L4 VALUATION SENSITIVITIES – LEVEL 3

L4.1 Fair value of financial asset – valuation sensitivities

The valuation of the investment in Hystead is sensitive to changes to the unobservable inputs. Changes to one of the unobservable inputs, while holding the other inputs constant, would have the following effects on the fair value of investment in Hystead in the statement of profit or loss.

		GROUP AND COMPANY			
Input		30 June 2019 % change	30 June 2018 % change	30 June 2019 R000	30 June 2018 R000
Annual growth rate	Increase	0,50	1,00	96 070	45 449
	Decrease	0,50	1,00	(96 070)	(45 449)
Terminal growth rate	Increase	0,50	1,00	9 150	2 273
	Decrease	0,50	1,00	(9 150)	(2 273)
Discount rate	Increase	0,50	1,00	(67 478)	(32 951)
	Decrease	0,50	1,00	67 478	32 951
Exit capitalisation rates	Increase	0,50	1,00	(68 621)	(40 904)
	Decrease	0,50	1,00	68 621	40 904

* *The percentage change applied in each year is the possible change applicable to each input.*

L4.2 Fair value of financial guarantees – valuation sensitivities

The valuation of the financial guarantees is sensitive to changes to the unobservable inputs. Changes to one of the unobservable inputs, while holding the other inputs constant, would have the following effects on the fair value of the financial guarantees on the statement of financial position.

		GROUP AND COMPANY	
Basis of valuation	Change in credit risk	30 June 2019 R000	30 June 2018 R000
If all guarantees were day-one fair value:	One notch better credit risk than Hyprop	(41 390)	(182 643)
	One notch worst credit risk than Hyprop	–	(114 532)
If all guarantees were 12-month ECL:	One notch better credit risk than Hyprop	(94 475)	(271 994)
	One notch worst credit risk than Hyprop	(86 261)	(259 396)
If all guarantees were lifetime ECL:	One notch better credit risk than Hyprop	(9 467)	(17 570)
	One notch worst credit risk than Hyprop	40 842	39 692

Comparative information has not been provided as all Euro denominated guaranteed loans were refinanced and expired guarantees derecognised. The guarantees for US Dollar denominated loans have been reclassified as stage 2 and 3 during the 2019 year.

M. FINANCIAL RISK MANAGEMENT

M1 RISK MANAGEMENT OVERVIEW

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

- Liquidity risk
- Interest rate risk
- Currency risk
- Credit risk

The board of directors (board) has overall responsibility for the establishment and oversight of the group's risk management framework. The board, assisted by the audit and risk committee, monitors the effectiveness of the internal control systems.

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 audit and risk 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 audit and risk 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 the audit and risk committee, please refer to its charter on the group's website and the report of the audit and risk committee attached to the financial statements.

The audit and risk committee is assisted by management and an outsourced internal audit service provider, both of which reports to the audit and risk committee. The committee reports on the findings of the internal audit function to the board.

Executive management implement controls to safeguard the group's assets, as well as to ensure validity, accuracy and completeness of financial information. Certain of these controls are reviewed by internal audit.

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

M. FINANCIAL RISK MANAGEMENT continued

M2 LIQUIDITY RISK AND SENSITIVITY

M2.1 Risk and mitigation

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 and includes liquidity risk, financing/refinancing risk and credit rating risk.

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.

