RURAL HOUSING LOAN FUND

Rural Housing Loan Fund
NPC 1996/010988/08

ANNUAL INTEGRATED REPORT

2016/2017

CONTENT

ANNUAL INTEGRATED REPORT 2016/2017

GENERAL INFORMATION

Registered Name	Rural Housing Loan Fund NPC
Registration Number	1996/010988/08
Registered Office Address	Liberty Gardens, 10 South Boulevard, Bruma 2198
Postal Address	PO Box 645, Bruma, 2026
Contact Telephone Number	(011) 621 2500
Facsimile	(011) 621 2520
Website Address	www.rhlf.co.za
External Auditors	SizweNtsalubaGobodo Inc.
Bankers	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 and government housing subsidy funds.

VALUES

We subscribe to the following values:

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

RHLF RURAL HOUSING LOAN FUND

FOREWORD BY THE CHAIRPERSON

Thembi Chiliza
Board Chairperson
Non-Executive Director

My report this year comes at a time when the country is experiencing a recession, and it therefore gives me great pleasure to inform you that the company met all its targets for the year ended 31 March 2017.

As our mandate is to facilitate access to unsecured incremental housing loans for low income households to improve their housing and living conditions in rural areas, I can further report that 45 512 loans were delivered to enable households to do this. This was made possible through capital provided by KFW and the Department of Human Settlements. As a wholesale institution we provide funds to retail lenders who then on-lend to rural home owners. The number of loans provided exceeded budget by 5.4%. In 2016, 39 790 loans were provided.

The 2016/17 target set for disbursements to intermediaries was R225 million and R286.9 million was disbursed, (2015/16: R168.8 million) – an achievement of 27.5% above the target. Growth strategies that some of our intermediaries put in place have now begun to yield positive results and the company had sufficient funds to meet the demand.

The cumulative number of loans issued since the Rural Housing Loan Fund was established is 540 621, but compared to a total of more than 4.5 million rural households, there is still a long way to go before the unsecured rural housing finance market can be considered well serviced. Disbursements of R1.8 billion granted to our intermediaries since the company was established were used to make the loans.

We are concerned about the negative outlook for the South African economy – and the resultant unemployment that directly impacts the market that RHLF supports. This makes it difficult for many people in our target market to afford housing credit in order to improve their housing conditions, notwithstanding a greater need therefore.

Understanding the imperative to contribute to the transformation of the housing microfinance industry, we support start-up housing microfinance companies owned by black entrepreneurs, particularly women. During the year under review we invested in two black women owned companies as concrete support to them to enhance their growth. We further funded three community based organisations and in doing so we were able to contribute to the quality of life for people who would have not been able to access housing finance elsewhere. Regrettably, despite most of the members of these organisations qualifying for a full government housing subsidy there are no projects being implemented in their particular areas, and the Rural Individual Housing Subsidy Voucher programme has not yet been approved to assist in allowing access to the subsidies. The only option for rural households is to embark on self-help housing projects through incremental housing loans and their own efforts. These efforts, as depicted later in this report, are truly inspirational.

The excellent performance we are reporting on for 2017 would not have been achieved without our retail partners. I therefore, on behalf of both the Board and the team, extend our gratitude to all our intermediaries for the sterling work they do in contributing to the achievement of the mandate of the Rural Housing Loan Fund. There is nothing more pleasing than to see public funds being effectively used for the intended purpose – improving the living conditions of borrowers in our target market.

During the year under review, all our intermediaries were found by our development monitoring team to be compliant with our mandate.

"THE CUMULATIVE NUMBER OF LOANS ISSUED SINCE THE RURAL HOUSING LOAN FUND WAS ESTABLISHED IS 540 621."

This team visits a statistical sample of borrowers from each of our intermediaries in order to physically verify that funds are used as intended. Again, I thank our partners for ensuring compliance with the mandate.

We continued to participate in the process of consolidating the three Department of Human Settlements' development finance institutions. This has added to the complexities of running the company and I am happy with the role played by staff and the Board in this project. The consolidation is now reaching a conclusion. Despite this additional workload, all employees went the extra mile in participating, when necessary, in the various requirements relating to the consolidation but still making sure to focus on achieving the goals for the year in furtherance of the mandate handed to us by the Minister.

It is appropriate that at this point, that I extend my appreciation to all our staff for the dedication to their work. Without their focus on supporting our intermediaries, the company would not be reporting such excellent results. As the Board we are proud of each and every member of the team and we have no doubt that each member will continue to champion access to affordable housing finance to improve rural housing conditions.

On the governance front, the company now has four non-executive directors and one executive director as vacancies have not been filled due to the consolidation discussed above.

The level of dedication of the remaining directors to the mission of the Rural Housing Loan Fund is commendable. I am sincerely grateful to work with such a great team and from the bottom of my heart, I sincerely thank each and every member of the Board – which I am, indeed, privileged to chair.

We are grateful to the Minister of Human Settlements for extending the term of office of the board members until the conclusion of the consolidation and dissolution of the company. This has helped to ensure that the process is well managed with experienced RHLF board members guiding the process. In this regard, we have done all in our power to ensure that the donation of the business of the Rural Housing Loan Fund to the National Housing Finance Corporation is completed in a legally compliant manner. We are pleased to note that the Human Settlements Development Bank will have as one of its products, Incremental Housing Finance. This product is, in most instances, not well appreciated by many as an appropriate housing finance mechanism, yet it is the critical enabler to many low income households who aspire to improve their housing conditions. This is the case in both rural and urban areas. We therefore thank the Minister for entrusting us with the responsibility of playing a governance role in the Rural Housing Loan Fund to ensure that the company delivers on the reason for its existence.

Ms Thembi Chiliza
Chairperson of the Board

1 MS MAKGAFA TSOAELA *PHOMONG VILLAGE, WITSIESHOEK*

MALUTI – A PHOFUNG MUNICIPALITY, FREE STATE PROVINCE

Ms Makgafa Tsoaela is a single parent with one child, who lives in her newly built, incomplete, 10 roomed house with access to electricity, public tap outside the property and a pit latrine. She is employed in the private sector as a domestic worker, earning between R3 500 and R6 000. Ms Tsoaela took a loan of R5 000 in October 2016 from a RHLF approved intermediary, **Lehae Housing Finance**. She used the loan to purchase IBR corrugated sheets to roof her new ten roomed house, as per picture on the right. The roofing was installed by local labour.

2 MRS LEBOGANG NGOMASE *WINTERVELD (SITHOLE STAND)*

TSHWANE MUNICIPALITY, GAUTENG PROVINCE

Mrs Lebogang Ngomane is married, living with her husband and with their two children, one of whom still attends school. Mrs Ngomase is employed in the public sector as an educator, earning a monthly salary between R9 800 and R15 000. Mrs Ngomase and her family had been staying in a shack for 6 years (as in picture). The family has running tap water, a bucket toilet system and have access to electricity. She took a loan of R50 000 in May 2016 from a RHLF approved intermediary, **Lendcor Group**, through a Build It store. She has built a new seven roomed house. Mrs Ngomase used her savings to pay for labour and she was assisted by her husband in building the house.

3 MRS VIOLET THANDI KUMALO *EZENZELENI, WARDEN*

PHUMELELA LOCAL MUNICIPALITY, FREE STATE PROVINCE

Mrs Thandi Kumalo is a widow, who lives with her school going child. She earns between R3 500 and R6 000. Mrs Kumalo stays in the RDP house which she received 11 years ago. The house has access to electricity, has running tap water and a flush toilet. She applied for a loan of R28 000 in July 2016 from a RHLF approved intermediary, **Lendcor Group** to extend the house and add roofing. The house plan was approved by the local municipality. She used the loan together with her savings to extend her RDP house (shown in the picture to the right), which she stated was small before the extensions. The improvements were carried out by a local builder in her area.

4 MR MLULEKI MRAQO *MPHEKO LOCATION*

KING SABATA DALINDYEBO LOCAL MUNICIPALITY, EASTERN CAPE PROVINCE

Mr Mluleki Mraqo is a 65 year old married man with 5 children, all of whom have moved out of home. He lives with his 4 grandchildren and wife. Mr Mraqo and his family stay in a small house with access to electricity, water from a Jojo tank and a bucket system. Mr Mraqo took a loan of R2 500 in January 2017 from a RHLF approved intermediary, **Lendcor Group** through a Build It material store to build a new three roomed house (shown in the picture). The borrower is pensioner receiving a pension grant of R1 500. He used the loan and his savings to complete building the house. He stated that the original house was too small for the family mostly when his children came to visit for the holidays.

5 MR SPODAH MOGOHLE *MAMONE, GA - MANYAKA SEDIBENG*

MAKUDUTHAMAGA LOCAL MUNICIPALITY, LIMPOPO PROVINCE

Mr Spodah Mogohle is a widower with three children who have left home. He is currently living alone in a shack. Mr Mogohle has access to electricity, gets water from a public tap outside the property and uses a bucket toilet system. Mr Mogohle is a 68 year old pensioner receiving a monthly grant of R1 600. He took a loan of R2 347 from a RHLF approved intermediary, **Makoko Financial Services** to buy materials to do the house foundation of his new 5 roomed house (shown in pictures below). He is doing the building himself as he is a builder by profession and is only paying the services of employees building with him.

6 MR AND MRS MAFORA *NYETSE, ZEERUST*

RAMOTSHERE MOILOA LOCAL MUNICIPALITY, NORTH WEST PROVINCE

Mr and Mrs Mafora are a married couple living with their six children, two of whom attend school and 3 grandchildren. The Mafora family live in a house that has access to electricity, gets water from a Jojo tank and has a pit latrine. The family took two loans in December 2016 for R4 794 and R5 044 from a RHLF approved intermediary, **Kabo Financial Enterprises**. They used both the loans and their savings to do roofing and extensions to their existing house, as depicted in the pictures. They mentioned that their original house was too small for the whole family, they used a local labourer to do the house improvements. Both borrowers are pensioners and receive government grants of R1 500 per month each. Mr and Mrs Mafora are happy with the services received from Kabo and their future plans include plastering, tiling and installing a ceiling in the house.

7 MRS MEMME RAMESELA *LEKUBU VILLAGE, ZEERUST*

RAMOTSHERE MOILOA LOCAL MUNICIPALITY, NORTH WEST PROVINCE

Mrs Memme Ramesela is a widow, living with her 5 children, the youngest of whom is in pre-school. They live in a shack with access to electricity, tap water in public outside the property and has a pit latrine toilet. Mrs Ramesela took a loan of R3 200 in November 2016 from a RHLF approved intermediary, **Kabo Financial Enterprise** to purchase additional roofing material for her new house that she is currently building. The borrower stated that she is building the house alone as her children are unemployed and she only receives a pension grant and child grants. She mentioned that the house is small and requires more space.

INTEGRATED REPORT TO 31 MARCH 2017

ABOUT THIS REPORT

The Rural Housing Loan Fund produced its first integrated report at the end of 2014/15 financial year. We believe that an integrated report enables us to highlight the connections between our developmental, financial and other performance. We also believe that this more informative reporting style enables a better understanding of our mandate and business. This means changes in the information required to evaluate the performance of the company and the presentation thereof. The company's future success hinges on how well the social, environmental, and economic contexts in which we operate are managed.

Scope and boundary

The 2017 integrated report covers the period 1 April 2016 to 31 March 2017. Any material events after 31 March 2017 and until the Board's approval have also been included.

Reporting to stakeholders

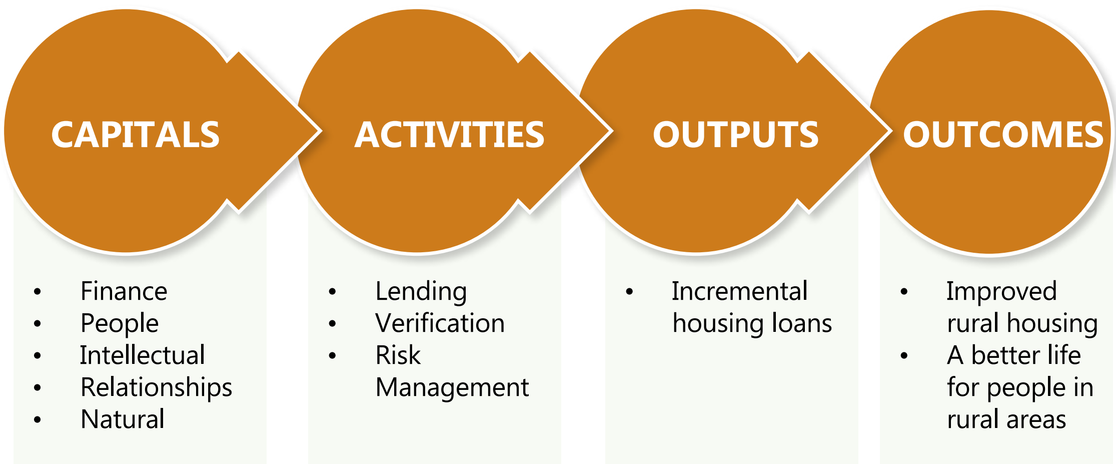
The Rural Housing Loan Fund has a wide range of stakeholders with varied information needs. This annual integrated report is our primary report aimed at not only our shareholder, but all our stakeholders mentioned in this report as well as those that we will engage in the future.

Integrated thinking

We embrace integrated thinking in our operations to improve both the 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 value creation. The following are critical in the value creation of the Rural Housing Loan Fund and our stakeholders:

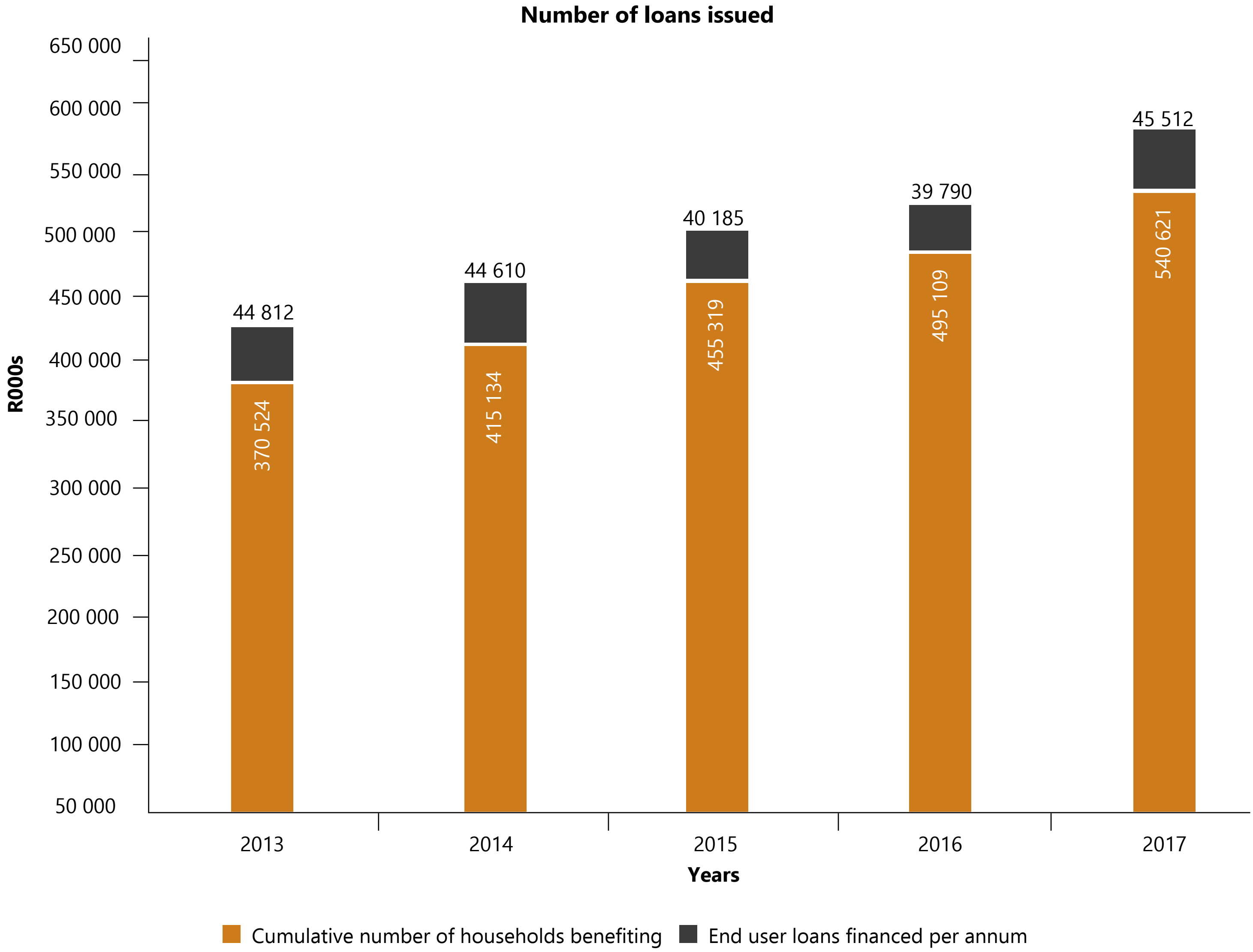
- **Financial capital:** This is the money that we have and use to finance all our business activities in the implementation of our mandate of enabling people in our target market to access housing loans. Sources of our financial capital include South African Government transfers, grant and loan finance from our funders (KFW – the German Development Bank and the Development Bank of Southern Africa) as well as retained earnings accumulated since inception.
- **Human capital:** This refers to our human resources. We recruit and develop our people in order to enable them to enhance their competencies, capabilities and acquire experience that enable them to provide excellent service in ensuring that we deliver on our mandate and add value to our various stakeholders.
- **Intellectual capital:** As an organisation we have built knowledge-based expertise in housing microfinance delivery that enables low income people in rural areas to fulfil their aspirations to improve their housing and living conditions.
- **Social and relationships capital:** The co-operative relationships we have built with various stakeholders in government, private sector, communities and non-governmental organisations have enabled us to consistently deliver on our mandate and deliver on value creation for various stakeholders.
- **Natural capital:** We support sustainable use of natural resources used to produce building materials that our money finances. In particular, we would like to see more borrowers using our money 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

