

Notes to the consolidated financial statements

for the year ended 30 June

	2017 R'000	2016 R'000
36. Commitments		
Capital expenditure approved		
Contracted for	553 832	660 323
Not contracted for	1 441 298	521 681
	1 995 130	1 182 004
Capital expenditure amounting to R1 939 million (2016: R1 138 million) is in respect of property, plant and equipment and the remaining balance is in respect of computer software. It is anticipated that capital expenditure will be financed out of existing cash resources.		
In addition to the above, the Group has commitments for acquisitions of businesses, where conditions precedent had not as yet been met (refer note 43).		
37. Contingent liabilities		
Guarantees issued in respect of obligations of associates and investments	16 000	166 000
The Group has outstanding legal and other claims arising out of its normal ongoing operating activities which have to be resolved. None of these claims are significant.		
Refer note 38 for further disclosure in respect of guarantees.		
38. Nature and extent of risks arising from financial instruments		
38.1 Risk management overview		
The Group has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; foreign currency risk; interest rate risk and market price risk.		
This note presents information about the Group's exposure to each of the aforementioned risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. IFRS 7 requires certain disclosures by class of instrument which the Group has determined would be the segments as disclosed in the segmental report.		
The Group's major financial risks are mitigated in the way that it operates firstly through diversification of industry and secondly through decentralisation. Bidvest is an international group with operations in South Africa, United Kingdom, Namibia, and various other southern African countries. The Group also comprises a variety of businesses within the services, trading and distribution industries. As a result of this diversification in terms of industry, the Group is exposed to a range of financial risks, each managed in appropriate ways. However, the impact of any one particular financial risk within any of these industries is not considered to be material to the Group.		
The Group's philosophy has always been to empower management through a decentralised structure thereby making them responsible for the management and performance of their operations, including managing the financial risks of the operation. The operational management report to divisional management who in turn reports to the Group's board of directors. The divisional management is also held responsible for managing financial risks of the operations within the divisions. Operational management's remuneration is based on its operation's performance and divisional management based on its division's performance resulting in a decentralised and entrepreneurial environment.		
Due to the diverse structure and decentralised management of the Group, the Group risk committee has implemented guidelines of acceptable practices and basic procedures to be followed by divisional and operational management. The information provided below for each financial risk has been collated for disclosure based on the manner in which the business is managed and what is believed to be useful information for shareholders.		
The total process of risk management in the Bidvest Group, which includes the related system of control, is the responsibility of the board of directors. The Group risk committee has been constituted as a committee of the Group board of directors in the discharge of its duties and responsibilities in this regard. The Group risk committee has a charter and reports regularly to the board of directors on its activities.		
The primary purposes of the Group risk committee are:		
– to establish and maintain a common understanding of the risk universe (framework), which needs to be addressed in order to meet Bidvest Corporate objectives;		
– to identify the risk profile and agree the risk appetite of the Group;		
– to satisfy the risk management reporting requirements;		
– to coordinate the Group's risk management and assurance efforts;		
– to report to the board of directors on the risk management work undertaken and the extent of any action taken by management to address areas identified for improvement; and		
– to report to the board of directors on the Company's process for monitoring compliance with laws and regulations.		
The Group risk committee has documented a formal policy framework in order to achieve the following:		
– to place accountability on management for designing, implementing and monitoring the process of risk management;		
– to place responsibility on management for integrating the risk management process into the day-to-day activities and operations of the Group; and		
– to ensure that the risk strategy is communicated to all stakeholders so that it may be incorporated into the culture of the Group.		
The Group has operations trading in the banking, short-term insurance and life assurance industries (Financial Services segment). These operations are exposed to financial risks which are unique to these industries and differ significantly to the remainder of the Group's operations operating within the services, trading and distribution sectors. While the financial risks to which these particular operations are exposed could have a significant effect on the individual operations, they would not have a significant impact on the Group. For this reason, the information provided below mainly provides qualitative and quantitative information regarding the management and exposure to financial risks to which the trading operations of the Group are exposed based on what is believed to be useful to shareholders. Bidvest Bank Limited is a public company for which financial statements are prepared including detailed disclosure in accordance with the requirements of IFRS 7.		