Exposure	Mitigation
Liquidity – the risk that the group will not be able to meet its financial obligations as they fall due.	Liquidity risk is managed by: • actively monitoring cash flow requirements and debt maturity profiles; • maintaining cash balances and adequate loan facilities to ensure future obligations can be met.
Financing risk – the risk that the group is unable to raise the required finance to meet its obligations or to refinance existing borrowings, including that the cost of borrowings becomes unaffordable	Financing and refinancing risk is managed by: • actively monitoring cash flow requirements and debt maturity profiles; • maintaining cash balances and adequate loan facilities to ensure future obligations can be met; • adopting a pro-active approach to refinancing maturing borrowings well in advance of the maturity date; • maintaining strong relationships with commercial banks and other lenders; • regular engagement with institutional bond investors; and • managing debt maturity profiles to ensure a relatively constant level of loan maturities in each year. Loans are generally raised for between three and five years' duration.
Credit rating risk – The risk that the group's credit rating is downgraded and negatively impacts the group's access to finance or increases its cost of borrowings. In February 2019, Moody's lowered Hyprop's long-term national scale issuer rating to Aa3.za from Aa1.za and affirmed the short-term national scale rating of Prime-1.za. The main reason cited for the decrease in the rating is that Moody's estimated that Hyprop's debt-to-asset ratio, adjusted for the full consolidation of Hystead, had increased to 41% at 30 June 2018, from 33,4% in 2017, as a result of debt funded acquisitions in Eastern Europe. Moody's further stated that Hyprop will rely on external debt financing to cover R5 billion of debt coming due in the next 18 months, including the Hystead debt that it guarantees. Hyprop, like all South African domiciled entities, is constrained (but not necessarily capped) by the South African sovereign rating. In March 2019 Moody's passed the review of South Africa's sovereign credit rating leaving the rating at Baa3, the last rung of investment grade, with a stable outlook while the S&P rating remains at the sub-investment grade BB with a stable outlook.	Hyprop has taken cognisance of Moody's points which led to two key initiatives that we have advanced: • Refinance the portion of debt maturing up to June 2020 – between March and June 2019 R4 billion of external debt (including EUR214 million of debt in Hystead) was refinanced. In addition, R500 million was raised by the issue of two new corporate bonds in March 2019, the proceeds of which were used to settle R358 million of bonds that matured in July 2019, with the balance being retained to finance capital expenditure in the 2020 financial year. • Lowering our LTV to 35% (as considered appropriate and calculated by Moody's) – alternative ways to reduce the group's LTV ratio continue to be considered and evaluated. In the short term, the disposal of Hyprop's sub-Saharan African interests and utilisation of the proceeds to settle USD-denominated debt will result in a reduction in the LTV ratio of approximately 5% (on completion of all disposals). We will endeavour to restore Hyprop's credit rating to investment grade by 31 December 2020 and will continue to engage with Moody's in that regard. The group meets its financing requirements through a mixture of cash generated from its operations and, short and long-term borrowings. Adequate banking facilities and reserve borrowing capacities are maintained. The group has complied with all of the covenants in terms of the agreements governing its bank borrowings and debt capital market program at 30 June 2019.

		GROUP		COMPANY	
	Reported as	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Average maturity of borrowings	Years	2,6	2,5	2,6	2,8
Weighted average maturity of borrowings	Years	2,3	2,3	2,8	2,7

M2.2 Financial exposure

The following table summarises the maturity profiles and contractual cash flows of financial instruments at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments where applicable. The table below excludes assets held-for-sale.