NUMBER OF LOANS DELIVERED

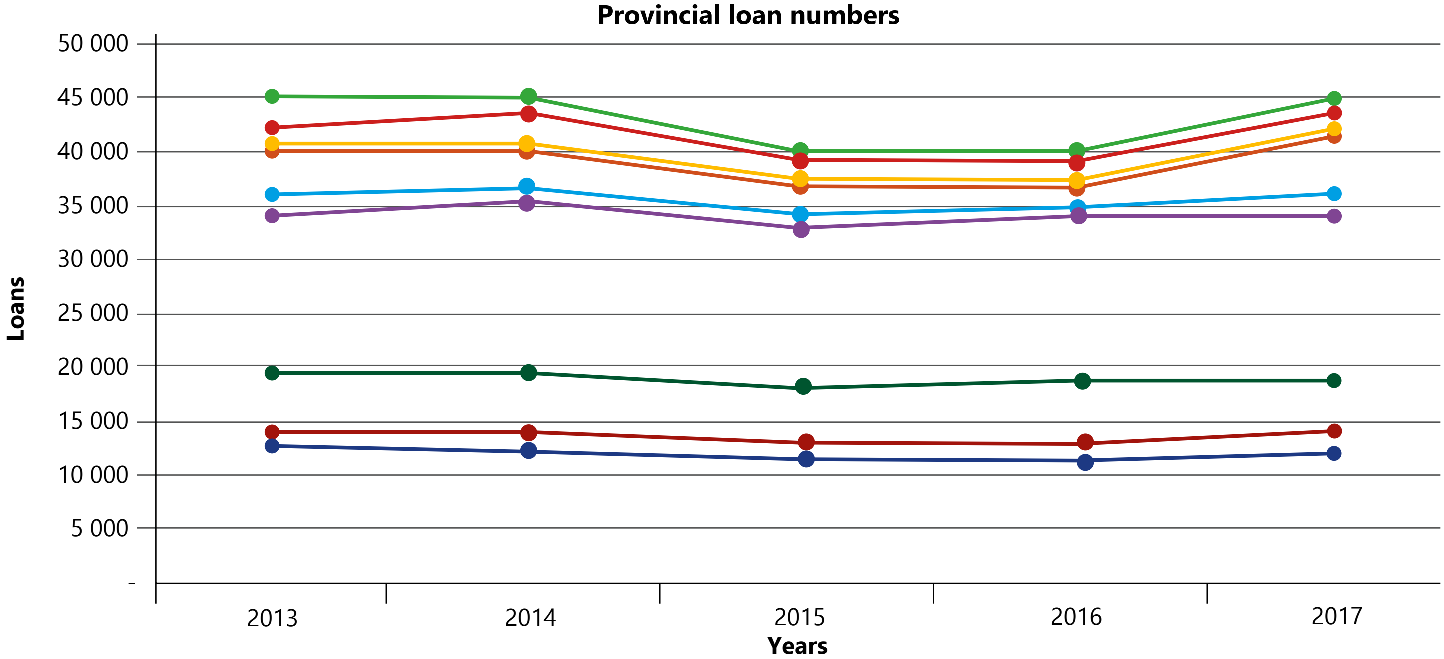


LOAN OUTCOMES

Mandate Compliance Information					
Statistics compiled from monthly Housing Impact Monitoring reports	2013	2014	2015	2016	2017
Number of new loans	44 812	44 610	40 185	39 790	45 512
Loan usage					
New house	3.0%	3.0%	1.0%	3.5%	0.7%
Extension	11.0%	8.0%	8.0%	5.7%	5.8%
Improvement	76.0%	82.0%	74.0%	77.2%	85.1%
Services	2.0%	3.0%	14.0%	12.0%	7.7%
Total housing usage	**92.0%**	**96.0%**	**97.0%**	**98.4%**	**99.3%**
Other	8.0%	4.0%	3.0%	1.6%	0.7%
	100.0%	100.0%	100.0%	100.0%	100.0%
Repeat loan borrowers	30.0%	31.0%	32.0%	36.1%	33.5%
Borrowers using loan together with government subsidy	9.0%	4.0%	2.0%	2.9%	0.7%
Gender of borrower					
Male	48.0%	38.0%	39.0%	39.9%	41.3%
Female	52.0%	62.0%	61.0%	61.0%	58.7%
Source of income					
Private sector employment	23.0%	23.0%	26.0%	26.7%	29.0%
Public sector (including social grants)	72.0%	76.0%	72.0%	7.0%	9.1%
Self/informal employment	5.0%	2.0%	2.0%	2.1%	1.0%
State pension (social grants for old persons)				63.9%	60.4%
Farm workers				0.2%	0.5%
				100.0%	100.0%
Borrower's income					
less than R1 500 per month	56.0%	63.0%	64.0%	63.2%	3.0%
R1 500 per month-R2 499 per month	5.0%	5.0%	6.0%	5.7%	60.7%
R2 500 per month-R3 499 per month	5.0%	4.0%	5.0%	7.6%	8.1%
Sub-total below R3 500 per month	**66.0%**	**72.0%**	**75.0%**	**76.5%**	**71.8%**
R3 500 per month-R5 999 per month	11.0%	7.0%	6.0%	7.3%	9.4%
R6 000 per month-R9 799 per month	11.0%	9.0%	6.0%	5.5%	7.7%
R9 800 per month-R15 000 per month	12.0%	12.0%	11.0%	5.1%	6.5%
More than R15 000 per month (w.e.f. 1/4/2014)			2.0%	5.6%	4.6%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

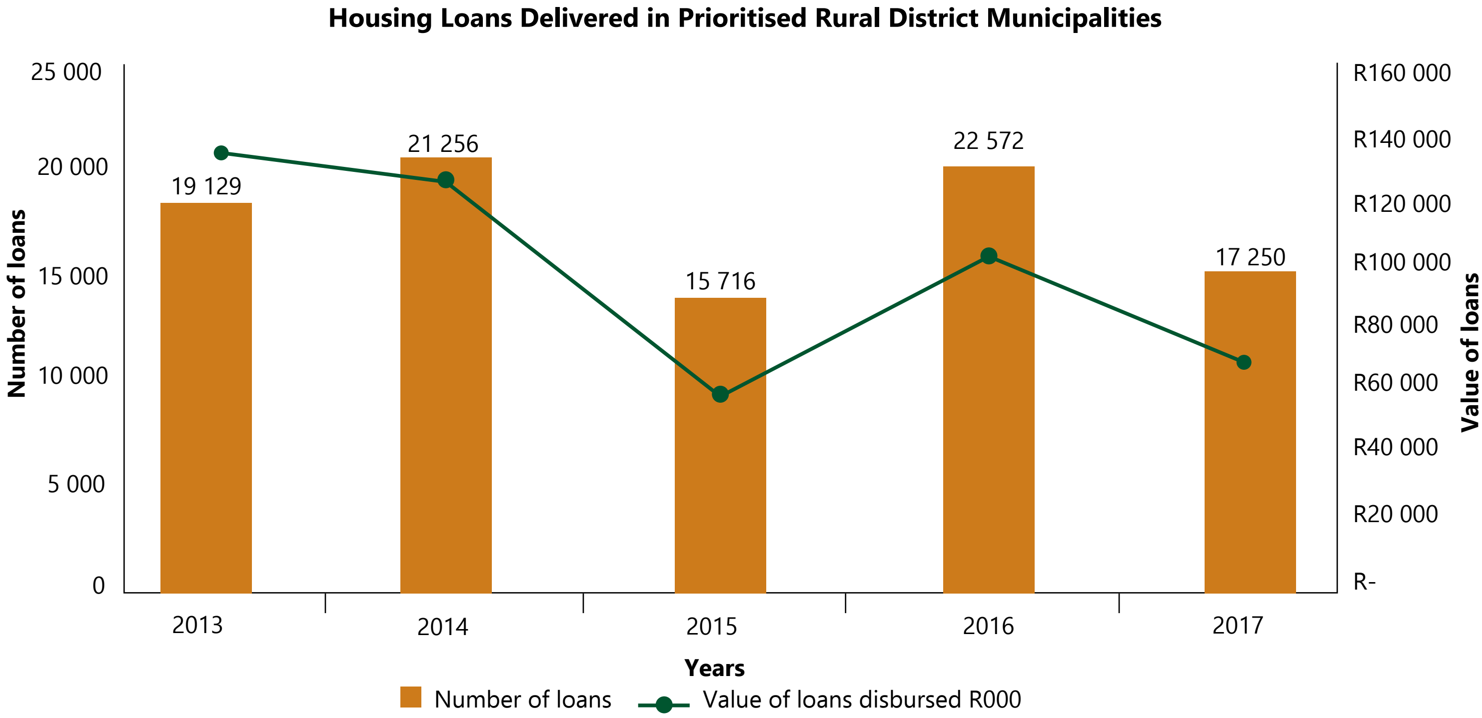
The majority of borrowers who earn below R3 500 per month receive state pensions. This increased from below R1 500 per month to R1 500 per month, leading to the change from 2016 to 2017.

PROVINCIAL DISTRIBUTION OF LOANS

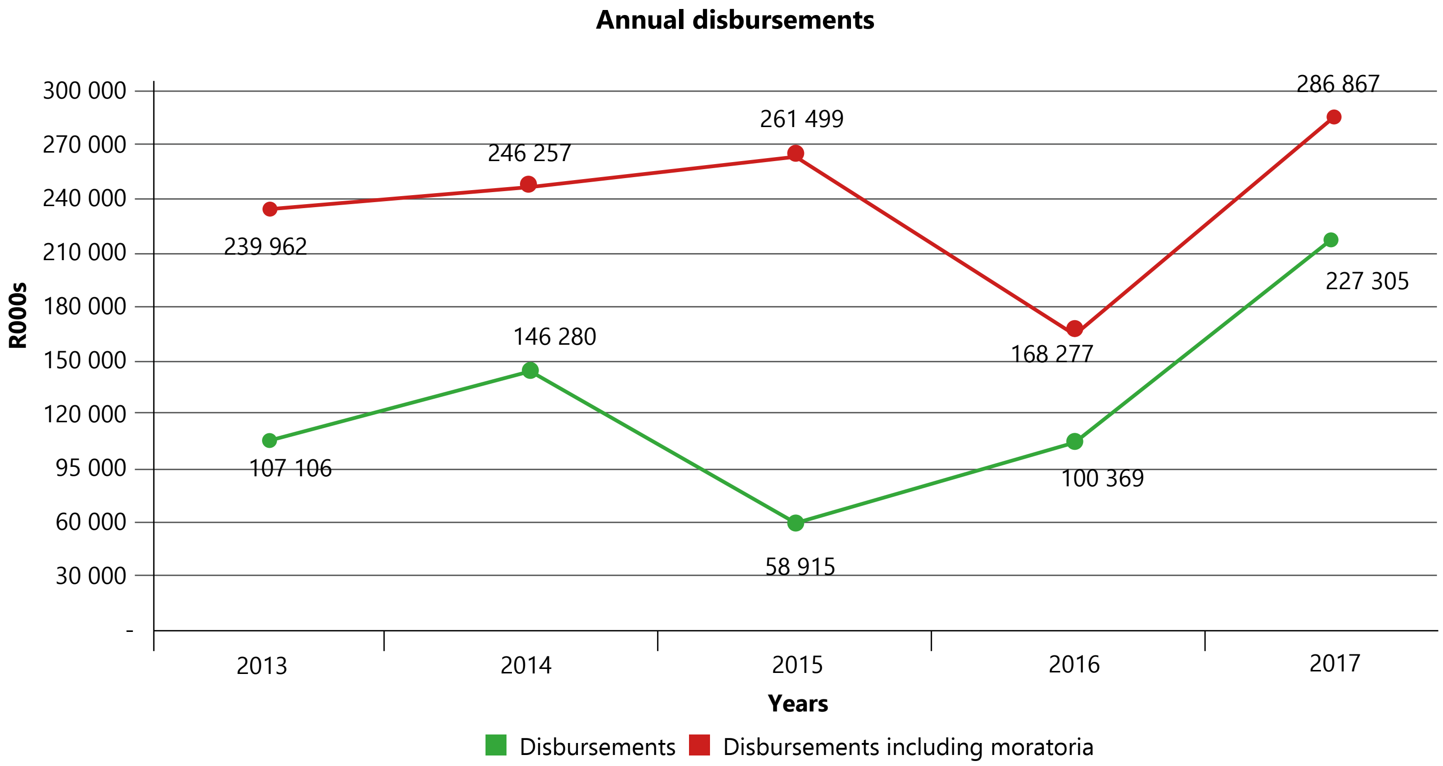


	2013	2014	2015	2016	2017
Western Cape	2 807	1 147	869	713	533
North West	1 952	2 793	2 548	2 315	3 093
Northern Cape	161	95	156	73	151
Mpumalanga	3 543	3 496	4 179	4 245	5 210
Limpopo	1 602	1 273	1 264	1 373	2 364
KwaZulu-Natal	15 734	17 301	14 828	14 147	15 880
Gauteng	5 270	5 426	3 858	4 345	3 848
Free State	1 329	1 367	1 292	1 358	1 668
Eastern Cape	12 414	11 713	11 190	11 221	12 765

