3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

Reconciliation of financial liabilities and non-financial liabilities:

	2019 Total R'000	2019 Financial liability R'000	2019 Non-financial liability R'000	2018 Total R'000	2018 Financial liability R'000	2018 Non-financial liability R'000
Interest-bearing borrowings	3 200 408	3 200 408	–	2 970 938	2 970 938	–
Non-interest-bearing borrowings	35 876	35 876	–	170	170	–
Trade and other payables	5 369 463	5 232 241	137 222	4 986 239	4 928 352	57 887
Contingent consideration	1 923	1 923	–	4 559	4 559	–
Financial guarantee contracts	243 492	243 492	–	–	–	–
Bank overdraft	7 843	7 843	–	–	–	–
Put option liability	158 638	158 638	–	97 947	97 947	–
Financial liabilities at fair value through profit and loss	301 716	301 716	–	45 360	45 360	–
	9 319 359	9 182 137	137 222	8 105 213	8 047 326	57 887

3.1 Credit risk

Credit risk, or the risk of financial loss to the Group due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures. The Group is exposed to credit risk on financial assets mainly in respect of those assets detailed in the table below. The carrying amounts of financial assets represent the maximum credit exposure, this exposure is considered without taking into account any collateral and financial guarantees, to be as follows:

	2019 R'000	Restated 2018 R'000
Financial assets		
Trade and other receivables	3 812 824	4 202 518
Cash and cash equivalents	1 385 596	947 888
Loans to associates and joint ventures	26 260	1 202 305*
Loans receivable	147 526	206 064
Advances to customers	1 617 097	1 595 010
	6 989 303	8 153 785

** As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.*

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which external credit ratings are available. External credit ratings were based on the latest Moody's default ratings. The counterparties were categorised as follows:

Group 1: Financial institutions with a Moody's long term debt issuer rating of Baa3 or better, or cash on hand. ECL of 0%.
Group 2: Fully performing, with a Moody's rating of Baa3 or better.
Group 3: Fully performing with a Moody's rating of between Ba1 and Caa2.
Group 4: Counterparties who are considered to be in default and those that have a Moody's rating of Caa3 or lower.

	2019 R'000	2018 R'000
Counterparties with external credit rating		
Group 1	1 385 596	947 888
Group 2	–	–
Group 3	–	–
Group 4	–	–
Total	1 385 596	947 888

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which no external credit rating is available. Equivalent credit ratings were based on the latest Moody's default ratings. Management defines default as when counterparties miss payments and future payments are either suspended or unlikely. The counterparties were categorised as follows:

Group 1: Fully performing counterparties who are highly collateralised, with no external credit ratings. ECL range of 0% to 0.75%.
Group 2: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of B1 or better. ECL range of 0% to 3.3%.
Group 3: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of between B2 and Caa2. ECL range of 3.3% to 15.49%.
Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Caa3 or lower. ECL of 15.49% to 100%.

	2019 R'000	2018 R'000
Counterparties without external credit rating		
Group 1	1 617 097	1 595 010
Group 2	102 350	1 177 712
Group 3	71 075	207 096
Group 4	361	23 561
Total	1 790 883	3 003 379

The Group's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the Group could have to pay if the sureties are called on, amounting to R418.6 million (2018: R415 million). A financial guarantee contract liability of R243.5 million has been raised in the Group's statement of financial position at year-end. Refer to note 3.6.3.

(i) Trade and other receivables

The Group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. A large portion of the Group's revenues are generated in South Africa, with other notable operations in India as well as Mexico. There are no other significant geographical concentrations of credit risk. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit, without specific Senior Management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the receivables age analysis and follows up on long-outstanding receivables. Allowances for impairment are raised in accordance with Group policy which has been revised to be in line with the requirements of IFRS 9. The Group's customer base has been aggregated into groupings that represent, to a large degree, how the Group manages its receivables and also illustrates the spread of credit risk. Within these aggregated groupings, the Group's exposure to credit risk is made up of major retailers, wholesalers and cellular networks; the balance of the customer base is widely dispersed.

(ii) Cash and cash equivalents

The Group places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings. The Group has significant concentrations of credit risk with Investec Bank Limited in line with its treasury function. Investec Bank Limited has a credit rating of Baa3 based on the latest Moody's local currency long-term issuer default ratings.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

(iii) Loans to associates and joint ventures

The Group has provided loans to associates and joint ventures of the Group to satisfy operational and other requirements. These associates and joint ventures are located in South Africa, India and Mauritius. The Group manages credit risk on this portfolio of loans by following strict protocols for the approval thereof, and where possible obtaining appropriate security and other collateral. Management regularly reviews these loans and uses an internal ratings-based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which Group policy has been aligned. During the year certain of these loans experienced a significant deterioration in credit quality and thus the Group has raised impairments against these loans. Refer to note 2.1.

