2. Critical accounting estimates, assumptions (continued)

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events as disclosed in note 28.

Litigation liability

When AfroCentric Investment Corporation Limited acquired AfroCentric Health Limited (AHL), AHL had an at-acquisition contingent liability to the value of R83.5 million. The Directors estimated the fair value of the contingent liability to be R8.4 million, and recognised an at-acquisition liability in line with IFRS 3: Business Combinations.

The fair value was determined by using the maximum loss and the potential impact of this liability materialising at the date of acquisition.

	Fair value R'000
2018	
Neil Harvey & Associates	**8 350**
2017	
Neil Harvey & Associates	8 350

	June 2018 R'000	June 2017 R'000
Carrying amount of litigation liability at the beginning of year	**8 350**	8 350
Fair value adjustments	**–**	–
Carrying amount of litigation liability at the end of period	**8 350**	8 350

The litigation liability is included in the other liabilities amount disclosed in the non-current liabilities section on the face of the statement of financial position on page 20.

3. Financial risk management

General

Risk management is a priority issue because it affects every part of the business. It is pre-emptive process that allows the Group and Company to assess and analyse risk in an integrated fashion, identifying potential areas in advance and then to proactively create processes and measures for compliance.

Fundamentally, the Board's responsibility in managing risk is to protect the Group's employees, stakeholders and the Group in every facet. It fully accepts overall responsibility for risk management and internal control and in so doing the Board has deployed effective control mechanisms to prevent and mitigate the impact of risk.

Primary responsibility for risk management at an operational level rests with the Executive Committee. Management and various specialist Committees are tasked with integrating the management of risk into the day-to-day activities of the Group and Company. Refer to the corporate governance statement in the Annual Integrated Report for more detail regarding the Executive Committee's involved in risk management.

The healthcare and administration business activities are exposed to a variety of financial risks:

- market risk;
- credit risk; and
- liquidity risk.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

3. Financial risk management (continued)

General (continued)

The Group's and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Refer to note 8 for classes of financial assets and liabilities.

Market risk

Price risk

The Group and Company investments in collective investment schemes are subject to the terms and conditions of the respective collective investment schemes offering documentation and are susceptible to market price risk arising from uncertainties about future values of those collective investment schemes. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager.

The right of the Group to request redemption of its investments in collective investment schemes ranges in frequency from weekly to annually.

The exposure to investments in collective investment schemes at fair value by strategy employed is disclosed in the following table at 30 June 2018. These investments are included in financial assets at fair value through profit or loss in the statement of financial position.

Strategy	Number of collective investment schemes	Net asset value of collective investment schemes R	Investment fair value R
Multi-strategy	4	104 436 000 000	217 278 436

The Group's maximum exposure to loss from its interests in collective investment schemes is equal to the total fair value of its investments in collective investment schemes.

Once the Group has disposed of its shares in a collective investment schemes, it ceases to be exposed to any risk from that collective investment schemes.

Total purchases in collective investment schemes during the year ended 30 June 2018 was R46 million. As at 30 June 2018 and 30 June 2017, there were no capital commitment obligations and no amounts due to collective investment schemes for unsettled purchases.

During the year ended 30 June 2018, total net gains on investments in collective investment schemes were R18.4 million.

To manage the price risk the Group's and Company's Investment Committee reviews its investments regularly to ensure that the downside price risk is mitigated and assesses the economic environment to make informed decisions.

The table below summaries the impact of an increase/decrease of the share price of collective investment schemes on the post-tax profit of the Group and Company

Change in percentage share price	Increase on pre-tax profit R	Decrease on pre-tax profit R
5% increase/(decrease)	10 863 900	(10 863 900)
10% increase/(decrease)	21 727 800	(21 727 800)
15% increase/(decrease)	32 591 700	(32 591 700)

3. Financial risk management (continued)

Cash flow and fair value interest rate risk

The Group is not exposed to downside interest rate risk from external borrowings.

The Group's and Company's interest income arises from interest-bearing instruments and fixed deposits. The Group's treasury manages excess funds on a daily basis into call/deposit accounts to ensure that the best yield is obtained for the Group.

The Group and Company has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income and equity of an instantaneous increase of 1% (100 basis points) in the market interest rates for each class of financial instrument with all other variables remaining constant. The sensitivity analysis excludes the impact of market risks on net post-employment benefit obligations.

	Group	Company
Instruments exposed	**Increase in 1% on statement of comprehensive income R'000**	**Increase in 1% on statement of comprehensive income R'000**
June 2018		
Bank balances and short-term investments	2 129	110
Total	2 129	110
June 2017		
Bank balances and short-term investments	3 982	591
Financial assets at amortised cost	799	799
Total	4 781	1 390

Under these assumptions, a 1% increase in market interest rates at 30 June 2018 would increase Group profit before tax by approximately R2 129 000 (June 2017: R4 781 000) and Company profit before tax by approximately R 110 000 (June 2017: R1 390 000).

Credit risk

Credit risk arises from cash and cash equivalents and other investments, that is, deposits with banks and financial institutions, as well as credit exposures to clients, including outstanding receivables and committed transactions. For banks and financial institutions only independently rated parties with a minimum rating of 'BBB' are accepted (please refer to note 8.4). If clients do not have an independent rating, risk control assesses the credit quality of the client, taking into account its financial position, past experience and other factors. Credit risk is managed at both the Group and Company level.

A significant portion of the Group's and Company's client base comprises high-credit quality financial institutions. Revenue from medical schemes is settled in cash.

No credit limits were exceeded during the reporting period. Individual limits are set for each client based on the factors above as assessed by management. These limits are monitored by management and ensured that they are not exceeded.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities to meet debt repayment and operating requirements. Management monitors the cash position on a daily basis from a Group and Company level. Due to the dynamic nature of the underlying businesses, management flexibility in funding by keeping committed credit facilities available.

Management monitors rolling forecasts of the liquidity reserve on the basis of expected cash flow.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

3. Financial risk management (continued)

Liquidity risk (continued)

The table below analyses all cash flows from the financial liabilities into the time buckets in which they are contractually due to be paid:

Time buckets applicable to the Group

	Group						
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 9 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
June 2018							
Trade and other payables	**249 028**	**–**	**–**	**–**	**–**	**–**	**284 028**
Deferred payment	**–**	**–**	**–**	**–**	**–**	**5 263**	**5 263**
June 2017							
Trade and other payables	258 304	2 030	2 030	2 030	–	–	264 394
Deferred payment	–	–	–	–	–	5 051	5 051

Time buckets applicable to the Company

	Company						
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 9 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
June 2018							
Trade and other payables	**3 418**	**–**	**–**	**–**	**–**	**–**	**3 418**
June 2017							
Loans from Group companies	10 242	–	–	–	–	–	10 242
Trade and other payables	3 103	5 357	5 357	5 357	–	–	19 174

The carrying value of financial liabilities at amortised cost approximates the fair value and, as a result, the fair values have not been disclosed in the fair value hierarchy.

Capital risk management

The objective of the Group and Company when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to external capital requirements.

Consistent with others in the industry, the Group and Company monitor cash flow on the basis of the gearing ratio. This ratio is calculated as long-term debt divided by total capital employed. Total capital employed is calculated as 'Equity' as shown in the statement of financial position plus long-term debt. The Group is not subject to long-term debt as it does not have any external capital requirements.

During 2018, the Group's and Company's strategy, which was unchanged from 2017, was to maintain the gearing ratio within 0% to 15%.