company secretary’s report
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CORPORATE GOVERNANCE

Adoption of the King Code of Governance Principles for South Africa 2009

The Rural Housing Loan Fund is committed to the principles contained in this code and is working towards ensuring that it is in a position to “apply or explain” on all aspects of the code by 31 March 2012.

Ethical leadership and corporate citizenship

The Board of the Rural Housing Loan Fund is representative of South African society. In order to ensure that it is able to maintain high standards it has empowered its Human Resources and Remuneration Committee to consider the ethics of how RHLF does business. As a consequence this committee was named the Human Resources, Ethics and Remuneration Committee. As the new financial year progresses this committee will consider and adopt a charter that includes ethical considerations for the Board.

An area of concern to management and the board is the difference between ethics and legality. The major issue that needs addressing here is the expense that our end users incur in accessing our funds. It appears from initial analysis that the majority of our intermediaries are charging the maximum rates of both interest and fees permissible in terms of regulations issued by the National Credit Regulator.

A notable exception to this is our associate company Lendcor which has a product for pensioners that is interest free, with only fees being charged. Lendcor is also working towards reducing interest on other loans. As an organisation RHLF remains committed to finding methods of reducing interest costs, thereby improving both the ethos of our preferred intermediaries and our social and developmental impact.

Board responsibilities

The Board of the Rural Housing Loan Fund has adopted a charter that ensures acceptance of all the responsibilities of the King Code. In addition the Board has undertaken a self-review process subsequent to the year-end. In this review certain minor shortcomings were noted by members and these are currently being addressed. Overall the assessment was positive. The majority of the Board is non-executive as well as independent.

The Chairperson of the Board is both non-executive and independent except for the CEO. No members of the Board have ever served as executives of RHLF. The Board has issued a delegation of authority to the Chief Executive Officer that ensures that he is able to perform his functions as an executive.
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All three members of the Audit and Risk Committee are independent non-executives and the Chair of the Board does not serve on this committee. Two members of this committee are Chartered Accountants and the third is an attorney. The Annual Report of RHLF is recommended by the Audit and Risk Committee for approval by the board. The internal audit function is outsourced and there are no plans to insource it. The Audit and Risk Committee approves the appointment of the outsourced company which reports to the Committee.

This Committee is responsible to the Board for ensuring its risk management responsibilities are fulfilled. A risk assessment, categorisation and mitigation plan is in place and is updated on a quarterly basis. An annual risk workshop is conducted to ensure that developing risks are managed appropriately.

When drawing up the strategic plans for RHLF the Board ensures that risk and sustainability issues are addressed.

The Board Charter provides that the Board or any director may take advice at the cost of the company when considered appropriate. In addition employees are informed of their right to approach the Board should they have concerns that may need addressing at this level. There is an induction process for new Board members and training is provided for the members on their duties and responsibilities.

Directors are remunerated in terms of the applicable Treasury Guidelines.

Due to the size of RHLF, the Chief Financial Officer is also the Company Secretary. For this reason the Chief Financial Officer is not a director of RHLF.
RISK MANAGEMENT

RISK PROFILE
As a development finance institution RHLF is exposed to a number of risks. These are seen as being divided into the following key areas:

Credit risk:
The nature of our mandate is to develop new businesses and indeed, new business models where appropriate. A consequence of this is that businesses tend to be more risky than those acceptable to commercial banks. This exposes RHLF to a higher risk that clients will not pay the loans granted.

Various measures have been put in place to mitigate this risk:
The level of borrowing by clients is limited:
(1) Clients with strong balance sheets can borrow up to maximum of 25% of RHLF’s capital
(2) Others can borrow up to a maximum of 15% of RHLF’s capital.

• No single equity exposure may exceed 2% of RHLF’s total capital.
Total equity exposures may not exceed 10% of RHLF’s total capital.
No equity exposures have been undertaken for a number of years.

• The Board has established a Credit and Development Committee tasked with assessing the risk of all loans proposed by management. This Committee may approve (with or without conditions), amend or reject such proposals.

• For the majority of clients RHLF insists on receiving monthly reports detailing the financials of the clients as well as compliance with the mandate conditions of loan agreements. These reports are tabled to a Portfolio Committee consisting of executives and managers of RHLF where they are analysed in detail and any action necessary taken.

Currently RHLF ensures that its cash is invested with highly rated financial institutions. More detail of this will be found in note 12 to the annual financial statements. From the new financial year an account has been opened with the CPD at the South African Reserve Bank.

Mandate risk
The risks that exist in this area require careful management as RHLF does not lend to the low income earners itself it is necessary that it has in place measures that will ensure that the intermediaries subscribe to the RHLF mandate.

The following are the ways in which RHLF manages this risk:
• All RHLF contracts have some clause that requires clients to lend within the RHLF mandate as spelt out in the agreement. Failure to lend within these criteria will lead to penalty interest being charged and, in extreme circumstances, the breach clauses of the loan being implemented.

• RHLF has contracted its outsourced internal audit function to perform checks on all of its clients’ documentation to ensure that it provides comfort to RHLF that the loans are being lent in terms of mandate and that the client monthly reports agree to the documentation.

• Subsequent to year end RHLF hired two interns who will periodically visit all intermediaries and select a sample of borrowers so that they can visit them and verify that RHLF funding has indeed been used for housing purposes.

• Periodically RHLF conducts surveys through an independent research organisation to determine overall compliance with its objectives. With the combination of these interventions RHLF is able to have certainty about the extent of compliance to its mandate.
Market risk
Market risk in the potential for an adverse variation in the fair value of a portfolio of financial instruments caused by movements in market values. RHLF’s exposure to this risk is through the interest it charges on its loan book. To manage this risk RHLF has in the past fixed the interest rates it charges on long term loans to its clients. While this policy limits the upside risk to which RHLF is exposed, it also limits its opportunity to take advantage of increased rates. This policy is currently under review.

Liquidity risk
This is the risk that RHLF will not have enough cash on hand to fund its operational needs. RHLF manages this risk through the following methods:

• In terms of its loan agreement with the Development Bank of South Africa it is required to maintain 30% of its capital in liquid funds. This is currently being done but is considered excessive. An application has been made to reduce this to three months cash flow.

• In future a 12 month rolling cash flow will be prepared to ensure that this three month buffer is maintained.

Bruce Gordon
Company Secretary