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
June 2017								
Financial assets measured at fair value								
Joint venture – Hystead	6.3	[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 – current	7		163 855	163 855				
Trade and other payables	13, 20		405 314	405 314				
			9 469 807	9 469 807				

34. Financial instruments – Fair values and risk management continued

A – accounting classifications, fair values and risk association continued

	Note	Carrying amount			Fair value and fair value hierarchy			
		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
June 2016								
Financial assets measured at fair value								
Joint venture – Hystead	6.3	[1]					[1]	
Derivative instruments – non-current	18	49 309		49 309		49 309		49 309
		49 309		49 309		49 309		49 309
Financial assets not measured at fair value								
Loans receivable – non-current	10		3 273 289	3 273 289				
Loans receivable – current	10		400	400				
Trade and other receivables	11		170 764	170 764				
Cash and cash equivalents	12		187 754	187 754				
			3 632 207	3 632 207				
Financial liabilities measured at fair value								
Derivative instruments – non-current	18	101 198		101 198		101 198		101 198
Derivative instruments – current	18							
		101 198		101 198		101 198		101 198
Financial liabilities not measured at fair value								
Long-term portion of interest-bearing borrowings	17		8 632 036	8 632 036				
Short-term portion of interest-bearing borrowings	17		1 294 052	1 294 052				
Trade and other payables	20		434 060	434 060				
			10 360 148	10 360 148				

[1] *Value less than R1 000*

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 curve. Similar contracts are traded in active markets and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable
Joint venture – Hystead Limited (Hystead)	**Discounted cash flow:** The valuation model considers the present value of the 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.	Annual growth rate Exit cap rate	The estimated fair value would increase (decrease) if: ■ The annual growth rate were higher (lower); or ■ The exit cap rate were (higher) lower

II. Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial guarantee	**Discounted cash flow:** The valuation model considers the present value of net cash flows expected to be incurred taking into account estimated probabilities of default. The cash flow projections include revenue from investment properties, cost of servicing debt and other operating expenses. Probabilities of defaults are estimated using credit spreads derived from the contractual spreads of the underlying facilities. Expected cash flows are discounted using a risk adjusted discount rate.	Annual growth rates, credit spreads	The estimated fair value would increase (decrease) if: ■ The annual growth rates were higher (lower); or ■ The credit spread were higher (lower)
Loans receivable	Amortised cost.	Not applicable	Not applicable
Trade and other receivables	**Carrying values:** Due to the short-term nature of receivables they are carried at the value expected to be received within the next 12 months as discounting them over the months to settlement would not yield substantially different amounts. Their carrying value is considered to reflect fair value.	Not applicable	Not applicable
Cash and cash equivalents	The carrying value of cash is considered to reflect fair value.	Not applicable	Not applicable
Borrowings and payables	Amortised cost.	Not applicable	Not applicable

III. 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

IV. Level 3 fair values

Reconciliation of level 3 fair values

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

	June 2017 R000	June 2016 R000
Balance at 1 July		
Acquisition of 60% equity investment in Hystead at cost	[1]	
Net change in fair value	1 472 754	
Deferral of unrealised fair value change calculated with reference to unobservable inputs	(1 472 754)	
Unrealised foreign exchange loss	(112 340)	
Net change in fair value of new assets (acquisition of Skopje City Mall, Skopje, Macedonia)	661 868	1 472 754
Deferral of unrealised fair value change calculated with reference to unobservable inputs (day-one gains)	(549 528)	(1 472 754)
Balance at 30 June		

[1] *Value less than R1 000*

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

V. Valuation sensitivity analysis

Joint venture – Hystead

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

	June 2017 R000		June 2016 R000	
	Increase	Decrease	Increase	Decrease
Profit or loss				
Change in annual growth rate – 1% (2016: 1%)	26 731	(26 731)	33 268	(33 268)
Change in exit cap rate – 1% (2016: 1%)	(378 887)	378 887	(106 202)	106 202

C – Financial risk management

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

- Interest rate risk
- Credit risk
- Liquidity risk and
- 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 reviews and monitors the effectiveness of internal control systems, assisted by the audit and risk committee. The committee is in turn assisted by management reporting and periodic reviews, 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. 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 main role of the committee is to ensure 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 online.