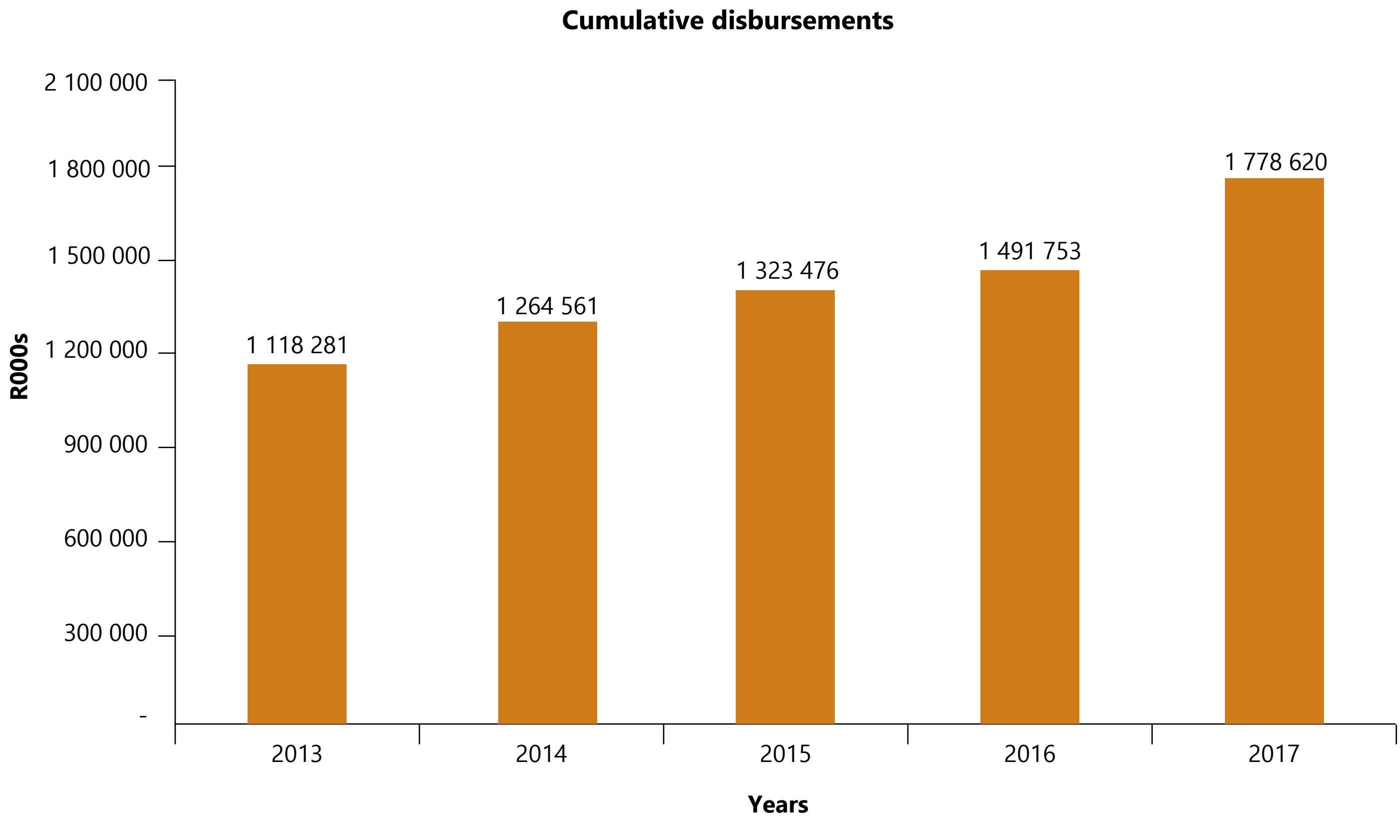
HOUSING LOANS DELIVERED IN PRIORITISED RURAL NODES



ANNUAL DISBURSEMENTS

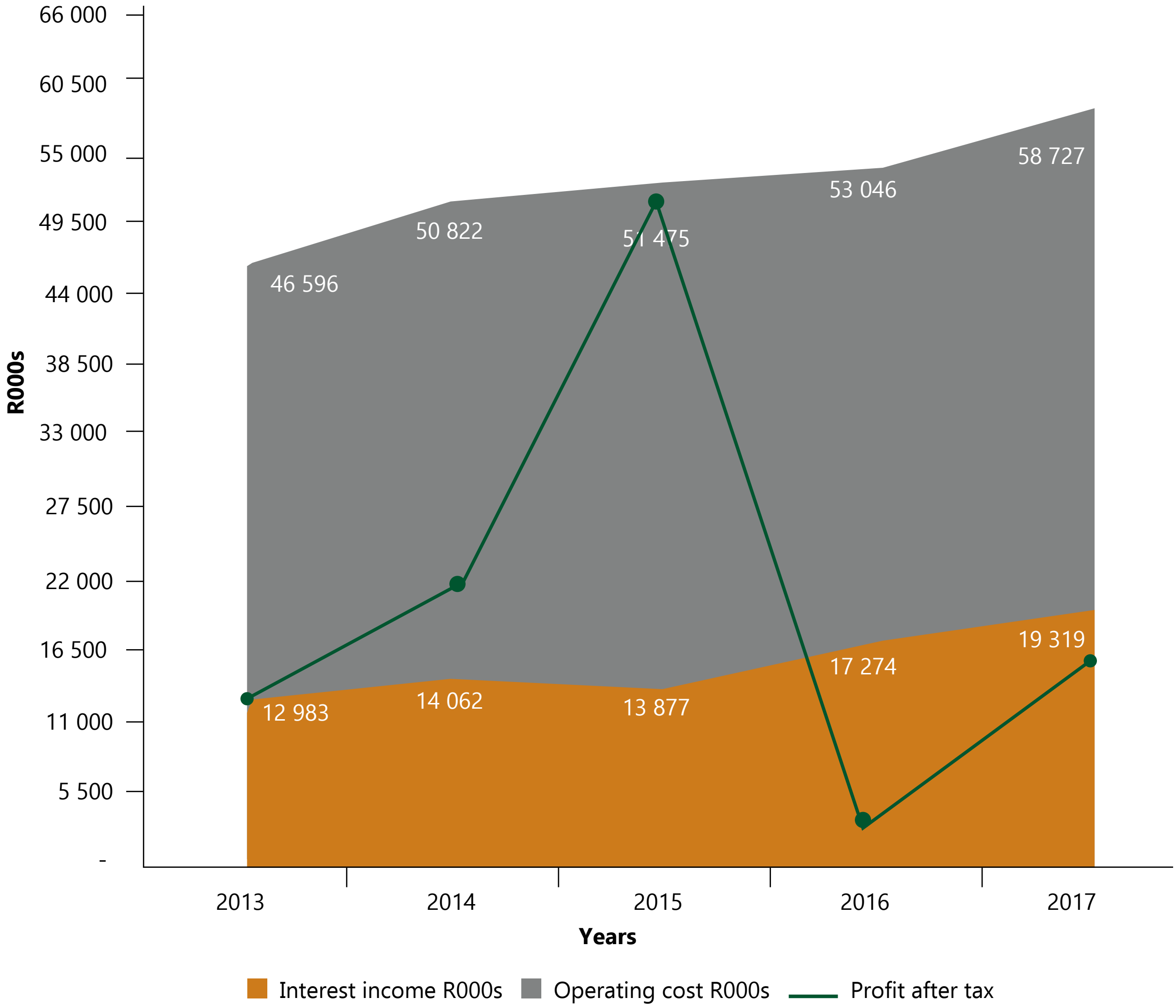


CUMULATIVE DISBURSEMENTS



FINANCIAL PERFORMANCE

Interest, operating expenses and profitability



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

The expenses shown here exclude the retention award and therefore do not agree to the income statement.

WHO ARE WE?

OUR PEOPLE

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

BRUCE GORDON
Chief Financial Officer
Company Secretary
Appointed in 2012

MAKGALABORWA MAILA
Risk Manager
Appointed in 2001
Manages intermediary risks

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

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

OUR PEOPLE

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

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

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 CBOs

CAROLINE NDLOVU
Risk Analyst
Appointed in 2014
Reviews intermediary practices, processes and financial status

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

OUR PEOPLE

LINDOKUHLE 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 CBOs

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

DIPOLELO CHUENE
Assistant Office Administrator
Appointed in 2010
Assists with supply chain and accounting, manages telephone calls

NTOMBI RADEBE
Accountant Intern
Joined Rural Housing Loan Fund in 2017
Assists finance department with accounting and financial tasks

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

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

HUMAN RESOURCES 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 cost per employee R000
2017	36 920	17 559	48%	17	1 033
2016	24 434	10 569	43%	16	661

Training costs

Year	Personnel expenditure R000	Training expenditure R000	Training expenditure as % of personnel expenditure	No of employees trained	Average cost per employee R000
2017	17 559	456	3%	17	27
2016	10 569	296	3%	16	19

Executive remuneration

		2017			
Title	**Incumbent**	**Basic Salary**	**Benefits**	**Performance Bonus**	**Total**
		R000	R000	R000	R000
Chief Executive Officer	J J Fakazi	1 882	512	656	3 050
Chief Financial Officer	B C Gordon	1 490	246	478	2 214
Total		**3 372**	**758**	**1 134**	**5 264**

		2016			
Title	**Incumbent**	**Basic Salary**	**Benefits**	**Performance bonus**	**Total**
		R000	R000	R000	R000
Chief Executive Officer	J J Fakazi	1 614	444	-	2 058
Chief Financial Officer	B C Gordon	1 280	235	-	1 515
Total		**2 894**	**679**	**-**	**3 573**

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

	2017	
Retention Amount	**Incumbent**	R000
Chief Executive Officer	J J Fakazi	1 095
Chief Financial Officer	B C Gordon	663
Total		**1 758**

Average salary per employee catergory

Year	Level	Personnel expenditure R000	% of expenditure to total personnel cost	No of employees	Average cost per employee R000
2017	Executive	7 022	41%	2	3 511
2017	Managers	6 386	38%	5	1 277
2017	Skilled	3 103	18%	7	443
2017	Trainees	424	3%	3	141
2016	Executive	3 573	38%	2	1 782
2016	Managers	3 749	41%	5	750
2016	Skilled	1 637	18%	6	273
2016	Trainees	322	3%	2	161

Performance awards as per percentage of total personnel cost performance

Year	Level	Peformance Awards R000	% of expenditure to total personnel cost	No of employees	Average cost per employe R000
2017	Executive	1 133	7%	2	567
2017	Managers	777	5%	5	155
2017	Skilled	398	2%	7	66
2017	Trainees	44	-	3	15
2016	Executive	-	-	2	-
2016	Managers	-	-	5	-
2016	Skilled	-	-	6	-
2016	Trainees	-	-	2	-

Vacancies

Year	No of employees	Approved employees	Number of vacancies	% of vacancies
2017	17	20	3	15%
2016	16	20	4	20%

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	3	-	-	-	3	4	-	-	-	4	7
Trainees	3	-	-	-	3	-	-	-	-	-	3
Total	**8**	**-**	**-**	**1**	**9**	**7**	**-**	**-**	**1**	**8**	**17**

CHIEF EXECUTIVE OFFICER'S REPORT

CHIEF EXECUTIVE OFFICER'S REPORT

Jabulani Fakazi
Chief Executive Officer

The performance of the Rural Housing Loan Fund during the year under review showed a marked improvement over the previous year. Despite the tough market conditions that prevailed during the year and high rejection rates at retail level, the company was able to exceed all its targets. This proves that the incremental housing loan product is a major loan instrument for the low income market, we serve, to improve their living conditions.

During this year we delivered 45 512 loans, 5.4% more than the budgeted 43 187. Since inception, we have delivered over 540 000 loans to the rural housing market. We have achieved this within the funding constraints the company continues to face. It needs to be emphasised, however, that the demand for incremental loans has over the years remained high. Loans delivered in most cases are limited only by low affordability levels caused by high levels of indebtedness attributable to excess marketing of consumption loans as well as other challenges including adverse economic conditions, such as slow growth and high unemployment.

I am also pleased to report that in this financial year, we disbursed to our retail intermediary partners an amount of R286.9 million, which was 27.5% higher than the budgeted disbursements of R224.9 million. Cumulatively, we had by the end of 2017 disbursed R1.8 billion to our intermediaries. The Rural Housing Loan Fund continues to deliver loans in areas that are prioritised by government as Presidential Rural Nodes, mining towns and labour sending areas that were announced in the Special Presidential Package. During the year under review, we delivered 17 250 loans, valued at R73 million in rural nodes. Since the 2005/06 financial year the company has disbursed in excess of 173 thousand loans, amounting to R888 million, to these nodes. Loans granted in line with the Special Presidential Package by our retail partners amounted to R28.5 million to mining and labour sending areas, made up just over 6 800 loans.

The Rural Housing Loan Fund achieved revenue of R58.7 million. Despite operating costs at R23.5 million exceeding budget by 3%, the company still delivered an excellent financial performance for the year – delivering an operating surplus of R14.7 million against budgeted surplus of R10 .7 million for the year.

The excellent results we present in this report are as a result of the growth strategies pursued by some of our retail intermediaries with our support. We note with great concern just as the year ended, the domestic economy entered recession and the rate of unemployment reached a 13-year high. On top of this, the country was downgraded by international rating agencies, a phenomenon that has an adverse impact on investor confidence. This is expected to adversely affect direct investment which South Africa needs for the economy to grow and create jobs.

The company had no discontinued activities during the year under review and does not plan to discontinue any of its activities. We had planned that the company would commence implementation of the Individual Rural Housing Voucher Programme during the course of the year. This programme has been on hold for too long. However the two voucher houses in KwaZulu-Natal and Limpopo, one in each were completed in the last quarter of 2015/16 and the report on findings was submitted to the Department of Human Settlements. As a result of findings of the pilot of the programme is being revised and has to be presented to the Minister. It is anticipated that the Voucher Programme will still be implemented, possibly after the new Human Settlements Development Bank has been established.

The process to consolidate the three development financial institutions into a single entity progressed significantly during the year, with the bulk of effort being on addressing legal requirements to enable the Rural Housing Loan Fund and NURCHA to donate their businesses to NHFC in a tax neutral manner. After the reporting date, the Companies Tribunal granted exemption to the Rural Housing Loan Fund as a Non-profit Company allowing to donate its business to the National Housing Finance Corporation, which is a limited company. In addition, at the time of writing this report, we were busy obtaining necessary approvals from the Executive Authority and informing the National Treasury, in terms of the Public Finance Management Act, before the donation agreement can be implemented. Once the donation agreement is implemented, RHLF's business will be a division of the National Housing Finance Corporation and the company, Rural Housing Loan Fund NPC will be dissolved. This is will complete the first phase of establishing the Human Settlements Development Bank.

It is proper that at this point that I extend my sincere appreciation to various stakeholders and persons who have made contribution to the Rural Housing Loan Fund since it was established. First, the company would not have been able to achieve its success in enabling the low income earners to improve their housing conditions, were it not for the dedication of the following key stakeholders:

- Directors of the company, past and present;
- Staff of the company, past and present;
- Intermediaries, our retail partners, who worked with us during different stages of our existence;
- Many borrowers who have accessed housing loans from our intermediaries and paid back, and by so doing contributing to the sustainability of the lenders and that of the Rural Housing Loan Fund.
- Funding partners: the KFW and the Development Bank of Southern Africa;
- Various officials of the Department of Human Settlements;
- Parliamentary Portfolio Committee of Human Settlements during different terms of government; and
- Different Ministers who have served as the Executive Authority of the entity.

I would like to thank the current staff of the Rural Housing Loan Fund who during the year under review focused on both ensuring that the company delivers on its core business, while at the same time supporting the process of consolidating the development finance institutions – a process that has been on the cards for too long and caused great uncertainty over the years.

Lastly, I would like to thank our existing Board of Directors whose commitment and dedication to the company and its mandate has been appreciated. The company has been able to focus on its core mandate because of the direction and the oversight that the Board has provided to management, especially during the intense period of preparing for the consolidation of the development finance institutions. I personally have benefitted immensely from their support and counsel and for this I will be eternally grateful. I am greatly honoured for having served under such a high calibre and meticulous Board of Directors.

Jabulani Fakazi
Chief Executive Officer

ORGANISATIONAL OVERVIEW

ORGANISATIONAL STRUCTURE

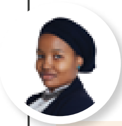
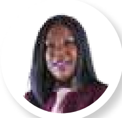
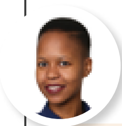
Development finance institutions consolidation

ORGANISATIONAL STRUCTURE

Employee arrangements

Currently the structure of the Rural Housing Loan Fund is as follows.

Jabulani Fakazi
Chief Executive Officer

-  **Bruce Gordon** – Chief Financial Officer
  -  **Makgalaborwa Malia** – Risk Manager
    -  **Caroline Ndlovu** – Risk Analyst
    -  **Mlungisi Hlabangane** – Junior Risk Analyst
    -  **Ramodikeng Motshabi** – Development Compliance Monitor
    -  **Kenneth Molapo** – Development Compliance Monitor
  -  **Porche Knauf** – Accountant
    -  **Ntombikulu Radebe** – Accounts Intern
-  **Motlalepule Mothobi** – Marketing Officer
-  **Myriam Kheza** – Office Manager
  -  **Dipolelo Chuene** – Junior Office Administrator
  -  **Rhona Mokhele** – Office Assistant
-  **Tsaliko Ntoampe** – Client Executive
  -  **Relebile Moeketsi** – Junior Client Executive
-  **William Malatji** – Client Executive
  -  **Lindokuhle Ndlovu** – Junior Client Executive

There is an additional structure for the Rural Housing Subsidy Voucher programme, but all recruitment for this is on hold until such time as we receive authority to implement the programme. This is not expected to occur before the consolidation is finalised.

BOARD OF DIRECTORS

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
11 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

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

REGINALD HAMAN
Master of Business Administration
Audit and Risk Committee Chairperson
Independent non-executive Director
4 years Rural Housing Loan Fund experience

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

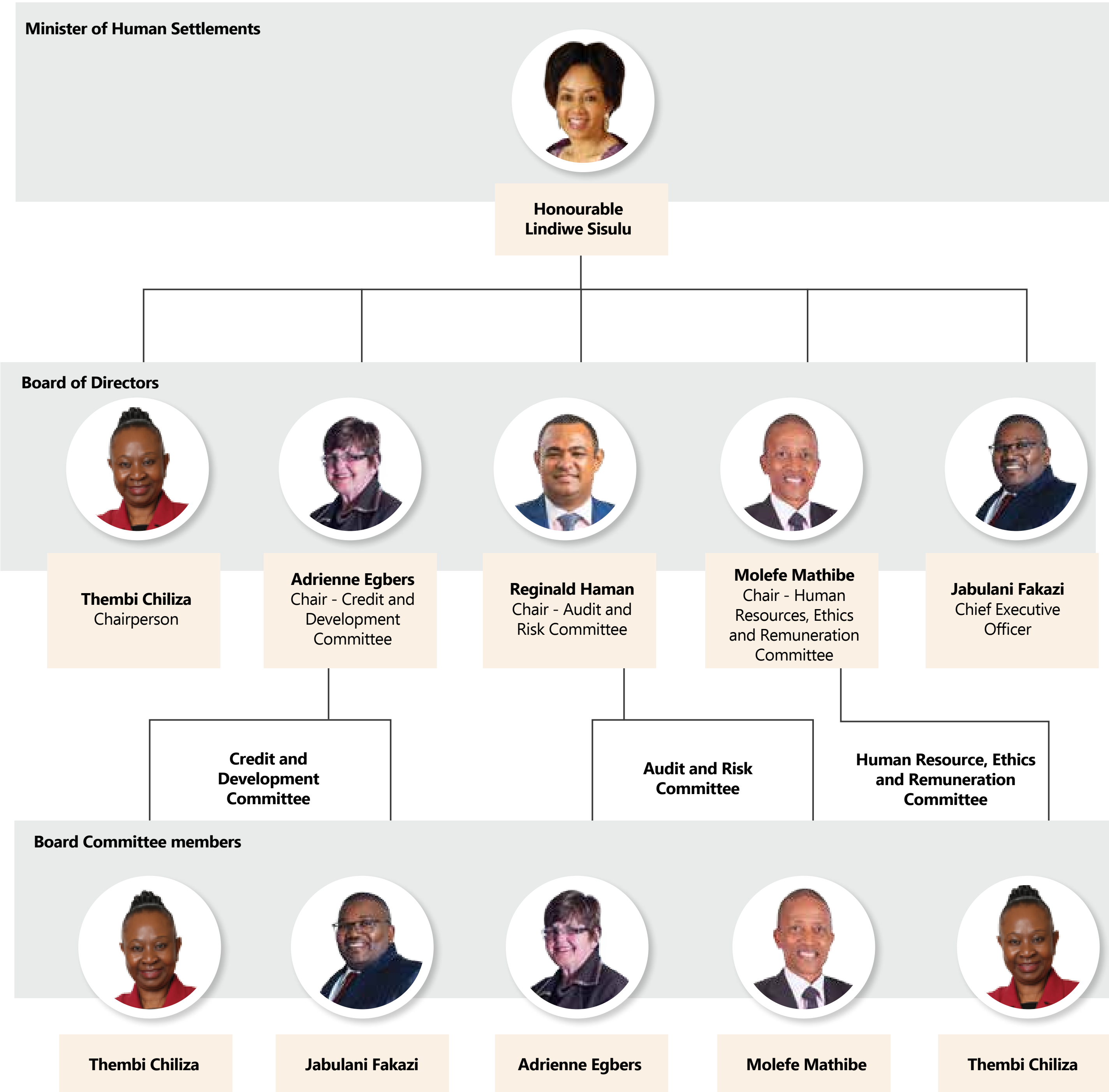
GOVERNANCE STRUCTURE

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 with the responsibility of recommending the report for approval by the Board. The Board is however responsible for the systems and controls that are used to prepare this report. For this reason the Board acknowledges that final responsibility for this report, as well as the results it presents, rests with the Board of Directors.

