Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

H. FUNDING AND RELATED ITEMS

H1 BORROWINGS

H1.1 Accounting policies

Borrowings	Interest-bearing loans, are initially measured at fair value, net of transaction costs. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount of borrowings, is recognised over the term of the borrowings, in accordance with the group's accounting policy for borrowing costs. Subsequently, they are measured at amortised cost using the effective interest method.	Refer: H1.3

H1.2 Changes in accounting policies and disclosures

IFRS 9: *Financial instruments*	Borrowings are affected by the group's application of IFRS 9: *Financial instruments*. The adoption of IFRS 9 has not had a significant effect on the group's accounting policies related to financial liabilities and derivative financial instruments as the group does not apply hedge accounting to its derivative financial instruments. This note should be read in conjunction with note A3.1 – *Financial instruments*.

H1.3 Carrying value

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Profile				
Secured bank loans	4 229 325	5 302 214	1 558 308	599 539
Unsecured	3 099 476	2 582 780	3 860 601	3 110 864
Unsecured loans	–	233 041	761 125	761 125
Unsecured debt capital market funding (DCM)	3 099 476	2 349 739	3 099 476	2 349 739
Total borrowings	7 328 801	7 884 994	5 418 909	3 710 403
Maturity profile				
Non-current	6 320 801	7 815 651	4 410 909	2 949 278
Bank loans	4 029 325	5 302 214	1 358 308	599 539
DCM funding	2 291 476	2 349 739	2 291 476	2 349 739
Non-controlling shareholder/subsidiary	–	163 698	761 125	–
Current	1 008 000	69 343	1 008 000	761 125
Bank loans	200 000	–	200 000	–
DCM funding	808 000	–	808 000	–
Non-controlling shareholder/subsidiary	–	69 343	–	761 125
Total borrowings	7 328 801	7 884 994	5 418 909	3 710 403

