a result of timing differences, and as result of intermediaries using receipts on loan repayments from loans granted with our funds or retained earnings. As can be seen Izwe, our intermediary since 2004, has ceased to issue loans and has repaid all our funds.

#### INDIVIDUAL RURAL HOUSING SUBSIDY VOUCHER PROGRAMME

The implementation of what is more commonly referred to as the Voucher Programme, has been on hold for a number of years now. The Programme is currently being revised and will only be implemented once approval is granted by the Ministers and Members of Executive Councils Meeting (MINMEC).



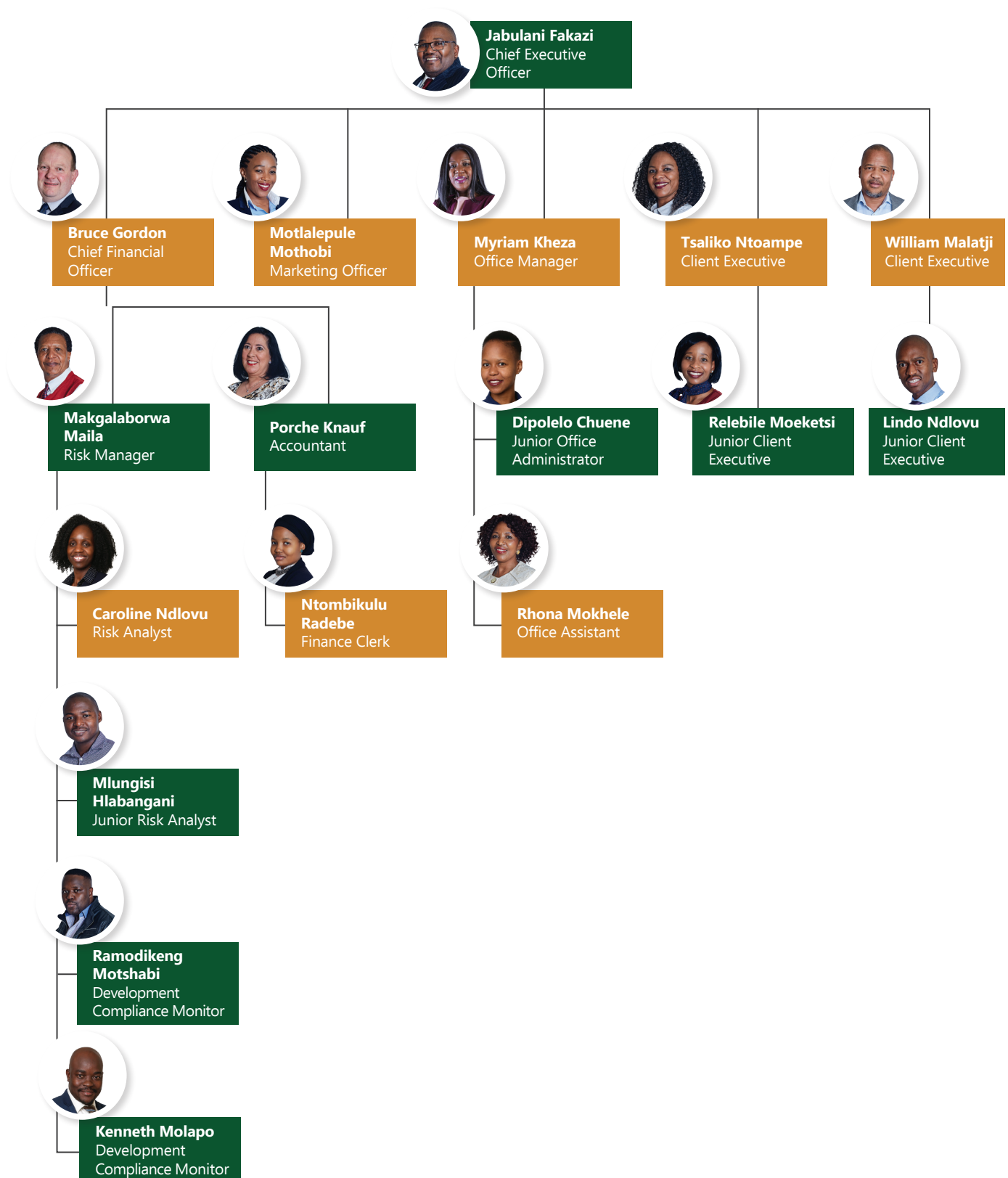
# **ORGANISATIONAL OVERVIEW**



# ORGANISATIONAL OVERVIEW

## ORGANISATIONAL STRUCTURE

Currently the structure of the Rural Housing Loan Fund is:





## GOVERNANCE STRUCTURE

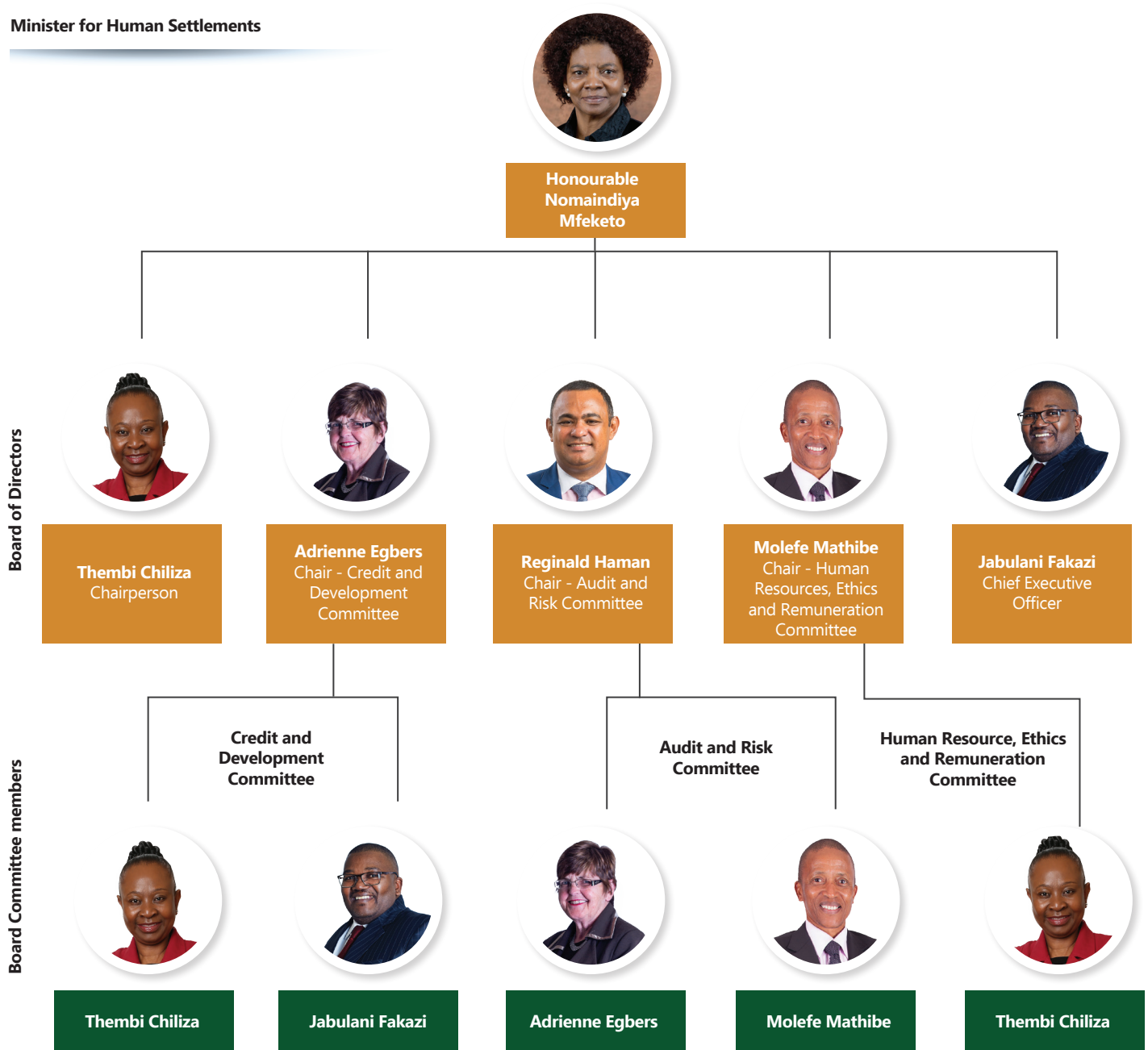
### Responsibility

This integrated report is prepared on behalf of the Board by the Executives of the Rural Housing Loan Fund. The Audit and Risk Committee is delegated the responsibility of recommending the report for approval by the Board. The Board is, however, responsible for the systems and controls used to prepare this report. For this reason the Board acknowledges final responsibility for this report, as well as the results it presents, rests with the Board of Directors.

### BOARD STRUCTURE

The following is the structure of the governance of the Rural Housing Loan Fund.

#### Minister for Human Settlements





**THEMBI CHILIZA**  
Bachelor of Administration  
Chairperson of the Board  
Human Resources, Ethics and  
Remuneration Committee Member  
Credit and Development Committee  
Member  
Independent Non-Executive Director  
12 years Rural Housing Loan Fund  
experience



**MOLEFE MATHIBE**  
Bachelor of Commerce  
Human Resources, Ethics and  
Remuneration Committee Chairperson  
Audit and Risk Committee Member  
Independent Non-Executive Director  
8 years Rural Housing Loan Fund  
experience

**JABULANI FAKAZI**  
Master of Arts (Development Policy)  
Credit and Development Committee  
Member  
Chief Executive Officer and  
Executive Director  
16 years Rural Housing Loan Fund  
experience,  
9 years executive director



**REGINALD HAMAN**  
Master of Business  
Administration  
Audit and Risk Committee  
Chairperson  
Independent Non-Executive  
Director  
5 years Rural Housing Loan Fund  
experience



**ADRIENNE EGBERS**  
Chartered Accountant (South Africa)  
Deputy Chairperson of the Board  
Credit and Development Committee  
Chairperson  
Audit and Risk Committee Member  
Independent Non-Executive Director  
7 years Rural Housing Loan Fund  
experience

## BOARD AND COMMITTEE MEETINGS ATTENDANCE RECORD

|   | 2017              |           |          |           |           |           |           |              |          | 2018              |           |               |
|---|-------------------|-----------|----------|-----------|-----------|-----------|-----------|--------------|----------|-------------------|-----------|---------------|
|   | Apr               | May       | Jun      | Jul       | Aug       | Sep       | Oct       | Nov          | Dec      | Jan               | Feb       | Mar           |
| <b>Board Meetings</b>   |                   |           |          |           |           |           |           |              |          |                   |           |               |
| <b>Date</b>   | <b>20</b>         |           |          | <b>3</b>  | <b>15</b> |           |           | <b>16</b>    |          |                   |           | <b>27</b>     |
| T Chiliza   | x                 |           |          | x         | x         |           |           | x            |          |                   |           | x             |
| JJ Fakazi   | x                 |           |          | x         | x         |           |           | x            |          |                   |           | x             |
| A Egbers  | x                 |           |          | x         | x         |           |           | x            |          |                   |           | x             |
| M Mathibe   | x                 |           |          | x         | x         |           |           | x            |          |                   |           | x             |
| R T Haman   | A                 |           |          | x         | x         |           |           | x            |          |                   |           | x             |
| DOHS (per invitation)   | Y                 |           |          | Y         | Y         |           |           | Y            |          |                   |           | Y             |
| <b>Credit &amp; Development Committee</b>   |                   |           |          |           |           |           |           |              |          |                   |           |               |
| <b>Date</b>   | <b>6</b>          |           | <b>1</b> | <b>6</b>  | <b>27</b> | <b>27</b> |           | <b>30</b>    | <b>7</b> |                   | <b>8</b>  | <b>27</b>     |
| JJ Fakazi   | x                 |           | x        | x         |           | x         |           |              | x        |                   | x         | x             |
| A Egbers  | x                 |           | x        | x         |           | x         |           |              | x        |                   | x         | x             |
| T Chiliza   | x                 |           | x        | x         |           | x         |           |              | x        |                   | x         | A             |
| <b>Audit &amp; Risk Committee</b>   |                   |           |          |           |           |           |           |              |          |                   |           |               |
| <b>Date</b>   | <b>26</b>         | <b>30</b> |          | <b>28</b> | <b>15</b> |           | <b>30</b> |              |          | <b>30</b>         |           |               |
| A Egbers  | x                 | x         |          | x         | x         |           | x         |              |          | x                 |           |               |
| M Mathibe   | x                 | x         |          | A         | x         |           | x         |              |          | x                 |           |               |
| R T Haman   | x                 | x         |          | x         | x         |           | x         |              |          | x                 |           |               |
| <b>HRER Committee</b>   |                   |           |          |           |           |           |           |              |          |                   |           |               |
| <b>Date</b>   | <b>19</b>         |           |          |           | <b>15</b> |           |           | <b>9</b>     |          |                   |           | <b>22</b>     |
| T Chiliza   | x                 |           |          |           | x         |           |           | x            |          |                   |           | x             |
| M Mathibe   | x                 |           |          |           | x         |           |           | x            |          |                   |           | x             |
| <b>Special Meetings</b>   |                   |           |          |           |           |           |           |              |          |                   |           |               |
| <b>Date</b>   | <b>10, 12, 18</b> | <b>10</b> |          | <b>25</b> | <b>8</b>  |           | <b>6</b>  | <b>6, 14</b> |          | <b>18, 26, 29</b> | <b>14</b> | <b>16, 26</b> |
| T Chiliza   |                   | x         |          |           |           |           |           |              |          | x                 | x         |               |
| A Egbers  |                   | x         |          |           |           |           |           |              |          | x                 | x         |               |
| R T Haman   |                   | x         |          |           |           |           |           |              |          | x                 |           |               |
| M Mathibe   | xxx               | x         |          | x         | x         |           | x         | xx           |          | xxx               | x         | xx            |
| JJ Fakazi   | xxx               | x         |          | x         | x         |           | x         | xx           |          | xxx               | x         | xx            |
| A = Absent with apology<br>Y = Invited but did not attend and no apology<br>DOHS = National Department of Human Settlements |                   |           |          |           |           |           |           |              |          |                   |           |               |

All directors of the Rural Housing Loan Fund receive an amount of R4 500 per meeting attended, whether of the Board, a committee, or a working session. They do not receive a retainer. This has not increased since 2010.

It should be noted there are only four non-executive directors. This is a consequence of the Minister of Human Settlements deciding that there was no need to appoint additional directors since the Development Finance Institutions (DFI) merger is imminent. Should the Minister of Finance not approve the Section 66 application discussed above, further directors will need to be appointed to ensure the risk of governance problems arising is minimised.

### **Duties of the committees**

Each of the Board committees has a charter approved by the Board. These are reviewed annually.

Below are extracts of the key aspects of the charters.

#### *Audit and Risk Committee*

- Meets at least four times a year, with management and the external and internal auditors. These meetings generally coincide with the end of each quarter, enabling the Committee to review the performance of the entity quarterly;
- Reviews the financial statements and accounting policies, the effectiveness of management information and other systems of internal control, quarterly financial reports, addresses the auditors' findings by ensuring management take the necessary action to correct issues raised;
- Monitors and evaluates the company's enterprise risk management strategy and its implementation; and
- Appoints internal auditors and receives their progress reports.

#### *Credit and Development Committee*

- Meets as needed but usually six times per annum;
- Considers and approves applications for new facilities to clients;
- Approves changes to existing facilities;
- Monitors credit and related risks in terms of the Risk Management Policy; and
- Monitors the Rural Housing Loans Fund's delivery against mandate and budget.

