

H. FUNDING AND RELATED ITEMS

H1 BORROWINGS

H1.1 Accounting policy

Interest-bearing borrowings are initially measured at fair value, net of transaction costs. Interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method (see note D4.1 for the accounting policy for borrowings cost).

H1.2 Carrying value

	Group		Company	
	June 2020 R'000	June 2019 R'000	June 2020 R'000	June 2019 R'000
Profile				
Secured bank loans	4 153 233	5 012 217	1 158 693	1 558 308
Debt capital market (DCM) funding	3 340 490	3 099 476	3 340 490	3 099 476
Secured	499 533	-	499 533	-
Unsecured	2 840 957	3 099 476	2 840 957	3 099 476
Shareholder loans	356 623	273 670	761 124	761 125
Total borrowings	7 850 346	8 385 363	5 260 307	5 418 909
Maturity profile				
Non-current	4 074 183	6 320 801	4 835 307	4 410 909
Bank loans	1 158 693	4 029 325	1 158 693	1 358 308
DCM funding	2 915 490	2 291 476	2 915 490	2 291 476
Non-controlling shareholder/subsidiary	-	-	761 124	761 125
Current	2 463 877	1 008 000	425 000	1 008 000
Bank loans	2 038 877	200 000	-	200 000
DCM funding	425 000	808 000	425 000	808 000
Liabilities associated with assets held-for-sale	1 312 286	1 056 562	-	-
Total borrowings	7 850 346	8 385 363	5 260 307	5 418 909
H1.3 Movement reconciliation				
Opening balance at 1 July	8 385 363	7 884 994	5 418 909	3 710 403
Foreign exchange movement	608 406	161 448	-	-
New borrowings raised during the year	1 247 982	1 708 077	1 247 982	1 708 077
Raising fees - amortised	1 435	429	1 436	429
Repayments during the year	(2 469 969)	(1 414 851)	(1 408 020)	-
Net interest accrued	78 416	25 862	-	-
Fair value adjustment	(1 287)	19 404	-	-
Balance at the end of the year	7 850 346	8 385 363	5 260 307	5 418 909

