Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and financial 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 incurrence of financial liabilities, classified 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.

In instances in which the valuation techniques applied to determine fair value of financial assets/financial liabilities on initial recognition do not use only data that is from observable markets, any resulting day one gains/losses are deferred and are recognised as part of the carrying values of the related financial asset/financial liability. These gains/losses are only recognised subsequently to the extent that they arise from a change in a factor (including time) that market participants would take into account when pricing the financial asset/financial liability.

Subsequent measurement

Subsequent measurement of financial assets and financial liabilities depends on their classification.

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.

Category	Subsequent measurement
Financial assets	
Amortised cost	The financial 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 other comprehensive income	The financial asset is held within a business model whose objective comprehensive income is achieved by both collecting contractual cash flows and selling financial assets, 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	The financial asset does not qualify for measurement at amortised cost or fair value through other comprehensive income.

Financial assets are not reclassified unless the Group changes its business model for managing those financial prospectively from the date that the Group changes its business model.

Financial liabilities are classified as measured at amortised cost except for:

- derivatives which are measured at fair value through profit or loss;
- financial liabilities designated by the Group upon initial recognition to be at fair value through profit or loss because of the existence of one or more derivatives embedded within the financial liabilities which would otherwise need to be separated out resulting in the host financial liabilities being measured at amortised cost and the derivative(s) being measured at fair value through profit or loss; and
- financial guarantee contracts which are measured initially at their fair value, and subsequently at the higher of:
  - the amount of the loss allowance determined using the same approach as that used for impairment of financial assets measured at amortised cost (see Impairment of financial assets measured at amortised cost on page 58); and
  - the initial fair value less, when appropriate, the cumulative amount of income recognised in accordance with the principles of revenue recognition.

Financial assets are classified as current on the statement of financial position if expected to be realised within 12 months of the statement of financial position reporting 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 reporting date; if not, they are classified as current.

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, or their terms have been modified significantly. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire, or their terms have been modified significantly. On derecognition of a financial (or the fair value of a new financial asset/liability recognised in instances of a significant modification) is recognised in profit or loss. In instances of a significant modification, transaction costs are expensed immediately in profit or loss.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

3.1 Financial instruments continued

Impairment of financial assets measured at amortised cost

The Group calculates its allowance for credit losses for financial assets measured at amortised cost using expected credit losses (ECLs). Credit losses are 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), discounted at the original effective interest rate (EIR), or at the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets. ECLs are probability weighted averages of credit losses.

For all financial assets measured at amortised cost, except for trade and other receivables, the Group measures the related loss allowance at an amount equal to 12-month ECLs, which is the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date. Once a significant increase in credit risk occurs, the loss allowance is measured based on lifetime ECLs. For trade and other receivables, the Group measures the related loss allowance at lifetime ECLs from initial recognition.

Purchased or originated credit-impaired financial assets are financial assets that are credit-impaired on initial recognition. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred, for example:
- significant financial difficulty of the borrower;
- default or past due event;
- other lenders having granted the borrower concessions for economic or contractual reasons relating to the borrower's financial difficulty that they would not otherwise consider;
- probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Since the original credit-adjusted effective interest rate reflects lifetime ECLs at initial recognition, the Group only recognises the cumulative changes in lifetime ECLs since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

3.2 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 interest rate and foreign currency 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.

3.2.1 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 financial instruments table on page 56. The carrying amounts of financial assets represent the maximum credit exposure.

Expected credit losses

The Group tracks significant increases in credit risk using information available to the Group regarding the counterparty credit risk. Furthermore, this is supplemented by taking into account the performance of the counterparty to the financial asset in question, as well as data from Moody's Analytics where applicable.

The Group calculates its allowance for credit losses for financial assets measured at amortised cost using ECLs.

ECLs were determined by the Group based on an unbiased, probability weighted amount that is determined by evaluating a range of possible outcomes and, where relevant, reflecting the time value of money. In accordance with the requirements of IFRS 9, ECL allowances are required to be measured in a way that incorporates information available at the reporting date about past events, current conditions and forecasts of future economic conditions. Each of these were used in calculating the ECL on the in-scope financial assets of the Group. Moody's Analytics is used to incorporate forward looking information in the determination of ECLs. Moody's consider the effect of various macro-economic phenomena and events such as Covid-19 to be embedded in the underlying actual results of entities, and as a result reflected in the probability of default (PD) assumption of underlying ECL methodologies. As such, no significant overlays or other adjustments, other than the macro-economic forecasts, have been included in the current and prior financial years.