Liberty Holdings Limited

Financial results

for the six months ended

30 June 2020

CONTENTS

FINANCIAL PERFORMANCE INDICATORS

for the six months ended 30 June 2020

Rm (unless otherwise stated)	30 June 2020	30 June 2019	% change	12 months 31 December 2019
Liberty Holdings Limited				
Earnings				
Normalised headline (loss)/earnings[(1)]	**(2 173)**	2 013	(>100)	3 205
Normalised headline (loss)/earnings per share (cents)[(1)]	**(802,5)**	735,8	(>100)	1 174,2
Normalised return on IFRS equity (%)[(1),(3)]	**(19,7)**	17,7		14,0
Group equity value				
Normalised group equity value per share (R)[(1)]	**128,80**	143,96	(11)	147,82
Normalised return on group equity value (%)[(1),(3)]	**(18,9)**	14,0		11,5
Distributions per share (cents)				
Normal dividend	**–**	276		712
Interim dividend		276		276
Final dividend	**n/a**	n/a		436
Total assets under management (Rbn)	**725**	758	(4)	738
Long-term insurance operations				
Indexed new business (excluding contractual increases)[(5)]	**3 430**	3 840	(11)	8 125
Embedded value of new business	**24**	171	(86)	407
New business margin (%)	**0,2**	0,9		1,0
Net customer cash flows	**(1 062)**	(565)	(88)	(142)
Solvency capital requirement cover ratio of Liberty Group Limited (times covered)[(2)]	**1,83**	1,85		1,99
Asset management – STANLIB South Africa				
Assets under management (Rbn)	**569**	566	1	568
Net cash inflows including money market[(4)]	**14 695**	13 250	11	15 190
Retail and institutional net cash inflows excluding money market[(4)]	**3 384**	9 751	(65)	15 936
Money market net cash inflows/(outflows)[(4)]	**11 311**	3 499	>100	(746)

(1) *Normalised: headline (loss)/earnings, headline (loss)/earnings per share, return on IFRS equity, group equity value per share and return on group equity value.*

These measures reflect the economic reality of the consolidation of the listed REIT Liberty Two Degrees (L2D) and the Black Economic Empowerment (BEE) transaction, as opposed to the required IFRS accounting treatment.

(2) *Solvency capital requirement cover is the excess of assets over liabilities required by an insurer to ensure that its assets remain larger than its liabilities with a 99.5% level of certainty over a one-year time horizon, with assets and liabilities valued in accordance with the Insurance Act, 2017.*

(3) *Annualised.*

(4) *Excludes intergroup life funds.*

(5) *June 2019 adjusted for change in classification in Liberty Corporate from recurring to single premiums for additional investment voluntary contributions.*

Preparation and supervision:
This announcement of the Liberty Holdings Limited interim financial results for the six months ended 30 June 2020 has been prepared by D Wichmann CA(SA), and supervised by M Norris CA(SA) (Executive: Group Finance) and Y Maharaj CA(SA) (Financial Director).

FINANCIAL REVIEW

for the six months ended 30 June 2020

Liberty's capital strength ensures ongoing support to our clients in these challenging times

Introduction

The COVID-19 pandemic is causing high levels of anxiety and uncertainty for our clients, advisers and staff. The world is facing a significant humanitarian crisis, with the virus continuing to spread exponentially across the globe and in South Africa. Government imposed lockdowns have been introduced in all countries in which Liberty operates, resulting in recessionary economic environments in these countries. South Africa has been subject to government-imposed lockdown restrictions for over 130 days, with COVID-19 related deaths having increased to over 8 000.

Liberty extends its sincere condolences to members of the greater Liberty Community who have lost family and friends and are struggling with the trauma and stress induced by these extremely difficult times.

The content of this financial review should be read in conjunction with the operational updates and trading statements issued by the Group on 21 April 2020, 14 and 29 May 2020, and 27 July 2020, all of which sought to keep investors updated as the pandemic unfolded.

Highlights

Continued support of our clients

The payment of claims to our clients in their most vulnerable moments of need is the foundation of Liberty's purpose of "Improving people's lives by making their financial freedom possible." In continuing to support our clients through their life journeys and fulfilling our promises to them, death and disability payments made by Liberty in the six months to 30 June 2020 increased by 5,1% to R5,3 billion and annuity payments increased by 6,1% to R4,1 billion. Death claims related to the COVID-19 pandemic have been low to date however are starting to increase, mostly within the funeral books in the SA Retail and Liberty Corporate businesses.

We remain committed to continue investing in and utilising new digital capabilities to offer our clients the best service and advice.

Establishment of a pandemic reserve to meet client needs in difficult times

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation. These interim results have been prepared with a significant level of uncertainty over the short and long-term impacts that COVID-19 may have on the Group's business. We have applied a key judgement that the majority of the impact will be evident within twelve to eighteen months. Consequently, judgement was applied to determine a reference scenario that could facilitate the estimation of the financial impact to Liberty due to the pandemic over this period. Liberty has established a pandemic reserve of R3 billion (before tax) and we believe our strong capital ratio after absorbing this charge should provide certainty and peace of mind to our clients and advisers. In addition, we wish to give comfort to shareholders that we are able to fulfil our purpose in these times while still maintaining a focus on delivering against our longer-term strategic goals. The reserve is established to cover the expected increase in mortality and retrenchment claims together with reduced persistency and increased expenses directly attributable to the COVID-19 pandemic.

Resilience in the current climate

Liberty's operations remain financially sound and well capitalised, with Liberty Group Limited remaining towards the upper end of the capital coverage target range of 1,5 - 2,0 times after taking account of the operational and financial market impacts of the pandemic and the establishment of the pandemic reserve, underpinning our ability to fulfil our promises to clients and other stakeholders.

Our South African asset management business, STANLIB South Africa, reported improved earnings for the period as well as increased net external third-party client cash inflows. This reflects the benefits of having diverse sources of income between the insurance and asset management operations within the Group.

The Group is utilising opportunities created in the COVID-19 crisis to accelerate the execution of its strategy of digital transformation.

Liberty's response to a challenging business environment

The first six months of 2020 are unprecedented in Liberty's 62-year history. At the start of 2020, given that South Africa was already in a recession and the local economic outlook appeared weak, we anticipated a difficult period ahead. The COVID-19 global crisis then emerged, creating uncertain health, economic and financial challenges. Financial markets have been extremely volatile since the start of the pandemic, driven mainly by uncertainty around the spread of COVID-19 measures announced by governments and central banks to support economies and the likely negative economic impact to be felt.

Global and local financial markets were heavily impacted in the early weeks of the COVID-19 crisis with significant declines in returns from most asset classes in the three months to 31 March 2020, offset to some extent by weakness in the South African rand. Markets recovered during the second quarter of 2020, benefiting from central banks injecting significant amounts of liquidity into financial systems to counter the economic fallout expected from the pandemic.

FINANCIAL REVIEW (CONTINUED)

for the six months ended 30 June 2020

Our main objectives in dealing with the crisis remain to continue to prioritise the health and safety of our employees and advisers and to ensure we remain open for business providing undisrupted service and support to our clients. The majority of our employees and advisers have continued to work from home during the lockdown with a significant increase in the adoption of digital channels.

Operational results for the six months were materially impacted by the pandemic in various ways. Besides the creation of a pandemic reserve, major impacts included adverse equity and interest rate market movements on the insurance book and the LibFin Markets asset liability management portfolio, significantly lower new business volumes in the absence of face-to-face sales and consequently lower value of new business. Various premium relief measures were implemented to assist our retail and corporate clients experiencing financial hardship during this period. Unplanned COVID-19 related expenses were incurred to protect the safety of our employees and advisers in order to allow them to continue providing undisrupted services to our clients. Timely action was also taken to put various support measures in place to ensure the sustainability of our adviser practices. These relief and safety measures continue to remain in place.

The extraordinary financial market volatility experienced during the period and resultant impact, particularly on long-term illiquid asset values, was also evident in negative investment returns from the Shareholder Investment Portfolio (SIP).

Establishment of COVID-19 pandemic reserve

The net after tax cost in IFRS earnings in respect of the establishment of the COVID-19 pandemic reserve is R2 175 million. The reserve has been established to cover the expected impact of the pandemic on the insurance businesses in South Africa and other African territories.

This reserve has been calculated to estimate the future effects of the pandemic by estimating excess mortality, excess withdrawals and policy lapses and expenditure directly attributable to the COVID-19 pandemic. Management established a reference scenario in order to quantify a best estimate of the likely financial outcome, based on all relevant and reliable external data sources that are currently available, whilst recognising that the range of outcomes is large. This reference scenario was then applied to the measurement models under the respective requirements of the IFRS, regulatory capital and group equity value frameworks.

The reserve has been modelled using trends in actual infections from official government statistics and age-based COVID-19 mortality experience as evidenced in published research studies. Based on these studies, we estimate the number of reported COVID-19 related deaths in South Africa to be 54 000 over the expected short-term course of the pandemic. This is marginally more conservative than the 40 000 to 50 000 expected number of deaths widely reported by the South African government and is consistent with an initial model developed by members of the Actuarial Society of South Africa for use by its members.

Additional information is provided in the 'Key judgements in applying assumptions on application of accounting policies' section.

Group financial performance

Liberty incurred a normalised operating loss for the six-month period to 30 June 2020 of R1 542 million compared to normalised operating earnings of R1 091 million for the six-month period ended 30 June 2019. The normalised operating loss includes the R2 175 million net after tax cost of establishing the COVID-19 pandemic reserve which, if excluded from the result, would reflect normalised operating earnings for the period of R633 million.

The SIP incurred a loss of R631 million for the period.

Accordingly, Liberty is reporting a normalised headline loss for the six-month period ended 30 June 2020 of R2 173 million, compared to normalised headline earnings of R2 013 million in the prior period. Normalised annual return on equity was negative 19,7%, compared to positive 17,7% for the six-month period ended 30 June 2019.

The headline loss for the period of R2 263 million, which includes a negative adjustment of R88 million (30 June 2019: negative R14 million) arising from the accounting mismatch on the consolidation of the Liberty Two Degrees listed REIT, compares to headline earnings of R1 996 million for the six-month period ended 30 June 2019.

Normalised group equity value per share decreased from R143,96 in the comparative period to R128,80. The normalised annual return on group equity value (RoGEV) was negative 18,9% compared to positive 14,0% in the prior period. The negative RoGEV is largely attributable to the operational impacts of COVID-19, which includes the impact of the establishment of the pandemic reserve, and the impact of negative investment returns on the SIP earnings.

Group long-term insurance indexed new business of R3 430 million has been significantly impacted by the lockdown restrictions and is 10.7% below the comparative period of R3 840 million. Adviser productivity, in the absence of face-to-face sales, was significantly impacted during the initial lock down period. Following the relaxation of South African lockdown restrictions to level 3, indexed new business has reflected an encouraging improvement in the month of June 2020, as compared to April and May 2020, but remains at depressed levels compared to the comparative period.

The group value of new business (VoNB) declined to R24 million from R171 million at 30 June 2019. This decline is mainly attributable to the decrease in the SA Retail VoNB from R134 million in the comparative period to R30 million, due largely to significantly lower sales volumes in the first half of 2020 without a commensurate reduction in acquisition expenses.

Group net external third-party client cash inflows increased to R14,3 billion from R10,6 billion in the comparative period, supported mainly by robust STANLIB South Africa net external third-party client cash inflows. Total group assets under management declined to R725 billion (31 December 2019: R738 billion) due mainly to the exit of asset management operations in STANLIB Kenya and Uganda and the associated transfers of mandates to other external managers of R10,0 billion.

FINANCIAL REVIEW (CONTINUED)

for the six months ended 30 June 2020

Earnings by business operations

Rm (Unaudited)	30 June 2020	30 June 2019	% change	12 months 31 December 2019
South African Insurance Operations	**557**	1 012	(45)	1 986
SA Retail	**458**	782	(41)	1 505
Liberty Corporate	**41**	39	5	85
LibFin Markets - credit portfolio	**132**	142	(7)	282
LibFin Markets - asset/liability matching and structuring portfolio	**(74)**	49	(>100)	114
South African Asset Management				
STANLIB South Africa	**226**	209	8	460
Africa regions	**37**	31	19	54
Liberty Africa Insurance	**25**	17	47	29
STANLIB Africa	**12**	14	(14)	25
Operations under ownership review[(1)]	**(67)**	(64)	(5)	(147)
Central costs and sundry income	**(120)**	(97)	(24)	(152)
Normalised operating earnings before COVID-19 pandemic reserve	**633**	1 091	(42)	2 201
Establishment of COVID-19 pandemic reserve	**(2 175)**			
Normalised operating (loss)/earnings	**(1 542)**	1 091	(>100)	2 201
Shareholder Investment Portfolio (SIP)	**(631)**	922	(>100)	1 004
Normalised headline (loss)/earnings	**(2 173)**	2 013	(>100)	3 205
BEE preference share adjustment	**(2)**	(3)	33	(6)
Reversal of accounting mismatch arising on consolidation of L2D[(2)]	**(88)**	(14)	(>100)	55
Headline (loss)/earnings	**(2 263)**	1 996	(>100)	3 254

(1) *The disposal of Liberty General Insurance Malawi was effective on 30 June 2020 and the disposal of the operations of STANLIB Kenya and STANLIB Uganda were completed during the period. A decision was taken to reclassify the Liberty Health risk solutions operations (with the exception of Total Health Trust Limited in Nigeria) back to continuing operations at 30 June 2020, after no acceptable offers were forthcoming. Remaining operations classified as disposal groups are the short-term insurance operation in Botswana, Liberty Health Administrators (Pty) Ltd (a licensed medical aid administrator in South Africa) and Total Health Trust Limited (a registered Health Maintenance Organisation in Nigeria).*

(2) *Refer to Explanation of terms.*

Commentary on the earnings by business unit follows on the pages below. Additional information is contained in the summary consolidated segment information.

South African Insurance Operations

The South African Insurance Operations, comprising SA Retail, Liberty Corporate and LibFin Markets (credit portfolio and asset liability matching portfolio) businesses, earnings contribution of R557 million was below comparative period earnings of R1 012 million.

SA Retail

Earnings from the Group's South African Retail business, which excludes the cost of establishing the COVID-19 pandemic reserve, amounted to R458 million compared to R782 million in the comparative period. The business experienced lower than anticipated risk profits in the early months of 2020, which was a continuation of the trend experienced in the second half of 2019.

Risk experience however improved in the second quarter of 2020 and benefited from the reduction in accidental deaths due to the various lockdown restrictions. To date there has been a low number of COVID-19 related claims incurred. Poorer persistency experience continued in the first half of 2020, reflecting the weakening South African economic climate, with increased client utilisation of risk benefit reduction options since commencement of the lockdown. Unanticipated COVID-19 related costs were incurred during the period in respect of personal protection and IT equipment, and enhanced communication and connectivity capabilities to facilitate remote working.

FINANCIAL REVIEW (CONTINUED)

for the six months ended 30 June 2020

The COVID-19 pandemic has had a material impact on sales of single and recurring premium business due to its impact on the economy, clients and the difficulty of doing business. Increased pressure on new business volumes since the start of the lockdown resulted in indexed new business sales of R2 946 million being 5.9% below the comparative period. While indexed new business for the first quarter of 2020 was up 4.2%, new business productivity was severely hampered by the nationwide lockdown in the second quarter. Various management actions are underway to address the impact that COVID-19 and the nationwide lockdown has had on new business productivity. The business continued to focus strongly on client retention activities, with retention teams fully capacitated and working remotely and further supported by certain sales staff redirected to retention activities. Strong growth continued to be evidenced in the embedded credit channel during the period. Conventional annuity new business increased strongly relative to the comparative period, with the positive trend continuing through the lockdown period.

The SA Retail VoNB amounted to R30 million (30 June 2019: R134 million), with a margin of 0,2% (30 June 2019: 0,9%). This result is attributable to significantly lower sales volumes during the first half of 2020 without the commensurate reduction in acquisition expenses. Net client cash outflows of R528 million reflected the impact of lower premium income including premium relief measures taken up by clients, as well as higher annuity payments and death and disability claims.

Liberty Corporate

Liberty Corporate earnings, excluding the cost of establishing the COVID-19 pandemic reserve, increased by 5.1% to R41 million from R39 million in the comparative period. The result included high volumes of group life assurance death claims in the first quarter of 2020 which were offset by positive risk and investment variances on the annuity book. Risk experience did however improve during the second quarter of 2020. So far, a relatively low number of COVID-19 related death claims have been reported but increased funeral claims have been evidenced from late June 2020. Clients are increasingly taking up premium relief options within the risk and umbrella books and the impact on the results is evident from May 2020.

Indexed new business of R289 million (30 June 2019: R482 million) was significantly impacted by the national lockdown measures, particularly in the Small, Medium and Micro Enterprise (SMME) client segment which is, for the most part, under severe economic strain. VoNB amounted to negative R6 million due to lower sales, including significantly lower enhancements to premium contribution rates when compared to previous periods.

Net client cash outflows of R823 million (30 June 2019: outflows of R418 million) were adversely affected by lower new business sales, premium relief options exercised by clients resulting in reductions in regular premiums, higher member withdrawals and higher volumes of group life assurance death claims in the first quarter of 2020.

LibFin Markets – Asset liability management and credit portfolio

The extraordinary volatility in the local equity and bond markets attributable to the pandemic has negatively impacted the asset liability management (ALM) portfolio. The portfolio incurred a loss of R74 million (30 June 2019: profit of R49 million) mainly attributable to the high cost of rebalancing exposures from embedded investment guarantees, ensuring these remain within risk limits, and an increase in long-dated implied volatility.

Earnings from the credit portfolio amounted to R132 million (30 June 2019: R142 million). The result includes the impact of the sovereign downgrades during the period. LibFin Markets assets under management amounted to R71 billion (31 December 2019: R70 billion).

South African Asset Management

STANLIB South Africa

STANLIB South Africa earnings were up 8.1% to R226 million compared to 30 June 2019. Fee income was higher in the current period due primarily to strong cash inflows.

As a leading fixed income manager, STANLIB has benefited from increased institutional money market inflows in the current risk averse environment. Net external third-party client cash inflows increased to R14,7 billion from R13,3 billion in the comparative period. This result was largely attributable to good corporate and institutional inflows to money market funds. Intragroup cash outflows for the period amounted to R6,6 billion.

Investment performance has continued to improve, with the STANLIB Equity and Bond core retail funds delivering top quartile performance over one, three and five year time horizons.

Total assets under management (AUM) by STANLIB South Africa amounted to R569 billion (31 December 2019: R568 billion). STANLIB's AUM base was protected to some extent by a relatively high representation of fixed interest assets which were not as significantly impacted by negative markets over the six-month period. Assets under management were initially impacted by significant declines in values of most asset classes experienced in the three months to 31 March 2020, offset to an extent by weakness in the South African rand. Markets have however recovered to some extent during the second quarter of 2020.

Africa Regions

Africa Regions comprise Liberty Africa Insurance and the STANLIB asset management continuing operations in the Southern African region.

Earnings of R37 million (excluding the creation of a pandemic reserve of R15 million) are above the comparative period earnings of R31 million, mainly reflecting lower claims in the Kenya short-term insurance business, positive expense management across all operations offset by weaker investment markets. Assets under management are R16,4 billion at 30 June 2020 (31 December 2019: R18,7 billion).

FINANCIAL REVIEW (CONTINUED)

for the six months ended 30 June 2020

Operations under ownership review

The sale of Liberty's shareholding in its Malawi short-term business to the other existing shareholders was completed at 30 June 2020. In addition, the sale of the asset management business operations in Kenya and Uganda was completed during June 2020.

Included in the loss of R67 million for these operations is a loss of R63 million reported by the Liberty Health business. Efforts continue to find suitable outcomes for the business.

Shareholder Investment Portfolio (SIP)

The SIP includes the assets backing capital in the insurance operations as well as the Group's market exposure to the 90:10 book of business.

The performance of the SIP was a function of depressed financial markets as driven by the experience in the initial stages of the COVID-19 pandemic. Investment returns for the first half of 2020 reflected local equities (Capped SWIX) down 10.7%, developed market and emerging market equities in rand terms were up 17.2% and 12.2% respectively, while local bonds were relatively flat at 0.4%, with global bonds up 29.2%. The lower asset returns experienced during the period and the resultant impact, particularly on long-term illiquid asset values, resulted in the SIP delivering a gross return of negative 2,2% (30 June 2019: positive 5,9%) and incurring a loss of R631 million (30 June 2019: profit of R922 million). The performance of the SIP remains vulnerable to continued market volatility for the remainder of the year. The SIP exposure to financial markets remains appropriate in the context of the Group's risk appetite.