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

38.1 Risk management overview *(continued)*

The Bidvest Group has, due to the diversity of its operations in nature and geography, determined that it would be better to develop an in-house strategy, as opposed to adopting a recognised strategy and forcing its operations to adapt to the constraints of the strategy selected. The Group has determined that utilising a common framework for the identification of risk would assist the divisions to reduce the implementation time and cost and would give some assurance that all inherent risks have been considered. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

To assist the Group risk committee in discharging its responsibilities, it has:

- assigned risk management responsibilities to divisional/operational risk committees; and
- determined that each division should appoint risk/compliance officers on a divisional (operational) level as nominated by the divisional risk committees.

The role of the risk officer is to develop, communicate, coordinate and monitor the enterprise-wide risk management.

Through the divisional risk committees, each division has a forum for the discussion and identification of risks relevant to the particular division. Only risk matters that affect the Group as a whole are escalated to the Group risk committee. The minutes of the divisional risk committee meetings are submitted to the Group risk committee.

Each division has its own audit committee, which subscribes to the same philosophies and practices as the Group audit committee. The divisional audit committees report to both the divisional board and the Group audit committee. The Group audit committee reviews the divisional audit committee reports. The divisional audit committees oversee how divisional management monitors compliance with the Group's policies and guidelines in respect of the financial reporting process, the system of internal control, the management of financial risks, the audit process (both internal and external) and code of business conduct. The divisional audit committees are assisted in their oversight role by the Group's internal audit department. Divisional internal audit undertakes both regular and ad hoc reviews of financial and operational risk management controls and procedures, the results of which are reported to the relevant divisional audit committee.

38.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, banking advances, investments and guarantees.

The Group risk committee with the assistance of internal audit has implemented a "delegation of authority matrix" which provides guidelines by division, as to the level of authorisation required for various types of transactions.

Except as detailed below in respect of guarantees issued, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk after taking into account the value of any collateral obtained. The carrying values, net of impairment allowances, amount to R7 918 million (2016: R7 277 million) for trade receivables (refer note 23), R1 891 million (2016: R1 698 million) for banking and other advances (refer note 20), and R2 843 million (2016: R2 870 million) for investments (refer note 19).

The impairment allowance account in respect of trade receivables and banking advances are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point, the amount which is considered irrecoverable is written off directly against the respective assets.

Impairments of investments classified as available-for-sale or held-for-trading are written off against the investment directly and an impairment allowance account is not utilised.

The Group has a general credit policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In accordance with the decentralised structure, the operational management, under the guidance of the divisional management, are responsible for implementation of policies to meet the above objective. This includes credit policies under which new customers are analysed for creditworthiness before the operation's standard payment and delivery terms and conditions are offered, determining whether collateral is required, and if so the type of collateral to be obtained, and setting of credit limits for individual customers based on their references and credit ratings. Certain operations in the Group have a policy of taking out credit insurance to cover a portion of their risk. Operational management is also held responsible for monitoring the operations' credit exposure.

38.2.1 Trade receivables

Refer note 23 for further disclosure.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed by operational management on the financial condition of the operation's customers.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. It was noted that the Group's largest exposure to a single customer group across multiple geographies is R218 million (2016: R165 million). Management, in the various geographies, has assessed the recoverability of these amounts due in its geographies, and believes that the amounts due and not impaired are recoverable in full.

The total number of debtors per reporting division was obtained and the average turnover per trade debtor was calculated for each reporting division. Based on the average turnover per trade debtor in comparison to the Group's total turnover for the year, there was no significant concentration of credit risk to any single trade debtor. The concentration of credit risk is therefore limited due to the customer base being large and independent.

Each operation establishes an impairment allowance that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

As a result of the decentralised structure, operational management has the responsibility of determining the impairment allowances in respect of trade receivables. This is done under the oversight of the divisional audit committees, and ultimately the Group audit committee. The operations' average credit period depends on the type of industry in which they operate as well as the creditworthiness of their customers. The majority of the customers are given credit terms ranging from cash on delivery to 60 days from statement. The largest impairment raised for a specific trade receivable was obtained for each reporting operation and calculated as a percentage of the Group's total impairment allowance. It was determined that such percentage did not exceed 11,2% (2016: 4,0%) of the total allowance raised at year-end.

