Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – fair values and risk management

A – accounting classifications, fair values and risk association

The following table reflects the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The risks associated with the balances are also indicated.

		Carrying amount			Fair value and fair value hierarchy			
	Note	Designated at fair value through profit and loss R000	Amortised cost R000	Total R000	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
2018								
Financial assets measured at fair value								
Financial asset	7	121 576		121 576			121 576	121 576
Derivative instruments – non-current	18	6 846		6 846		6 846		6 846
Derivative instruments – current	18	815		815		815		815
		129 237		129 237		7 661	121 576	129 237
Financial assets not measured at fair value								
Loans receivable – non-current	10		2 937 444	2 937 444				
Loans receivable – current	10		40 716	40 716				
Trade and other receivables	11, 13		245 639	245 639				
Cash and cash equivalents	12, 13		715 649	715 649				
			3 939 448	3 939 448				
Financial liabilities measured at fair value								
Derivative instruments – non-current	18	24 060		24 060		24 060		24 060
Derivative instruments – current	18	1 999		1 999		1 999		1 999
		26 059		26 059		26 059		26 059
Financial liabilities not measured at fair value								
Long-term portion of interest-bearing borrowings	17		7 815 651	7 815 651				
Short-term portion of interest-bearing borrowings	17		69 343	69 343				
Financial guarantees – non-current	8		185 686	185 686				
Trade and other payables	13, 20		384 107	384 107				
			8 454 787	8 454 787				

34. Financial instruments – fair values and risk management continued

A – accounting classifications, fair values and risk association continued

		Carrying amount			Fair value and fair value hierarchy			
	Note	Designated at fair value through profit or loss R000	Amortised cost R000	Total R000	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
2017								
Financial assets measured at fair value								
Financial asset	7	(1)		(1)			(1)	(1)
Derivative instruments – non-current	18	785		785		785		785
Derivative instruments – current	18	9 530		9 530		9 530		9 530
		10 315		10 315		10 315		10 315
Financial assets not measured at fair value								
Loans receivable – non-current	10		3 013 151	3 013 151				
Loans receivable – current	10							
Trade and other receivables	11, 13		221 631	221 631				
Cash and cash equivalents	12, 13		1 115 347	1 115 347				
			4 350 129	4 350 129				
Financial liabilities measured at fair value								
Derivative instruments – non-current	18	56 530		56 530		56 530		56 530
Derivative instruments – current	18	938		938		938		938
		57 468		57 468		57 468		57 468
Financial liabilities not measured at fair value								
Long-term portion of interest-bearing borrowings	17		5 068 332	5 068 332				
Short-term portion of interest-bearing borrowings	17		3 832 306	3 832 306				
Financial guarantees – non-current	8		163 855	163 855				
Trade and other payables	13, 20		405 314	405 314				
			9 469 807	9 469 807				

(1) *Value less than R1 000*

Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – Fair values and risk management continued

B – measurement

(I) Financial instruments measured at fair value

The following tables show the valuation techniques used in measuring level 2 and 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Derivatives	Market comparison: The valuation of the derivative instruments was determined by discounting the future cash flows using the JIBAR or LIBOR swap curves. Similar contracts are traded in active markets and the quotes reflect actual transactions in similar instruments.	Not applicable	Not applicable
Financial asset – Hystead Limited (Hystead)	Discounted cash flow: The valuation model uses the present value of the future net cash flows expected to be generated by the underlying shopping centres. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk adjusted discount rate as well as a risk adjusted cap rate.	Annual growth rate and terminal growth rate Exit cap rates and discount rates	The estimated fair value would increase (decrease) if: ■ The annual growth rate was higher (lower); or ■ The exit cap rate was (higher) lower

(II) Transfers between levels 1 and 2

There were no transfers in either direction between levels 1 and 2 during the current or prior years.

34. Financial instruments – fair values and risk management continued

B – measurement continued

(III) Level 3 fair values

Reconciliation of level 3 fair values

The following table shows a reconciliation of the opening balances to the closing balances for level 3 fair values:

	2018 R000	2017 R000
Balance at 1 July		
Balance at 1 July – financial asset	2 022 282	1 472 754
Additions (new properties acquired)	2 626 646	661 868
Unrealised foreign exchange gain/(loss)	194 480	(112 340)
Change in % held	(402 631)	
Fair value losses through profit and loss	(549 086)	
Subtotal (fair value) at 30 June	3 891 691	2 022 282
Additions (financial guarantees)	33 815	163 855
Fair value movement through profit and loss	(33 815)	(163 855)
Balance at 30 June – financial asset	3 891 691	2 022 282
Balance at 1 July – deferred gains on financial asset	(2 022 282)	(1 472 754)
Additions (new properties acquired)	(2 626 646)	(661 868)
Unrealised foreign exchange (loss)/gain	(138 923)	112 340
Change in % held	393 864	
Fair value gains through profit and loss	623 872	
Balance at 30 June – deferred gains on financial asset	(3 770 115)	(2 022 282)
Net financial asset	121 576	

There were no transfers out of level 3 during the current or prior years.

