

3 September 2021

**The Board and Independent Board**

Liberty Holdings Limited  
Liberty Centre, 1 Ameshoff Street  
Braamfontein  
Johannesburg, 2001

Dear Sir/Madam:

**Report of the Independent Expert on the proposed buy-out of Liberty Holdings Limited's ("Liberty") minority shareholders by Standard Bank Group Limited ("SBG")**

**Introduction**

Liberty is considering a transaction ("Proposed Transaction") to be effected by way of a scheme of arrangement pursuant to which SBG will acquire all ordinary shares issued by Liberty (other than the ordinary shares already held by SBG and a wholly-owned subsidiary of Liberty, being Lexshell 615 Proprietary Limited ("Lexshell 615")). The Proposed Transaction will result in Liberty's ordinary shareholders ("Liberty Shareholders") receiving, in consideration for the disposal of all of their ordinary shares to SBG, a delivered value of 0.5 SBG shares and an aggregate consideration of R25.50 (consisting of a cash consideration by SBG of R14.40 and a special distribution of R11.10 to be paid out of Liberty's contributed tax capital ("Special Distribution")) per Liberty ordinary share ("Aggregate Consideration").

Full details of the Proposed Transaction are contained in the Circular in which this Opinion is replicated as Annexure 1 ("Circular"). The material interests of directors of Liberty and the impact of the Proposed Transaction on them are set out in paragraph 15 of the Circular.

**Scope**

In terms of Chapter 5, Section 114 (Scheme of arrangement) of the Companies Act No 71 of 2008 ("Companies Act") and Regulations 90 and 110(10)(b) of the Companies Regulations, 2011 ("Companies Regulations"), Liberty requires an Independent Professional Expert to furnish a fair and reasonable opinion ("Opinion").

Ernst & Young Advisory Services (Pty) Limited ("EY") has been appointed by Liberty as the independent expert to provide the Opinion complying with the above Regulations.

Copies of Sections 115 and 164 of the Companies Act are included in Annexures 11 and 12, respectively, of the Circular.

**Responsibility**

Compliance with the Companies Act and the Listings Requirements of the JSE ("JSE Listings Requirements") is the responsibility of the board of directors of Liberty ("Board"). Our responsibility is to report on the Proposed Transaction in compliance with the related provisions of the Companies Act, the Companies Regulations and JSE Listings Requirements as appropriate.

We confirm that the Opinion has been provided to the independent board of Liberty ("Independent Board") for the sole purpose of assisting the Independent Board in forming and expressing an opinion for the benefit of the Liberty Shareholders other than SBG, the offeror.

### **Definition of the terms “fair” and “reasonable”**

Market value is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The “fairness” of a transaction is primarily based on quantitative issues. A transaction will generally be considered “fair” to the company’s shareholders if the benefits received by shareholders, as a result of a transaction, are equal to or greater than the value surrendered.

The assessment of “reasonableness” is generally based on qualitative issues. Even though the consideration attributable to the transaction may differ from the market value of the shares subject to a transaction, a transaction may still be reasonable after considering other significant qualitative factors.

### **Information utilised**

In the course of our analysis, we relied upon financial and other information, obtained from Liberty and SBG, together with industry-related and other information in the public domain. Our conclusion is dependent on such information being complete and accurate in all material respects.

The principal sources of information used in formulating the Opinion regarding the terms and conditions of the Proposed Transaction include:

- Firm Intention Announcement (as published on the Stock Exchange News Service on 15 July 2021);
- Liberty’s annual financial statements for 2019 and 2020, and the 2021 interim reporting results;
- Liberty Group Actuarial Committee report for 31 December 2020;
- Liberty’s 5-year business plan;
- SBG’s annual financial statements for 2019 and 2020, and the 2021 interim reporting results;
- Representations and assumptions made available by, and discussions held with, management of Liberty and SBG;
- EY analysis and research of publicly available information; and
- S&P Capital IQ research database for market data.

Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of the Opinion, whether in writing or obtained through discussions with Liberty and SBG management.