Structure

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



The list of meetings attended by the directors as well as details of their remuneration can be found in Note 44 to the annual financial statements (Page 85).

All non-executive 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 and no retainer. This has not increased since 2010.

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 that management takes 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 and
- 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 of Human Settlements candidates for appointment as directors in its capacity of Nomination Committee in terms of the company's Memorandum of Incorporation.

BUSINESS
MODEL

BUSINESS MODEL

The Rural Housing Loan Fund is a wholesale housing finance institution that delivers on its mandate through retail intermediaries who access funds from it in order to on lend to individual borrowers who want to improve their housing and living conditions in rural areas. In the mandate, rural areas include not only communal land, but also small towns.

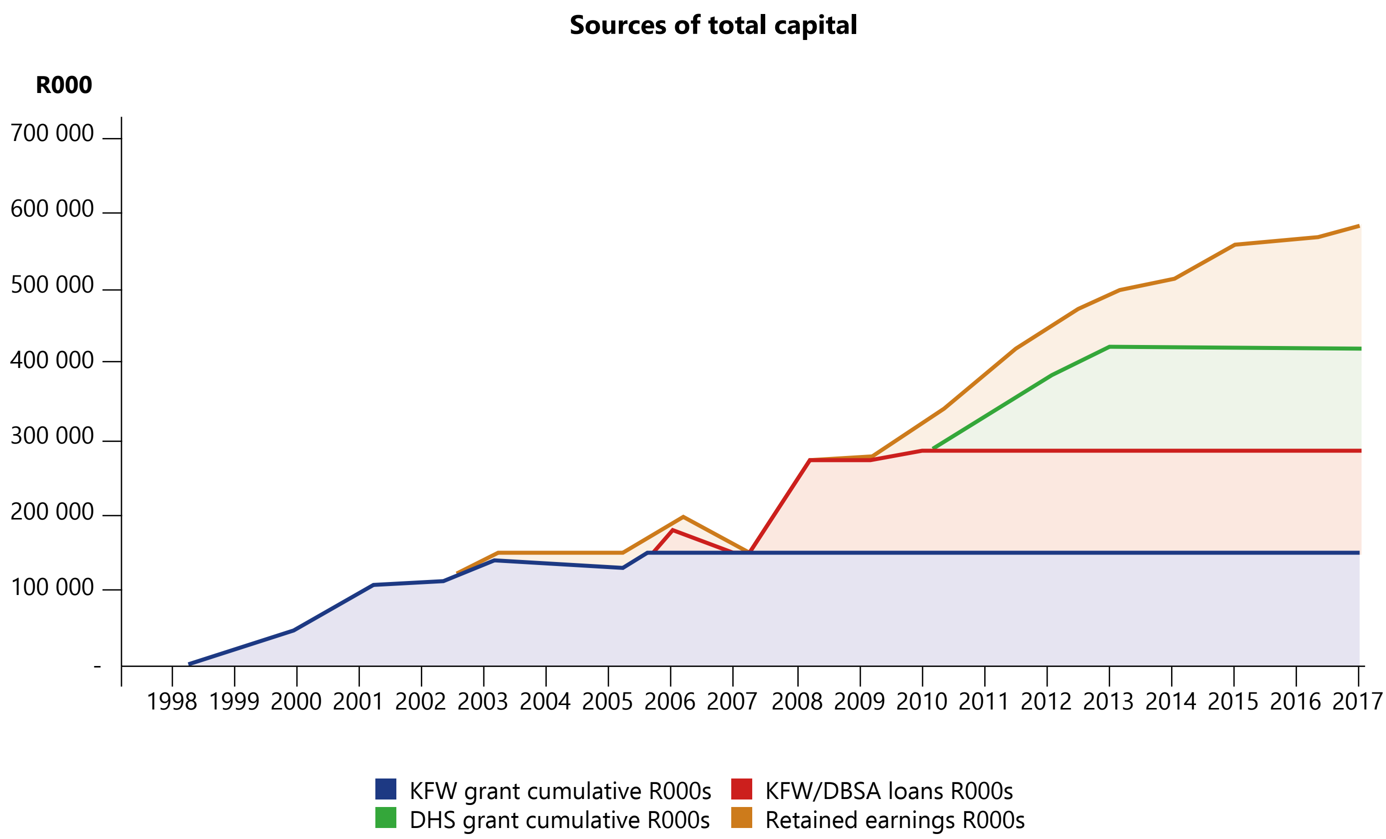
FUNDING

The Rural Housing Loan Fund was originally established with funding from KFW, the German Development Bank, in terms of a cooperation agreement between the German and South African governments. Since then the company has borrowed additional funds from the Development Bank of Southern Africa, who obtained the funds from KFW on a back to back basis. 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. Currently the maximum income level is set at R15 000 per month.

Additional funding has been received from the Department of Human Settlements over the years, with a further R50 million being received after the year end being reported.

The final source of funds is the retained earnings accumulated since inception.

The graph below shows how we have been funded since starting lending operations in 1998.



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 in a permanent manner. These intermediaries are subject to the provisions of the National Credit Act, which limits interest rates, fees and insurance charges.

During the year under review the Minister of Trade and Industry issued new regulations that changed the interest and fees limits. This table is calculated on the REPO rate of 7% that was in place for the entire year.

Type of credit	Formula maximium presented interest to rate	New max interest rate effective May 2016	Previous maximum interest rate
(1) Unsecured credit	Repo rate +21% per year	28.0%	35.4%
(2) Developmental credit (small business and housing)	Repo rate +27% per year	34.0%	35.4%

Pricing Policy

Clearly maximum interest rates that are allowed by the Regulator are extremely high for developmental credit. For this reason the Rural Housing Loan Fund has put in place a Pricing Policy that helps reduce these rates. This policy provides discounts to intermediaries of approximately half the discount that they provide to the end users. The majority of loans issued by intermediaries during the year under review were issued at 15%, or less than half the maximum permissible rate. We closely monitor intermediaries who receive our funds at discounted rates to ensure they reduce the interest rate they charge their borrowers in line with our Pricing Policy.

Intermediaries

The following types of intermediaries access the various products we offer.

Start-up companies

When the Rural Housing Loan Fund first commenced operations it invested in start-up businesses to ensure that an industry was developed for lending incremental housing finance in rural areas. As with any start-up some of these businesses thrived, and some failed. After the small banking crisis of 2002, many start up lenders in the industry failed and there were numerous consolidations in the microfinance industry. At that point the company took a strategic decision to balance its portfolio of clients by supporting start-ups who survived and add new well capitalised and managed companies in order to ensure that the channels to deliver on the mandate were sound. As a result, less effort was made on signing start-up companies. Recently we have revived and intensified efforts to support entrepreneurs who are starting new companies geared to offering unsecured housing finance in rural areas. While the initial support to start-ups was to develop an industry that was non-existent in rural areas, this time the aim is to ensure that people disadvantaged by apartheid are able to develop entrepreneurial businesses in the incremental housing finance industry. This is critical if our company is to contribute to the transformation of the industry by supporting black and women owned start-up intermediaries.

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

Name of company	Black shareholding	Woman shareholding	RHLF shareholding	Place of operation
Kabo Financial Services Ltd	67.34%%	67.34%	32.66%	Lehurutshe, North West
Lehae Housing Finance Ltd	80%	80%	20%	Harrismith, Free State

Subsequent to year end an additional black owned start-up has been approved for equity investment and loan funding.

Apart from these start-up companies, we are also focusing on small black owned lenders who are not yet offering a housing finance product. A number of these remain in the pipeline and still need our support in order to convert them to housing finance intermediaries.

Community based organisations

Over the years the Rural Housing Loan Fund has endeavoured to work with different types of community based organisations such as stokvels, building clubs and cooperatives in various sectors of the economy.

Currently the following organisations have facilities in place.

Name	Type	Interest rate	Place of operation
Shiyendele Building Club	Club/stokvel	0%	Estcourt, KwaZulu-Natal
Umhlungwini Building Club	Club/stokvel	0%	Estcourt, KwaZulu-Natal
Thusanang Basadi Building Club	Club/stokvel	0%	Sebokeng, Gauteng
Boikago SACCO	Savings and Credit Cooperative	Prime	Mmabatho, North West

A condition of lending at low rates of interest, is that the benefit of these discounts are passed on to the borrowers. The building clubs lend to their members at 0% and we grant funds to them at 0%. This essentially forms a part of our Corporate Social Investment Policy. Boikago is a Cooperative Financial Institution that lends to its members and charges them interest, hence we also charge them interest. A number of Cooperative Financial Institutions remain in our pipeline of intermediaries. The results of due diligence conducted on these entities showed that they still need more technical support in order to convert them into intermediaries who can access and manage funds to deliver on our mandate.

Established commercial intermediaries

While a large amount of effort is expended on the community based and start-up intermediaries, the bulk of the Rural Housing Loan Fund's performance is delivered by the large established commercial intermediaries. This is evident from the table below, showing all intermediaries and the delivery they provided during in the year. This is so because most of them have established extensive loan distribution channels in most, if not all, provinces, thereby enabling our company to have a national footprint.

Name		Value disbursed R000	Number of loans	Average loan size (R)
Bayport	Value	44 866	2 568	17 471
	Percentage of total	13%	6%	
Boikago	Value	482	12	40 143
	Percentage of total	0.1%	0.03%	
Izwe	Value	7 701	592	13 009
	Percentage of total	2%	1%	
Lendcor	Value	135 163	34 110	3 963
	Percentage of total	39.5%	74.95%	
Kabo	Value	544	80	6 797
	Percentage of total	0.2%	0.2%	
Norufin	Value	23 716	1 778	13 339
	Percentage of total	6.9%	3.91%	
Umuzi	Value	93 799	4 176	22 461
	Percentage of total	27%	9%	
Thuthukani	Value	34 269	2 036	16 831
	Percentage of total	10.0%	4.47%	
Makoko	Value	1 179	71	16 610
	Percentage of total	0.3%	0.2%	
Lehae	Value	323	79	4 083
	Percentage of total	0.1%	0.17%	
Homefin	Value	47	2	23 251
	Percentage of total	0.0%	0.0%	
Thusanang Basadi	Value	320	8	40 000
	Percentage of total	0.1%	0.02%	
Total		**342 408**	**45 512**	**7 523**

It will 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.

INDIVIDUAL RURAL HOUSING SUBSIDY VOUCHER PROGRAMME

The implementation of, what is commonly referred to as the Voucher Programme, has been on hold for a number of years. This is a programme that will enable qualifying individuals to access housing subsidy funds to buy materials to build a house, instead of being allocated a Breaking New Ground house in a housing project. The programme was designed to respond to peculiar circumstances in rural areas where housing projects have not been implemented at scale. The Rural Housing Loan Fund has been appointed as the agent to implement this programme, once it is approved. This will require a major modification of the company's structure as well as information technology systems. The company has managed the process of building of two houses in different provinces (KwaZulu-Natal and Limpopo) to assess the cost of building in these areas to ensure that the quantum used for the programme is adequate for the beneficiaries to build a house in a rural area without being too onerous on the fiscus.

We prepared a report for the Minister and in terms of protocol the report was presented to the Department's Executive Management Team (EMT) before presentation to the Minister. However, this report was taken off the agenda of EMT and at the year end, we were still waiting to hear when the report will be presented, after which it will be presented to MINTOP. In the interim, we have met with one of the Minister's Advisor who suggested that the Programme should be revised to change funding arrangements. The new proposal is that instead of funds flowing from provinces to RHLF, these should flow from the National Department to RHLF and RHLF contracts with provinces according to their needs. We subsequently met with Policy Unit Chief Director and Director to discuss the required updates and revision of the Programme. The Policy Unit will, after completion of the revision of the Programme, engage all stakeholders in the usual policy development process included presenting revised Programme to the MINMEC for approval.

CHANGES WITH THE DEVELOPMENT FINANCE INSTITUTIONS CONSOLIDATION

As discussed elsewhere in this document the Rural Housing Loan Fund is in the process of merging with the National Housing Finance Corporation and the National Urban Reconstruction and Housing Agency to form a single human settlements development finance institution, known as the Human Settlements Development Bank.

Mandate

The company's mandate will remain as it is for three reasons:

- The Minister has announced that this will be the case;
- There is a need in rural communities for this product to assist them; and
- The funding from KFW, as well as any profits on that funding must be used for rural incremental housing.

The RHLF division within the merged entity will take on responsibility for the NHFC's mandate to supply incremental housing finance in urban areas. At this stage there is not much funding available for this, however once the legislation forming the Human Settlements Development Bank is promulgated the intention is to massively capitalise the bank to address this gap.

New products

While the capital injection planned for the Human Settlements Development Bank is substantial when compared to the funding that the three entities currently have, the need is far higher. For this reason it is considered essential that private sector funding is "crowded in" to supplement the limited state funding. While no products have been finalised yet, there is a proposal to use part of the current funding to guarantee private sector loans to intermediaries, rather than only lending directly from the capital resources of the merged entity.

ORGANISATIONAL PERFORMANCE

PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

The Rural Housing Loan Fund uses the balanced scorecard method as its strategic planning tool. We provide hereunder the entity's performance against the indicators and targets as identified in the Annual Performance Plan for 2016/17 financial year:

Stakeholder perspective

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

	2015/16	2016/17			
Indicator	**Actual**	**Actual**	**Budget**	**Variance**	**Commentary**
Housing loans disbursed (number)	39 790	45 512	43 187	2 325	Target exceeded as a result of growth strategies of some intermediaries.
Qualifying housing usage (% of loans)	96,30%	99,30%	88,00%	11,30%	Good performance. Funds were used in line with the mandate and this is as a result of tight risk management and loan verification.
Percentage of loans to people earning R15 000 or more per month	5,60%	4,69%	20,00%	-15,31%	Lower is better, meaning fewer loans were accessed by borrowers beyond upper income threshold.
Percentage of loans to people earning R3 500 or less per month	76,50%	71,77%	60,00%	11,77%	Higher is better. Good performance as the entity enabled borrowers in the lowest income segment to access loans to improve their housing conditions.

Financial perspective

Strategic objective: Real capital preservation

	2015/16	2016/17			
Indicator	**Actual**	**Actual**	**Budget**	**Variance**	**Commentary**
Expenditure before bad debts (R000)	17 274	23 453	22 768	685	Expenses were slightly above the budget as a result of the Board implementing a retention award.
Operating surplus (R000)	3 386	14 763	10 679	4 084	Target exceeded, through higher interest income from increased disbursements.

Business process perspective

		2015/16	2016/17			
Strategic objective	**Indicator**	**Actual**	**Actual**	**Budget**	**Variance**	**Commentary**
Sharpen portfolio risk management and enhance early warning system	Loan verifications visits (number)	11	13	12	1	Target exceeded as sampled borrowers of all lenders were visited.
Grow loan book and enhance attractiveness of entity	Disbursements to retail intermediaries including mezzanine (R000)	168 277	286 867	224 920	61 947	Target exceeded as demand for funding increased from client implementing growth strategies.

Learning and growth perspective

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

	2015/16	2016/17			
Indicator	**Actual**	**Actual**	**Budget**	**Variance**	**Commentary**
Training expenses (R000)	305	479	167	312	Higher than budgeted expense is a result of employees pursuing post graduate studies to add value to the entity, and most of employees joined as interns before becoming permanent. Budget increases in the year ahead.

This differs from the income statements as refunds from Bank Seta are not accounted for here.

DETAILED DISCUSSION OF ORGANISATION PERFORMANCE

STAKEHOLDER PERSPECTIVE

Performance for the year

	Actual	Budget	Variance to budget		Prior year	Variance to prior year	
Housing loans disbursed (number)	45 512	43 187	2 325	5.38%	39 790	5 722	14.38%
Qualifying housing usage (% of loans)	99.30%	88.00%	11.30%	12.84%	96.30%	3.00%	3.12%
Percentage of loans to people earning over R15 000	4.69%	20.00%	-15.31%	-76.55%	5.60%	-0.91%	-16.25%
Percentage of loans to people earning over R3 500	71.77%	60.00%	11.77%	19.62%	76.50%	-4.73%	-6.18%

This table shows how the Fund has delivered exceeded all targets related to its mandate for the year. In addition we show an increased quantity of loans compared to the previous year. Each loan disbursed has helped a household to improve their own living condition. Approximately 30% of these borrowers are repeat borrowers, indicating a satisfaction with the delivery method.