(IV) Valuation sensitivity analysis

Financial asset – Hystead

For the fair value of the investment in Hystead, changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	2018 R000		2017 R000	
	Increase	Decrease	Increase	Decrease
Profit or loss				
Change in annual growth rate – 1% (2017: 1%)	44 313	(44 313)	26 731	(26 731)
Change in discount rate – 1% (2017: 1%)	(30 678)	30 678	(90 654)	90 654
Change in exit cap rate – 1% (2017: 1%)	(42 040)	42 040	(378 887)	378 887

Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – fair values and risk management continued

C – financial risk management

The group has exposure to the following risks arising from financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Foreign exchange risk.

(I) Risk management framework

The board of directors (board) has overall responsibility for the establishment and oversight of the group's risk management framework. The board monitors the effectiveness of the internal control systems, assisted by the audit and risk committee. The committee is in turn assisted by management reporting, as well as reports from an outsourced internal audit service provider. The committee reports to the board on the findings of the internal audit function.

Executive management implement controls to ensure the validity, accuracy and completeness of financial information. Certain of these controls are reviewed by internal audit.

The audit and risk committee has an independent role, operating as an overseer and making recommendations to the board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management. The role of the committee includes ensuring that an appropriate risk management policy, aligned with industry practice, is adopted and implemented. For further detail on the role and mandate of this committee, please refer to its charter on the group's website.

(II) Interest rate risk

Interest rates are monitored and appropriate steps taken to ensure that Hyprop's exposure to interest rate fluctuations is limited. Through interest rate swaps, interest rates have been fixed for periods ranging from 2018 to 2024 with an average maturity of 2,9 years (2017: 3,4 years). The average rate of interest at year-end (excluding Euro debt)[1] was 9,4% (2017: 8,9%) for Rand debt and 4,8% (2017: 4,7%) for USD debt (average rate of 6,7% (2017: 6,7%) for Rand and USD debt combined).

Exposure to interest rate risk

The interest rate profile of the group's interest-bearing financial instruments as reported to the management of the group is as follows:

	2018 R000	2017 R000
Total bank debt and debt capital market funding (excludes Euro debt)[1]:	7 884 994	8 900 638
Less: Non-controlling interest – Gruppo	(422 433)	(166 631)
Hyprop exposure	7 462 561	8 734 007
Total fixed debt	6 217 445	7 261 517
Total floating debt	1 245 116	1 472 490
	7 462 561	8 734 007
Debt at fixed interest rate (%)	83,3	85,2
South African debt (%)	113,6	100,9
USD debt (%)	63,5	70,4
Maturity of fixes (years)	2,9	3,4
South African debt (years)	3,3	3,9
USD debt (years)	2,4	2,7
Cost of funding (%)		
South African debt (%)	9,4	8,9
USD debt (%)	4,8	4,7

[1] *Euro debt is excluded from the above analysis as it is not consolidated in the consolidated statement of financial position*

34. Financial instruments – fair values and risk management continued

C – financial risk management continued

(II) Interest rate risk continued

Fair value sensitivity analysis for fixed rate instruments

The group does not account for fixed rate financial assets or financial liabilities at fair value through profit or loss, and the group does not designate derivatives (interest rate swaps and forex collars) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect the values of these asset and liabilities and would not have a consequent effect on profit or loss.

Interest rate sensitivity analysis for variable rate instruments

The sensitivity analysis includes the exposure to interest rates for both derivatives and non-derivative instruments at the end of the financial year. For floating rate liabilities it is assumed that the liability outstanding at the end of the year was outstanding for the whole year.

Based on year-end floating debt, an interest rate increase/decrease of 150 basis points, while all other variables are held constant, would decrease/increase the group's profit for the year ended 30 June 2018 by R18,7 million (2017: R22,1 million).

(III) Credit risk

Receivables

The group is exposed to credit risk due to trade receivables. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. Save for national tenants, a deposit in the form of cash or a bank guarantee is obtained from tenants in terms of Hyprop's deposit policy. Furthermore, and only if required, a deed of suretyship will be obtained from a tenant.

	June 2018 R000	June 2017 R000
Total amount held in bank guarantees and tenant deposits:		
– Bank guarantees	229 296	192 117
– Tenant deposits	86 647	78 038

The credit risk in respect of loans receivable is generally mitigated by agreements with the counterparty. These agreements include claims which provide legal protection for Hyprop, common to such agreements.

Guarantees

The off-shore funding provided to Hystead and its subsidiaries has been supported by a guarantee from Hyprop. Hyprop has guaranteed obligations for third-party Euro funding amounting to EUR396 million (2017: EUR295 million) and has given certain undertakings to and in favour of Rand Merchant Bank, Standard Bank and Nedbank.