### **Procedures performed**

In arriving at the Opinion, we have undertaken the following procedures in evaluating the fairness and reasonableness of the Proposed Transaction:

- Supplemented our knowledge and understanding of the operations of Liberty and SBG;

- Considered information made available by, and from discussions held with, Liberty management;
- Considered the rationale and relevant information for the Proposed Transaction, as represented in the Non-binding Expression of Interest, Firm Intention Announcement and Liberty management;
- Reviewed general economic, market and related conditions relevant to the value of Liberty and SBG;
- Performed an independent valuation based on the sum of the parts methodology (“SOTP”) for Liberty, with adoption of the discounted cash flow (“DCF”) methodology as the primary valuation approach, and also considered the results of other valuation approaches, including a comparative approach based on comparative information that is publicly available;
- Performed an independent valuation of SBG by adoption of a DCF methodology as the primary valuation approach, based on publicly available information, analyst consensus forecasts and discussions with SBG management. We also considered the results of other valuation approaches, including a comparative approach based on comparative information that is publicly available;
- Concluded on a value range for the ordinary shares in Liberty for the Proposed Transaction; and
- Considered any further qualitative aspects of the Proposed Transaction or which affect the Aggregate Consideration.

We have not interviewed any Liberty Shareholders to obtain their views on the Proposed Transaction.

Based on the results of the procedures mentioned above, we have determined the Fairness and Reasonableness of the Proposed Transaction to Liberty Shareholders. We believe that the above considerations justify the conclusion outlined below.

## **Valuation**

In considering the Proposed Transaction value, we performed an independent valuation of the Liberty and SBG shares based on the information available to us.

EY performed a valuation based on a SOTP basis aggregating the DCF valuation of each of Liberty and SBG’s underlying businesses, subsidiaries and associate companies to determine whether, in the context of the Special Distribution, the consideration payable under the Proposed Transaction represents fair value for the Liberty minority shareholders.

The DCF valuation (income approach) was the primary valuation methodology utilised. Our DCF valuation was supplemented with the market approach (based on financial data for comparable publicly traded South African peer companies) as a secondary methodology to support the results of the DCF valuation. The DCF valuation was performed taking cognisance of risk and other market and industry factors affecting Liberty and SBG’s operations. The risk analysis was including but not limited to the operating environment in which Liberty and SBG operate, the current economic climate and the overall returns of asset managers in the current environment and how these might impact on forecast yield on assets under management, investment returns for Life Insurance business, as well as net interest margins impacting the banking environment. Prevailing market and industry conditions were also considered in assessing the risk profile of Liberty and SBG.

Key value drivers for the Liberty DCF included:

- The future growth rate of the business (including market growth and net new inflows of new business/assets under management);
- External value drivers considered include key macro-economic parameters such as GDP growth, inflation and prevailing market and industry conditions in which Liberty operates. We have valued the Liberty shares on a majority basis; and
- The discount rate applied of 14.8%.

Key value drivers for the SBG DCF included:

- The future growth rate of the business (including net interest margins and capital requirements);
- External value drivers considered include key macro-economic parameters such as GDP growth, inflation and prevailing market and industry conditions in which SBG operates. We have valued the SBG shares on a minority basis; and
- The discount rate applied of 14.7%.

Key sensitivity analysis included:

- Future Interest rates increases and decreases;
- Mortality assumptions resulting from the Covid-19 pandemic;
- New business volumes and future expense assumptions;
- Increases and decreases to Expected Credit Losses; and
- Demographic assumptions including risk assumptions and withdrawal assumptions.

### **Qualitative considerations**

We have considered the following as qualitative factors, in evaluating the reasonableness of the Proposed Transaction:

- Liberty Shareholders will gain access to a more liquid listed SBG share, plus a cash component.
- Liberty Shareholders will receive a significant premium on the current share price in the Proposed Transaction, including components in cash on the transaction date and therefore do not have to wait for the share price to potentially recover to historical levels.
  - On the date of the report basis Liberty shareholders will receive a premium of between 27% and 44%
  - On a 30-day VWAP basis Liberty shareholders will receive a premium of between 33% and 50%
  - On a 90-day VWAP basis Liberty shareholders will receive a premium of between 38% and 56%