GROUP 30 June 2019	Carrying value R000	Contractual cash flows[2] R000	Within one year R000	One to five years R000	More than five years R000
Non-derivative financial assets					
Financial asset	218 444	3 220 944	230 232	1 207 965	1 782 747
Loans receivable – non-current (Eastern Europe)	18 847	19 935	594	19 341	–
Loans receivable – current (sub-Saharan Africa)	1 333 106	1 333 106	1 333 106	–	–
Trade and other receivables	105 625	105 625	105 625	–	–
Cash and cash equivalents	1 285 337	1 285 337	1 285 337	–	–
Total	2 961 359	5 964 947	2 954 894	1 227 306	1 782 747
Derivative financial assets					
Currency collars – non-current	619	34 389	–	34 389	–
Currency collars – current	2 691	140 401	140 401	–	–
Total	3 310	174 790	140 401	34 389	–
Non-derivative financial liabilities					
Long-term portion of borrowings	6 320 801	8 474 266	505 836	7 597 298	371 132
Short-term portion of borrowings	1 008 000	1 027 815	1 027 815	–	–
Financial guarantees – non-current[1]	110 401	4 160 535	–	4 160 535	–
Trade and other payables	469 141	469 141	469 141	–	–
Total	7 908 343	14 131 757	2 002 792	11 757 833	371 132
Derivative financial liabilities[2]					
Interest rate swaps – non-current	60 224	47 625	17 603	–	–
Interest rate swaps – current	7 339	4 750	4 750	–	–
Total	67 563	52 375	22 353	30 022	–
Net exposure	–	(8 044 395)	1 070 150	(10 526 160)	1 411 615
30 June 2018					
Non-derivative financial assets					
Financial asset	152 556	2 120 835	266 527	855 433	998 874
Loans receivable – non-current (sub-Saharan Africa)	2 918 721	3 336 060	206 626	3 129 434	–
Loans receivable – non-current (Eastern Europe)	18 724	20 390	590	590	19 211
Loans receivable – current	40 716	40 716	40 716	–	–
Trade and other receivables	258 071	258 071	258 071	–	–
Cash and cash equivalents	715 493	715 493	715 493	–	–
Total	4 104 281	6 491 565	1 488 023	3 985 457	1 018 085
Derivative financial assets					
Derivative instruments – non-current	6 846	27 543	10 086	16 522	934
Derivative instruments – current	815	2 440	2 440	–	–
Total	7 661	29 983	12 526	16 522	934
Non-derivative financial liabilities					
Long-term portion of borrowings	7 815 651	7 256 694	465 524	6 420 349	370 821
Short-term portion of borrowings	69 343	69 343	69 343	–	–
Financial guarantees – non-current[1]	185 686	6 462 459	3 786 293	2 676 166	–
Trade and other payables	486 090	486 090	486 090	–	–
Total	8 556 770	14 274 586	4 807 250	9 096 515	370 821
Derivative financial liabilities[2]					
Derivative instruments – non-current	24 060	12 843	28 435	41 330	930
Derivative instruments – current	1 999	135	135	–	–
Total	26 059	12 978	28 570	41 330	930
Net exposure		(7 766 016)	(3 335 271)	(5 135 866)	647 268

[1] *The outflows disclosed for the financial guarantees in the table represent maximum potential outflow under the guarantees in the event of the borrowers defaulting on all their obligations under the guaranteed loans.*