H. FUNDING AND RELATED ITEMS *continued***H1.4 Individual facilities**

Group												
Company												
	Facility	Maturity date	Initial term	Security	Base currency	Interest rate at 30 June 2020 %	Interest rate at 30 June 2019 %	Nominal interest rate %	June 2020 R'000	June 2019 R'000	June 2020 R'000	June 2019 R'000
Bank loans												
Rand Merchant Bank	R200m	Nov 2019	5 years	Secured	ZAR	-	8.52	3-month JIBAR + 1.5	-	200 000	-	200 000
Old Mutual Specialised Finance (Pty) Ltd	R400m	Sep 2022	7 years	Secured	ZAR	-	8.57	3-month JIBAR + 1.55	-	399 649	-	399 649
The Standard Bank of South Africa Ltd	R959m	Jun 2023	4 years	Secured	ZAR	5.56	8.67	3-month JIBAR + 1.65	958 885	958 658	958 885	958 658
The Standard Bank of South Africa Ltd	R500m ⁽³⁾	Jun 2023	4 years	Secured	ZAR	5.81	8.81	Prime less 1.44	-	1	-	1
Nedbank Limited	R200m ⁽³⁾	Mar 2022	2 years	Secured	ZAR	5.41	-	3-month JIBAR + 1.6	199 808	-	199 808	-
Rand Merchant Bank	USD23m	May 2021	3 years	Secured	USD	3.39	4.82	LIBOR +2.3	316 318	247 577	-	-
The Standard Bank of South Africa Ltd	USD111m	Aug 2020	5 years	Secured	USD	4.02	4.37	LIBOR +2.47 (fixed)	821 337	1 574 518	-	-
Standard Finance (Isle of Man) Ltd	USD60m	Oct 2020	3 years	Secured	USD	3.64	4.82	LIBOR +2.24	901 222	848 922	-	-
Stanbic IBTC Bank PLC ⁽¹⁾	USD31.6m	Jan 2021	3 years	Secured	USD	7.01 and 6.01	8.83 and 7.83	⁽²⁾	546 418	447 632	-	-
Ninety One (Pty) Ltd ⁽¹⁾	USD23.7m	Jan 2021	3 years	Secured	USD	7.01 and 6.01	8.83 and 7.83	⁽²⁾	409 245	335 260	-	-
Total bank loans									4 153 233	5 012 217	1 158 693	1 558 308
DCM funding												
HILB04	R450m	Nov 2019	6 years	Unsecured	ZAR	-	8.56	3-month JIBAR + 1.54	-	450 000	-	450 000
HILB05	R358m	Jul 2019	3 years	Unsecured	ZAR	-	8.71	3-month JIBAR + 1.69	-	358 000	-	358 000
HILB06	R425m	Jul 2020	4 years	Unsecured	ZAR	5.70	8.81	3-month JIBAR + 1.79	425 000	424 947	425 000	424 947
HILB07	R317m	Jul 2021	5 years	Unsecured	ZAR	5.81	8.92	3-month JIBAR + 1.90	316 970	316 937	316 970	316 937
HILB08	R452m	Mar 2023	5 years	Unsecured	ZAR	5.51	8.62	3-month JIBAR + 1.60	451 876	451 831	451 876	451 831
HILB09	R348m	Mar 2025	7 years	Unsecured	ZAR	5.61	8.92	3-month JIBAR + 1.90	347 882	347 856	347 882	347 856
HILB10	R250m	Mar 2022	3.5 years	Unsecured	ZAR	5.35	8.46	3-month JIBAR + 1.44	249 940	249 905	249 940	249 905
HILB11	R150m	Mar 2024	5 years	Unsecured	ZAR	5.66	8.77	3-month JIBAR + 1.75	149 944	150 000	149 944	150 000
HILB12	R350m	Mar 2024	5 years	Unsecured	ZAR	5.61	8.72	3-month JIBAR + 1.70	349 870	350 000	349 870	350 000
HILB13	R100m	Dec 2021	1.5 years	Unsecured	ZAR	5.96	-	3-month JIBAR + 2.05	100 000	-	100 000	-
HIL03U	R500m	Nov 2022	3 years	Secured	ZAR	5.41	-	3-month JIBAR + 1.5	499 533	-	499 533	-
HIL02U	R450m	Oct 2022	3 years	Unsecured	ZAR	5.41	-	3-month JIBAR + 1.5	449 475	-	449 475	-
Total DCM funding									3 340 490	3 099 476	3 340 490	3 099 476
Shareholder funding												
African Land (Pty) Ltd		⁽⁴⁾		Unsecured	ZAR				-	-	761 124	761 125
AIH International Ltd ⁽¹⁾		Mar 2021		Unsecured	USD	10.08	10.08		356 623	273 670	-	-
Total borrowings									7 850 346	8 385 363	5 260 307	5 418 909
Undrawn facilities												
Total Group/Company undrawn facilities at year end amount to:												
The secured loans above are secured against investment property as set out in note E1.8 – <i>Mortgaged properties</i> . Interest on all loans is paid monthly or quarterly as applicable. Capital is repayable on the loan maturity date.												
									R500m	R500m	R500m	R500m

⁽¹⁾ Loans disclosed under liabilities associated with assets held-for-sale.⁽²⁾ Facility A: 3-month LIBOR+6.25; facility B: 3-month LIBOR+5.25.⁽³⁾ Revolving credit facility⁽⁴⁾ The African Land loan is repayable on a minimum of 12 months' written notice.

H2 DERIVATIVES

H2.1 Accounting policy

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, exchange rate zero cost collars (put and call options) and forward exchange contracts. 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. Forward exchange contracts are used to hedge amounts committed to recapitalise Hyprop Mauritius and anticipated dividends from Hystead.

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*.

H2.2 Net carrying value

	Note	Group		Company	
		June 2020 R'000	June 2019 R'000	June 2020 R'000	June 2019 R'000
Currency collars and forward exchange contracts	H2.4	(32 019)	3 310	(32 019)	3 310
Interest rate swaps	H2.5	(253 630)	(67 563)	(249 840)	(66 734)
Total derivatives		(285 649)	(64 253)	(281 859)	(63 424)

H2.3 Maturity profile

Non-current assets	-	619	-	619
Current assets	-	2 691	-	2 691
Non-current liabilities	(233 669)	(60 224)	(233 669)	(59 408)
Current liabilities	(51 980)	(7 339)	(48 190)	(7 326)
Total derivatives	(285 649)	(64 253)	(281 859)	(63 424)