Notes to the consolidated financial statements

for the year ended 30 June

	2017 R'000	2016 R'000
38. Nature and extent of risks arising from financial instruments <i>(continued)</i>		
38.2 Credit risk <i>(continued)</i>		
38.2.1 Trade receivables <i>(continued)</i>		
Movement in impairment allowance in respect of trade receivables		
Balance at 1 July	257 003	633 232
Allowances raised during the year	177 000	164 786
Bidvest South Africa		
Automotive	15 596	23 730
Commercial Products	21 340	15 115
Electrical	36 972	44 211
Financial Services	33 439	7 587
Freight	13 615	9 460
Office and Print	42 132	26 175
Services	4 833	18 788
Bidvest Namibia	7 751	18 256
Bidvest Corporate	1 322	1 464
Bad debts written off during the year	(95 533)	(68 283)
Bidvest South Africa		
Automotive	(9 431)	(7 709)
Commercial Products	(21 249)	(12 956)
Electrical	(10 844)	(31 827)
Financial Services	(7 587)	–
Freight	(12 884)	(858)
Office and Print	(24 694)	(5 977)
Services	(5 026)	(6 766)
Bidvest Namibia	(3 818)	(2 072)
Bidvest Corporate	–	(118)
Net acquisition of businesses and inter-class transfers	31 146	(747)
Bidvest South Africa		
Commercial Products	29 035	5 652
Electrical	1 894	–
Freight	–	(9 945)
Office and Print	–	130
Services	–	(671)
Bidvest Namibia	217	4 087
Allowances reversed during the year	(68 091)	(70 308)
Bidvest South Africa		
Automotive	(5 429)	(8 285)
Commercial Products	(5 607)	(2 504)
Electrical	(21 229)	(19 112)
Freight	(4 463)	(8 295)
Office and Print	(15 384)	(15 249)
Services	(6 937)	(3 672)
Bidvest Namibia	(7 643)	(12 979)
Bidvest Corporate	(1 399)	(212)
Exchange rate adjustments	(2 968)	4 429
Discontinued operations	–	(406 106)
Balance at 30 June	298 557	257 003

38. Nature and extent of risks arising from financial instruments (continued)**38.2 Credit risk** (continued)**38.2.1 Trade receivables** (continued)

