



**LIBERTY**

# **Liberty Holdings Limited**

**Group Equity Value Report**  
for the year ended 31 December

**2019**



# INDEPENDENT AUDITOR'S REPORT

## To the Directors of Liberty Holdings Limited

### Our opinion

In our opinion, the group equity value report of Liberty Holdings Limited and its subsidiaries (together the group) has been prepared, in all material respects in accordance with the basis set out in section 2 of the group equity value report.

### What we have audited

Liberty Holdings Limited's group equity value report set out on pages GE 3 to GE 8 comprise:

- Section 2 – Component parts of the group equity value and valuation techniques used;
- Section 3.1 – Analysis of normalised group equity value;
- Section 3.2 – Normalised group equity value earnings and value per share;
- Section 3.3 – Sources of normalised group equity value earnings; and
- Section 3.4 – Analysis of value of long term insurance new business and margins

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the group equity value report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

### Emphasis of Matter – Basis of Accounting and restriction on distribution and use

We draw attention to section 2 in the group equity value report, which describes the basis of accounting. The group equity value report is prepared to reflect the combined value of the various components of Liberty Holdings Limited's business. As a result, the group equity value report may not be suitable for another purpose. Our report is intended solely for the directors of Liberty Holdings Limited and should not be used by any other parties. We agree to the publication of our report provided it is clearly understood by the recipients of the report that they enjoy such receipt for information only and we accept no duty of care to them in respect of our report. Our opinion is not modified in respect of this matter.

This report should be read in conjunction with the audited financial statements where the policyholder liabilities are determined in terms of International Financial Reporting Standards, which are contained in the annual financial statements and supporting information.

### Other information

The directors are responsible for the other information. The other information comprises Liberty Holdings Limited Annual financial statements and supporting information, which we obtained prior to the date of this auditor's report, and the Liberty Holdings Limited Integrated report, which is expected to be made available to us after that date. The other information does not include the group equity value report and our auditor's report thereon.

Our opinion on the group equity value report does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the group equity value report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the group equity value report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the group equity value report

The directors are responsible for the preparation and fair presentation of the group equity value report in accordance with the basis set out in Section 2 of the group equity value report and for such internal control as the directors determine is necessary to enable the preparation of the group equity value report that are free from material misstatement, whether due to fraud or error.

In preparing the group equity value report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of group equity value report

Our objectives are to obtain reasonable assurance about whether group equity value report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the group equity value report.



As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of group equity value report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the group equity value report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the group equity value report, including the disclosures, and whether the group equity value report represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group equity value report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Liberty Holdings Limited for 23 years.

**PricewaterhouseCoopers Inc.**

Director: **Alsue du Preez**

Registered Auditor

Johannesburg

26 February 2020

# Group equity value report

for the year ended 31 December 2019

## 1. Introduction

Liberty presents a group equity value report to reflect the combined value of the various components of Liberty's businesses.

Section 2 below describes the valuation bases used for each reported component. It should be noted that the group equity value is presented to provide additional information to shareholders to assess performance of the group. The total equity value is not intended to be a fair value calculation of the group but should provide indicative information of the inherent value of the component parts.

## 2. Component parts of the group equity value and valuation techniques used

Group equity value has been calculated as the sum of the following component parts:

### 2.1 South African (SA) covered business

The wholly-owned subsidiary, Liberty Group Limited, comprises the South African long-term insurance entities and related asset holding entities. The embedded value methodology in terms of Advisory Practice Note 107 issued by the Actuarial Society of South Africa continues to be used to derive the value of this business cluster described as "South African covered business". The embedded value report of the South African covered business has been reviewed by the group's Head of Actuarial Function.

