32. RISK MANAGEMENT

Overall risk management programme

The Group's overall financial risk management programme focuses, inter alia, on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not apply formal hedge accounting but uses derivative financial instruments to economically hedge interest and foreign currency risk exposures. Financial risk management is carried out by a central treasury department (treasury) under policies approved by the investment committee. Treasury identifies, evaluates and economically hedges financial risks in close cooperation with the Group's operating units. The Group has written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to provide for sufficient capital expansion. The capital structure of the Group consists of debt, which includes the interest-bearing borrowings disclosed in note 20, cash and cash equivalents disclosed in note 15 and equity as disclosed in the statement of financial position. Preference shares are included in interest-bearing borrowings.

The Group's investment committee reviews the capital structure on a quarterly basis. The Group uses the net debt to normalised EBITDA ratio, as defined in the debt agreements, to measure the funding requirements in the form of debt or equity. The Group will target to remain within net debt to normalised EBITDA ratio of 3.00 times. Due to the impact of the pandemic the target ratio might possibly be exceeded in the short term.

The ratio is calculated as net debt divided by normalised EBITDA. Net debt is calculated as total interest-bearing borrowings (including current interest-bearing and non-current interest-bearing borrowings) plus guarantees (if applicable) plus bank overdrafts less cash and cash equivalents. International's net debt is calculated using average exchange rates for the year (as agreed with the lenders). Normalised EBITDA is defined as earnings before interest, tax, depreciation and amortisation, adjusted for non-recurring items, and includes the normalised EBITDA of new acquisitions for that part of the year when it was not owned by the Group and excluding EBITDA attributable to any member of the Group disposed of during the year. The ratio excludes net debt and normalised EBITDA of any special purpose vehicles (SPV) as described in the debt agreements. Only one entity within the Group meets the definition of a SPV. Lenders have confirmed that the impact of IFRS16 *Leases* can be excluded from covenant calculations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of distributions paid to shareholders, return capital to shareholders, issue new shares, issue new debt, refinance existing debt or sell assets to manage the debt level.

There have been no changes to what the Group manages as capital and the strategy for capital maintenance.

During the prior year, the Group engaged with its lenders and received temporary relaxation on the measurement of covenants. These came to an end on 31 March 2021 and the Group reverted to its prior covenants.

	2021	2020
As calculated as defined in debt agreements		
Total interest cover ratio (times)	**11.04**	5.81
Net debt to normalised EBITDA ratio	**1.82**	2.96
As calculated based on reported results		
Total interest cover ratio (times)	**8.12**	5.24
Net debt to normalised EBITDA ratio	**2.05**	3.40
The Group has externally imposed debt covenants in place as part of the terms of the current debt structures.		
The covenants imposed arising from preference shares, syndicated and bilateral term loans are as follows:		
A minimum of total interest cover ratio (times)	**4.00**	3.75
A maximum of net debt to normalised EBITDA ratio	**3.50**	4.00

32. RISK MANAGEMENT continued

Financial risk

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, liquidity risk and fair value risk.

Market risk

Foreign exchange risk

Risk exposure	The Group interacts with international suppliers and is exposed to foreign exchange risk arising from various currency exposures. The foreign currency transactions are mainly denominated in : ◆ Pound sterling; ◆ European euro; and ◆ US dollar. The Group's presentation currency is the South African rand (ZAR), but as it operates internationally with investments in foreign operations, it is exposed to a number of currencies, of which the exposure to the Botswana pula (BWP), British pound sterling (GBP), US dollar (USD) and European euro (EUR) are the most significant.
How the risk arises	Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency and from net investments in foreign operations. These transactions include certain inter-company loans which expose the Group to foreign exchange risk.
Objectives, policies and processes for managing the risk and methods used to measure risk	The Group changed its policy in FY2021 from requiring Group companies to manage their foreign exchange risk against their functional currency, to requiring Group companies to manage their foreign exchange risk against an agreed ZAR value. The Group's treasury risk management principle is to hedge material cash flows where the local cash flow impact is in excess of 50 million (2020: 5 million functional currency) equivalent. The Group companies are required to economically hedge their foreign exchange risk exposure in consultation with treasury. To manage their foreign exchange risk arising from commercial transactions and recognised assets and liabilities, entities in the Group use forward exchange contracts and options, transacted with commercial banks on an all-inclusive price in the entity's functional currency. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies, as and when it is required. At 30 September 2021, foreign denominated borrowings to the equivalent of R8 244 million existed (2020: R10 491 million). The Group reviews its foreign currency exposure, including commitments, on an ongoing basis.
Concentration of risk	The Group has investments in foreign operations in Botswana, UK, Italy, Spain, Switzerland, northern Europe, Ireland and other smaller investments across Europe and the US. The net assets of the Botswana, UK, Italy, Spain, Switzerland, northern Europe, Ireland and other smaller investments are exposed to foreign currency translation risk as the companies are subsidiaries of the Group.