H. FUNDING AND RELATED ITEMS continued

H1 BORROWINGS continued

H1.4 Individual facilities

Bank loans	Facility	Maturity date	Initial term	Security	Base currency	Interest rate at 30 June 2019 %	Nominal interest rate %	GROUP 30 June 2019 R000	GROUP 30 June 2018 R000	COMPANY 30 June 2019 R000	COMPANY 30 June 2018 R000
Rand Merchant Bank	R200m	Nov 2019	5 years	Secured	ZAR	8,52	3-month JIBAR + 1,5	200 000	200 000	200 000	200 000
Old Mutual Specialised Finance Proprietary Limited	R400m	Sep 2022	7 years	Secured	ZAR	8,57	3-month JIBAR + 1.55	399 649	399 539	399 649	399 539
The Standard Bank of South Africa Limited	R959m	Jun 2023	4 years	Secured	ZAR	8,67	3-month JIBAR + 1,65	958 658	–	958 658	–
The Standard Bank of South Africa Limited	R500m*	Jun 2023	4 years	Secured	ZAR	8,81	Prime less 1,44	1	–	1	–
Rand Merchant Bank	USD23m	May 2021	3 years	Secured	USD	4,82	LIBOR + 2,3	247 577	228 336	–	–
The Standard Bank of South Africa Limited	USD100m	Aug 2019	5 years	Secured	USD			–	1 370 070	–	–
The Standard Bank of South Africa Limited	USD111m	Jul 2020	5 years	Secured	USD	4,37	LIBOR +2,47 (fixed)	1 574 518	1 524 663	–	–
Standard Finance (Isle of Man) Limited	USD60m	Oct 2020	3 years	Secured	USD	4,82	LIBOR + 2,24	848 922	822 042	–	–
Stanbic IBTC Bank PLC	USD31,6m	Jan 2021	3 years	Secured	USD	8,83 and 7,83	Facility A: 3-month LIBOR + 6,25; facility B: 3-month LIBOR + 5,25	–	433 150	–	–
Investec Asset Management Proprietary Limited	USD23,7m	Jan 2021	3 years	Secured	USD	8,83 and 7,83		–	324 414	–	–
								4 229 325	5 302 214	1 558 308	599 539
DCM funding											
HILB04	R450m	Nov 2019	6 years	Unsecured	ZAR	8,56	3-month JIBAR + 1,54	450 000	450 000	450 000	450 000
HILB05	R358m	Jul 2019	3 years	Unsecured	ZAR	8,71	3-month JIBAR + 1,69	358 000	357 940	358 000	357 940
HILB06	R425m	Jul 2020	4 years	Unsecured	ZAR	8,81	3-month JIBAR + 1,79	424 947	424 894	424 947	424 894
HILB07	R317m	Jul 2021	5 years	Unsecured	ZAR	8,92	3-month JIBAR + 1,90	316 937	316 905	316 937	316 905
HILB08	R452m	Mar 2023	5 years	Unsecured	ZAR	8,62	3-month JIBAR + 1,60	451 831	452 000	451 831	452 000
HILB09	R348m	Mar 2025	7 years	Unsecured	ZAR	8,92	3-month JIBAR + 1,90	347 856	348 000	347 856	348 000
HILB010	R250m	Mar 2022	3,5 years	Unsecured	ZAR	8,46	3-month JIBAR + 1,44	249 905	–	249 905	–
HILB011	R150m	Mar 2024	5 years	Unsecured	ZAR	8,77	3-month JIBAR + 1,75	150 000	–	150 000	–
HILB012	R350m	Mar 2024	5 years	Unsecured	ZAR	8,72	3-month JIBAR + 1,70	350 000	–	350 000	–
								3 099 476	2 349 739	3 099 476	2 349 739
Shareholder funding	Facility	Expiry date		Security	Currency	Interest rate	Interest rate				
AIH International Limited[(1)]	USD17m	Mar 2021		Unsecured	USD	10,08	10,08	–	163 698	–	–
AIH International Limited[(1)]		Mar 2021		Unsecured	USD			–	69 343	–	
African Land Limited		[(2)]		Unsecured	ZAR			–	–	761 125	761 125
Total borrowings								7 328 801	7 884 994	5 418 909	3 710 403
* Total group undrawn facilities at year end amount to:								R499m	–	–	–

The above loans are secured against investment property as set out in note E1.7 – *Mortgaged properties*. Interest on all loans is paid monthly or quarterly as applicable. Capital is repayable on the loan maturity date.

[(1)] *AIH (non-controlling shareholder of Gruppo Investments Nigeria Limited) – the loans are disclosed under liabilities associated with assets held-for-sale at 30 June 2019.*

[(2)] *The African Land loan is repayable on a minimum of 12 months' written notice.*

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

H. FUNDING AND RELATED ITEMS continued

H1 BORROWINGS continued

H1.5 Movement reconciliation

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Opening balance at 1 July	7 884 994	8 900 638	3 710 403	4 874 902
Foreign exchange movement	161 393	186 303	–	–
Capital raised during the year	1 708 077	2 600 502	1 708 077	800 255
Raising fees – amortised	429	–	429	–
Repayments during the year	(1 414 851)	(3 871 791)	–	(1 964 754)
Net interest accrued	25 862	–	–	–
Transferred to held-for-sale	(1 056 507)	–	–	–
Transferred to current liabilities	–	69 343	–	–
Fair value adjustment	19 404	–	–	–
Balance at the end of the year	7 328 801	7 884 994	5 418 909	3 710 403

H2 DERIVATIVES

H2.1 Accounting policies

Derivatives	Derivatives are initially measured at fair value and are subsequently remeasured at fair value. Any directly attributable transaction costs are recognised in profit or loss as incurred.

Derivative instruments comprise interest rate swaps and exchange rate zero cost collars (put and call options). The interest rate swaps are used to hedge interest rate exposure on long-term debt facilities and corporate bonds. Zero cost collars are used to hedge the exchange rate in anticipation of receipt of dividends from Hystead and Hyprop Mauritius.

Further disclosure on the designation of the interest rate swaps and their risk mitigation role is provided in note M3 – *Interest rate risk and sensitivity*.