Ageing of trade receivables at 30 June

	Gross trade receivables R'000	2017 Impairment allowance R'000	Net trade receivables R'000	Gross trade receivables R'000	2016 Impairment allowance R'000	Net trade receivables R'000
<i>Not past due</i>	5 636 282	(24 503)	5 611 779	5 553 590	(6 268)	5 547 322
Bidvest South Africa						
Automotive	327 899	(2 961)	324 938	327 471	(3 882)	323 589
Commercial Products	929 101	(2 503)	926 598	662 543	(1 609)	660 934
Electrical	454 211	(64)	454 147	511 722	(27)	511 695
Financial Services	129 384	(831)	128 553	146 943	–	146 943
Freight	1 530 111	(6 077)	1 524 034	1 459 706	–	1 459 706
Office and Print	817 354	(304)	817 050	937 684	(130)	937 554
Services	1 091 504	(11 589)	1 079 915	1 121 079	(580)	1 120 499
Bidvest Namibia	263 855	(174)	263 681	291 298	(40)	291 258
Bidvest Corporate	92 863	–	92 863	95 144	–	95 144
<i>Past due</i>						
0 – 30 days	1 395 959	(11 802)	1 384 157	1 026 895	(17 372)	1 009 523
Bidvest South Africa						
Automotive	103 153	(3 635)	99 518	91 854	(5 381)	86 473
Commercial Products	114 846	(3 342)	111 504	58 147	(301)	57 846
Electrical	337 613	(81)	337 532	206 611	(180)	206 431
Financial Services	95 147	(2 597)	92 550	75 962	(7 587)	68 375
Freight	101 913	(12)	101 901	73 922	(1 545)	72 377
Office and Print	151 002	(1 264)	149 738	155 067	(723)	154 344
Services	395 767	(785)	394 982	273 154	(883)	272 271
Bidvest Namibia	57 916	(86)	57 830	48 301	(772)	47 529
Bidvest Corporate	38 602	–	38 602	43 877	–	43 877
31 – 180 days	809 814	(100 941)	708 873	672 517	(83 973)	588 544
Bidvest South Africa						
Automotive	47 820	(7 359)	40 461	96 297	(35 920)	60 377
Commercial Products	85 580	(27 603)	57 977	41 848	(8 160)	33 688
Electrical	190 770	(11 535)	179 235	134 938	(8 615)	126 323
Financial Services	56 511	(22 658)	33 853	50 461	–	50 461
Freight	29 665	(554)	29 111	59 038	(3 487)	55 551
Office and Print	80 687	(12 301)	68 386	64 817	(7 830)	56 987
Services	259 125	(14 854)	244 271	163 912	(15 380)	148 532
Bidvest Namibia	40 784	(1 917)	38 867	19 101	(3 575)	15 526
Bidvest Corporate	18 872	(2 160)	16 712	42 105	(1 006)	41 099
181 + days	374 864	(161 311)	213 553	280 542	(149 390)	131 152
Bidvest South Africa						
Automotive	84 794	(62 446)	22 348	34 856	(30 540)	4 316
Commercial Products	10 308	(2 308)	8 000	8 371	(2 170)	6 201
Electrical	161 821	(33 356)	128 465	110 358	(29 489)	80 869
Financial Services	7 352	(7 352)	–	–	–	–
Freight	9 110	(3 940)	5 170	14 068	(9 370)	4 698
Office and Print	9 221	(9 116)	105	13 357	(12 255)	1 102
Services	72 523	(29 300)	43 223	78 452	(48 762)	29 690
Bidvest Namibia	19 255	(13 013)	6 242	18 233	(14 846)	3 387
Bidvest Corporate	480	(480)	–	2 847	(1 958)	889
Total	8 216 919	(298 557)	7 918 362	7 533 544	(257 003)	7 276 541

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

38.2 Credit risk (continued)

38.2.1 Trade receivables (continued)

Collateral held on past due amounts

	2017		2016	
	Fair value of collateral held R'000	Trade receivables net of impairment allowance R'000	Fair value of collateral held R'000	Trade receivables net of impairment allowance R'000
Personal surety	*	120 190	*	113 657
Bidvest South Africa				
Automotive		13 961		8 692
Commercial Products		1 379		2 004
Electrical		99 531		102 345
Freight		5 058		383
Office and Print		260		233
Cover by credit insurance	368 017	368 017	326 206	326 206
Bidvest South Africa				
Automotive	1 511	1 511	—	—
Commercial Products	38 389	38 389	16 403	16 403
Electrical	293 885	293 885	260 642	260 642
Freight	10 396	10 396	48 882	48 882
Office and Print	50	50	—	—
Bidvest Namibia	23 786	23 786	279	279
Pledge of assets	59 275	59 275	33 904	33 904
Bidvest South Africa				
Automotive	—	—	469	469
Commercial Products	—	—	787	787
Electrical	25 089	25 089	7 724	7 724
Office and Print	2 656	2 656	248	248
Services	31 530	31 530	24 676	24 676
Other	27 673	27 673	20 997	20 997
Bidvest South Africa				
Commercial Products	9 077	9 077	3 124	3 124
Freight	18 526	18 526	17 873	17 873
Office and Print	70	70	—	—
Total	454 965	575 155	381 107	494 764

* An accurate fair value cannot be attached to personal surety.

In certain instances the Group's operations reserve the right to collect inventory sold when the outstanding debt is not settled by the customer. Where it is the business of the operation to finance assets, the assets are held as collateral in respect of the outstanding debt. The collateral detailed above is in addition to these aforementioned measures taken to reduce credit risk in respect of trade receivables.

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

38.2 Credit risk (continued)

38.2.2 Banking and other advances

Refer note 20 for further disclosure.

The impairment allowance account comprises a specific and portfolio impairment allowance. Specific impairments are raised for doubtful advances, including amounts in respect of interest not being serviced and after taking security values into account, and are deducted from advances where the outstanding balance exceeds the value of the security held. A portfolio impairment allowance based on historic experience is raised to cover doubtful advances, which may not be specifically identified at the statement of financial position date. The specific and portfolio impairments made during the year are charged to the income statement.

