



CHIEF EXECUTIVE'S
REPORT

Chief Executive's Report



RHLF's ultimate business is not just lending money, but it is much more than that. We are in the business of assisting the working poor to help themselves to achieve what makes a difference in their lives—access to a decent shelter and better living conditions. In many instances this is a dream that is not realised overnight. The low income earners are better positioned to achieve their better living conditions and housing dreams on a progressive basis, provided they have access to finance. This is where RHLF comes in as a reliable source of incremental housing finance, which many people across South Africa so desperately need so that they can incrementally drive the improvement of their living environments.

OPERATING ENVIRONMENT

RHLF presents its performance for the year 2010/11, following a period when the whole world experienced a global economic meltdown, and during which South African economy went through its first recession since the advent of democracy. Many people—more than a million—lost their jobs during the recent recession and this added to an already high unemployment situation in South Africa. Those who are still in employment find themselves in a situation where their income is too little to support many dependents and still have enough money left for other household needs—such as improvement of housing conditions. While the country's economy came out of recession as evidenced by the reported slow improvement in the economic growth rate, this has not as yet translated into significant employment opportunities. In effect, unemployment remains high and low income earners remain disproportionately affected.

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High level of indebtedness also remained a cause for concern for many people. This challenge also affected people in our target market during the year, especially those in the lowest end of the income segments. Under these circumstances borrowers take credit just to make ends meet. In the process, many low income earners find themselves being unable to access credit that they may need to invest in the improvement of their housing conditions—a decision that gets postponed when hard times hit.

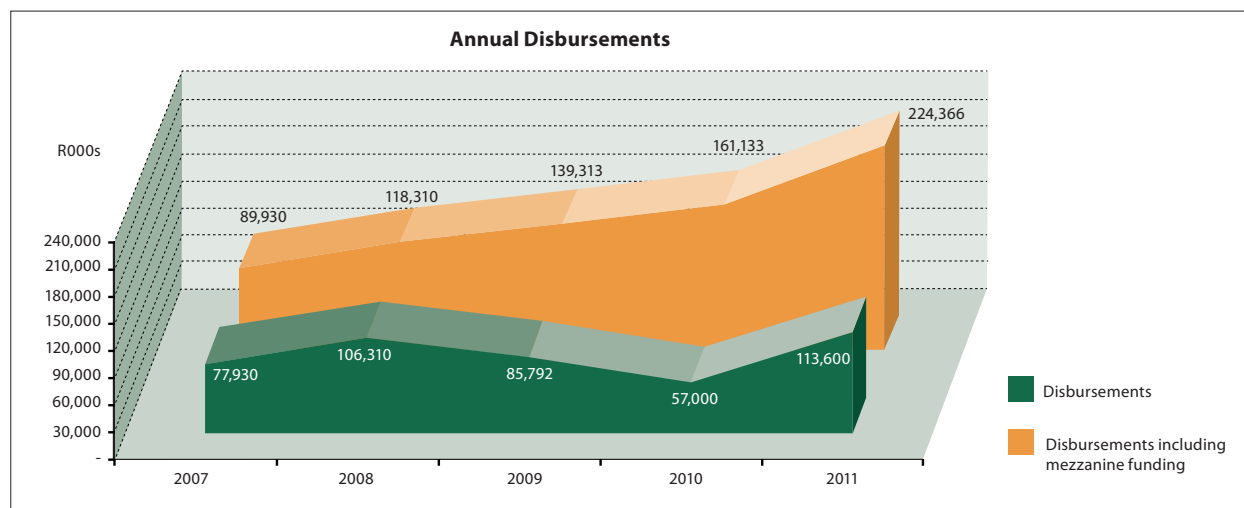
The fact that the interest rate remains at record low levels over the period, did not help the credit industry and housing industry in particular, precisely because of some of the economic challenges highlighted above.

Despite these challenging market conditions, overall, business environment did show some improvement compared to the previous year.