#### *Human Resources, Ethics and Remuneration Committee*

- Meets at least three times per annum.
- Is responsible for:
- All human resources policies
- Management of human resources;
- Provision of guidance and monitoring with regard to ethical issues;
- Review of employee remuneration; and
- Recommending to the Minister for Human Settlements candidates for appointment as directors in its capacity of Nomination



## DEVELOPMENT FINANCE INSTITUTION MERGER

### Overview

During the 2007/2008 fiscal year, National Treasury undertook a review of the mandates of South Africa's Development Finance Institutions (DFIs) in consultation with the national departments responsible for them. The Treasury review recommended amalgamating the three housing sector entities, namely the Rural Housing Loan Fund, the National Housing Finance Corporation (NHFC) and the National Urban Reconstruction and Housing Agency (NURCHA) into a single institution as a way of enhancing housing delivery.

Thereafter the National Department of Human Settlements reviewed the finance delivery mechanisms in the sector. This review found:

- The existing expertise and capacity needs to be preserved; and
- Even together the entities operate at too small a scale to impact significantly on the needs of South Africa's disadvantaged communities.

The Minister for Human Settlements has committed herself to the establishment of a Human Settlements Development Bank in support of the entire human settlements delivery value-chain which will address:

- The lack of transformation in the sector;
- Inadequate bridging and developer finance;
- Insufficient end-user finance for a range of housing circumstances;
- Mobilisation of private sector partnerships; and
- 'Crowding in' of private sector funding.

This merger process is being undertaken in two phases. The first phase consists of the Rural Housing Loan Fund and the National Urban Reconstruction and Housing Agency donating their businesses and assets to the National Housing Finance Corporation. Thereafter the Department of Human Settlements will present Parliament with a legislation to convert the National Housing Finance Corporation to the Human Settlements Development Bank (HSDB).

### Progress on phase one

During the year under review, the progress towards this merger advanced significantly with Board, executive and employee activities focused on concluding and implementing the agreement to finalise the matter. The agreements have all been signed and the conditions precedent within those agreements are in the process of being fulfilled. In August 2017, the Rural Housing Loan Fund relocated its offices from Bruma to NHFC's offices in Houghton in anticipation of the implementation of phase one of consolidation.

The only outstanding item to be fulfilled is the authority for the NHFC to take on the commitments of RHLF and NURCHA. This is the subject of a PFMA Section 66 application that the NHFC submitted to the Department of Human Settlements during June 2018. Phase one will only be completed if the Minister for Finance grants his approval in terms of this section of the PFMA.

### Progress on phase two

While the Human Settlements Development Bank Policy Framework was approved by MINMEC during the year under review, the business case and an enabling legislation were not completed. While there was public sector consultation on these key documents, private sector and civil society consultation remained outstanding by year end. It is not certain when phase two will be completed and the HSDB become operational. The key concern is that if it takes too long for the HSDB to be operational, people in our target market will be disadvantaged as the National Treasury has informed us that it will only capitalise the consolidated entity once the enabling legislation has been promulgated, and the bank is operational.

### Risk mitigation

The biggest risk the entity faced was that key employees in the organisation would resign because of the consolidation and hinder the performance of the company's mandate. In order to motivate employees to remain, the Board instituted a once-off retention scheme. This was implemented during the previous financial year. Full details of this can be found in Note 29 to the annual financial statements on Page 87. No employee has resigned, despite the enormous pressure under which they are operating as they maintain service delivery, while working on the integration of the organisations.



# ORGANISATIONAL PERFORMANCE



## PERFORMANCE INFORMATION AGAINST PREDETERMINED OBJECTIVES

The Rural Housing Loan Fund uses the balanced scorecard method of assessing its performance.

### Stakeholder perspective

**Strategic objective: Broaden and deepen the reach of rural housing finance**

| Indicator  | 2017/18 |        |          |         | 2016/17 |
|--|---------|--------|----------|---------|---------|
|  | Actual  | Budget | Variance |         | Actual  |
|  | R000    | R000   | R000     | Percent | R000    |
| Number of housing loans disbursed                | 40 921  | 44 738 | (3 817)  | -8,53%  | 45 512  |
| % of issued loans used for housing               | 99,38%  | 88,00% | 11,38%   | 12,93%  | 96,30%  |
| % of loans issued to people earning over R15 000 | 5,06%   | 20,00% | -14,94%  | -74,70% | 5,60%   |
| % of loans issued to people earning under R3 500 | 75,77%  | 60,00% | 15,77%   | 26,28%  | 76,50%  |
| % of loans issued to women                       | 63,20%  | 30,00% | 33,20%   | 110,67% | 76,50%  |

The challenges in the economy discussed elsewhere in this integrated report led to underperformance on the number of loans issued. The ongoing efforts of our teams led to better than planned outcomes in all other.

### Financial perspective

**Strategic objective: Real capital preservation**

| Indicator                    | 2017/18  |          |          |         | 2016/17  |
|------------------------------|----------|----------|----------|---------|----------|
|                              | Actual   | Budget   | Variance |         | Actual   |
|                              | R000     | R000     | R000     | Percent | R000     |
| Expenditure before bad debts | (31 573) | (37 154) | 5 581    | -15,02% | (33 254) |
| Operating Surplus            | 25 135   | 24 556   | 579      | 2,36%   | 14 763   |

Expenses were below budget, in part because of the delay in approval for implementing the Voucher Programme. This helped offset the higher than budgeted bad debt provision.

### Business process perspective

**Strategic objective: Sharpen portfolio risk management and enhance early warning system**

| Indicator                                      | 2017/18 |         |          |         | 2016/17 |
|--|---------|---------|----------|---------|---------|
|  | Actual  | Budget  | Variance |         | Actual  |
|  | R000    | R000    | R000     | Percent | R000    |
| % of clients visited for loan verification     | 131%    | 100%    | 31%      | 31,00%  | 100%    |
| Disbursements to retail intermediaries in R000 | 238 892 | 268 430 | (29 538) | -11,00% | 286 867 |

Disbursements were below target as a result of the poor economic conditions. The development monitoring team has performed sterling work this year and this reflects in the compliance numbers achieved.

### Learning and growth experience

**Strategic objective: Equip staff with skills for personal development and organisational delivery**

| Indicator        | 2017/18 |        |          |         | 2016/17 |
|------------------|---------|--------|----------|---------|---------|
|                  | Actual  | Budget | Variance |         | Actual  |
|                  | R000    | R000   | R000     | Percent | R000    |
| Training expense | (380)   | (360)  | (20)     | 5,56%   | (305)   |

RHLF's commitment to the ongoing skills development of its employees is reflected in this table as the target was exceeded. This differs from the Statement of Comprehensive Income as the targeted expenditure is before the BANKSETA refund.

## DETAILED DISCUSSION OF ORGANISATIONAL PERFORMANCE

### STAKEHOLDER PERSPECTIVE

#### Performance for the year

This table shows how the RHLF has delivered on its mandate for the year, as well as showing a comparison to the previous year. Each loan disbursed has helped a household to improve its own living standards. Approximately 30% of these borrowers are repeat borrowers, a reflection of the incremental building process that entails taking small loans on a repeat basis due to affordability until ultimately achieving the desired housing outcome.

|  | Actual | Budget | Variance to budget |         | Prior year | Variance to prior year |         |
|--|--------|--------|--------------------|---------|------------|------------------------|---------|
| Number of housing loans disbursed                | 40 921 | 44 738 | (3,817)            | -8,53%  | 45 512     | (4 591)                | -10,09% |
| % of issued loans used for housing               | 99,38% | 88,00% | 11,38%             | 12,93%  | 96,30%     | 3,08%                  | 3,20%   |
| % of loans issued to people earning over R15 000 | 5,06%  | 20,00% | -14,94%            | -74,70% | 5,60%      | -0,54%                 | -9,64%  |
| % of loan issued to people earning under R3,500  | 75,77% | 60,00% | 15,77%             | 26,28%  | 76,50%     | -0,73%                 | -0,95%  |
| % of loans issued to women                       | 63,20% | 30,00% | 33,20%             | 110,67% | 76,50%     | -13,30%                | -17,39% |

This table shows how the RHLF has delivered on its mandate for the year, as well as showing a comparison to the previous year. Each loan disbursed has helped a household to improve its own living standards. Approximately 30% of these borrowers are repeat borrowers, a reflection of the incremental building process that entails taking small loans on a repeat basis due to affordability until ultimately achieving the desired housing outcome.

#### Analysis of lending

|   | Number        | Percentage     | Value R'000    | Percentage     |
|---|---------------|----------------|----------------|----------------|
| <b>Loan usage</b>                                     |               |                |                |                |
| New house   | 985           | 2,41%          | 23 202         | 8,40%          |
| Extension   | 721           | 1,76%          | 16 727         | 6,06%          |
| Improvement   | 35 954        | 87,86%         | 222 601        | 80,63%         |
| Basic Services  | 3 009         | 7,35%          | 12 374         | 4,48%          |
|   | 40 669        | 99,38%         | 274 904        | 99,57%         |
| Other   | 252           | 0,62%          | 1 191          | 0,43%          |
|   | <b>40 921</b> | <b>100,00%</b> | <b>276 094</b> | <b>100,00%</b> |
| Repeat loan borrowers                                 | 15 408        | 37,65%         | 59 378         | 21,51%         |
| Borrowers using loan together with government subsidy | 324           | 0,79%          | 4 201          | 1,52%          |
| <b>Gender of borrowers</b>                            |               |                |                |                |
| Male  | 15 060        | 36,80%         | 126 091        | 45,67%         |
| Female  | 25 862        | 63,20%         | 15 000         | 54,33%         |
|   | 40 921        | 100,00%        | 276 094        | 100,00%        |
| <b>Borrower's employment</b>                          |               |                |                |                |
| Private sector  | 9 518         | 23,26%         | 147 539        | 53,44%         |
| Public sector   | 2 236         | 5,46%          | 43 649         | 15,81%         |
| Self-employed, informal                               | 298           | 0,73%          | 2 249          | 0,81%          |
| State pension   | 28 763        | 70,29%         | 82 033         | 29,71%         |
| Farm workers  | 106           | 0,26%          | 624            | 0,23%          |
|   | <b>40 921</b> | <b>100,00%</b> | <b>276 094</b> | <b>100,00%</b> |
| <b>Borrower's income</b>                              |               |                |                |                |
| less than R1 500                                      | 37            | 0,09%          | 399            | 0,14%          |
| R1 500-R2 499   | 28 161        | 68,82%         | 70 345         | 25,48%         |
| R2 500-R3 499   | 2 806         | 6,86%          | 18 826         | 6,82%          |
|   | 31 005        | 75,77%         | 89 570         | 32,44%         |
| R3 500-R5 499   | 3 648         | 8,91%          | 38 814         | 14,06%         |
| R6 000-R9 799   | 2 237         | 5,47%          | 40 498         | 14,67%         |
| R9 800-R15 000  | 1 962         | 4,79%          | 48 794         | 17,67%         |
| > R15 000   | 2 070         | 5,06%          | 58 418         | 21,16%         |
|   | <b>40 921</b> | <b>100,00%</b> | <b>276 094</b> | <b>100,00%</b> |



It must be noted that the disbursement amount shown here is the amount disbursed by intermediaries and is not equal to the amount disbursed by the company to its intermediaries during the year. This is a result of a variety of factors, key among them being the timing differences of drawing down and lending as well as some intermediaries using receipts from their borrowers on loans made with our funds.

### Mining towns

The Rural Housing Loan Fund has provided the following to mining towns during the period under review:

| Presidential Node   | Mining or labour sending area | Value of loans granted R000 | Number of loans granted |
|---------------------|-------------------------------|-----------------------------|-------------------------|
| Alfred Nzo District | Labour sending area           | 6 292                       | 1 248                   |
| Elias Motsoaledi    | Mining town                   | 832                         | 113                     |
| Emalahleni          | Mining town                   | 2 111                       | 444                     |
| Fetakgomo           | Mining town                   | 125                         | 22                      |
| Greater Tubatse     | Mining town                   | 1 756                       | 164                     |
| Kgetlengrivier      | Mining town                   | 26                          | 2                       |
| Moqhaka             | Mining town                   | 177                         | 4                       |
| Moses Kotane        | Mining town                   | 170                         | 13                      |
| O.R. Tambo District | Labour sending area           | 13 159                      | 3 280                   |
| Randfontien         | Mining town                   | 3                           | 1                       |
| Rustenburg          | Mining town                   | 1 515                       | 97                      |
| Thabazimbi          | Mining town                   | 70                          | 6                       |
| Westonaria          | Mining town                   | 1 199                       | 89                      |
| Zululand District   | Labour sending area           | 6 558                       | 1 564                   |
|                     |                               | <b>33 993</b>               | <b>7 047</b>            |

There are more mining and labour sending areas than shown in the table. However, the table only shows mining and labour sending areas that form part of the Special Presidential Package for mining towns.

### Presidential Nodes

In 2001, government first identified Rural Nodes that needed special focus of public investment due to high levels of poverty. The Integrated Rural Sustainable Development Programme was launched and implemented as a pilot programme at that time. In 2009, the President launched Comprehensive Rural Development Programme under the Department of Rural Development and Land reform to intensify government efforts to address development in the prioritised rural areas characterised by high poverty levels. The following table reflects the Rural Housing Loan Fund's delivery in these areas in the year under review.

The following table reflects the Rural Housing Loan Fund's delivery in these areas in the year under review:

| Presidential Node                  | Value of loans granted R000 | Number of loans granted |
|------------------------------------|-----------------------------|-------------------------|
| Alfred Nzo District                | 6 292                       | 1 248                   |
| Amajuba District                   | 562                         | 110                     |
| Capricorn District                 | 5 363                       | 473                     |
| Chris Hani District                | 9 804                       | 2 876                   |
| Ehlanzeni                          | 8 242                       | 1 257                   |
| iLembe District                    | 790                         | 161                     |
| Maluti a Phofung                   | 1 463                       | 269                     |
| Mopani District                    | 648                         | 42                      |
| O.R. Tambo                         | 13 159                      | 3 280                   |
| Sekhukhune                         | 309                         | 24                      |
| Sekhukhune Cross Boundary District | 3 568                       | 539                     |
| Sisonke District                   | 2 683                       | 424                     |
| Ugu District                       | 6 531                       | 1 243                   |
| Umkhanyakude District              | 5 616                       | 1 364                   |
| Umzinyathi District                | 5 708                       | 1 436                   |
| Uthukela District                  | 4 315                       | 659                     |
| Uthungulu District                 | 8 410                       | 1 761                   |
| Vhembe District                    | 2 593                       | 167                     |
| Zululand District                  | 6 558                       | 1 564                   |
|                                    |                             | <b>92 614</b>           |
|                                    |                             | <b>18 897</b>           |

### Term of government

The Rural Housing Loan Fund has committed to delivering a number of loans over the period of the current government from 2014 to 2019.

The table below shows our performance during each year of the first four years of the current term of government. In four years, we have achieved 71.2% of the five-year target as per our 2014 commitment.

|  | Previous term targets | Previous term achieved | Current term targets | Year 1 current term | Year 2 current term | Year 3 current term | Year 4 current term | Total achieved current term | % achieved to date | % time elapsed |                  |
|--|-----------------------|------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------|--------------------|----------------|------------------|
| Incremental rural housing loans (Number)                             | 181 111               | 209 866                | 233 636              | 40 185              | 39 790              | 45 512              | 40 921              | 166 408                     | 71,2%              | 80,0%          | Higher is better |
| Percentage used for housing  | 80,0%                 | 94,0%                  | 88,0%                | 96,0%               | 99,7%               | 99,3%               | 99,4%               | 98,6%                       | NA                 | NA             | Higher is better |
| Percentage to people earning over R15, 000 (R9 800 in previous term) | 20,0%                 | 12,7%                  | 12,0%                | 2,0%                | 5,6%                | 4,7%                | 5,1%                | 4,5%                        | NA                 | NA             | Lower is better  |
| Percentage to people earning under R3 500                            | 60,0%                 | 72,0%                  | 60,0%                | 75,0%               | 76,5%               | 71,8%               | 75,8%               | 75,8%                       | NA                 | NA             | Higher is better |

The table shows that delivery is behind the desired target at end of the fourth year. This is a consequence of poor market conditions, low affordability levels of borrowers and the challenges experienced by the microfinance industry during the current term of government.