Analysis of lending

	Number	Percentage	Value	Percentage
Loan usage				
New house	338	0.74%	5 526 408	2%
Extension	2 645	5.81%	40 396 947	12%
Improvement	38 724	85.09%	278 580 744	81%
Basic Services	3 487	7.66%	16 073 981	5%
	45 194	99.30%	340 578 080	99%
Other	318	0.70%	1 830 166	0.5%
	45 512	**100.00%**	**342 408 246**	**100%**
Repeat loan borrowers	15 244	33.49%	64 803 831	19%
Borrowers using loan together with government subsidy	333	0.73%	4 683 607	1%
Gender of borrowers				
Male	18 778	41.26%	189 011 632	55%
Female	26 734	58.74%	153 396 615	45%
Borrower's employment				
Private sector	13 211	29.03%	185 091 862	54%
Public sector	4 128	9.07%	77 514 052	23%
Self-employed, informal	470	1.03%	4 626 653	1%
State pension	27 472	60.36%	73 416 733	21%
Farm workers	230	0.51%	1 758 945	1%
	45 512	**100.00%**	**342 408 246**	**100%**
Borrower's income				
less than R1 500	1 360	2.99%	7 314 600	2%
R1 500-R2 499	27 633	60.72%	75 698 443	22%
R2 500-R3 499	3 669	8.06%	29 228 394	9%
	32 662	71.77%	112 241 437	33%
R3 500-R6 999	4 266	9.37%	50 150 448	15%
R6 000-R9 799	3 507	7.71%	64 506 239	19%
R9 800-R15 000	2 941	6.46%	69 509 577	20%
> R15 000	2 136	4.69%	46 000 544	13%
	45 512	**100.00%**	**342 408 246**	**100%**

It must be noted that the disbursement amount shown here is the amount disbursed by intermediaries and will not agree to the amount disbursed by the Rural Housing Loan Fund. This is a result of a variety of factors, key among them being timing differences.

Mining towns

The Rural Housing Loan Fund facilitated the amounts indicated below to mining and labour sending areas during the period under review.

Area	Mining or labour sending	Value of loans granted	Numbers of loans
Alfred Nzo District Municipality	Labour sending	4 723 535	1 251
Elias Motsoaledi	Mining	676 160	108
Emalahleni	Mining	1 966 596	459
Fetakgomo	Mining	221 038	25
Greater Tubatse	Mining	1 456 183	179
Kgetlengrivier	Mining	66 636	5
Moqhaka	Mining	98 000	8
Moses Kotane	Mining	86 950	7
O.R. Tambo	Labour sending	11 384 183	3 268
Randfontein	Mining	9 000	1
Rustenburg	Mining	1 580 663	99
Thabazimbi	Mining	164 200	11
Westonaria	Mining	860 879	74
Zululand District Municipality	Labour sending	5 248 756	1 373
		28 542 779	**6 868**

We acknowledge that there are more mining and labour sending areas than are 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 Rural Nodes

In 2001, government first identified rural nodes that needed to be the special focus of public investment due to high levels of poverty. At the time the Integrated Rural Sustainable Development Programme was launched and implemented as a pilot programme. In 2009, the President launched the 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 that are characterised by high poverty levels. 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	Number of loans granted
Alfred Nzo District Municipality	4 723 535	1 251
Amajuba District Municipality	374 557	98
Capricorn District Municipality	3 647 060	395
Chris Hani District Municipality	8 462 060	2 854
Ehlanzeni	6 585 014	1 088
iLembe District Municipality	596 732	133
Maluti a Phofung	1 203 067	232
Mopani District Municipality	495 667	39
O.R. Tambo	11 384 183	3 268
Sekhukhune	196 426	12
Sekhukhune Cross Boundary District Municipality	2 747 419	450
Sisonke District Municipality	2 358 087	424
Ugu District Municipality	5 067 720	1 054
Umkhanyakude District Municipality	4 260 488	1 176
Umzinyathi District Municipality	4 559 053	1 251
Uthukela District Municipality	2 385 000	432
Uthungulu District Municipality	7 072 774	1 559
Vhembe District Municipality	1 717 792	161
Zululand District Municipality	5 248 756	1 373
	73 085 390	**17 250**

We started tracking loans granted in priority rural areas in 2005/06 financial year. Since then, the cumulative number of loans delivered in the rural nodes is 173 250, and the cumulative value of loans disbursed to the end of the 2017 financial year is just over R888 million. We are proud of having being enabled many households in these areas to improve their living conditions, thereby contributing to rural development – one of the apex priorities of government.

Performance during the current Medium Term Strategic Framework

The Rural Housing Loan Fund has committed to delivering 233 636 incremental housing loans over the term of the current government, from 2014 to 2019.

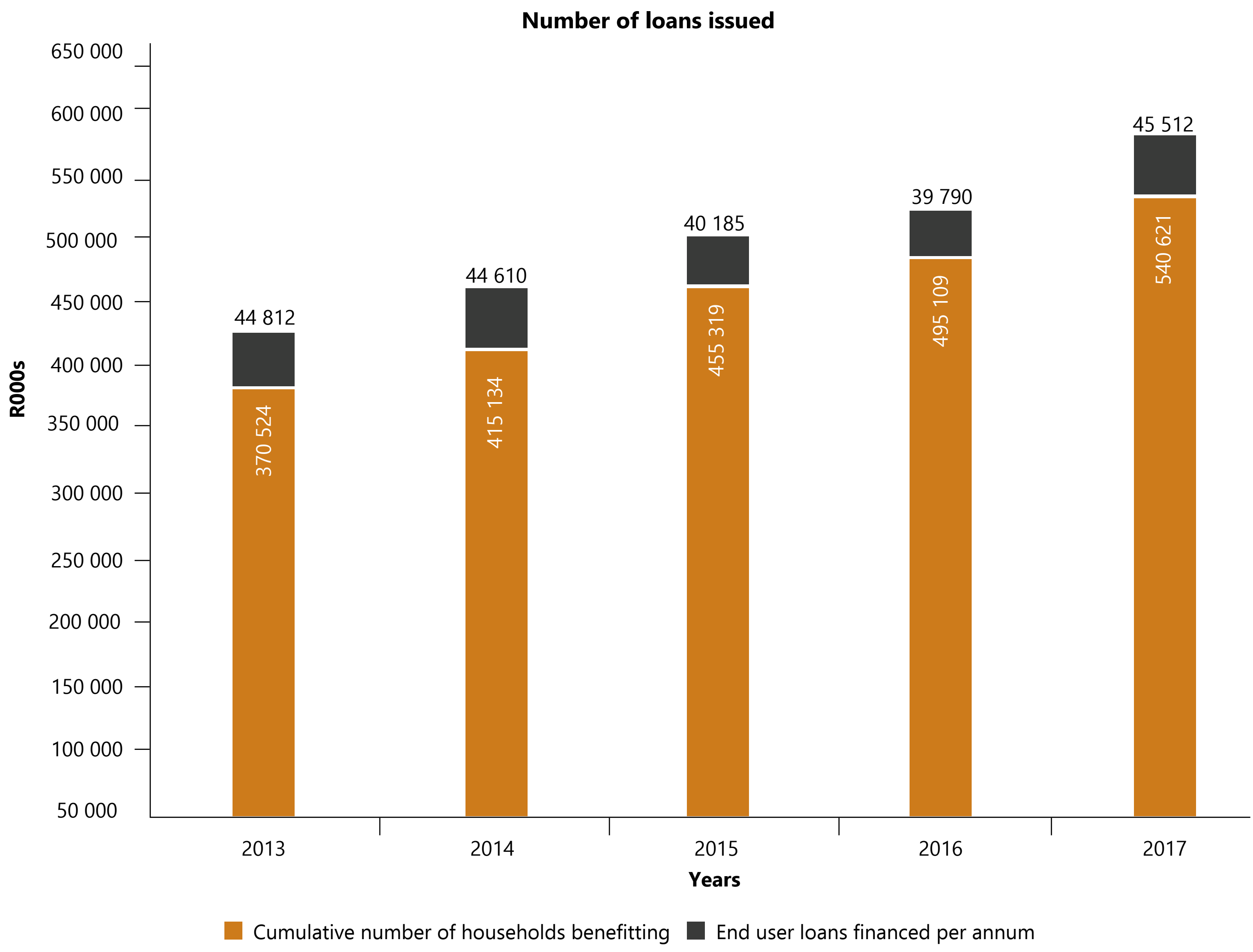
The table below shows our performance during each year of the first three years of the current term of government. In the first three years, we have achieved 53.7% of the five year target as our commitment in 2014.

	Previous term targets	Previous term achieved	Current term targets	Year 1 current term	Year 2 current term	Year 3 current term	% achieved to date	% time elapsed	
Incremental rural housing loans (number)	181 111	209 866	233 636	40 185	39 790	45 512	53.7%	60.0%	Higher is better
Percentage used for housing	80.0%	94.0%	88.0%	96.0%	99.7%	99.,3%	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%	NA	NA	Lower is better
Percentage to people earning under R3 500	60.0%	72.0%	60.0%	75.0%	76.5%	71.8%	NA	NA	Higher is better

As can be seen delivery is behind the desired target. This is a consequence of poor market conditions, low affordability levels of borrowers and challenges the microfinance industry has experienced in recent years, especially following the collapse of the African Bank. In addition there has been a general over-indebtedness amongst our intended beneficiaries. This has led to intermediaries having to reject up to 90% of applications received.

Historical delivery

The following chart shows the number of households that have benefited from the Rural Housing Loan Fund's mandate over the past 5 years as well as the cumulative total beneficiaries from inception.



BUSINESS PROCESS PERSPECTIVE

Performance for the year

	Actual	Budget	Variance to budget		Prior year	Variance to prior year	
Loan verification visits (number)	13	12	1	8.33%	11	2	18.18%
Disbursements to retail intermediaries including mezzanine (R000)	286 867	224 920	61 947	27.54%	168 277	118 590	70.47%

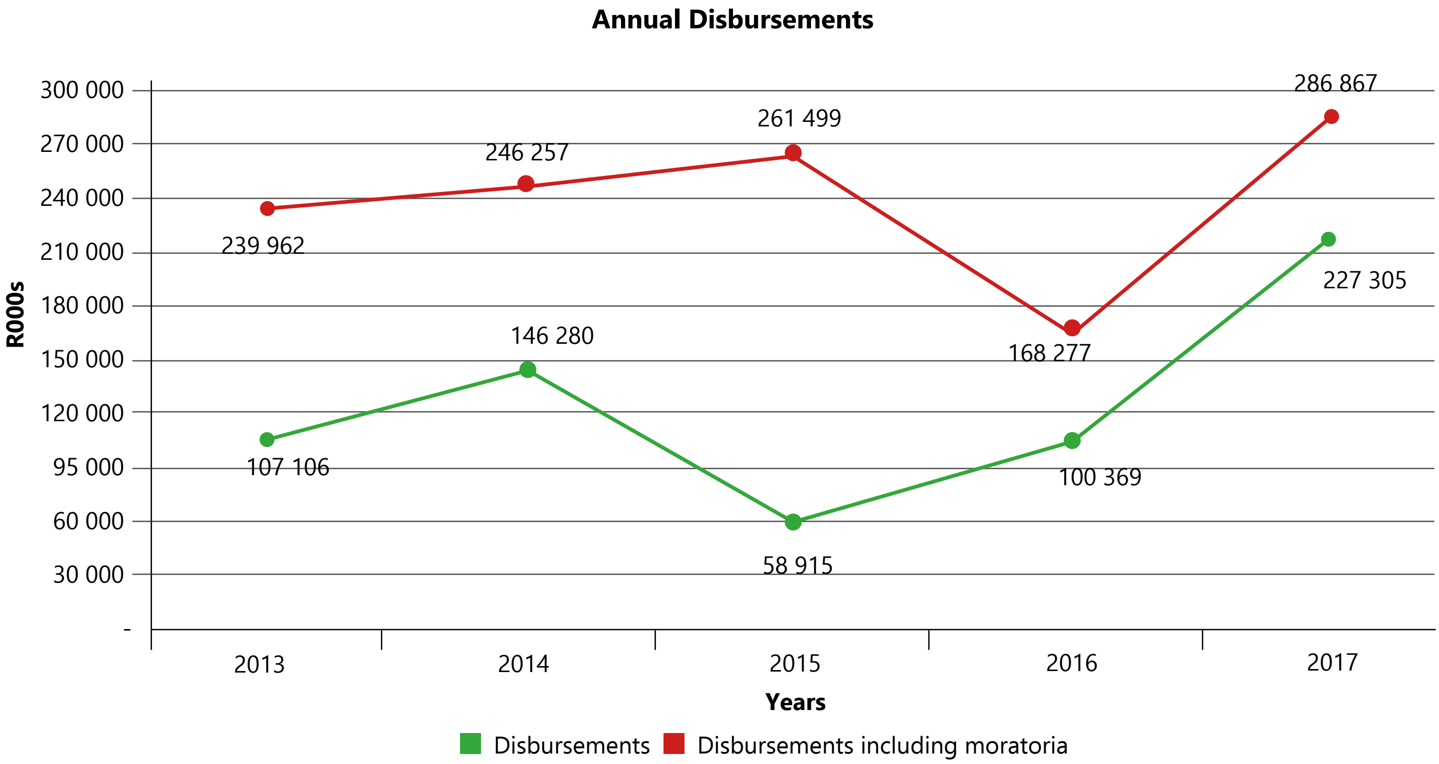
Loan verification visits are conducted by the two development monitors. They visit rural areas to view the improvements made by borrowers to ensure that loans are used for housing. Since implementing this process using an internal team there has been a marked improvement in compliance levels.

The disbursements are those paid out to intermediaries combined with those where intermediaries have been authorised to retain funds rather than returning them, and then applying for new funding.

As can be seen here the targets for the year were exceeded and RHLF's performance is an improvement from last year.

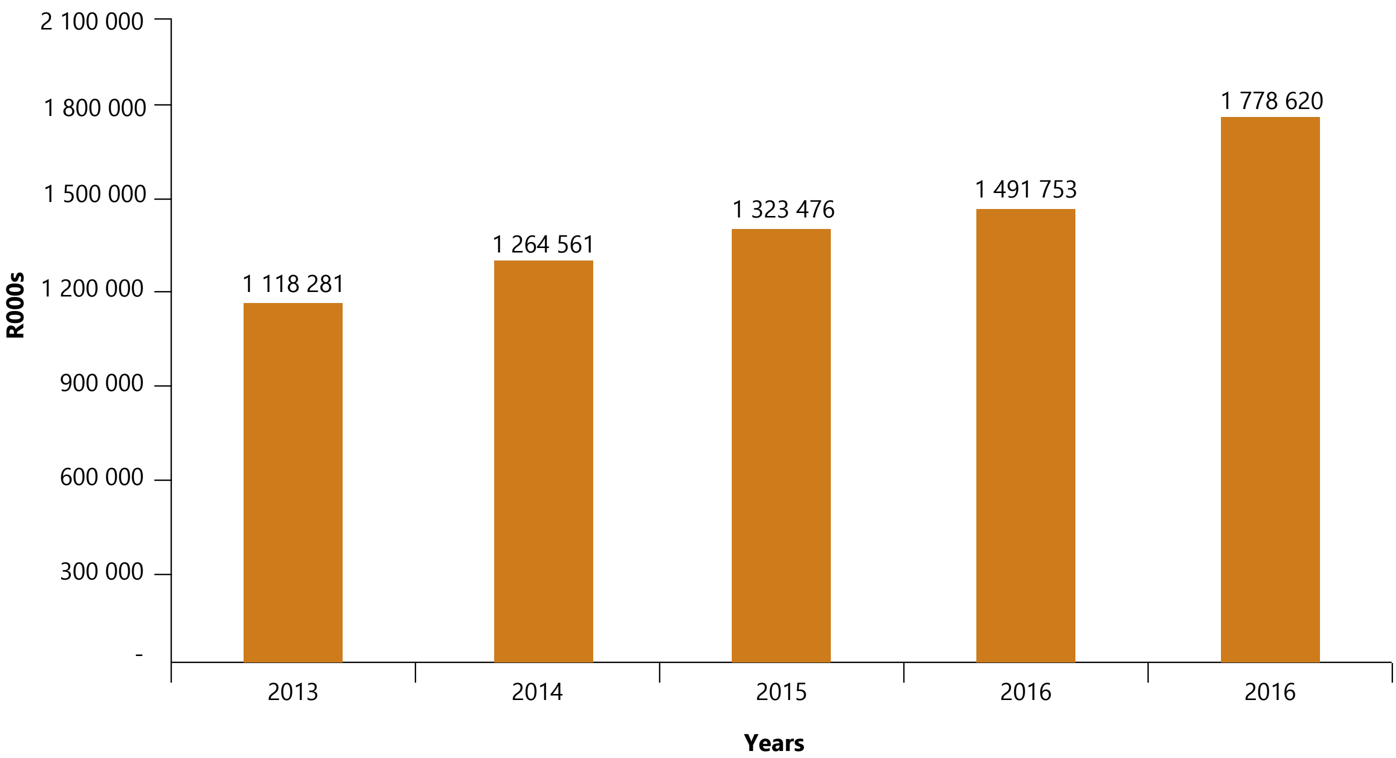
Historical performance

The chart below shows the last five years of disbursements showing the amounts paid out as well as the total including rollover funds/ moratoria.



This chart below shows the cumulative disbursements by the company since inception. The total grant capital of the company amounts to R285 million. Over the years RHLF has supplemented these grants with a loan from the Development Bank of Southern Africa as well as building up substantial retained income to improve on its delivery. This is evidence of the sustainability of the business model.