32. RISK MANAGEMENT continued

Financial risk continued

Market risk continued

Foreign exchange risk continued

Material foreign currency exposure at statement of financial position date:

Rand millions

	2021					2020				
	BWP	**GBP**	**EUR**	**USD**	**PLN**	BWP	GBP	EUR	USD	PLN
Non-current assets	**201**	**16 429**	**1 815**	**1 833**	**69**	203	18 324	2 508	846	1 733
Current assets	**429**	**1 103**	**1 374**	**157**	**7**	468	1 454	1 280	96	426
Current liabilities	**(88)**	**(1 174)**	**(2 026)**	**(120)**	**(1)**	(61)	(1 428)	(1 505)	(69)	(732)
Non-current liabilities	**(167)**	**(5 406)**	**(3 159)**	**(63)**	**(10)**	(191)	(6 143)	(4 251)	(51)	(527)
Exposure on external balances	**375**	**10 952**	**(1 996)**	**1 807**	**65**	419	12 207	(1 968)	822	900
Net exposure on balances between Group companies	**–**	**3 407**	**(2 887)**	**(381)**	**(139)**	–	3 581	(3 097)	(330)	(154)
Total net exposure	**375**	**14 359**	**(4 883)**	**1 426**	**(74)**	419	15 788	(5 065)	492	746

Foreign currency in millions

	2021					2020				
	BWP	**GBP**	**EUR**	**USD**	**PLN**	BWP	GBP	EUR	USD	PLN
Non-current assets	**150**	**807**	**103**	**121**	**18**	138	840	126	50	394
Current assets	**321**	**54**	**78**	**10**	**2**	317	67	64	6	97
Current liabilities	**(66)**	**(58)**	**(115)**	**(8)**	**–**	(41)	(65)	(76)	(4)	(166)
Non-current liabilities	**(125)**	**(266)**	**(180)**	**(4)**	**(3)**	(129)	(282)	(214)	(3)	(120)
Exposure on external balances	**280**	**537**	**(114)**	**119**	**17**	285	560	(100)	49	205
Net exposure on balances between Group companies	**–**	**167**	**(164)**	**(25)**	**(37)**	–	164	(156)	(19)	(35)
Total net exposure	**280**	**704**	**(278)**	**94**	**(20)**	285	724	(256)	30	170

32. RISK MANAGEMENT continued

Financial risk continued

Market risk continued

Foreign exchange risk continued

Sensitivities analysis

The table below analyses the impact on the Group's FCTR. The analysis is based on the assumption that the ZAR had strengthened/weakened by 10% against the GBP and EUR with all other variables held constant.

	2021 R'm	2020 R'm
Impact on movement in FCTR in other comprehensive income		
Rand strengthened	**(1 042)**	(3 195)
Rand weakened	**1 042**	3 195

The tables below analyse the impact on the Group's revenue and post-tax profit. The analysis is based on the assumption that the ZAR had strengthened/weakened by 10% (2020:10%) against the foreign currency with all other variables held constant.

	Rand strengthened		Rand weakened	
	2021 R'm	2020 R'm	**2021 R'm**	2020 R'm
Impact on revenue				
BWP	**(54)**	(58)	**54**	58
GBP	**(385)**	(317)	**385**	317
EUR	**(357)**	(306)	**357**	306
USD	**(41)**	(36)	**41**	36
PLN (Disposed of during the year)	**–**	(155)	**–**	155
Impact on profit/(loss) after tax				
BWP	**(5)**	(4)	**5**	4
GBP (2020: loss position)	**(15)**	38	**15**	(38)
EUR	**(32)**	(18)	**32**	18
USD (loss position)	**16**	11	**(16)**	(11)
PLN (Disposed of during the year)	**–**	85	**–**	(85)
Exchange rates used for conversion of foreign denominated items				
Assets and liabilities				
BWP			**1.34**	1.48
GBP			**20.35**	21.81
EUR			**17.57**	19.86
USD			**15.14**	16.94
PLN at disposal date			**3.72**	4.40
Income/expense items				
BWP			**1.35**	1.43
GBP			**20.32**	20.69
EUR			**17.76**	18.19
USD			**14.84**	16.13
PLN average until disposal date			**4.06**	4.12