Liberty Two Degrees (L2D)

L2D released its results for the six-month period ended 30 June 2020 on 27 July 2020. Due to the distributable earnings decline and the prevailing uncertainty resulting from the COVID-19 impact, the L2D board decided not to pay an interim distribution but will consider the payment of a final distribution for the 2020 financial year that meets the regulatory requirements. L2D has a strong balance sheet and management is satisfied that there are sufficient cash reserves and unutilised debt facilities to cover business commitments as they fall due.

L2D's independent property valuers have decreased the portfolio value by 14.7% compared to 30 June 2019 (14.3% compared to 31 December 2019). Valuations have been negatively impacted by *inter alia*, the negative effect of COVID-19 on current year rentals and growth assumptions for the forecasted period, higher vacancies, the potential for negative reversions and the time required to re-let vacant space. The valuers have also applied more conservative valuation metrics including adjustment to exit capitalisation rates, discount rates and an increase in the periods allowed to re-let space.

Further details on the results are available on the L2D website and in the L2D results announcement.

Bancassurance

The bancassurance agreement with Standard Bank Group, which is applicable across the Group's operations, remains of strategic importance. The total indexed new business premiums sold under the agreement decreased by 2,3% compared to 30 June 2019, largely due to a decrease in single premium business resulting from lockdown related branch closures during April and May 2020, partly offset by increased credit life sales. Worsening experience linked to increased retrenchments on the embedded bancassurance business that has started to emerge is being closely monitored.

Capital adequacy cover

The Solvency Capital Requirement (SCR) cover ratio of Liberty Group Limited, the Group's main long-term insurance licence, of 1,83 times at 30 June 2020 is at the upper end of the target range (31 December 2019: 1,99 times). The 30 June 2020 SCR cover takes account of the establishment of the pandemic reserve and underpins our ability to fulfil our promises to policyholders and other stakeholders.

All other group subsidiary life licences were adequately capitalised.

Dividends

Despite the Group's strong capital position, the significant uncertainty that currently exists regarding the spread of the COVID-19 virus in South Africa in the short term and its economic consequences resulted in the Board deciding not to declare an interim dividend in respect of the six-month period ended 30 June 2020.

FINANCIAL REVIEW (CONTINUED)

for the six months ended 30 June 2020

Prospects

The COVID-19 pandemic has generated a significant health, economic and financial crisis causing high levels of anxiety and uncertainty for our clients, advisers and staff. The strength of the Liberty balance sheet and its resilient capital position made it possible to establish a pandemic reserve.

Financial market volatility will continue to have a material impact on the returns from the Shareholder Investment Portfolio consistent with a balanced portfolio, managed with a long-term through-the-cycle investment horizon. We also expect continued pressure on new business volumes and margins given the extended lockdown period and the financial distress that is prevalent in South Africa.

Notwithstanding these uncertainties, the Group is expected to remain well capitalised and able to provide uninterrupted service to our clients.

We remain confident in our strategy and committed to its execution. While significant management time and resources have been diverted to dealing with this crisis, the transformation of our business towards a digital enterprise has been successfully accelerated through the many measures adopted to handle the new ways of working and remote engagement for staff, advisers and clients.

Liberty is committed to working with all stakeholders in South Africa and the other countries in which we operate to rebuild these economies once this pandemic has passed.

We would like to thank all our staff and advisers for their extraordinary commitment, resilience and hard work in these difficult times, and our clients for their continued support.

David Munro
Chief Executive
5 August 2020

Jacko Maree
Chairman

LIBERTY

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These results are available at www.libertyholdings.co.za.

ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements of Liberty Holdings Limited for the six months ended 30 June 2020 have been prepared in accordance with and contain information required by:

- International Financial Reporting Standards (IFRS) including IAS 34 *Interim Financial Reporting*;
- the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee;
- Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council;
- the Listings Requirements of the JSE Limited; and
- the South African Companies Act, No. 71 of 2008.

The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements, except for the mandatory adoption of amendments to IFRS effective for 1 January 2020 and the early adoption of certain amendments as listed below.

The impact on the group's financial results, disclosures or comparative information as a result of these amendments is not significant.

Mandatory adoption of IFRS amendments

IFRS 3 *Business Combinations (amendment)* (IFRS 3)

The amendment clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment will be applied prospectively.

IFRS 7 *Financial Instruments: Disclosures* (IFRS 7), IFRS 9 *Financial Instruments* (amendments) (IFRS 9) and IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39)

Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39 and IFRS 7 requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendment will be applied retrospectively.

Early adoption of IFRS amendments

IFRS 3 *Business Combinations (amendments)* (IFRS 3)

This standard requires an entity to refer to the Conceptual Framework for Financial Reporting in determining what constitutes an asset or a liability. The amendments update the reference from the previous version of the Conceptual Framework that existed to the version issued in March 2018 and adds an exception for some types of liabilities and contingent liabilities to refer to IAS 37 instead of the Conceptual Framework. The amendments will be applied prospectively.

IAS 16 Property, Plant and Equipment (amendments) (IAS 16)

Narrow-scope amendments have been made to IAS 16 for the accounting of amounts received when selling items produced while an entity is preparing an asset for its intended use. The amendments clarify the accounting requirements in prohibiting the entity from deducting such amount from the cost of property, plant and equipment and instead recognising such sales proceeds and related cost in profit or loss. The amendments will be applied retrospectively.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets (amendments)* (IAS 37)

Narrow-scope amendments have been made to IAS 37 in determining which costs to include in estimating the cost of fulfilling a contract for the purposes of assessing whether that contract is onerous. The amendments clarify that the cost of fulfilling the contract includes both the incremental costs of fulfilling the contract and an allocation of costs that relate directly to fulfilling contracts. The amendments will be applied retrospectively. Adjusting prior periods is not required, but rather adjusting the opening retained earnings with the cumulative effect of the amendments on transition date.

New standards not yet effective

IFRS 17 *Insurance Contracts* (effective 1 January 2023) will have a significant financial reporting impact for the group. Management is assessing this impact under a focussed project.

Review/audit

These interim results have not been reviewed or audited by the company's auditors PricewaterhouseCoopers Inc.

GOING CONCERN

The directors have assessed the impact of the COVID-19 pandemic (COVID-19) and related economic impacts on the group as well as on the client segments, industries and regions in which the group operates. There is a heightened level of uncertainty with the advent of this pandemic which can reasonably be defined as a 1 in 100-year event. In response to the classification of the virus as a global pandemic, the group established two crisis committees, namely Business Operations (with a focus on operational aspects) and Rapid Business Response (with a focus on commercial business risks). Both committees report directly to the Group Executive Committee which is the overall crisis management governance body. These committees meet frequently to ensure that all risks are considered and continuously monitored, and that mitigating controls and actions have been put in place to address emerging business risks, as well as address the needs and other considerations related to employees, advisors, customers and other stakeholders.

The 'Risk management' and 'Key judgements in applying assumptions on application of accounting policies' sections included in this report detail management's assessment of the risks presented by the impacts of the pandemic as well as the key assumptions applied in the preparation of these results. In particular, details of the scenario modelled in estimating the pandemic reserve that sets aside financial resources to provide for the potential future impacts of the pandemic, various sensitivities to the key assumptions and key actions taken to assist policyholders as well as the business during this time are disclosed. Asset values, where valuation models are used to determine fair value, have been reviewed in detail by internal or external valuation experts. These reviews have taken into consideration the group's key assumptions applied in the COVID-19 reference scenario and used for the measurement of insurance liabilities.

The group's capital management processes are designed to withstand infrequent adverse events such as this pandemic. This is evidenced in the group's solvency position, with Liberty Group Limited (LGL), the group's main insurance company, remaining well capitalised with a solvency capital coverage ratio of 1,83 times at 30 June 2020, which is comfortably within the capital coverage target range of 1,5 - 2,0 times. Liberty's risk appetite is set based on three dimensions, being normalised IFRS headline earnings, regulatory capital coverage and economic value at risk. After the establishment of the additional R3 041 million pandemic reserve (pre-taxation and pre-allocation of non-controlling interests' share in Africa regions) due to COVID-19, Liberty still remains within risk appetite and risk target on all its risk dimensions at 30 June 2020. In addition, at 30 June 2020, various stress tests, through an out of cycle Own Risk and Solvency Assessment (ORSA) were performed. These stresses assessed risks against the risk appetite dimensions under several plausible scenarios.

Based on all these reviews, the directors consider it is appropriate for the going concern basis to be adopted in preparing the interim financial statements.

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES

Key assumptions can materially affect the reported amounts of assets and liabilities. The assumptions require complex management judgements and are therefore regularly re-evaluated. They are based on historical experience and other factors, including expectations of future events, that are considered to be reasonable under the circumstances.

Key judgement disclosures for the half year interim results are not typically provided as they will be in accordance with the preceding annual financial statements (AFS) detailed disclosures. However, considering the COVID-19 pandemic emergence in the early part of 2020, the directors and management were required to apply significant key judgement to the potential future impact that COVID-19 will have on the group's operations and the associated IFRS measurement of various assets and liabilities at 30 June 2020. The assets and liabilities that have been identified, where measurement judgement has been significant, are summarised below.

The relatively short duration of the pandemic to date (with the first reported case outside of China on 13 January 2020 and the first reported cases in South Africa and the other regions of Africa in which the group operates starting early March 2020) results in considerable uncertainty in estimating future developments as at 30 June 2020.

Given the significant net adverse financial impact that COVID-19 is expected to have on the measurement of policyholder insurance contract liabilities, as a result of changes in management's view of the future best estimate cash flows, additional disclosures have been provided in this section to assist in understanding the estimated impacts to the group's IFRS earnings, group equity value (including SA covered business embedded value) and the group's solvency capital position as measured in accordance with the Insurance Act.

Assumed COVID-19 scenario

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation. The continued subsequent rapid spread of this virus resulted in significant health risk mitigation measures being introduced by governments in many jurisdictions. This has included all the countries where Liberty operates. These risk mitigation measures include various social distancing measures, commonly known as "lock down" regulations, with the South African government imposing comprehensive "lock down" restrictions commencing 27 March 2020. These restrictions have been gradually eased in phased stages and at 30 June 2020 the country was subject to the government defined category level 3 regulations.

In preparing the 30 June 2020 interim results management have acknowledged that there is a significant level of uncertainty over the short- and long-term impacts that COVID-19 may have on the group's business and have applied a key judgement that the bulk of the impact will be evident within twelve to eighteen months ('the short-term'). There is still great uncertainty about the long-term impact of the pandemic. As there is currently no clear indication that there is a long-term impact of the pandemic, it has been assumed that the current long-term assumptions are still appropriate.

Management established a 'reference scenario' in order to quantify a best estimate of the likely financial outcome, based on all relevant and reliable external data sources that are currently available, whilst recognising that the range of outcomes is large. This reference scenario was then applied, where applicable, to the assets and liabilities measurement models under the respective requirements of the IFRS, regulatory capital and group equity value (GEV) frameworks.

In respect of policyholder insurance contracts measurement, this has resulted in the recognition of a short-term pandemic reserve of R3 041 million (pre-tax) for IFRS purposes and a R828 million (post- tax) value of in-force impairment in respect of South African (SA) covered business embedded value. Related pandemic reserve adjustments to the group's main regulated insurance entity, LGL required capital and available capital resulted in the LGL solvency capital requirement cover ratio decreasing from 1,90 (prior to the pandemic reserve) to 1,83 at 30 June 2020 (1,99 as at 31 December 2019).

The reference scenario assumption is that 60% of the population will be infected with the virus before either herd immunity or immunity through vaccinations is achieved. Of the population that is infected, 20% of those are assumed to experience mortality rates by age similar to that experienced internationally (Wuhan mortality rates were assumed). The other 80% are assumed to be asymptomatic and/or recover. It is considered unlikely that a vaccine will be developed and made widely available in South Africa and the other African territories in which the group operates within the next six months.

In combination, these assumptions imply that 12% (i.e. 20% of 60%) of the population of South Africa, and in the other African countries in which the group operates, will be subject to the mortality rates experienced in Wuhan by age. Age-based COVID-19 mortality experience as evidenced in the published Wuhan research study, as shown below, has been assumed to apply on the reported cases. Although other studies have been published since the initial Wuhan study, the Wuhan study is considered to be appropriately reflective of the case fatality rates by age given the level of unreported infections assumed.

Age	Case fatality rate as reported in Wuhan
0-10	0,0%
10-20	0,2%
20-30	0,2%
30-40	0,2%
40-50	0,4%
50-60	1,3%
60-70	3,6%
70-80	8,0%
80+	14,8%

Based on this assumption set, the number of reported COVID-19 related deaths in South Africa is estimated to be around 54,000 over the expected short-term course of the pandemic. This is broadly aligned to the 40,000 - 50,000 expected number of deaths widely reported by the South African government and is consistent with an initial model developed by members of the Actuarial Society of South Africa for use by the profession.

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES (CONTINUED)

South Africa's prevalence of HIV and TB is significantly higher than in Wuhan. There are indications from experience in the Western Cape of South Africa that HIV and TB are material comorbidities. There is thus a risk that the South African population's COVID-19 mortality experience would be higher than in Wuhan. With Liberty's mortality exposure concentrated in the affluent underwritten segment that has low levels of HIV and TB, this risk is reduced for the group. However, HIV and TB are still prevalent in Liberty's relatively smaller emerging consumer market and corporate risk segments. Furthermore, there is a risk that the health care systems in South Africa and in the other African countries in which Liberty operates become more overwhelmed than what occurred in Wuhan. However, the benefit of more time, continued improvement in treatment protocols and lockdown measures to 'flatten the curve' have been assumed to counter this risk.

The measures taken by governments and individuals to control the spread of the pandemic have resulted in recessionary economic environments in all countries where the group operates. Whilst easing of these measures is gradually improving economic activity, management's expectation is that depressed economic activity is expected to prevail until the end of 2021. Thereafter economic growth is anticipated to resume to average long-term expectations. South African Gross Domestic Product is estimated to contract by 7,2% in 2020, as quoted by South African Minister of Finance in his special revised budget announcement in June 2020, with 2021 estimated to be at nil growth.

As a result of the economic environment, it is anticipated that there will be increased retrenchments. The South African National Treasury forecasted in June that the impact could lead to job losses of between 0,7 million and 1,8 million, implying 4% - 11% of the workforce being retrenched in the short-term.

Details of key judgements applied

The key judgements on the classification and measurement of financial instruments, basis of consolidation, application of IFRS 16 Leases with regards to hotel agreements, deferred taxation and for the cash flow statement are consistent with the 31 December 2019 year end disclosures and are not repeated in this summary.

A summary of the relevant significant key judgements applied to the other applicable asset and liability measurement models are detailed below for each applicable asset or liability classification.

Policyholder insurance contracts and investment contracts with discretionary participation features

Liberty is predominately a long-term insurer providing risk cover (including death and disability) and investment solutions to a broad range of individuals either directly or indirectly through retirement funds. Consequently, Liberty's financial results are materially impacted by estimates of policyholder behaviour relating to the ability to continue paying premiums (lapse risk), retrenchment risk events, and exposure to claims mainly through the occurrence of mortality and morbidity.

Policyholder assets and liabilities under long-term insurance contracts and related reinsurance assets and liabilities:

Liability and asset determination: Policyholder assets and liabilities under insurance contracts include provisions for the net present value of expected future benefits and expected future costs, less expected future premiums; plus, claims incurred and not reported (IBNR). An IBNR provision is an estimate of the ultimate cost of claims where the loss event has occurred prior to financial position date, but which have not been reported at that date. Reinsurance assets and liabilities under insurance contracts include provisions for the net present value of expected future reinsurance premiums and expected future reinsurance recoveries.

The key long-term assumptions applied, accounting policies and analysis of their sensitivity have been detailed in the Liberty Holdings Limited 31 December 2019 annual financial statements. The long-term demographic assumptions used in contract measurement at 30 June 2020, are unchanged from those applied at 31 December 2019 as recent experience pre-pandemic remains supportive of these long-term assumptions and trends in future experience post the short-term pandemic event, are still unclear. There are certain risks posed by the pandemic to some of the long-term insurance risks. These risks are discussed in more detail under insurance risk in the risk management section. Economic assumptions have been updated to reflect the current applicable investment market experience.

The reference scenario has resulted in the establishment of a pandemic reserve (increase in insurance contract liabilities) on the various reported financial metrics in respect of insurance contracts in-force. This reflects the estimated net adverse impact in the short-term to the best estimate cash flows and related margins, of these insurance contracts in excess of the supportable long-term assumptions. These impacts are a combination of the likely impact to the health of customers (mortality and morbidity) as well as the indirect impacts that the pandemic and the measures taken by governments and individuals to control the spread of the pandemic have had on economic activity. These indirect impacts are likely to manifest in higher unemployment and reduced average individual income levels. In respect of insurance contracts, this increases the likelihood of retrenchment activity and higher policyholder terminations. The impacts have been assessed in accordance with the respective requirements of the various reporting metrics.

The material impacts to the reserve have been derived from the following assumptions:

- The age-based reported COVID-19 mortality experience of Wuhan will apply to 12% of Liberty's customers, including life assureds and annuitants;
- The lump sum disability experience outgo will increase by 35% over a one-year period;
- An additional 10% of retail customers are retrenched, above long-term assumptions;
- Liberty Corporate's customer revenue base reduces by 15% as a result of a 10% risk and retirement fund membership reduction due to retrenchments and a 5% reduction in the remaining net employee benefit contributions;
- 5% of Retail risk and voluntary investment policies will terminate; and
- An allowance for future once off costs to provide financial support to commission earners and further technology costs related to remote working; plus, an allowance for unprovided cost overruns in the short-term as a result of lower than budgeted new business volumes and higher than expected terminations.

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES (CONTINUED)

The short-term impacts on dread disease and income disability benefits are expected to be within the typical variability of the long-term experience and are thus considered supportable by the long-term assumptions.

These assumptions have been consistently applied in the determination of the value of in-force contracts in the SA covered business embedded value, as well as for solvency capital requirement calculations.

Acquisition cost-per-policy overruns have been excluded from the value of new business as they are not expected to recur and have been treated as extraordinary non-recurring expenses. Given various management actions taken over the first half of 2020, the application of the reference scenario to the value of new business was not considered appropriate. There are hence no assumed impacts on the value of new business.

The estimates have been calculated on a net of reinsurance basis, allowing for expense modelling considerations and reinsurance recoveries where applicable. The impacts of applying these assumptions on the various bases are summarised in the table below:

Reference scenario – impact for the six months to 30 June 2020	**IFRS insurance liability and net value of in-force adjustment**
Policyholder insurance contracts - South Africa and Africa region operations	**R3 041 million increase in liability**
Taxation relief and non-controlling interests applied	**(R866 million)**
Impact to Liberty Holdings Limited shareholders' IFRS profit and loss/net worth	**R2 175 million reduction in profit**
Net impact to value of in-force and cost of required capital	**R828 million reduction in net value of in-force**
Group equity value impact	**R3 003 million reduction in equity value**
	LGL solvency capital requirement cover
Net reduction in LGL solvency capital requirement cover	**0,07 decrease in cover**

The IFRS insurance liability adjustment includes an overall assessment of the liability adequacy requirement as prescribed under IFRS 4 *Insurance Contracts*.

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES (CONTINUED)

Sensitivities to the LGL insurance contract pandemic reserve are tabled below. Mortality sensitivities have only been determined for an upward shock. The impact of a downward shock would be a profit similar in magnitude to the loss on the upward shock presented. The pre non-controlling interest and tax reserve of R41 million in respect of Liberty Africa Insurance has not been included in the sensitivities as it is considered immaterial from a group perspective. The impacts presented below are net of taxation consequences. Any taxation relief is assumed to be recoverable.

