

Notes to the company financial statements continued

for the year ended 31 December 2017

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Refer to note 7.1 of the group financial statements for the applicable accounting policy.

14.1 Categories of financial instruments

	Loans and receivables Rm	Amortised cost Rm	Total carrying amount Rm	Fair value Rm
2017				
Trade and other receivables	508	–	508	#
Cash and cash equivalents	380	–	380	#
	888	–	888	#
Trade and other payables	–	279	279	#
Financial guarantee contracts	–	2 631	2 631	1 432
	–	2 910	2 910	1 432
2016				
Trade and other receivables	238	–	238	#
Cash and cash equivalents	1 367	–	1 367	#
	1 605	–	1 605	#
Trade and other payables	–	750	750	#
Financial guarantee contracts	–	3 499	3 499	3 194
	–	4 249	4 249	3 194

The carrying amount of the financial instrument approximates its fair value.

14.1.1 Fair value estimation

Refer to note 7.1.3 of the group financial statements for the applicable accounting policy.

The following table presents the fair value measurement hierarchy of the company's liabilities that are materially different from the carrying amount:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2017				
Current financial liabilities				
Financial guarantee contracts	–	–	1 432	1 432
2016				
Current financial liabilities				
Financial guarantee contracts	–	–	3 194	3 194

Notes to the company financial statements continued

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14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.1 Categories of financial instruments (continued)

14.1.1 Fair value estimation (continued)

Valuation methods and assumptions

The following methods and assumptions were used to estimate the fair values:

Citibank 1

The fair value of the financial guarantee contract is determined using the discounted cash flow method. The valuation requires management to make certain assumptions about the model inputs, which include the probability of default and the maximum recovery amount.

Citibank 2

The fair value of the financial guarantee contract is determined using the fixed exposure method. The valuation requires management to make certain assumptions about the model inputs, which include the probability of default, the maximum recovery and interest rate curve.

Eurobonds

The fair value of the financial guarantee contract is determined using the relative valuation method. The valuation requires management to make certain assumptions about the model inputs, which include the probability of default, the maximum recovery and interest rate curve.

14.2 Credit risk

Refer to note 7.1.4 of the group financial statements for an explanation on credit risk and how it is managed.

The company considers its maximum exposure per class, without taking into account any collateral and financial guarantees, to be as follows:

	2017 Rm	2016 Rm
Cash and cash equivalents	380	1 367
Trade and other receivables	508	238
Financial guarantee contracts	34 713	34 328
	35 601	35 933

Credit risk is mitigated to the extent that the majority of trade receivables consist of related party receivables of R491 million (2016: R223 million).

The company holds its cash balances in financial institutions with a rating of AA-. Given this rating, management does not expect the counterparty to fail to meet its obligations.

Notes to the company financial statements continued

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14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.2 Credit risk (continued)

Trade and other receivables

Ageing and impairment analysis

	2017			2016		
	Gross Rm	Impaired Rm	Net Rm	Gross Rm	Impaired Rm	Net Rm
Fully performing other receivables	96	–	96	65	–	65
Sundry debtors and advances	–	–	–	–	–	–
Trade receivables due from related parties	96	–	96	65	–	65
Past due other receivables	412	–	412	173	–	173
Sundry debtors and advances	17	–	17	15	–	15
0 to 3 months	8	–	8	8	–	8
3 to 6 months	–	–	–	–	–	–
6 to 9 months	–	–	–	–	–	–
9 to 12 months	9	–	9	7	–	7
Trade receivables due from related parties	395	–	395	158	–	158
0 to 3 months	296	–	296	1	–	1
3 to 6 months	5	–	5	13	–	13
6 to 9 months	1	–	1	40	–	40
9 to 12 months	93	–	93	104	–	104
	508	–	508	238	–	238

14.3 Liquidity risk

Refer to note 7.1.5 of the group financial statements for an explanation on liquidity risk and how it is managed.

The following liquid resources are available:

	2017 Rm	2016 Rm
Cash and cash equivalents	380	1 367
Trade and other receivables	508	238
	888	1 605

The company and other subsidiaries in the group have undrawn borrowing facilities of R19 730 million (2016: R16 100 million) available for use.

Notes to the company financial statements continued

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14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.3 Liquidity risk (continued)

The following are the contractual maturities of financial liabilities:

	Carrying amount Rm	Total Rm	Payable within 1 month or on demand Rm	More than 1 month but not exceeding 3 months Rm	More than 3 months but not exceeding 1 year Rm
2017					
Trade and other payables	279	279	279	–	–
Financial guarantee contracts	34 713	34 713	34 713	–	–
	34 992	34 992	34 992	–	–
2016					
Trade and other payables	750	750	750	–	–
Financial guarantee contracts	34 328	34 328	34 328	–	–
	35 078	35 078	35 078	–	–

Further details of financial guarantee contracts are provided in note 13.

14.4 Market risk

14.4.1 Interest rate risk

Refer to note 7.1.6 of the group financial statements for an explanation on interest rate risk and how it is managed.

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

	Variable rate instruments Rm
2017	
Financial assets	
Cash and cash equivalents	380
Trade and other receivables	196
	576
Financial liabilities	
Trade and other payables	99
2016	
Financial assets	
Cash and cash equivalents	1 367
Trade and other receivables	223
	1 590
Financial liabilities	
Trade and other payables	560

Notes to the company financial statements continued

for the year ended 31 December 2017

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.4 Market risk (continued)

14.4.1 Interest rate risk (continued)

Sensitivity analysis

The company has used a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, from the rate applicable at 31 December, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

The company is mainly exposed to fluctuations in the following market interest rates: JIBAR, prime and LIBOR rates. Changes in market interest rates affect the interest income or expense of floating rate financial instruments. Changes in market interest rates only affect profit or loss in relation to financial instruments with fixed interest rates if these financial instruments are subsequently measured at their fair value.

A change in the above market interest rates at the reporting date would have increased/ (decreased) profit before tax by the amounts shown below.

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as was used for 2016.

	2017 Increase/(decrease) in profit before tax			2016 Increase/(decrease) in profit before tax		
	Change in interest rate %	Upward change in interest rate %	Downward change in interest rate Rm	Change in interest rate %	Upward change in interest rate %	Downward change in interest rate Rm
JIBAR	1	1,3	(1,3)	1	(3,6)	3,6
Prime	1	3,8	(3,8)	1	13,6	(13,6)
LIBOR	1	(0,3)	0,3	1	–	–

14.4.2 Currency risk

Refer to note 7.1.6.3 of the group financial statements for an explanation on currency risk and how it is managed.

Included in the company statement of financial position are the following amounts denominated in currencies other than the functional currency of the company.

	2017 Rm	2016 Rm
Current assets		
United States dollar	*	33
Current liabilities		
United States dollar	2 662	3 507

* Amounts less than R1 million.

Notes to the company financial statements continued

for the year ended 31 December 2017

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.4 Market risk (continued)

14.4.2 Currency risk (continued)

Sensitivity analysis (continued)

A change in the foreign exchange rates to which the company is exposed at the reporting date would have (decreased)/increased profit before tax by the amounts shown below:

Denominated: functional currency	Change in exchange rate %	Weakening in functional currency Rm	Strengthening in functional currency Rm
2017			
US\$:ZAR	10	(266)	266
2016			
US\$:ZAR	10	(347)	347