

27 Financial risk management (continued)

Credit risk

Credit risk is the risk of financial loss if a tenant or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables but also from other financial assets with counterparties including loans to joint ventures, cash deposits and derivative financial instruments.

– trade receivables

Credit risk associated with trade receivables is actively managed; tenants are typically invoiced quarterly in advance and are managed individually by asset managers, who continuously monitor and work with tenants, aiming wherever possible to identify and address risks prior to default.

Prospective tenants are assessed via a review process, including obtaining credit ratings and reviewing financial information, which is conducted internally. As a result deposits or guarantees may be obtained. The amount of deposits held as collateral at 31 December 2019 is £3.5 million (2018: £3.5 million).

When applying a loss allowance for expected credit losses, judgement is exercised as to the collectability of trade receivables and to determine if it is appropriate to impair these assets. When considering expected credit losses, management has taken into account days past due, credit status of the counterparty and historical evidence of collection.

The ageing analysis of trade receivables is as follows:

£m	2019	2018
Up to three months	29.9	32.1
Three to six months	10.0	3.7
Trade receivables	39.9	35.8

At 31 December 2019 trade receivables are shown net of a loss allowance totalling £6.1 million (2018: £4.0 million).

The Group does not use factoring to generate cash flow from trade receivables.

– other financial assets including loans to joint ventures

The Group applies the expected credit loss model in respect of other financial assets. Financial assets are individually assessed as to whether the credit risk has increased significantly in the period and therefore whether there is a need to apply the lifetime expected credit losses model as opposed to the 12-month expected credit loss model.

At 31 December 2019 there is no loss allowance recognised for other financial assets as it has been concluded as an immaterial risk of credit loss on other financial assets.

– cash deposits and derivative financial instruments

The credit risk relating to cash deposits and derivative financial instruments is actively managed by the Group's treasury department.

Relationships are maintained with a number of tier one institutional counterparties, ensuring compliance with Group policy relating to limits on the credit ratings of counterparties (between BBB+ and AAA).

Excessive credit risk concentration is avoided through adhering to authorised limits for all counterparties.

Counterparty	Credit rating	Authorised limit £m	Group exposure 31 December 2019 £m	Credit rating	Authorised limit £m	Group exposure 31 December 2018 £m
Counterparty #1	AA-	125.0	64.9	AA-	125.0	111.9
Counterparty #2	AAA	150.0	43.1	A+	100.0	44.1
Counterparty #3	A+	100.0	38.7	A	100.0	27.2
Counterparty #4	A	100.0	26.0	AAA	150.0	22.3
Counterparty #5	A	75.0	20.0	AAA	150.0	12.3
Sum of five largest exposures			192.7			217.8
Sum of cash deposits and derivative financial instrument assets			203.5			244.2
Five largest exposures as a percentage of assets at risk			95%			89%