[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 settled on a net basis.*

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

M. FINANCIAL RISK MANAGEMENT continued

M2 LIQUIDITY RISK AND SENSITIVITY continued

M2.2 Financial exposure continued

COMPANY 30 June 2019	Carrying value R000	Con-tractual cash flows[1] R000	Within one year R000	One to five years R000	More than five years R000
Non-derivative financial assets					
Financial asset	218 444	3 220 944	230 232	1 207 965	1 782 747
Loans receivable – non-current (sub-Saharan Africa)	758 264	758 264	–	758 264	–
Loans receivable – non-current (Eastern Europe)	18 847	19 935	594	19 341	–
Loans receivable – non-current (South Africa)	53 603	53 603	–	53 603	–
Trade and other receivables	104 534	104 534	104 534	–	–
Cash and cash equivalents	1 062 412	1 062 412	1 062 412	–	–
Total	2 216 104	5 219 692	1 397 772	2 039 173	1 782 747
Derivative financial assets					
Currency collars – non-current	619	34 389	–	34 389	–
Currency collars – current	2 691	140 401	140 401	–	–
Total	3 310	174 790	140 401	34 389	–
Non-derivative financial liabilities					
Long-term portion of borrowings	4 410 909	4 768 365	317 939	4 079 293	371 132
Short-term portion of borrowings	1 008 000	1 027 815	1 027 815	–	–
Financial guarantees – non-current[1]	296 424	6 650 356	3 786 293	2 864 063	–
Trade and other payables	447 691	447 691	447 691	–	–
Total	6 163 024	12 894 227	5 579 738	6 943 356	371 132
Derivative financial liabilities[2]					
Interest rate swaps – non-current	59 408	47 625	17 603	30 022	–
Interest rate swaps – current	7 326	4 750	4 750	–	–
Total	66 734	52 375	22 353	30 022	–
Net exposure	–	(7 552 120)	(4 063 918)	(4 899 816)	1 411 615
30 June 2018					
Non-derivative financial assets					
Financial asset	152 556	2 120 835	266 527	855 433	998 874
Loans receivable – non-current (sub-Saharan Africa)	758 264	758 264	–	758 264	–
Loans receivable – non-current (Eastern Europe)	18 723	20 390	590	590	19 211
Loans receivable – current	84 160	84 160	84 160	–	–
Trade and other receivables	187 490	187 490	187 490	–	–
Cash and cash equivalents	655 789	655 789	655 789	–	–
Total	1 856 982	3 826 928	1 194 556	1 614 287	1 018 085
Non-derivative financial liabilities					
Long-term portion of borrowings	2 949 278	3 689 627	247 182	3 071 624	370 821
Short-term portion of borrowings	761 125	910 108	910 108	–	–
Financial guarantees – non-current	388 508	9 353 397	3 960 060	5 393 337	–
Trade and other payables	346 916	346 916	346 916	–	–
Total	4 445 827	14 300 048	5 464 266	8 464 961	370 821
Derivative financial liabilities[2]					
Derivative instruments – non-current	24 060	74 515	27 521	45 130	1 864
Derivative instruments – current	1 999	1 999	1 999	–	–
Total	26 059	76 514	29 520	45 130	1 864
Net exposure	–	(10 549 634)	(4 299 230)	(6 895 804)	645 400

[1] The outflows disclosed for the financial guarantees in the table represent maximum potential outflow under the guarantees in the event of the borrowers defaulting on all their obligations under the guaranteed loans.

[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 settled on a net basis.

M3 INTEREST RATE RISK AND SENSITIVITY

M3.1 Risk and mitigation

Interest rate risk is the risk that the value of short-term investments and financial performance will be impacted as a result of fluctuations in interest rates.

Exposure	Mitigation
Fluctuations in interest rates impact on the value of short-term investments, financing activities and the cost of borrowings, giving rise to interest rate risk.	Interest rates are monitored and appropriate steps taken to ensure that Hyprop's exposure to interest rate fluctuations is limited.
The group has significant exposure to interest rate risk through its loans receivable and borrowings.	The group has a formal interest rate hedging policy for borrowings which was approved by the audit and risk committee and the board during the year. In terms of this policy at least 75% of interest rate exposure for borrowings is fixed over the life of interest-bearing borrowings. The board has approved the use of interest rate swaps, forward starting interest rate swaps, fixed rate loans, interest rate collars and interest rate caps to manage interest rate exposure. Details of interest rate hedges at 30 June 2019 are included in note H2 to the financial statements.

M3.2 Financial exposure

The interest rate profile of the group's interest-bearing borrowings as reported is as follows:

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Long-term portion of borrowings	6 320 801	7 815 651	4 410 909	2 949 278
Short-term portion of borrowings	1 008 000	69 343	1 008 000	761 125
Total	7 328 801	7 884 994	5 418 909	3 710 403

Summarised quantitative data on the group's interest rate exposure is set out in the statistics below:

	GROUP	
	30 June 2019	30 June 2018
On-balance sheet debt at fixed rates (%) (excludes EUR funding)	77,0	81,2
South African debt	101,1	113,6
USD debt (Rand equivalent)	44,6	61,0
Average maturity of interest rate hedges (years)	2,25	2,32
South African debt	2,58	2,74
USD debt (Rand equivalent)	1,24	1,15
Average duration of borrowings (years)	2,21	2,43
South African debt	2,84	3,15
USD debt (Rand equivalent)	1,35	1,98
Cost of funding (%) (including hedges)	7,7	6,7
South African debt	9,3	9,4
USD debt	5,4	5,0
Cost of funding (%) (excluding hedges)	7,3	6,5
South African debt	8,7	8,6
USD debt	5,5	5,1
Debt capital market (DCM) % of total debt	22	20
Interest cover ratio		
Interest cover ratio (gross)	4,12	4,36
Interest cover ratio (net)	5,18	8,08
Borrowings covenants		
LTV (banks/DCM)	50 – 70/55	50 – 70/55
Interest cover (banks)	1,75 – 2,0	1,75 – 2,0

Notes to the consolidated and separate financial statements continued

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M. FINANCIAL RISK MANAGEMENT continued

M3 INTEREST RATE RISK AND SENSITIVITY continued

M3.3 Sensitivity

Based on the interest rate profile (fixed or variable) of the group's borrowings and interest rate swaps at 30 June 2019, 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 2019 by R28,6 million (2018: R18,7 million).

M4 CURRENCY RISK AND SENSITIVITY

M4.1 Risk and mitigation

Exposure	Mitigation
The group is exposed to currency risk in three areas: (i) Transactional versus functional currency exposure The mismatch between the currencies in which revenue, operating costs and borrowings are denominated and the respective functional currencies of group companies. **Where we are exposed** Hyprop is exposed to this risk at all levels where it transacts in currencies other than the functional currency, e.g. Euro and USD denominated loans guaranteed by Hyprop (whose functional currency is ZAR), Nigerian Naira denominated expenses and bank accounts in Nigeria (where functional currency is USD) and Euro denominated bank loans across the European portfolio.	The group's policy is to match the currency in which borrowings are incurred to the currency in which income is earned. This reduces the impact of currency fluctuations on debt service obligations, and thereby reduces the risk of guarantees being called. This is particularly relevant to the group's funding structures in its sub-Saharan African investments and European investments where borrowings have been guaranteed by Hyprop.
(ii) Functional versus reporting currency The difference that gives rise to a currency translation reserve in the consolidated financial statements (for example, a subsidiary has a US Dollar functional currency and Hyprop Group reporting currency is ZAR (Rand), or foreign exchange gains or losses on balances denominated in foreign currency). **Where we are exposed** Hyprop is exposed to this risk through its wholly owned subsidiary Hyprop Mauritius whose functional currency is USD. Although the European properties in the Hystead Group present the same exposure (reporting in Euro, while functioning in Dinar, Kuna, Denar and Lev), the investment in Hystead accounted for as a financial asset and is not consolidated by Hyprop.	Insofar as this risk relates to Hyprop Mauritius, the risk is unmitigated as there are no cash flows which can be hedged. To the extent cash flows do arise, these will be hedged under (iii) below. Hyprop's investment in Hystead is accounted for as a financial asset and is not consolidated by Hyprop. Therefore this risk is not applicable to the investment in Hystead.
(iii) Settlement versus functional currency The mismatch between the currency in which transactions (for example, dividends and interest) are settled (send-side), and the currency in which they are received.) **Where we are exposed** Hyprop is exposed to this risk through the payments it makes and receives (including dividend income) in Euro and USD.	The group has a formal foreign currency hedging policy which was approved by the audit and risk committee and the board during the year. In terms of this policy between 50% and 75% of known, or reliably predictable, cash flow items can be hedged up to 12 months in advance using foreign exchange collars or forward exchange contracts. Refer to note H2 of the financial statements for details of the foreign exchange collars in place at 30 June 2019.