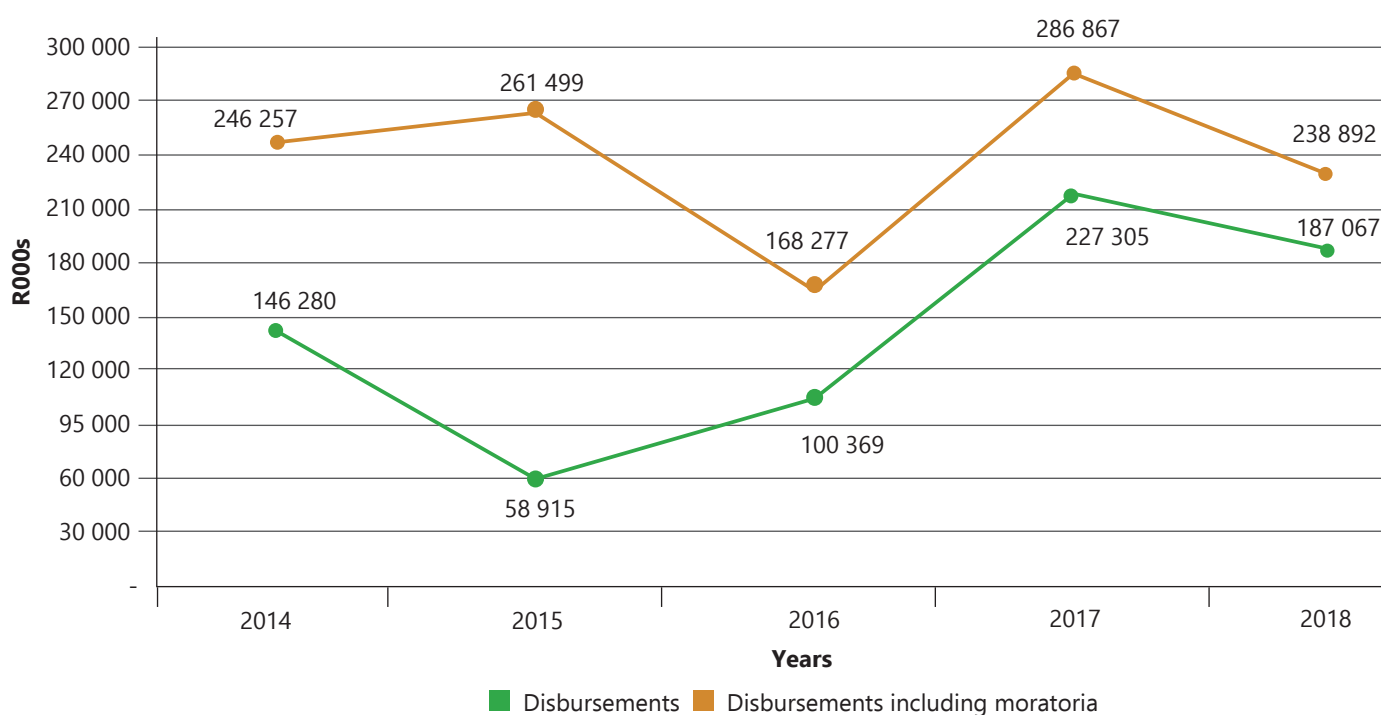
## BUSINESS PROCESS PERSPECTIVE

### Performance for the year

|  | Actual  | Budget  | Variance to budget |         | Prior year | Variance to prior year |         |
|--|---------|---------|--------------------|---------|------------|------------------------|---------|
| % of clients visited for loan verification     | 131%    | 100%    | 31%                | 30,77%  | 100%       | 31%                    | 31%     |
| Disbursements to retail intermediaries in R000 | 238 892 | 268 430 | (29 538)           | -11,00% | 286 867    | (479 975)              | -16,72% |

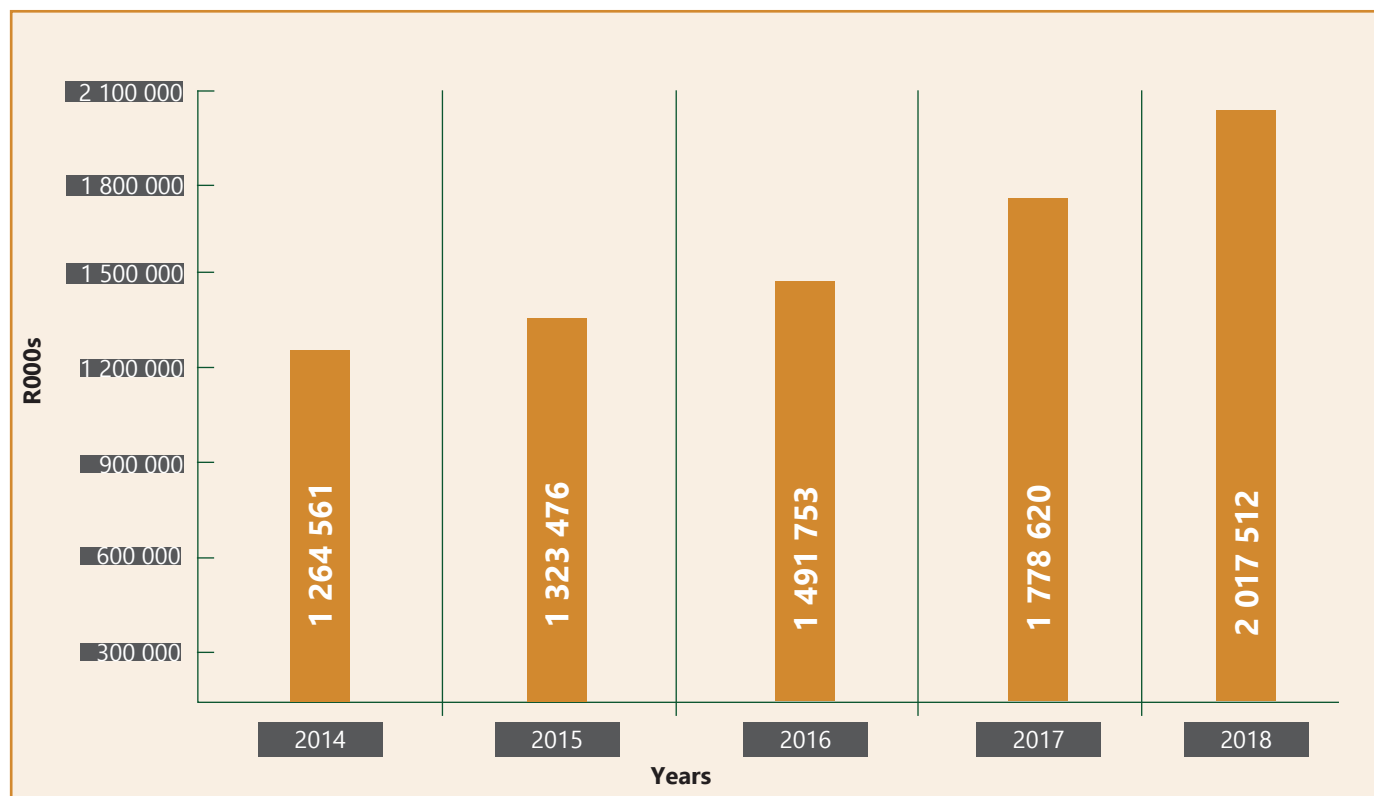
Loan verification visits are conducted by the two development monitors. They visit rural areas to view the improvements made by borrowers to ensure loans are used for housing. Since implementing this process using an internal team, there has been a marked improvement in compliance levels. This compliance is also enhanced by the fact that our intermediaries have partnered with building material stores in delivering loans and limited cash disbursed to borrowers for labour costs.

### ANNUAL DISBURSEMENTS



The graph below shows the cumulative disbursements by the fund since inception, R1.96 billion by end of March 2018. We will exceed an amount of R2 billion before the end of 2018/19 financial year. The total grant capital of the company amounts to R335 million. Over the years RHLF has supplemented these grants with a loan from the Development Bank of Southern Africa as well as building up a substantial retained income to improve on its delivery. This is evidence of the sustainability of the business model.

#### CUMULATIVE DISBURSEMENTS

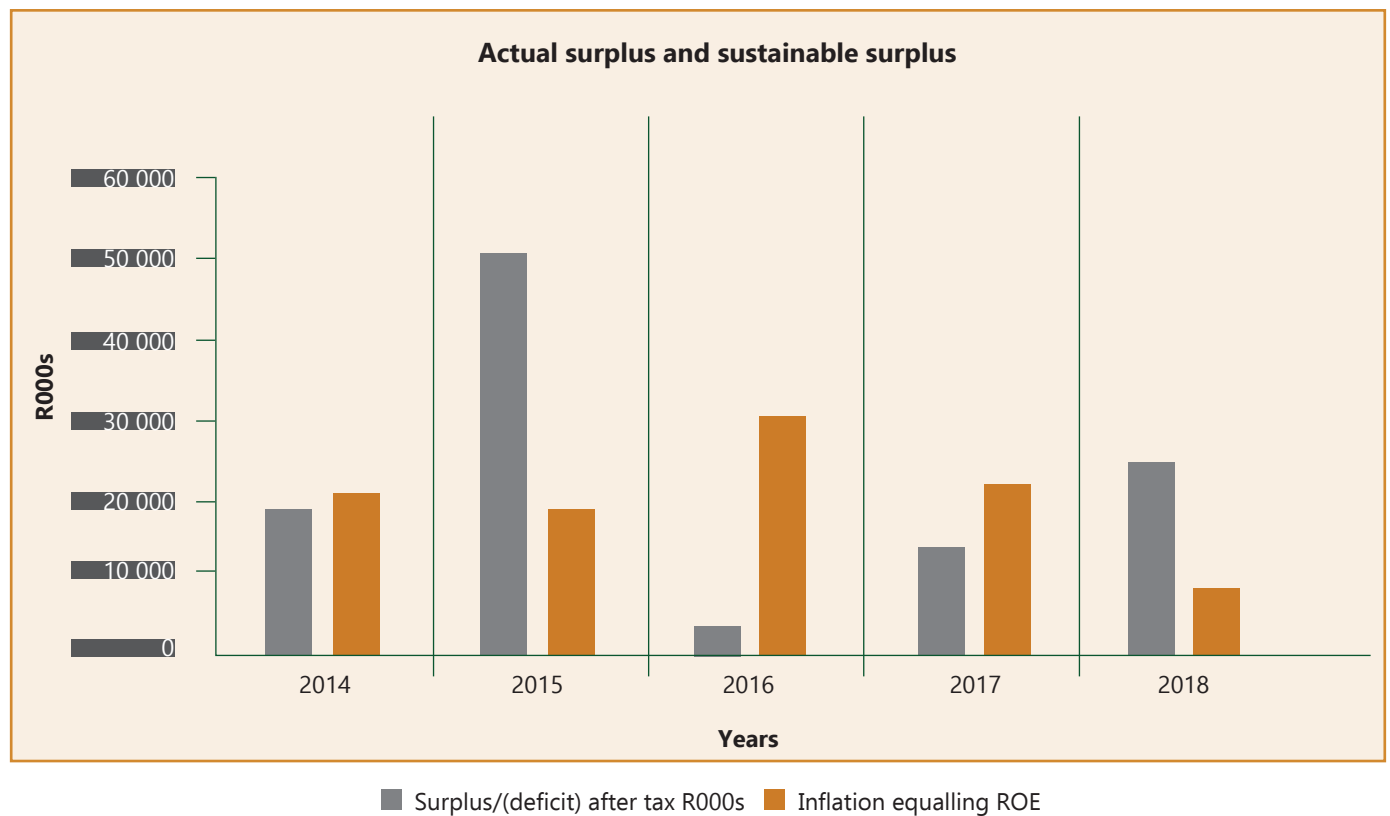
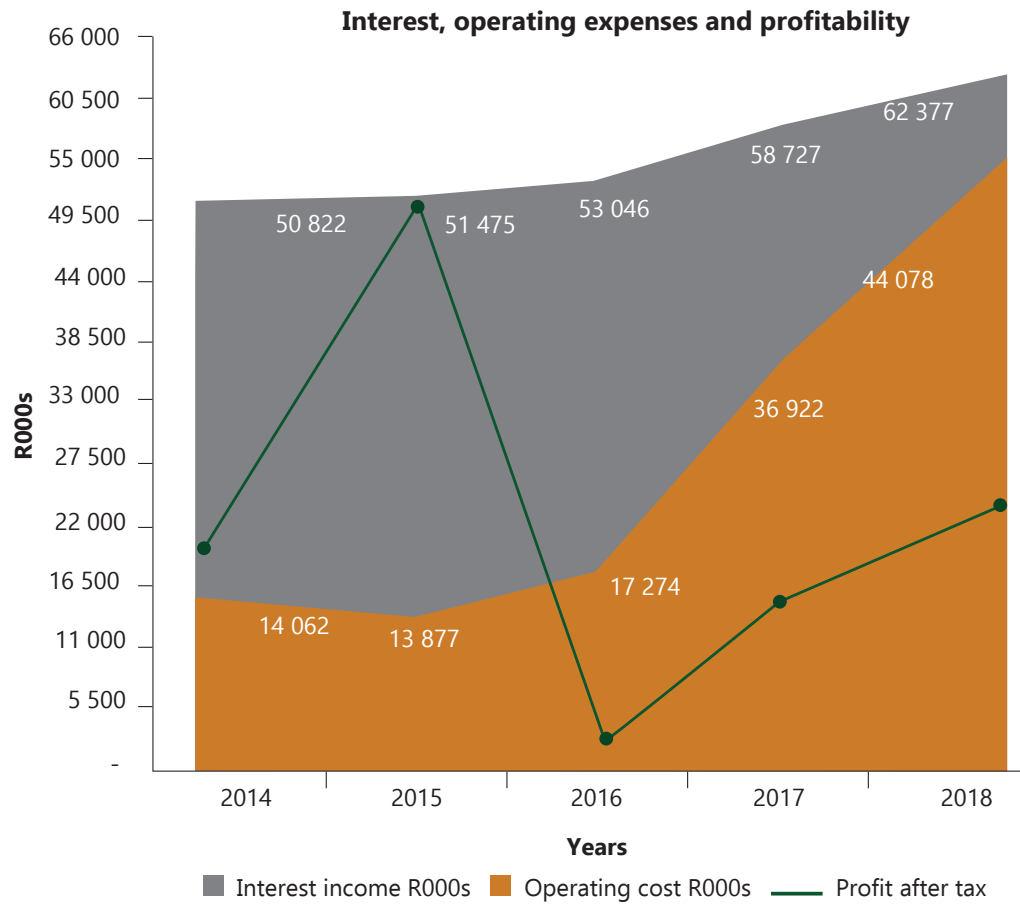


|                              | Actual<br>R000 | Budget<br>R000 | Variance to budget |         | Prior year<br>R000 | Variance to prior year |        |
|------------------------------|----------------|----------------|--------------------|---------|--------------------|------------------------|--------|
|                              |                |                | R000               | %       |                    | R000                   | %      |
| Expenditure before bad debts | (31 573)       | (37 154)       | 5 581              | -15,02% | (33 254)           | 1 681                  | -5,05% |
| Operating surplus            | 25 135         | 24 556         | 579                | 2,33%   | 14 763             | 10 372                 | 70,26% |

Given the nature of our intermediaries, the Board decided that the expenditure targets should not take into account the movement in the debtors' provision, as this moves widely. The object of this goal is to ensure that the entity maintains its capital base by achieving returns ahead of inflation. Over the past years this has led to the entity obtaining an exemption from income tax. During the year the company received a refund of R33 million as a result of a settlement agreement with the South African Revenue Services around some aspects of this exemption



## FINANCIAL PERFORMANCE



The large profit in 2015 was a result of a reversal of all taxes paid since inception. This was as a result of the South African Revenue Services providing an exemption to 2004. A portion of this was reversed in 2016, leading to the extremely low profit. However, as mentioned above during the full tax refund received during the year under review. As mentioned elsewhere in the report full details of this can be found in notes to the annual financial statements.

