

CREDIT RATING ANNOUNCEMENT

Hospitality Property Fund Limited – New Senior Secured Notes Rating Accorded and Existing Notes Ratings Upgraded.

Johannesburg, 19 February 2018 -- Global Credit Ratings (“GCR”) has accorded a *final, public* long-term credit rating of ‘AA_{-(ZA)}’ with a ‘Stable’ Outlook to the following Notes (the “New Notes”) issued by Hospitality Property Fund Limited (“HPF” or the “Issuer”), on 19 February 2018 (the “Transaction”):

- R600m, Senior Secured Floating Rate Notes, Stock Code: HPF11, maturing 31 March 2023.

The New Notes were issued to refinance the HPF10 Notes which were set to mature on 17 February 2018, however, due to the Business Day Convention outlined in the Transaction Documents, the Notes were settled on 19 February 2018. Accordingly, GCR has withdrawn the rating of the HPF10 Notes following the full redemption of the Notes.

Concurrently, GCR upgraded the *final, public* long-term credit ratings accorded to the following existing Notes issued by HPF (the “Existing Notes”) by one notch, to ‘AA_{-(ZA)}’ with a ‘Stable’ Outlook:

- R60m, Senior Secured Floating Rate Notes, Stock Code: HPF06 maturing 20 February 2020; and
- R150m, Senior Secured Floating Rate Notes, Stock Code: HPF09 maturing 15 April 2019.

The New Notes and the Existing Notes are collectively referred to as the “Senior Secured Notes”. The ratings mentioned above are not programme-wide ratings, but relate to the Notes issued under the Domestic Medium Term Note Programme as detailed above.

RATING RATIONALE

The Senior Secured Notes are secured by a portfolio of the Issuer’s hotels (the underlying collateral). The New Notes will be used to refinance an equal nominal amount of the HPF10 Notes which were set to mature on 17 February 2018. The Transaction entails the public listing of the New Notes on the Interest Rate Market of the Johannesburg Stock Exchange and forms part of the Issuer’s established R5bn Domestic Medium Term Note Programme.

The total open market valuation of the secured portfolio increased from R2.8bn at February 2017 to R5.2bn at April 2017 and subsequently to R9.2bn at October 2017, owing to several acquisition transactions concluded with the Tsogo Sun Holdings Limited group (“Tsogo”), which now has a controlling stake in HPF. Although the Issuer marginally increased the amount of secured debt from R1.2bn at February 2017 to R2.4bn at January 2018 by securing facilities with The Standard Bank of South Africa (assuming full drawn down of the facilities), the additional properties registered in favour of the Security SPV / Debt Guarantor ultimately results in the contraction of the Loan To Value ratio (“LTV”) in respect of the Security SPV. Accordingly, at 31 December 2017 the LTV was registered at 20.2% (December 2016: 36.6%).

In determining the estimated recoveries expected from the secured portfolio, GCR assumes that all secured facilities are fully drawn down and that the maximum allowable debt is outstanding as per the LTV covenant. Based on GCR’s Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 90.1% carries the qualification ‘Excellent Recovery Prospects’. A rating uplift of four national scale notches was deemed to be appropriate for the Transaction. Accordingly, GCR accorded a *final, public* long-term credit rating of ‘AA_{-(ZA)}’ with a ‘Stable’ Outlook to the New Notes. Concurrently, GCR upgraded the *final, public* long-term credit ratings accorded to the Existing Notes from ‘A_{+(ZA)}’ to ‘AA_{-(ZA)}’ with a ‘Stable’ Outlook. The ratings accorded to the Senior Secured Notes are subject to the Issuer’s aggregate secured outstanding debt not exceeding 45% of the current Open Market Value of the secured portfolio.

GCR notes that a portion of the secured portfolio does not currently have a security cession in place, thereby excluding the lease agreements, bank accounts and insurance contracts in respect of the relevant properties from the security pool. GCR expects the security cession to be forthcoming and for purposes of its rating analysis, did not include the properties that have no security cession in place in the recovery calculation. As such, should the aggregate outstanding debt exceed 45% of the ceded portfolio (a nominal value of R2.4bn), rating action may be warranted on the Senior Secured Notes. It is anticipated that the execution of the cession in security will not have an impact on the rating of the Senior Secured Notes, due to the LTV level of debt assumption outlined above.

The *final, public* ratings accorded to the Senior Secured Notes relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity). The ratings exclude an assessment of the ability of the Issuer to pay any (early repayment) penalties. If the rating accorded to the Issuer changes, the ratings of the Senior Secured Notes may also change, but not necessarily in the same scale. The ratings of the Senior Secured Notes may also change if the estimated stressed value of the underlying collateral materially changes. For more information on the Transaction, please refer to GCR’s Hospitality Property Fund Limited – New Issuance Report published on 19 February 2018.

RATINGS HISTORY*

Stock Code	Initial Rating	LT Rating	ST Rating	Outlook
HPF06	18 February 2015	A _(ZA)	n.a	Stable
HPF09	18 April 2016	A _(ZA)	n.a	Stable
HPF11	19 February 2018	AA _{-(ZA)}	n.a	Stable
Stock Code	Last Rating	LT Rating	ST Rating	Outlook
HPF06	16 February 2017	A _{+(ZA)}	n.a	Stable
HPF09	16 February 2017	A _{+(ZA)}	n.a	Stable
HPF11	19 February 2018	AA _{-(ZA)}	n.a	Stable

* The ratings of HPF10 have been withdrawn upon the full redemption of the Notes.

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

- Global Structurally Enhanced Corporate Bonds Rating Criteria (Nov'17);
- Global Criteria for Rating Property Funds (Feb'17);
- Global Master Criteria for Rating Corporate Entities (Feb'17);
- HPF Corporate Rating Report (Oct'17);
- Hospitality Property Fund Limited R890m Senior Secured Notes New Issuance Report (Feb'17);
- Hospitality Property Fund Senior Secured Notes Market Alert (Nov'17 and Feb'18).

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S STRUCTURED FINANCE GLOSSARY

Arranger	Usually an Investment bank that advises and constructs a transaction and acts as a conduit between the transaction parties: Client, Issuer, Credit Rating Agency, Investors, Legal Counsel and Servicers.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Collateral	An asset pledged as security in event of default.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Domestic Medium Term Note Programme	A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Floating Rate Notes	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e. JIBAR.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Issuer	The party indebted or the person making repayments for its borrowings.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Loss	A tangible or intangible, financial or non-financial loss of economic value.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Property	Movable or immovable asset.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Refinance	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Senior	A security that has a higher repayment priority than junior securities.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Stock Code	A unique code allocated to a publicly listed security.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The Issuer and the Arranger participated in the rating process via face-to-face meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The ratings above were solicited by the Issuer of the Transaction; GCR has been compensated for the provision of the ratings.

The credit ratings have been disclosed to the Issuer and the Arranger with no contestation of the ratings.

The information received from the Arranger and other reliable third parties to accord the credit ratings included:

- An overview of the income and expenses for each property in the secured portfolio for the period ending 31 December 2017;
- Occupancy and rental rates per property for the period ending 31 December 2017;
- The Open Market Valuation Reports for the secured properties at 31 March 2017;
- Audited covenant compliance certificates at 30 September 2017, 31 October 2017 and 31 December 2017;
- Final signed Applicable Pricing Supplement for the New Notes;
- Legal Opinion in respect of the New Notes; and
- The relevant signed and executed Transaction Documents for the Existing Notes and the Programme.

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