The loss allowance as at 31 May 2019 for loans to associates and joint ventures is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 2	26 450	(190)	26 260	(0.72)
Group 4	268 892	(268 892)	—	(100.00)
	295 342	(269 082)	26 260	

(iv) Loans receivable

The Group has provided loans to third parties who are seen as product distributors, in order to expand our distribution channels. These loans have been extended on various terms depending on management's assessment of the business rationale for the provision thereof. The Group manages credit risk by following strict protocols for the approval and monitoring of these loans, and where possible obtaining appropriate security and other collateral. Management regularly reviews these loans and uses an internal ratings-based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which Group policy has been aligned.

The loss allowance as at 31 May 2019 for loans receivable is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 2	77 223	(1 134)	76 089	(1.47)
Group 3	73 577	(2 503)	71 074	(3.40)
Group 4	2 733	(2 370)	363	(86.72)
	153 533	(6 007)	147 526	

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

(v) Advances to customers

Advances to customers represent the activities of the Group's subsidiary, Comm Equipment Company Proprietary Limited, which provides financing for cellular handsets and other devices. This customer base is widely dispersed throughout South Africa and no significant concentrations of credit risk have been noted. The business model of this financing arrangement indirectly exposes the Group to the credit risk of Cell C Proprietary Limited. However management believes it has effectively mitigated this risk through the operational model utilised as well as the very high collateral requirements contractually in place, as detailed below:

- the Group has stringent requirements for the granting of credit to these customers;
- the Group has direct access to the customer cash flows received by Cell C in respect of the handsets and devices financed;
- the Group has direct access to the customer cash flows received by Cell C in respect of the customer subscriptions; and
- In the unlikely event of default, the Group has the right to sell the customer base.

The Group calculates an expected credit loss on this portfolio in accordance with the general model in IFRS 9 to which Group policy has been aligned. In light of the significant collateral arrangements in place, the expected credit loss on this portfolio is not significant and well within the Group's tolerances. Refer to note 3.5.3.

The loss allowance as at 31 May 2019 for advances to customers is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Advances to customers without external ratings included in:				
Group 1	1 619 965	(2 868)	1 617 097	(0.18)
	1 619 965	(2 868)	1 617 097	

Expected credit losses

The Group has the following financial assets subject to the expected credit loss model:

- Trade and other receivables
- Cash and cash equivalents
- Loans to associates and joint ventures
- Loans receivable
- Advances to customers

Application of the ECL model had an immaterial impact on sundry receivables.

Included in loans to associates and joint ventures as well as loans receivable are amounts receivable to which the Group has applied the general impairment model. The Group has considered the financial performance, external debt and future cash flows of the related parties and based on these, determined the credit risk relating to these receivables. The general impairment model has been applied to advances to customers. The Group applies the simplified approach using a provision matrix to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Provision matrix

ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/ proxy write-offs to the payment profile of the sales population. In instances where there was no evidence of historical write-offs, management used a proxy write off for similar receivables obtained from external credit rating agencies. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Exposures are mainly segmented by customer type, i.e. banks, independent and informal retail customers, etc. This is done to allow for risk differentiation. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL. In most instances no material adjustments have been made due to the inclusion of forward looking information as the majority of trade receivables are settled within a relatively short period (under 60 days on average).

The Group used 36 to 48 months sales data to determine the payment profile of the sales. Where the Group has information about actual historical write-offs, actual write-offs have been used to determine a historic loss ratio. Alternatively, management has used a proxy write-off, based on management's best estimate including information obtained from external ratings agencies. The Group has considered quantitative forward looking information such as the core inflation rate. Qualitative assessments have also been performed, of which the impact was found to be immaterial.

Management considers trade receivables aged in excess of 90 days past due (where the excessive ageing is not caused by administrative delays that are within the control of the Group), and those handed over to the Group's attorneys for legal collection processes, to be in default and accordingly increase the allowance for impairment raised on these receivables. This policy is applied to all receivables other than receivables for starter packs and receivables from municipalities and private utilities where management has rebutted the presumption that a customer is in default when 90 days past due as a result of the inherent nature of the product/ transaction being undertaken which follows a business cycle in excess of 90 days. Receivables for starter packs are considered to be in default where no income has been earned from activation or ongoing revenue in the last three months and the receivable has aged in excess of the anticipated repayment cycle. Receivables from municipalities and private utilities are considered to be in default where the net exposure to the counterparty after deduction of the collateral held has aged in excess of 12 months, or where handed over to the Group's attorneys for legal collection purposes.