	2017 R'000	2016 R'000
<i>Movement in impairment allowance in respect of banking and other advances</i>		
Financial Services		
Balance at 1 July	29 370	5 477
Allowance raised during the year	11 977	26 218
Allowance utilised during the year	(11 429)	–
Impairment written off against banking and other advances	–	(2 325)
Balance at 30 June	29 918	29 370

Ageing of banking and other advances at 30 June

	2017			2016		
	Gross banking and other advances R'000	Impairment allowance R'000	Net banking and other advances R'000	Gross banking and other advances R'000	Impairment allowance R'000	Net banking and other advances R'000
Financial Services						
<i>Not past due</i>	1 912 289	(26 784)	1 885 505	1 722 191	(26 235)	1 695 956
<i>Past due</i>	8 429	(3 134)	5 295	5 441	(3 135)	2 306
0 – 30 days	65	–	65	3	–	3
31 – 180 days	20	–	20	1 261	–	1 261
181 + days	8 344	(3 134)	5 210	4 177	(3 135)	1 042
Total	1 920 718	(29 918)	1 890 800	1 727 632	(29 370)	1 698 262

Collateral held on past due amounts

	2017		2016	
	Fair value of collateral held R'000	Banking and other advances net of impairment allowance R'000	Fair value of collateral held R'000	Banking and other advances net of impairment allowance R'000
Pledge of assets	5 295	5 295	2 306	2 306

More detailed disclosure for banking and other advances can be found in the Bidvest Bank Limited financial statements published on the website, www.bidvestbank.co.za.

38.2.3 Investments

Refer note 19 for further disclosure.

The classes for investments are listed held-for-trading, unlisted held-for-trading, listed available-for-sale and unlisted available-for-sale, refer note 19 for the carrying amounts for each of these categories.

There were no impairment losses recognised in respect of investments (2016: Nil).

38.2.4 Guarantees

Over and above the guarantees issued to subsidiaries of the Group, the Group has provided guarantees for fixed amounts in respect of obligations of associates as disclosed in note 37.

The maximum exposure to credit risk in respect of guarantees at the reporting date was as follows:

	2017 R'000	2016 R'000
Guarantees issued in respect of obligations of associates	16 000	166 000

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

38.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its borrowings centrally for each of the following countries and regions: South Africa, United Kingdom and Namibia. The divisions within each region are therefore not responsible for the management of liquidity risk but rather senior management for each of these regions are responsible for implementing procedures to manage the regional liquidity risk.

38.3.1 Contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements

	Undiscounted contractual cash flows						
	Carrying amount R'000	Total R'000	6 months or less R'000	6 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000
2017							
Puttable non-controlling liabilities (refer note 31)	60 990	71 285	–	–	–	71 285	–
Borrowings (refer note 29)							
Loans secured by mortgage bonds over fixed property	30 644	36 733	2 967	2 967	5 934	17 618	7 247
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	75 786	82 558	23 840	23 424	26 555	8 739	–
Unsecured loans	8 503 602	9 614 846	3 346 782	207 804	1 914 395	4 060 780	85 085
Floorplan creditors secured by pledge of inventories and bonded property	860 276	860 276	860 276	–	–	–	–
Bank overdrafts	1 246 133	1 246 133	–	1 246 133	–	–	–
	10 716 441	11 840 546	4 233 865	1 480 328	1 946 884	4 087 137	92 332
Trade and other payables (refer note 34)							
Trade and other payables (excluding forward exchange contracts)	11 014 554	11 014 554	11 014 554	–	–	–	–
	11 014 554	11 014 554	11 014 554	–	–	–	–
Amounts owed to bank depositors (refer note 32)							
Call deposits	2 489 187	2 580 019	2 580 019				
Fixed and notice deposits	1 922 917	1 992 667	1 341 081	651 586			
	4 412 104	4 572 686	3 921 100	651 586	–	–	–

More detailed disclosure for amounts owed to bank depositors can be found in the Bidvest Bank Limited financial statements published on the website, www.bidvestbank.co.za.