Sensitivity variable	IFRS contract boundary[1]	Adjustment to the reference scenario[2]	Impact to the group's IFRS reported profit or loss for the six months to 30 June 2020 Rm	Impact to the group's reported Group Equity Value earnings for the six months to 30 June 2020 Rm	Impact to the LGL solvency capital requirement cover at 30 June 2020 (times covered)
Mortality risk experience – assured lives	Long	+40% of the assumed mortality impact of the pandemic[3] (equates approximately to a +14% relative increase on average for 1 year)	(385)	(358)	(0,023)
	Short		(108)	(104)	(0,006)
Mortality risk experience – annuitants			37	40	0,003
Lump sum disability risk experience	Long	+10% proportional increase for 1 year	(37)	(29)	(0,002)
	Short		(8)	(8)	(0,000)
Retail retrenchment risk experience[4]	Long	+5% absolute increase for 1 year (equates to a greater than +200% relative increase for 1 year)	(47)	(43)	(0,003)
	Short			(55)	
Retrenchment impact on Corporate terminations		+5% absolute increase for 1 year		(90)	
Risk and investment policy terminations		+5% absolute increase on Corporate and Retail risk and voluntary investment business (equates approximately to a +50% relative increase on average for 1 year)	(497)	(924)	0,023

(1) *In some instances, the sensitivities have been split dependent on whether the IFRS contract boundary is considered short or long. Short boundary business encompasses Corporate risk and fund business, and Retail embedded credit business. The balance of the group's business is categorised as long boundary. This is to facilitate a comparison with the usual IFRS sensitivities provided in the AFS, since the impact on the usual sensitivities is zero for contracts with a short boundary definition, but given the extent of the stress in the short-term it does give rise to a sensitivity in the table above.*

(2) *In some instances, approximate proportional sensitivities have been provided to aid comparison with the usual sensitivities provided in the AFS. The stresses have been calibrated such that the actual actual financial consequence, if adverse, is reasonably likely to fall within the impact disclosed above.*

(3) *The 40% stress is considered a reasonable stress to appropriately reflect the range of likely impact for Liberty given its small weighted exposure to HIV and TB relative to the population. With the high prevalence of HIV and TB in the South African population, the stress to reflect the likely range for the population would be more appropriate at around 100%.*

(4) *Retrenchment stresses were not provided previously in the AFS. The typical net impact on the group for variations in retrenchment is immaterial. However, the unprecedented levels of retrenchment that are assumed in the reference scenario, resulting in a relative stress in excess of 400%, are significantly in excess of anything the group would have envisaged as a reasonable range. However, even at these extreme levels, the net impact on the group is not significant in relation to the aggregate impact of the reference scenario.*

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES (CONTINUED)

Using the usual IFRS sensitivities analysis previously provided in the AFS, together with a suitable assumed discounted weighted average outstanding term of the cashflows, and scaling factor for the difference in the relative size of the stresses, estimation of the above sensitivities of the pandemic reserve can largely be replicated.

Policyholder liabilities – investment contracts with discretionary participation features

Liability determination: The full liability represents the total fair value of the matching asset portfolio and an estimate of the cost of any guarantees provided. Current policyholder obligations are estimated by calculating a net present value of expected future cash flows allowing for assumed future bonus rates. The difference between the fair value of the matching asset portfolio and the estimate of the current policyholder obligations is the bonus stabilisation reserve. The reference scenario has not directly impacted the measurement of investment contracts with discretionary participation features at 30 June 2020. This is because the associated changes in expected future cashflows do not impact the measurement of the referenced asset portfolios at the financial reporting date. Furthermore, the impact on financial metrics on other bases is negligible given the nature of these contracts. Funding levels on all material funds remain above 100%, and in aggregate the two funds below the 100% funding level had bonus stabilisation reserves of less than negative R50 million.

Defined post-employment benefits

In respect of Liberty's post-employment benefits, being a defined benefit pension scheme and a post-retirement medical aid benefit (refer note 23 to the 31 December 2019 Liberty Holdings Limited annual financial statements), a key exposure is to the longevity risk of qualifying employees in service and pensioners in payment.

The reference long-term mortality curves have not been changed from those applied at 31 December 2019, however the reference scenario, as detailed above in respect of mortality impacts were considered in relation to the determination of the liability for these respective benefits. The net impact was immaterial for both post-employment benefits for the six months ended 30 June 2020.

Further details of these post-retirement benefits are contained in the 'Retirement benefit obligations' section of this report.

Properties classification and fair value measurement

The group invests in various properties which are predominantly owned for investment return. Certain properties house various of the group's insurance and asset management operations and these are classified as "owner-occupied" properties under IAS 16. The balance of the properties is let to various tenants under lease agreements as defined under IFRS 16. These properties are classified as "investment properties" under IAS 40. Investment and owner-occupied properties are measured at fair value by external valuation appraisers, taking into account characteristics of the properties that market participants would consider when pricing the property at measurement date. The key assumptions in determination of the fair value are the rent reversion factors, exit capitalisation rates and discount rates. Other inputs considered relate to expense growth, rental growth, existing tenant terms, location, vacancy rates and restrictions, if any, on the sale or use of the asset. The group applies judgement regarding the unit of account, i.e. whether it should be valued as a stand-alone property or as a group of properties. Determination of fair value also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible. Management derived discount rates are risk adjusted to factor in liquidity and asset class risk.

The fair values of the investment properties in South Africa at 30 June 2020 have been revised in consultation with external valuators, considering the current economic environment and lock down regulations and the estimated impact to all the valuation inputs. There have been no changes applied to the unit of account and derived use.

Valuations have been negatively impacted by *inter alia*, the negative effect of COVID-19 on current year rentals and growth assumptions for the forecasted period, higher vacancies, the potential for negative reversions and the time required to re-let vacant space. The valuers have also applied more conservative valuation metrics, including adjustments to exit capitalisation rates, discount rates and an increase in the periods allowed to re-let space.

Given the number of management judgements applied in the valuation, these assets are at level 3 in the fair value hierarchy. Jones Lang LaSalle (JLL), who value the majority of the group's South Africa portfolio, have emphasised the valuations disclosed are reported on "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty should be attached to the valuations. Refer to the section on Fair value measurement of this report for specific details of the valuation techniques and assumptions applied as well as a sensitivity analysis on the fair value of these properties to a change in the exit capitalisation and discount rate assumptions.

There have been no disposals of properties during the six months to 30 June 2020. During July 2020, the sale of an office complex located in Century City, Cape Town was completed. The valuation of this property at 30 June 2020 reflected the sale price.

The fair value of the head office owner-occupied property was considered not to have changed from the value measured at 31 December 2019, as the valuation is supported by a Liberty occupation commitment. In respect of investment properties, the combined impact of the various assumption changes applied has led to a reduction in the overall fair value of the properties of R4,7 billion at 30 June 2020, compared to the fair value reported at 31 December 2019.

KEY JUDGEMENTS IN APPLYING ASSUMPTIONS ON APPLICATION OF ACCOUNTING POLICIES (CONTINUED)

Fair value of unlisted financial instruments disclosed as level 3 in the fair value hierarchy

The fair value of financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the financial statements. Fair value calculations are dependent on various sources of external and internal observable data and on sophisticated modelling techniques used to value financial instruments. Financial instruments disclosed as level 3 have more unobservable inputs and the valuation requires greater judgement and estimation in determining appropriate valuation techniques and obtaining relevant and reliable inputs. The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process. The valuations of the private equity investments are performed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment and in line with industry guidelines.

In determining the valuation of the investment, the principal assumptions used to determine the fair market value fall into three categories, namely:

- The projected long-term profitability of the given asset which is influenced by factors such as real gross domestic product growth and projected capital expenditure;
- The discount rate applied to expected future profits (or dividends as appropriate) which consider the prevailing long-term interest rates and various asset-specific risk premia; and
- In some instances, a further illiquidity discount is added to ensure that the asset can be transacted at the carrying value, if so required.

The details of the level 3 financial instruments and associated valuation judgments and valuation sensitivities are contained in the 'Fair value measurement' section of this report. There is no change in the composition of level 3 assets for the period.

Disposal groups classified as held for sale

The majority of disposal groups classified as held for sale at 31 December 2019 have either subsequently been sold and derecognised or are under agreements of sale subject to various conditions precedent or are under a sale negotiation process being completed. In the case of Liberty Health Proprietary Limited, disposal activities have ultimately been unsuccessful, and these operations have been derecognised as a disposal group classified as held for sale at 30 June 2020. Going forward these operations will return to continuing operations. There are no new significant operations categorised as disposal groups classified as held for sale for the six months to 30 June 2020 and it remains highly probable that the carrying values of the remaining disposal groups classified as held for sale will be recovered principally through sale transactions rather than continuing use. The disposal groups classified as held for sale are available for immediate sale in their present condition. It is highly probable that they will be disposed of within the next 12 months.

A key judgement in this process is the determination of the fair value less costs to sell. Management have used the agreements of sale, budgets and forecasts, indicative non-binding offers, current market conditions and other relevant information, in the assessment of fair value less costs to sell for each disposal group classified as held for sale. No further impairments based on current values were required for the six months ended 30 June 2020. Further details are contained in the 'Disposal groups classified as held for sale' section of this report.

EXPLANATION OF TERMS

Development costs

Represents project costs incurred on developing or enhancing future revenue opportunities.

FCTR

Foreign Currency Translation Reserve.

FVOCI

Fair value through other comprehensive income.

FVPL

Fair value through profit or loss

"Liberty" or "group"

Represents the collective of Liberty Holdings Limited and its subsidiaries.

Long-term insurance operations – Indexed new business

This is a measure of new business which is calculated as the sum of 12 months' premiums on new recurring premium policies and one-tenth of single premium sales.

Long-term insurance operations – Value of new business and margin (VoNB)

The present value, at point of sale, of the projected stream of after-tax profits for new business issued, net of the cost of required capital. The present value is calculated using a risk-adjusted discount rate. Margin is calculated using the value of new business divided by the present value of future modelled premiums.

Negative rand reserves

Negative liabilities (within long-term policyholder liabilities) and policyholder assets arising when the discounted value of expected future inflows exceeds the discounted value of expected future outflows.

Short-term insurance operations – Claims loss ratio

This is a measure of underwriting risk and is measured as a ratio of claims incurred divided by the net premiums earned.

Solvency capital requirement (SCR)

The SCR is the excess of assets over liabilities required by an insurer to ensure that its assets remain larger than its liabilities with a 99.5% level of certainty over a one-year time horizon, with assets and liabilities valued in accordance with the Insurance Act, 2017.

Normalised: headline earnings, headline earnings per share, return on equity, group equity value per share and return on group equity value

These measures reflect the economic reality of the Black Economic Empowerment (BEE) transaction and the consolidation of the listed Liberty Two Degrees (L2D) as opposed to the required IFRS accounting treatment.

BEE transaction

IFRS reflects the BEE transaction as a share buy-back. Dividends received on the group's preference shares (which are recognised as an asset for this purpose) are included in income. Shares in issue relating to the transaction are reinstated.

Reversal of accounting mismatch arising on IFRS profit or loss consolidation of L2D

An accounting mismatch arises on consolidation of L2D in the group financial statements, resulting from the different measurement bases applied to L2D's assets and Liberty Group Limited's (100% subsidiary of Liberty Holdings Limited) policyholder liabilities. Specifically:

- on a consolidated look through basis the investment property assets of L2D are included in the group financial statements at fair value; whereas
- the corresponding linked obligations to Liberty Group Limited's policyholders are required under IFRS to continue to be measured in the group financial statements at the listed price of the L2D shares.

The result of this is an accounting mismatch that represents any difference in the profit and loss movement in the price at which L2D's listed shares trade relative to the underlying net asset value.

L2D adjustment in group equity value

In addition to the reversal of the accounting mismatch in IFRS profit or loss described above, the group equity value adjusts the exposures in the Shareholder Investment Portfolio (SIP) to the listed share price.

Summary of impact

Below is a summary of the L2D transaction impact on the ordinary shareholders' equity:

Rm	Group equity value Total	IFRS net asset value	SIP equity value adjustment
Opening adjustment at 1 January 2020	1 063	504	559
IFRS profit or loss	(88)	(88)	
Group equity value earnings	(96)		(96)
Transaction between owners	(11)	(81)	70
Closing adjustment at 30 June 2020	**868**	**335**	**533**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

Rm	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 31 December 2019
Assets			
Intangible assets	474	573	611
Defined benefit pension fund employer surplus	89	129	117
Properties	32 059	36 109	36 294
Equipment and right-of-use assets	731	1 205	1 078
Interests in joint ventures	1 380	1 350	1 316
Interests in associates	18 562	15 078	16 178
Deferred taxation	202	390	317
Deferred acquisition costs	796	789	790
Long-term policyholder assets – insurance contracts	5 746	6 569	7 017
Reinsurance assets	2 967	2 226	2 409
Long-term insurance	2 341	1 818	1 991
Short-term insurance	626	408	418
Financial investments	346 178	347 789	351 083
Policy loans receivable	285	415	248
Assets held for trading and for hedging	20 629	10 436	10 003
Repurchase agreements, scrip and collateral assets	13 185	8 708	11 573
Prepayments, insurance and other receivables	6 492	6 369	4 679
Cash and cash equivalents	15 160	14 385	17 377
Disposal group assets classified as held for sale	217	740	584
Total assets	**465 152**	**453 260**	**461 674**
Liabilities			
Long-term policyholder liabilities	315 852	322 820	324 246
Insurance contracts	199 847	207 102	206 103
Investment contracts with discretionary participation features	9 986	10 381	10 252
Financial liabilities under investment contracts	106 019	105 337	107 891
Reinsurance liabilities	210	261	246
Third party financial liabilities arising on consolidation of mutual funds	58 268	53 462	56 758
Provisions	140	133	140
Deferred taxation	1 994	3 333	3 191
Deferred revenue	346	327	330
Short-term insurance liabilities	1 330	1 025	991
Financial liabilities	7 956	7 273	7 792
Lease liabilities	205	247	209
Liabilities held for trading and for hedging	16 113	8 398	7 932
Repurchase agreements, liabilities and collateral deposits payable	16 003	8 270	12 474
Employee benefits	1 080	1 062	1 376
Insurance and other payables	17 619	14 495	13 115
Current taxation	42	80	239
Disposal group liabilities classified as held for sale	172	256	246
Total liabilities	**437 330**	**421 442**	**429 285**
Equity			
Ordinary shareholders' equity	20 467	23 530	24 068
Share capital	26	26	26
Share premium	5 054	5 096	5 066
Retained surplus	16 268	19 417	19 882
Other reserves	(881)	(1 009)	(906)
Non-controlling interests	7 355	8 288	8 321
Total equity	**27 822**	**31 818**	**32 389**
Total equity and liabilities	**465 152**	**453 260**	**461 674**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2020

Rm	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
Revenue			
Insurance premiums	19 501	20 068	42 182
Reinsurance premiums	(1 365)	(1 211)	(2 381)
Net insurance premiums	18 136	18 857	39 801
Revenue from contracts with customers	1 773	2 078	4 076
Investment income	2 553	1 576	3 199
Interest income on financial assets using the effective interest rate method	903	890	1 920
Fair value adjustment to assets held at fair value through profit or loss	(4 110)	24 196	35 451
Total income	19 255	47 597	84 447
Claims and policyholder benefits under insurance contracts	(18 851)	(20 232)	(41 730)
Insurance claims recovered from reinsurers	984	983	2 079
Change in long-term policyholder assets and liabilities	5 916	(6 375)	(4 590)
Liabilities under insurance contracts	6 420	(6 406)	(5 400)
Policyholder assets related to insurance contracts	(1 271)	(139)	309
Investment contracts with discretionary participation features	383	28	171
Applicable to reinsurers	384	142	330
Fair value adjustment to long-term policyholder liabilities under investment contracts	474	(6 048)	(9 146)
Fair value adjustment to financial liabilities	(653)	(605)	(1 206)
Fair value adjustment on third party mutual fund interests	(2 482)	(3 079)	(6 327)
Acquisition costs	(2 023)	(2 077)	(4 241)
General marketing and administration expenses	(5 790)	(5 485)	(11 075)
Finance costs	(146)	(118)	(243)
Profit share allocations under bancassurance and other agreements	(767)	(711)	(1 512)
Remeasurement of disposal groups classified as held for sale		(125)	(319)
Profit on disposal of subsidiary			141
Equity accounted earnings from associates		(1)	(2)
Equity accounted earnings from joint ventures	14	10	21
(Loss)/profit before taxation	(4 069)	3 734	6 297
Taxation[1]	667	(1 563)	(2 662)
Total (loss)/earnings	(3 402)	2 171	3 635
Other comprehensive income/(loss)	293	(27)	9
Items that may be reclassified subsequently to profit or loss	240	(27)	(18)
Net change in fair value on cash flow hedges	(46)	25	47
Income and capital gains tax relating to net change in fair value on cash flow hedges	13	(7)	(13)
Net change in debt instruments measured at FVOCI	13	(13)	(15)
Income tax relating to movement in debt instrument measured at FVOCI	(4)	4	4
Foreign currency translation	264	(36)	(41)
Items that may not be reclassified subsequently to profit or loss	53		27
Owner-occupied properties – fair value adjustment	(43)	(12)	(8)
Income and capital gains tax relating to owner-occupied properties fair value adjustment	12	5	6
Change in long-term policyholder insurance liabilities (application of shadow accounting)	21	13	16
Actuarial gains on post-retirement medical aid liability	47	19	53
Income tax relating to post-retirement medical aid liability	(13)	(5)	(14)
Net adjustments to defined benefit pension fund[2]	(26)	(10)	(19)
Income tax relating to defined benefit pension fund	7	3	5
Fair value adjustments to financial liabilities arising from own credit	67	(18)	(16)
Income tax relating to fair value adjustments to financial liabilities arising from own credit	(19)	5	4
Total comprehensive (loss)/income	(3 109)	2 144	3 644
Total (loss)/earnings attributable to:			
Shareholders' equity	(2 387)	1 872	3 078
Non-controlling interests	(1 015)	299	557
	(3 402)	2 171	3 635
Total comprehensive (loss)/income attributable to:			
Shareholders' equity	(2 185)	1 860	3 105
Non-controlling interests	(924)	284	539
	(3 109)	2 144	3 644
Basic and fully diluted (loss)/earnings per share	Cents	Cents	Cents
Basic (loss)/earnings per share	(902,4)	699,9	1 153,2
Fully diluted basic (loss)/earnings per share	(867,7)	681,4	1 112,0

[1] *IFRS requires both policyholder and shareholder taxation to be reported in the taxation line. This therefore distorts the effective tax charge relative to profit before taxation.*

[2] *Net adjustments to defined benefit pension fund include actuarial gains or losses, return on plan assets, reduced by the interest on the net defined benefit asset and the effect of the application of the asset ceiling.*

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020

Rm	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
Balance of ordinary shareholders' equity at 1 January	**24 068**	23 003	23 003
Ordinary dividends	**(1 199)**	(1 151)	(1 915)
Total comprehensive (loss)/income	**(2 185)**	1 860	3 105
FCTR recycled through profit and loss	**2**		6
Share buy-back[1]	**(245)**	(227)	(278)
Black economic empowerment transaction	**18**	16	28
Share-based payments	**24**	19	127
Preference dividends	**(1)**	(1)	(2)
Disposal of interest in subsidiary – Liberty Life Swaziland			7
Acquisition of interest in subsidiary – Liberty Holdings Namibia			17
Transactions between owners – Liberty Two Degrees	**(15)**	11	(30)
Ordinary shareholders' equity	**20 467**	23 530	24 068
Balance of non-controlling interests at 1 January	**8 321**	8 390	8 390
Total comprehensive (loss)/income	**(924)**	284	539
FCTR recycled through profit and loss	**2**		
Acquisition of additional interest in unincorporated property consortiums		(180)	(180)
Unincorporated property partnerships net contributions/(distributions)	**71**	(154)	(246)
Non-controlling interests' share of subsidiary distributions	**(120)**	(50)	(182)
Share-based payments	**3**		8
Disposal of interest in subsidiary – Liberty General Insurance Malawi / (2019: Liberty Life Swaziland)	**8**		8
Acquisition of interest in subsidiary – Liberty Holdings Namibia			(25)
Transactions between owners – Liberty Two Degrees	**(6)**	(2)	9
Non-controlling interests	**7 355**	8 288	8 321
Total equity	**27 822**	31 818	32 389

(1) *Share buy-backs are purchases of shares from the market to meet employee share-based payment obligations and to hold as treasury shares.*

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2020

Rm	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
Cash flows from operating activities	**(3 904)**	**1 168**	**2 021**
Cash utilised by operations	(1 781)	(1 211)	(4 642)
Interest income on financial assets using the effective interest rate method	903	890	1 920
Distributions paid	(2 716)	(2 427)	(3 349)
Taxation paid	(613)	(1 332)	(2 363)
Net (purchase)/disposal of financial instruments[1]	(945)	6 394	10 612
Net (purchase)/disposal of other assets	(181)	375	293
Deposits received on/(repayments of) collateral deposits payable	1 675	(1 249)	88
Other operating cash flows	(246)	(272)	(538)
Cash flows from investing activities	**214**	**101**	**(184)**
Net disposal of financial investments	163	133	
Net disposal/(purchase) of other and disposal groups assets	51	(126)	(451)
Acquisition of equity accounted joint ventures			(1)
Proceeds on sale of disposal groups classified as held for sale		94	268
Cash flows from financing activities	**1 297**	**(3 850)**	**(1 396)**
Net repayment of financial liabilities	(18)	(853)	(837)
Net repayment of lease liabilities	(42)		(78)
Net proceeds on/(repayment of) repurchase agreements liabilities	1 452	(2 582)	(58)
Net cash flows from equity transactions with non-controlling interests	150	(171)	(145)
Cash flows from financing activities in disposal groups		(17)	
Share buy-backs	(245)	(227)	(278)
Net (decrease)/increase in cash and cash equivalents	**(2 393)**	**(2 581)**	**441**
Cash and cash equivalents at the beginning of the year	17 377	16 974	16 974
Foreign currency translation	124	(8)	(22)
Disposal groups cash no longer classified/(classified) as held for sale	52		(16)
Cash and cash equivalents at the end of the period	**15 160**	**14 385**	**17 377**

