Notes to the company financial statements continued

for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company is exposed to various financial risks due to the nature and diversity of its activities and the use of various financial instruments. These risks include:

- Credit risk
- Liquidity risk
- Market risk

Details of the company's exposure to each of the above risks and its objectives, policies and processes for measuring and managing these risks are included specifically in this note and more generally throughout the company's annual financial statements together with information regarding management of capital.

The board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The board has delegated its responsibility to the Executive Committee, which is responsible for the development and monitoring of risk management policies within the company. The committee meets on an ad hoc basis and regularly reports to the board on its activities. The company's risk management policies are established to identify and analyse the risks faced by the company, 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 the company's activities.

The roles and responsibilities of the committee include:

- approval of all counterparties;
- approval of new instruments;
- approval of the company's foreign exchange transaction policy;
- approval of the investment policy;
- approval of treasury policy; and
- approval of long-term funding requirements.

The company also has an internal audit function, which undertakes regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

16.1 Credit risk

Credit exposure and concentration of credit risk

The carrying value of financial assets represents the maximum credit exposure at the reporting date and the following table indicates various concentrations of credit risk for all non-derivative financial assets recognised in the statement of financial position:

	2019 R'000	2018 R'000
Loans to group companies (refer note 1)	**3 053 304**	3 616 279*
Other receivables — local	**655 488**	662 516
Cash resources (refer note 5)	**3 781 970**	1 986 119

** This balance has been restated from the prior year, refer note 1.*

16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

16.2 Liquidity risk

The Executive Committee manages the liquidity structure of the company's assets, liabilities and commitments so as to ensure that cash flows are sufficiently balanced within the company as a whole.

Surplus funds are deposited with large South African banks, either on call, or on term deposits, taking into account the Executive Committee's views on interest.

The borrowing capacity of the company is determined by its Memorandum of Incorporation in terms of which there is no restriction imposed on the borrowing powers.

Exposure to liquidity risk

The following are the cash flows of the company's financial assets, liabilities and guarantees at year-end as determined by contractual maturity date including interest receipts and payments but excluding the impact of any netting agreements with the third parties concerned.

			Contracted maturity date			
	Carrying amount R'000	Total cash flows R'000	Less than 4 months R'000	Between 4 and 12 months R'000	Between 1 and 5 years R'000	More than 5 years R'000
2019						
Financial assets						
Investment in group companies#	**2 029 910**	**2 029 910**	**—**	**—**	**—**	**2 029 910**
Financial assets measured at fair value through other comprehensive income (2018: Available-for-sale investments)#	**317 795**	**317 795**	**—**	**—**	**—**	**317 795**
Financial assets measured at fair value through profit and loss	**122**	**122**	**—**	**—**	**—**	**122**
Loans to group companies#*	**3 053 304**	**3 053 304**	**66 214**	**—**	**—**	**2 987 090**
Other receivables	**655 487**	**655 487**	**655 487**	**—**	**—**	**—**
Cash resources	**3 781 970**	**3 781 970**	**3 781 970**	**—**	**—**	**—**
	9 838 588	**9 838 588**	**4 503 671**	**—**	**—**	**5 334 917**
Financial liabilities						
Amounts due to group companies	**31 251**	**31 251**	**31 251**	**—**	**—**	**—**
Other payables	**5 068**	**5 068**	**5 068**	**—**	**—**	**—**
Guarantees	**1 407 360**	**1 407 360**	**1 407 360**	**—**	**—**	**—**
	1 443 679	**1 443 679**	**1 443 679**	**—**	**—**	**—**
2018						
Financial assets						
Investment in group companies#^	2 029 910	2 029 910	—	—	—	2 029 910
Financial assets#	262 125	262 125	—	—	—	262 125
Loans to group companies#*^	3 616 279	3 616 279	72 205	—	—	3 544 074
Other receivables	662 516	662 516	662 516	—	—	—
Cash resources	1 986 119	1 986 119	1 986 119	—	—	—
	8 556 949	8 556 949	2 720 840	—	—	5 836 109
Financial liabilities						
Amounts due to group companies	3 062	3 062	3 062	—	—	—
Other payables	14 425	14 425	14 425	—	—	—
Guarantees	1 335 081	1 335 081	1 335 081	—	—	—
	1 352 568	1 352 568	1 352 568	—	—	—

Investment in, and loans to, group companies and associates and financial assets measured at fair value through other comprehensive income (listed and unlisted) (2018: Available-for-sale investments) do not have contractual maturity dates, but have been presented in the "more than five years" column as the company does not intend disposing of these assets within the next five years.

* *Contracted cash flows for loans to group companies are determined by the ability of the company to declare dividends and therefore no projection is made of the cash flows, except for those based on dividends already declared.*

^ *These balances have been restated from the prior year, refer note 1.*

Notes to the company financial statements continued

for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

16.3 Market risk

Market risk is defined as the risk that movements in market risk factors will affect the company's revenue and operational costs as well as the value of its holdings of financial instruments. The objective of the company's market risk management policy is to manage and control market risk exposures to minimise the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business operations.

Market risk information is prepared and submitted to the Executive Committee where it is monitored and further analysed to be used in the decision-making process. The information submitted includes information on currency and interest rates and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the Executive Committee on a weekly basis and forecasts against budget are prepared on a monthly basis.

Interest rate risk

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The company is primarily exposed to downward interest rate movements on floating investments purchased. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost.

The board determines the interest rate risk strategy based on economic expectations and recommendations received from the Executive Committee. Interest rates are monitored on a regular basis and the policy is to maintain short-term cash surpluses at floating rates of interest.

At the reporting date, the interest rate profile of the company's interest-bearing financial instruments was as follows:

	2019 R'000	2018 R'000
Variable rate instruments		
Assets		
Loan accounts receivable (refer note 1)	**3 053 304**	3 616 279*
Cash resources (refer note 5)	**3 781 970**	1 986 119

Cash flow sensitivity analysis for variable rate instruments

An increase of 50 basis points in interest rates at the reporting date would have increased profit after taxation by R24,6 million (2018: R22,1 million). This assumes that all other variables remain constant. There is no impact on the company's equity. Net effect on total comprehensive income after taxation is equal but opposite for a 50 basis point decrease on the financial instruments listed above.

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities, therefore a change in interest rates at the reporting date would not affect total comprehensive income.

Equity price risk

The company's listed and unlisted investments are susceptible to market price risk arising from uncertainties about future value of the investment. The company manages the equity price risk through monitoring developments in the mining and metal industries. The executive directors of the board review and approve all equity investment decisions.

At the reporting date, the exposure to listed investments at fair value was R318,0 million (2018: R262,0 million). A decrease of 1% in the market value of the investments would have an impact of approximately R3,2 million (2018: R2,6 million) on profit or loss, or other comprehensive income depending on whether or not the valuation of the security concerned is stated at below original cost. An increase of 1% in the value of the listed investments would only impact other comprehensive income, and would not have an effect on profit or loss.

** This balance has been restated from the prior year, refer note 1.*