			GROUP		COMPANY	
		Note	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
H2.2	Net carrying value					
	Currency collars	H2.4	3 310	(1 722)	3 310	(1 722)
	Interest rate swaps	H2.5	(67 563)	(16 676)	(66 734)	(24 113)
	Total derivatives		(64 253)	(18 398)	(63 424)	(25 835)
H2.3	Maturity profile					
	Non-current assets		619	6 846	619	224
	Current assets		2 691	815	2 691	–
	Non-current liabilities		(60 224)	(24 060)	(59 408)	(24 060)
	Current liabilities		(7 339)	(1 999)	(7 326)	(1 999)
	Total derivatives		(64 253)	(18 398)	(63 424)	(25 835)
H2.4	Currency collars					
H2.4.1	*Net carrying value*					
	Non-current assets		619	–	619	–
	Current assets		2 691	–	2 691	–
	Current liabilities		–	(1 722)	–	(1 722)
	Total derivatives		3 310	(1 722)	3 310	(1 722)
H2.4.2	*Movement reconciliation*					
	Opening balance at 1 July		(1 722)	(80)	(1 722)	(80)
	Additions		3 310	(757)	3 310	(757)
	Utilised		1 722	–	1 722	–
	Fair value adjustment		–	(885)	–	(885)
	Balance at the end of the year		3 310	(1 722)	3 310	(1 722)

H2.4.3 Individual instruments

			GROUP		COMPANY	
Counterparty bank	Expiry date	Nominal value EUR000	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Standard Bank	Sep 18	1 000	–	(757)	–	(757)
Standard Bank	Nov 18	1 500	–	(965)	–	(965)
RMB	Sep 19	2 400	819	–	819	–
RMB	Jan 20	2 000	580	–	580	–
RMB	Jan 20	2 000	660	–	660	–
RMB	Apr 20	2 000	632	–	632	–
RMB	Jul 20	2 000	619	–	619	–
Total currency collars			3 310	(1 722)	3 310	(1 722)

H2.5 Interest rate swaps

H2.5.1 Net carrying value

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Non-current assets	–	6 846	–	224
Current assets	–	815	–	–
Non-current liabilities	(60 224)	(24 060)	(59 408)	(24 060)
Current liabilities	(7 339)	(277)	(7 326)	(277)
Total interest rate swaps	(67 563)	(16 676)	(66 734)	(24 113)

H2.5.2 Movement reconciliation

Opening balance at 1 July	(16 676)	(47 073)	(24 113)	(40 515)
Foreign exchange movement	3 684	(330)	–	–
Additions	(5 931)	6 607	(5 931)	757
Expiry	(554)	(8 883)	278	–
Fair value adjustment	(48 086)	33 003	(36 968)	15 645
Balance at the end of the year	(67 563)	(16 676)	(66 734)	(24 113)