H2.4 Currency collars and forward exchange contracts

H2.4.1 Net carrying value

Non-current assets	-	619	-	619
Current assets	-	2 691	-	2 691
Non-current liabilities	(3 693)	-	(3 693)	-
Current liabilities	(28 326)	-	(28 326)	-
Total derivatives	(32 019)	3 310	(32 019)	3 310

H2.4.2 Movement reconciliation

Opening balance at 1 July	3 310	(1 722)	3 310	(1 722)
New contracts entered into	(30 622)	3 310	(30 622)	3 310
Contracts utilised	(2 691)	1 722	(2 691)	1 722
Fair value adjustment	(2 016)	-	(2 016)	-
Balance at the end of the year		(32 019)	(32 019)	3 310

H. FUNDING AND RELATED ITEMS *continued***H2. DERIVATIVES** *continued***H2.4 CURRENCY COLLARS AND FORWARD EXCHANGE CONTRACTS** *continued***H2.4.3 Individual instruments**

Counter-party bank	Type of instrument	Expiry date	Currency	Nominal value '000	Group		Company	
					June 2020 R'000	June 2019 R'000	June 2020 R'000	June 2019 R'000
RMB	Currency collar	Sep 2019	EUR	2 400	-	819	-	819
RMB	Currency collar	Jan 2020	EUR	2 000	-	580	-	580
RMB	Currency collar	Jan 2020	EUR	2 000	-	660	-	660
RMB	Currency collar	Apr 2020	EUR	2 000	-	632	-	632
RMB	Currency collar	Jul 2020	EUR	2 000	(1 397)	619	(1 397)	619
RMB	Currency collar	Jul 2020	EUR	2 000	(4 082)	-	(4 082)	-
ABSA	Participation forward (net)	Jul 2020	USD	25 000	(4 765)	-	(4 765)	-
ABSA	Forward exchange contract	Aug 2020	USD	45 000	(2 925)	-	(2 925)	-
RMB	Currency collar	Sep 2020	EUR	3 350	(7 334)	-	(7 334)	-
ABSA	Forward exchange contract	Feb 2021	EUR	2 100	(3 972)	-	(3 972)	-
ABSA	Currency collar	Apr 2021	EUR	2 100	(3 851)	-	(3 851)	-
ABSA	Currency collar	Jul 2021	EUR	2 100	(3 693)	-	(3 693)	-
Total currency collars and forward exchange contracts					(32 019)	3 310	(32 019)	3 310
H2.5 Interest rate swaps								
H2.5.1 Net carrying value								
Non-current liabilities					(229 976)	(60 224)	(229 976)	(59 408)
Current liabilities					(23 654)	(7 339)	(19 864)	(7 326)
Total interest rate swaps					(253 630)	(67 563)	(249 840)	(66 734)
H2.5.2 Movement reconciliation								
Opening balance at 1 July					(67 563)	(16 676)	(66 734)	(24 113)
Foreign exchange movement					(196)	3 684	-	-
New contracts entered into					-	(5 931)	-	(5 931)
Contracts utilised/expired					7 326	(554)	7 326	278
Fair value adjustment					(193 197)	(48 086)	(190 432)	(36 968)
Balance at the end of the year					(253 630)	(67 563)	(249 840)	(66 734)