Cumulative disbursements



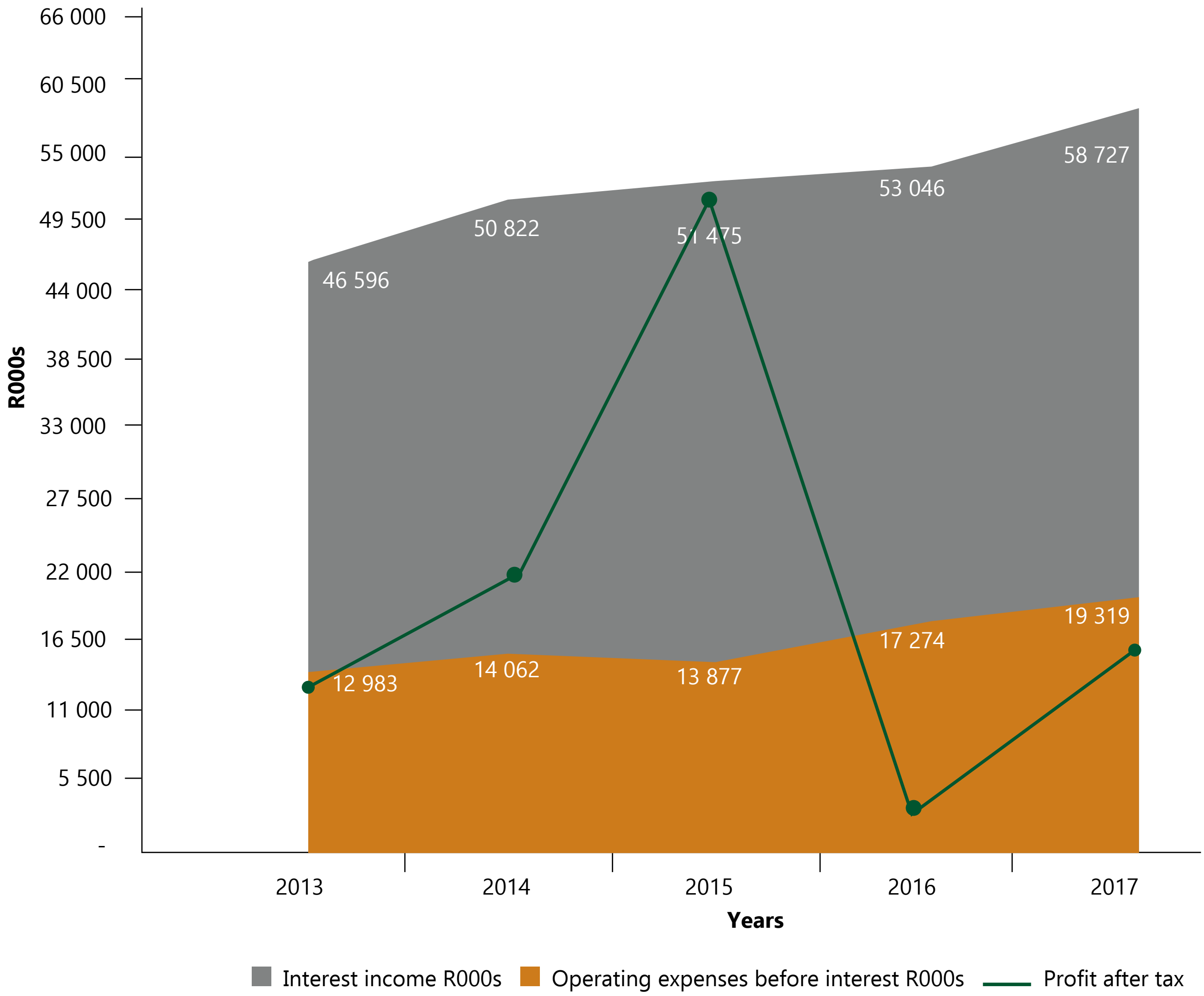
FINANCIAL PERSPECTIVE

	Actual	Budget	Variance to budget		Prior year	Variance to prior year	
	R000	R000	R000		R000	R000	%
Expenditure before bad debts	(23 453)	(22 768)	(685)	3.01%	(17 274)	(6 179)	35.77%
Operating surplus	14 763	10 679	4 084	38.24%	3 386	11 377	336,00%

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 varies widely. The object of this goal is to ensure that the company maintains its capital base ahead of inflation. Over the past years this has led to the company obtaining an exemption from income tax. Due to disagreements with the South African Revenue Services about the effective date of this exemption, the two years 2015 and 2016 showed marked fluctuations. Further details of the dispute can be found in Note 34 to the annual financial statements on Page 81.

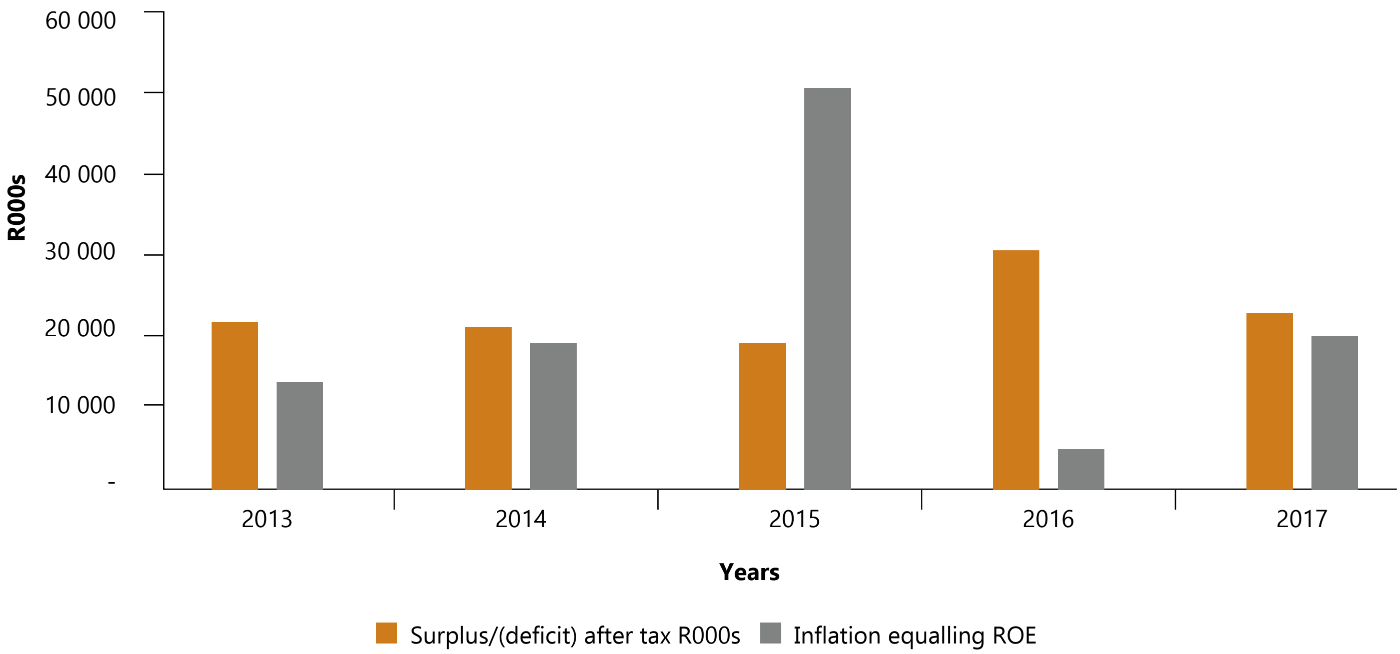
During the year the Board decided to implement a retention payment to ensure that employees were retained with RHLF during the merger process. This was funded out of improved interest earned, resulting in expenses being higher than budget.

Interest, operating expenses and profitability



The operating expenses above are net of the retention bonus. This enables comparison of constant expenses over the years. The retention bonus is a once off amount to ensure that employees do not resign during the unsettled time while the merger is being finalised. Full details of this can be found in Note 29 to the annual financial statements on page 77.

Actual surplus and sustainable surplus



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 from 2004. A portion of this was reversed in 2016, leading to the extremely low profit. As mentioned above full details of these tax adjustments can be found in note 34 to the annual financial statements.

LEARNING AND GROWTH PERSPECTIVE

	Actual	Budget	Variance to budget		Prior year	Variance to prior year	
Training expense R000	(479)	(167)	(312)	(186.83%)	(305)	(174)	(57.05%)

The Rural Housing Loan Fund is committed to doing whatever it can with its small resources to address the inequities from our past. This is done in a manner that ensures that service delivery on our mandate is not compromised. Part of fulfilling this commitment has been to wherever possible hire interns for a fair salary whenever a new post is created. Should the intern be assessed as capable then after a year as an intern they are hired on a full time basis. Since this policy was implemented, all interns have been appointed on full time basis. Currently over 60% of the company's employees started working for the organisation as interns.

It will be noticed that the training budget has been substantially exceeded. To ensure that this does not recur, the training budget for future years has been increased in line with this expenditure.

OPERATING 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 as illustrated below and discussed in detail in other sections of this report:

- **Rural development:** This has been one of the government apex priorities for a long time. The National Development Plan also dedicates a chapter on building an Integrated and Inclusive Rural Economy. Therefore in our mandate delivery we ensure that loans are made into the rural nodes that are prioritised by government in terms of the Comprehensive Rural Development Programme. We are pleased to report that the company was able to grant loans in deep rural areas that are prioritised by government.
- **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. In this regard, 99.3% of the loans that the Rural Housing Loan Fund granted last year were used for a housing purpose, with a negligible 0, 7% constituting leakage to other uses.
- **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. The company continues to intensify efforts to identify start-up commercial intermediaries who want to venture into incremental housing finance lending and provide support mechanisms to ensure they reach sustainability. Furthermore, we continue to identify community based organisations such as stokvels, co-operatives, building clubs and associations in order to deepen our reach to the informally and self-employed people. As reported elsewhere in this report, we are proud to have supported two black women owned start-up companies as well as three community based organisations during the year under review.

Our development focus will continue to be on supporting applicable aspects of the National Development Plan to ensure that people within our mandate are able to access housing loans so that they can also positively experience the journey towards Vision 2030.

ECONOMIC GROWTH AND UNEMPLOYMENT

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

- **Recession:** South Africa slipped into technical recession for the first time since 2009 after the economy contracted by 0.7% in the first quarter of 2017 after shrinking by 0.3 percent in the fourth quarter of last year. So we ended the year under review with the country in recession. Notwithstanding this dire economic situation, the company still showed an excellent performance for the year as discussed in performance section in this report.
- **Growing unemployment:** The South African unemployment reached its highest level since September 2003 in the last quarter of the financial year. The unemployment rate was 27.7% in the last quarter of the financial year, which was an increase of 1.2 percentage points from the third quarter of 2016/17 financial year. The expanded unemployment rate was 36.4%. With contracting economic growth, the unemployment situation is unlikely to improve given the fact that unemployment has remained stubbornly high in the new South Africa.

CREDIT INDUSTRY

Revised requirements spelling out the affordability assessment process were implemented by the National Credit Regulator in August 2015. This has had an effect on the industry but the company's clients were not materially affected by the amendments. This can, in part, be attributed to success by 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 continue 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.

During the first quarter of the year under review, the Regulations on Limitations of Interest Rates and Fees became effective. Our concern about the changes on interest rates and fees is that the cost of developmental credit is much higher than unsecured credit for personal or consumption loans. This is at odds with the government's developmental imperative of promoting active citizenry it driving its own development initiatives. The impact of these changes, however, did not have an adverse impact as our Pricing Policy allows for the company to grant discounted interest rates for intermediaries who, in turn give discounted interest rates to borrowers. Subsequent to the year end, the South African Reserve Bank cut rates by 25 basis points. If this is the start of a downward trend the micro finance market should improve.

RISKS AND OPPORTUNITIES

RISKS

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

Risk Description	Effect	Inherent Risk		Controls	Residual Risk	
		Factor	Rating		Value	Rating
Lack of interaction, support funding of RHLF from the DHS	Poor reputation, lack of outside funders, reduced ability to deliver	9	Low	Formally Approved Public Relations and marketing framework in place to ensure the proper marketing of RHLF and processes on dealing with the public	12	Monitor
Prolonged DFI consolidation process could lead to disruption due to resignations, uncertainty and governance challenges	Adverse impact on mandate and delivery on Annual Performance Plan. Negative impact on staff/clients/ funders/other stakeholders	16	High	Regular information sharing with employees/ funders/clients and retention scheme	12	Monitor
Lack of consultation and transparency with all stakeholders regarding DFI consolidation process could result in dilution of mandate	Adverse impact on mandate and delivery on Annual Performance Plan. Negative impact on staff/clients/ funders/other stakeholders	12	Moderate	Regular information sharing with employees/ funders/clients and retention sheme	12	Monitor
Debt levels of end user are too high impacting on intermediaries draw down and lending	Loss of delivery to rural households who are unable to improve housing by any other means	10	Low	RHLF encourages its intermediaries to lend responsibly leading to improved risks to end users	10	Monitor
Inability to meet the Mandate via Community Based Organisations	Inability to provide sufficient loans to self employed people leading to reduction of target here from 20% at inception to 1% now	10	Low	New policy supports implemented start-ups	10	Monitor
RHLFs ability to earn a sustainable return on equity is affected by its attempts to reduce interest rates to end users	Inflation will lead to RHLFs ability to meet market demand for funding being reduced	16	High	Active engagement with Minister, Department and National Treasury to obtain new funds. In extreme RHLF can stop lending at discount rates	9	Monitor
Too high a concentration of delivery through a number of clients affecting delivery of mandate and financial viability	Clients conducts, business in a way that may affect RHLFs reputation. In addition if they cease to use RHLF funding, RHLFs ability to deliver will be negatively affected	12	Moderate	Sign up and develop 3 new small intermediaries	8	Monitor
Lack of consolidated DFI organogram approved by all Boards resulting in employee dissatisfaction	Low morale. Uncertainty of operational plan post consolidation	25	Critical	Retention policy in place	4	Acceptable
Dilution of focus because of potential expanded mandate into urban areas could negatively impact on rural outcomes. Intermediaries not using monies for intended purpose	Poor delivery on current Annual Performance Plan	16	High	Strong existing focus on rural delivery in existing Annual Performance Plan. Intermediary contractual obligation to deliver in rural areas	6	Acceptable
Reputation damage from unethical client behaviour	Poor image with stakeholder and withdrawal of funding	16	High	Reviews of client activities	6	Acceptable

OPPORTUNITIES

With the imminent finalisation of the merger process mentioned earlier, the Rural Housing Loan Fund is presented with a number of new opportunities. In addition the work has being done to ensure that we can commence implementing the Rural Housing Subsidy Voucher Programme.

Individual Rural Housing Subsidy Voucher Programme

This is a programme whereby individuals in rural areas, who qualify for subsidy housing, can access subsidy funds on an individual basis, to build their own houses. It will only be available to people who are in areas that are not covered by existing programmes. With the voucher, these beneficiaries will be able to obtain building materials to build their own houses. The funds will be disbursed in a number of tranches, based on the completion stage of the house. Funds for this programme come from the existing subsidy housing budget. The plan is for our company to administer this programme for a fee.

Urban incremental housing

The National Housing Finance Corporation currently has this within their mandate, but have only a small amount of funding allocated to it. Once the merger is completed, this company as a division of the consolidated entity will take on this mandate. Unfortunately, until additional funding is made available once the Human Settlements Development Bank is in place, the Rural Housing Loan Fund will not have sufficient funding to cater for the urban market. Our existing intermediaries are positioned to lend to this market, provided the Board of the National Housing Finance Corporation immediately makes budget available.

Guarantee scheme

This product is proposed in the business case on establishing the Human Settlements Development Bank. If this scheme is approved as a new product offering, it will essentially involve the company providing guarantees to commercial lenders so that they will lend to our intermediaries at reasonable rates. We will only need to keep a portion of the guarantee in cash thus enabling us to multiply the funds that our beneficiaries can access. If existing funds are used for this, permission would need to be obtained from our grant funders, since the current agreements only allow for lending and not the issuing of guarantees.

THE YEAR AHEAD

DEVELOPMENT FINANCE INSTITUTION MERGER OVERVIEW

The ongoing process to finalise the merger is a key deliverable for the coming year. The first condition precedent that needs to be met during the year is obtaining approval from funders, as the loans will now all be housed in the National Housing Finance Corporation. This means additional debt to be considered by NHFCs funders, and a new creditor by the remaining funders. The permission of the Ministers of Human Settlements and of Finance will then be sought.

During the 2007/08 fiscal year National Treasury undertook a review of the mandates of South Africa's development finance institutions 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 and the National Urban Reconstruction and Housing Agency into a single institution, as a way of enhancing housing delivery.

Thereafter, in 2011, the National Department of Human Settlements reviewed the finance delivery mechanisms in the sector. This review found that:

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

The Minister of Human Settlements has committed herself to the establishment of a "Human Settlements Development Bank" in support of the 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;
- The mobilisation of private sector partnerships and
- The "crowding in" of private sector funders.

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 legislation to convert the National Housing Finance Corporation to the Human Settlements Development Bank.

Progress on phase one

During the year under review the progress towards this merger advanced significantly with the Board, executive and employee activities extremely focussed on both 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 addition both donor entities have given notice to their landlords and it is anticipated that all three entities will be housed under one roof by the end of August 2017.

Progress on phase two

The Department of Human Settlements is in the process of ensuring that the policy around the Human Settlements Development Bank is finalised. During this process a business case for the merged entity is being drafted as is the legislation establishing the Bank.

