Notes to the Group annual financial statements
continued

for the year ended 31 May 2021

3. Financial risk management and financial instruments

Financial instruments carried on the statement of financial position include:

Financial assets
- Loans receivable
- Loans receivable from associates and joint ventures
- Trade and other receivables
- Advances to customers
- Cash and cash equivalents
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income

Financial liabilities
- Borrowings
- Trade and other payables
- Lease liabilities
- Contingent purchase consideration
- Financial guarantee contracts
- Financial liabilities at fair value through profit or loss

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are classified as current if expected to be realised within 12 months of the statement of financial position date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the Group has the right to defer settlement beyond 12 months of the statement of financial position date.

The Group classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) on the basis of the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

Measurement category	Criteria
Amortised cost	The asset is held within a business model with the objective to collect the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Fair value through profit or loss	Debt investments that do not qualify for measurement at amortised cost or fair value through other comprehensive income and equity investments that are held-for-trading.
Fair value through other comprehensive income	Derivatives that the Group designates as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations, which meet the hedging criteria.

Financial assets are not reclassified unless the Group changes its business model for managing those financial assets. In rare circumstances where the Group does change its business model, reclassifications are done prospectively from the date that the Group changes its business model.

Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at fair value through profit or loss.

Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and liabilities are initially measured at fair value, including transaction costs, except for those classified as fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. A trade receivable without a significant financing component is initially recognised at the transaction price.

3. Financial risk management and financial instruments continued

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below:

Category	Subsequent measurement
Financial assets	
Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Where the amortised cost using the effective interest method is materially lower than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
Fair value through other comprehensive income	The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion are recognised immediately in profit or loss, and are included in finance costs.
Financial liabilities	
Amortised cost	These financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Where the amortised cost using the effective interest method is materially more than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

Under IFRS 9, the Group calculates its allowance for credit losses as expected credit losses (ECLs) for financial assets measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

In order to calculate ECLs, the Group aggregates trade receivables by customer type, as disclosed in the trade and other receivables note (note 3.5.2). The Group applies the simplified approach to determine the ECL for trade and other receivables. This results in calculating lifetime ECLs for trade and other receivables. ECLs for trade and other receivables are calculated using a provision matrix. Refer to the credit risk note (note 3.1) for more detail about ECLs and how this is calculated.

ECLs for receivables other than trade receivables have been determined using the general approach in IFRS 9. Under the general approach, an entity calculates ECLs for loans and receivables at initial recognition by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECLs.

Financial risk management

In the course of its business, the Group is exposed to a number of financial risks, namely credit risk, liquidity risk and market risk (including foreign currency, interest rate and other price risks). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Risk management is monitored and managed by key personnel of each entity in the Group on a daily basis, based on their specific operational requirements.

Notes to the Group annual financial statements
continued

for the year ended 31 May 2021

3. Financial risk management and financial instruments continued

Classes of financial instruments

	2021 R'000	2020 R'000
Financial assets		
Trade and other receivables*	3 287 121	3 475 089
Cash and cash equivalents	2 417 325	2 014 917
Loans to associates and joint ventures (refer to note 2.1)	22 763	9 488
Loans receivable	69 804	72 120
Advances to customers	1 812 288	1 682 075
Financial assets at fair value through profit or loss	219 139	249 538
Financial assets at fair value through other comprehensive income	6 915	—
	7 835 355	7 503 227
Financial liabilities		
Interest-bearing borrowings	1 706 163	2 305 209
Non-interest-bearing borrowings	989	13 952
Trade and other payables*	5 869 710	4 553 659
Lease liability	73 125	141 123
Derivative liability	68 178	77 524
Liquidity support	—	350 410
Other financial liabilities at fair value through profit or loss	564	7 152
Financial guarantee contracts	105 621	201 474
Bank overdraft	118	192
	7 824 468	7 650 695
Net financial position	10 887	(147 468)

* Trade and other receivables and trade and other payables exclude non-financial instruments.

Reconciliation of financial assets and non-financial assets

	2021			2020		
	Total R'000	Financial asset R'000	Non-financial asset R'000	Total R'000	Financial asset R'000	Non-financial asset R'000
Loans receivable	69 804	69 804	—	72 120	72 120	—
Trade and other receivables	3 752 019	3 287 121	464 898	3 929 743	3 475 089	454 654
Advances to customers	1 812 288	1 812 288	—	1 682 075	1 682 075	—
Cash and cash equivalents	2 417 325	2 417 325	—	2 014 917	2 014 917	—
Financial assets at fair value through profit or loss	219 139	219 139	—	249 538	249 538	—
Financial assets at fair value through other comprehensive income	6 915	6 915	—	—	—	—
Loans to associates and joint ventures	22 763	22 763	—	9 488	9 488	—
	8 300 253	7 835 355	464 898	7 957 881	7 503 227	454 654

3. Financial risk management and financial instruments continued

Reconciliation of financial liabilities and non-financial liabilities

	2021			2020		
	Total R'000	**Financial liability R'000**	**Non-financial liability R'000**	Total R'000	Financial liability R'000	Non-financial liability R'000
Interest-bearing borrowings	**1 706 163**	**1 706 163**	**—**	2 305 209	2 305 209	—
Non-interest-bearing borrowings	**989**	**989**	**—**	13 952	13 952	—
Trade and other payables	**6 052 849**	**5 869 710**	**183 139**	4 611 643	4 553 659	57 984
Lease liability	**73 125**	**73 125**	**—**	141 123	141 123	—
Derivative liability	**68 178**	**68 178**	**—**	77 524	77 524	—
Liquidity support	**—**	**—**	**—**	350 410	350 410	—
Other financial liabilities at fair value through profit or loss	**564**	**564**	**—**	7 152	7 152	—
Financial guarantee contracts	**105 621**	**105 621**	**—**	201 474	201 474	—
Bank overdraft	**118**	**118**	**—**	192	192	—
	8 007 607	**7 824 468**	**183 139**	7 708 679	7 650 695	57 984

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:

	2021 R'000	2020 R'000
Financial assets		
Trade and other receivables	**3 287 121**	3 475 089
Cash and cash equivalents	**2 417 325**	2 014 917
Loans to associates and joint ventures	**22 763**	9 488
Loans receivable	**69 804**	72 120
Advances to customers	**1 812 288**	1 682 075
	7 609 301	7 253 689