H2.5.3 Individual instruments

Counterparty Bank	Nominal amount	Expiry date	Fixed rate payable %	Variable rate receivable	Group		Company	
					June 2020 R'000	June 2019 R'000	June 2020 R'000	June 2019 R'000
Standard Bank	R100m	Nov 2019	8.04	3-month JIBAR	-	(496)	-	(496)
Standard Bank	R100m	Feb 2020	8.50	3-month JIBAR	-	(1 148)	-	(1 148)
Standard Bank	R450m	Oct 2020	7.85	3-month JIBAR	(8 171)	(6 903)	(8 171)	(6 903)
Standard Bank	R958m	Jun 2023	7.04	3-month JIBAR	(79 402)	(4 814)	(79 402)	(4 814)
Standard Bank	R300m	Oct 2023	7.82	3-month JIBAR	(34 550)	(10 127)	(34 550)	(10 127)
Standard Bank	R100m	May 2024	7.85	3-month JIBAR	(12 129)	(3 455)	(12 129)	(3 455)
Standard Bank	R350m	Mar 2024	7.52	3-month JIBAR	(37 084)	(7 348)	(37 084)	(7 348)
Standard Bank	R150m	Mar 2024	7.52	3-month JIBAR	(15 893)	(3 149)	(15 893)	(3 149)
RMB	R200m	Sep 2019	7.73	3-month JIBAR	-	(337)	-	(337)
Nedbank	R250m	Jan 2020	8.54	3-month JIBAR	-	(2 905)	-	(2 905)
Nedbank	R250m	Jan 2020	8.29	3-month JIBAR	-	(2 440)	-	(2 440)
Nedbank	R500m	Jan 2021	7.43	3-month JIBAR	(11 694)	(5 500)	(11 694)	(5 500)
Nedbank	R500m	Sep 2021	7.61	3-month JIBAR	(24 404)	(9 015)	(24 404)	(9 015)
Nedbank	R500m	Oct 2021	7.55	3-month JIBAR	(26 513)	(9 097)	(26 513)	(9 097)
Standard Bank	USD 27.1m	Oct 2020	2.11	3-month LIBOR	(3 790)	(817)	-	-
RMB	USD 4.98m	May 2020	2.10	3-month LIBOR	-	(13)	-	-
Total interest rate swaps					(253 630)	(67 563)	(249 840)	(66 734)

H2.6 Valuation assumptions - unobservable inputs

	Group	Company
	June 2020	June 2020
The key assumptions used in determining the fair value of derivatives are in the following ranges:		
USD revaluation rate	R17.39/USD - R17.49/USD	R17.39/USD - R17.49/USD
EUR revaluation rate	R19.47/EUR - R20.00/EUR	R19.47/EUR - R20.00/EUR
Projected forward interest rate (JIBAR)	3.5% - 6.7%	3.5% - 6.7%
Projected forward interest rate (LIBOR)	0.3% - 0.8%	n/a

H2.7 Valuation sensitivity

	June 2020 % change	Group	Company
		June 2020 R'000	June 2020 R'000
Currency collars and forward exchange contracts			
Increase in Delta	25%	(230 154)	(230 154)
Decrease in Delta	25%	359 279	359 279
Interest rate swaps			
Increase in projected forward interest rate	25%	81 645	81 645
Decrease in projected forward interest rate	25%	(81 266)	(81 266)

H. FUNDING AND RELATED ITEMS *continued***H3 FINANCIAL GUARANTEES****H3.1 Accounting policy**

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 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*.

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 Key judgements and estimations

Valuation of financial guarantees	<p>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.</p> <p>The fair value of the financial guarantees have been calculated by independent advisers as follows:</p> <p>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 2020) to obtain the day-one fair value or expected credit loss (ECL) at 30 June 2020 respectively.</p> <p>In determining the ECL for the financial guarantee, an adjustment to the credit risk profile of the entities was considered given the economic effects of the Covid-19 pandemic. This was performed by first determining the historic GDP and associated corporate default probabilities, and then applying the forecasted GDP for 2020 per country to project the expected probability of default (PD). The resultant PD's therefore incorporate forward looking macro-economic information.</p> <p>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 is compared to the day-one fair value. Due to the difficult market conditions affecting the real estate environment globally and the impact of Covid-19, the current lifetime (stage 2) ECL has been used as the valuation basis and compared to the day-one fair values. The credit rating of the underlying entities were assumed as one notch lower than Hyprop's credit rating.</p> <p>Disclosure of the sensitivity of the valuations of the financial guarantees to changes in the underlying assumptions is included in note H3.7 - <i>Valuation sensitivity</i>.</p>
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H3.3 Profile

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.

H3.3.1 USD guarantees

On consolidation the USD guarantees are eliminated as the underlying loans are reflected on the statement of financial position.

H3.3.2 EUR guarantees

Hyprop and PDI Investment Holdings Limited (PDI) have guaranteed EUR 401.5 million of loans advanced by banks to Hystead as follows:

Hyprop	EUR 361.5 million (June 2019: EUR 360.8 million)
PDI	EUR 40 million (June 2019: EUR 40 million)

PDI has provided back-to-back guarantees to Hyprop for a further EUR 46.8 million (2019: EUR 46.8 million) (equivalent to 11.7% of the EUR 401.5 million (2019: EUR 400.8 million) guaranteed debt).