Risk mitigation

The biggest risk that the Rural Housing Loan Fund faced was that key employees in the organisation would resign 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 year. Full details of this can be found in Note 29 to the annual financial statements on Page 77. 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 goals post-consolidation during phase one

The following will be the goals of the division within the NHFC once the merger is finalised. These were prepared with the additional R50 million expected from the Department included. This R50 million has now been received.

STAKEHOLDER PERSPECTIVE

	Quarter ended 30 June 2017 Budget	Quarter ended 30 September 2017 Budget	Quarter ended 30 December 2017 Budget	Quarter ended 30 June 2017 Budget	Year ended 31 March 2018 Budget	2018/19 Budget	2019/20 Budget
Number of housing loans disbursed	12 808	10 731	10 575	10 624	44 738	54 101	50 464
% of issued loans used for housing	88%	88%	88%	88%	88%	88%	88%
% of loans issued to people earning over R15 000	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
% of loans issued to people earning under R3 500	60%	60%	60%	60%	60%	60%	60%
% of loans issued to women	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

It will be noted that a new target has been added, namely a "% of loans issued to women". This is in line with the Minister's focus on ensuring that women benefit from all Human Settlements programmes.

BUSINESS PROCESS PERSPECTIVE

	Quarter ended 30 June 2017 Budget	Quarter ended 30 September 2017 Budget	Quarter ended 30 December 2017 Budget	Quarter ended 31 March 2018 Budget	Year ended 31 March 2018 Budget	2018/19 Budget	2019/20 Budget
% of clients visited for loan verification	25%	35%	25%	15%	100%	100%	100%
Disbursement to retail intermediaries in R000	76 850	64 390	63 450	63 740	268 430	324 600	302 800

Here the Board has decided to change the targeted verification visits from a fixed number to 100% of clients who drew down early enough in the year. This is a consequence of the Rural Housing Loan Fund signing up a number of small clients, which means that a fixed number may lead to an inadequate target being set.

FINANCIAL PERSPECTIVE

	Quarter ended 30 June 2017 Budget	Quarter ended 30 September 2017 Budget	Quarter ended 30 December 2017 Budget	Quarter ended 31 March 2018 Budget	Year ended 31 March 2018 Budget	2018/19 Budget	2019/20 Budget
	R000	R000	R000	R000	R000	R000	R000
Expenditure before bad debts	(6 632)	(6 873)	(6 993)	(7 193)	(27 691)	(31 357)	(33 111)
Operating surplus	4 204	7 322	6 885	6 145	24 556	26 646	36 430

The achievement of these targets will exceed the goal of earning a higher return than inflation. No account is made here of the potential refund of income tax from the South African Revenue Service as a result of the court action being undertaken.

LEARNING AND GROWTH PERSPECTIVE

	Quarter ended 30 June 2017 Budget	Quarter ended 30 September 2017 Budget	Quarter ended 30 December 2017 Budget	Quarter ended 31 March 2018 Budget	Year ended 31 March 2018 Budget	2018/19 Budget	2019/20 Budget
	R000	R000	R000	R000	R000	R000	R000
Training	90	90	90	90	360	444	480

As can be seen this expense budget is much higher than the budgets for previous years, reflecting our commitment to the personal growth of our people.

INDIVIDUAL RURAL HOUSING SUBSIDY VOUCHER PROGRAMME

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

BASIS OF PREPARATION

STAKEHOLDERS

The purpose of an integrated report is to ensure that, while Minister of Human Settlements is kept informed, all stakeholders having 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;
- The Parliament of the Republic of South Africa;
- The Board and its members and
- The other development finance institutions forming part of the merger.

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.

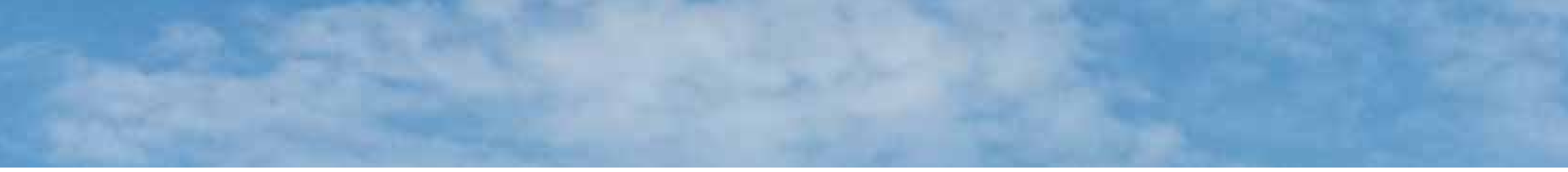
Financial Materiality	**R000**
Turnover	45 667
Materiality rate	10%
Materiality value	4 567
Total assets	592 098
Materiality rate	1%
Materiality value	5 921
RHLF materiality as average of above	**5 244**

STAKEHOLDER INTERACTIONS

We maintain an open dialogue with all our stakeholders in the execution of our mandate. Our stakeholders are those entities or individuals who are affected by the Rural Housing Loan Fund activities or that we 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	Methods of engagement	Purpose of engagement
Ministry and Department of Human Settlements	Meetings and presentations	Presentation on Rural Housing Loan Fund Quarterly performance. Participation in various committees and task teams of the department. Discussion on the Voucher Programme funding arrangements with Ministry and discussion with Policy Unit Chief Director and Director on reviewing and updating Voucher Programme in light of findings from the Report on the Voucher House Costing pilot. Participating in the development finance institutions Consolidation Steering Committee and Project Workstreams.
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	• Attending of Board meetings; • Communicating issues raised within RHLF; • Selling RHLF funding and • Courtesy calls. • Conducting risk reviews, in essence an audit to ensure compliance with their loan agreement and legislation; • Conducting due diligences on potential new clients to assess the risk associated with these clients.
Other government departments: • **National Treasury (NT)** • **Rural Development & Land Reform (DRDLR)**	Meetings and workshops	NT: PFMA compliance related matters. RDLR: Discuss areas of collaboration between the company and RDLR and site visit to Shiyendlele Building Club in Ntabamhlophe, Estcourt in KwaZulu-Natal.
Local Government (Municipalities): • **Moses Kotane** • **Kgetleng** • **Kuruman**	Briefings and presentations	Build capacity of councillors and municipal officials on incremental housing finance and the role of Rural Housing Loan in supporting incremental housing.
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.
Funders (KFW)	Written correspondence and face to face meetings	Introductory meeting with new Director of KFW Pretoria Office. Engagement with the RHLF Project Manager at KFW, Germany, on funding for the market research project and extension of accompanying measure grant to support RHLF and transfer of the grant to NHFC. Funding of market research project approved. The transfer of the grant to NHFC was not approved. A new application will be considered once HSDB is operational.

Stakeholders (continued)	Methods of engagement	Purpose of engagement
Other Development Finance Institutions: NURCHA and NHFC, SEFA and CBDA	NURCHA and NHFC: one on one and meetings among the three institutions Small Enterprise Finance Agency (SEFA): one on one meetings Co-operatives Bank Development Agency – one on one meeting	Discussions on the consolidation of the Development Finance Institutions – CEOs meeting, DFI MANCO. With SEFA continuous discussions on possible common clients and sharing information of the microfinance industry and support for the RHLF Annual Workshop – secured facilitation of the Annual Workshop by CEFA senior official and some SEFA staff attended first day of the workshop. Discussion of the banking platform under construction and commenting on the review of CBDA Prudential Requirements for the Cooperative Financial Institutions. Discussion on partnership to support cooperative finance institutions.
Existing intermediaries		
National Credit Regulator (NCR)	Written communication and formal meetings	Follow up on issues pertaining to credit life insurance. Objective is to ensure all our intermediaries are compliant with regulatory requirements. Clarification on registration thresholds and requirements to register as a developmental lender. Obtain support for the Annual Workshop – secured presentations on affordability assessments and guidelines to register as a developmental lender by NCR officials.
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 2016/17 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 team performance.
Suppliers/service providers	One-on-one meetings and emails	Delivery of good and services.
Our clients – existing and pipeline; DHS officials and funder (KFW) official	Two day workshop	Present our mandate and annual targets, discuss regulatory and business environment, and human settlements policy changes.



ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

REPORT OF THE AUDIT AND RISK COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2017.

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 Regulations 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 public entity.

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

- Procurement, supply chain and operational expenditure;
- Financial management process;
- Asset management;
- Human resources and payroll;
- Fraud prevention review.

PERFORMANCE INFORMATION.

No major findings were made by the internal auditors.

IN YEAR MANAGEMENT AND MONTHLY/QUARTERLY REPORT

The public entity has reported monthly and quarterly to the Treasury as required by the Public Finance Management Act.

EVALUATION OF FINANCIAL STATEMENTS

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

AUDITORS' REPORT

We have reviewed the entity's implementation plan for audit issues raised in the prior year and we are satisfied that matters will be adequately resolved during the new year.

The Audit and Risk Committee concurs 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
15 August 2017

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 is consistent with the annual financial statements audited by the External Auditor.

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

The annual integrated report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.

The Annual Financial Statements have been prepared in accordance with the Generally Recognised Accounting Practice 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 2017.

Yours faithfully,

Chief Executive Officer
Jabulani Fakazi
15 August 2017

Chairperson of the Board
Ms Thembi Chiliza
15 August 2017

DIRECTORS' 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 HIGHLIGHTS

The financial highlights are set out on page 42 to 44.

FINANCIAL RESULTS

The financial results of the RHLF for the year under review are set out on pages 61 to 62 of these financial statements.

BUSINESS PERFORMANCE RESULTS

The business performance against predetermined objectives for the year under review is set out on pages 35 to 44.

SHAREHOLDER

The Government of the Republic of South Africa is the sole shareholder of the RHLF and the Minister of Human Settlements duly represents the shareholder's interest. As a non-profit company RHLF has no share capital.

DIVIDENDS

In terms of an agreed policy with the Minister of Human Settlements 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.

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. The implementation date for this has not yet been finalised, and thus uncertainty exists.

DIRECTORATE AND SECRETARIAT

Details pertaining to the directors appear on pages 27 to 28 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 SOC 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 a 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 unanticipated regulatory matters.

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 was promulgated in January 2017. In addition the Companies' Tribunal has waived certain requirements of Schedule 1 of the Companies Act of 2008 to enable the NPCs to donate to a limited company. It is envisaged that the implementation of the consolidation of the DFIs will start in the 2017/18 financial year, with the timeframe for the final integration likely to extend over the next eighteen months, due to the requirements of the enabling legislation and its enactment process.

REMUNERATION OF DIRECTORS AND MEMBERS OF BOARD COMMITTEES

Directors' emoluments are set out on page 85 of these financial statements.

AUDIT AND RISK COMMITTEE MEMBERS OF BOARD COMMITTEES

The appointed Audit and Risk Committee members and External Auditors are in line with the Companies Act, Act 71 of 2008. RHLF's policy is, where possible, not to 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 and Risk 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

Other than the receipt of a grant of R50 million from the Department of Human Settlements. 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 note 23 of the Annual Financial Statements.

INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT PERFORMANCE

The performance of the RHLF against the Shareholder's Compact with the Minister of Human Settlements is set out on pages 35 to 44.

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 losses that exceeded that amount.

The Directors' Report for the year ended 31 March 2017 was approved by the Board of Directors on 15 August 2017 and is signed on their behalf by:

Ms Thembi Chiliza
Independent Non-executive
Chairperson

Mr Jabulani Fakazi
Chief Executive Officer

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited financial statements of Rural Housing Loan Fund NPC (the Company) set out on pages 62 to 85, which comprise the statement of financial position as at 31 March 2017, and 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 2017, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practices 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 of our report.

We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' Code of professional conduct for 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 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 the 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 the 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 relating to 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 presented in the annual performance report of the company for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Objective 1: Broaden and deepen the reach of rural housing delivery	35
Objective 2: Capital Preservation	35
Objective 3: Business Process	36

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 page 35 - 36 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement 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 the preceding 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 director's 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 thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the 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 of 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 the objective is 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 Inc. has been the auditor of Rural Housing Loan Fund SOC NPC for 9 years.

Darshen Govender
Partner
Registered Auditor
15 August 2017
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 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 financial statements as described in the auditor's report, we also:

- identify and assess the risks of material misstatement of 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 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 Rural Housing Loan Fund NPC and its subsidiary 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 the auditor's report. However, future events or conditions may cause a Company to cease to continue 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.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

	Note	31 March 17 R000	31 March 16 R000
Current assets		**221 721**	**330 433**
Cash and cash equivalents	19	104 610	213 038
Short term portion of intermediary loans	20	97 156	96 258
Receivables	21	279	1 279
Prepayments	22	959	1 141
Taxation	34	18 717	18 717
Non-current assets		**370 377**	**244 587**
Receivables from intermediaries	20	358 547	233 196
Investments in intermediaries	23	11 657	11 050
Property, plant and equipment	25	159	307
Intangible assets	26	14	34
Total assets		**592 098**	**575 020**
Liabilities			
Current liabilities		**14 443**	**7 233**
Trade creditors		864	781
Current portion of long term borrowings	28	7 477	5 999
Provisions	27	6 087	453
Employee benefits		15	-
Non-current liabilities		**124 527**	**129 422**
Borrowings	28	124 527	129 422
Total liabilities		**138 970**	**136 655**
Net assets		**453 128**	**438 365**
Represented by			
Grant capital	24	**285 738**	**285 738**
KFW Grant		154 763	154 763
Department of Human Settlements Grant		130 975	130 975
Retained earnings		**167 390**	**152 627**
Total equity		**453 128**	**438 365**

STATEMENT OF COMPREHENSIVE INCOME

	Note	31 March 17 R000	31 March 16 R000
Interest from lending operations		**45 667**	**39 890**
Other income		**14 389**	**13 446**
Disposal of fixed assets		12	(13)
Bad debts recovered		1 317	312
Investment Interest		13 060	13 148
Total income		**60 056**	**53 337**
Operating expenses		**(36 920)**	**(23 434)**
Compensation of employees	29	**(17 559)**	**(10 569)**
Salaries and wages		(15 683)	(8 823)
Social contributions		(1 876)	(1 746)
Goods and services		**(5 682)**	**(5 451)**
Agency and outsourced services		(1 178)	(989)
Communication		(728)	(769)
Computers		(269)	(262)
Consultants		(388)	(661)
Lease payments		(876)	(877)
Repairs and maintenance		(22)	(9)
Training and staff development		(456)	(296)
Travel and subsistence		(948)	(791)
Other		(817)	(797)
Other expenses		**(13 679)**	**(7 414)**
Depreciation		(186)	(180)
Amortisation		(26)	(13)
Impairment provisions	20	(13 467)	(7 221)
Profit before interest and taxation		**23 136**	**29 902**
Interest paid		(9 780)	(10 087)
Profit before taxation		**13 356**	**19 816**
Taxation	34	-	(18 164)
Fair value adjustment of associates	31	1 407	1 735
Profit after taxation		**14 763**	**3 386**

CASHFLOW STATEMENT

	Note	31 March 17 R000	31 March 16 R000
Cash flows from operating activities			
Receipts		**148 581**	**163 438**
Revenue		45 667	39 890
Repayments of loans		89 854	110 386
Interest		13 060	13 162
Payments		**(254 360)**	**(127 580)**
Compensation of Employees	29	(11 910)	(11 811)
Goods and Services		(4 724)	(4 362)
Disbursements		(227 305)	(100 369)
Interest and Rent on land		(10 421)	(10 935)
Other payments		-	(103)
Net cash flows from operating activities	35	**(105 779)**	**35 858**
Cash flows from investing activities			
Purchase of assets		(55)	(96)
Proceeds from sale of assets		23	(14)
Sundry income		800	202
Net cash flows from investing activities		**768**	**92**
Cash flows from financing activities			
Repayment of borrowings		(3 417)	(3 089)
Net cash flows from financing activities		**(3 417)**	**(3 089)**
Net increase/(decrease) in cash and cash equivalents		**(108 428)**	**32 862**
Cash and cash equivalents at the beginning of the period		213 038	180 176
Cash and cash equivalents at the end of the period		**104 610**	**213 038**

STATEMENT OF COMPARISON TO BUDGET

	31 March 17				
	Actual	**Budget**	**Variance**		
	R000	**R000**	**R000**	**%**	**Explanation of material variance**
Revenue from exchange transactions	**45 667**	**42 174**	**3 493**	**8.3%**	
Other income	**13 872**	**5 842**	**8 030**	**137.5%**	
Disposal of fixed assets	12	-	12	-	
Dividends	800	236	564	239.0%	An intermediary declared a dividend that RHLF did not budget for
Investment Interest	13 060	5 606	7 454	133.0%	Higher interest rates together with starting the year with more cash than budgeted
Total income	**59 539**	**48 016**	**11 523**	**24.0%**	
Interest paid	(9 780)	(9 570)	(210)	-2.2%	
Operating expenses	**(35 604)**	**(27 767)**	**(7 837)**	**28.2%**	
Accommodation	(902)	(1 358)	456	33.6%	Better lease terms were achieved than budgeted.
Consulting, legal and audit	(1 565)	(1 347)	(218)	-16.2%	Legal fees were incurred due to issues around the NPC status of RHLF.
Debtors provisions	(12 150)	(5 043)	(7 107)	140.9%	The intermediaries found the year challenging and had higher than expected write offs.
Communications and IT	(567)	(635)	68	10.7%	
Depreciation	(212)	(878)	666	75.8%	A new system to assist small clients was not procured in a previous year, but the depreciation and amortisation was budgeted as a result of the timing of decisions.
Employee costs	(17 559)	(14 923)	(2 636)	17.7%	An unbudgeted retention scheme was implemented during the year to ensure employees remained on board until after the merger
Marketing and workshops	(430)	(743)	313	42.1%	Due to time constraints as employees focused on the merger there was lower attendance at conferences
Printing and stationery	(372)	(448)	76	17.0%	
Travel and entertainment	(948)	(1 776)	828	-46.6%	Due to time constraints as employees focued on the merger there was less travel to sign up new intermediaries
Other	(898)	(616)	(282)	-45.8%	Training costs were higher than budgeted as employees sought to improve their qualifications
Profit before taxation	**14 156**	**10 679**	**3 477**	**32.6%**	
Taxation	-	-	-	0.0%	
Fair value adjustment of associates	607	-	607	0.0%	
Net Profit	**14 763**	**10 679**	**4 084**	**38.2%**	

STATEMENT OF CHANGES IN NET ASSETS

	at 31 March 2017			
	Contributed Capital KFW	Contributed Capital Department of Human Settlements	Accumulated Surplus	Net Assets
	R000	R000	R000	R000
Balance at 31 March 2015	**154 763**	**130 975**	**149 241**	**434 979**
Balance at 01 April 2015	**154 763**	**130 975**	**149 241**	**434 979**
Surplus for the period	-	-	3 386	3 386
Balance at 31 March 2016	**154 763**	**130 975**	**152 627**	**438 365**
Balance at 01 April 2016	**154 763**	**130 975**	**152 627**	**438 365**
Surplus for the period	-	-	14 763	14 763
Balance at 31 March 2017	**154 763**	**130 975**	**167 390**	**453 128**

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 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. COMPARATIVE INFORMATION

Prior year comparatives

Certain items of expenditure have been reclassified from the previous year's disclosure to enhance understanding of the annual financial statements.