[1] *Included in the net (purchase)/disposal of financial instruments for June 2020 is R1 685 million (31 December 2019: R5 787 million, 30 June 2019: R2 047 million) related to dividends received and R5 441 million (31 December 2019: R11 322 million, 30 June 2019: R6 205 million) related to interest income.*

HEADLINE EARNINGS AND EARNINGS PER SHARE

for the six months ended 30 June 2020

Rm (unless otherwise stated)	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
Reconciliation of total (loss)/earnings to headline (loss)/earnings attributable to shareholders			
Total (loss)/earnings attributable to shareholders	(2 387)	1 872	3 078
Preference share dividend	(1)	(1)	(2)
Basic (loss)/earnings attributable to ordinary shareholders	(2 388)	1 871	3 076
Remeasurement of disposal groups classified as held for sale		125	319
Impairment of intangible assets	174		
Tax on headline earnings adjustable item	(49)		
Profit on disposal of subsidiary			(141)
Headline (loss)/earnings attributable to ordinary shareholders	(2 263)	1 996	3 254
Net income earned on BEE preference shares	2	3	6
Reversal of the accounting mismatch arising on consolidation of L2D[1]	88	14	(55)
Normalised headline (loss)/earnings attributable to ordinary shareholders	(2 173)	2 013	3 205
Weighted average number of shares in issue ('000)	264 618	267 336	266 726
Normalised weighted average number of shares in issue ('000)	270 783	273 572	272 943
Fully diluted weighted average number of shares in issue ('000)	275 204	274 562	276 617
(Loss)/earnings per share	Cents	Cents	Cents
Total (loss)/earnings attributable to ordinary shareholders			
Basic	(902,4)	699,9	1 153,2
Headline	(855,2)	746,6	1 220,0
Normalised headline	(802,5)	735,8	1 174,2
Fully diluted (loss)/earnings attributable to ordinary shareholders			
Basic	(867,7)	681,4	1 112,0
Headline	(822,3)	727,0	1 176,4

[1] *Refer to Explanation of terms.*

SUMMARY CONSOLIDATED SEGMENT INFORMATION

for the six months ended 30 June 2020

The unaudited segment results for the six months ended 30 June 2020 are as follows:

Rm	South African operations			
	Insurance operations			Asset management
	SA Retail	Liberty Corporate	Other operations[1]	STANLIB South Africa
Total income	16 893	5 478	550	1 331
Profit/(loss) before taxation	(3 832)	(97)	13	301
Taxation[3]	816	44	(94)	(75)
Total (loss)/earnings	(3 016)	(53)	(81)	226
Reconciliation of total earnings to headline earnings/(loss) attributable to shareholders				
Total (loss)/earnings	(3 016)	(53)	(81)	226
Attributable to non-controlling interests			582	
Impairment of intangible assets	37	65	23	
Preference share dividend			(1)	
Headline (loss)/earnings	(2 979)	12	523	226
Net income earned on BEE preference shares			2	
Reversal of the accounting mismatch arising on consolidation of L2D			88	
Normalised headline (loss)/earnings	(2 979)	12	613	226
Reconciliation of business operations (loss)/earnings to segment result				
South African Insurance Operations	326	231		
SA Retail	458			
Liberty Corporate		41		
LibFin Markets	(132)	190		
South African Asset Management				
STANLIB South Africa				226
Africa regions				
Liberty Africa Insurance				
Liberty Health				
STANLIB Africa				
Shareholder Investment Portfolio	(1 341)	(3)	713	
Central costs and sundry income	(20)		(100)	
Establishment of COVID-19 pandemic reserve	(1 944)	(216)		
Normalised headline (loss)/earnings	(2 979)	12	613	226

(1) *Includes shareholders' equity, not allocated to the other operating segments, specifically invested to maximise the investment yield within the group's risk appetite and regulatory requirements and costs associated with the group's governance, investor relations, strategy co-ordination and certain corporate social investment and black economic empowerment activities.*

(2) *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, the application of shadow accounting for the change in long-term policyholder insurance liabilities and the elimination of intergroup transactions.*

(3) *IFRS requires both policyholder and shareholder taxation to be reported in the taxation line. This therefore distorts the effective tax charge relative to profit before taxation.*

The operating segments are supported by LibFin who manages the asset/ liability mismatch risk, originates and manages credit assets backing the guaranteed investment product set arising in the South African insurance operations and manages the performance of shareholder investment exposures in the South African life insurance operations. The impact of these activities is disclosed in the relevant segment grouping.

SUMMARY CONSOLIDATED SEGMENT INFORMATION (CONTINUED)

for the six months ended 30 June 2020

Africa regions					
Liberty Africa Insurance	Liberty Health	STANLIB Africa	Total	Reporting adjustments(2)	IFRS reported
1 414	556	84	26 306	(7 051)	19 255
42	(53)	18	(3 608)	(461)	(4 069)
(9)	(10)	(5)	667		667
33	(63)	13	(2 941)	(461)	(3 402)
33	(63)	13	(2 941)	(461)	(3 402)
(27)		(1)	554	461	1 015
			125		125
			(1)		(1)
6	(63)	12	(2 263)		(2 263)
			2		2
			88		88
6	(63)	12	(2 173)		(2 173)
			557		
			458		
			41		
			58		
			226		
21	(63)	12	(30)		
21			21		
	(63)		(63)		
		12	12		
			(631)		
			(120)		
(15)			(2 175)		
6	(63)	12	(2 173)		

SUMMARY CONSOLIDATED SEGMENT INFORMATION (CONTINUED)

for the six months ended 30 June 2020

The unaudited segment results for the six months ended 30 June 2019 are as follows:

	South African operations			
	Insurance operations			Asset management
Rm	SA Retail	Liberty Corporate	Other operations[1]	STANLIB South Africa
Total income	40 211	9 912	1 297	1 283
Profit/(loss) before taxation	2 534	116	723	270
Taxation[3]	(1 336)	(25)	(94)	(61)
Total earnings/(loss)	1 198	91	629	209
Reconciliation of total earnings to headline earnings/(loss) attributable to shareholders				
Total earnings/(loss)	1 198	91	629	209
Attributable to non-controlling interests			(97)	
Remeasurement of disposal groups classified as held for sale				
Preference share dividend			(1)	
Headline earnings/(loss)	1 198	91	531	209
Net income earned on BEE preference shares			3	
Reversal of the accounting mismatch arising on consolidation of L2D			14	
Normalised headline earnings/(loss)	1 198	91	548	209
Reconciliation of business operations earnings/(loss) to segment result				
South African Insurance Operations	921	91		
SA Retail	782			
Liberty Corporate		39		
LibFin Markets	139	52		
South African Asset Management				
STANLIB South Africa				209
Africa regions				
Liberty Africa Insurance				
Liberty Health				
STANLIB Africa				
Shareholder Investment Portfolio	286		636	
Central costs and sundry income	(9)		(88)	
Normalised headline earnings/(loss)	1 198	91	548	209

(1) *Includes shareholders' equity, not allocated to the other operating segments, specifically invested to maximise the investment yield within the group's risk appetite and regulatory requirements and costs associated with the group's governance, investor relations, strategy co-ordination and certain corporate social investment and black economic empowerment activities.*

(2) *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, the application of shadow accounting for the change in long-term policyholder insurance liabilities and the elimination of intergroup transactions.*

(3) *IFRS requires both policyholder and shareholder taxation to be reported in the taxation line. This therefore distorts the effective tax charge relative to profit before taxation.*

SUMMARY CONSOLIDATED SEGMENT INFORMATION (CONTINUED)

for the six months ended 30 June 2020

Africa regions					
Liberty Africa Insurance	Liberty Health	STANLIB Africa	Total	Reporting adjustments(2)	IFRS reported
1 547	500	138	54 888	(7 291)	47 597
77	(175)	17	3 562	172	3 734
(52)	19	(14)	(1 563)		(1 563)
25	(156)	3	1 999	172	2 171
25	(156)	3	1 999	172	2 171
(28)		(2)	(127)	(172)	(299)
20	105		125		125
			(1)		(1)
17	(51)	1	1 996		1 996
			3		3
			14		14
17	(51)	1	2 013		2 013

			1 012
			782
			39
			191
			209
17	(51)	1	(33)
17			17
	(51)		(51)
		1	1
			922
			(97)
17	(51)	1	2 013

SUMMARY CONSOLIDATED SEGMENT INFORMATION (CONTINUED)

for the six months ended 30 June 2020

The audited segment results for the year ended 31 December 2019 are as follows:

Rm (Audited)	South African operations			
	Insurance operations			Asset management
	SA Retail	Liberty Corporate	Other operations[1]	STANLIB South Africa
Total income	70 855	17 170	1 673	2 721
Profit/(loss) before taxation	4 635	252	734	647
Taxation[3]	(2 270)	(59)	(45)	(187)
Total earnings/(loss)	2 365	193	689	460
Reconciliation of total earnings to headline earnings/(loss) attributable to shareholders				
Total earnings/(loss)	2 365	193	689	460
Attributable to non-controlling interests		(1)	(216)	
Remeasurement of disposal groups classified as held for sale				
Profit on sale of subsidiary			(141)	
Preference share dividend			(2)	
Headline earnings/(loss)	2 365	192	330	460
Net income earned on BEE preference shares			6	
Reversal of the accounting mismatch arising on consolidation of L2D			(55)	
Normalised headline earnings/(loss)	2 365	192	281	460
Reconciliation of business operations earnings/(loss) to segment result				
South African Insurance Operations	1 805	181		
SA Retail	1 505			
Liberty Corporate		85		
LibFin Markets	300	96		
South African Asset Management				
STANLIB South Africa				460
Africa regions				
Liberty Africa Insurance				
Liberty Health				
STANLIB Africa				
Shareholder Investment Portfolio	627	11	366	
Central costs and sundry income	(67)		(85)	
Normalised headline earnings/(loss)	2 365	192	281	460

(1) *Includes shareholders' equity, not allocated to the other operating segments, specifically invested to maximise the investment yield within the group's risk appetite and regulatory requirements and costs associated with the group's governance, investor relations, strategy co-ordination and certain corporate social investment and black economic empowerment activities.*

(2) *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, the application of shadow accounting for the change in long-term policyholder insurance liabilities and the elimination of intergroup transactions.*

(3) *IFRS requires both policyholder and shareholder taxation to be reported in the taxation line. This therefore distorts the effective tax charge relative to profit before taxation.*

SUMMARY CONSOLIDATED SEGMENT INFORMATION (CONTINUED)

for the six months ended 30 June 2020

Africa regions					
Liberty Africa Insurance	Liberty Health	STANLIB Africa	Total	Reporting adjustments[2]	IFRS reported
3 948	1 054	275	97 696	(13 249)	84 447
132	(369)	(17)	6 014	283	6 297
(94)	9	(16)	(2 662)		(2 662)
38	(360)	(33)	3 352	283	3 635
38	(360)	(33)	3 352	283	3 635
(53)		(4)	(274)	(283)	(557)
30	234	55	319		319
			(141)		(141)
			(2)		(2)
15	(126)	18	3 254		3 254
			6		6
			(55)		(55)
15	(126)	18	3 205		3 205
			1 986		
			1 505		
			85		
			396		
			460		
15	(126)	18	(93)		
15			15		
	(126)		(126)		
		18	18		
			1 004		
			(152)		
15	(126)	18	3 205		

GROUP EQUITY VALUE REPORT

for the six months ended 30 June 2020

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. The full embedded value report is included in the supplementary information section.

2.2 Other businesses

STANLIB South Africa	Valued using a 10 times (2019: 10 times) multiple of estimated sustainable earnings.
STANLIB Africa	A 10 times (2019: 10 times) multiple of estimated sustainable earnings, adjusted for country risk.
Liberty Health operations	In light of the ongoing sub-optimal operations, the IFRS net asset value has been used.
Liberty Africa Insurance	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 30 June 2020 the combined valuations were approximately equal to the cluster's IFRS net asset value. Therefore the IFRS net asset value was used.
Liberty Holdings	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 (2019: 9 times).

GROUP EQUITY VALUE REPORT (CONTINUED)

for the six months ended 30 June 2020

3. Normalised group equity value

3.1 Analysis of normalised group equity value

Rm	Unaudited 30 June 2020 SA covered business	Other businesses	Total
Liberty Group Limited consolidated	14 901		14 901
STANLIB South Africa(1)		934	934
STANLIB Africa(1)		126	126
Liberty Health		391	391
Liberty Africa Insurance		1 065	1 065
Liberty Holdings		2 140	2 140
Operations under ownership review(2)		42	42
Liberty Two Degrees adjustment to net asset value(3)	854	14	868
Shareholders' equity reported under IFRS	15 755	4 712	20 467
Reverse deferred acquisition cost and deferred revenue liability	(314)		(314)
Frank Financial Services allowance for future expenses	(50)		(50)
BEE preference funding	63		63
Liberty Two Degrees adjustment(3)	(854)	(14)	(868)
Allowance for employee share rights	(4)	(2)	(6)
Normalised net worth	14 596	4 696	19 292
Value of in-force – SA Retail	14 912		14 912
Value of in-force – Liberty Corporate	2 034		2 034
Cost of required capital	(3 021)		(3 021)
Fair value adjustment – STANLIB South Africa(1)		3 366	3 366
Fair value adjustment – STANLIB Africa(1)		174	174
Allowance for future shareholder expenses		(1 338)	(1 338)
Normalised equity value	28 521	6 898	35 419

(1) **STANLIB valuation (Rm)**	30 June 2020	31 December 2019	Change
STANLIB South Africa	4 300	4 300	
Net asset value	934	913	21
Fair value adjustment	3 366	3 387	(21)
STANLIB Africa	300	300	
Net asset value(i)	126	88	38
Fair value adjustment	174	212	(38)
Total	4 600	4 600	

(i) *The STANLIB Africa net asset value reconciles to the positive R126 million (31 December 2019: positive R114 million) in table 3.1 above less Rnil million net asset value (31 December 2019: negative R26 million) included in operations under ownership review.*

(2) *Under IFRS these are disclosed as disposal groups classified as held for sale.*

(3) *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 six months ended 30 June 2020

3. Normalised group equity value (continued)

3.1 Analysis of normalised group equity value (continued)

	Unaudited 30 June 2019			Audited 12 months 31 December 2019		
Rm	SA covered business	Other businesses	Total	SA covered business	Other businesses	Total
Liberty Group Limited consolidated	17 683		17 683	18 690		18 690
STANLIB South Africa		920	920		913	913
STANLIB Africa		101	101		114	114
Liberty Africa Insurance		937	937		920	920
Liberty Holdings		2 563	2 563		2 103	2 103
Operations under ownership review[1]		399	399		265	265
Liberty Two Degrees adjustment to net asset value[2]	913	14	927	1 046	17	1 063
Shareholders' equity reported under IFRS	18 596	4 934	23 530	19 736	4 332	24 068
Reverse deferred acquisition cost and deferred revenue liability	(322)		(322)	(321)		(321)
Reverse value of in-force acquired	(4)		(4)	(2)		(2)
Frank Financial Services allowance for future expenses	(100)		(100)	(50)		(50)
Impact of discounting on deferred tax asset		(100)	(100)			
BEE preference funding	87		87	78		78
Liberty Two Degrees adjustment[2]	(913)	(14)	(927)	(1 046)	(17)	(1 063)
Allowance for employee share rights	(37)	(23)	(60)	(35)	(24)	(59)
Normalised net worth	17 307	4 797	22 104	18 360	4 291	22 651
Value of in-force – SA Retail	16 640		16 640	16 269		16 269
Value of in-force – Liberty Corporate	2 925		2 925	2 885		2 885
Cost of required capital	(3 093)		(3 093)	(3 155)		(3 155)
Fair value adjustment – STANLIB South Africa		2 948	2 948		3 387	3 387
Fair value adjustment – STANLIB Africa		200	200		212	212
Allowance for future shareholder expenses		(1 810)	(1 810)		(1 342)	(1 342)
Normalised equity value	33 779	6 135	39 914	34 359	6 548	40 907

(1) *Under IFRS these are disclosed as disposal groups classified as held for sale.*

(2) *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.*

3. Normalised group equity value (continued)

3.2 Normalised group equity value earnings and value per share

Rm	Unaudited 30 June 2020 SA covered business	Unaudited 30 June 2020 Other businesses	Unaudited 30 June 2020 Total	Unaudited 30 June 2019 SA covered business	Unaudited 30 June 2019 Other businesses	Unaudited 30 June 2019 Total	Audited 12 months 31 December 2019 Total
Normalised equity value at the end of the period	28 521	6 898	35 419	33 779	6 135	39 914	40 907
Equity value at the end of the period	29 312	6 912	36 224	34 605	6 149	40 754	41 892
Liberty Two Degrees adjustment[1]	(854)	(14)	(868)	(913)	(14)	(927)	(1 063)
BEE preference shares	63		63	87		87	78
Net share buy-backs		245	245		227	227	278
Funding of restricted share plan	26	(26)		12	(12)		
Intragroup dividends[2]	1 431	(1 431)		2 235	(2 235)		
Dividends paid		1 200	1 200		1 152	1 152	1 917
Normalised equity value at the beginning of the period	(34 359)	(6 548)	(40 907)	(33 687)	(4 997)	(38 684)	(38 684)
Equity value at the beginning of the period	(35 327)	(6 565)	(41 892)	(34 520)	(5 005)	(39 525)	(39 525)
Liberty Two Degrees adjustment[1]	1 046	17	1 063	932	8	940	940
BEE preference shares	(78)		(78)	(99)		(99)	(99)
Normalised equity value (loss)/earnings	(4 381)	338	(4 043)	2 339	270	2 609	4 418
Normalised return on group equity value (%)	(23,9)	11,0	(18,9)	14,4	11,6	14,0	11,5
Normalised number of shares ('000)			274 990			277 263	276 733
Number of shares in issue ('000)			263 062			266 266	266 044
Shares held for the employee restricted share scheme ('000)			5 211			4 680	4 237
Estimated shares on settlement of performance reward plan ('000)			594			110	274
Adjustment for BEE shares ('000)			6 123			6 207	6 178
Normalised group equity value per share (R)			128,80			143,96	147,82

(1) *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.*

(2) *Dividends paid by Liberty Group Limited to Liberty Holdings Limited.*

GROUP EQUITY VALUE REPORT (CONTINUED)

for the six months ended 30 June 2020

3. Normalised group equity value (continued)

3.3 Sources of normalised group equity value earnings

Rm	Unaudited 30 June 2020 SA covered business	Unaudited 30 June 2020 Other businesses	Unaudited 30 June 2020 Total	Unaudited 30 June 2019 SA covered business	Unaudited 30 June 2019 Other businesses	Unaudited 30 June 2019 Total	Audited 12 months 31 December 2019 Total
Value of new business written in the period	24	–	24	156	15	171	407
Expected return on value of in-force business	1 156		1 156	1 174		1 174	2 373
Variances/changes in operating assumptions	(566)		(566)	(145)		(145)	383
Operating experience variances	(531)		(531)	(139)		(139)	(206)
Operating assumption changes	4		4	6		6	(101)
Changes in modelling methodology	(39)		(39)	(12)		(12)	42
New operating model – expense impact[1]							648
Development costs	(44)	(4)	(48)	(7)	(5)	(12)	(63)
COVID-19 pandemic reserve[2]	(2 988)	(15)	(3 003)				
Liberty Holdings shareholder expenses[3]		(58)	(58)		106	106	(127)
Headline earnings of other businesses/intragroup transfers		196	196		176	176	367
Operational equity value (loss)/profits	(2 418)	119	(2 299)	1 178	292	1 470	3 340
Economic adjustments	(1 995)	256	(1 739)	1 152	105	1 257	731
Return on net worth	(736)	256	(480)	656	105	761	827
Investment variances	(2 082)		(2 082)	(24)		(24)	(653)
Change in economic assumptions	823		823	520		520	557
Change in fair value adjustments on value of other businesses[4]		(59)	(59)		(140)	(140)	324
Change in allowance for share rights	32	22	54	9	13	22	23
Group equity value (loss)/earnings	(4 381)	338	(4 043)	2 339	270	2 609	4 418

(1) *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.*

(2) *As outlined in the 'Key judgements in applying assumptions on application of accounting policies' section.*

(3) *This includes the actual shareholder expenses incurred by Liberty Holdings of R61 million (31 December 2019: R128 million, 30 June 2019: R74 million) plus the change in the allowance for future shareholder expenses over the period.*

(4) *The negative R59 million comprises the change in the fair value adjustment of negative R59 million and Rnil million Liberty Africa Insurance value of new business offset.*

GROUP EQUITY VALUE REPORT (CONTINUED)

for the six months ended 30 June 2020

3. Normalised group equity value (continued)

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

Rm (unless otherwise stated)	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
South African covered business			
SA Retail	714	842	1 765
Traditional Life	613	733	1 550
Direct Channel	45	56	102
Credit Life	56	53	113
Liberty Corporate	32	73	158
Gross value of new business	746	915	1 923
Overhead acquisition (including underwriting) costs impact on value of new business	(656)	(665)	(1 365)
Cost of required capital	(66)	(94)	(200)
Net value of South African covered business	24	156	358
Present value of future expected premiums	14 998	18 943	39 712
Margin (%)	0,2	0,8	0,9
Liberty Africa Insurance			
Net value of new business	-	15	49
Present value of future expected premiums	547	482	1 207
Margin (%)	-	3,1	4,1
Total group net value of new business	24	171	407
Total group margin (%)	0,2	0,9	1,0

LONG-TERM INSURANCE NEW BUSINESS

for the six months ended 30 June 2020

Rm (Unaudited)	30 June 2020	30 June 2019	12 months 31 December 2019
Sources of insurance operations total new business by product type			
Retail	**11 487**	12 310	26 715
Single	**9 354**	10 062	22 088
Recurring	**2 133**	2 248	4 627
Institutional	**701**	1 107	2 321
Single[1]	**377**	579	1 148
Recurring[1]	**324**	528	1 173
Total new business	**12 188**	13 417	29 036
Single[1]	**9 731**	10 641	23 236
Recurring[1]	**2 457**	2 776	5 800
Insurance indexed new business	**3 430**	3 840	8 125
Sources of insurance indexed new business			
SA Retail	**2 946**	3 130	6 558
Liberty Corporate[1]	**289**	482	1 124
Liberty Africa Insurance[2]	**195**	228	443

(1) *June 2019 adjusted for change in classification in Liberty Corporate from recurring to single premiums for additional investment voluntary contributions.*

(2) *Liberty owns less than 100% of certain entities that make up Liberty Africa. The information is recorded at 100% and is not adjusted for proportional legal ownership.*

The difference between the single premiums reported under total long-term insurance premiums and single premiums reported under long-term insurance new business by distribution channel arises mainly from different treatment for extensions of matured policies, reinvestment of fund withdrawals, conversions of standalone funds to umbrella funds and fund member movements within Liberty administered funds.