	Undiscounted contractual cash flows						
	Carrying amount R'000	Total R'000	6 months or less R'000	6 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000
2016							
Puttable non-controlling liabilities (refer note 31)	49 167	65 142	–	–	–	35 024	30 118
Borrowings (refer note 29)							
Loans secured by mortgage bonds over fixed property	8 462	9 972	1 610	1 610	3 220	2 445	1 087
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	130 187	151 013	37 618	29 673	43 959	39 763	–
Unsecured loans	6 661 410	8 004 584	855 541	247 734	1 835 984	5 040 102	25 223
Floorplan creditors secured by pledge of inventories	976 356	976 356	976 356	–	–	–	–
Bank overdrafts	1 205 701	1 205 701	–	1 205 701	–	–	–
	8 982 116	10 347 626	1 871 125	1 484 718	1 883 163	5 082 310	26 310
Trade and other payables (refer note 34)							
Trade and other payables (excluding forward exchange contracts)	10 996 530	10 996 530	10 996 530	–	–	–	–
	10 996 530	10 996 530	10 996 530	–	–	–	–
Amounts owed to bank depositors (refer note 32)							
Call deposits	2 204 579	2 378 027	2 378 027	–	–	–	–
Fixed and notice deposits	1 484 582	1 535 634	1 079 244	456 390	–	–	–
	3 689 161	3 913 661	3 457 271	456 390	–	–	–

The expected maturity of financial liabilities is not expected to differ from the contractual maturities as disclosed above.

There were no defaults or breaches of any of the borrowing terms or conditions.

	2017 R'000	2016 R'000
38. Nature and extent of risks arising from financial instruments <i>(continued)</i>		
38.3 Liquidity risk <i>(continued)</i>		
38.3.2 Trade and other payables by class		
Trade payables		
Bidvest South Africa		
Automotive	569 173	625 512
Commercial Products	670 515	514 382
Electrical	658 817	692 585
Financial Services	190 986	171 878
Freight	2 093 889	2 417 511
Office and Print	832 231	1 165 113
Services	559 145	524 061
Bidvest Namibia	301 456	270 987
Bidvest Corporate	105 436	177 564
	5 981 648	6 559 593
Refer note 34 for further disclosure.		
38.3.3 Undrawn facilities		
The Group has the following undrawn facilities at its disposal to further reduce liquidity risk:		
Unsecured bank overdraft facility, reviewed annually and payable on 360 days' notice	11 377 641	11 130 472
Utilised	1 246 133	1 205 701
Unutilised	10 131 508	9 924 771
Unsecured loan facility with various maturity dates through to 2021 and which may be extended by mutual agreement	6 504 445	4 982 675
Utilised	4 828 602	3 736 410
Unutilised	1 675 843	1 246 265
Secured loan facilities with various maturity dates through to 2022 and which may be extended by mutual agreement	3 356 301	3 436 524
Utilised	966 706	1 115 005
Unutilised	2 389 595	2 321 519
Other banking facilities	3 224 608	1 943 738
Utilised	75	608
Unutilised	3 224 533	1 943 130
Unsecured domestic medium-term note programme	9 000 000	9 000 000
Utilised	3 675 000	2 925 000
Unutilised	5 325 000	6 075 000
Total facilities	33 462 995	30 493 409
Utilised	10 716 516	8 982 724
Unutilised	22 746 479	21 510 685

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

38.4 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

38.4.1 Foreign currency risk

The Group's financial instruments are not significantly exposed to currency risk for the reasons provided below. A sensitivity analysis has therefore not been performed.

Borrowings are matched to the same foreign currency as the division raising the loan thereby limiting the divisions' exposure to changes in a foreign currency which differs to their functional currency. Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying divisions of the Group thereby providing an economic hedge for each class of borrowing.

Banking advances (refer note 20), amounts owed to bank depositors (refer note 32) and investments, with the exception of the Group's investment in the Indian-based Mumbai International Airport Private Limited (refer note 19), are all denominated in the same functional currency as the operation in which they are held, thus these financial instruments are not exposed to currency risk.