#### LEARNING AND GROWTH PERSPECTIVE

|                  | Actual | Budget | Variance to budget |       | Prior year | Variance to prior year |        |
|------------------|--------|--------|--------------------|-------|------------|------------------------|--------|
|                  | R000   | R000   | R000               | %     | R000       | R000                   | %      |
| Training expense | (380)  | (360)  | (20)               | 5,56% | (475)      | (95)                   | 20,00% |

The Rural Housing Loan Fund is committed to the development of skills of its employees in order to enhance capacity to deliver on its mandate. The table above is an exhibit of this commitment as it shows that training expense was exceeded. This does not agree to the Statement of Comprehensive Income since this figure is before the BANKSETA refund.



# **OPERATING ENVIRONMENT**





# OPERATING ENVIRONMENT

The Rural Housing Loan Fund's delivery on its mandate is influenced by various factors in the external environment in which we operate. Some of these factors come from the government policy context, while others come from the business environment.

## GOVERNMENT DEVELOPMENT POLICY

As a government owned entity, we have to take into account the government development policy agenda. In this context the government priorities as enunciated in the National Development Plan and by the National Department of Human Settlements are taken into account in the delivery of our services to the target market:

- **Rural development:** This has been one of the government's apex priorities since 2001. The National Development Plan dedicates a chapter on building an Integrated and Inclusive Rural Economy. Therefore, in our mandate delivery we ensure loans are made into the rural nodes prioritised by government in terms of the Comprehensive Rural Development Programme.
- **Sustainable human settlements:** We contribute to the transformation and creation of human settlements, which is chapter eight of the National Development Plan, and also contribute to Outcome Eight of the Government's Medium Term Strategic Framework. Our activities result in low-income earners accessing loans to achieve adequate housing.
- **Supporting the development of Small, Medium and Micro Enterprises (SMMEs):** Government has prioritised the development of SMMEs to the extent that a new Department of Small Business was established after the May 2014 elections. As shown under the business model section, the Rural Housing Loan Fund supports start-up companies and community-based organisations by providing loan funding and taking equity in start-ups to support their growth. There have been some concerns about the capacity building in these small companies by other entities and RHLF has to provide ongoing support to develop the borrowers into viable businesses.
- **National Development Plan:** Our development focus will continue to support applicable aspects of the National Development Plan to ensure people within our mandate are able to access housing loans so that they also experience the journey towards Vision 2030.
- **Special Presidential Package on Mining Towns:** Our funding is also disbursed to support improvement of housing conditions in mining towns as well as labour sending areas.

## ECONOMIC GROWTH AND UNEMPLOYMENT

The domestic economic environment in which the Rural Housing Loan Fund operates remains challenging as evidenced by:

- **A slow economy:** While Statistics South Africa revised its figures to show South Africa had not actually gone into a recession, the economy grew by only 1.3% during calendar year 2017, before contracting by 2.2% during the period January to March 2018.
- **Growing unemployment:** Unemployment in South Africa reached its highest level since September 2003 in the last quarter of the financial year. The unemployment rate was 27.7% in the third quarter of the financial year, which was an increase of 1.2 percentage points from the third quarter of 2016/17 financial year. However, the unemployment rate fell to 26.7% by the fourth quarter of 2017 and remained at that level by end of March 2018.

### Inflation

Inflation has declined and remained in the Reserve Bank's 3% – 6% target range during the year under review and is expected to remain in this range in the foreseeable future. However, the consumer inflation rate jumped to 4.5% in April after reaching a seven-year low of 3.8% in March. Much of the increase was a result of price rises in product groups attracting specific taxes, namely alcohol, fuel and sugary drinks. A one percentage point increase in Value Added Tax (VAT) also came into effect in April. The exact impact on inflation is not yet entirely clear. It is noted however that government is working on adding more items in zero rated goods. Rising oil prices on the back of weak exchange rate also pose another inflation risk for the year ahead.

### Interest rates

The REPO rate declined by 0,25% during the year under review. There is currently uncertainty as to how interest rates will change as the South African Reserve Bank is taking a cautious approach in reducing interest due to many factors posing an upside risk to inflation.



### **Credit industry**

Revised requirements spelling out the affordability assessment were implemented by the National Credit Regulator in August 2015. While this had an effect on the industry, our approved lenders were not materially affected by the amendments. This can, in part, be attributed to the success of the company's risk team in ensuring compliance with the intent of the Act within RHLF's clients.

The over indebtedness in the market is such that the Rural Housing Loan Fund's intermediaries continued to decline between 45% to 90% of all applications received, though minor improvements are appearing. Their bad debt provisions can amount to as much as 70% of all loans outstanding by value.

Since 2007 all loan interest and fees have been regulated by the National Credit Act, resulting in significant reduction in the cost of credit to borrowers.

As a result of a groundbreaking court judgment, it has become difficult for lenders to rely on using Emolument Attachment Orders as a method of collection. This change has adversely affected collections of lenders who relied heavily on this arrangement, but in the process assisted borrowers from reckless lenders who relied on this collection method. We encourage lenders to be prudent when granting loans so as to avoid the difficulties associated with collections.

# **RISKS and OPPORTUNITIES**





# RISKS and OPPORTUNITIES

## RISKS

Every year the Rural Housing Loan Fund conducts a workshop around its risks. The following table reflects the risks assessed as most pressing for the RHLF currently. As can be seen, no risks are considered high with the controls that are in place.

| Risk Number | Risk Description   | Effect   | Cause  | Inherent Rating | Control Description/ Mitigation   | Residual Risk |
|-------------|--|--|--|-----------------|---|---------------|
|             | Risk Exposures   |  |  |                 |   |               |
| 1           | Lack of interaction, support funding of RHLF from the Shareholder  | Poor reputation, lack of outside funders, reduced ability to deliver   | Lack/ poor implemented public relations framework/ strategy. Lack/ poor marketing strategy.  | Moderate        | Formally Approved PR and Marketing Framework in place to ensure the proper marketing of RHLF and processes on dealing with the public | Monitor       |
| 53          | Lack of confidentiality of data - information risk   | Reduced development impact, financial losses, concentration of delivery  | Failure to ensure that people with proper development ability are employed and focus on new types of clients   | Moderate        | POPI implementation policy  | Monitor       |
| 51          | Lack of management culture of analysing results of past failures   | Inability to achieve targets due to high rejection rates of intermediaries                                       | Excessive lending by African Bank and others   | High            | Target smaller lenders/ CBOs in remote access areas to ensure that people who are not overindebted are reached                        | Monitor       |
| 55          | Prolonged DFI process could lead to disruption due to resignations, uncertainty and governance challenges          | Adverse impact on mandate and delivery on APP. Negative impact on staff / clients / funders / other stakeholders | Complex approval process including Ministerial/ Funders / Boards. Multiple stakeholders with varying agendas and priorities  | High            | Regular information sharing with employees / funders/ clients Retention policy in place Business case                                 | Monitor       |
| 13          | Debt levels of end user are too high   | Loss of delivery to rural households who are unable to improve housing by any other means                        | Excessive lending by African Bank and others   | Low             | RHLF needs to ensure that its intermediaries are compliant with affordability requirements  | Monitor       |
| 17          | RHLF has not had a single success with CBOs yet  | Loss of delivery to rural households who are unable to improve housing by any other means                        | No one with experience of successfully working with CBOs is currently working on ensuring success at these organisations. CBOs are used to grant funding which RHLF does not offer and this provides a challenge | Low             | Policy on working with start ups  | Monitor       |
| 58          | Dilution of focus because of potential expanded mandate into urban areas could negatively impact on rural outcomes | Poor delivery of current APP   | After consolidation the easier urban mandate is likely to be more attractive to some / most intermediaries and possibly RHLF   | High            | Strong existing focus on rural delivery in existing APP. Intermediary contractual obligation to deliver in rural areas                | Monitor       |
| 4           | Inability of consumer to borrow/ and repay debt  | Concentration of delivery  | Apparent good current outcomes leading to complacency  | High            | Pricing policy  | Monitor       |

| Risk Number | Risk Description  | Effect  | Cause  | Inherent Rating | Control Description/<br>Mitigation   | Residual Risk |
|-------------|---|---|--|-----------------|--|---------------|
|             | Risk Exposures  |   |  |                 |  |               |
| 23          | Lack of general awareness of RHLF's purpose in general market. Marketing to intermediaries. | Additional effort needed to find new intermediaries leading to high concentration delivery risk   | Incorrectly focused PR efforts                   | High            | Talking to MFSA and accessing NCR and CBDA databases                                       | Monitor       |
| 59          | Concentration of knowledge in few individuals   | Compromised ability to deliver and monitor, inability to take time to learn and grow. Uncertainty among employees.  | Small size of structure                          | High            | Good remuneration strategy, benefits, succession plan, management development and training | Monitor       |
| 2           | Too high a percentage of loan numbers delivered by a single client                          | Client conducts business in a way that may affect RHLFs reputation. In addition if they cease to use RHLF funding, RHLF's ability to deliver will be negatively affected. | Insufficient intermediaries offering small loans | Moderate        | Obtain multiple new small intermediaries   | Monitor       |

## OPPORTUNITIES

When the Human Settlements Development Bank becomes operational, there will be huge opportunity for delivering incremental housing finance product at a national scale – including rural and urban areas. This housing finance product is appropriate for many low-income earners who cannot access mortgage finance such as:

- In rural areas because of lack of title to land and
- Urban areas where many low-income people live in informal settlements who have benefitted from allocated service sites by government as well as those who want to extend or improve their RDP houses.

In addition, there is work being done on ensuring that the Rural Housing Subsidy Voucher Programme is eventually implemented.

### Urban incremental housing

The National Housing Finance Corporation currently has this within their mandate but only a small amount of funding is allocated to it. Once the merger is completed, the Rural Housing Loan Fund will take on this mandate as a division of NHFC. Unfortunately, until additional funding is made available when the Human Settlements Development Bank is in place, this is an unfunded mandate.

### Individual Rural Housing Subsidy Voucher Programme

This programme is designed to enable people who qualify for full government subsidy to access subsidy funds on individual basis and build their houses on communal land. The Programme was designed to target rural communities because of their peculiar living conditions and the challenges of implementing housing projects in some rural areas. The opportunity for our company is that it will, working with our intermediaries, play a role of being a Programme Administrator in the implementation process and charge a fee for this role.



# THE YEAR AHEAD





# THE YEAR AHEAD

## DEVELOPMENT FINANCE INSTITUTION MERGER

The process to consolidate the three Human Settlements Development Finance Institutions has taken too long. The only remaining condition precedent to be fulfilled is obtaining PFMA Section 66 approval of the finance. We anticipate that a response on this will be obtained during 2018/19 financial year.

## ANNUAL PERFORMANCE PLAN TARGETS

### Stakeholder perspective

|  | 2014/15<br>Audited | 2015/16<br>Audited | 2016/17<br>Audited | 2017/18<br>Audited | 2018/19<br>Budget | 2019/20<br>Budget | 2020/21<br>Budget |
|--|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|
| Number of housing loans disbursed          | 40 185             | 39 790             | 45 512             | 40 921             | 36 804            | 50 464            | 45 418            |
| % of issued loans used for housing         | 96%                | 98%                | 99%                | 99%                | 88%               | 88%               | 88%               |
| 88% of loans issued to people over R15,000 | 2,0%               | 5,5%               | 4,7%               | 5,1%               | 20%               | 20,0%             | 20,0%             |
| % of loans issued to people under R3,500   | 75%                | 77%                | 72%                | 76%                | 60%               | 60%               | 60%               |
| % of loans issued to women                 | 61,0%              | 60%                | 59%                | 63%                | 30%               | 30%               | 30%               |

### Business Process Perspective

#### Strategic objective: Sharpen portfolio risk management and enhance early warning system

|  | 2014/15<br>Actual | 2015/16<br>Actual | 2016/17<br>Audited | 2017/18<br>Audited | 2018/19<br>Budget | 2019/20<br>Budget | 2020/21<br>Budget |
|--|-------------------|-------------------|--------------------|--------------------|-------------------|-------------------|-------------------|
| Loan verification visits   | 100%              | 100%              | 100%               | 131%               | 100%              | 100%              | 100%              |
| Disbursements to retail intermediaries including capital moratoria | 58 915            | 168 277           | 286 867            | 238 892            | 196 100           | 398 000           | 358 200           |

### Sustainability perspective

|   | 2014/15<br>Audited<br>R000 | 2015/16<br>Audited<br>R000 | 2016/17<br>Audited | 2017/18<br>Audited | 2018/19<br>Budget | 2019/20<br>Budget | 2020/21<br>Budget |
|---|----------------------------|----------------------------|--------------------|--------------------|-------------------|-------------------|-------------------|
| Expenditure before bad debts and interest | (15 518)                   | (16 213)                   | (23 475)           | (31 573)           | (30 985)          | (32 583)          | (33 921)          |
| Operating surplus                         | 44 916                     | 2 318                      | 14 763             | 25 135             | 23 315            | 33 066            | 32 820            |

The achievement of these targets will exceed the goal of earning a higher return than inflation.

### Learning and growth perspective

|                   | 2014/15<br>Actual<br>R000 | 2015/16<br>Actual<br>R000 | 2016/17<br>Actual<br>R000 | 2017/18<br>Actual<br>R000 | 2018/19<br>Budget<br>R000 | 2019/20<br>Budget<br>R000 | 2020/21<br>Budget<br>R000 |
|-------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Training expenses | 138                       | 304                       | 479                       | 380                       | 432                       | 468                       | 497                       |

This budget reflects the company's commitment to the personal growth of its employees.

# **BASIS OF PREPARATION**







# BASIS OF PREPARATION

## RURAL HOUSING SUBSIDY VOUCHER PROGRAMME

No targets have been set for this programme since no approval has been obtained for its implementation.

## STAKEHOLDERS

The purpose of an integrated report is to ensure that while the Minister for Human Settlements is kept informed, all stakeholders with an interest in the organisation are able to understand the report by the organisation. For this reason, this document is prepared, as far as possible, without jargon or abbreviations.

The Rural Housing Loan Fund considers its primary stakeholders to be the following:

- Retail borrowers;
- The people of South Africa;
- Its employees;
- Its intermediaries and their employees;
- Its suppliers;
- The Minister of Human Settlements;
- The Department of Human Settlements;
- The Parliamentary Portfolio Committee on Human Settlements and
- The Parliament of the Republic of South Africa.

## FUTURE VIEW

The Rural Housing Loan Fund views a year as short term, the term of government as medium term and any period beyond that as long term. The intention of the Board is that the company's mandate will continue to serve its stakeholders for as long as it adds value to the lives of the low-income earners in rural areas who constitute our retail borrowers.

## MATERIALITY

The financial materiality of the Rural Housing Loan Fund as used in preparation of this report is calculated as follows.