For the EUR 73.5 million of debt (2019: EUR 73.2 million) (18.3% of the EUR 401.5 million (2019: EUR 400.8 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.

The total guarantee fee earned during the year is detailed below:

	Group		Company	
	June 2020 R'000	June 2019 R'000	June 2020 R'000	June 2019 R'000
Guarantee fee income	22 111	40 542	22 111	40 542

H3.4 Carrying value

Guarantees in respect of Hyprop Mauritius	-	-	114 861	186 023
Guarantees in respect of Hystead	127 066	110 401	127 066	110 401
Total financial guarantees	127 066	110 401	241 927	296 424

H3.5 Maturity profile

Non-current liabilities	127 066	110 401	127 066	296 424
Current liabilities	-	-	114 861	-
Total financial guarantees	127 066	110 401	241 927	296 424

H3.6 Movement reconciliation

Opening balance at 1 July	110 401	185 686	296 424	388 508
New guarantees issued	-	110 401	-	110 401
Increase / (decrease) in fair value	16 665	-	(54 497)	16 294
Derecognition of guarantee cancelled	-	(185 686)	-	(218 779)
Balance at the end of the year	127 066	110 401	241 927	296 424

The decrease in the financial liability for guarantees given on behalf of Hyprop Mauritius is due to repayment of a portion of the guaranteed loans during the year.

H. FUNDING AND RELATED ITEMS *continued***H3. FINANCIAL GUARANTEES** *continued***H3.7 Valuation assumptions - unobservable inputs**

	Group and Company June 2020 EUR IOS and USD IOS	Group and Company June 2019 EUR IOS and USD IOS
Risk-free rate		
Data used for probability of default	Publically available IMF data and management input	Market traded instruments
Loss given default (%)	Between 20% and 30% for EUR guarantees and between 30% and 40% for USD guarantees	20% for EUR and USD guarantees
Credit rating	BB+ to BBB-	BB+ to BBB

H3.8 Valuation sensitivity

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 carrying value of the financial guarantees on the statement of financial position.

The USD based guarantees all take into account the negative net asset value of the underlying entity (Hyprop Mauritius). Due to the negative net asset value of Hyprop Mauritius being greater than the changes under the sensitivity testing, the valuation of the guarantees given on behalf of Hyprop Mauritius are not affected by the changes in the unobservable inputs and all sensitivity fluctuations relate to the EUR based guarantees.

	Group and Company June 2020 R'000
Change in credit risk	
One notch better credit risk than Hyprop	(49 287)
One notch worse credit risk than Hyprop	32 533

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). 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 (2020/2019)	Reported as	June 2020	Status	June 2019	Status
Loan to value ratio	A maximum of 50% / 50% to 60%	Percentage	42.4 - 49.5	✓	18.0 - 40.0	✓
Secured portfolio loan to value ratio	A maximum of 65% to 70% / 55% to 70%	Percentage	59.2 - 65.5	✓	12.5 - 49.0	✓
Net asset value	A minimum of R7.5 billion	Rbn	18.5	✓	22.9	✓
Interest cover ratio (EBITDA/interest expense)	A minimum of 1.75 to 2 times cover	Times	2.7 - 3.0	✓	3.6 - 6.3	✓
Secured portfolio interest cover ratio	A minimum of 1.75 to 1.8 / 1.75 to 2 times cover	Times	2.0 - 5.0	✓	3.1 - 5.9	✓

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 not limited by its Memorandum of Incorporation. However, in terms of the JSE listings requirements a REIT's total consolidated borrowings may not exceed 60% of its consolidated gross asset value, as reflected in its latest published financial statements or results. Should the 60% threshold be exceeded, Hyprop may lose its REIT status under the JSE rules.

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

	Note	Group		Company	
		June 2020 R'000	June 2019 R'000	June 2020 R'000	June 2019 R'000
Total consolidated assets/gross asset value		28 959 704	33 653 572	26 880 655	30 857 940
60% of gross asset value		17 375 822	20 192 143	16 128 393	18 514 764
Total consolidated borrowings	H1.4	(7 850 346)	(7 328 801)	(5 260 307)	(5 418 909)
Unutilised borrowing capacity		9 525 476	12 863 342	10 868 086	13 095 855