The Group incurs currency risk as a result of purchases and sales which are denominated in a currency other than the Group entities' functional reporting currency. It is Group policy that Group entities hedge all trade receivables and trade payables denominated in a foreign currency which differs to its functional currency. At any point in time the entities also take out economic hedges over their estimated foreign currency exposure resulting from sales and purchases. The Group entities hedge their foreign currency risk exposure either by taking out forward exchange contracts or alternatively by purchasing in advance the foreign currency which will be required to settle the trade payables. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity. It is the Group's policy not to trade in derivative financial instruments for speculative purposes with the exception of Bidvest Bank Limited whose business is to trade in derivatives.

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies (in relation to the operations' functional currency) and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward exchange contracts and the foreign exchange gains and losses relating to the monetary items are recognised in operating profit (refer note 2).

The periods in which the cash flows associated with the forward exchange contracts are expected to occur are detailed below under the heading "Settlement". The periods in which the cash flows are expected to impact the income statement are believed to be in the same time frame as when the actual cash flows occur.

		Contract value	
Settlement		Foreign amount '000	Rand amount '000
2017			
In respect of forward exchange contracts relating to foreign liabilities as at 30 June 2017			
Japanese yen	July 2017 to October 2017	(2 339 913)	(278 711)
US dollar	July 2017 to September 2017	(12 731)	(166 798)
Euro	July 2017 to October 2017	(1 871)	(27 700)
Sterling	July 2017 to September 2017	(126)	(2 119)
Australian dollar	August 2017	(89)	(893)
Other	July 2017 to August 2017	(276)	(633)
			(476 854)
In respect of forward exchange contracts relating to foreign assets as at 30 June 2017			
US dollar	July 2017 to November 2017	260	3 385
Euro	July 2017 to August 2017	44	657
			4 042
In respect of forward exchange contracts relating to goods and services ordered not accounted for as at 30 June 2017			
Japanese yen	August 2017	(17 406)	(2 028)
US dollar	July 2017 to February 2018	(14 532)	(197 148)
Euro	July 2017 to March 2018	(1 390)	(21 664)
Sterling	July 2017	(77)	(1 316)
Australian dollar	July 2017	(28)	(278)
Other	July 2017	(514)	(843)
			(223 277)

38. Nature and extent of risks arising from financial instruments (continued)**38.4 Market risk** (continued)**38.4.1 Currency risk** (continued)

		Contract value	
	Settlement	Foreign amount '000	Rand amount '000
2016			
In respect of forward exchange contracts relating to foreign liabilities as at 30 June 2016			
Japanese yen	July 2016 to October 2016	(2 789 213)	(397 386)
US dollar	July 2016 to November 2016	(9 680)	(147 970)
Euro	July 2016 to October 2016	(2 139)	(37 107)
Sterling	July 2016 to October 2016	(166)	(3 727)
Australian dollar	July 2016	(35)	(400)
Other	July 2016 to August 2016	(1 117)	(2 260)
			<u>(588 850)</u>
In respect of forward exchange contracts relating to foreign assets as at 30 June 2016			
US dollar	July 2016 to November 2016	1 405	<u>21 474</u>
In respect of forward exchange contracts relating to goods and services ordered not accounted for as at 30 June 2016			
Japanese yen	July 2016	(4 803)	(690)
US dollar	July 2016 to January 2017	(24 702)	(370 125)
Euro	July 2016 to November 2016	(3 222)	(55 187)
Sterling	October 2016 to November 2016	(447)	(8 887)
Australian dollar	July 2016	(28)	(301)
Other	July 2016 to August 2016	(598)	<u>(1 264)</u>
			<u>(436 454)</u>

The total value of trade receivables and trade payables whose payment terms are fixed in a foreign currency other than its operational currency are R356 million (2016: R477 million) and R824 million (2016: R914 million), respectively.