### 2.2 Other businesses

<b>STANLIB South Africa</b>	Valued using a 10 times (2018: 10 times) multiple of estimated sustainable earnings.
<b>STANLIB Africa</b>	Valued using a combination of estimated sales price where available, if the operation is held for sale, or a 10 times (2018: 10 times) multiple of estimated sustainable earnings, adjusted for country risk.
<b>Liberty Health</b>	As Liberty Health is under disposal groups held for sale, the IFRS net asset value has been used as it includes a remeasurement to fair value, less cost to sell.
<b>Liberty Africa Insurance</b>	Liberty Africa Insurance is a cluster of both long- and short-term insurance businesses located in various African countries outside of South Africa. A combination of valuation techniques including embedded value, discounted cash flow and earnings multiples have been applied to value these businesses. The combined value of this cluster is not material relative to the other components of group equity value and therefore a detailed analysis of this valuation has not been presented. At 31 December 2019 the combined valuations were approximately equal to the cluster's IFRS net asset value. Therefore the IFRS net asset value was used.
<b>Liberty Holdings</b>	The net market value of assets and liabilities held by the Liberty Holdings Limited company excluding investments in any subsidiaries which are valued separately.

### 2.3 Liberty Two Degrees (L2D) normalisation adjustment

This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D units multiplied by the number of units in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

### 2.4 Other adjustments

These comprise the fair value of share rights allocated to staff not employed by the South African covered businesses, adjusting certain deferred tax assets to current values and allowance for certain shareholder recurring expenses incurred in Liberty Holdings Limited capitalised at a multiple of 9 times (2018: 9 times).

# Group equity value report (continued)

for the year ended 31 December 2019

## 3. Normalised group equity value

### 3.1 Analysis of normalised group equity value

2019 Rm (Audited)	SA covered business	Other businesses	Total
Liberty Group Limited consolidated	18 690		18 690
STANLIB South Africa <sup>(1)</sup>		913	913
STANLIB Africa <sup>(1)</sup>		114	114
Liberty Africa Insurance		920	920
Liberty Holdings		2 103	2 103
Operations under ownership review <sup>(2)</sup>		265	265
Liberty Two Degrees adjustment to net asset value <sup>(3)</sup>	1 046	17	1 063
<b>Shareholders' equity reported under IFRS</b>	<b>19 736</b>	<b>4 332</b>	<b>24 068</b>
Reverse deferred acquisition cost and deferred revenue liability	(321)		(321)
Reverse value of in-force acquired	(2)		(2)
Frank Financial Services allowance for future expenses	(50)		(50)
BEE preference funding	78		78
Liberty Two Degrees adjustment <sup>(3)</sup>	(1 046)	(17)	(1 063)
Allowance for employee share rights	(35)	(24)	(59)
<b>Normalised net worth</b>	<b>18 360</b>	<b>4 291</b>	<b>22 651</b>
Value of in-force – SA Retail	16 269		16 269
Value of in-force – Liberty Corporate	2 885		2 885
Cost of required capital	(3 155)		(3 155)
Fair value adjustment – STANLIB South Africa <sup>(1)</sup>		3 387	3 387
Fair value adjustment – STANLIB Africa <sup>(1)</sup>		212	212
Allowance for future shareholder expenses		(1 342)	(1 342)
<b>Normalised equity value</b>	<b>34 359</b>	<b>6 548</b>	<b>40 907</b>

<sup>(1)</sup> STANLIB valuation (Rm)	2019	2018	Change
STANLIB South Africa	4 300	3 800	500
Net asset value	913	852	61
Fair value adjustment	3 387	2 948	439
STANLIB Africa	300	330	(30)
Net asset value <sup>(1)</sup>	88	130	(42)
Fair value adjustment	212	200	12
<b>Total</b>	<b>4 600</b>	<b>4 130</b>	<b>470</b>

<sup>(1)</sup> The STANLIB Africa net asset value reconciles to the positive R114 million (31 December 2018: positive R84 million) in table 3.1 above less R26 million negative net asset value (31 December 2018: plus R46 million positive net asset value) included in operations under ownership review.

<sup>(2)</sup> Under IFRS these are disclosed as disposal groups classified as held for sale.