LENDING ACTIVITIES

Despite the challenging operating environment, I am very pleased to report the following highlights in RHLF's performance during the 2010/2011 fiscal year:

- During the year under review RHLF retained all its incremental housing finance intermediaries despite the fact that a few of them faced challenges in raising funds from other sources in order to grow their loan books. Moreover, even during this tough period, RHLF was able to add a new retail partner during the year in our effort to expand access to incremental housing finance.
- The total cash disbursements for the year of R113,6 million was in line with the budget of R112 million and was significantly higher than the R57 million disbursed during the 2009/2010 year. This increase is mainly attributed to the increased facilities to RHLF's top clients.
- Total disbursements, including mezzanine funding, to our less risky clients amounted to R224,4 million (R161m: 2010) and was also well above the budget of R202,2 million.
- Total disbursements resulted in 40, 289 (33, 112: 2010) of incremental housing finance loans. There was an observable phenomenon of higher value loan sizes taken by people in higher income brackets of the RHLF market, and a decline in the percentage of loans taken by borrowers earning R3, 500 and below from 62% in 2010 to 53% in 2011. This explains why RHLF exceeded targets in disbursements, but fell short in the number of loans target.
- In the year, gross loan book grew by 18% (0.8%: 2010) from R230 million in 2010 to R272 million in 2011. Since we did not have to raise impairment provisions in 2011, the advance impairment percentage improved from 21% in 2010 to 18% in 2011.
- The grant capital received from the national Department of Human Settlement assisted RHLF in introducing a low interest rate product at one of the retail intermediaries who achieves high housing impact. The benefit of the lower interest rate is passed on to the end-users, thus significantly lowering the cost of credit to them. RHLF is very excited about this and is investigating means of rolling this lower interest rate product out to more intermediaries who achieve high impact.



FINANCIAL PERFORMANCE

Development impact and financial sustainability are two main objectives of a development finance institution such as RHLF. In other words, RHLF must achieve impact as required by its mandate, but at the same time strive to achieve a surplus which must be re-invested in the business in order to sustain development impact.

It is my pleasure to report that RHLF continues with the trend of reporting a surplus for the fiscal year. In the year under review, RHLF achieved surplus after tax of R18.6 million from operations compared to R10.4 million in 2010, a growth of 80%. In the continuous tough economic conditions, our financial results are satisfactory.

that we continued during the year under review. Although costs grew by R1.9 million and beyond R10 million for the first time ever, this was compensated by even higher growth in income by almost R2.5 million. Third, the share of earnings from associate companies made a marginal positive contribution at about R0.8 million (R0.7m: 2010).