The following significant exchange rates were applied during the year:

	AVERAGE RATE		YEAR END SPOT RATE	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Rand/Euro	16,04	15,32	16,11	16,00
Rand/US Dollar	14,13	12,85	14,15	13,70
Naira/US Dollar	362,11	338,02	361,93	360,99

M4.2 Financial exposure

Summarised quantitative data about the group's exposure to currency risk is as follows:

GROUP 30 June 2019	Carrying value EUR000	Carrying value USD000	Carrying value NGN000	Carrying value R000
Financial asset	13 561	–	–	218 444
Loans receivable – non-current (Eastern Europe)	1 170	–	–	18 847
Loans receivable – current	–	94 221	–	1 333 106
Trade and other receivables	1 011	77	2 062 028	97 971
Cash and cash equivalents (including held-for-sale)	–	15 319	1 061 880	258 254
Asset exposure	15 742	109 617	3 123 908	1 926 622
Long-term portion of borrowings	–	263 457	–	3 727 579
Short-term portion of borrowings	–	813	–	11 499
Financial guarantees – non-current	6 854	–	–	110 401
Trade and other payables	–	1 513	1 067 648	63 150
Non-derivative liabilities exposure	6 854	265 783	1 067 648	3 912 629
Derivative financial liabilities	205	(59)	–	2 480
Net exposure	8 683	(156 107)	2 056 260	(1 988 487)
30 June 2018				
Financial asset	9 534	–	–	152 556
Loans receivable – non-current (sub-Saharan Africa)	–	213 045	–	2 918 717
Loans receivable – non-current (Eastern Europe)	1 170	–	–	18 724
Loans receivable – current	2 545	–	–	40 716
Trade and other receivables	8 435	–	1 835 309	204 624
Cash and cash equivalents (including held-for-sale)	–	370	1 129 033	47 923
Asset exposure	21 684	213 415	2 964 342	3 383 260
Long-term portion of borrowings	–	343 261	–	4 702 674
Short-term portion of borrowings	–	17 010	–	233 041
Financial guarantees – non-current	11 604	–	–	185 686
Trade and other payables	–	478	1 170 399	50 968
Non-derivative liabilities exposure	11 604	360 749	1 170 399	5 172 369
Derivative financial liabilities	(108)	543	–	5 715
Net exposure	10 188	(147 877)	1 793 943	(1 794 824)

Notes to the consolidated and separate financial statements continued

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M. FINANCIAL RISK MANAGEMENT continued

M4 CURRENCY RISK AND SENSITIVITY continued

M4.2 Financial exposure continued

COMPANY 30 June 2019	Carrying value EUR000	Carrying value R000
Financial asset	13 561	218 444
Loans receivable – non-current (Eastern Europe)	1 170	18 847
Trade and other receivables	1 011	16 278
Asset exposure	15 742	253 569
Financial guarantees – non-current	6 854	110 401
Non-derivative liabilities exposure	6 854	110 401
Derivative financial liabilities	205	3 310
Net exposure	8 683	139 858
COMPANY		
30 June 2018		
Financial asset	9 534	152 556
Loans receivable – non-current (Eastern Europe)	1 170	18 723
Trade and other receivables	4 780	76 484
Asset exposure	15 484	247 763
Financial guarantees – non-current	11 604	185 686
Non-derivative liabilities exposure	11 604	185 686
Derivative financial liabilities	(108)	(1 722)
Net exposure	3 988	63 799

M4.3 Sensitivity

The following sensitivity analysis is provided to show the foreign currency exposure of the individual entities at the end of the reporting period. This analysis is prepared based on the statement of financial position balances at year end, for which there is currency risk, before consideration of currency derivatives.

The effect on equity is calculated as the effect on profit or loss. The effect on translation of results into the group's presentation currency is excluded from the information provided.

The pre-tax effect of changes to one of the exchange rates is summarised below. The analysis assumes that all other variables, in particular, interest rates, remain constant.