32. RISK MANAGEMENT continued

Financial risk continued

Market risk continued

Interest rate risk

Risk exposure	Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates economically expose the Group to fair value interest rate risk. Refer note 20.
How the risk arises	The Group's interest rate risk primarily arises from a mix of short- and long-term borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates.
Objectives, policies and processes for managing the risk and methods used to measure risk	The Group manages its interest rate exposure in total and mainly borrows or invests at Group level, unless it is more appropriate to do so at subsidiary level. Based on the various scenarios, the Group manages its cash flow interest rate risk by using interest rate collars, caps and swaps. Such interest rate hedges have the economic effect of capping the exposure to floating rates to a maximum rate. Generally, the Group raises long-term borrowings at floating rates and then hedges floating rates to a known maximum exposure. Under the interest rate collars, caps or swaps contracts, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between the fixed and the floating rate interest amounts calculated on agreed notional principle amounts. Interest rate collars, caps or swaps are entered into to fix interest rates from floating rates.
Concentration of risk	Group policy is to hedge a maximum of 80% of its borrowings (excluding lease liabilities) and to hedge a quantum of borrowings (excluding lease liabilities) to ensure the profit or loss impact of a 1% movement in interest rates on unhedged borrowings (excluding lease liabilities) is less than 2.0% of the previous 12-month Group normalised EBITDA*. At 30 September 2021, 24% of the Group debt (excluding lease liabilities) was hedged (2020: 24%). Refer to note 24 for the current interest rate hedges in place.

* *Non-IFRS measure.*

The Group analyses its interest rate exposure on a dynamic basis. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the Group's limits. The Group's debt is partially hedged by interest rate swap contracts. At 30 September 2021, the interest rate swap contracts hedge R1.8 billion (2020: R2.6 billion) of the Group's net debt (excluding lease liabilities) of R7 561 million (2020: R11 064 million).

Sensitivity analysis

The scenario is run only for liabilities that represent the major interest-bearing borrowing positions.

	2021 R'm	2020 R'm
Impact on post-tax profit		
1% increase	**(49)**	(86)
1% decrease	**49**	100

32. RISK MANAGEMENT continued

Financial risk continued

Liquidity risk

Risk exposure	Those financial liabilities of the Group with contractual cash flows and maturity dates are exposed to liquidity risk.
How the risk arises	Liquidity risk arises should the Group not be able to meet its obligations as they become due.
Objectives, policies and processes for managing the risk and methods used to measure risk	Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed banking facilities and the ability to close out market positions. The Group's liquidity risk is mitigated by the availability of funds to cover future commitments. The Group manages liquidity risk through an ongoing review of future commitments and banking facilities. Due to the dynamic nature of the underlying businesses, treasury maintains flexibility in funding by maintaining availability under committed credit lines. The Group has sufficient available bank facilities that can be utilised to service short-term commitments. Refer to note 20. Given the ongoing uncertainty around the pandemic and the future impact that this may have on the Group, Life Healthcare has kept in place additional banking facilities that were put in place during the prior year. Management continued its cash preservation drive across the Group's operations. Cash flow forecasts are prepared and utilised facilities are monitored on a daily basis. Longer-term cash flow forecasts are updated quarterly. **Refinancing debt** The Group successfully arranged new three- and five-year term debt in South Africa during June 2021 and thereby extended the debt maturity profile. The Group maintains a varied maturity profile for non-current interest-bearing borrowings in line with forecast profitability and cash flow. Acceptable profitability and gearing levels at the time of refinancing will meet lenders credit criteria and mitigate refinancing risk. The Group ensures that a reasonable balance is maintained between the period over which assets generate funds and the period over which the assets are funded. The Group maintains relationships with a broad range of financial institutions to avoid concentration risk and safeguard the availability of liquidity at all times. To further avoid market concentration risk, the Group diversifies its funding sources between traditional bank markets and debt capital markets, enabling it to target different lenders at different points in their credit cycles. The Group also diversifies its funding geographically to reach lenders familiar in those regions. Amortising debt is budgeted to be repaid from cash resources or refinanced with available short-term facilities. The Group reviews maturities at least 12 months in advance and ensures that adequate cash resources and/or committed banking facilities will be in place and available at least six months before a significant refinancing date. **LIBOR transition** The Group has GBP term loans referenced to LIBOR and has engaged with lenders to switch the underlying reference rate from LIBOR to the Sterling Overnight Indexed Average (SONIA).The Group intends to effect the changes by directly amending the benchmark rate in the agreements on an economically equivalent basis. The effective date will be 31 December 2021, being the cessation date of GBP LIBOR. No additional risks have been identified and no change is expected to the carrying amount of the liability. The Group has EUR loans referenced to EURIBOR which are unaffected, as EURIBOR falls outside the scope of reference rate reform. Financial liabilities to be transitioned:

Interest bearing borrowings	Currency	Interest rate benchmark	New reference rate
Term Loan A1	Pound sterling	3-month GBP LIBOR	Sterling Overnight Indexed Average "SONIA"
Term Loan A2	Pound sterling	3-month GBP LIBOR	
Term Loan C	Pound sterling	3-month GBP LIBOR	

Refer note 20.

Notes to consolidated annual financial statements continued

for the year ended 30 September 2021

32. RISK MANAGEMENT continued

Financial risk continued

Liquidity risk continued

Concentration of risk

The table below analyses the Group's financial liabilities into relevant maturity groupings, based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Southern Africa		AMG		Poland[1]	
	2021 R'm	2020 R'm	**2021 R'm**	2020 R'm	**2021 R'm**	2020 R'm
Interest-bearing borrowings	**4 004**	3 300	**7 043**	9 191	**–**	412
Less than 1 year	**901**	1 285	**789**	245	**–**	411
1 to 2 years	**691**	1 327	**98**	1 070	**–**	1
3 to 5 years	**2 412**	688	**6 154**	7 869	**–**	–
Over 5 years	**–**	–	**2**	7	**–**	–
Lease liabilities[1]	**1 672**	1 223	**1 508**	1 655	**–**	657
Less than 1 year	**183**	171	**351**	409	**–**	79
1 to 2 years	**521**	116	**263**	315	**–**	70
3 to 5 years	**425**	515	**492**	457	**–**	406
Over 5 years	**543**	421	**402**	474	**–**	102
Trade and other payables	**2 214**	1 592	**2 017**	2 058	**–**	191
Less than 1 year	**2 214**	1 592	**1 945**	2 003	**–**	171
1 to 2 years	**–**	–	**72**	55	**–**	20
3 to 5 years	**–**	–	**–**	–	**–**	–
Contingent consideration liabilities	**–**	–	**1 311**	1 358	**–**	11
Less than 1 year	**–**	–	**–**	–	**–**	11
1 to 2 years	**–**	–	**–**	1	**–**	–
Over 5 years	**–**	–	**1 311**	1 357	**–**	–
Derivative financial instruments[2]	**4**	38	**–**	15	**–**	–
Less than 1 year	**–**	12	**–**	15	**–**	–
1 to 2 years	**2**	26	**–**	–	**–**	–
3 to 5 years	**2**	–	**–**	–	**–**	–
Total	**7 894**	6 153	**11 879**	14 277	**–**	1 271

[1] *Disposed of during the year.*

[2] *Included foreign exchange contracts and interest rate swap contracts. The table above analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.*