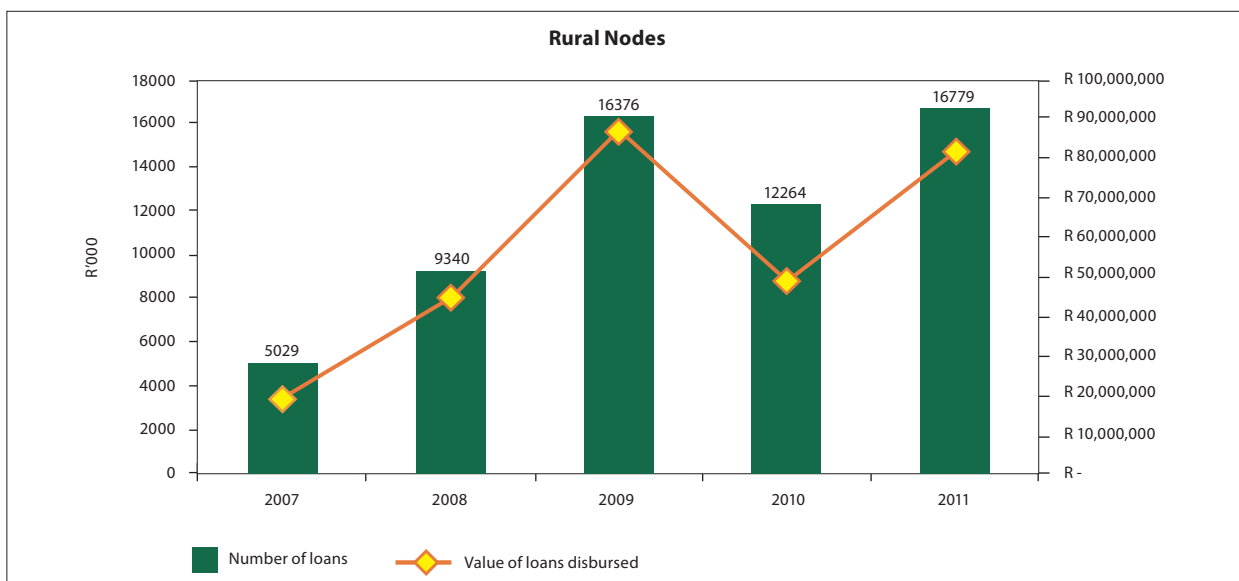
DEVELOPMENT IMPACT

The number of incremental housing finance loans disbursed in the year reached the figure of 40, 289 (33, 112: 2010), and thus fell short of the budgeted target number of 44,933 loans. This achievement was however an improvement from total number of loans achieved in 2010. Of the total loans disbursed, 16, 779 loans (12, 264: 2010) were granted to borrowers in Rural Nodes, thereby

... Over the years RHLF has been able to hold operating costs at low levels relative to its income, a feat that we continued in the year under review.

The positive surplus we are reporting can be attributed to a few main factors. First, RHLF's impairment provisions remained constant at 2010 level (R47.6m) as we did not need to raise impairments in the financial year 2011. Second, over the years RHLF has been able to hold operating costs at low levels relative to its income, a feat

supporting the Government's rural development priority. We are very pleased that RHLF total loans were accessed by borrowers from all 9 provinces. More detailed information on development impact is furnished in the Sustainability Report section.



PROSPECTS

The 2012 financial year is likely to remain a challenging one for the incremental housing finance industry. The unfolding global picture suggests that inflation is more on the upside potential, with the main causes being rising oil and food prices. These will disproportionately affect low income earners since low income earners use the large proportion of their income to buy food and pay for transport.

Indications are that the Reserve Bank will be forced to start increasing interest rates towards the end of the financial year and this will further put pressure on consumer expenditure. Moreover, debt levels are likely to remain relatively high, thus making housing loans not affordable for many people in our target market. In addition, post-recession economic growth remains stubbornly fragile and may not translate into significant reduction of unemployment.

Our retail intermediaries will still find it difficult to lend at scale in this environment as the number of quality borrowers shrink and will thus still have to lend carefully in order not to exacerbate the indebtedness situation and to ensure that strict compliance to National Credit Act is maintained.

RHLF faces the challenge of increasing its distribution channels for incremental housing loans-especially in underserved provinces. In this regard we will intensify our efforts to sign up new clients already registered with the National Credit Regulator, and who are willing and able to extend their product offerings to include incremental housing finance products to the rural market they serve. The informal employed and self-employed remain a market that we still have to reach at meaningful levels. However, their irregular incomes make it difficult for them to access loans from our current distribution channels. We will, therefore, still continue with our efforts of identifying

community based loan origination channels that can help us reach this underserved market.

APPRECIATION

RHLF as a wholesale funding institution relies on intermediary lenders to achieve its mandate. Through them, RHLF has been able to have a national geographic footprint. I, therefore, sincerely thank these partners for adding value to the RHLF business.

Special thanks go to our funders, KfW, DBSA and the national Department of Human Settlements for making funds available to RHLF for development impact where we lend.

The oversight role of the Department of Human Settlements and the Parliamentary Portfolio Committee of Human Settlements is always appreciated. We are grateful for the feedback we receive from both the department and the Portfolio Committee.

My gratitude also goes to the Board for its leadership, support and diligent guidance to the RHLF team. We wish well all the Directors who resigned during the year under review; and welcome the new Directors who joined the RHLF Board during the year.

I thank the RHLF team for its commitment and dedication to the delivery on the development mandate. Your passion for development and loyalty to the organisation are also key ingredients to make RHLF a successful development finance institution.



Jabulani Fakazi
Chief Executive Officer