				GROUP		COMPANY	
		30 June 2019 % change	30 June 2018 % change	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Impact on profit or loss							
Rand/Euro	Strengthening	0,25	1,27	685	78 574	685	78 574
Rand/US Dollar	Strengthening	0,25	0,72	–	6 838	N/A	N/A
Naira/US Dollar	Strengthening	0,25	–	N/A	N/A	N/A	N/A
Rand/Euro	Weakening	0,25	1,27	(685)	(78 574)	(685)	(78 574)
Rand/US Dollar	Weakening	0,25	0,72	–	(6 838)	N/A	N/A
Naira/US Dollar	Weakening	0,25	–	N/A	N/A	N/A	N/A
Impact on other comprehensive income							
Rand/US Dollar	Strengthening	0,25	0,72	(85)	(1 537)	N/A	N/A
Naira/US Dollar	Strengthening	0,25	–	5 141	N/A	N/A	N/A
Rand/US Dollar	Weakening	0,25	0,72	85	1 537	N/A	N/A
Naira/US Dollar	Weakening	0,25	–	(5 141)	N/A	N/A	N/A

M5 CREDIT RISK AND SENSITIVITY

M5.1 Risk and mitigation

Credit risk is the risk of financial loss due to counterparties not meeting their contractual obligations when due.

The group is exposed to credit risk due to its trade receivables, cash and cash equivalents, loans receivable and derivative instruments.

Exposure	Mitigation
Receivables The group is exposed to credit risk due to trade receivables. The maximum exposure to credit risk in respect of trade receivables at the reporting date is the fair value of each class of receivable.	**Deposits and guarantees** 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.
Loans receivable The group is exposed to credit risk due to its loans receivable. The maximum exposure to credit risk in respect of loans receivable at the reporting date is the fair value of each class of loan receivable.	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. Loans are generally only advanced to group or related parties.
Cash and cash equivalents The maximum exposure to credit risk due to cash and cash equivalents is the outstanding balance on deposit with the respective financial institution.	The group and company manage their exposure to credit risk by placing funds with a range of leading South African banks and AA+ rated money market funds. Exposure levels to each financial institution are monitored regularly.
Derivative instruments The maximum exposure to credit risk in respect of derivative instruments at the reporting date is the fair value of the derivative instruments.	The group and company manage their exposure to credit risk by transacting only with leading South African banks.

M5.2 Financial exposure

The group considers its maximum credit risk exposure per asset class, without taking into account any collateral and financial guarantees, to be as follows:

		GROUP		COMPANY	
		30 June 2019	30 June 2018	30 June 2019	30 June 2018
	Ref	R000	R000	R000	R000
Loans receivable – non-current	M5.2.1	18 847	2 937 445	72 450	18 723
Loans receivable – current	M5.2.2	1 333 106	40 716	–	84 160
Trade and other receivables (including held-for-sale)	M5.2.3	174 970	245 639	94 359	181 339
Cash and cash equivalents (including held-for-sale)	M5.2.4	1 326 849	715 648	1 062 412	643 032
Derivative instruments – assets	M5.2.5	3 310	7 661	3 310	224
		2 857 082	3 947 109	1 232 531	927 478

M5.2.1 Loans receivable – non-current

The loans receivable from Vondelvlag Stichting and Vondelvlag Finance (which expire in 2021) do not exhibit any signs of credit impairment. Interest payments continued to be made on these loans at each scheduled quarterly date and no expectation of default is indicated.

M5.2.2 Loans receivable – current

Although the loans receivable from AttAfrica and Manda Hill were credit impaired at 30 June 2018, interest payments continued to be made on these loans at the beginning of the current year.

During the year, however, the credit quality of the loans deteriorated as a result of the deterioration of the economic environments in which the group's sub-Saharan African interests operate, losses incurred by AttAfrica, the cessation of payment of the majority of the interest on the loans, decreases in the independent valuations of the underlying investment properties and Hyprop's decision to dispose of its sub-Saharan African interests. This resulted in the credit quality of the loans declining to stage 3 credit impaired.