### Financial Materiality

| Financial Materiality                       | R000         |
|---|--------------|
| Turnover                                    | 48 522       |
| Materiality rate                            | 10%          |
| Materiality value                           | 4 852        |
|   |              |
| Total assets                                | 665 110      |
| Materiality rate                            | 1%           |
| Materiality value                           | 6 651        |
|   |              |
| <b>RHLF materiality as average of above</b> | <b>5 752</b> |





# **STAKEHOLDER ENGAGEMENT**





# STAKEHOLDER ENGAGEMENT

We maintain an open dialogue with all our stakeholders in the execution of our mandate. Our stakeholders are those entities or individuals who are greatly affected by the Rural Housing Loan Fund activities and that we also expect to have influence on the delivery of the organisational mandate. The manner in which we engage with our stakeholders and frequency of engagements vary by each stakeholder. Our engagement with each stakeholder is based on identified issues or matters of concern that may have impact on our stakeholders or the company's mandate delivery. During the 2017 financial year, we have engaged with the following stakeholders:

| Stakeholders  | Method of engagement                                | Purpose of engagement   |
|---|---|---|
| Ministry and Department of Human Settlements  | Meetings and presentations                          | <p>Presentation on Rural Housing Loan Fund Quarterly performance. Participation in the various committees and task teams of the department.</p> <p>Discussion on the Voucher Programme Funding Arrangements with the Ministry and discussion with the Policy Unit Chief Director and Director on reviewing and updating the Voucher Programme in light of findings from the Report on the Voucher House Costing (pilot).</p> <p>Participating in the Development Finance Institutions Consolidation Steering Committee.</p> |
| Portfolio Committee on Human Settlements  | Presentations                                       | Presentations on the performance of the Rural Housing Loan Fund and briefings on the DFI Consolidation.   |
| Intermediaries (existing and pipeline)  | Written, telephonic and face to face communications | <ul style="list-style-type: none"> <li>• Attendance of Board meetings;</li> <li>• Communicating issues raised within RHLF;</li> <li>• Selling RHLF funding and</li> <li>• Courtesy calls.</li> <li>• Conduct risk reviews and development monitoring, in essence an audit to ensure compliance with their loan agreement and legislation;</li> <li>• Conduct due diligences on potential new clients to assess the risk associated with these clients.</li> </ul>   |
| Other government departments: <ul style="list-style-type: none"> <li>• National Treasury (NT)</li> <li>• Rural Development and Land Reform (DRDLR)</li> </ul>           | Written correspondence, meetings and workshops      | NT: PFMA compliance related matters and DFI Consolidation   |
| Local Government: <ul style="list-style-type: none"> <li>• City of Johannesburg</li> <li>• Amantshangase Traditional Authority in Mbizana Local Municipality</li> </ul> | Briefings and presentations                         | <p>Presenting to PikitUp employees and union officials on incremental housing finance and the role of Rural Housing Loan in supporting incremental housing</p> <p>Presenting the RHLF to Amantshangase Traditional Authority including izinduna and some members of the community.</p>  |
| Intermediaries (existing and potential, commercial and community based organisations)   | One-on-one meetings                                 | Discuss funding requirements of our existing clients and potential clients; and doing appraisals on potential clients to assess suitability of them becoming our intermediary partners.   |

| Stakeholders   | Method of engagement  | Purpose of engagement   |
|--|---|---|
| Funders (KFW)  | Written correspondence and face-to-face meetings  | Engagement with the RHLF Project Manager at KFW, Germany, to report back on market research project funded by KFW through Accompanying Measure Grant. Updating KFW on the DFI consolidation status  |
| Other Development Finance Institutions: NURCHA and NHFC, DBSA and CBDA | <p>NURCHA and NHFC: one on one and meetings among the three institutions</p> <p>Development Bank of Southern Africa</p> <p>Co-operatives Bank Development Agency-one-on-one meeting</p> | <p>Discussions on the consolidation of the Development Finance Institutions - CEOs meeting, DFI MANCO, project work streams and staff knowledge sharing sessions. Focusing on integration, fulfilling conditions precedent to enable implementation of the Donation Agreement and making contributions to the Human Settlements Development Bank business case.</p> <p>Discussion on transferring DBSA loan from RHLF to NHFC as part of donating RHLF business to NHFC to implement consolidation.</p> <p>Discussion on the changes within the CBDA as they focus on development of co-operative financial institutions and prudential role being taken over by the Reserve Bank. Share notes on research conducted by both entities and explore means of collaborating in supporting development of cooperative financial institutions.</p> |
| Existing intermediaries  |   |   |
| National Credit Regulator (NCR)  | Written communication and formal meetings   | Clarification on Registration Thresholds and requirements to register as a developmental lender and endorsing lenders who want to register as developmental lenders.  |
| Borrowers (people who access housing loans from our intermediaries)    | Borrower interviews at their homes  | To conduct verification of loan usage and other mandate compliance issues. Sampled borrowers from all our intermediaries were visited during the 2017/18 financial year.  |
| Employees  | Continuous staff engagement at various levels, staff meetings, training and development needs, internal workshops and performance reviews   | Enhance operational performance of the company and enhance team performance; update on DFI consolidation.   |
| Suppliers/service providers  | One-on-one meetings   | Delivery of good and services   |





# **ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018**





# REPORT OF THE AUDIT AND RISK COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2018.

## AUDIT AND RISK COMMITTEE RESPONSIBILITY

The Audit and Risk Committee reports that it has complied with its responsibilities arising from Section 51 (1) (a) (ii) of the Public Finance Management Act and Treasury Regulation 27.1. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as 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

Our review of the findings of the Internal Audit work, which was based on the risk assessments conducted in the entity revealed certain weaknesses, which were then raised with the entity.

The following internal audit work was completed during the year under review:

- Operational expenditure, supply chain management and procurement;
- Financial management process;
- Asset management;
- Human resources and payroll;
- Information Technology; and
- Quarterly performance information.

The following were areas of concern:

- Interest charged to a client was not in terms of the pricing policy and
- Errors were found in the calculation of the debtors' provision

## IN-YEAR MANAGEMENT AND MONTHLY/QUARTERLY REPORT

The entity has reported quarterly to the Treasury as is required by the PFMA.

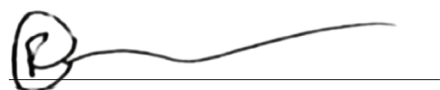
## EVALUATION OF FINANCIAL STATEMENTS

We have reviewed the annual financial statements prepared by the entity.

## EXTERNAL AUDITOR'S REPORT

We have reviewed the entity's implementation plan for audit issues raised in the previous year and we are satisfied that the matters have been adequately resolved.

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



**Reginald Haman**  
**Chairperson of the Audit and Risk Committee**  
 Rural Housing Loan Fund NPC  
 31 July 2018



## STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY

To the best of our knowledge and belief, we confirm the following:

- All information and amounts disclosed in the annual integrated report are consistent with the annual financial statements audited by the External Auditor.
- The annual integrated report is complete, accurate and is free of any omissions.
- The annual integrated report has been prepared in accordance with the guidelines on annual reports as issued by National Treasury.
- The Annual Financial Statements have been prepared in accordance with the 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 and 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 integrated report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2018.

Yours faithfully,

**Jabulani Fakazi**  
Chief Executive Officer  
14 August 2018

**Ms Thembi Chiliza**  
**Independent Non-Executive**  
Chairperson  
14 August 2018

# **DIRECTOR'S REPORT**

## MANDATE AND PRINCIPAL ACTIVITIES

The Rural Housing Loan Fund NPC (RHLF) was established by the National Department of Human Settlements as a Development Finance Institution (DFI) with the principal mandate of broadening and deepening access to affordable housing finance, for low to middle income South African households. The RHLF is listed as a schedule 3A public entity in terms of the Public Finance Management Act. Details of the RHLF's principal activities are described on pages 31 to 34.

## CORPORATE GOVERNANCE

The Directors embrace the principles of the King IV Code and Companies Act and endeavour to comply with these recommendations as far as possible.

## FINANCIAL RESULTS

The financial results of the RHLF for the year under review are set out on pages 72 to 74 of these financial statements.

## BUSINESS PERFORMANCE RESULTS

The business performance against predetermined objectives for the year under review is set out on pages 43 to 50.

## SHARE CAPITAL AND SHAREHOLDER

The Government of the Republic of South Africa is designated as the sole shareholder of the RHLF and the Minister for Human Settlements duly represents the shareholder's interest. As RHLF is an NPC it has no share capital.

## DIVIDENDS

In terms of an agreed policy with its shareholder and subject to approval of the National Treasury in terms of section 53(3) of the Public Finance Management Act of 1999, all annual surpluses are retained by the RHLF in order to build its capital base, and thereby increase its activities and development impact. In addition, as an NPC RHLF may not distribute its profits.

## GOING CONCERN

The Board has given particular attention to the assessment of the going concern ability of the RHLF, and has a reasonable expectation that the RHLF has adequate resources to operate in the foreseeable future. The RHLF has therefore adopted the going concern basis in preparing the financial statements.

Notwithstanding this, RHLF is in negotiations to donate its business to the NHFC as part of the consolidation process being conducted by the Department of Human Settlements with its development finance institutions. Certain of the conditions required for completion of this merger are not complete and are dependent on the National Treasury.

## DIRECTORATE AND SECRETARIAT

Details pertaining to the directors appear on pages 37 to 39 of the Integrated Report. The Chief Financial Officer performs the duties of the Company Secretary.

## DEVELOPMENT FINANCE INSTITUTION CONSOLIDATION

The National Department of Human Settlements is currently supported by three Development Finance Institutions, the National Housing Finance Corporation SOC Limited (NHFC), the Rural Housing Loan Fund NPC (RHLF) and the National Urban Reconstruction and Housing Agency SOC NPC (NURCHA). The drive to scale housing finance provision, to greater leverage private sector contribution and thus significantly grow the Human Settlements development impact, became the strategic rationale for the consolidation of the three DFIs. The expected consolidation outcome would be such that the whole is greater than the sum of its parts. This strategic rationale is also supported by the National Treasury's review of the DFIs.

In line with the recommended structure of the transaction, the NHFC, as the identified institution, will acquire the assets and liabilities of both RHLF and NURCHA through donation. This is viewed as stage one of the transaction towards a fully integrated Human Settlements Development Finance Institution supported by an enabling act. The DFI consolidation has fallen behind schedule, and will not be concluded within the stipulated timeframe as reported in the previous financial year. The delay has been due to the required approval

from National Treasury in terms of Section 66 of the PFMA not having been received. The application was submitted to National Treasury during July 2018.

A significant milestone has been achieved though, which will accelerate the conclusion of the DFI consolidation. The Finance Minister in his budget speech of February 2016 proposed a special tax exemption similar to that provided to certain government entities that will enable the consolidation with the two tax exempted entities, and this promulgated in January 2017. In addition, the Companies' Tribunal waived certain requirements of Schedule 1 of the Companies Act of 2008 to enable the NPCs to donate to a limited company.

## REMUNERATION OF DIRECTORS AND MEMBERS OF BOARD COMMITTEES

Directors' emoluments are set out on page 89 of these financial statements.

## AUDIT AND RISK COMMITTEE MEMBERS OF BOARD COMMITTEES

The appointment of the Audit and Risk Committee members and External Auditors is in line with the Companies Act, Act 71 of 2008. RHLF's policy is, where possible, to not use the External Auditors for non-audit services. In cases where the External Auditors are to be used for non-audit services, prior approval of the Audit Committee must be obtained.

## INTERNAL CONTROL

An effective internal control framework is the responsibility of the Board. The control framework provides a cost-effective assurance that the assets of the RHLF are safeguarded, liabilities and working capital are efficiently managed and that the RHLF complies with relevant legislation and regulations.

## INFORMATION TECHNOLOGY

The Board is responsible for the governance of Information Technology (IT), including the implementation of an appropriate IT Strategy.

## EVENTS AFTER THE REPORTING DATE

The shares held in Izwe Holdings (Pty) Ltd were disposed of after year end, other than this, the directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

## ASSOCIATES

The RHLF's investments are disclosed in notes 31 of the Annual Financial Statements.

## INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT PERFORMANCE

The performance of the RHLF against that expenditure in the Shareholder's Compact with the Minister of Human Settlements is set out on pages 43 to 49.

## LOSSES DUE TO CRIMINAL CONDUCT AND FRUITLESS AND WASTEFUL EXPENDITURE

In terms of the Materiality Framework agreed with the Shareholder, any losses due to criminal conduct or irregular, fruitless or wasteful expenditure, that individually (or collectively where items are closely related) exceed R5,1 million, must be reported. The RHLF did not incur any material losses.

The Directors' Report for the year ended 31 March 2018 was approved by the Board of Directors on 14 August 2018 and is signed on their behalf by:

Yours faithfully,



**Jabulani Fakazi**  
Chief Executive Officer



**Ms Thembi Chiliza**  
Independent Non-Executive  
Chairperson



# **INDEPENDENT AUDITOR'S REPORT TO BOARD OF DIRECTORS ON RURAL HOUSING LOAN FUND NPC**

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of Rural Housing Loan Fund NPC (the company) set out on pages 72 to 98 which comprise the statement of financial position as at 31 March 2018, the statement of comprehensive income, statement of changes in net assets, cash flow statement and statement of comparison to budget for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act of South Africa (PFMA) and the Companies Act of South Africa.

### **Basis for opinion**

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section in our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of professional conduct of registered auditors* (IRBA code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (parts A and B).

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

### **Responsibilities of the Board of Directors**

The Board of Directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practices and the requirements of the PFMA and the Companies Act and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the accounting authority is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of reported performance information**

### **Introduction and scope**

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information, which must be based on the approved performance planning documents of the company. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives

| Objectives  | Pages in the annual performance report |
|---|--|
| Objectives 1: Broaden and deepen the reach of rural housing finance             | 43                                     |
| Objective 2: Real capital preservation  | 43                                     |
| Objective 3: Sharpen portfolio risk management and enhance early warning system | 43                                     |

presented in the annual performance report of the company for the year ended 31 March 2018.

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the above mentioned objectives.

#### Other matter

We draw attention to the matter below. Our opinions are not modified in respect of this matter.

#### Achievement of planned targets

Refer to the annual performance report on pages 43 to 44 for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of the targets. This information should be considered in the context of the conclusions expressed on the usefulness and reliability of the reported performance information in paragraph of this report.

#### Report on the audit of compliance with legislation

##### Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the compliance of the company with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

##### Other Information

The company's accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the Directors' Report and the Report of the Audit and Risk Committee as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.

Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement in this other information, we are required to report that fact.

##### Internal control deficiencies

We considered internal control relevant to our audit of the financial statements, performance review and compliance with legislation, however, our objective was not to express any form of assurance thereon. We did not identify any significant deficiencies in internal control.

##### Auditor tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc. has been the auditor of Rural Housing Loan Fund NPC for 10 years.



**Darshen Govender**  
**SizweNtsalubaGobodo Grant Thornton Inc.**  
**Director**  
**Registered Auditor**  
**20 August 2018**

**20 Morris Street East**  
**Woodmead**  
**2191**



## ANNEXURE – AUDITOR'S RESPONSIBILITY FOR THE AUDIT

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the company's compliance with respect to the selected subject matters.

### Financial statements

In addition to our responsibility for the audit of the financial statements as described in this auditor's report, we also:

- identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority;
- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a company to cease continuing as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### Communication with those charged with governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, related safeguards.