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

H. FUNDING AND RELATED ITEMS continued

H2 DERIVATIVES continued

H2.5.3 Individual instruments

Counterparty Bank	Nominal amount	Expiry date	Fixed rate payable %	Variable rate receivable	GROUP 30 June 2019 R000	GROUP 30 June 2018 R000	COMPANY 30 June 2019 R000	COMPANY 30 June 2018 R000
Standard Bank	R100m	Aug 18	8,02	3-month JIBAR	–	(277)	–	(277)
Standard Bank	R100m	Nov 19	8,04	3-month JIBAR	(496)	(1 256)	(496)	(1 256)
Standard Bank	R100m	Feb 20	8,50	3-month JIBAR	(1 148)	(2 142)	(1 148)	(2 142)
Standard Bank	R450m	Oct 20	7,85	3-month JIBAR	(6 903)	(5 270)	(6 903)	(5 270)
Standard Bank	R958m	Jun 23	7,04	3-month JIBAR	(4 814)	–	(4 814)	–
Standard Bank	R300m	Oct 23	7,82	3-month JIBAR	(10 127)	(232)	(10 127)	(232)
Standard Bank	R100m	May 24	7,85	3-month JIBAR	(3 455)	224	(3 455)	224
Standard Bank	R350m	Mar 24	7,52	3-month JIBAR	(7 348)	–	(7 348)	–
Standard Bank	R150m	Mar 24	7,52	3-month JIBAR	(3 149)	–	(3 149)	–
RMB	R200m	Sep 19	7,73	3-month JIBAR	(337)	(1 380)	(337)	(1 380)
Nedbank	R250m	Jan 20	8,54	3-month JIBAR	(2 905)	(5 672)	(2 905)	(5 672)
Nedbank	R250m	Jan 20	8,29	3-month JIBAR	(2 440)	(4 631)	(2 440)	(4 631)
Nedbank	R500m	Jan 21	7,43	3-month JIBAR	(5 500)	(883)	(5 500)	(883)
Nedbank	R500m	Sep 21	7,61	3-month JIBAR	(9 015)	(1 536)	(9 015)	(1 536)
Nedbank	R500m	Oct 21	7,55	3-month JIBAR	(9 097)	(1 058)	(9 097)	(1 058)
Standard Bank	USD17,8m	Nov 18	4,26	3-month LIBOR	–	831	–	–
Standard Bank	USD27,1m	Oct 20	2,11	3-month LIBOR	(817)	816	–	–
RMB	USD4,98m	May 20	2,10	3-month LIBOR	(13)	5 790	–	–
Total interest rate swaps					(67 563)	(16 676)	(66 734)	(24 113)

H3 FINANCIAL GUARANTEES

H3.1 Accounting policies

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the original or modified terms of a debt instrument. Liabilities under financial guarantees are recognised initially at fair value and subsequently as follows:

- From 1 July 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see note M5.2.3.1) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15: *Revenue from contracts with customers*
- Before 1 July 2018: at the higher of the amount determined in accordance with IAS 37: *Provisions, contingent liabilities and contingent assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18: *Revenue*.

Management assessed the obligations under the guarantees and concluded that these meet the definition of financial guarantees, and the change in fair value of the guarantees represents a charge to profit or loss.

H3.2 Profile

USD guarantees The company has provided guarantees to banks that have provided funding to Hyprop Mauritius (a wholly owned subsidiary) and Hystead. The guarantees are secured by mortgage bonds over certain of the company's South African investment properties as disclosed in note E1.8 – *Mortgaged properties*. Details of the secured loans are disclosed in note H1.4. On consolidation the USD guarantees are eliminated as the underlying loans are reflected on the statement of financial position.

EUR guarantees Hyprop and PDI Investment Holdings Limited (PDI) have guaranteed EUR400,8 million of loans advanced by banks to Hystead as follows:

Hyprop	EUR360,8 million
PDI	EUR40 million

PDI has provided back-to-back guarantees to Hyprop for a further EUR46,8 million (2018: EUR46,8 million) (equivalent to 11,7% of the EUR408,0 million guaranteed debt).

For the EUR73,2 million of debt (2018: EUR73,2 million) (18,3% of the EUR400,8 million guaranteed debts) which Hyprop has guaranteed in excess of its pro rata 60% interest in Hystead, Hyprop receives 60% of the related dividends declared to PDI from Hystead, which equates to 11% (60% x 18,3%) of the dividends paid by Hystead, as a guarantee fee (the credit enhancement fee).

This agreement is in place until May 2021, when the shareholders' agreement between Hyprop and PDI, as shareholders in Hystead, expires.

During the year, loans of EUR400,8 million (EUR360,8 million of which were guaranteed by Hyprop) were refinanced and Hyprop provided new guarantees for EUR360,8 million of the new loans. This resulted in the derecognition of the guarantees given in respect of the expired loans and recognition of the new guarantees as financial liabilities.

H3.3 Key estimates and assumptions

Valuation of financial guarantees The guarantees issued by Hyprop are recognised as financial liabilities on the statement of financial position at the higher of the day one fair value or ECL value.