- Liberty Shareholders will diversify away from the potential impact of the current and future waves of the Covid-19 pandemic. The Covid-19 pandemic seems to influence the banking environment to a lesser extent than the insurance environment. Banks are influenced during Lockdown Levels where economic activity has been curbed substantially, which the Government seems adamant to avoid, compared to the consistent impact of death claims we observed in Life insurance companies.
- Liberty Shareholders would/will diversify away from their current NAV that is skewed to property and cash with expected returns that are lower than the Liberty Shareholders' expected return on equity.
- Since we are at the lower end of the interest rate cycle banking shareholders are likely to benefit from the increase in interest margin as interest rates increase (SBG's financial statements indicate a R4bn rise in profit based on 200bp increase in interest rates). In contrast to this, Liberty's financial statements indicate a R827m decrease based on 100bp interest rate increase. Therefore, Liberty Shareholders would diversify away from the negative impact of the increase in interest rates on Insurance companies to the positive impact of an increase in interest rates in the banking environment.
- Liberty Shareholders would/will diversify away from the sole focus on the Retail Affluent market. This market has over the recent years proved to be one that has become very crowded with limited growth potential.
- Liberty Shareholders will receive the benefit of potential future synergies between SBG and Liberty that will arise from a more effective shareholder structure.
- Banking shares may start to materialise additional value over the near future as interest rates start to increase and interest margins return to normalised levels.
- Currently we are not aware of any other competing offers.

## Findings

Based on our procedures performed we have determined an independent valuation range for Liberty as being between R80 and R89 per share, with R84.50 per share being the most likely value.

Our desktop valuation range for SBG is between R122 and R142 per share. The Aggregate Consideration implied by this range is between R86 and R97 per share.

The implied Aggregate Consideration compares favourably with our independent value range of Liberty.

## Conclusion

Based on the results of our procedures performed, our valuation work and qualitative considerations, and subject to the conditions set out herein, we are of the opinion that the Proposed Transaction is fair and reasonable insofar as the Liberty Shareholders (with the exclusion of SBG and Lexshell 615) are concerned.

## Limiting conditions

This Opinion is necessarily based upon the information available to us up to 30 June 2021, including in

respect of the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us at the date thereof. We have furthermore assumed that all conditions precedent, including any material regulatory, other approvals and consents required in connection with the Proposed Transaction has been or will be timeously fulfilled and/or obtained. Accordingly, subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

This Opinion is provided solely for the use of the Independent Board and the Board for the sole purpose of assisting in forming and expressing an opinion on the Proposed Transaction for the benefit of Liberty Shareholders other than SBG, the offeror.

We have also assumed that the Proposed Transaction will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by, representatives of Liberty and we express no opinion on such consequences. We have assumed that all agreements that will be entered into in respect of the Proposed Transaction will be legally enforceable.

While our work has involved an analysis of, inter alia, the annual financial statements, and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards.

We have relied upon and assumed the accuracy of the information used by us in deriving the opinion. Where practical, we have corroborated the reasonability of the information provided to us for the purpose of this Opinion, whether in writing or obtained in discussion with management of Liberty, by reference to publicly available or independently obtained information. We assume no responsibility and make no representations with respect to the accuracy of any information provided to us in respect of Liberty.

An individual shareholder's decision may be influenced by his or her particular circumstances. This Opinion does not purport to cater for each shareholder's circumstances and risk profile, but rather the general body of shareholders taken as a whole. Should a shareholder be in any doubt as to what action to take, he or she should consult an independent advisor

#### **Independence, competence and fees**

We confirm that we have no direct or indirect interest in Liberty (or any of its subsidiaries). We also confirm that we have the necessary independence, qualifications and competence to provide the independent opinion on the Proposed Transaction, as required by section 114(2) of the Companies Act.

Furthermore, we confirm that our professional fees of R2.5m (excluding VAT) are not contingent upon the success of the Proposed Transaction.

#### **Consent**

We consent to the inclusion of this letter in the Circular to be issued to Liberty Shareholders in the form and context in which it appears and in any required regulatory announcement or documentation.



Yours faithfully

A handwritten signature in black ink, appearing to read 'Hannes Boshoff', with a stylized flourish at the end.

Hannes Boshoff

Partner: Ernst & Young Advisory Services Proprietary Limited