## STATEMENT OF FINANCIAL POSITION

|  |      | 31 Mar 18      | 31 Mar 17      |
|--|------|----------------|----------------|
|  | Note | R000           | R000           |
| <b>Current assets</b>                    |      | <b>308 728</b> | <b>221 721</b> |
| Cash and cash equivalents                | 19   | 170 001        | 104 610        |
| Short term portion of intermediary loans | 20   | 137 820        | 97 156         |
| Receivables                              | 21   | 2              | 279            |
| Prepayments                              | 22   | 905            | 959            |
| Taxation                                 | 34   | -              | 18 717         |
| <b>Non-current assets</b>                |      | <b>356 382</b> | <b>370 377</b> |
| Long term portion of intermediary loans  | 20   | 338 329        | 358 547        |
| Investments in intermediaries            | 23   | 17 448         | 11 657         |
| Property, plant and equipment            | 25   | 551            | 159            |
| Intangible assets                        | 26   | 54             | 14             |
| <b>Total assets</b>                      |      | <b>665 110</b> | <b>592 098</b> |
| <b>Liabilities</b>                       |      |                |                |
| <b>Current liabilities</b>               |      | <b>14 742</b>  | <b>14 443</b>  |
| Trade creditors                          |      | 1 956          | 864            |
| Current portion of long term borrowings  | 28   | 6 297          | 7 477          |
| Provisions                               | 27   | 6 080          | 6 087          |
| Employee benefits                        |      | -              | 15             |
| Taxation                                 | 34   | 409            | -              |
| <b>Non-current liabilities</b>           |      | <b>122 105</b> | <b>124 527</b> |
| Borrowings                               | 28   | 122 105        | 124 527        |
| <b>Total liabilities</b>                 |      | <b>136 847</b> | <b>138 970</b> |
| <b>Nett Assets</b>                       |      | <b>528 263</b> | <b>453 128</b> |
| <b>Represented by</b>                    |      |                |                |
| <b>Grant capital</b>                     | 24   | <b>335 738</b> | <b>285 738</b> |
| KFW Grant                                |      | 154 763        | 154 763        |
| Department of Human Settlements Grant    |      | 180 975        | 130 975        |
| <b>Retained earnings</b>                 |      | <b>192 525</b> | <b>167 390</b> |
| <b>Total equity</b>                      |      | <b>528 263</b> | <b>453 128</b> |



## STATEMENT OF COMPREHENSIVE INCOME

|  |      | 31 Mar 18       | 31 Mar 17       |
|--|------|-----------------|-----------------|
|  | Note | R000            | R000            |
| <b>Interest from lending operations</b>    | 12   | <b>48 522</b>   | <b>45 667</b>   |
| <b>Other income</b>                        |      | <b>14 223</b>   | <b>14 389</b>   |
| Disposal of fixed assets                   |      | 11              | 12              |
| Bad debts recovered                        |      | 357             | 1 317           |
| Investment interest                        |      | 13 855          | 13 060          |
| <b>Total income</b>                        |      | <b>62 745</b>   | <b>60 056</b>   |
| <b>Operating expenses</b>                  |      | <b>(44 078)</b> | <b>(36 922)</b> |
| <b>Compensation of employees</b>           | 29   | <b>(14 458)</b> | <b>(17 559)</b> |
| Salaries and wages                         |      | (12 357)        | (15 683)        |
| Social contributions                       |      | (2 101)         | (1 876)         |
| <b>Goods and services</b>                  |      | <b>(7 227)</b>  | <b>(5 682)</b>  |
| Agency and outsourced services             |      | (2 894)         | (1 178)         |
| Communication                              |      | (619)           | (728)           |
| Computers                                  |      | (322)           | (269)           |
| Consultants                                |      | (339)           | (388)           |
| Lease payments                             |      | (946)           | (876)           |
| Repairs and maintenance                    |      | (11)            | (22)            |
| Training and staff development             |      | (350)           | (457)           |
| Travel and subsistence                     |      | (804)           | (948)           |
| Other                                      |      | (942)           | (817)           |
| <b>Other expenses</b>                      |      | <b>(22 393)</b> | <b>(13 679)</b> |
| Depreciation                               |      | (249)           | (186)           |
| Amortisation                               |      | (28)            | (26)            |
| Impairment provisions                      | 20   | (22 116)        | (13 467)        |
| <b>Profit before interest and taxation</b> |      | <b>18 667</b>   | <b>23 136</b>   |
| Interest paid                              |      | (9 611)         | (9 780)         |
| <b>Profit before taxation</b>              |      | <b>9 056</b>    | <b>13 356</b>   |
| Taxation                                   | 34   | 14 283          | -               |
| Share of Surplus of associates             | 31   | 1 796           | 1 407           |
| <b>Profit after taxation</b>               |      | <b>25 135</b>   | <b>14 763</b>   |



## STATEMENT OF COMPARISON TO BUDGET

31 March 18

|  | Actual<br>R000  | Budget<br>R000  | Variance<br>R000 | %              | Explanation of material variances                                      |
|--|-----------------|-----------------|------------------|----------------|--|
| <b>Interest from lending operations</b>    | 48 522          | 53 510          | (4 988)          | -9,3%          | Disbursements took place late in the year, and interest rates declined |
| <b>Other income</b>                        | 14 223          | 10 945          | 3 278            | 29,9%          | More undisbursed funds than budgeted for most of the year              |
| <b>Total income</b>                        | <b>62 745</b>   | <b>64 455</b>   | <b>(1 710)</b>   | <b>-2,7%</b>   |  |
| <b>Operating expenses</b>                  | <b>(44 078)</b> | <b>(30 436)</b> | <b>(13 642)</b>  | <b>-44,8%</b>  |  |
| <b>Compensation of employees</b>           | <b>(14 458)</b> | <b>(16 704)</b> | <b>2 246</b>     | <b>13,4%</b>   |  |
| Salaries and wages                         | (12 357)        | (13 920)        | 1 563            | 11,2%          | Voucher programme not implemented                                      |
| Social contributions                       | (2 101)         | (2 784)         | 683              | 24,5%          | Voucher programme not implemented                                      |
| <b>Goods and services</b>                  | <b>(7 227)</b>  | <b>(10 232)</b> | <b>3 005</b>     | <b>29,4%</b>   |  |
| Agency and outsourced services             | (2 894)         | (2 052)         | (842)            | -41,0%         | Legal fees relating to merger  |
| Communication                              | (619)           | (1 820)         | 1 201            | 66,0%          | Client workshop not held   |
| Computers                                  | (322)           | (384)           | 62               | 16,1%          |  |
| Consultants                                | (339)           | (204)           | (135)            | 66,2%          | Additional work by internal auditors                                   |
| Lease payments                             | (946)           | (1 200)         | 254              | -21,2%         | Moved to cheaper premises  |
| Repairs and maintenance                    | (11)            | (96)            | 85               | -88,5%         |  |
| Training and staff development             | (350)           | (360)           | 10               | -2,8%          |  |
| Travel and subsistence                     | (804)           | (2 100)         | 1 296            | 61,7%          | Less travel to clients than budgeted                                   |
| Other                                      | (942)           | (2 016)         | 1 074            | 53,3%          | Printing and equipment costs were lower than budgeted                  |
| <b>Other expenses</b>                      | <b>(22 393)</b> | <b>(3 500)</b>  | <b>(18 893)</b>  | <b>-539,8%</b> |  |
| Depreciation                               | (249)           | (167)           | (82)             | -49,1%         |  |
| Amortisation                               | (28)            | (588)           | 560              | 95,2%          | Computer software not acquired   |
| Impairment provisions                      | (22 116)        | (2 745)         | (19 371)         | -705,7%        | Clients balance sheets were weaker than expected                       |
| <b>Profit before interest and taxation</b> | <b>18 667</b>   | <b>34 019</b>   | <b>(15 352)</b>  | <b>45,1%</b>   |  |
| Interest paid                              | (9 611)         | (9 463)         | (148)            | 0,0%           |  |
| <b>Profit before taxation</b>              | <b>9 056</b>    | <b>24 556</b>   | <b>(15 500)</b>  | <b>63,1%</b>   |  |
| Taxation                                   | 14 283          | -               | 14 283           | 0,0%           | Receipt of SARS refund was not budgeted                                |
| Share of Surplus of associates             | 1 796           | -               | 1 796            | 0,0%           |  |
| <b>Profit after taxation</b>               | <b>25 135</b>   | <b>24 556</b>   | <b>579</b>       | <b>2,4%</b>    |  |

## CASH FLOW STATEMENT

|   |      | 31 Mar 18        | 31 Mar 17        |
|---|------|------------------|------------------|
|   | Note | R000             | R000             |
| <b>Cash flows from operating activities</b>                 |      |                  |                  |
| <b>Receipts</b>   |      | <b>240 991</b>   | <b>148 581</b>   |
| Revenue   |      | 48 522           | 45 667           |
| Repayments of loans   |      | 145 205          | 89 854           |
| Interest  |      | 13 855           | 13 060           |
| Taxation refunded   |      | 33 409           | -                |
| <b>Payments</b>   |      | <b>(217 316)</b> | <b>(254 360)</b> |
| Compensation of Employees                                   | 29   | (14 480)         | (11 910)         |
| Disbursements   |      | (187 067)        | (227 305)        |
| Goods and Services  |      | (5 189)          | (4 725)          |
| Interest and Rent on land                                   |      | (10 580)         | (10 421)         |
| <b>Net cash flows from operating activities</b>             | 35   | <b>23 675</b>    | <b>(105 779)</b> |
| <b>Cash flows from investing activities</b>                 |      |                  |                  |
| Purchase of assets  |      | (711)            | (55)             |
| Proceeds from sale of assets                                |      | 23               | 23               |
| Sundry income   |      | -                | 800              |
| Aquisition of investments                                   |      | (3 995)          | -                |
| <b>Net cash flows from investing activities.</b>            |      | <b>(4 681)</b>   | <b>768</b>       |
| <b>Cash flows from financing activities</b>                 |      |                  |                  |
| Repayment of borrowings                                     |      | (3 603)          | (3 417)          |
| Proceeds from grant from Department of Human Settlements    |      | 50 000           | -                |
| <b>Net cash flows from financing activities</b>             |      | <b>46 397</b>    | <b>(3 417)</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |      | <b>65 391</b>    | <b>(108 428)</b> |
| Cash and cash equivalents at the beginning of the period    |      | 104 610          | 213 038          |
| <b>Cash and cash equivalents at the end of the period</b>   |      | <b>170 001</b>   | <b>104 610</b>   |



## STATEMENT OF CHANGES IN NET ASSETS

|                                 | AT 31-MARCH 2018           |   |                        |                |
|---------------------------------|----------------------------|---|------------------------|----------------|
|                                 | Contributed<br>Capital KFW | Contributed<br>Capital<br>Department<br>of Human<br>Settlements | Accumulated<br>Surplus | Net Assets     |
|                                 | R000                       | R000  | R000                   | R000           |
| <b>Balance at 1 April 2016</b>  | 154 763                    | 130 975   | 152 627                | 438 365        |
| Surplus for the period          | -                          | -   | 14 763                 | 14 763         |
| <b>Balance at 31 March 2017</b> | <b>154 763</b>             | <b>130 975</b>  | <b>167 390</b>         | <b>453 128</b> |
| <b>Balance at 01 April 2017</b> | <b>154 763</b>             | <b>130 975</b>  | <b>167 390</b>         | <b>453 128</b> |
| Increase Capital Contributions  |                            | 50 000  |                        | 50 000         |
| Surplus for the period          | -                          | -   | 25 135                 | 25 135         |
| <b>Balance at 31 March 2018</b> | <b>154 763</b>             | <b>180 975</b>  | <b>192 525</b>         | <b>528 263</b> |



# ACCOUNTING POLICIES

## 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.

While there is an intention from the Minister of Human Settlements to merge the operations of the Rural Housing Loan Fund SOC NPC with those of the National Housing Finance Corporation (Pty) Ltd and the National Urban Reconstruction and Housing Agency, there is no certainty as to the timing of this event, hence the going concern assumption.

## 4. ROUNDING

In this annual financial statement figures are rounded to the nearest thousand rand.

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

The following Standards of GRAP and / or amendments thereto, of relevance to RHLF, 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

GRAP 18 Segment Reporting. No effective date.

### GRAP 17 Property, Plant and Equipment

The indicators for the assessment of residual value and the useful life have been revised.

Allowed valuers has been expanded to include another expert with the requisite competence as required by GRAP in addition to the previous requirement of members of a valuation profession.

Clarification has also been added that employees can now be used as valuers. This has resulted in the removal or the disclosure requirement of whether an independent valuer was involved.

Due to the insignificance of property, plant and equipment on the balance sheet, no adjustments have been made in terms of GRAP 17.

**GRAP 108 Statutory receivables**

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The Minister of Finance has not yet set a date for implementation.

**6. SIGNIFICANT JUDGEMENTS AND ESTIMATES**

The use of judgement, 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, useful life and residual value of assets, 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. 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.

**Leases**

Management uses judgement in assessing whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. Management assess the following in each lease contract (using GRAP 13) to classify a lease as a finance lease or operating lease:

In order to make the determination as to whether a lease is a finance lease, the entity considers several variables (non-exhaustive) and applies judgment to the assessment of whether any of the conditions noted hereunder using the guidance of GRAP 13. These include but are not limited to:

- Transfer of ownership
- Remaining economic life of the asset
- The expected term of the lease
- Fair value of the underlying asset

**Associates**

In certain cases, in case of associates, the assessment of significant influence requires the application of significant judgement. This includes such items such as assessing the current ability to significantly affect the relevant activities of the investee (rather than the actual exercise of power), the nature of substantive or protective rights and voting rights are all considered when assessing whether the RHLF significantly influence the activities of its entities.

**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.

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.

The company derecognises financial assets when they are either sold, or permanently cease to have a realisable value.

### **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 category:

- 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 consists of cash 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.

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 |

### **Derecognition**

The company derecognises property, plant and equipment when they are either sold, or permanently cease to have a realisable value.

## **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:

|                   |                            |
|-------------------|----------------------------|
| Intangible        | Useful Life Range 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.

### **Derecognition**

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.

### 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

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

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.

#### Measurement

Assets subject to a finance lease, as recognised in the Statement of Financial Position, are measured (at initial recognition) at the lower of the fair value of the assets and the present value of the future minimum lease payments. Subsequent to initial recognition these capitalised assets are depreciated over the contract term.

The finance lease liability recognised at initial recognition is measured at the present value of the future minimum lease payments. Subsequent to initial recognition this liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

The lease expense recognised for operating leases is charged to the Statement of Financial Performance on a straight-line basis over the term of the relevant lease. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be. This resulting asset and/or liability is measured as the undiscounted difference between the straight-line lease payments and the contractual lease payments.

#### Derecognition

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the entity's obligation to settle the liability is extinguished. The operating lease

asset is derecognised when the entity no longer anticipates economic benefits to flow from the asset.

## 12. REVENUE

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

Where bad debts are recovered, these are recorded as sundry income.

## 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. 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 are 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.

## 15. 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 and 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
- 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.

## 16. INVESTMENT IN ASSOCIATES

The Entity's investments in its associates are 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.

## **17. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless expenditure means expenditure which was made in vain and could have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

All fruitless and wasteful expenditure is recognised against the respective class of expense in the year in which they were incurred.

## **18. IRREGULAR EXPENDITURE**

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The Public Finance Management Act (Act 1 of 1999) as amended
- The Income Tax Act (Act 58 of 1962) as amended.



## NOTES TO THE FINANCIAL STATEMENTS

### 19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

|               | 2018<br>R000   | 2017<br>R000   |
|---------------|----------------|----------------|
| Cash at bank  | 14 732         | 16 112         |
| Call deposits | 155 269        | 88 498         |
|               | <b>170 001</b> | <b>104 610</b> |

An amount of R93 000 (2017: R93 000) is held on deposit with Standard Bank as security for a guarantee for RHLF's building rental.