LONG-TERM INSURANCE NET CUSTOMER CASH FLOWS

for the six months ended 30 June 2020

Rm	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
Net premiums by product type			
Retail	**20 232**	20 986	43 700
Single	**9 279**	9 933	21 598
Recurring	**10 953**	11 053	22 102
Institutional	**5 456**	5 673	12 519
Single	**1 155**	881	2 188
Recurring	**4 301**	4 792	10 331
Net premium income from insurance contracts and inflows from investment contracts	**25 688**	26 659	56 219
Single	**10 434**	10 814	23 786
Recurring	**15 254**	15 845	32 433
Net claims and policyholders benefits by product type			
Retail	**(20 523)**	(21 224)	(43 239)
Death and disability claims	**(4 057)**	(3 845)	(8 175)
Policy surrender and maturity claims	**(12 778)**	(13 921)	(28 023)
Annuity payments	**(3 688)**	(3 458)	(7 041)
Institutional	**(6 227)**	(6 000)	(13 122)
Death and disability claims	**(1 217)**	(1 174)	(2 298)
Scheme terminations and member withdrawals	**(4 606)**	(4 429)	(10 022)
Annuity payments	**(404)**	(397)	(802)
Net claims and policyholders' benefits	**(26 750)**	(27 224)	(56 361)
Long-term insurance net customer cash flows[1] **Rm (Unaudited)**			
Sources of insurance operations net cash flows:	**(1 062)**	(565)	(142)
SA Retail	**(528)**	(513)	197
Liberty Corporate	**(823)**	(418)	(1 030)
Liberty Africa Insurance[2]	**289**	366	691

[1] *This excludes net cash outflows attributed to the off-balance sheet GateWay LISP of R22 million (31 December 2019: outflows of R55 million, 30 June 2019: outflows of R103 million).*

[2] *Liberty owns less than 100% of certain entities that make up Liberty Africa. The information is recorded at 100% and is not adjusted for proportional legal ownership.*

ASSETS UNDER MANAGEMENT[1]

as at 30 June 2020

Rbn (Unaudited)	30 June 2020	30 June 2019	31 December 2019
Managed by group business units	695	726	709
STANLIB South Africa	569	566	568
STANLIB Africa[2]	16	51	28
Remaining operations	16	19	18
Operations under ownership review[4]		32	10
LibFin Markets	71	68	70
Other internal managers	39	41	43
Externally managed	30	32	29
Total assets under management[3]	725	758	738
Continuing operations	725	726	728
Operations under ownership review		32	10

[1] *Includes funds under administration.*

[2] *Liberty owns less than 100% of certain of the entities that make up STANLIB Africa. The information is recorded at 100% and is not adjusted for proportional legal ownership.*

[3] *Included in total assets under management are the following LISP 30 June 2020 amounts:*

Unit trusts listed (Rbn)	STANLIB managed	Other managed	Total
STANLIB	41	87	128
Gateway	5	5	10

[4] *Under IFRS these are disclosed as disposal groups classified as held for sale.*

ASSET MANAGEMENT NET EXTERNAL CUSTOMER CASH FLOWS[1]

for the six months ended 30 June 2020

Rm (Unaudited)	30 June 2020	30 June 2019	12 months 31 December 2019
STANLIB South Africa			
Non-money market	3 384	9 751	15 936
Retail	3 307	4 498	8 059
Institutional	77	5 253	7 877
Money market	11 311	3 499	(746)
Retail	402	355	89
Institutional	10 909	3 144	(835)
Net South Africa cash inflows	14 695	13 250	15 190
STANLIB Africa[2]			
Non-money market	217	(1 997)	(1 128)
Retail	57	88	(309)
Institutional	160	(2 085)	(819)
Money market	164	(309)	(1 219)
Net Africa cash inflows/(outflows)	381	(2 306)	(2 347)
Net cash inflows from asset management	15 076	10 944	12 843

[1] *Cash flows exclude intergroup segregated life funds mandates.*

[2] *The STANLIB Africa cash flows represent the flows up to the date of the sale of the applicable asset management operations or transfer of mandates.*

SHORT-TERM INSURANCE INDICATORS

for the six months ended 30 June 2020

Rm	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
Net premiums	864	770	1 551
Liberty Health – medical risk	500	459	927
Liberty Africa Insurance – motor, property, medical and other	364	311	624
Net claims	(534)	(480)	(971)
Liberty Health – medical risk	(378)	(348)	(715)
Liberty Africa Insurance – motor, property, medical and other	(156)	(132)	(256)
Net cash inflows from short-term insurance	330	290	580
Unaudited			
Claims loss ratio (%)			
Liberty Health	76	76	77
Liberty Africa Insurance	43	42	41
Combined loss ratio (%)			
Liberty Health	111	111	115
Liberty Africa Insurance	85	93	91

Full disclosures related to the group's risk management are available in the risk management section presented in the annual financial statements for the year ended 31 December 2019. Liberty continues to manage and report under the governance framework as described in those financial statements. While the top risks, which are highlighted in the annual financial statements, remain largely unchanged, the COVID-19 pandemic has in many instances exacerbated the risks faced by Liberty. Each company in the group holds sufficient assets to meet its liabilities to customers and other creditors. In addition, the group holds further assets which form its capital and give additional assurance to customers that the group will meet its obligations, even under the stressed circumstances that arise when risks crystallise.

The impact of the pandemic has already been substantial, with significant market volatility and a large number of cases reported, but the effects so far have not been outside the levels envisaged by Liberty's risk management system. As set out in the key judgements section of the disclosure, Liberty has assumed that in the medium term both insurance and economic risks and experience will return to their pre-pandemic levels.

The future outlook remains very uncertain, both in relation to the extent of claims costs and of economic dislocation, but Liberty is confident that it has the systems and resources to meet the challenges it brings. The sections which follow, set out according to Liberty's risk taxonomy, provide additional information related to the impact of the pandemic on Liberty's risk profile and on risks which are heightened due to the pandemic.

1. Enterprise risk management

1.1 Risk appetite and risk target

Liberty's risk appetite is set based on three dimensions, normalised IFRS headline earnings at risk, regulatory capital coverage and economic value at risk. After the establishment of the pandemic reserve, Liberty remains within risk appetite as well as risk target on all dimensions. In addition, an out of cycle Own Risk and Solvency Assessment (ORSA) has been performed, assessing risks against the risk appetite under several plausible scenarios. Liberty has remained within risk appetite at all times during the first six months of 2020 and remains so under all these scenarios, highlighting Liberty's financial strength.

1.2 Capital management

1.2.1 Capital management strategy

The capital management strategy is designed to ensure that the group remains within risk appetite with sufficient capital to meet strategic initiatives, as well as regulatory and working capital requirements. The allocation and use of capital are designed to generate a return that appropriately compensates investors for the risks incurred. Capital is deployed to each legal entity within the group such that the available capital exceeds its applicable regulatory capital requirement. Appropriate buffers allow the group to be managed within its risk appetite.

The Prudential Authority's solvency capital methodology has been applied for Liberty Group Limited (LGL) since 1 July 2018. The prescribed requirements for insurance groups will be reported on for Liberty for reporting dates following the finalisation of the insurance group licensing process.

Available capital is the amount by which the value of the assets exceeds the value of liabilities, both measured on the prescribed basis. The group ensures that available capital is of suitable quality and is accessible when required, both at a LGL and at the Liberty level.

The capital buffer is the amount by which available capital exceeds the solvency capital requirement, measured at an individual legal entity level. As a whole, the group holds a further capital buffer which is managed to support risk target levels, strategic initiative requirements and the dividend policy of the group. Similarly, individual entities, most notably insurance subsidiaries, maintain buffers in order to ensure their individual compliance to local regulatory requirements. The group's dividend policy takes cognisance of capital requirements at a group level. Similarly, all dividends sourced from regulated entities are only approved where they do not compromise capital adequacy at each legal entity level.

Despite the significant financial impacts resulting from the pandemic, all regulated entities, both in South Africa and the rest of Africa, maintained positive buffers, while LGL maintained a positive buffer within its target range.

The group's capital position is reported quarterly to the board. The board considers reports from the head of the actuarial function before dividends are declared by either LGL or Liberty.

1.2.2 Available capital

The group is largely funded through ordinary share equity which is the highest quality of capital available to protect policyholders. In addition, the group has seven subordinated debt instruments, totalling R5,5 billion nominal value at 30 June 2020 issued by LGL to increase its available capital, in order to fund its working capital requirements and to lower the weighted average cost of capital for the group.

On 29 April 2020, S&P Global Ratings downgraded South Africa's foreign currency sovereign rating from BB to BB- and its local currency sovereign rating from BB+ to BB. Consequently, S&P Global Ratings reviewed the credit ratings of the insurers exposed to the South African market on 4 May 2020 and downgraded a number of insurers. However, LGL's South African National Scale issuer credit rating of 'zaAAA', the long-term South Africa national scale issue rating of 'zaAA' assigned to its non-deferrable subordinated notes and the rating of 'zaA+' assigned its deferrable subordinated notes, were affirmed.

1.2.3 Solvency Capital Requirement coverage

The following table summarises the available capital (or "own funds") and the solvency capital requirements ("SCR") for LGL.

Liberty Group Limited	30 June 2020	31 December 2019
Available capital (or "own funds") (Rm)	28 415	33 255
Solvency Capital requirement (SCR) (Rm)	15 568	16 746
SCR coverage ratio (times)	1.83	1.99
Target SCR coverage ratio (times)	1.5 – 2.0	1.5 – 2.0

The change in the LGL SCR coverage ratio is largely due to the establishment of the pandemic reserve and the payment of the annual dividend.

2. Strategic and business risks

Strategic risk is the possibility of adverse outcomes, including reputational damage, resulting from adopting a particular strategy and/or having a weak competitive position. This may arise from errors in business structures, capital allocation, government action and misunderstandings of economic growth and inflation. Business risk is the risk that future experience will differ from expectations, due to unanticipated concentrations of risk, or new business levels being different from expected (as measured by volume or mix).

As outlined in the 2019 Integrated Report in the "Strategy and risk appetite" section, Liberty has been on a path of refreshing and executing a strategy to deliver its purpose of "Improving people's lives by making their financial freedom possible". It is clear that, as this crisis unfolds, Liberty will be called upon by its clients for support as they experience those most profound moments of human vulnerability, and so providing will allow Liberty to fulfil its purpose. Liberty has demonstrated its preparedness for this through the creation of the R3 billion pandemic reserve.

The execution of the Liberty strategy is underpinned by focused initiatives that seek to simplify the organisation, make it more competitive and commence the process of transforming it for the modern digital era. These initiatives are anchored in the 5 value driver model: Client and Adviser Experience, Employee Experience, Risk and Conduct, Financial Outcomes and Social, Economic and Environmental Impact.

While the first half of 2020 has seen disruption caused by the crisis, especially with critical resources re-directed to enabling work from home practices, client and adviser relief measures and a general response to the situation, progress continues to be made on the delivery of strategic goals, although at a slower pace than would have been preferred.

In terms of business performance, as covered elsewhere in this report, the crisis has understandably contributed to weak levels of new business being generated, especially relative to the costs of acquiring this business. This has extended the trend of recent years of poor levels of value of new business being generated.

In particular, due to Liberty's traditional reliance on face-to-face sales, risk assessment relying on an engagement with Liberty's nurses and with certain processes remaining paper based and manual, the need for effective social distancing has had a detrimental impact on Liberty's ability to acquire new business during the crisis.

The crisis has further elevated the risk of poor investment performance, as the crisis is expected to have vastly different impacts on different segments of the economy.

In several instances the crisis has provided an opportunity to accelerate the execution of various strategic initiatives, especially in the adoption of digital tools by clients, advisers and staff, and in the implementation of new ways of work.

3. Insurance risk

Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. This could be due to variations in mortality, morbidity, policyholder behaviour or expense experience in the case of life products, and claims incidence, claim severity or expense experience in the case of short-term insurance products. These could have adverse impacts on the group's earnings and capital, if different from those assumed.

3.1 Risk identification, assessment, measurement and management

Risk management takes place prior to the acceptance of risks through the product development and pricing processes and at the point of sale. Risks continue to be managed through the measurement, monitoring and treatment of risks once the risks are contracted.

The COVID-19 pandemic is expected to give rise directly and indirectly to significant insurance risks in the short-term and has already given rise to significant economic volatility. The expected cost of the short-term (12 to 18 months) impacts is covered by a pandemic reserve that has been established. The assumptions used in the establishment of this reserve together with sensitivities to the key assumptions are provided in the 'Key judgements in applying assumptions on application of accounting policies' section of this report. As the pandemic is at an early stage, there is limited understanding of matters such as the extent of natural immunity, the availability of vaccines, the development of improved treatment protocols and crucially the extent to which it is appropriate to close sections of the economy. These assumptions are hence subject to large variances, and longer-term impacts will have to be assessed as data becomes available.

There is a strong link between economic performance and insurance risk experience. The impact on insurance risk experience of the expected economic damage caused by the crisis is outlined in the sections below and has been allowed for within the pandemic reserve. The true longer-term economic implications of the crisis, however, remain very uncertain and hence the knock-on effect of these implications into the expected insurance risk experience will need to be revised as greater clarity emerges.

Insurance risks continue to be assessed and reviewed against the group's risk appetite and risk target. Mitigating actions are developed for any risks that fall outside of management's assessment of risk appetite in order to reduce the level of risk to within the approved tolerance limits.

The expected short-term direct and indirect consequences of the pandemic have resulted in management adopting some changes in approach at the point of sale and taking certain actions to mitigate losses. These management actions are discussed in further detail under each insurance risk type below.

Consideration is also given below to the long-term risks of the pandemic and the risk mitigants in place to manage these long-term risks.

3. Insurance risk (continued)

3.2 Policyholder behaviour risk

This is the risk of policyholders' behaviour within the insurance entities deviating from that expected. The primary policyholder behaviour risk is termination risk. This generally arises when policyholders discontinue or reduce contributions, or surrender or lapse their policies at a rate that is not in line with expectations. Increases in such terminations typically give rise to a loss.

As a result of the deteriorating economic conditions in the first half of 2020, caused largely by measures implemented by governments and individuals locally and internationally to control the spread of COVID-19, it was recognised by Liberty that terminations would be likely to increase significantly. The link between higher terminations and poor economic conditions has been observed historically as a result of the general decrease in the ability of customers to afford recurring contributions on both risk and investment policies. Furthermore, on investment policies, there would be an increased need to draw down on unrestricted savings. In the Corporate environment, it is recognised that in a COVID-19 environment some schemes would be likely to terminate as a result of insolvency and member contributions are likely to reduce as a result of redundancies and salary reductions.

To reduce the extent of the losses from expected additional terminations, management actions were taken in March to allow customers options to reduce or stop paying recurring contributions on their policies over the short-term. These options have primarily been of two forms. Firstly, customers on pure risk contracts are allowed to reduce their contributions and hence risk cover for a specified period, after which full cover and contributions will automatically be reinstated. Secondly, on recurring contribution investment contracts, customers have been given the option to waive contributions for a limited period without incurring any exit charges. No exit charges will be incurred if customers reinstate contributions after the waived period and there is no requirement to catch up the waived contributions.

The costs to Liberty of granting customers the above premium relief options are considered to be lower than the costs associated with the likely higher levels of policy terminations in the absence of these measures.

Early emerging experience from these options indicates that they are having the desired effect.

- On pure risk contracts with the option, similar levels of complete lapses have been observed as historically, but many customers have taken up the reduced contributions for reduced cover option. If a significant portion of these customers reinstate contributions and cover within the limited period, significant losses will be averted. Reinstatement experience is yet to emerge. The financial reporting basis prudently assumes that there will be no reinstatements from customers who have already reduced their contributions.
- On investment contracts, significant reductions in paid-up rates have been observed since the option to waive contributions was introduced. There is a risk that a significant number of contracts will become paid-up once the contribution waiver option period is over. Even with the option in place, surrender rates on recurring contribution contracts have increased in the reporting period as expected given the economic circumstances. Similarly, surrender rates have increased on single contribution contracts.

Terminations on investment contracts also typically increase in volatile markets. Financial advisers have been encouraged to provide customers with financial advice to avoid value erosion from disinvesting at the bottom of the market; and to revise financial needs analyses with the changing circumstances of many customers.

As the economic situation continues to evolve, the options provided may need to be extended or amended. Amendments to the options will be considered if they are expected to reduce the extent of any losses expected to be incurred and deemed to be in the best interest of Liberty and its customers.

In December 2018, the group entered into a reinsurance contract expected to cover in part the losses incurred under certain catastrophic termination events (i.e. a severe termination event that occurs over a period of 12 months). This catastrophe cover has been renewed and is in place for 24 months from the financial reporting date. The group has entered into this arrangement to reduce the exposures to catastrophic termination events and for capital management purposes. Although, the current economic crisis is expected to result in a spike in terminations over a 12-month period, this spike in terminations is not expected to breach the trigger levels for this reinsurance cover to kick in. However, should terminations unexpectedly spike further this catastrophe cover may prove beneficial.

3.3 Expense risks

As a result of the pandemic, the group has incurred additional once-off costs. Some of these costs relate to technology and connectivity to enable remote working and other costs to ensure a safe working environment for staff. Financial support has also been provided to variable pay employees, such as financial advisers and nurses.

Given the lower than expected new business volumes over the lockdown period and the higher than expected terminations, the actual acquisition and maintenance costs per policy are increasing at a rate higher than expected. This is resulting in acquisition and maintenance cost overruns.

The additional once-off costs expected to be incurred and acquisition and maintenance cost per policy increases expected over the short-term have been allowed for in the pandemic reserve, as outlined in the key judgements.

Apart from the pandemic reserve, it is assumed that acquisition and maintenance costs per policy will continue to be managed in line with current assumptions. The business is committed to restoring new business and in force case counts back to levels that, together with expense savings, will manage the business within these assumptions.

3.4 Underwriting risks

The primary purpose of underwriting is to ensure that an appropriate contribution is charged for each risk and that cover is not offered to uninsurable risks. Underwriting risks are the risks that future demographic or claims incidence experience will exceed the allowance for expected demographic or claims incidence experience, as determined through provisions, pricing, risk measures and value measures. Underwriting risks include, amongst others, mortality and morbidity risks, retrenchment risk, longevity risks and non-life (short-term insurance) risks.

3. Insurance risk (continued)

3.4 Underwriting risks (continued)

The group views these underwriting risks as risks that are core to the business. Although COVID-19 is expected to directly and indirectly result in significant risk benefits payable to customers, resulting in losses being incurred in the short term, the occurrence of such pandemic events is part of the reason for the existence of insurance. This is also reflected in the fact that capital is held for such events, with pandemic stresses included in capital calculations. Long-term returns are expected to cover the costs of these infrequent events adequately.