<sup>(3)</sup> This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D shares multiplied by the number of shares in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

# Group equity value report (continued)

for the year ended 31 December 2019

## 3. Normalised group equity value (continued)

### 3.1 Analysis of normalised group equity value (continued)

2018 Rm (Audited)	SA covered business	Other businesses	Total
Liberty Group Limited consolidated	18 088		18 088
STANLIB South Africa		852	852
STANLIB Africa		84	84
Liberty Africa Insurance		926	926
Liberty Holdings		1 731	1 731
Operations under ownership review <sup>(1)</sup>		382	382
Liberty Two Degrees adjustment to net asset value <sup>(2)</sup>	932	8	940
<b>Shareholders' equity reported under IFRS</b>	<b>19 020</b>	<b>3 983</b>	<b>23 003</b>
Reverse deferred acquisition cost and deferred revenue liability	(328)		(328)
Reverse value of in-force acquired	(7)		(7)
Frank Financial Services allowance for future expenses	(100)		(100)
Impact of discounting on deferred tax asset		(100)	(100)
BEE preference funding	99		99
Liberty Two Degrees adjustment <sup>(2)</sup>	(932)	(8)	(940)
Allowance for employee share rights	(46)	(36)	(82)
<b>Normalised net worth</b>	<b>17 706</b>	<b>3 839</b>	<b>21 545</b>
Value of in-force – SA Retail	16 054		16 054
Value of in-force – Liberty Corporate	2 965		2 965
Cost of required capital	(3 038)		(3 038)
Fair value adjustment – STANLIB South Africa		2 948	2 948
Fair value adjustment – STANLIB Africa		200	200
Allowance for future shareholder expenses		(1 990)	(1 990)
<b>Normalised equity value</b>	<b>33 687</b>	<b>4 997</b>	<b>38 684</b>

<sup>(1)</sup> Under IFRS these are disclosed as disposal groups classified as held for sale.

<sup>(2)</sup> This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D shares multiplied by the number of shares in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

# Group equity value report (continued)

for the year ended 31 December 2019

## 3. Normalised group equity value (continued)

### 3.2 Normalised group equity value earnings and value per share

Rm (Audited)	2019			2018		
	SA covered business	Other businesses	Total	SA covered business	Other businesses	Total
Normalised equity value at the end of the period	34 359	6 548	40 907	33 687	4 997	38 684
Equity value at the end of the period	35 327	6 565	41 892	34 520	5 005	39 525
Liberty Two Degrees adjustment <sup>(1)</sup>	(1 046)	(17)	(1 063)	(932)	(8)	(940)
BEE preference shares	78		78	99		99
Net share buy-backs		278	278		247	247
Funding of restricted share plan	3	(3)		80	(80)	
Intragroup dividends <sup>(2)</sup>	2 235	(2 235)		2 252	(2 252)	
Dividends paid		1 917	1 917		1 943	1 943
Normalised equity value at the beginning of the period	(33 687)	(4 997)	(38 684)	(34 599)	(4 787)	(39 386)
Equity value at the beginning of the period	(34 520)	(5 005)	(39 525)	(34 458)	(5 384)	(39 842)
Beginning of year adjustment for introduction of new prudential regime <sup>(3)</sup>				(139)		(139)
IFRS 9 transition adjustment				121		121
Liberty Two Degrees adjustment <sup>(1)</sup>	932	8	940		597	597
BEE preference shares	(99)		(99)	(123)		(123)
<b>Normalised equity value earnings</b>	<b>2 910</b>	<b>1 508</b>	<b>4 418</b>	<b>1 420</b>	<b>68</b>	<b>1 488</b>
<b>Normalised return on group equity value (%)</b>	<b>8,6</b>	<b>31,9</b>	<b>11,5</b>	<b>4,1</b>	<b>1,5</b>	<b>3,8</b>
Normalised number of shares ('000)			276 733			279 025
Number of shares in issue ('000)			266 044			268 418
Shares held for the employee restricted share scheme ('000)			4 237			4 353
Estimated shares on settlement of performance reward plan			274			
Adjustment for BEE shares ('000)			6 178			6 254
<b>Normalised group equity value per share (R)</b>			<b>147,82</b>			<b>138,64</b>

<sup>(1)</sup> This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D shares multiplied by the number of shares in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

<sup>(2)</sup> Dividends paid by Liberty Group Limited to Liberty Holdings Limited.