32. RISK MANAGEMENT continued

Financial risk continued

Credit risk

Risk exposure	Credit risk arises mainly from cash and cash equivalents, trade and other receivables and other assets. Trade receivables comprise a widespread customer base.
How the risk arises	Credit risk is the risk of financial loss due to counterparties to financial instruments not meeting their contractual obligations.
Objectives, policies and processes for managing the risk and methods used to measure risk	Credit risk is managed using Group policies within the territories it arises in. The Group deposits surplus cash with banks and financial institutions and maintains an appropriate spread of cash deposits to limit exposure to any one counterparty. Only independently rated parties with a minimum Moody's rating of "Bl" or equivalent for South African banks are accepted. For AMG, counterparty risk is managed through the active monitoring and management of counterparties with which AMG transact. The Group evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. If there is no independent rating, the Group's central credit risk function assesses the credit quality of the non-government customer, taking into account its financial position, past experience and other factors. Individual risk limits are set for patients without medical aid insurance. Services to customers without medical aid insurance are settled in cash or using major credit cards on discharge date as far as possible. Credit guarantee insurance is not purchased. In certain AMG territories, use is made of invoice factoring facilities which are on a non-recourse basis, further reducing the credit risk from individual customers.
Concentration of risk	The maximum exposures to credit risk at the reporting date are cash and cash equivalents, the carrying value of each class of trade and other receivables as well as other assets. The Group does not hold any collateral as security. The Group is exposed to a number of guarantees for the overdraft facilities of Group companies. Refer to note 30 for additional details.
Maximum exposure to credit risk by class of financial instrument	Financial assets exposed to credit risk at year-end were as follows:

	2021 R'm	2020 R'm
Trade and other receivables	**3 806**	3 814
Cash and cash equivalents	**2 672**	2 279
Other assets	**108**	125

32. RISK MANAGEMENT continued

Financial risk continued

Credit risk continued

Cash and cash equivalents

The cash and cash equivalents carrying amount is denominated in the following currencies:

	2021 R'm	2020 R'm
South African rand	**1 447**	466
Botswana pula	**220**	252
Pound sterling	**388**	926
European euro	**598**	450
Polish zloty	**6**	163
United States dollar	**10**	20
Norwegian Krone	**3**	–
Swiss franc	**–**	2
Balance at 30 September	**2 672**	2 279

Overdraft facilities within the Group are secured by means of cross sureties by Group companies.

Based on where current business is conducted, the credit quality of cash at bank and short-term money market instruments is as follows:

Southern Africa[1]	**1 448**	465
Botswana[2]	**220**	252
AMG[3]	**1 003**	1 398
Scanmed[4]	**–**	163
Cash on hand	**1**	1
	2 672	2 279

[1] *The counterparties have a South African Moody's Ratings of Ba2 (2020: Ba1).*
[2] *The counterparties have a Botswana Standard & Poor rating of BBB+ (2020: BBB+).*
[3] *The counterparties have a minimum Fitch credit rating of BB+ (2020: BB+).*
[4] *Disposed of during the year.*

Trade and other receivables

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (mainly by customer type).

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events and current conditions. Trade receivables are written off when the Group has exhausted all options regarding the debt. Refer 1.2.1 Critical judgements and annexure A – significant accounting policies (section 1.11 financial instruments).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note. The Group does not hold collateral as security.

32. RISK MANAGEMENT continued

Financial risk continued

Credit risk continued

Trade and other receivables continued

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

R'm	Current	31 – 60 days	61 – 90 days	91 – 120 days	>120 days	Total
2021						
Private patients	**235**	**109**	**47**	**80**	**430**	**901**
Medical aids	**1 288**	**99**	**40**	**28**	**256**	**1 711**
Government and public healthcare facilities	**251**	**206**	**50**	**63**	**347**	**917**
Trade receivables	**1 774**	**414**	**137**	**171**	**1 033**	**3 529**
ECL (R'm)	**9**	**6**	**6**	**6**	**405**	**432**
Weighted average ECL rate	**0.5%**	**1.4%**	**4.4%**	**3.5%**	**39.2%**	
2020						
Private patients	376	132	66	115	214	903
Medical aids	1 128	117	104	93	15	1 457
Government and public healthcare facilities	443	181	151	55	426	1 256
Trade receivables	1 947	430	321	263	655	3 616
ECL (R'm)	63	29	13	6	292	403
Weighted average ECL rate	3.2%	6.7%	4.0%	2.3%	44.6%	

Fair value risk

The derivative assets and liabilities used for economic hedging, as presented in note 24, are the financial assets and liabilities that are measured at fair value.

The Group's financial instruments held at fair value are measured subsequent to their initial recognition and are grouped into levels 1 to 3 based on the significance of the inputs used in the valuation. All of the resulting fair value estimates for the derivatives used for economic hedging are included in level 2. The contingent consideration are included in level 3.

The fair value of interest rate swaps is calculated as the mark-to-market valuation, which represents the mid-market value of the instrument as determined by the financial institution at 30 September 2021.

The fair value of forward exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to the present value, as determined by the financial institution at 30 September 2021.

There were no transfers between levels 1, 2 and 3 during the year.