Liberty uses its specialist skills (with assistance from reinsurers where considered necessary) to enhance risk selection for the assessment, pricing and management of risks to generate favourable shareholder returns. These risks are diversified by exposure across many different lives, geographies, and product types and will generally be retained if they are within risk appetite.

Liberty is exposed to the risk that its risk selection capabilities fall behind those of its competitors. Liberty continues to acquire and retain specialist skills and to actively drive specific risk selection initiatives to counteract this risk.

Refinements to underwriting procedures have been made in the context of COVID-19 and continue to evolve as the COVID-19 situation is unfolding. These refinements include more restrictive limitations on the level of cover provided, revised loadings and increased decline or deferment decisions for lives identified in the underwriting process as having comorbidities that appear to impact COVID-19 outcomes, as well as the placement of more business with reinsurers where the risk is currently not within Liberty's risk appetite.

In the context of Corporate benefits, careful consideration is being given to the proportionately different impact COVID-19 may have across various industries in establishing the terms and conditions.

Social distancing practices being exercised by customers and staff, either as a result of implementation of formal lockdown measures or as a result of taking social responsibility, have necessitated some changes in typical sales and underwriting processes to facilitate the continued sales of new business. From a sales perspective, financial advisers have been increasingly furnished with the tools and training to perform sales online, rather than in person. From an underwriting perspective, there has been an increase in tele-underwriting, deferment in the requirement to submit blood results and a shift to targeting products with auto-underwriting to a wider range of customers.

Many of the changes made to the sales and underwriting processes have accelerated longer term trends for more automation and online engagement. The pandemic is presenting an opportunity to implement these changes, as the necessity for change has been recognised by all parties. In addition, given the extreme pressures faced by the insurance industry at this time, the pandemic presents a unique opportunity to improve risk selection. Material risk selection changes can be quite disruptive internally, but the opportunity cost of these disruptions is less when the environment is in a state of flux already. The pandemic is also giving rise to opportunities to increase awareness of the importance of risk protection, which should provide opportunities for growth in new business in future.

3.4.1 Mortality

Mortality risk is the risk of mortality (death) claims being higher than anticipated.

COVID-19 is expected to give rise to significant mortality claim payments in the short term. The expected cost of these excess mortality claim payments has been allowed for in the pandemic reserve.

While the intention is that the pandemic reserve provides for all excess mortality, whether directly or indirectly from COVID-19, there is a risk that the assumptions made in setting up this reserve do not materialize. Particular areas of uncertainty are:

- The high prevalence of HIV and TB in South Africa pose a particular risk, with recent experience indicating that these are relevant comorbidities for COVID-19 outcomes.
- It has been assumed that COVID-19 has no long-term impact on mortality rates and that immunity to COVID-19 (or any subsequent mutations) will be achieved by being infected, or through vaccinations. There is a risk that immunity is only temporary and that deadly reinfection or deadly infection to new strains could occur.
- It has been assumed that the economic impact of the actions taken to control COVID-19 will not have any adverse long-term mortality impact on Liberty's risk customers as a result of deteriorating medical access and other lifestyle factors.
- The long-term health consequences of surviving a COVID-19 infection, or of a COVID-19 vaccination, are not known. Either could impact the long-term mortality prognosis.

To mitigate such long-term risks, terms are built into the policy contracts that permit risk contributions to be reviewed on expiry of a guarantee period. In particular:

- for individual risk business, most in-force risk contributions are reviewable (after 10 to 15 years on Lifestyle Protector business and annually on Credit Life and Emerging Consumer Market business); and
- for institutional risk business, the risk contributions are reviewable annually.

Delays in implementing contribution increases and market or regulatory restraints over the extent of the increases may reduce their mitigating effects.

Liberty's client base is particularly skewed towards the affluent market. Individuals within this client segment are less reliant on public transport, are more likely to be able to work remotely and have living conditions which more easily lend themselves to effective social distancing. In addition, the prevalence of HIV and TB is lower on products servicing this segment of the market compared to the overall population, as a result of extensive underwriting in this market segment. Treatment protocols have already improved sharply around the world since the virus first appeared and South Africa may be able to benefit from both established improvements and future learnings. These factors may reduce the level of infection and severity of the disease experienced by Liberty's clients, relative to that experienced at a population level.

3. Insurance risk (continued)

3.4 Underwriting risks (continued)

3.4.2 Morbidity risk

Morbidity risk is the risk of policyholder health related (disablement and dread disease) claims being higher than expected.

COVID-19 is expected to give rise directly to short-term income disability payments payable as a result of being unable to work, due to falling ill with COVID-19. The exposure to income disability benefits with waiting periods of less than one month is however immaterial.

Historically, a link between deteriorating economic conditions and higher lump sum disability claims has been observed. As a result of the deteriorating economic environment, higher than normal lump sum disability payments are expected in the short-term. The expected cost of these short-term excess morbidity claim payments has been allowed for in the pandemic reserve.

At this stage, surviving a COVID-19 infection or being vaccinated for COVID-19 is not expected to have a material impact on long-term morbidity for lump sum disability, income disability and dread disease benefits. There is a risk that this is not the case. However, policy terms allow Liberty to review contributions at certain points in time which can be used to mitigate potential long-term loss. In particular, group insurance contracts and credit life policies covering this risk can be repriced annually.

3.4.3 Retrenchment risk

Retrenchment risk is the risk of retrenchment related claims exceeding expectation.

Liberty provides income benefits that are payable in the event of formal retrenchment and for more general loss of income on some product ranges. The benefit is payable for a limited fixed period or until re-employment, if earlier.

The group has exposure to specific retrenchment cover that is available as a rider benefit on Lifestyle Protector policies providing disability income benefits. In addition, Lifestyle Protector allows clients to buy a benefit whereby the contributions due on their Liberty policies are paid by Liberty for a fixed period following retrenchment. Retrenchment cover that forms part of income protection cover is available on bancassurance credit life business.

Liberty's exposure to retrenchment business in aggregate is relatively small. However, given the unprecedented levels in retrenchment that may occur as a result of the indirect impacts of COVID-19 (with expectations of 10% retrenchments, which falls between 400%-1000% of typical levels), the loss to the group is not expected to be negligible. Despite these unprecedented expected levels, the most material impacts expected to be incurred on the Embedded Bancassurance business are still expected to be small enough to be absorbed through a reduction in the dividend payable to Standard Bank over 2020 and 2021, in line with the profit share arrangement underlying the bancassurance agreement between Standard Bank and Liberty. Although the resultant impact on Liberty is not negligible, in the context of the other risks faced due to COVID-19, the impact is not material. Any losses in excess of the amount which can be recovered through reducing the dividend to Standard Bank would need to be covered by Liberty in that year, but can be recovered from bancassurance dividends in the following year.

Given the significant level of uncertainty on retrenchments arising from COVID-19, the specific retrenchment cover and retrenchment waiver benefits on Lifestyle Protector have been closed to new business since March. Retrenchment cover is still open to new business on the Embedded Bancassurance business, but with more stringent credit worthiness checks on much of this business, claims expected during the pandemic are expected to be sufficiently covered by the contributions, albeit at a reduced profit margin.

Given the concentration risks in respect of retrenchment that the pandemic has highlighted, the group will re-evaluate its appetite for retrenchment cover before reopening benefits to new business.

3.5 Claims management

Some refinements to claims management practices have been made to ensure appropriate and consistent treatment of COVID-19 related claims in line with policy terms and conditions. Such refinements have so far mainly related to disability and retrenchment income claims where policy terms and conditions in some instances are deemed to cover loss of income during quarantine / self-isolation periods, following a positive COVID-19 test result.

Further refinements to claim management practices may be required, particularly on morbidity benefits such as lump sum disability and dread disease cover, if negative long-term health effects of surviving COVID-19 prove common.

3.6 Reinsurance

As previously described in the AFS, reinsurance is used by the group to reduce exposure to a particular line of business; a particular individual; or a single event and to benefit from the risk management support services and technical expertise offered by reinsurers.

The levels of reinsurance purchased for new business written in the first half of 2020 are similar to prior years. However, for certain lives with comorbidities identified at underwriting stage, that have shown to be correlated with COVID-19 complications, more cover is currently being placed with reinsurers where the level of uncertainty is beyond the risk appetite of Liberty.

COVID-19 claims are covered on all Liberty's long-term business reinsurance arrangements, with the exception of its catastrophe reinsurance arrangements which exclude epidemics and pandemic claims.

3.7 Longevity risk

Longevity risk is the risk of annuitant mortality being lower than expected, that is annuitants living longer than expected.

For life annuities and claims on disability income business, the loss arises as a result of the group having undertaken to make regular payments to annuitant policyholders for their remaining lives (or in the case of income disability until earlier expiry), and possibly to the annuitant policyholders' spouses for their remaining lives.

The pandemic is likely to result in the death of some of these annuitant policyholders giving rise to higher than expected profits on this portfolio in the short-term. In the longer term the impact on annuitant mortality is unclear.

3. Insurance risk (continued)

3.8 Non-life (short-term) insurance

Liberty holds a 57,7% controlling share in Liberty Kenya Holdings Plc, which includes companies conducting short-term insurance business in the East Africa region and a 51% share of Liberty General Insurance Uganda Ltd. In addition, Liberty holds 100% share in Total Health Trust Limited Nigeria and 100% share of Liberty Health (Pty) Ltd, which provide medical expense cover to customers in Nigeria and a number of other African countries.

3.8.1 Business interruption insurance

The terms and conditions of the business interruption polices written by the group only cover direct physical loss or damage or destruction to property. This does not extend to cover infectious/epidemic disease or contingent business liability, whether arising from government lockdowns or closure required for deep cleaning. The pandemic has hence not increased business interruption claims.

3.8.2 Motor insurance

There have been reduced incidents of motor claims due to lockdown restrictions. Contribution reductions on renewal or cashbacks have been given in some instances to reflect this improved experience, to make the business more affordable and competitive in order to help improve retention in the economic circumstances.

3.8.3 Medical expense insurance

COVID-19 is expected to increase medical claims due to increased hospitalisation and ICU treatment. So far in the pandemic, medical expense use is below normal levels as a result of generally reduced medical usage of doctors and hospitals for non COVID-19 related issues. Overall, claims are expected to be above typical levels, but as a result of capacity constraints, the level of these excess claims is expected to be limited and is not expected to result in a material impact on the group.

4. Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in equity prices, interest rates, foreign currency exchange rates, property values and inflation as well as any changes in the implied volatility assumptions associated with these variables. Credit risk is covered separately in section 5 below.

The group's shareholders are exposed to market risk arising predominantly from:

- Financial assets forming the group's capital base (also referred to as shareholders' equity) including currency risks on capital invested outside South Africa;
- The long-term policyholder asset/liability mismatch risk;
- Financial assets held to back liabilities other than long-term policyholder liabilities; and
- Exposure to management fee revenues not already recognised in the negative rand reserves.

4.1 Shareholder Investment Portfolio (SIP)

This portfolio comprises shareholder assets and investment exposures expected to remain on Liberty Group Limited's balance sheet over the long-term in order to support capital requirements. These are invested and managed for the benefit of Liberty Group Limited group and thereby Liberty's shareholders within a clearly defined investment mandate. The board through the group risk committee, approves the long-term strategic asset allocation of the portfolio.

The portfolio is invested in a diversified set of financial assets including equity, fixed income, property and cash, both in local and foreign currency. The portfolio is exposed to credit risk through the investment in fixed income and cash and these risks are managed in line with Liberty's credit risk management policy. Allocations are also made to alternative asset classes in search of yield and diversification benefits. As a result, the portfolio is exposed to currency movements as well as market movements in the underlying asset classes.

During the early stages of the crisis the portfolio experienced significant earnings volatility as asset values came under pressure. The portfolio's offshore exposures provided some relief, benefiting from the weaker Rand. The portfolio benefited from the subsequent recovery in markets. The group is satisfied that the existing portfolio construction approach remains appropriate, given the portfolio's long-term objectives.

4. Market risk (continued)

4.1 Shareholder Investment Portfolio (SIP) (continued)

Shareholder investment portfolio

	30 June 2020				31 December 2019			
Exposure category	Local Rm	Foreign Rm	Total Rm	%	Local Rm	Foreign Rm	Total Rm	%
Equities	3 936	3 599	7 535	29	4 437	3 587	8 024	29
Bonds	8 754	447	9 201	34	8 657	584	9 241	34
Cash	3 056	72	3 128	12	4 671	20	4 691	17
Property	5 713		5 713	22	2 736		2 736	10
Other	1 485	1 284	2 769	11	1 794	1 019	2 813	10
COVID-19 pandemic reserve[2]	(2 160)		(2 160)	(8)				
Total	20 784	5 402	26 186	100	22 295	5 210	27 505	100
Assets backing capital			14 919	57			15 205	55
Assets backing policyholder liabilities			5 558	21			9 128	33
90:10 exposure and other[3]			5 709	22			3 172	12
Reconciliation to IFRS shareholders' equity								
Shareholder Investment Portfolio			26 186				27 505	
Less: 90:10 exposure and other[3]			(5 709)				(3 172)	
Less: Subordinated notes			(5 576)				(5 643)	
South African insurance operations group funds			14 901				18 690	
Liberty Group Limited group's IFRS shareholders' equity			15 755				19 736	
Insurance group funds			14 901				18 690	
Liberty Two Degrees[1]			854				1 046	

[1] *This represents the difference between Liberty'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 at the reporting date.*

[2] *The COVID-19 pandemic reserve was established at 30 June 2020. The assets intended to match the pandemic reserve have not yet been disinvested from the relevant asset exposure categories at 30 June 2020.*

[3] *Other represents capital exposures on property assets assets backing the IBNR reserve.*

Shareholder investment portfolio percentage allocation

	30 June 2020				31 December 2019			
Exposure category %	Assets backing capital	Assets backing policyholder liabilities	90:10 exposure and other	Total	Assets backing capital	Assets backing policyholder liabilities	90:10 exposure	Total
Local assets								
Equities	10		5	15	11		5	16
Bonds, cash and property	33	21	12	66	23	33	2	58
Other	6			6	7			7
Foreign assets								
Equities	11		3	14	10		3	13
Bonds, cash and property			2	2	1		2	3
Other	5			5	3			3
COVID-19 pandemic reserve	(8)			(8)				
Total	57	21	22	100	55	33	12	100

4. Market risk (continued)

4.2 Asset/liability management portfolio (ALM Portfolio)

The group has chosen to mitigate a number of market risk exposures, arising from asset/liability mismatches, to which it does not wish to be exposed on a long-term strategic basis. Risk mitigation is achieved through a dynamic hedging programme, managed by LibFin. The extreme volatility experienced within the markets resulted in higher hedging costs being incurred by LibFin than during normal periods.

Group risk targets are set within risk appetite. These targets guide the setting of market risk limits for the ALM Portfolio. During the reporting period the ALM portfolio experienced a number of passive limit breaches resulting from extreme market volatility. These limit breaches were escalated to first line risk managers and senior management, with appropriate action taken in order to reduce exposures within an appropriate time frame.

4.3 Sensitivities to market assumptions

The group's earnings and available capital are exposed to market risks amongst others through its insurance and asset management operations. Assumptions are made in respect of the market risks in the measurement of policyholder contract values.

The sensitivities presented are calculated at a point in time and applied consistently across the financial position of the group. In many cases changes to certain economic or policyholder behaviour assumptions do not result in linear impacts to policyholder contract values and are not always consistent in the direction of impact to ordinary shareholders' equity. The group follows a dynamic asset/liability matching strategy (within the risk appetite constraints set by the board). The nature of the exposures and associated hedging instruments lead to non-linear sensitivity impacts. Caution is therefore advised in interpreting these sensitivity disclosures in earnings or capital resilience analyses.

The sensitivities have not been adjusted for the expected sell down of SIP equity in order to fund the pandemic reserve that's been established as at 30 June 2020. The sell down is expected to reduce the exposures to the risky asset classes.

The table below provides a description of the sensitivities provided on market risk assumptions.

Market risk variable	Description of sensitivity
Interest rate yield curve	A parallel shift in the interest rate yield curve
Equity prices	A change in local and foreign equity prices
Rand exchange rates	A change in the ZAR exchange rate to all applicable currencies

		Impact on ordinary shareholders' equity and attributable profit after taxation	
Assumption description	**Change in variable %**	**30 June 2020 Rm**	31 December 2019 Rm
Market assumptions			
Interest rate yield curve	+12	(377)	(362)
	-12	343	264
Equity prices[3]	+15	1 269	1 364
	-15	(1 306)	(1 249)
Rand exchange rates	+12[1]	(615)	(641)
	-12[2]	674	681

[1] *Strengthening of the rand.*
[2] *Weakening of the rand.*
[3] *Excludes property exposures.*

4. Market risk (continued)

4.4 Property market risk

The group is exposed to tenant default, depressed rental markets and unlet space within its investment property portfolio affecting property values and rental income. The managed diversity of the property portfolio and the existence of multi-tenanted buildings significantly reduce the exposure to this risk. At 30 June 2020 the proportion of unlet space in the property portfolio was 5% (31 December 2019: 5%).

During the first half of 2020 property valuations have been negatively impacted by *inter alia*, the negative effect of COVID-19 on current year rentals and growth assumptions for the forecasted period, higher vacancies, the potential for negative reversions and the time required to re-let vacant space. Independent valuators have reflected this through more conservative valuation metrics including adjustments to exit capitalisation rates, discount rates and an increase in the periods allowed to re-let space. Valuators have indicated there is "material valuation uncertainty" with current valuations. Refer to note 5.1 in the 'Fair value measurement' section for the sensitivity analysis on the exit capitalisation rates and discount rates.

Steps taken to manage the emerging risks associated with the COVID-19 crisis include the introduction of safety measures at shopping centres and pragmatic rental relief and ongoing tenant support weighted in favour of tenants where the COVID-19 impact is greatest.

The group's exposure to property holdings is as follows:

Rm	30 June 2020	31 December 2019
Investment properties including operating leases accrued income	30 442	34 682
Owner-occupied properties	1 617	1 612
Gross direct exposure	32 059	36 294
Attributable to non-controlling interests	(7 576)	(8 313)
Net exposure	24 483	27 981
Sector split of directly held properties:		
Shopping malls	25 706	29 664
Office buildings	2 343	2 493
Other property	4 010	4 137
Gross direct exposure	32 059	36 294

The main items in other property are shares in the Melrose Arch precinct, Sandton Sun and Towers, Garden Court Sandon City, John Ross Eco Junction and the Sandton Convention Centre.

Shareholder property market risk arises in respect of exposures due to ALM mismatches as well as through the SIP and other direct property holdings. As at 30 June 2020 the shareholder property market risk exposure included in the SIP was R5.7 bn as shown in section 4.1.

A portion of Liberty's exposure to property is held in listed shares in Liberty Two Degrees Limited (L2D). To the extent that policyholders and shareholders are invested in shares, they are exposed to the volatility of the price at which the listed shares trade. L2D is consolidated by the group and therefore its property exposure is included in the gross direct exposure.

5. Credit risk

Credit risk refers to the risk of loss or of adverse change in the financial position resulting, directly or indirectly, from fluctuations in the credit standing of counterparties and any debtors to which shareholders and policyholders are exposed.

5.1 Taking of credit risk

Liberty has a strong credit risk sanctioning and monitoring capability which enables Liberty to effectively originate and manage credit risk on behalf of its policyholders and shareholders.

Policyholders are exposed to credit risk through the various investment propositions offered by Liberty.

Liberty directly assumes credit risk through its LibFin Markets Credit portfolio, which houses illiquid credit investments used to back annuity, guaranteed investment product and certain index tracker liabilities. All credit profits and losses on this portfolio accrue directly to Liberty shareholders. These investments aid Liberty in delivering propositions to clients through its core business activities, but also contribute to diversify the risks on the balance sheet and generate attractive risk-adjusted returns for shareholders.

A less material amount of credit risk is assumed through the investment of the SIP, as outlined in section 4.1 above.

Liberty indirectly assumes credit risk through its normal business activities such as funding of commission to advisers, reinsurance and use of derivatives to manage market risk exposures.

During the period under review the macro business environment deteriorated materially, further exacerbated by the pandemic. This has given rise to a significant increase in the credit riskiness of counterparties to which the group is exposed.

5.2 Management of credit risk

Day-to-day management of Liberty's primary credit risk portfolio, the LibFin Markets Credit portfolio, has been mandated to the STANLIB Credit Alternatives Franchise which has proactively been reviewing the portfolio and engaging with counterparties in order to take mitigating actions, restructure deals or waive covenants where appropriate to ensure management of the credit risk throughout the crisis. As part of the credit risk management process, STANLIB Credit Alternatives Franchise rerates the credit counterparties to reflect the heightened level of credit risk using forward looking risk considerations. This has resulted in an increase in the capital held against credit risk on the balance sheet as well as a write down in the valuation of certain credit assets.