34. Financial instruments – Fair values and risk management continued

C – Financial risk management continued

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 2017 to 2024 with an average maturity of 3,4 years (2016: 4,4 years). The average rate of interest at year-end (excluding Euro debt)[1] was 8,9% (2016: 8,9%) for Rand debt and 4,7% (2016: 4,6%) for USD debt (average rate of 6,7% (2016: 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:

	June 2017 R000	June 2016 R000
Total bank debt and debt capital market funding (excludes Euro debt)[1]:	8 900 638	9 708 925
Less non-controlling interest – Gruppo	(166 631)	(234 307)
Hyprop exposure	8 734 007	9 474 618
Total fixed debt	7 261 517	7 652 666
Total floating debt	1 472 490	1 821 952
	8 734 007	9 474 618
Debt at fixed interest rate %	85,2	80,8
South African debt %	100,9	89,6
USD debt %	70,4	72,4
Maturity of fixes (years)	3,4	4,4
South African debt – years	3,9	4,9
USD debt – years	2,7	3,7
Cost of funding %		
South African debt %	8,9	8,9
USD debt %	4,7	4,6

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

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any 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 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 2017 by R22,1 million (2016: R27,3 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 the tenant in terms of Hyprop's deposit policy. Furthermore, and only if required, a deed of suretyship will be obtained from a tenant.

Total amount held in bank guarantees across the group: R192 million, and held as tenant deposits: R78 million.

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 the due and functional performance of obligations in terms of third-party Euro funding amounting to EUR300 million (2016: EUR205 million) and has given certain undertakings to and in favour of FirstRand Bank Limited (acting through its Rand Merchant Bank division).

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.

34. Financial instruments – Fair values and risk management continued

C – Financial risk management continued

IV. Liquidity risk continued

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 and exclude the impact of offsetting agreements.

	Carrying amount R000	Contractual cash flows: Total contractual in/(out)flows R000	One year or less R000	One to five years R000	More than five years R000
June 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)	
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 used for hedging	(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*

	Carrying amount R000	Contractual cash flows: Total contractual in/(out)flows R000	One year or less R000	One to five years R000	More than five years R000
June 2016					
Non-derivative financial liabilities					
Long-term portion of interest-bearing borrowings	(8 632 036)	(9 237 368)		(9 237 368)	
Short-term portion of interest-bearing borrowings	(1 294 052)	(1 617 798)	(1 617 798)		
Payables	(434 060)	(434 060)	(434 060)		
	(10 360 148)	(11 289 226)	(2 051 858)	(9 237 368)	
Derivative financial liabilities					
Interest rate swaps used for hedging	(101 198)	(244 985)	(49 328)	(195 657)	
Total	(10 461 346)	(11 534 211)	(2 101 186)	(9 433 025)	

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.

	30 June 2017			30 June 2016		
	USD	EUR	ZAR000 equivalent Total	USD	EUR	ZAR000 equivalent Total
Loans receivable	229 650 903	1 186 531	3 013 407	220 564 705	897 756	3 273 289
Trade and other receivables	4 306 806	5 379 826	136 343	3 594 675	1 948 643	85 073
Cash and cash equivalents	4 720 772		61 581	365 694		5 403
Borrowings	(354 185 562)		(4 620 244)	(316 428 001)		(5 076 480)
Trade and other payables	(6 175 603)		(80 559)	(6 300 844)		(93 087)
Net exposure	(121 682 684)	6 566 357	(1 489 472)	(98 203 771)	2 846 399	(1 805 802)
Financial guarantee		(294 943 604)	(4 394 778)			
Forward exchange contracts	(502 722)		(6 558)	(5 673 957)		(83 825)
Net exposure	(122 185 406)	(288 377 247)	(5 890 808)	(103 877 728)	2 846 399	(1 889 627)

The following significant exchange rates have been applied.

	30 June 2017			30 June 2016		
		Average rate	Year-end spot		Average rate	Year-end spot
	USD1	13,63	13,04	USD1	14,87	14,77
	EUR1	14,53	14,90	EUR1	16,40	16,40

Currency risk sensitivity analysis

A strengthening (weakening) of the Euro and US Dollar against the Rand at 30 June would have affected the measurement 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.

	30 June 2017 R000 Profit or loss			30 June 2016 R000 Profit or loss		
	Change vs ZAR	Strengthening	Weakening	Change vs ZAR	Strengthening	Weakening
USD1	5%	73 671	(73 671)	10%	103 308	(103 308)
EUR1	2%	(1 549)	1 549	12%	(5 419)	5 419

	30 June 2017 Other comprehensive income			30 June 2016 Other comprehensive income		
	Change vs ZAR	Strengthening	Weakening	Change vs ZAR	Strengthening	Weakening
USD1	5%	(16 655)	16 655	10%	(146)	146
EUR1	2%	None as Hystead is not consolidated		12%	None as Hystead is not consolidated	