



Chief Executive Officer's Report

CHIEF EXECUTIVE OFFICER'S REPORT

RHLF'S MANDATE IS TO FACILITATE HOUSING MICROFINANCE FOR THE RURAL WORKING POOR. THE BUSINESS ENVIRONMENT FOR RURAL MICRO-LENDING IN SOUTH AFRICA REMAINS EXTREMELY CHALLENGING, AS THE DISPOSABLE INCOME OF THE LOW INCOME HOUSEHOLDS IS SEVERELY STRETCHED. HOW TO EFFICIENTLY REACH THE RURAL WORKING POOR IN ALL PROVINCES WITH SMALL LOANS ON TERMS THAT THEY CAN AFFORD, WHILE APPROPRIATELY PROVIDING FOR RISK AND EXPENSES, IS THE CENTRAL CHALLENGE THAT RHLF FACE ON AN ONGOING BASIS.



As a wholesale finance institution, RHLF has a national network of intermediary retail lenders through which we are able to achieve our mandate. We take great pride in support we receive from our retail partners. However, we concede that more still needs to be done to increase lending in provinces where there are currently less RHLF loans.

selected sites with a vision of creating vibrant rural communities. RHLF is well positioned to play a critical role in enhancing human settlements conditions of people in these targeted rural areas.

GOVERNMENT POLICY ENVIRONMENT

The new government was elected in April 2009, and pursuant to this a new Ministry of Human Settlements was announced by the State President. Accordingly, the Department of Housing was changed to Human Settlements and this entails that the mandate goes beyond just housing. Likewise, RHLF as a Human Settlements Development Finance Institution (DFI) has to think beyond just housing and make a concerted effort to make a broader contribution to the creation of vibrant and sustainable rural human settlements. In this regard, the new Comprehensive Rural Development Programme is being piloted in

BUSINESS ENVIRONMENT

Economically speaking, the year under review was the toughest year since the advent of democracy in South Africa in 1994 as the economy entered into a recession early in the 2009/10 financial year – the first since 1992. In 2009 alone close to 1 million job losses were reported, and a little over 171 000 job losses were further reported in the first quarter of 2010. Of particular concern to RHLF is the fact that the core of its target market constitutes people at the low end of the market, who in most instances are vulnerable to economic shocks.

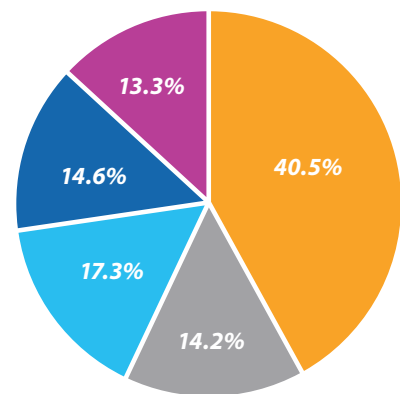
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income that RHLF earns on new loans extended to clients and importantly on surplus funds that RHLF is required to maintain in compliance with the liquidity covenant of its funders. The net result was lower than budgeted interest income for the year.

The liquidity crunch, brought on by the worldwide economic downturn was a major challenge during the year under review. The limited funding in the capital markets had a detrimental effect on at least three of our retail intermediaries in their efforts to diversify their sources of funding. Inevitably the lack of funding had a negative impact on the quality of their loan books. This resulted in RHLF exceeding its budgeted impairment provision for the year.



- Judgement and administration orders
- Adverse listings
- 3+ months in arrears
- 1-2 months in arrears
- Current

Credit Standing of South African Consumers, Dec 2009. Source NCR Credit Bureau Monitor.

The “CR Credit Bureau Monitor” published by the National Credit Regulator offers a grim view of how difficult the lending climate has become: By December 2009 only 40.5% of the over 18 million credit active consumers in South Africa were current on their accounts. The rest were in various stages of arrears on their instalments or had adverse entries including judgments and administration orders against their name. The proportion of borrowers in good standing has been in consistent decline since the height of the consumer boom in mid 2007.

These numbers also illustrate the complexity of our mandate: the job of RHLF and our retail lenders is to facilitate small incremental housing credit for the rural low income market. But we have to do so responsibly and affordably, without pushing already overstretched households over the financial edge.

LENDING ACTIVITIES AND FINANCIAL RESULTS

Given the tough economic conditions during the year under review, it came as no surprise that budget cash disbursements fell below the set target. RHLF budgeted to disburse R75,9 million during the year, but only made cash disbursements of R57 million. However, including mezzanine funding to less risky clients, total disbursements of R161 million was achieved. RHLF retail partners turned these funds into 33, 112 loans (40, 537: 2009).