### 20. INTERMEDIARY LOANS

|  | Gross Balances<br>R000 | Provision for<br>Doubtful Debts<br>R000 | Nett Balance<br>R000 |
|--|------------------------|---|----------------------|
| <b>Balance at 31 March 2018</b>                  |                        |   |                      |
| Other receivables                                | 542 069                | (65 920)                                | 476 149              |
| <b>Total Intermediary Loans at 31 March 2018</b> | <b>542 069</b>         | <b>(65 920)</b>                         | <b>476 149</b>       |
|  | Gross Balances<br>R000 | Provision for<br>Doubtful Debts<br>R000 | Nett Balance<br>R000 |
| <b>Balance at 31 March 2017</b>                  |                        |   |                      |
| Other receivables                                | 499 981                | (44 278)                                | 455 703              |
| <b>Total Intermediary Loans at 31 March 2017</b> | <b>499 981</b>         | <b>(44 278)</b>                         | <b>455 703</b>       |

|  | 2018<br>R000   | 2017<br>R000   |
|--|----------------|----------------|
| Long terms loans to retail intermediaries                | 476 149        | 455 703        |
| Less: Current portion transferred to current receivables | 137 820        | 97 156         |
| <b>Long term portion</b>                                 | <b>338 329</b> | <b>358 547</b> |

#### 20.1 Reconciliation of Doubtful Debt Provision

|   |                 |                 |
|---|-----------------|-----------------|
| Balance at beginning of the year        | (44 278)        | (32 329)        |
| Contributions to provision              | (22 116)        | (13 467)        |
| Bad debts written off against provision | 474             | 1 518           |
| <b>Balance at end of year</b>           | <b>(65 920)</b> | <b>(44 278)</b> |

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

## 20.2 Credit quality of intermediary loans

The entity determines the credit quality of its intermediary loans.

### Method of determining credit quality of trade receivables from exchange transactions:.

The credit quality of intermediary loans 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.

## 21. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

|   | 2018<br>R000 | 2017<br>R000 |
|---|--------------|--------------|
| Sundry receivables  | 2            | 46           |
| Department of Human Settlements for construction of houses to determine the quantum for the voucher programme | 233          | 233          |
| Provision against Department of Human Settlements amount due  | (233)        | -            |
| <b>Total other debtors</b>  | <b>2</b>     | <b>279</b>   |

## 22. PRE-PAYMENTS

|   |            |            |
|---|------------|------------|
| Fees relating to the loan from DBSA, being expensed over the life of the loan | 905        | 959        |
|   | <b>905</b> | <b>959</b> |

## 23. INVESTMENTS

|  |               |               |
|--|---------------|---------------|
| Equity investments - Izwe Holdings (Pty) Ltd (carrying value)              | 3 500         | 3 203         |
| Equity investments - Kabo Financial Investments (Pty) Ltd (carrying value) | -             | -             |
| Equity investments - Lehae Housing (Pty) Ltd (carrying value)              | -             | -             |
| Equity investments - Lendcor (Pty) Ltd (carrying value)                    | 9 954         | 8 454         |
| Equity investments - Norufin Housing (Pty) Ltd (carrying value)            | -             | -             |
| Equity investments - Real People Holdings (Pty) Ltd Epik Notes             | 3 994         | -             |
|  | <b>17 448</b> | <b>11 657</b> |

For more details on these investments refer to note 31

## 24. GRANT CAPITAL

|  |                |                |
|--|----------------|----------------|
| Grant at inception from KFW in terms of an intergovernmental agreement | 154 763        | 154 763        |
| Grant from Department of Human Settlements 2010 / 2011                 | 49 500         | 49 500         |
| Grant from Department of Human Settlements 2011 / 2012                 | 49 500         | 49 500         |
| Grant from Department of Human Settlements 2012 / 2013                 | 31 975         | 31 975         |
| Grant from Department of Human Settlements 2017 / 2018                 | 50 000         | -              |
|  | <b>335 738</b> | <b>285 738</b> |

The terms of the grant from KFW require that these funds, and any interest earned on them, are used for loans to retail lenders who may only use these funds to grant housing loans to poor rural families.

## 25. PROPERTY, PLANT AND EQUIPMENT

### 25.1 Reconciliation of Carrying Value

|                        | 2018         |   |                | 2017         |   |                |
|------------------------|--------------|---|----------------|--------------|---|----------------|
|                        | Cost         | Accumulated Depreciation and Impairment | Carrying Value | Cost         | Accumulated Depreciation and Impairment | Carrying Value |
|                        | R000         | R000                                    | R000           | R000         | R000                                    | R000           |
| Furniture and fittings | 530          | (496)                                   | 34             | 579          | (527)                                   | 52             |
| Office equipment       | 66           | (42)                                    | 24             | 155          | (133)                                   | 22             |
| Computer equipment     | 597          | (281)                                   | 316            | 557          | (472)                                   | 85             |
| Leasehold premises     | 288          | (111)                                   | 177            | 60           | (60)                                    | -              |
| <b>Total</b>           | <b>1 481</b> | <b>(930)</b>                            | <b>551</b>     | <b>1 351</b> | <b>(1 192)</b>                          | <b>159</b>     |

No assets are pledged as security.

### 25.2 Reconciliation of Property Plant and Equipment - 2018

|                        | Carrying Value Opening Balance | Additions  | Disposals  | Depreciation | Carrying Value Closing Balance |
|------------------------|--------------------------------|------------|------------|--------------|--------------------------------|
|                        | R000                           | R000       | R000       | R000         | R000                           |
| Furniture and fittings | 52                             | -          | (2)        | (16)         | 34                             |
| Office equipment       | 22                             | 13         | -          | (11)         | 24                             |
| Computer equipment     | 85                             | 342        | -          | (111)        | 316                            |
| Leasehold premises     | -                              | 288        | -          | (111)        | 177                            |
| <b>Total</b>           | <b>159</b>                     | <b>643</b> | <b>(2)</b> | <b>(249)</b> | <b>551</b>                     |

### 25.3 Reconciliation of Property Plant and Equipment - 2017

|                        | Carrying Value Opening Balance | Additions | Disposals   | Depreciation | Carrying Value Closing Balance |
|------------------------|--------------------------------|-----------|-------------|--------------|--------------------------------|
|                        | R000                           | R000      | R000        | R000         | R000                           |
| Furniture and fittings | 60                             | 7         | -           | (15)         | 52                             |
| Office equipment       | 40                             | -         | -           | (18)         | 22                             |
| Computer equipment     | 207                            | 42        | (11)        | (153)        | 85                             |
| Leasehold premises     | -                              | -         | -           | -            | -                              |
| <b>Total</b>           | <b>307</b>                     | <b>49</b> | <b>(11)</b> | <b>(186)</b> | <b>159</b>                     |



## 26. INTANGIBLE ASSETS

### 26.1 Reconciliation of Carrying Value

|                   | 2018       |   |                | 2017       |   |                |
|-------------------|------------|---|----------------|------------|---|----------------|
|                   | Cost       | Accumulated Amortisation and Impairment | Carrying Value | Cost       | Accumulated Amortisation and Impairment | Carrying Value |
|                   | R000       | R000                                    | R000           | R000       | R000                                    | R000           |
| Computer software | 276        | (222)                                   | 54             | 261        | (247)                                   | 14             |
| <b>Total</b>      | <b>276</b> | <b>(222)</b>                            | <b>54</b>      | <b>261</b> | <b>(247)</b>                            | <b>14</b>      |

### 26.2 Reconciliation of Intangible Assets - 2018

|                   | Carrying Value Opening Balance | Additions | Amortisation | Carrying Value Closing Balance |
|-------------------|--------------------------------|-----------|--------------|--------------------------------|
|                   | R000                           | R000      | R000         | R000                           |
| Computer software | 14                             | 68        | (28)         | 54                             |
| <b>Total</b>      | <b>14</b>                      | <b>68</b> | <b>(28)</b>  | <b>54</b>                      |

### 26.3 Reconciliation of Intangible Assets - 2017

|                   | Carrying Value Opening Balance | Additions | Amortisation | Carrying Value Closing Balance |
|-------------------|--------------------------------|-----------|--------------|--------------------------------|
|                   | R000                           | R000      | R000         | R000                           |
| Computer software | 34                             | 6         | (26)         | 14                             |
| <b>Total</b>      | <b>34</b>                      | <b>6</b>  | <b>(26)</b>  | <b>14</b>                      |

## 27. PROVISIONS

### 27.1 Reconciliation of Movement in Provision - 2018

|                        | Retention Reward | Performance Bonus | Provision for Leave Pay | Total        |
|------------------------|------------------|-------------------|-------------------------|--------------|
|                        | R000             | R000              | R000                    | R000         |
| <b>Opening Balance</b> | <b>3 288</b>     | <b>2 393</b>      | <b>406</b>              | <b>6 087</b> |
| Provisions raised      | -                | 2 230             | 944                     | 3 174        |
| Amounts paid           | -                | (2 393)           | (788)                   | (3 181)      |
| <b>Closing Balance</b> | <b>3 288</b>     | <b>2 230</b>      | <b>562</b>              | <b>6 080</b> |

### 27.2 Reconciliation of Movement in Provision - 2017

|                        | Retention Award | Performance Bonus | Provision for Leave Pay | Total        |
|------------------------|-----------------|-------------------|-------------------------|--------------|
|                        | R000            | R000              | R000                    | R000         |
| <b>Opening Balance</b> | <b>-</b>        | <b>86</b>         | <b>367</b>              | <b>453</b>   |
| Provisions raised      | 4 134           | 2 393             | 787                     | 7 314        |
| Amounts used           | (846)           | (86)              | (748)                   | (1 680)      |
| <b>Closing Balance</b> | <b>3 288</b>    | <b>2 393</b>      | <b>406</b>              | <b>6 087</b> |

The basis for calculating the Retention Award is contained in note 29 on page 89.

## 28. BORROWINGS

|  | 2018           | 2017           |
|--|----------------|----------------|
|  | R000           | R000           |
| Development Bank of Southern Africa                      | 128 402        | 132 004        |
| Less: Current portion transferred to current liabilities | (6 297)        | (7 477)        |
| <b>Total Long Term Non-current Borrowings</b>            | <b>122 105</b> | <b>124 527</b> |

### 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 average fixed rate of 7.56% per annum payable half yearly on 15 June and 15 December. Repayment of the 41 half yearly instalments commenced on 14 December 2014.

The terms of this loan state that the funds from it may only be used for the following:

“Refinancing of small loans portfolios for housing purposes by various financial institutions accredited with RHLF granting of equity capital to these finance institutions”.

## 29. EMPLOYEE RELATED COSTS

|   | 2018          | 2017          |
|---|---------------|---------------|
|   | R000          | R000          |
| Employee related costs - Salaries and Wages                               | 9 203         | 7 858         |
| Employee related costs - Contributions for UIF, pensions and medical aids | 2 101         | 1 876         |
| Travel, motor car, accommodation, subsistence and other allowances        | 513           | 541           |
| Directors fees  | 356           | 402           |
| Overtime payments   | 22            | 22            |
| Performance and other bonuses   | 2 243         | 2 691         |
| Retention scheme  | -             | 4 134         |
| Long-service awards   | 20            | 35            |
|   | 14 458        | 17 559        |
| Training expenditure  | 350           | 456           |
| <b>Employee Related Costs</b>   | <b>14 808</b> | <b>18 015</b> |
| Less training expenditure   | (350)         | (456)         |
| Movement in provisions  | 7             | (5 634)       |
| Movement in employee related creditors                                    | 15            | (15)          |
| <b>Cash flow effect</b>   | <b>14 480</b> | <b>11 910</b> |





As the Rural Housing Loan Fund is a very small organisation, each employee contributes significantly to its mandate. Consequently the Board was concerned that there was a risk that there could be a loss of skills if employees resigned as a result the upcoming merger with the National Housing Finance Corporation and the National Urban Reconstruction and Housing Agency. For this reason it put in place a retention scheme to ensure that this risk was mitigated. Different employees will be paid different amounts based on their position in the organisation and their salaries. These are set out in the following table:

| Position                | Months Initial Payment | Months Final Payment | Months total |
|-------------------------|------------------------|----------------------|--------------|
| Chief Executive Officer | 1                      | 5                    | 6            |
| Chief Financial Officer | 1                      | 4                    | 5            |
| Client Executives       | 1                      | 4                    | 5            |
| Risk Manager            | 1                      | 4                    | 5            |
| Other employees         | 1                      | 3                    | 4            |

The initial payment was made in September 2016. It was repayable pro rata if the recipient resigned during the 12 months ending August 2017. No employees have resigned since the commencement of the scheme. The final payment is payable 12 months after the merger is completed. The payments are all calculated and payable based on the salary at 30 September 2016. If the merger is cancelled by the Minister of Human Settlements, then the final payment falls away.

### 30. EMPLOYEE BENEFITS

#### 30.1 Defined contribution plans

|  | 2018<br>R000 | 2017<br>R000 |
|--|--------------|--------------|
| Provident fund   | 1 425        | 1 219        |
| <b>Total contributions expensed to the Statement of Comprehensive Income</b> | <b>1 425</b> | <b>1 219</b> |

### 31 INVESTMENTS IN ASSOCIATES

#### 31.1 Investments 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. Due to the significant size of loans granted to Izwe, RHLF was contractually able to influence decision making.

The following table illustrates summarised financial information of Izwe Holdings (Pty) Ltd.

|  | 2018<br>R000  | 2017<br>R000  |
|--|---------------|---------------|
| Share of the investment's statement of financial position: |               |               |
| Assets   | 71 138        | 356 707       |
| Liabilities  | -             | (291 585)     |
| Non current liabilities                                    |               | -             |
| <b>Equity</b>  | <b>71 138</b> | <b>65 122</b> |

Subsequent to year end the company accepted an offer of R3,5 million for these shares

#### 31.2 Investments in Lendcor (Pty) Ltd.

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

The following table illustrates summarised financial information of Lendcor (Pty) Ltd.

|   | 2018<br>R000  | 2017<br>R000  |
|---|---------------|---------------|
| Share of the associates' statement of financial position: |               |               |
| Current assets  | 145 905       | 66 290        |
| Non current assets  | 58 304        | 89 202        |
| Current liabilities                                       | (33 767)      | (19 418)      |
| Non current liabilities                                   | (120 677)     | (98 325)      |
| <b>Equity</b>   | <b>49 765</b> | <b>37 749</b> |
| Turnover  | 74 706        | 64 706        |
| <b>Profit after tax</b>                                   | <b>12 018</b> | <b>10 031</b> |

### 31.3 Investments in Norufin Housing (Pty) Ltd

The entity has a 20% interest in Norufin Housing (Pty) Ltd and has the right to appoint a director. The following table illustrates summarised financial information of Norufin Housing (Pty) Ltd.

|  | 2018            | 2017           |
|--|-----------------|----------------|
|  | R000            | R000           |
| Associates' statement of financial position: |                 |                |
| Current assets                               | 22 566          | 13 112         |
| Non current assets                           | 26 696          | 42 404         |
| Current liabilities                          | (131)           | (17 695)       |
| Non current liabilities                      | (61 837)        | (47 671)       |
| <b>Equity</b>                                | <b>(12 706)</b> | <b>(9 850)</b> |
| Turnover                                     | 18 732          | 23 538         |
| <b>Profit after tax</b>                      | <b>(2 856)</b>  | <b>(2 462)</b> |

Subsequent to year end a creditor of the Norufin applied to the High Court to place the business into liquidation. RHLF believes the company can be saved and therefore is opposing this application by lodging an application to place Norufin into business rescue. No losses are recognised.

### 31.4 Investments in Lehae Housing (Pty) Ltd

The entity has a 20% interest in Lehae Housing (Pty) Ltd and has the right to appoint a director. The following table illustrates summarised financial information of Lehae Housing (Pty) Ltd.

|   | 2018     | 2017     |
|---|----------|----------|
|   | R000     | R000     |
| Share of the associates' statement of financial position: |          |          |
| Current assets  | -        | -        |
| Non current assets  | -        | -        |
| Current liabilities                                       | -        | -        |
| Non current liabilities                                   | -        | -        |
| <b>Equity</b>   | <b>-</b> | <b>-</b> |

As part of RHLF's commitment to transforming the incremental housing industry, RHLF converted a portion of its loans to equity in Lehae. This was done to assist the company with the initial losses incurred by a start-up. As a consequence of these losses, share capital was fully provided for. Due to problems with reconciling the accounts of Lehae, the financial statements are not available. No losses are recognised.