Policyholder credit risk exposures and the credit risk inherent within the SIP are managed appropriately by the asset managers responsible for managing these investments.

All credit risk continues to be managed within its governance structures, limits and risk appetite.

Significant shareholder and policyholder credit exposures and Credit Watchlist counterparty names are reported to various board committees or sub-committees. In addition, COVID-19 Credit Watchlist counterparty names have also been identified and reported on where counterparties are perceived to be likely to experience material credit deterioration as a result of the pandemic.

5.3 Characteristics of credit risk exposures

Through the investment activities of mandated asset managers, Liberty's SIP and Liberty's policyholders are largely exposed to listed and more liquid credit instruments. The impact of the deteriorating economic environment and the pandemic is reflected in these portfolios through the mark to market pricing.

However, the LibFin Markets Credit portfolio's mandate to the STANLIB Credit Alternatives Franchise requires investment into illiquid credit assets, including exposure to unlisted and structured instruments, to benefit from higher returns and diversification. This is in line with the board approved credit strategy and risk appetite for the business. These assets are valued using a level 2 fair value hierarchy methodology which reflects the increase in credit risk through a forward-looking credit rating methodology, together with market derived inputs, where available.

The continued efforts of the STANLIB Credit Alternatives Franchise have resulted in a further level of diversification and improved returns for the credit risks being taken in this credit portfolio. While Liberty remains satisfied that this credit portfolio is sound, well positioned and within risk appetite levels, it is recognised that the severity of the deterioration in the credit risk environment may well give rise to future credit losses in the portfolio.

5. Credit risk (continued)

5.3 Characteristics of credit risk exposures (continued)

The table below shows the total exposure of the LibFin Markets Credit portfolio managed by the STANLIB Credit Alternatives Franchise categorised by credit rating.

Counterparty type (Rbn)	A- and above	BBB	BBB-	BB+	BB	BB- and below	Pooled funds	Total
30 June 2020								
Bank			6,8	1,3				8,1
Corporate	0,8	0,6	19,7	5,8	2,0	1,1		30,0
Sovereign			0,9	0,6	1,1	0,3		2,9
State Owned Entity			1,8	1,0	1,0	3,3		7,1
Total	0,8	0,6	29,2	8,7	4,1	4,7		48,1
31 December 2019								
Bank		7,6	0,4		0,2			8,2
Corporate	1,3	9,7	16,2	4,0	1,4	1,3	0,2	34,1
Sovereign		0,7	0,2	2,3		0,4		3,6
State Owned Entity		2,8	3,2					6,0
Grand Total	1,3	20,8	20,0	6,3	1,6	1,7	0,2	51,9

For the purposes of the table, standard rating classifications used by external ratings agencies have been applied. Where applicable, internal ratings are mapped to equivalent external rating agencies' (Moody's, Standard and Poor's) rating scales. These external, globally recognisable rating categories are defined below.

Investment grade

A– and above: Strong to extremely strong capacity to meet financial commitments.
BBB: Adequate capacity to meet financial commitments, but vulnerable to severe adverse economic conditions.

Non-investment grade

BB: Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
Below BB: Vulnerable to adverse business, financial and economic conditions.

The above ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Exposure in the portfolio is largely to South African entities. The Corporate exposure in the portfolio is spread across a large number of entities. Exposure to banks is spread across all the major SA banks. The largest exposures to state owned entities are exposures to Transnet and Eskom.

5.4 Reinsurance

Unless otherwise required by local regulation, all reinsurance is placed with or guaranteed by leading international reinsurance companies of investment grade credit standing. A detailed credit analysis is conducted prior to the appointment of reinsurers. Cognisance is also taken of the potential future claims on reinsurers in the assessment process. Financial strength, performance, track record, relative size, ranking within the industry and credit ratings of reinsurers are considered when determining the allocation of business to reinsurers. In addition, efforts are made to appropriately diversify exposure by using several reinsurers. A review of these reinsurers is done at least annually. While the pandemic is expected to result in significant reinsurance claims, global reinsurers are expected to be able to survive the crisis.

5.5 Derivatives and Securities Financing and Lending counterparties

A detailed credit analysis of all LibFin counterparties is performed and approved by the STANLIB Credit Alternatives Investment Committee prior to any trading taking place. In principle, trading is limited to:

- Financial institution counterparties with a strong credit rating; and
- Financial institutions where Liberty has negotiated international swap and derivative agreements (ISDAs) and Credit Support Annexures (CSAs) with a zero threshold, or other appropriate market standard margining agreements.

Most of these agreements have a zero threshold and daily margin calls. Accordingly, the extent of credit risk to which Liberty is exposed is the 'jump risk' that can arise in very volatile markets if there is a delay in closing out transactions with a defaulting counterparty.

5. Credit risk (continued)

5.6 Insurance and other receivables

The group has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include industry supported lists that help to prevent rogue financial advisers from conducting further business. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Investment debtors are protected by the security of the underlying investment not being transferred to the purchaser prior to payment. Established broker relationships and protection afforded through the rules and directives of the JSE Limited further reduce credit risk.

6. Liquidity risk

Liquidity risk is the risk that a legal entity cannot maintain, or generate, sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at an unsustainable cost or at materially disadvantageous terms.

The group is exposed to liquidity risk in the event of heightened benefit withdrawals and risk claims where backing assets cannot be readily converted into cash. Liquidity risk also arises through collateral and margin calls related to derivative transactions used to hedge market risk.

6.1 Risk identification, assessment and measurement

Liquidity risk is primarily measured by means of a Liquidity Coverage Ratio (LCR). The LCR models 30-day and one-year liquidity stresses (relating to sustained cash outflows as a result of severe lapse, mortality and morbidity catastrophes, as well as financial market shocks) by comparing stressed net cash outflow requirements to available sources of high quality liquid assets (HQLA), held as part of a liquid asset buffer. The liquid asset buffer consists of eligible asset types chosen based on their proven ability to generate liquidity under both normal and significantly stressed market conditions.

At the onset of the COVID-19 crisis financial markets experienced significant levels of volatility, resulting in significant collateral calls being made against the group's derivative position, whilst at the same time the value of the group's HQLA contracted. This placed some pressure on the group's LCR, particularly at the one-year point. The subsequent recovery in financial markets resulted in a marked improvement in the group's LCR, which at 30 June 2020 indicated a healthy surplus of sources of liquidity available to meet stressed outflows. During the reporting period the group's liquidity contingency plan (LCP) was invoked, ensuring that the group is able to meet liquidity requirements in full and on time. In addition, during the reporting period Liberty constrained the origination of illiquid credit within the STANLIB credit alternatives portfolio in order to conserve liquidity. The group is satisfied that its liquidity risk management processes were both appropriate and effective in managing the risk through the highly volatile markets which were observed during the period. Notwithstanding the restoration of the LCR metrics, the group has been cautious in revoking the LCP, given the high degree of uncertainty that remains in the business environment.

6.2 Liquidity profile of assets

The majority of Liberty's assets match its liabilities from a liquidity perspective, including both investment-linked business and investment guarantees.

For certain long-term liabilities, such as life annuities, Liberty has consciously invested in less liquid assets such as unlisted credit, which aim to match the duration of the underlying liabilities' expected cash flow profile, in order to enhance returns and achieve diversification benefits.

In the case of unlisted property assets backing property liabilities, it is not always practical to realise assets as claim payments arise, due to the relatively small number of high-value properties and their illiquid nature. The Liberty Property Portfolio experienced increased policyholder outflows over the period, resulting in increased exposure to this asset class for shareholders. The overarching liquidity risk position of the group remains strong and the increasing property exposure does not pose any near-term threat to risk appetite.

The table below breaks down the group's assets according to time to liquidate. It is worth noting that, in a stressed environment, the market value of these assets is likely to be negatively affected.

	30 June 2020		31 December 2019	
Financial, property and insurance asset liquidity	%	Rm	%	Rm
Liquid assets (realisable within one month e.g. cash, listed equities, term deposits)	74	341 958	75	343 091
Medium assets (realisable within six months e.g. unlisted equities, certain unlisted term deposits)	17	79 835	15	69 302
Illiquid assets (realisable in excess of six months e.g. investment properties)	9	40 772	10	45 720
	100	462 565	100	458 113

7. Operational risk

Liberty defines operational risk as the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

Whilst the definition includes business conduct, financial crime, compliance and legal risk, these receive additional focus and are hence considered as separate risk categories within Liberty's risk taxonomy. Operational risk excludes risks arising from strategic decisions. Technology, cyber, third party, data and information risks are material components of operational risk.

7.1 Management of key operational risks

Operational risk management remains a priority for Liberty. The COVID-19 crisis has resulted in an elevated level of operational risk. Liberty identified the risks posed by the pandemic early and appropriately mitigated and managed the operational risk using, amongst others, the business continuity and crisis management framework that is in place. Liberty leveraged its technology assets and capabilities to rapidly move to a fully productive operation within the constraints of the lockdown. Approximately 98% of the workforce can operate in a remote environment and continue to do so as at 30 June 2020.

The key focus throughout this crisis has been to ensure that Liberty continues to deliver on its commitments to customers, advisers, employees and the wider Liberty community, through maintaining sound business practices, processes, governance, controls and appropriately managing operational risks.

As the COVID-19 crisis intensifies, it is expected that operational risk will remain a primary area of focus.

7.2 People risk

People risk is defined as the risk of an adverse business impact arising from inadequate practices for the recruitment, development, management and/or retention of employees and contractors. It also includes the risk of business impact due to insufficient people capacity, capabilities, skills and/or inappropriate behaviour.

COVID-19 has had a pronounced operational risk impact on employees, both in their personal capacities as well as in their capacities as employees. This includes risks associated with new-ways-of-working, additional personal pressures and the risk of mental health challenges and burnout. Mitigating this risk has been one of the priority focus areas from early in the COVID-19 response process. The operational risks relating to people are acutely recognised and continue to be addressed by providing high levels of personal, emotional and vocational support through various mechanisms, driven by the group's Human Capital function and enabled through the leadership within Liberty.

Management has identified individuals who can step into all key roles should incumbents fall ill, in order to minimise continuity risks.

7.3 Information security risk (including cyber risk)

The pandemic has seen an increase in cyber activity across all countries, industries, organisations and even individuals. Work-from-home practices and the related extension of the Liberty virtual network has been a key focus for the information security teams, who increased monitoring activities and ensured response capabilities remained in place and on high alert at all times. Liberty continues to stave off attacks and remains proactive in ensuring mitigation measures such as patches, anti-virus software, firewalls and stakeholder awareness are effectively applied.

7.4 Information Technology risk

Information Technology risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of information and technology infrastructure and applications within the group.

The pandemic has reinforced the group's high dependency on and increased use of information and technology to ensure high quality of operations and customer service. The technology assets and capabilities invested in prior to the pandemic allowed the organisation to leverage these to relatively seamlessly transition into the new ways of working. Initial challenges, such as international equipment shortages and constrained local data networks, due to high demand for these assets and services, were overcome early on after the crisis emerged.

7.5 Third-party risk

Third party risk is defined as the risk of Liberty's engagements with third party suppliers resulting in reputational damage, operational and legal risk. As organisations globally become more connected, there are relationships and dependencies that become more critical to manage with third parties. These third parties include, amongst others, business and technology partners, suppliers, outsourcing partners, managed services vendors and other related business partners.

The pandemic necessitated developing very close operational working relationships with key third parties and supporting them to maintain continuity of operations.

7.6 Operational process risk

Operational process risk is the risk of operational processes failing or not being effectively executed, resulting in errors, incorrect payment or delays in processing of transactions. Operational process risk, specifically related to risk in operational transaction processes that may impact service to customers through the COVID-19 crisis, remained an area of key focus and was monitored continuously through various risk and control practices. Specific consideration was given to ensuring that processes that required changes, due to the changing nature of operations through the lockdown period and changes designed to offer customers and advisers financial relief, were appropriately executed and impact to customers and the business were appropriately managed. In addition, Liberty has implemented actions to minimise any deterioration in customer service from the anticipated increase in claims due to the pandemic.

7.7 Financial control risk

This is defined as the risk of inadequate or ineffective financial and accounting processes/controls, management and oversight resulting in a loss and incorrect decision making and reporting. This includes financial, actuarial or tax controls and balance sheet reconciliation and substantiation processes.

The need to rapidly implement actions in response to the crisis, as well as the extreme levels of market volatility observed, have resulted in an elevated level of financial control risk during the crisis. Liberty continues to invest in its financial control infrastructure to mitigate any increase in this risk.

7. Operational risk (continued)

7.8 Physical asset risk

Liberty defines physical asset risk as the risk of loss, damage or injury to people, property and reputation from natural disaster or other events across all its geographical locations. Liberty's Group Real Estate Services manages risks related to physical assets in collaboration with other group functions such as Human Capital, IT and business areas.

Managing Liberty's properties during the pandemic has included, amongst others, defining and implementing processes and protocols in terms of social distancing, enhanced/deep cleaning, hygiene and infection management protocols, security and screening, implementing and monitoring COVID-19 related regulatory compliance, health and safety protocols and closure and subsequent controlled re-opening of various Liberty occupied buildings, including walk-in-centres, branches, insurance medical testing facilities and infrastructure facilities.

8. Business conduct risk

Liberty defines business conduct risk as the risk of loss, whether qualitative or quantitative, caused by the inappropriate behaviour of individuals, including financial advisers and third-party service providers, or of Liberty itself, that results in poor customer outcomes, causes detriment to the financial institution or has an adverse impact on the market.

Against the backdrop of COVID-19, focus remains on ensuring fair outcomes to customers. In the current climate it is important to ensure that sound decision-making principles continue to be followed and that Liberty focuses on getting the basics right, as failure to do so could lead to poor outcomes for customers (and the business) in the short- and long-term.

Liberty is focused on managing the following conduct risks which the pandemic has intensified:

- Advice risk – The risk of providing inappropriate advice or not being able to demonstrate that advice was suitable at the time it was provided.
- Communication – Proactive communication with financial advisers, policyholders and other stakeholders in respect of general updates as well as COVID-19 specific information, such as relief options and other impacts (e.g. impact of COVID-19 on investment values) is paramount in managing expectations and empowering sound financial decisions to be made.
- Claims and Complaints Management - Taking actions that prepare the business to handle increased claims and complaints volumes as a result of COVID-19, while maintaining service levels.

9. Compliance and Legal risk

9.1 Compliance risk

This is defined as the risk of legal or regulatory sanctions, financial loss or damage to reputation that Liberty may suffer as a result of its failure to comply with statutory, supervisory and regulatory requirements applicable to its financial products and services.

Accountability for adherence to Liberty's statutory, supervisory and regulatory obligations rests with management. The group compliance function provides independent oversight and assurance to both management and the board on the status of compliance within the organisation. Collectively, Liberty keeps abreast of all current and impending legislative requirements. During the pandemic, Liberty has ensured that statutory, supervisory and regulatory obligations have been met. As the pandemic evolves and the regulatory requirements unfold, Liberty is proactively implementing measures to limit infections.

Liberty seeks positive and constructive engagement with its regulators and policymakers, both directly and through appropriate participation in industry forums, to partner with them in ensuring optimal regulatory outcomes for the industry and all its stakeholders. Formal reporting procedures to all regulators are undertaken in line with Liberty's regulatory obligations.

9.2 Financial crime risk

This is defined as the risk of economic loss, reputational impact and regulatory sanction arising from any type of financial crime against the group. Financial crime includes fraud, theft, money laundering, cyber-crime, bribery, corruption, collusion and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.

The risk of financial crime has been elevated through the crisis partly as a result of increased economic pressure on individuals. Financial crime risk is managed through a combination of specialist group-wide forensics and compliance capabilities and by strengthening the risk culture to pro-actively mitigate risks and manage incidents. Focus is placed on ensuring robust prevention and detection controls are in place and are continuously enhanced, based on internal and external trends. Regular engagements with both regulatory bodies and industry partners take place to ensure that current trends, applicable threats and new modus operandi are shared and mitigated as appropriate.

10. Concentration risk

Concentration risk is the risk that the group is exposed to financial loss which, if incurred, would be significant due to the aggregate (concentration) exposure the group has to a particular asset, counterparty, customer or service provider.

In addition to concentration risks detailed in previous sections, the group has identified the following concentration risks:

- Standard Bank risk concentration;
- Asset manager concentration, as most of the group's assets are managed within the group; and
- The group's asset base and liabilities contain significant South African sovereign risk.

FAIR VALUE MEASUREMENT

for the six months ended 30 June 2020

Fair value hierarchy

1. Asset hierarchy

The table below analyses the fair value measurement of applicable assets by level.

30 June 2020 Rm (Unaudited)	Level 1	Level 2	Level 3	Total
Equity instruments	101 423	13	3 518	104 954
Listed equities on the JSE or foreign exchanges	95 723			95 723
Unlisted equities		13	2 206	2 219
Scrip assets – listed equities on the JSE	5 700			5 700
Interests in joint ventures			1 312	1 312
Debt instruments	82 048	74 413	154	156 615
Listed preference shares on the JSE or foreign exchanges	478			478
Unlisted preference shares		93	154	247
Listed term deposits on BESA, JSE or foreign exchanges	74 085	14 244		88 329
Unlisted term deposits		60 076		60 076
Repurchase agreements and collateral assets	7 485			7 485
Mutual funds[1]	11 034	103 286	1 618	115 938
Property	7	654		661
Equity instruments	3 811	14 904	899	19 614
Interest-bearing instruments	17	25 284		25 301
Mixed asset classes	7 199	62 444	719	70 362
Investment policies		12	1 156	1 168
Derivative assets held for trading and for hedging		16 831		16 831
Equity instruments		1 748		1 748
Currency exchange instruments		440		440
Interest rate instruments		14 643		14 643
Policy loans receivable			552	552
Properties			32 059	32 059
Collateral deposits receivable		3 798		3 798
Other receivables held at fair value through profit or loss			3 846	3 846
Cash and cash equivalents held at fair value through profit or loss		10 437		10 437
Total assets subject to fair value hierarchy analysis	194 505	208 790	42 903	446 198
Other assets not subject to fair value hierarchy analysis:				
Intangible assets				474
Defined benefit pension fund employer surplus				89
Equipment and right-of-use assets				731
Interest in joint venture – equity accounted				68
Interest in associates – equity accounted				10
Deferred taxation				202
Deferred acquisition costs				796
Long-term policyholder assets – insurance contracts				5 746
Reinsurance assets				2 967
Policy loans receivable				285
Prepayments and other receivables held at amortised cost				849
Insurance contract receivables				1 797
Cash and cash equivalents held at amortised cost				4 723
Disposal groups classified as held for sale				217
Total assets as per statement of financial position				465 152

[1] *Mutual funds are categorised into property, equity or interest-bearing instruments based on a minimum of 80% of the underlying asset composition of the fund by value being of a like category. In the event of "no one category meeting this threshold" it is classified as mixed assets class.*

1. Asset hierarchy (continued)

The table below analyses the fair value measurement of applicable assets by level.

31 December 2019 Rm (Audited)	Level 1	Level 2	Level 3	Total
Equity instruments	109 127	28	3 956	113 111
Listed equities on the JSE or foreign exchanges	103 378			103 378
Unlisted equities		28	2 694	2 722
Scrip assets – listed equities on the JSE	5 749			5 749
Interests in joint ventures			1 262	1 262
Debt instruments	80 096	68 430	189	148 715
Listed preference shares on the JSE or foreign exchanges	3 547			3 547
Unlisted preference shares		104	189	293
Listed term deposits on BESA, JSE or foreign exchanges	70 725	17 960		88 685
Unlisted term deposits		50 366		50 366
Repurchase agreements and collateral assets	5 824			5 824
Mutual funds[1]	11 083	102 045	1 224	114 352
Property	125	910		1 035
Equity instruments	3 542	15 371	657	19 570
Interest-bearing instruments	60	22 332		22 392
Mixed asset classes	7 356	63 432	567	71 355
Investment policies		2 342	901	3 243
Derivative assets held for trading and for hedging		7 739		7 739
Equity instruments		976		976
Currency exchange instruments		262		262
Interest rate instruments		6 501		6 501
Policy loans receivable			665	665
Properties			36 294	36 294
Collateral deposits receivable		2 264		2 264
Other receivables held at fair value through profit or loss			2 284	2 284
Cash and cash equivalents held at fair value through profit or loss		11 173		11 173
Total assets subject to fair value hierarchy analysis	200 306	194 021	45 513	439 840
Other assets not subject to fair value hierarchy analysis:				
Intangible assets				611
Defined benefit pension fund employer surplus				117
Equipment and right-of-use assets				1 078
Interest in joint venture – equity accounted				54
Interest in associates – equity accounted				10
Deferred taxation				317
Deferred acquisition costs				790
Long-term policyholder assets – insurance contracts				7 017
Reinsurance assets				2 409
Policy loans receivable				248
Prepayments and other receivables held at amortised cost				817
Insurance contract receivables				1 578
Cash and cash equivalents held at amortised cost				6 204
Disposal groups classified as held for sale				584
Total assets as per statement of financial position				461 674

[1] *Mutual funds are categorised into property, equity or interest-bearing instruments based on a minimum of 80% of the underlying asset composition of the fund by value being of a like category. In the event of "no one category meeting this threshold" it is classified as mixed assets class.*

FAIR VALUE MEASUREMENT (CONTINUED)

for the six months ended 30 June 2020

2. Liability hierarchy

The table below analyses the fair value measurement of applicable liabilities by level.

