38. Nature and extent of risks arising from financial instruments *(continued)*

38.4 Market risk *(continued)*

38.4.3 Market price risk

Equity price risk arises from investments classified as held-for-trading and available-for-sale (refer note 19). Available-for-sale financial assets include listed bonds held by the Group's wholly owned subsidiary Bidvest Bank Limited. Held-for-trading investments comprise a listed share portfolio whose performance is monitored closely by senior management and the Group actively trades in these shares. The Group's subsidiaries Bidvest Insurance Limited and Bidvest Life Limited hold investment portfolios with a fair value of R496 million (2015: R645 million) and R93 million (2015: R306 million), respectively, for the purpose of being utilised to cover liabilities arising from insurance contracts. These portfolios comprise domestic and international equity investments and money market funds. Unlisted investments comprise unlisted shares and loans which are classified as held-for-trading and available-for-sale, and are valued at fair value using a price earnings (PE) model.

38.5 Fair values

The carrying amounts of all financial assets and liabilities approximate their fair values, with the exception of borrowings which have been accounted for at amortised cost. The fair value of borrowings, together with the carrying amounts shown in the statement of financial position, classified by class (being geographical location), are as follows:

	2016		2015	
	Carrying amount R'000	**Fair value R'000**	Carrying amount R'000	Fair value R'000
Borrowings (refer note 29)				
Southern Africa	**8 729 298**	**8 712 155**	10 183 219	10 173 879
Loans secured by mortgage bonds over fixed property	**3 765**	**3 765**	–	–
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	**44 663**	**45 272**	14 503	15 345
Unsecured loans	**6 661 410**	**6 643 658**	7 383 614	7 373 432
Floor plan creditors secured by pledge of inventories	**976 356**	**976 356**	827 664	827 664
Bank overdrafts	**1 043 104**	**1 043 104**	1 957 438	1 957 438
United Kingdom	**252 818**	**252 818**	164 881	164 881
Loans secured by mortgage bonds over fixed property	**4 697**	**4 697**	5 104	5 104
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	**85 524**	**85 524**	122 850	122 850
Unsecured loans	**–**	**–**	–	–
Bank overdrafts	**162 597**	**162 597**	36 927	36 927
Discontinued operations	**–**	**–**	5 231 007	5 230 701
	8 982 116	**8 964 973**	15 579 107	15 569 461
Unrecognised gain	**17 143**		9 646	

The methods used to estimate the fair values of financial instruments are discussed in note 42.

The interest rates used to discount cash flows, in order to determine fair values, are based on market related rates at June 30 2016 plus an adequate constant credit spread, and range from 1,0% to 10,5% (2015: 1,0% to 12,5%).

39. Capital management

The board of directors' policy is to maintain a strong capital base so as to maintain investor, supplier and market confidence, while also being able to sustain future development of the businesses. The board of directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-controlling interest and the level of distributions to ordinary shareholders. The Group's objective is to maintain a distribution cover of approximately two and a quarter times headline earnings for the foreseeable future. The methods of distribution include dividends, return of share premium, capitalisation issues as well as share buy-backs in lieu of distributions. The level of cover of distributions takes into account prevailing market conditions, future cash requirements of the businesses, Group liquidity requirements, as well as capital adequacy ratios.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of gearing and the advantages and security afforded by a sound equity position. The Group's target is to achieve a return on shareholders' interest of between 20% and 25%. In 2016 the return from continuing operations was 12,6% (2015: 19,5%). The return has been impacted by the significant net capital items in the year. If these capital items are excluded the return would be 19,2% (2015: 20,7%).

In the early days of the Group, acquisition activity was generally funded via the raising of equity capital, however, over the past five years, far more favourable credit markets have enabled the use of debt as a far more effective tool of capital. The current credit markets have been extremely volatile, increasing the cost of debt in the weighted average cost of capital for the Group thereby enabling a potential return to tapping the equity markets to fund future growth.

From time to time the Group purchases its own shares on the market, the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Bidvest Share Incentive Scheme, Conditional Share Plan or the Share Appreciation Rights Plan (refer note 27). The maximum number of shares which can be allocated under the Share Appreciation Rights Plan and the Conditional Share Plan is limited to 16 750 000 shares. The Group does not have a defined share buy-back plan. These shares are currently held as treasury shares.

There were no changes in the Group's approach to capital management during the year.

With the exception of the Group's banking and insurance subsidiaries, whose capital is well within the statutory requirements, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements. The Group has in principal a target debt/equity ratio of 40%, however, in a trading and services business, the debt/equity ratio is a poor measure of the funding capacity of the Group. In order to ensure a more reflective measure of debt capacity is utilised, the Group has adopted a trading profit net interest cover target of between five to six times. Trading profit net interest cover for the year to June 30 2016 was six times (2015: seven times).