INVESTMENTS AND ISSUED LOANS	
Definition	A loan issued by an entity or an investment made by an entity in another (e.g. purchase of bonds, notice deposits, treasury bills etc.) represent a contractual right to receive cash or another financial instrument. Investments in residual interests are discussed in Fact Sheet # 7.
Scope	Investments (excluding some investments in residual interests) and loans are in the scope of GRAP 104 if they meet the definition of a financial asset.
Recognition	Recognise investment or loan when entity becomes party to the contractual provisions of the instrument.
Classification	Classification as an instrument at amortised cost or fair value will depend on: (a) The management model for loans and investments. (b) The characteristics of the cash flows of the loans and investments. Amortised cost - Management model indicates that the entity holds the loan or investment to collect the contractual cash flows, <u>and</u> the cash flows of the loan or investment are solely payments of principal and interest (SPPI). Fair value through surplus or deficit - Management model is not to realise the cash flows by holding the instrument, and/or the cash flows are not solely payments of principal and interest. Measurement at fair value includes a management model where an entity holds financial assets to collect contractual cash and for sale. An entity should consider the existence of any contingent repayment features, e.g. repayment of the loan (and or interest) is only required when certain profitability indices are met, certain level of income demonstrated, an individual finding employment, an entity acquiring certain contracts etc. and whether these affect the classification. An interest free loan will not in itself fail the SPPI requirements.
Initial measurement	Fair value, plus transaction costs if subsequently measured at amortised cost. Fair value is the price agreed by a willing buyer and a willing seller in an arm's length transaction. Fair value is determined based on the following: • A quoted price in an active market. • If no active market, using a valuation technique. The difference between the transaction price and fair value is recognised as follows: • Surplus or deficit - If fair value evidenced by level 1 inputs or a valuation technique that only uses data from observable markets. • Deferred on the statement of financial position – When any other valuation basis used.
Subsequent measurement	*Fair value through surplus or deficit* Loans and investments are measured at each reporting date at fair value. Any gains and losses on remeasurement are recognised in surplus or deficit.

	Amortised cost Loans and investments are measured at amortised cost, which includes any modification gains and losses, write-offs and impairment losses. Amortised cost is calculated as: Amount initially recognised (fair value plus transaction costs) minus Principal repayments plus or minus Cumulative amortisation* adjusted for Loss allowance *Difference between the initial amount and the maturity amount amortised using the (a) effective interest rate, or (b) credit adjusted effective interest rate (for purchased or originated credit impaired loans and investments).
Loss allowance	A credit loss is the present value of the difference between the contractual cash flows due in terms of the contractual arrangement and the cash flows an entity expects to receive. Step 1: Use lifetime or 12-month expected credit losses Determine if there has been a significant change in credit risk, i.e. change in risk of default occurring, since initial recognition (individual and collective assessment). Significant change in credit risk, including those that are credit impaired on origination, use lifetime expected credit losses. No significant change in credit risk, use 12 month expected credit losses. Rebuttable presumptions (unless reasonable and supportable information to indicate otherwise): • Credit risk increased significantly when contractual payments more than 30 days past due. • Default does not occur later than when a financial asset is 90 days past due. Step 2: Measure expected credit losses The expected cash flows are based on the lifetime or 12 month expected credit losses. The contractual period is the maximum period allowed. Expected credit losses are measured so that the following is reflected: • An unbiased and probability-weighted amount is determined by evaluating a range of possible outcomes. An entity must consider the possibility that a credit loss occurs, as well as the possibility that no credit loss occurs. • Time value of money. This is the effective interest rate determined at initial recognition. Expected credit losses are determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, available without undue cost or effort.
Interest revenue	*Loan or investment – not credit impaired* Interest revenue = Gross carrying amount of loan or investment X effective interest

	rate. *Loan or investment – becomes credit impaired after recognition (i.e. from the beginning of the next reporting period)* Interest revenue = Amortised cost* of loan or investment X effective interest rate *includes loss allowance. *Loan or investment – credit impaired on origination or purchase* Interest revenue = Amortised cost* X credit adjusted effective interest rate. *includes loss allowance.
Derecognition	A loan or investment is derecognised (in part or in its entirety) when: (a) the contractual cash flows have expired, are settled or waived; (b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or (c) the entity has retained significant risks and rewards, but transferred control to another party, and that party has the practical ability to sell the asset to an unrelated third party.
Presentation and disclosure	An entity considers the presentation and disclosure requirements in GRAP 104 and applies materiality when preparing the financial statements.