2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

2(g) Estimation of ECL allowance

The Group has historically had high-quality debtors and an impeccable repayment history. As a result there isn't a general provision model applicable to the Group.

The ECL for trade receivable for segments with a history of provisions of credit losses has been calculated using a Provision Matrix approach and Time Value of Money loss approach for segments with no history of credit losses.

Provision matrix (segments: Funds and Government)

Provision matrix calculates the cash flows and then discounts those cash flows to calculate the real outstanding debtors (the outstanding debtors taking into account time value of money by subtracting the discounted cash flows from the initial outstanding debtors).

The roll rates, loss rates and ultimate loss rate are calculated which will be the percentage of trade debtors as at year-end that are written off.

Time value of money (segments: Private, Healthcare and Retail)

The debtors whose expected credit losses are calculated using the time value of money are those that have not been previously or historically written off due to the fact that they are slow payers. The expected credit losses are therefore limited to the effects of the time value of money due to slow paying (the opportunity cost of delayed payments). Therefore, this is based on the premise that all debtors will be collected, the time value of money loss is the ultimate IFRS 9 impairment, and there is no credit loss.

Time value of money loss is calculated as (cash flows less discounted cash flows)/cash flows.

2(h) Impairment of internally generated software

The carrying amount of internally generated software is tested annually for impairment. The recoverable amount of the cash-generating units ("CGU") has been determined based on the value-in-use calculation, being the net present value of the discounted cash flows of the CGU. The main assumptions applied in determining the net present value are:

- the estimated revenues to be earned from the use of the assets and the period over which those revenues are projected;
- the weighted average cost of capital; and
- risk adjustment factors used in deriving an appropriate discount rate applied to future estimated cash flows.

3. FINANCIAL RISK MANAGEMENT

General

Risk management is a priority issue because it affects every part of the business. It is a 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.

The Retail, Healthcare and Administration business activities are exposed to a variety of financial risks:

- Market risk;
- Credit risk; and
- Liquidity risk.

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Currency risk

Currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk which are detailed in Note 9 of the Financial Statements. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies. The Group is not exposed to any foreign exchange risk in relation to its foreign operations in Namibia and Eswatini as the currencies of these countries are fixed to the South African Rand.

Cash flows from the Group's other foreign investments (Botswana, Mauritius, Kenya and Zimbabwe) bear foreign exchange risk. The most significant exposure is to the Mauritian Rupee, the Botswana Pula, the Zimbabwean Real Time Gross Settlement (**RTGS**) dollar and the United States Dollar (**US Dollar**). The impact of foreign exchange risk on profit and loss amounted to R380 000 loss in the 2020 financial year (2019: R3.9 million loss).

(ii) Cash flow and fair value interest rate risk

The Group is 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's interest expense arises from the Nedbank borrowings facilities.

The Group and Company have used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income and equity of an instantaneous increase of 2% (200 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.

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at their fair value.

	Group		Company	
	Increase in 2% on statement of comprehensive income R'000		Increase in 2% on statement of comprehensive income R'000	
Instruments exposed	2020	2019	2020	2019
Bank balances and short-term investments	6 486	–	144	–
Borrowings	(10 739)	(1 472)	–	–
Total	(4 253)	(1 472)	144	–

	Group		Company	
	Decrease in 2% on statement of comprehensive income R'000		Decrease in 2% on statement of comprehensive income R'000	
Instruments exposed	2020	2019	2020	2019
Bank balances and short-term investments	(6 486)	–	(144)	–
Borrowings	10 739	1 472	–	–
Total	4 253	1 472	(144)	–

Under these assumptions, a 2% increase in market interest rates at 30 June 2020 would decrease Group profit before tax by approximately R4 253 000 (June 2019: R1 472 000) and company profit before tax would increase by approximately R144 000 in June 2020.

A decrease of 2% in market interest rates at 30 June 2020 would increase Group profit before tax by approximately R4 253 000 (June 2019: R1 472 000) and Company profit before tax would decrease by approximately R144 000 in June 2020.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit risk

Credit risk arises from borrowings, 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 (refer to Note 8.3). 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. Refer to Note 8.3 for the rating table.

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.

Expected credit losses assessment for individual customers as at 30 June 2019 and 30 June 2020

The Group uses a simplified approach to measure and recognise ECL on a fulltime basis for trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased.