Notes to the consolidated financial statements continued

for the year ended 30 June

34. Financial instruments – fair values and risk management continued

C – financial risk management continued

(IV) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

This risk is minimised by holding cash balances and a floating loan facility. In addition, the company regularly monitors forecast cash flows and considers the matching of maturity profiles of financial assets and liabilities.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments.

		Contractual cash flows			
	Carrying amount R000	Total contractual in/(out) flows R000	One year or less R000	One to five years R000	More than five years R000
2018					
Non-derivative financial liabilities					
Long-term portion of interest-bearing borrowings	(7 815 651)	(7 256 694)	(465 524)	(6 420 349)	(370 821)
Short-term portion of interest-bearing borrowings	(69 343)	(69 343)	(69 343)		
Financial guarantee[1]	(185 686)	(6 462 459)	(3 786 293)	(2 676 166)	
Trade and other payables	(384 107)	(384 107)	(384 107)		
	(8 454 787)	(14 172 603)	(4 705 267)	(9 096 515)	(370 821)
Derivative financial liabilities[2]					
Interest rate swaps	(26 059)	(100 813)	(41 096)	(57 853)	(1 864)
Total	(8 480 846)	(14 273 416)	(4 746 363)	(9 154 368)	(372 685)
2017					
Non-derivative financial liabilities					
Long-term portion of interest-bearing borrowings	(5 068 332)	(5 831 019)	(160 656)	(5 670 364)	
Short-term portion of interest-bearing borrowings	(3 832 306)	(3 981 289)	(3 981 289)		
Financial guarantee[1]	(163 855)	(4 567 864)	(2 619 789)	(1 948 074)	
Trade and other payables	(405 314)	(405 314)	(405 314)		
	(9 469 807)	(14 785 486)	(7 167 048)	(7 618 438)	
Derivative financial liabilities[2]					
Interest rate swaps	(57 467)	(150 047)	(47 917)	(102 130)	
Total	(9 527 274)	(14 935 533)	(7 214 965)	(7 720 568)	

[1] *The outflows disclosed for the financial guarantee in the table represent the potential contractual outflows in the event of the guarantee being called on*

[2] *The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. These derivative financial instruments are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives as they are net cash-settled*

34. Financial instruments – fair values and risk management continued

C – financial risk management continued

(V) Currency risk

The group is exposed to currency risk to the extent that there is a mismatch between the currencies in which revenue, operating costs and borrowings are denominated and the respective functional currencies of group companies. The primary functional currencies used by the group are the Rand, US Dollar and Euro. The group's investments in sub-Saharan Africa (excluding SA) expose the group to "in-country" local currency and US Dollar currency risk, while the group's investments in South-Eastern Europe expose the group to "in-country" local currency (in instances where the local currency is not the Euro or pegged to the Euro) and Euro currency risk. Dividends earned from foreign operations are currently hedged six months in advance of receipt.

The summary quantitative data about the group's exposure to currency risk as reported to management of the group is as follows.

	2018			2017		
	USD '000	EUR '000	Total Rand equivalent R000	USD '000	EUR '000	Total Rand equivalent R000
Loans receivable	213 034	1 170	2 937 444	229 651	1 187	3 013 407
Trade and other receivables	5 083	8 435	204 624	4 307	5 380	136 343
Cash and cash equivalents	3 498		47 923	4 721		61 581
Borrowings	(288 518)		(3 952 895)	(354 186)		(4 620 244)
Trade and other payables	(2 499)		(34 233)	(6 176)		(80 559)
Net exposure	(69 402)	9 605	(797 136)	(121 683)	6 567	(1 489 472)
Financial guarantee		(396 289)	(6 341 899)		(294 944)	(4 394 778)
Forward exchange contracts	543		7 439	(503)		(6 558)
Net exposure	(68 859)	(386 684)	(7 131 596)	(122 186)	(288 377)	(5 890 808)

The following significant exchange rates have been applied:

	2018			2017		
		Average rate	Year-end spot		Average rate	Year-end spot
	USD1	12,85	13,70	USD1	13,63	13,04
	EUR1	15,32	16,00	EUR1	14,53	14,90

Currency risk sensitivity analysis

A strengthening (weakening) of the Euro and US Dollar against the Rand at 30 June would have affected the Rand equivalent of financial instruments denominated in a foreign currency, and affected profit or loss, by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2018 Profit or loss			2017 Profit or loss		
	Change % vs ZAR	Strengthening	Weakening	Change % vs ZAR	Strengthening	Weakening
USD1	1	6 838	(6 838)	5	73 671	(73 671)
EUR1	1	78 574	(78 574)	2	(1 549)	1 549

	Other comprehensive income			Other comprehensive income		
	Change % vs ZAR	Strengthening	Weakening	Change % vs ZAR	Strengthening	Weakening
USD1	1	(1 537)	1 537	5	(16 655)	16 655
EUR1	1	None as Hystead is not consolidated		2	None as Hystead is not consolidated	