The valuation of the financial guarantees have been calculated by independent advisers as follows:
Contractual future cash flows related to each loan were calculated and then multiplied by an appropriate probability of default (PD) and loss given default (LGD). The amounts were then discounted (using risk-free rates) to either the inception date of the exposure or the valuation date (30 June 2019) to obtain the day-one fair value or expected credit loss (ECL) at 30 June 2019.

For the ECL calculations, these can be calculated for either a 12-month period (stage 1) or lifetime (stage 2). Depending on the stage or exposure, the relevant ECL value was chosen and compared to the day-one fair value. The credit rating of the underlying entities were assumed as one notch lower than Hyprop's credit rating.

In previous years credit default swaps were used to assess the probability of default on the underlying loans. Following implementation of IFRS 9: *Financial instruments*, more information on historical default rates is available in the market. This has been used to calculate the fair values of the new guarantees issued during the year.

Disclosure of the sensitivity of the valuation of the financial guarantees to changes in the underlying assumptions is included in note L4.2.

		GROUP		COMPANY	
		30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
H3.4	**Net carrying value**				
	Guarantees in respect of Hyprop Mauritius	–	–	186 023	202 822
	Guarantees in respect of Hystead	110 401	185 686	110 401	185 686
	Total financial guarantees	110 401	185 686	296 424	388 508
H3.5	**Movement reconciliation***				
	Opening balance at 1 July	185 686	163 855	388 508	329 575
	New guarantees issued	110 401	33 815	110 401	136 202
	Fair value adjustments	–	–	16 294	–
	Derecognition of guarantees cancelled	(185 686)	(11 984)	(218 779)	(77 269)
	Balance at the end of the year	110 401	185 686	296 424	388 508

* *New guarantees which were issued and expired (due to amendments to loan agreements) in the current year are not included in the above reconciliation.*

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

H. FUNDING AND RELATED ITEMS continued

H4 COVENANTS AND CAPITAL MANAGEMENT

H4.1 External restrictions

In terms of the agreements between the group and the financial institutions who have granted loans to the group, the group is required to maintain certain key financial ratios (covenants) above or below specified benchmarks. If a covenant is breached on or before the reporting date, the affected loans should be classified as current if the group does not have the right to defer settlement for at least 12 months after the reporting date.

Summary of the group's key covenants and their status

Covenant	Benchmark range	Reported as	30 June 2019	Status	30 June 2018	Status
Loan to value ratio	A maximum of 50% to 60%	Percentage	18,0 to 40	✓	17,0 to 40	✓
Secured loan to value ratio	A maximum of 55% to 70%	Percentage	12,5 to 49	✓	12,7 to 63	✓
Net asset value	A minimum of R7,5 billion	Rbn	22,9	✓	26,0	✓
Interest cover ratio *(EBITDA/interest expense)*	A minimum of 1,75 to 2 times cover	Times	3,6 to 6,3	✓	4,4 to 5,6	✓
Secured portfolio interest cover ratio	A minimum of 1,75 to 2 times cover	Times	3,1 to 5,9	✓	3,8 to 6,0	✓

The group complied with all of its loan covenants during the current and preceding financial years.

H4.2 Internal restrictions

Hyprop's capital management objective is to maintain a strong capital base to provide sustainable returns to shareholders over the long term. The company's borrowings are limited by its Memorandum of Incorporation and the JSE Listings Requirements to 60% (2018: 60%) of the gross asset value (as defined in the JSE Listings Requirements) as reflected in the company's consolidated statement of financial position.

Hyprop's (theoretical) unutilised borrowing capacity can be summarised as follows:

		GROUP		COMPANY	
	Note	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Total consolidated assets/gross asset value		33 653 572	35 165 476	30 857 940	30 838 229
60% of gross asset value		20 192 143	21 099 286	18 514 764	18 502 938
Total borrowings	H1.4	(7 328 801)	(7 884 994)	(5 418 909)	(3 710 403)
Unutilised borrowing capacity		12 863 342	13 214 292	13 095 855	14 792 534