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

GRAP7 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction. No effective date. GRAP 18 Segment Report. 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 have 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.

Classification has also been added that employees can now be used as valuers. This has resulted in the removal of 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 on 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 JUDGMENTS AND ESTIMATES

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

Judgments

In the process of applying these accounting policies, management has made the following judgments 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.

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.

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.

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

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 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	10
Computer Hardware	3

The company derecognises property, plant and equipment when they are either sold, or permanently cease to have 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 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 is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

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 any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- 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 mean expenditure which was made in vain and would 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 are 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.

19. CASH AND CASH EQUIVALENTS

	2017	2016
	R000	R000
Cash and cash equivalents consist of the following:		
Cash at bank	16 112	6 082
Call deposits	88 498	206 956
	104 610	**213 038**

An amount of R93,000 (2016: R93,000) is held on deposit with Standard Bank as security for a guarantee for RHLF's building rental.

20. TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances	Provision for Doubtful Debts	Net Balance
Balance at 31 March 2017	R000	R000	R000
Other receivables	499 981	(44 278)	455 703
Total Trade Receivables at 31 March 2017	**499 981**	**(44 278)**	**455 703**

	Gross Balances	Provision for Doubtful Debts	Net Balance
Balance at 31 March 2016	R000	R000	R000
Other receivables	361 783	(32 329)	329 454
Total Trade Receivables at 31 March 2016	**361 783**	**(32 329)**	**329 454**

	2017	2016
	R000	R000
Long terms loans to retail intermediaries	455 703	329 454
Less : Current portion transferred to current receivables	97 156	96 258
Long term portion	**358 547**	**233 196**

20.1 Reconciliation of doubtful debt provision

	2017	2016
	R000	R000
Balance at beginning of the year	(32 329)	(40 869)
Contributions to provision	(13 467)	(7 221)
Bad debts written off against provision	1 518	15 761
Balance at end of year	**(44 278)**	**(32 329)**

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

20.2 Credit quality of trade receivables from exchange transactions

The entity determines the credit quality of its trade receivables from exchange transactions.

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

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

20.3 Subordinated trade receivables

A loan of R25 million (2016: R25 million) to Izwe Loans (Pty) Ltd is subordinated until all senior creditors have been refunded. A premium is charged on this amount.

20.4 Trade receivables pledged as security

No receivables are pledged as security.

21. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Sundry receivables	46	1 279
Department of Human Settlements for construction of houses to determine a house value for the voucher programme	233	-
Total other debtors	**279**	**1 279**

22. PREPAYMENTS

Deposits	-	128
Fees relating to the loan from DBSA, being expensed over the life of the loan	959	1 013
	959	**1 141**

23. INVESTMENTS

Equity investments - Izwe Holdings (Pty) Ltd (carrying value)	3 203	3 887
Equity investments - Kabo Financial Investments (Pty) Ltd (carrying value)	-	NO
Equity investments - Lehae Housing (Pty) Ltd (carrying value)	-	NO
Equity investments - Lendcor (Pty) Ltd (carrying value)	8 454	7 163
Equity investments - Norufin Housing (Pty) Ltd (carrying value)	-	NO
Preference Shares - Norufin Housing (Pty) Ltd (carrying value)	NO	-
	11 657	**11 050**

For more details on these investments refer to note 31

NO: shares not owned

24. GRANT CAPITAL

	2017	2016
	R000	R000
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
	285 738	**285 738**

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

	2017			2016		
	Cost	Accumulated Depreciation and Impairment	Carrying Value	Cost	Accumulated Depreciation and Impairment	Carrying Value
	R000	R000	R000	R000	R000	R000
Furniture and Fittings	579	(527)	52	572	(512)	60
Office Equipment	155	(133)	22	155	(115)	40
Computer Equipment	557	(472)	85	536	(329)	207
Leasehold premises	60	(60)	-	60	(60)	-
Total	**1 351**	**(1 192)**	**159**	**1 323**	**(1 016)**	**307**

No assets are pledged as security.

25.2 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	-	-	-	-	-
Total	**307**	**49**	**(11)**	**(186)**	**159**

25.3 Reconciliation of Property Plant and Equipment - 2016

	Carrying Value Opening Balance	Additions	Disposals	Depreciation	Carrying Value Closing Balance
	R000	R000	R000	R000	R000
Furniture and Fittings	75	1	-	(16)	60
Office Equipment	53	9	(3)	(19)	40
Computer Equipment	292	77	(17)	(145)	207
Leasehold premises	-	-	-	-	-
Total	**420**	**87**	**(20)**	**(180)**	**307**

26. INTANGIBLE ASSETS

26.1 Reconciliation of Carrying Value

	2017			2016		
	Cost	Accumulated Amortisation and Impairment	Carrying Value	Cost	Accumulated Amortisation and Impairment	Carrying Value
	R000	R000	R000	R000	R000	R000
Computer Software	261	(247)	14	255	(221)	34
Total	**261**	**(247)**	**14**	**255**	**(221)**	**34**

26.2 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
Total	**34**	**6**	**(26)**	**14**

26.3 Reconciliation of Intangible Assets - 2016

	Carrying Value Opening Balance	Additions	Amortisation	Carrying Value Closing Balance
	R000	R000	R000	R000
Computer Software	38	9	(13)	34
Total	**38**	**9**	**(13)**	**34**

27. PROVISIONS

27.1 Reconciliation of Movement in Provisions - 2017

	Retention Reward	Performance Bonus	Provision for Leave Pay	Total
	R000	R000	R000	R000
Opening Balance	**-**	**86**	**367**	**453**
Provisions Raised	4 134	2 393	787	7 314
Amounts Used	(846)	(86)	(748)	(1 680)
Closing Balance	**3 288**	**2 393**	**406**	**6 087**

27.2 Reconciliation of Movement in Provisions - 2016

	Performance Bonus	Provision for Leave Pay	Total
	R000	R000	R000
Opening Balance	**1 222**	**320**	**1 542**
Provisions Raised	686	552	1 238
Amounts Used	(1 822)	(505)	(2 327)
Closing Balance	**86**	**367**	**453**

28. BORROWINGS

	2017	2016
	R000	R000
Development Bank of Southern Africa	132 004	135 421
Less : Current portion transferred to current liabilities	(7 477)	(5 999)
Total Long Term Non-current Borrowings	**124 527**	**129 422**

Terms and conditions

This loan is from the Development Bank of Southern 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 an 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:

Financing of small loans portfolios of housing purposes by various financial instituations accredited with RHLF and granting of equity capital to these finance institutions.

29. EMPLOYEE RELATED COSTS

	2017	2016
	R000	R000
Employee related costs - Salaries and Wages	7 858	7 196
Employee related costs - Contributions for UIF, pensions and medical aids	1 876	1 746
Travel, motor car, accommodation, subsistence and other allowances	541	499
Directors fees	402	405
Overtime payments	22	38
Performance and other bonuses	2 691	685
Retention scheme	4 134	-
Long-service awards	35	-
	17 559	10 569
Training expenditure	456	296
Employee Related Costs	**18 015**	**10 865**
Less training expenditure	(456)	(296)
Movement in provisions	(5 634)	1 091
Movement in employee related creditors	(15)	150
Cash flow effect	**11 910**	**11 811**

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 is repayable pro rata if the recipient resigns during the 12 months ending August 2017. 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 then the final payment falls away

30. EMPLOYEE BENEFITS

30.1 Defined contribution plans:

	2017	2016
	R000	R000
Provident fund	1 219	1 116
Total contributions expensed to the Statement of Comprehensive Income	**1 219**	**1 116**

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.

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

	2017	2016
Share of the associates' statement of financial position:	R000	R000
Assets	17 549	21 675
Liabilities	(14 346)	(17 788)
Equity	**3 203**	**3 887**

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 the Entity's investment in Lendcor (Pty) Ltd.

Share of associates' statement of financial position:		
Current Assets	14 287	9 560
Non-current assets	17 607	15 078
Current liabilities	(3 775)	(6 757)
Non-current liabilities	(19 665)	(10 718)
Equity	**8 454**	**7 163**

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 the Entity's investment in Norufin Housing (Pty) Ltd.

Share of associates' statement of financial position:		
Current Assets	2 196	-
Non-current assets	10 688	-
Current liabilities	(3 569)	-
Non-current liabilities	(9 534)	-
Equity	**(219)**	**-**

During the year RHLF, exercised its option to convert its preference shares to ordinary shares to strengthen the company's balance sheet. Due to the ongoing insolvent position of the company, these are fully provided for, as were the preference shares.

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 the Entity's investment in Lehae Housing (Pty) Ltd.

	2017	2016
Share of associates' statement of financial position:	R000	R000
Current assets	-	-
Non-current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Equity	**-**	**-**

As part of RHLF's commitment to transforming the incremental housing industry, RHLF converted a portion of its loans to equity in Lehae. This is done to assist the company with the initial losses that a start-up will incur. As a consequence of these losses, the share capital is fully provided for.

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 the Entity's investment in Kabo Financial Enterprise (Pty) Ltd.

Share of associates' statement of financial position:		
Current assets	-	-
Non-current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Equity	**-**	**-**

As part of RHLF's commitment to transforming the incremental housing industry, RHLF converted a portion of its loans to equity in Kabo. This is done to assist the company with the initial losses that a start-up will incur. As a consequence of these losses, the share capital is fully provided for.

31.6 Associates' profit

Share of Lendcor increase in assets	1 291	1 909
Share of Izwe (decline) in assets	(684)	(376)
Dividends received	800	202
Share of associates' revenue and profit:	**1 407**	**1 735**

32. COMMITMENTS

	2017	2016
	R000	R000
Commitments in respect of facilities granted	96 021	128 599

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:

Up to 1 year	-	690
1 to 5 years	-	-
More than 5 years	-	-
	-	**690**

Operating Leases

Operating Leases consisted of the following:

Property rentals are negotiated for a period of three years. Rentals escalate at 8% per annum. These commitments ended 31 March 2017.

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:

Up to 1 year	57	30
1 to 5 years	141	-
More than 5 years	-	-
	198	**30**

Total

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

Up to 1 year	57	720
1 to 5 years	141	-
More than 5 years	-	-
	198	**720**

33. RELATED PARTIES

Related party balances		
Development Bank of Southern Africa	(132 004)	(135 421)
South African Revenue Services	18 717	18 717
South African Reserve Bank	88 405	206 863
Related party transactions		
Interest earned / (paid)		
Development Bank of Southern Africa	(9 725)	(10 033)
South African Reserve Bank	12 562	12 297
Other expenses		
South African Airways	(265)	(157)

34. TAXATION

	2017	2016
	R000	R000
Opening balance	18 717	36 881
Normal taxation for the year	-	(18 164)
	18 717	18 717
Due to (by) SARS	(18 717)	(18 717)
Paid during the year	-	-

34.1 Taxation expense

Normal taxation	-	(18 164)

34.2 Normal taxation

During the 2014/15 financial year SARS granted the company an income tax exemption backdated to 2004. During the 2015/16 year SARS notified RHLF that in spite of this they would not reopen income tax assessments for the years prior to 2012. While this matter is being disputed, RHLF has provided against the amounts that relate to that period.

After attempts to resolve the matter in a manner advised by National Treasury to avoid incurring legal costs against a fellow state body were unsuccessful, RHLF has proceeded to launch legal action to recover these earlier amounts as well as interest thereon.

Legal fees in this matter are estimated at between R750 000 and R900 000.

35. CASH FLOWS FROM OPERATING ACTIVITIES

	2017	2016
	R000	R000
Surplus for the year	**14 763**	**3 386**
Adjustment for:-	**17 894**	**4 759**
Depreciation	186	180
Amortisation	26	13
(Gain) / loss on sale of assets	(12)	13
Contribution to (reversal of) provisions - current	5 634	(1 091)
Fair value adjustments	(1 407)	(1 735)
Impairment loss	13 467	7 221
Operating surplus before working capital changes:	**32 657**	**8 145**
Working capital movements	**(138 436)**	**27 713**
Decrease / (Increase) in trade and other recievables	1 182	(264)
(Increase) / decrease in loans receivable	(139 716)	9 765
Decrease in tax receivable	-	18 164
Increase in trade and other payables	98	49
Net cash flows from operating activities	**(105 779)**	**35 858**

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:

	2017	2016
	R000	R000
Cash and cash equivalents	104 610	213 038
Trade and other receivables from exchange transactions	97 435	97 537
Non-current receivables from exchange transactions	358 546	233 196
Non-current investments	11 657	11 050

	Amount	Short term credit rating
Corporation for Public Deposits	88 405	
Standard Bank	16 205	F1+
Total	**104 610**	

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

Most 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 date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	R000	R000	R000
2017	**Later than three months and not later than one year**	**Later than one year and not later than five years**	**Greater than 5 years**
Trade and other payables	879	-	-
Borrowings	7 477	22 689	101 838
2016	**Not later than one month**	**Not later than one month**	**Greater than 5 years**
Trade and other payables	781	-	-
Borrowings	5 999	15 073	114 349

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 Southern Africa has a fixed rate of interest. Consequently no sensitivity analysis has been performed.

Interest rate risk sensitivity analysis

The susceptibility of the entity's financial performance to changes in interest rates can be illustrated as follows:

2017	**Gross impact**	**Taxation effect**	**Net impact**
Interest income			
Interest rate increase of 75 basis points	3 750	-	3 750
Interest rate decrease 50 basis points	(2 500)	-	(2 500)
2016	**Gross impact**	**Taxation effect**	**Net impact**
Interest income			
Interest rate increase of 75 basis points	2 713	-	2 713
Interest rate decrease 50 basis points	(1 809)	-	(1 809)

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	499 981	(44 278)	455 703
Total	**499 981**	**(44 278)**	**455 703**

	2017	2016
Reconciliation of the doubtful debt provision	R000	R000
Balance at beginning of the year	(32 329)	(40 869)
Contributions to provision	(13 467)	(7 221)
Doubtful debts written off against provision	1 518	15 761
Balance at end of year	**(44 278)**	**(32 329)**

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:

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

2016	R000	R000	R000	R000
Assets measured at fair value	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Total**
Cash at bank	-	213 038	-	213 038
Receivables	-	331 873	-	331 873
Investment in associates	-	-	11 050	11 050
Total	**-**	**544 911**	**11 050**	**555 961**

43. CONTRIBUTED CAPITAL

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

	2017	2016
	R000	R000
Opening balance	**285 738**	**285 738**
Contributions	**-**	**-**
Closing balance	**285 738**	**285 738**

Subsequent to year end a grant of R50 million was received from the Department of Human Settlements.

44. DIRECTORS

Name	Date of first appointment	Number of Board/Committee Board	Audit / Risk	HRER	Credit	Other	Meeting Fees R000
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
J 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

2017	Basic Salary	Performance related amounts	Retention amount	Employer contributions	Other benefits	Total
	R000	R000	R000	R000	R000	R000
Chief Executive Officer	1 882	656	1 095	479	33	4 145
Chief Financial Officer	1 490	478	663	219	27	2 877
	3 372	**1 134**	**1 758**	**698**	**60**	**7 022**

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

The retention amount includes a payment for one month and a provision as noted in note 29.

2016	Incumbent	Basic Salary	Benefits	Performance Bonus	Total
		R000	R000	R000	R000
Chief Executive Officer	J J Fakazi	1 614	444	-	2 058
Chief Financial Officer	B C Gordon	1 280	235	-	1 515
		2 893	**679**	**-**	**3 573**

46. FRUITLESS AND IRREGULAR EXPENDITURE

	2017	2016
	R000	R000
Fruitless expenditure incurred on late payment to Development Bank of Southern Africa	32	-

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RHLF
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LOAN FUND

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