Trade receivables are written off when there is no reasonable expectation of recovery. This is assessed individually by each operation and includes for example where the trade receivables have been handed over for collection and remain outstanding or the debtor has entered bankruptcy. Other receivables and other financial assets are individually assessed by management based on each situation's unique facts and circumstances and are written off when management believes that there is no reasonable expectation of recovery.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

The loss allowance as at 31 May 2019 for trade receivables and other receivables to which the provision matrix has been applied is determined as follows:

Ageing and impairment analysis

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Fully performing receivables				
Trade receivables arising on revenue from contracts with customers				
Banks	71 899	(2)	71 897	–
Independent and informal retail customers	733 768	(2 445)	731 323	(0.33)
Formal market retail customers	403 736	(9 476)	394 260	(2.35)
Customers in the petroleum sector	59 977	(3)	59 974	(0.01)
Receivables for starter packs	130 604	(233)	130 371	(0.18)
Cell C	26 199	(292)	25 907	(1.11)
Other cellular networks	95 935	(27)	95 908	(0.03)
Municipalities and private utilities	64 696	–	64 696	–
Associates, joint ventures and related parties	2 740	–	2 740	–
Trade receivables arising on financing transactions				
Cell C	1 325 303	(2 346)	1 322 957	(0.18)
Other	214 742	(2 419)	212 323	(1.13)
Sundry receivables	186 354	–	186 354	–
Past due receivables				
Trade receivables arising on revenue from contracts with customers				
Banks				
Past due by 1 to 30 days	3 524	(144)	3 380	(4.09)
Past due by 31 to 60 days	4 098	(132)	3 966	(3.22)
Past due by 61 to 90 days	1 404	(27)	1 377	(1.92)
Past due by more than 90 days	2 555	(1 273)	1 282	(49.82)
Independents and informal retail customers				
Past due by 1 to 30 days	62 190	(1 277)	60 913	(2.05)
Past due by 31 to 60 days	11 416	(1 701)	9 715	(14.90)
Past due by 61 to 90 days	8 243	(108)	8 135	(1.31)
Past due by more than 90 days	42 664	(41 195)	1 469	(96.56)
Formal market retail customers				
Past due by 1 to 30 days	92 191	(4 315)	87 876	(4.68)
Past due by 31 to 60 days	8 445	(110)	8 335	(1.30)
Past due by 61 to 90 days	14 324	(875)	13 449	(6.11)
Past due by more than 90 days	17 175	(16 522)	653	(96.20)
Customers in the petroleum sector				
Past due by 1 to 30 days	1 982	–	1 982	–
Past due by 31 to 60 days	305	(1)	304	(0.33)
Past due by 61 to 90 days	380	–	380	–
Past due by more than 90 days	5 086	(5 011)	75	(98.53)

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Ageing and impairment analysis continued

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
Receivables for starter packs				
Past due by 1 to 30 days	81 918	(233)	81 685	(0.28)
Past due by 31 to 60 days	98	(14)	84	(14.29)
Past due by 61 to 90 days	6	(1)	5	(16.67)
Past due by more than 90 days	341	(341)	—	(100.00)
Cell C				
Past due by 1 to 30 days	1 194	(6)	1 188	(0.50)
Past due by 31 to 60 days	10	—	10	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	12	—	12	—
Other cellular networks				
Past due by 1 to 30 days	13 741	(2)	13 739	(0.01)
Past due by 31 to 60 days	512	(6)	506	(1.17)
Past due by 61 to 90 days	26	—	26	—
Past due by more than 90 days	159	—	159	—
Municipalities and private utilities				
Past due by 1 to 30 days	57 460	—	57 460	—
Past due by 31 to 60 days	37 036	—	37 036	—
Past due by 61 to 90 days	17 819	—	17 819	—
Past due by more than 90 days	75 550	(2 417)	73 133	(3.20)
Associates, joint ventures and related parties				
Past due by 1 to 30 days	620	—	620	—
Past due by 31 to 60 days	72	—	72	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	30 299	(3 030)	27 269	(10.00)
	3 908 808	(95 984)	3 812 824	

Performance of trade debtors under IAS 39 is assessed to be as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2018			
Fully performing	5 335 596	(3 250)	5 332 346
Past due by 1 to 30 days	78 445	—	78 445
Past due by 31 to 60 days	44 550	(7 654)	36 896
Past due by 61 to 90 days	19 738	(2 006)	17 732
Past due by more than 90 days	83 822	(34 998)	48 824
	5 562 151	(47 908)	5 514 243

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Ageing and impairment analysis continued

ECLs for receivables other than trade receivables have been determined using the general approach in IFRS 9.

	Trade receivables		Other financial assets	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Provision for impairment of receivables				
Balance at the beginning of the year	**47 908**	19 020	**141 850**	—
Amounts restated through opening retained earnings	**32 876**	—	**48 404**	—
Acquisition of subsidiary	**—**	10 173	**—**	—
Allowances made during the year	**42 033**	23 808	**163 733**	141 850
Amounts utilised and reversal of unutilised amounts	**(26 833)**	(5 093)	**(76 033)**	—
At 31 May	**95 984**	47 908	**277 954**	141 850

Other financial assets on which ECLs are applied include loans to associates and joint ventures, loans receivable and advances to customers. Not included in the above table are the ECLs applied within associates, and joint ventures accounted for in investments in associates and joint ventures.

3.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, both under normal and stressed circumstances.

The Group's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Cash flow forecasting is performed in the operating entities of the Group to ensure sufficient cash to meet operational needs while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the Group treasury. Group treasury invests surplus cash in interest-bearing accounts, identifying instruments with sufficient liquidity to provide adequate headroom as determined by the above mentioned forecasts.