The gross loan book grew marginally by 0, 8% (29%: 2009) from R227 million in 2009 to R230 million. This was largely a result of the stagnant economic conditions that resulted in significant job losses in our target market. These realities resulted in clients being prudent in their credit assessment since many people were already over exposed to debt due to shrinking disposable incomes – a phenomenon that began to show even in the last financial year. It was therefore inevitable that growth of the book would be modest as our clients reject large proportions of loan applications in efforts to ensure quality of the new loans.

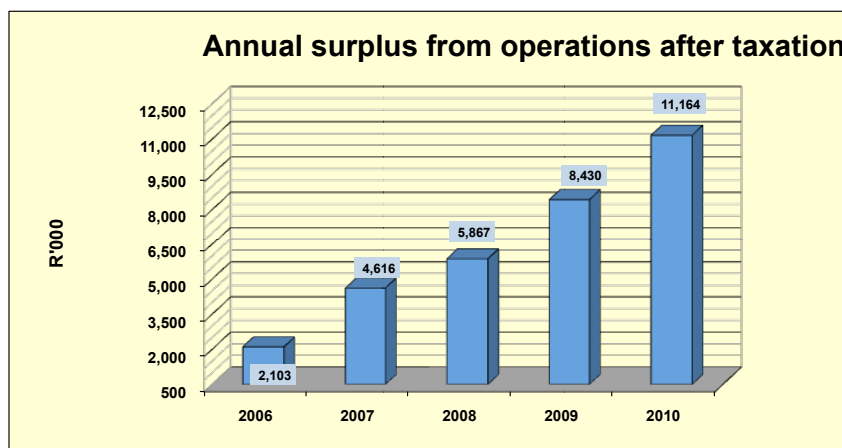
During the 2009/2010 financial year RHLF received the final drawdown of R 20,1 million on its loan facility with Development Bank of Southern Africa (DBSA) and Kreditanstalt für Wiederaufbau (KfW).

I am pleased to report that despite the adverse market conditions during year 2009/10, RHLF achieved a record surplus for the year. RHLF recorded a net surplus after tax of R28,9 million (R8.3 million: 2009). This exponential growth in the surplus is attributed to the profit RHLF realised on the disposal of its shares in Bayport Financial Services (Pty) Ltd, which was approved by the Minister of Human Settlements in January 2010. However, even without this additional profit of R20,6 million, RHLF’s net surplus after tax attributable to operations still reached a record level of R11.1 million. The surplus RHLF achieves is re-invested

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in the business as we do not distribute profits to the shareholder.

Another key factor in RHLF's profitability is that RHLF has consistently kept operating costs at relatively low levels. Over a five year period, operating costs have remained below R10 million per annum. This is largely enhanced by the RHLF wholesale model, which enables RHLF to have a national footprint via its retail intermediary partners who use various distribution channels to achieve the RHLF impact.

The share of earnings on investments in associates was significantly down from the prior year to R0,7 million (2009: R1,6 million). This is due to the fact that RHLF currently has only two associates and of these only one is profitable.

As mentioned above the difficult economic conditions, resulted in a deterioration in the quality of the underlying loan book at three of RHLF's clients. This forced RHLF to raise R10,5 million of additional impairment

provisions during the year under review. This has increased the total impairment provision to R47,6 million (2009: R37,1 million) or 21% (2009: 16%) of gross advances.

No other assets or investments were impaired during the 2009/10 financial year.

DEVELOPMENT IMPACT

The effect of difficult economic conditions can also be seen in the decrease in the number of end user loans extended by RHLF intermediaries. The total number of end user loans financed with RHLF funding amounted to 33,112 down from the record number of 40,537 reported in 2009.

Despite the decrease in the number of loans, RHLF is pleased to report that the impact quality of the loans remained at satisfactory levels. Please refer to the Sustainability report for further details on the RHLF's development impact for the year.

THE YEAR AHEAD

In foreseeable future, we expect to see a slow but steady improvement in the economy. However, economic improvement is unlikely to lead to an immediate and significant increase in employment since, in general, employment lags economic growth. Therefore, while we expect to achieve higher levels of loans disbursed in 2010/11 fiscal year, it is still appropriate to exercise caution during this fragile economic recovery.