### 31.5 Investments in Kabo Financial Enterprise (Pty) Ltd

The entity has a 20% interest in Kabo Financial Enterprise (Pty) Ltd and has the right to appoint a director. The following table illustrates summarised financial information of Kabo Financial Enterprise (Pty) Ltd.

|   | 2018     | 2017     |
|---|----------|----------|
|   | R000     | R000     |
| Share of the associates' statement of financial position: |          |          |
| Current assets  | -        | -        |
| Non current assets  | -        | -        |
| Current liabilities                                       | -        | -        |
| Non current liabilities                                   | -        | -        |
| <b>Equity</b>   | <b>-</b> | <b>-</b> |

As part of RHLF's commitment to transforming the incremental housing industry, it took up equity equity in Kabo. This is done to assist the company with the initial losses incurred by a start-up. As a consequence of these losses, the share capital was fully provided for. The annual financial statements received from Kabo are not considered reliable enough to quote figures from. No losses are recognised.

### 31.6 Reconciliation of investments in intermediaries

|  | 2018          | 2017          |
|--|---------------|---------------|
| Opening balance                            | 11 657        | 10 250        |
| Share of Lendcor increase in assets        | 1 500         | 1 291         |
| Share of Izwe (decline/increase) in assets | 296           | (684)         |
| Dividends received                         | -             | 800           |
| Purchase of Epik Notes from Real People    | 3 995         | -             |
| Share of associates' revenue and profit:   | 1 796         | 1 407         |
| <b>Closing balance</b>                     | <b>17 448</b> | <b>11 657</b> |

There are no charges in the carrying value of other associates.

### 31.7 Real People

During a debt restructuring exercise by Real People Holdings, a portion of RHLF's loan was converted to E Pik notes. These bear interest and are not repayable. They are therefore closed on an equity investment.

## 32. COMMITMENTS

|  | 2018        | 2017        |
|--|-------------|-------------|
|  | <b>R000</b> | <b>R000</b> |
| Commitments in respect of facilities granted | 102 390     | 96 021      |

### Operating leases

At the reporting date the entity had outstanding commitments under operating leases which fell 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:

|                   | 2018       | 2017     |
|-------------------|------------|----------|
| Up to 1 year      | 914        | -        |
| 1 to 5 years      | -          | -        |
| More than 5 years | -          | -        |
|                   | <b>914</b> | <b>-</b> |

Operating leases consisted of the following:

Property rentals are negotiated for a period of three years. Rentals escalate at 8% per annum. These commitments are ended.

### Copiers

The only 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:

|                   | 2018       | 2017       |
|-------------------|------------|------------|
| Up to 1 year      | 66         | 57         |
| 1 to 5 years      | 75         | 141        |
| More than 5 years | -          | -          |
|                   | <b>141</b> | <b>198</b> |

### Total

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

|                   | 2018         | 2017       |
|-------------------|--------------|------------|
| Up to 1 year      | 980          | 57         |
| 1 to 5 years      | 75           | 141        |
| More than 5 years | -            | -          |
|                   | <b>1 055</b> | <b>198</b> |

### 33. RELATED PARTIES

|                                      | 2018<br>R000 | 2017<br>R000 |
|--------------------------------------|--------------|--------------|
| <b>Related party balances</b>        |              |              |
| Development Bank of Southern Africa  | (128 402)    | (132 004)    |
| South African Revenue Services       | (408)        | 18 717       |
| National Housing Finance Corporation | (513)        | -            |
| South African Reserve Bank           | 155 176      | 88 405       |
| <b>Related party transactions</b>    |              |              |
| <b>Interest earned / (paid)</b>      |              |              |
| Development Bank of Southern Africa  | (9 557)      | (9 725)      |
| South African Reserve Bank           | 11 771       | 12 562       |
| <b>Other expenses</b>                |              |              |
| National Housing Finance Corporation | 513          | -            |
| South African Airways                | (197)        | (265)        |

### 34. TAXATION

|                                   | 2018<br>R000  | 2017<br>R000 |
|-----------------------------------|---------------|--------------|
| Opening balance                   | 18 717        | 18 717       |
| Refund relating to previous years | 14 283        | -            |
|                                   | 33 000        | -            |
| Due (from) to SARS                | 409           | 18 717       |
| Received during the year          | <b>33 409</b> | -            |

#### 34.1 Taxation

|                                   | 2018<br>R000 | 2017<br>R000 |
|-----------------------------------|--------------|--------------|
| Refund relating to previous years | 14 283       | -            |

#### 34.2 Refund relating to previous years

During the 2014/15 financial year SARS granted the company an income tax exemption backdated to 2004. During the year under review a settlement was reached with SARS that an amount of R33 million would be refunded in full and final settlement. This has been received.

Due to a system issue, SARS overpaid the amount due by R409 000 and have asked RHLF not to pay it across until the system issue is resolved.

### 35. CASH FLOWS FROM OPERATING ACTIVITIES

|  | 2018            | 2017             |
|--|-----------------|------------------|
|  | R000            | R000             |
| <b>Surplus for the year</b>                              | <b>25 135</b>   | <b>14 763</b>    |
| <b>Adjustment for:</b>                                   | <b>20 579</b>   | <b>17 894</b>    |
| Depreciation   | 249             | 186              |
| Amortisation   | 28              | 26               |
| (Gain) / loss on sale of assets                          | (11)            | (12)             |
| Contribution to (reversal of) provisions - current       | (7)             | 5 634            |
| Other non-cash movements                                 | -               | -                |
| Fair value adjustments                                   | (1 796)         | (1 407)          |
| Impairment loss  | 22 116          | 13 467           |
| <b>Operating surplus before working capital changes:</b> | <b>45 714</b>   | <b>32 657</b>    |
| <b>Working capital movements</b>                         | <b>(22 039)</b> | <b>(138 436)</b> |
| Decrease in trade and other receivables                  | 330             | 1 182            |
| Increase in loans receivable                             | (42 573)        | (139 716)        |
| Decrease in tax receivable                               | 19 127          | -                |
| Increase in trade and other payables                     | 1 077           | 98               |
| <b>Net cash flows from operating activities</b>          | <b>23 675</b>   | <b>(105 779)</b> |



### 36. 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:

|  | 2018<br>R000 | 2017<br>R000 |
|--|--------------|--------------|
| Cash and cash equivalents                              | 170 001      | 104 610      |
| Trade and other receivables from exchange transactions | 137 820      | 97 435       |
| Non-current receivables from exchange transactions     | 338 329      | 358 546      |
| Non-current investments                                | 17 448       | 11 657       |

|                                 | Amount         | Short term<br>credit rating |
|---------------------------------|----------------|-----------------------------|
| Corporation for Public Deposits | 155 176        |                             |
| Standard Bank                   | 14 825         | F1+                         |
| <b>Total</b>                    | <b>170 001</b> |                             |

### 37. 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.

### 38. CONCENTRATION OF CREDIT RISK

Almost all of RHLF's credit risk is contained within the long term receivables. As the South African Reserve Bank is considered the lender of last resort, the risk here is not considered material.

### 39. 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.

|                          | Later than three months and not later than one year | Later than one year and not later than five years | Greater than 5 years |
|--------------------------|---|---|----------------------|
| <b>2018</b>              | <b>R000</b>   | <b>R000</b>                                       | <b>R000</b>          |
| Trade and other payables | 1 956   | -   | -                    |
| Borrowings               | 6 297   | 31 839  | 90 266               |
|                          |   |   |                      |
|                          | Not later than one month                            | Not later than one month                          | Greater than 5 years |
| <b>2017</b>              | <b>R000</b>   | <b>R000</b>                                       | <b>R000</b>          |
| Trade and other payables | 879   | -   | -                    |
| Borrowings               | 7 477   | 22 689  | 101 838              |

**Concentration of credit risk**

Credit risk is concentrated in the intermediary loans.

**40. 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. Consequently no sensitivity analysis has been performed.

**Concentration of credit risk**

Give a description of the extent to which the interest rate risk is concentrated in a line item, balance or instrument.

**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  |
|---|--------------|-----------------|-------------|
| <b>2018</b>                               | <b>R000</b>  | <b>R000</b>     | <b>R000</b> |
| <b>Interest income</b>                    |              |                 |             |
| Interest rate increase of 75 basis points | 4 066        | -               | 4 066       |
| Interest rate decrease 50 basis points    | (2 710)      | -               | (2 710)     |
|   |              |                 |             |
|   | Gross impact | Taxation effect | Net impact  |
| <b>2017</b>                               | <b>R000</b>  | <b>R000</b>     | <b>R000</b> |
| <b>Interest income</b>                    |              |                 |             |
| Interest rate increase of 75 basis points | 3 750        | -               | 3 750       |
| Interest rate decrease 50 basis points    | (2 500)      | -               | (2 500)     |

## 41. IMPAIRMENT AND RECONCILIATION DISCLOSURES RELATED TO FINANCIAL ASSETS

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

| Reconciliation between gross and net balances | Gross Balances | Provision for Doubtful Debts | Net Balance    |
|---|----------------|------------------------------|----------------|
|   | R000           | R000                         | R000           |
| Long term loans                               | 542 069        | (65 920)                     | 476 149        |
| <b>Total</b>                                  | <b>542 069</b> | <b>(65 920)</b>              | <b>476 149</b> |

|   | 2018            | 2017            |
|---|-----------------|-----------------|
| Reconciliation of the doubtful debt provision | R000            | R000            |
| Balance at beginning of the year              | (44 278)        | (32 329)        |
| Contributions to provision                    | (22 116)        | (13 467)        |
| Doubtful debts written off against provision  | 474             | 1 518           |
| Reversal of provision                         | -               | -               |
| <b>Balance at end of year</b>                 | <b>(65 920)</b> | <b>(44 278)</b> |

## 42. 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 determined 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). On a regular basis the Credit and Development Committee assesses the balance sheet and income statement of each borrower, and through use of a formula raises or reverses provisions as appropriate.

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

| 2018                          | Level 1 fair value | Level 2 fair value | Level 3 fair value | Total          |
|-------------------------------|--------------------|--------------------|--------------------|----------------|
| Assets measured at fair value | R000               | R000               | R000               | R000           |
| Cash at bank                  | -                  | 170 001            | -                  | 170 001        |
| Receivables                   | -                  | 476 149            | -                  | 476 149        |
| Investment in associates      | -                  | -                  | 17 448             | 17 448         |
| <b>Total</b>                  | <b>-</b>           | <b>646 150</b>     | <b>17 448</b>      | <b>663 598</b> |

| 2017                          | Level 1 fair value | Level 2 fair value | Level 3 fair value | Total          |
|-------------------------------|--------------------|--------------------|--------------------|----------------|
| Assets measured at fair value | R000               | R000               | R000               | R000           |
| Cash at bank                  | -                  | 104 610            | -                  | 104 610        |
| Receivables                   | -                  | 455 703            | -                  | 455 703        |
| Investment in associates      | -                  | -                  | 11 657             | 11 657         |
| <b>Total</b>                  | <b>-</b>           | <b>560 313</b>     | <b>11 657</b>      | <b>571 970</b> |

**43. CONTRIBUTED CAPITAL**

The reserve consists of funds directly paid to the entity for the purpose of funding the business of the entity.

|                 | 2018    | 2017    |
|-----------------|---------|---------|
|                 | R000    | R000    |
| Opening balance | 285 738 | 285 738 |
| Contributions   | 50 000  | -       |
| Closing balance | 335 738 | 285 738 |

**44. DIRECTORS****2018**

| Name                           | Date of first appointment | Number of Board/Committee |                |      |        |       | Meeting Fees R000 |
|--------------------------------|---------------------------|---------------------------|----------------|------|--------|-------|-------------------|
|                                |                           | Board                     | Audit and Risk | HRER | Credit | Other |                   |
| T Chiliza                      | 27/07/2006                | 5                         | NM             | 4    | 7      | 3     | 85                |
| A Egbers                       | 22/10/2010                | 5                         | 6              | NM   | 7      | 4     | 99                |
| M Mathibe                      | 22/10/2010                | 5                         | 6              | 4    | NM     | 15    | 135               |
| R Haman                        | 28/03/2013                | 5                         | 5              | NM   | NM     | 2     | 54                |
| JJ Fakazi (Executive Director) | 05/01/2009                | 5                         | 6*             | 4*   | 6      | -     | -                 |

**2017**

| Name                           | Date of first appointment | Number of Board/Committee |              |      |        |       | Meeting Fees R000 |
|--------------------------------|---------------------------|---------------------------|--------------|------|--------|-------|-------------------|
|                                |                           | Board                     | Audit / Risk | HRER | Credit | Other |                   |
| T Chiliza                      | 27/07/2006                | 10                        | NM           | 3    | 9      | 3     | 113               |
| A Egbers                       | 22/10/2010                | 10                        | 5            | NM   | 8      | 4     | 122               |
| M Mathibe                      | 22/10/2010                | 10                        | 4            | 3    | NM     | 3     | 90                |
| R Haman                        | 28/03/2013                | 9                         | 5            | NM   | NM     | 2     | 72                |
| JJ Fakazi (Executive Director) | 05/01/2009                | 10                        | 5*           | 3*   | 9      | -     | -                 |

NM: This indicates a director who is not a member of that particular committee.

\* Indicates attendance as an invitee, not as a member.

#### 45. EXECUTIVE REMUNERATION

|                         | Basic Salary | Performance related amounts | Retention amount | Employer contributions | Other benefits | Total        |
|-------------------------|--------------|-----------------------------|------------------|------------------------|----------------|--------------|
|                         | R000         | R000                        | R000             | R000                   | R000           | R000         |
| <b>2018</b>             |              |                             |                  |                        |                |              |
| Chief Executive Officer | 1 968        | 617                         | -                | 513                    | 11             | 3 109        |
| Chief Financial Officer | 1 616        | 393                         | -                | 237                    | 11             | 2 257        |
|                         | <b>3 584</b> | <b>1 010</b>                | <b>-</b>         | <b>750</b>             | <b>22</b>      | <b>5 366</b> |
|                         |              |                             |                  |                        |                |              |
| <b>2017</b>             |              |                             |                  |                        |                |              |
|                         |              |                             |                  |                        |                |              |
| Chief Executive Officer | 1 882        | 656                         | 1 095            | 479                    | 33             | 4 145        |
| Chief Financial Officer | 1 490        | 478                         | 663              | 219                    | 27             | 2 877        |
|                         | <b>3 372</b> | <b>1 134</b>                | <b>1 758</b>     | <b>698</b>             | <b>60</b>      | <b>7 022</b> |

The performance related amounts are accrued and only payable once the annual audit is completed.

The retention amount includes a payment for one month, paid out in 2017, and a provision as noted in note 29

#### 46. FRUITLESS AND IRREGULAR EXPENDITURE

|   | 2018      | 2017      |
|---|-----------|-----------|
|   | R000      | R000      |
| Fruitless expenditure incurred on late payment on the DBSA loan   | 10        | 32        |
| The person responsible for the late payment of DBSA interest was issued a written warning.  |           |           |
| Fruitless expenditure incurred on incorrect calculation of increases and performance bonuses  | 13        | -         |
| Amount recovered  | (13)      | -         |
| The Chief Executive Officer and Chief Financial Officer repaid the amounts related to overpaid salaries and received written warnings |           |           |
| <b>Expensed through Statement of Comprehensive Income</b>   | <b>10</b> | <b>32</b> |



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