Notes to the consolidated financial statements

for the year ended 30 June

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

38.4 Market risk (continued)

38.4.2 Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. This risk is managed by maintaining an appropriate mix between fixed and floating borrowings and by the use of interest rate swap contracts. The Group's investments in listed bonds, accounted for as available-for-sale and held-for-trading financial assets and banking advances and liabilities are exposed to a risk of change in fair value due to movements in interest rates. Investments in equity securities accounted for as held for trading financial assets and trade receivables and payables are not exposed to interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2017 R'000	2016 R'000
Fixed rate instruments		
Financial assets		
Available-for-sale listed bonds	228 834	229 184
Held-for-trading listed bonds	140 891	127 760
Banking and other advances	136 870	127 749
Derivative instruments in designated hedge accounting relationships	9 016	35 456
Financial liabilities		
Borrowings	(3 075 301)	(3 113 172)
Amounts owed to bank depositors	(1 275 582)	(778 024)
Variable rate instruments		
Financial assets		
Cash and cash equivalents	5 132 550	3 911 927
Banking and other advances	1 753 930	1 570 513
Financial liabilities		
Borrowings	(6 395 007)	(4 663 243)
Puttable non-controlling interest liabilities	(60 990)	(49 167)
Amounts owed to bank depositors	(3 136 522)	(2 911 137)
Overdrafts	(1 246 133)	(1 205 701)

The Group's exposure to interest rates on financial assets and liabilities are detailed in the various notes within the financial statements.

The variable rates are influenced by movements in the prime borrowing rates.

Sensitivity analysis

The effect of a change in interest rate on the fair value of the listed bonds accounted for as held-for-trading and available-for-sale is not believed to have a significant effect on the Group's profit for the year and equity.

It is estimated that a 0,5% (2016: 0,5%) increase in interest rates would decrease profit after tax by R24 million (2016: R22 million). This sensitivity analysis has been prepared using the average borrowings for the financial year as the actual borrowings at 30 June are not representative of the borrowings during the year. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analyses are performed on the same basis as 2016. A decrease in interest rates would have an equal and opposite effect on profit after taxation.

Interest rate swap contracts

The Group has entered into interest rate swap contract, in order to fix the interest rates on variable rate corporate bonds and loans as summarised below.

Bonds – The variable three-month JIBAR interest rate plus a spread specific to each bond has been fixed using fixed for floating interest rate swaps at rates set out below. The swap contracts match the duration and expiry dates of the bonds. The difference between the fixed and floating interest rates are settled on a quarterly basis simultaneously with the payment of interest to bondholders. The interest rate swap contracts have enabled the Group to mitigate the risk of fluctuating interest rates on the fair value of the bonds issued. The interest rate swaps have been designated as hedging instruments and accounted for as a cash flow hedge. The fair value of the bond linked interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate curves at the reporting date and the credit risk inherent in the contract, resulting in a fair value asset of R9 million (2016: R35 million).

Hedged items – five-year bonds/stock code	BID05	BID04
Principal bond and swap notional value – R'000	260 000	1 425 000
Bond issue date, swap start date	30 June 2014	23 November 2012
Bond redemption date, swap termination date	30 June 2019	23 November 2017
Spread (bps) above three-month JIBAR	125	130
Fixed swap rate, including spread	8,75%	7,15%
Interest settlement periods	Quarterly	Quarterly

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 a listed bond 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 R539 million (2016: R496 million) and R473 million (2016: R93 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 model.

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

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:

	2017		2016	
	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Borrowings (refer note 29)				
Southern Africa	10 645 950	10 641 708	8 729 298	8 712 155
Loans secured by mortgage bonds over fixed property	27 202	27 251	3 765	3 765
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	31 114	31 445	44 663	45 272
Unsecured loans	8 503 602	8 498 980	6 661 410	6 643 658
Floor plan creditors secured by pledge of inventories	860 276	860 276	976 356	976 356
Bank overdrafts	1 223 756	1 223 756	1 043 104	1 043 104
United Kingdom	70 491	70 491	252 818	252 818
Loans secured by mortgage bonds over fixed property	3 442	3 442	4 697	4 697
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	44 672	44 672	85 524	85 524
Bank overdrafts	22 377	22 377	162 597	162 597
	10 716 441	10 712 199	8 982 116	8 964 973
Unrecognised gain	4 242		17 143	

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 30 June 2017 plus an adequate constant credit spread, and range from 1,0% to 10,5% (2016: 1,0% to 10,5%).

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 minority interests 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 2017 the return from continuing operations was 23,8% (2016: 12,6%). The return has been impacted by the significant net capital items in the year. If these capital items are excluded the return would be 18,6% (2016: 19,2%).

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 BIS, CSP or the SARs Plan (refer note 27). The maximum number of shares which can be allocated under the SARs Plan and the CSP 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.