RHLF plans to make greater strides in reaching markets in those provinces where it currently lends very little such as the Northern Cape and Free State. Such provinces present RHLF and its intermediary retail partners with a base from which to improve loan disbursements and growth. The additional government funding of R49.5 million will give RHLF sufficient financial resources to scale up housing microfinance in general and in such provinces in particular. The challenge,

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therefore, is to work with our retail partners to establish loan distribution channels in these provinces.

The RHLF team will intensify its efforts to identify alternative business channels in efforts to achieve higher development impact. In this regard, we will target community based organisations and rural based employers such as farming operations, who are able and willing to contribute to the improvement of quality of life of their employees. For these types of channels, the impact is high, albeit at a small scale. However, this is RHLF's concerted effort to address housing needs of the rural employees, who currently find it difficult to access housing finance.

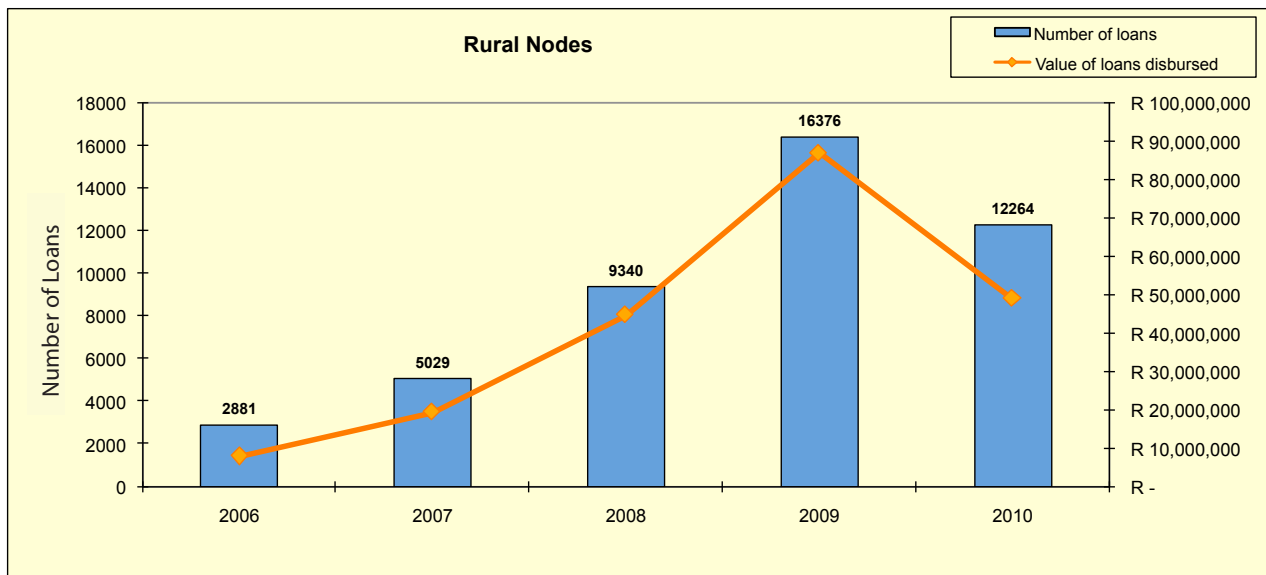
APPRECIATION

We are grateful for the support we continue to receive from the Ministry and the Department of

Human Settlements. We appreciate the oversight role played by the Parliamentary Portfolio Committee on Human Settlements over RHLF and we take cognisance of the Committee's support to the RHLF mission—that of enabling the rural working poor in all provinces to access finance so that they can improve their housing conditions.

I also would like to convey our sincere gratitude to our funding partners, KfW and the DBSA. RHLF is immensely grateful to these partners and look forward to a continued partnership in addressing development needs of the working poor.

I am thankful to our retail intermediary partners who enable RHLF to be a truly national finance institution by ensuring that RHLF funding reaches all nine provinces of South Africa. Together, we can do more to have more impact in the provinces where we currently lend



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less such as the Northern Cape and Free State Provinces.

It will be a remiss if I do not thank the RHLF Board of Directors for the support they have given to management over the year in review. The RHLF team as a whole is able to focus on RHLF's core business precisely because of the support and encouragement that it gets from the Board. I greatly appreciate the wise counsel and support that I have personally received from the Chairperson of the Board.

Lastly, but not least, I would like to thank the RHLF team that I am privileged to lead. The common thread that runs through the team is passion for development and professionalism in what we do. With these attributes of the team, RHLF can only go from strength to strength.

J. J. Fakazi

Acting Chief Executive Officer