<sup>(3)</sup> This adjustment and the consequential impact on the components of the embedded value earnings analysis were explained in section 1 of the 31 December 2018 South African Covered Business Embedded Value Report.

# Group equity value report (continued)

for the year ended 31 December 2019

## 3. Normalised group equity value

### 3.3 Sources of normalised group equity value earnings

Rm (Audited)	2019			2018		
	SA covered business	Other businesses	Total	SA covered business	Other businesses	Total
Value of new business written in the period	358	49	407	344	27	371
Expected return on value of in-force business	2 373		2 373	2 433		2 433
Variiances/changes in operating assumptions	( 265)	648	383	135	372	507
Operating experience variiances	(206)		(206)	423		423
Operating assumption changes	(101)		(101)	103		103
Changes in modelling methodology	42		42	(19)		(19)
New operating model - expense impact <sup>(1)</sup>		648	648	(372)	372	
Development costs	(47)	(16)	(63)	(9)	(99)	(108)
Liberty Holdings shareholder expenses <sup>(2)</sup>		(127)	(127)		(369)	(369)
Headline earnings of other businesses/intragroup transfers		367	367		246	246
<b>Operational equity value profits</b>	<b>2 419</b>	<b>921</b>	<b>3 340</b>	<b>2 903</b>	<b>177</b>	<b>3 080</b>
Economic adjustments	480	251	731	(1 473)	417	(1 056)
Return on net worth	576	251	827	2	417	419
Investment variiances	(653)		(653)	(1 225)		(1 225)
Change in economic assumptions	557		557	(250)		(250)
Change in fair value adjustments on value of other businesses <sup>(3)</sup>		324	324		( 526)	( 526)
Change in allowance for share rights	11	12	23	(10)		(10)
<b>Group equity value earnings</b>	<b>2 910</b>	<b>1 508</b>	<b>4 418</b>	<b>1 420</b>	<b>68</b>	<b>1 488</b>

<sup>(1)</sup> This is the impact of reserving for expenses that resided in Liberty Holdings Limited that were transferred to Liberty Group Limited with effect 1 January 2019, in line with the change to the group's operating model which came into effect on the same date.

<sup>(2)</sup> This includes the actual shareholder expenses incurred by Liberty Holdings of R128 million (31 December 2018: R223 million) plus the change in the allowance for future shareholder expenses over the period.

<sup>(3)</sup> The positive R324 million comprises the change in the fair value adjustment in respect of the STANLIB asset management operations of positive R451 million, release of allowance for discounting on deferred tax asset of positive R100 million, operations under ownership review net remeasurement of negative R178 million (R319 million remeasurement, less R141 million profit on sale of subsidiary) and Liberty Africa Insurance value of new business offset of R49 million.



# Group equity value report (continued)

for the year ended 31 December 2019

## 3 Normalised group equity value (continued)

### 3.4 Analysis of value of long-term insurance new business and margins

Rm (unless otherwise stated) (Audited)	2019	2018
<b>South African covered business</b>		
<b>SA Retail</b>	<b>1 765</b>	<b>1 710</b>
Traditional Life	1 550	1 530
Direct Channel	102	82
Credit Life	113	98
<b>Liberty Corporate</b>	<b>158</b>	<b>168</b>
Gross value of new business	1 923	1 878
Overhead acquisition (including underwriting) costs impact on value of new business	(1 365)	(1 341)
Cost of required capital	(200)	(193)
Net value of South African covered business	358	344
Present value of future expected premiums	39 712	42 417
Margin (%)	0,9	0,8
<b>Liberty Africa Insurance</b>		
Net value of new business	49	27
Present value of future expected premiums	1 207	972
Margin (%)	4,1	2,8
<b>Total group net value of new business</b>	<b>407</b>	<b>371</b>
<b>Total group margin (%)</b>	<b>1,0</b>	<b>0,9</b>



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