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

M. FINANCIAL RISK MANAGEMENT continued

M5 CREDIT RISK AND SENSITIVITY continued

M5.2 Financial exposure continued

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
M5.2.3 Trade receivables				
Maximum exposure	148 175	196 015	67 564	172 406
Gross trade and other receivables	174 970	245 639	94 359	181 339
Cumulative impairments	(26 795)	(49 624)	(26 795)	(8 933)
Mitigating balances	374 581	315 943	345 792	283 710
Bank guarantees on behalf of tenants in favour of the group	235 212	229 296	214 004	211 199
Tenant deposits held by the group	139 369	86 647	131 788	72 511

M5.2.3.1 Impairment of trade receivables

The allowance for doubtful debts has been determined on a tenant-by-tenant basis, taking into account the circumstances of each tenant, including factors such as defaults on payment terms, known insolvency and the legal status of the accounts.

The group has applied the simplified approach to determine the expected credit loss for trade receivables resulting in a calculation of lifetime expected credit losses.

Management believes that there are no significant trade receivables that are doubtful that have not been provided for as doubtful debts or written off.

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Movement reconciliation				
Balance at the beginning of the year	49 624	33 944	8 933	5 558
Allowance for doubtful debts raised during the year	47 052	31 089	23 712	12 825
Receivables written off during the year	(5 850)	(17 509)	(5 850)	(9 450)
Currency translation adjustment	1 369	2 100	–	–
Transferred to held-for-sale	(65 400)	–	–	–
Balance at the end of the year	26 795	49 624	26 795	8 933
Ageing of impaired receivables				
Current	10 753	2 772	10 753	2 771
30 days	4 031	1 791	4 031	1 791
60 days	2 745	1 218	2 745	1 218
90+ days	9 266	43 843	9 266	3 153
Total	26 795	49 624	26 795	8 933
Ageing of receivables past due but not impaired				
30 days	2 422	11 911	2 422	3 232
60 days	855	7 409	855	1 084
90+ days	2 197	27 872	2 197	3 585
Total	5 474	47 192	5 474	7 901

M5.2.4 Cash and cash equivalents

Cash and cash equivalents comprise cash deposits with leading South African banks and units held in AA+ rated money market funds.

The Moody's credit ratings for the counterparty financial institutions as well the exposure concentration of cash and cash equivalents with each financial institution are as follows:

			GROUP		COMPANY	
	Credit rating 2019	Credit rating 2018	30 June 2019 %	30 June 2018 %	30 June 2019 %	30 June 2018 %
Absa Bank Limited	Baa3	Baa3	60,6	48,9	73,3	53,3
Nedbank	Baa3	Baa3	18,8	37,3	22,7	40,7
Standard Bank Group	Baa3	Baa3	20,6	13,8	4,0	6,0
Total exposure			100,0	100,0	100,0	100,0

Impairment losses on cash and cash equivalents are measured on a 12-month expected credit loss basis. No expected credit losses are anticipated in respect of cash and cash equivalents, given the credit ratings of the counterparties.

M5.2.5 Derivative instruments

Derivative instruments comprise interest rate swaps and foreign currency collars.

The Moody's credit ratings for the counterparty financial institutions as well the exposure of derivative instruments with each financial institution are as follows:

			GROUP		COMPANY	
	Credit rating 2019	Credit rating 2018	30 June 2019 %	30 June 2018 %	30 June 2019 %	30 June 2018 %
Rand Merchant Bank	Baa3	Baa3	5,8	6,7	4,7	6,1
Nedbank	Baa3	Baa3	41,0	56,4	45,3	68,1
Standard Bank Group	Baa3	Baa3	53,2	36,9	50,0	25,8
Total exposure			100,0	100,0	100,0	100,0

Exposure is based on the nominal values of the underlying derivative instruments.