The following table provides information about the exposure to credit risk and ECL for trade receivables from individual customers as at 30 June 2020. Trade receivables' exposure to credit risk is calculated by using both the weighted average loss rate and the time value money loss. The trade debtors balance is allocated between the two methods.

30 June 2020	Weighted average loss rate %	Gross carrying amount R'000	Loss allowance R'000	Credit impaired
Current (not past due)	0.89	285 942	2 556	No
30 days past due	0.33	70 606	230	No
60 days past due	3.22	15 436	497	No
90+ days past due	41.59	76 890	31 979	No
Total		448 874	35 262	

30 June 2019	Weighted average loss rate %	Gross carrying amount R'000	Loss allowance R'000	Credit impaired
Current (not past due)	–	298 415	–	No
30 days past due	–	51 389	–	No
60 days past due	–	12 733	–	No
90+ days past due	95.79	31 361	30 041	No
Total		393 898	30 041	

Time value money loss	2020	2019
IFRS 9 provision	35 262	23 444
IFRS 9 provision percentage	7.9%	19.6%
Debtors balance	448 874	119 188

The group used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of an instantaneous change of 1% in the loss rates with all other variables remaining constant.

Under these assumptions a 1% increase in loss rate will result in a decrease in group profit before tax of R594 383 and a 1% decrease will result in an increase in group profit before tax of R458 040.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) 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 ensures flexibility in funding by keeping committed credit facilities available.

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

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

	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	Exceeding 1 year R'000	Total R'000
Year ended 30 June 2020						
Trade and other payables (Note 8.4)	**(342 454)**	**(19 032)**	**–**	**–**	**–**	**(361 486)**
Lease liability (Note 8.6)	**(26 849)**	**(23 710)**	**(23 471)**	**(22 825)**	**(181 427)**	**(278 282)**
Borrowings (Note 8.5)	**(30 000)**	**(30 000)**	**(30 000)**	**(30 000)**	**(266 311)**	**(386 311)**
Year ended 30 June 2019						
Trade and other payables (Note 8.4)	(400 325)	(1 969)	(1 969)	(1 969)		(406 232)
Lease liability (Note 8.6)	(15 388)	(15 388)	(15 388)	(15 388)	(261 104)	(322 656)
Borrowings (Note 8.5)	(30 000)	(30 000)	(30 000)	(30 000)	(371 566)	(491 566)

	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	Exceeding 1 year R'000	Total R'000
Year ended 30 June 2020						
Trade and other payables (Note 8.4)	**6 766**	**–**	**–**	**–**	**–**	**6 766**
Loan from group company (Note 8.7)	**9 767**	**–**	**–**	**–**	**–**	**9 767**
Year ended 30 June 2019						
Trade and other payables (Note 8.4)	2 512	1 025	1 025	3 131	–	7 693

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) 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.

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.

During 2020, the Group's and Company's strategy, which was unchanged from 2019, was to maintain the gearing ratio within 0% to 15%.

The financial condition to the Nedbank facility is for the Group to ensure that net debt to EBITDA in respect of any relevant period shall not exceed 2.5:1 times and interest cover in respect of any relevant period shall not be less than 4:1.

	2020 R'000	2019 R'000
Net debt	**208 631**	226 270
Total equity	**3 126 245**	2 882 995
EBITDA	**869 267**	778 004
Interest expense	**71 775**	52 008
Net debt to equity ratio	**6.7%**	7.8%
Net debt to EBITDA	**0.24:1**	0.29:1
Interest cover	**12.11:1**	14.9:1

4. SEGMENT INFORMATION

The operating segments identified are examined from a service perspective (total healthcare versus IT) and geographical perspective (South Africa versus Africa). The geographical segments identified include all businesses outside of South Africa which include Botswana, Mauritius, Namibia, Eswatini and Zimbabwe. Individually, each business outside of South Africa is not material hence management has taken the decision to disclose all business outside of South Africa as a separate operating segment. All segments have been disclosed according to what the Chief Operating Decision-Maker reviews.

Nature of business segments

- Healthcare SA – consists of medical scheme administration and health risk management services in South Africa
- Healthcare Retail – consists of pharmaceutical sales/services by Pharmacy Direct, MMed, Scriptpharm Risk Management, Curasana Wholesaler and Activo Health. These services are rendered in South Africa
- Healthcare Africa – consists of all healthcare services outside of South Africa. This includes associate earnings (Botswana, Namibia, Zimbabwe, Eswatini and Mauritius)
- IT – this relates to all IT-related services for the Group predominantly within South Africa