30 June 2020 **Rm (Unaudited)**	Level 1	Level 2	Level 3	Total
Policyholder long-term investment contract liabilities		106 019		106 019
Third-party financial liabilities arising on consolidation of mutual funds		56 536	1 732	58 268
Financial liabilities		5 605		5 605
Repurchase agreements liabilities		7 580		7 580
Liabilities held for trading and for hedging		16 113		16 113
Other payables at fair value through profit or loss			9 556	9 556
Collateral deposits payable		8 423		8 423
Total liabilities subject to fair value hierarchy analysis		**200 276**	**11 288**	**211 564**
31 December 2019 (Audited)				
Policyholder long-term investment contract liabilities		107 891		107 891
Third-party financial liabilities arising on consolidation of mutual funds		55 218	1 540	56 758
Financial liabilities		5 673		5 673
Repurchase agreements liabilities		5 929		5 929
Liabilities held for trading and for hedging		7 932		7 932
Other payables at fair value through profit or loss			5 753	5 753
Collateral deposits payable		6 545		6 545
Total liabilities subject to fair value hierarchy analysis		189 188	7 293	196 481

3. Fair value disclosure of financial assets and liabilities that are measured at amortised cost

The fair value of financial assets and liabilities which are measured at amortised cost is categorised into the following fair value hierarchies:

30 June 2020 **Rm (Unaudited)**	Amortised cost	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortised cost					
Policy loans receivable – net carrying value	285	264			264
Financial liabilities measured at amortised cost					
Loan facilities	2 351	2 318		2 318	
31 December 2019 Rm (Audited)					
Financial assets measured at amortised cost					
Policy loans receivable – net carrying value	248	230			230
Financial liabilities measured at amortised cost					
Loan facilities	2 119	2 084		2 084	

The fair value of prepayments and other receivables, cash and cash equivalents and other payables that are all held at amortised cost approximate their carrying value and are not included in the above hierarchy table as their settlement terms are short-term and therefore from a materiality perspective fair values are not required to be modelled.

4. Reconciliation of level 3 assets and liabilities

The table below analyses the movement of level 3 assets for the period.

Rm	Unaudited 30 June 2020	Audited 12 months 31 December 2019
Balance at the beginning of the year, excluding prepayments and other receivables	43 229	42 908
Fair value adjustment recognised in profit or loss as part of investment gains[(1)]	(4 974)	(259)
Fair value adjustment recognised in other comprehensive income[(1)]	(43)	(8)
Additions	735	1 283
Disposals	(172)	(707)
Movements on third-party share of financial instruments in mutual funds	282	12
Balance at the end of the period/year, excluding prepayments and other receivables	39 057	43 229
Financial instruments – prepayments and other receivables[(2)]	3 846	2 284
Balance at the end of the period/year	42 903	45 513
Properties	32 059	36 294
Financial instruments – equity and mutual funds	5 136	5 180
Financial instruments – debt	154	189
Financial instruments – policy loans receivable	552	665
Financial instruments – prepayments and other receivables	3 846	2 284
Financial instruments – investment policies	1 156	901

(1) *Included in the fair value adjustments is a R5 047 million unrealised loss (2019: R341 million unrealised loss).*

(2) *No movement analysis is provided for prepayments and other receivables that are included as level 3 assets in the fair value hierarchy. These amounts are typically short-term trade debtors and arise in the ordinary course of business. It is impracticable to separate additions and disposals.*

The liabilities categorised as level 3 relate to the mutual fund third party portion. The movement in the period is shown below.

Rm	Unaudited 30 June 2020	Audited 12 months 31 December 2019
Balance at the beginning of the year	1 540	1 558
Unrealised fair value adjustments and net movements on consolidated mutual funds	192	(18)
Balance at the end of the period/year	1 732	1 540

No movement analysis is provided for other payables that are included as level 3 liabilities in the fair value hierarchy. These amounts are typically short-term trade creditors and arise in the ordinary course of business. It is impracticable to separate additions and disposals.

5. Sensitivity analysis of level 3 assets

5.1 Investment and owner-occupied property

Investment (both for year-end and half-year) and owner-occupied (with the group's head office only at year-end) properties fair values were obtained from independent valuators who derived the values by determining sustainable net rental income, to which an appropriate exit capitalisation rate is applied. Exit capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations.

Both the investment and the owner-occupied properties are largely linked to policyholder benefits and consortium non-controlling interests which limits the impact to group ordinary shareholder comprehensive income or equity for any changes in the fair value measurement.

The tables below indicate the sensitivity of the aggregate market values for a 1% change in the exit capitalisation rate.

		Change in exit capitalisation rate	
30 June 2020 Rm (Unaudited)	Total	1% increase	1% decrease
Properties below 6,8% capitalisation rate	12 896	11 615	14 538
Properties between 6,8 – 8,5% capitalisation rate	15 750	14 402	17 262
Properties between 8,5 – 10,0% capitalisation rate	3 413	3 136	3 756
Total	32 059	29 153	35 556
31 December 2019 Rm (Audited)			
Properties below 6,8% capitalisation rate	16 151	14 593	18 168
Properties between 6,8 – 8,5% capitalisation rate	16 559	15 067	18 271
Properties between 8,5 – 10,0% capitalisation rate	3 584	3 325	3 908
Total	36 294	32 985	40 347

The table below indicates the sensitivity of the aggregate market values for a 1% change in the discount rate.

		Change in discount rate	
30 June 2020 Rm (Unaudited)	Total	1% increase	1% decrease
Total properties	32 059	30 785	33 418
31 December 2019 Rm (Audited)			
Total properties	36 294	34 862	37 490

Unobservable inputs included in valuations

30 June 2020 (Unaudited)	Exit cap rate	Discount rate	Vacancy rate	Rental growth	Expense growth
Office buildings (%)	7,0 - 9,8	12,5 - 14,0	1,0 - 5,0	(1,0) - 4,8	5,5 - 6,5
Shopping malls (%)	6,5 - 8,3	11,5 - 15,0	0,5 - 2,5	(1,0) - 4,5	5,5 - 6,5
Other (%)	8,5 - 10,0	13,0 - 15,3	0,5 - 1,0	(1,0) - 4,8	5,5 - 6,5
31 December 2019 (Unaudited)					
Office buildings (%)	8,3 - 9,5	12,5 - 13,8	0,0 - 2,5	4,0 - 5,0	6,5 - 7,0
Shopping malls (%)	6,5 - 8,0	12,0 - 12,8	0,5 - 2,5	5,0 - 5,5	6,5
Other (%)	8,3 - 10,0	13,0 - 15,3	0,0 - 2,5	4,5 - 5,5	6,5

Inter-relationship between key unobservable inputs and fair value measurements:

The estimated fair value would increase/(decrease) if:

- exit capitalisation rate was lower/(higher);
- discount rate was lower/(higher);
- vacancy and rent-free periods were shorter/(longer);
- expected market rental growth was higher/(lower); and
- expected expense growth was lower/(higher).

5. Sensitivity analysis of level 3 assets (continued)

5.2 Financial instrument assets

	Unaudited 30 June 2020		Audited 31 December 2019	
	Rm	Discount rate %	Rm	Discount rate %
Equities and mutual funds				
Unlisted equities	2 206	10-17	2 694	10-14
Interests in joint venture	1 312	13	1 262	14
Mutual funds	1 618	10-21	1 224	10-19
Investment policies	1 156	12	901	11
Debt				
Unlisted preference shares	154	15	189	12
Policy loan receivables	552	9	665	12

The table below shows the net shareholder exposure to level 3 financial instrument assets and the profitability impact of changes in discount rates.

	Unaudited 30 June 2020			Audited 31 December 2019		
		Change in discount rate			Change in discount rate	
	Net shareholder exposure Rm	1% increase Rm	1% decrease Rm	Net shareholder exposure Rm	1% increase Rm	1% decrease Rm
After tax net impact to profit or loss and shareholder equity	1 636	(104)	121	1 344	(82)	95

6. Group's valuation process

The group's appointed asset managers have qualified valuators that perform the valuations of financial assets and appointed independent valuators to determine fair values of properties required for financial reporting purposes, including level 3 fair values. These valuations are reviewed and approved every reporting period by the group balance sheet management committee. The committee is chaired by the group's financial director.

The fair values of level 3 instruments are determined using valuation techniques that incorporate certain assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include the assumed risk adjusted discount rate applied to estimate future cash flows and the liquidity and credit spreads applied to debt instruments. Changes in these assumptions could affect the reported fair value of the financial instruments.

6.1 Valuation techniques used in determining the fair value of assets and liabilities classified within level 2

INSTRUMENT	VALUATION BASIS/TECHNIQUES	MAIN ASSUMPTIONS
Unlisted preference shares	Discounted cash flow model (DCF)	Bond and interbank swap interest rate curves Agreement interest rate curves Issuer credit ratings Liquidity spreads
Unlisted term deposits, illiquid listed term deposits and senior secured term facility	DCF	Bond and interbank swap interest rate curves Issuer credit ratings Liquidity spreads
Mutual funds	Quoted put (exit) price provided by the fund manager	Price – not applicable Notice period – bond interest rate curves
Investment policies	Quoted put/surrender price provided by the issuer, adjusting for any applicable notice periods (DCF)	Face value Premium burden Life expectancy Bond and interbank swap interest rate curves
Derivative assets and liabilities	Option pricing models DCF	Volatility and correlation factors Bond and interbank swap interest rate curves Forward equity and currency rates
Policyholder investment contracts liabilities **– unit-linked policies**	Current unit price of underlying unitised financial asset that is linked to the liability, multiplied by the number of units held	Not applicable
– fixed term annuities	DCF	Bond and interbank swap interest rate curves Own credit/liquidity
Subordinated notes	DCF and listed bond prices	3-month JIBAR (floating rate notes) Bond Spread (Own credit/liquidity) Yield curves, with implied credit spreads Different cash flows of various bonds, with fixed and floating rates
Commercial paper	DCF	Discount curve Credit spread
Cash equivalents – short-term deposits	Market to market Yield curves	Bonds and interbank swap interest curve
Cash on hand	Face value	Not applicable
Third-party financial liabilities arising on the consolidation of mutual funds	Quoted put (exit) price provided by the fund manager	Not applicable

6 Group's valuation process (continued)

6.2 Valuation techniques used in determining the fair value of assets and liabilities classified within level 3

INSTRUMENT	VALUATION BASIS/TECHNIQUES	MAIN ASSUMPTIONS
Investment and owner-occupied properties	DCF	Exit capitalisation and discount rates Price per square meter Long-term net operating income margin Vacancies Market rental trends Economic outlook Location Hotel income trends/inflation-based Rental and expense growth
	Sale price (if held for sale)	Not applicable
Unlisted equities and debt, including associates and joint ventures – measured at fair value	DCF/earnings multiple	Cost of capital Bond and interbank swap interest rate curves Consumer price index Gross domestic product If a property investment entity, then assumptions applied are as above under investment and owner-occupied property
	Net asset value	Not applicable
	Recent arm's-length transactions	Not applicable
Unlisted preference shares	DCF	Bond and interbank swap interest rate curves Agreement interest rate curves Issuer credit ratings Liquidity spreads
Unlisted term deposits and illiquid listed term deposits	DCF	Bond and interbank swap interest rate curves Issuer credit ratings Liquidity spreads
Mutual funds	Quoted put (exit) price provided by the fund manager, adjusted for liquidity	Price – not applicable Notice periods and estimated repayment – bond interest rate curves Liquidity spreads
Investment policies	Probalistic valuation methodology DCF	Face value Premium burden Life expectancy Bond and interbank swap interest rate curves
Policy loans receivable	DCF	Prime interest rate and credit spread Term
Prepayments and other receivables	DCF Age analysis	Applicable risk-free rate Applicable credit margin Expected cash flows
Other payables	DCF Age analysis	Applicable credit margin including Liberty's own credit risk
Third-party financial liabilities arising on the consolidation of mutual funds	Quoted put (exit) price provided by the fund manager	Not applicable

ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS UNDER IFRS 9

as at 30 June 2020

The tables below reflect the classification of the group's financial assets and financial liabilities split into the IFRS 9 measurement categories. The financial assets categories have been determined based on the contractual cash flow characteristics and business model of the entity. Other measurement basis refers to equity accounting under IAS 28 or balances under IFRS 4.

	Fair value through profit or loss							
Rm (Unaudited)	**Held for trading and hedging**	**Desig-nated**	**Default**	**Fair value through other compre-hensive income**	**Total fair value**	**Amortised cost**	**Other measure-ment basis**	**Total per statement of financial position**
30 June 2020								
Financial assets								
Interests in joint ventures			1 312		1 312		68	1 380
Interests in associates			18 552		18 552		10	18 562
Financial investments		2 523	317 445	25 658	345 626			345 626
Policy loans receivable			552		552	285		837
Assets held for hedging and for trading	20 629				20 629			20 629
Repurchase agreements, scrip and collateral assets			13 185		13 185			13 185
Prepayments, insurance and other receivables			3 846		3 846	849	1 797	6 492
Cash and cash equivalents			10 437		10 437	4 723		15 160
Total financial assets	20 629	2 523	365 329	25 658	414 139	5 857	1 875	421 871
Financial liabilities								
Financial liabilities under investment contracts		106 019			106 019			106 019
Third-party financial liabilities arising on consolidation of mutual funds		58 268			58 268			58 268
Financial liabilities		5 605			5 605	2 351		7 956
Liabilities held for trading and for hedging	16 113				16 113			16 113
Repurchase agreements liabilities and collateral deposits payable		16 003			16 003			16 003
Insurance and other payables		9 556			9 556	1 154	6 909	17 619
Total financial liabilities	16 113	195 451			211 564	3 505	6 909	221 978

ACCOUNTING CLASSIFICATIONS OF FINANCIAL INSTRUMENTS UNDER IFRS 9 (CONTINUED)

as at 30 June 2020

Rm (Audited)	Fair value through profit or loss: Held for trading and hedging	Fair value through profit or loss: Designated	Fair value through profit or loss: Default	Fair value through other comprehensive income	Total fair value	Amortised cost	Other measurement basis	Total per statement of financial position
31 December 2019								
Financial assets								
Interests in joint ventures			1 262		1 262		54	1 316
Interests in associates			16 168		16 168		10	16 178
Financial investments		2 223	329 053	19 142	350 418			350 418
Policy loans receivable			665		665	248		913
Assets held for hedging and for trading	10 003				10 003			10 003
Repurchase agreements, scrip and collateral assets			11 573		11 573			11 573
Prepayments, insurance and other receivables			2 284		2 284	817	1 578	4 679
Cash and cash equivalents			11 173		11 173	6 204		17 377
Total financial assets	10 003	2 223	372 178	19 142	403 546	7 269	1 642	412 457
Financial liabilities								
Financial liabilities under investment contracts		107 891			107 891			107 891
Third-party financial liabilities arising on consolidation of mutual funds		56 758			56 758			56 758
Financial liabilities		5 673			5 673	2 119		7 792
Liabilities held for trading and for hedging	7 932				7 932			7 932
Repurchase agreements liabilities and collateral deposits payable		12 474			12 474			12 474
Insurance and other payables		5 753			5 753	856	6 506	13 115
Total financial liabilities	7 932	188 549			196 481	2 975	6 506	205 962

CAPITAL COMMITMENTS

as at 30 June 2020

Rm	Unaudited 30 June 2020	Unaudited 30 June 2019	Audited 12 months 31 December 2019
Equipment	193	417	364
Investment and owner-occupied property	961	1 110	1 240
Committed capital[(1)]	1 114	1 167	1 040
Total capital commitments	2 268	2 694	2 644
Under contracts	773	977	689
Authorised by the directors but not contracted	1 495	1 717	1 955

(1) *Liberty has committed capital to certain infrastructure and development funds through consolidated mutual fund subsidiaries. The committed funds are only drawn down when required.*

The above 2020 capital commitments will be financed by available bank facilities, existing cash resources, internally generated funds, R40 million (31 December 2019: R103 million, 30 June 2019: R106 million) from non-controlling interests in unincorporated property partnerships and R107 million (31 December 2019: R197 million, 30 June 2019: R134 million) from non-controlling interests in Liberty Two Degrees.

RETIREMENT BENEFIT OBLIGATIONS

as at 30 June 2020

Defined benefit retirement fund

The group operates a funded defined benefit pension scheme in terms of section 1 of the Income Tax Act, 1962. With effect from 1 March 2001 the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution. Employees joining after 1 March 2001 automatically become members of the defined contribution schemes. The defined benefit pension scheme was closed to new employees from 1 March 2001. Employer companies contribute the total cost of benefits provided, taking into account the recommendation of the actuaries.

Post-retirement medical benefit

The group operates an unfunded post-retirement medical aid benefit for permanent employees who joined the group prior to 1 February 1999 and agency staff who joined the group prior to 1 March 2005. Medical aid costs are included in the profit or loss within general marketing and administration expenses in the period during which the employees render services to the group. For past service of employees, the group recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using the projected unit credit method.

1.1 Retirement benefit obligation

	Liberty Group Defined Benefit Pension Fund	
Rm	Unaudited 30 June 2020	Audited 31 December 2019
Change in defined benefit funded obligation		
Present value of funded obligation at the beginning of the year	1 224	1 293
Service cost benefits earned during the period/year	8	18
Interest cost on projected benefit obligation	65	138
Actuarial gain	(131)	(152)
Benefits paid	(28)	(73)
Present value of funded obligation at the end of the period/year	1 138	1 224
Change in plan assets		
Fair value of plan assets at the beginning of the year	1 468	1 528
Expected return on plan assets	83	162
Actuarial loss from return on plan assets	(127)	(149)
Employer contribution(1)	8	17
Reduction in employer surplus account(1)	(8)	(17)
Benefits paid	(28)	(73)
Fair value of plan assets at the end of the period/year(2)	1 396	1 468
Surplus	258	244
Effect of limiting net defined benefit asset to the asset ceiling	(169)	(127)
Net defined benefit asset	89	117

(1) *The employer's best estimate of contributions expected to be paid to the Liberty Group Defined Pension Fund during 2020 is nil as it is anticipated the contributions will be funded from the employer portion of the surplus account. The Pensions Fund Act requires a statutory valuation every three years.*

(2) *The fair value of the plan assets at 30 June 2020 constitutes: 15,6% cash, 83,7% debt notes, 0,4% equities, 0,2% international funds and 0,1% alternate assets (31 December 2019: 14% cash, 85,3% debt notes, 0,5% equities and 0,2% international funds).*

In the opinion of the pension fund valuator, after the most recent statutory actuarial valuation as at 1 January 2018, the Liberty Group Defined Benefit Pension Fund was financially sound. Management are of the opinion that the Fund is financially sound as at 30 June 2020.

RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

as at 30 June 2020

1.1 Retirement benefit obligation (continued)

Rm	Liberty Group Defined Benefit Pension Fund Unaudited 30 June 2020	Liberty Group Defined Benefit Pension Fund Audited 31 December 2019
Components of profit or loss	(2)	(4)
Net interest on the net defined benefit asset	6	14
Current service cost	(8)	(18)
Components of other comprehensive income	(26)	(19)
Actuarial gains	131	152
Demographic experience and assumptions	29	78
Financial assumptions	102	74
Return on plan assets excluding interest cost and expected income on employer surplus	(115)	(139)
Change in the effect of the asset ceiling	(42)	(32)

1.2 Defined benefit pension fund employer surplus

Rm	Liberty Group Defined Benefit Pension Fund Unaudited 30 June 2020	Liberty Group Defined Benefit Pension Fund Audited 31 December 2019
Balance at the beginning of the year	117	140
Investment gains	7	19
Expected return	6	14
Variance to expected	1	5
Agreed contribution to member benefit enhancements	(8)	(17)
Expected contributions	(8)	(18)
Variance to expected		1
Apportionment of deficit in terms of section 15C of Pension Funds Act	(27)	(25)
Other actuarial gains	15	7
Change in the effect of the asset ceiling	(42)	(32)
Balance at the end of the period/year	89	117
Current	6	14
Non-current	83	103

1.3 Post-retirement benefit medical aid obligation

Change in post-retirement medical aid benefit obligation

Rm	Unaudited 30 June 2020	Audited 31 December 2019
Present value of unfunded obligation at the beginning of the year	459	471
Service cost benefits earned during the period/year	3	7
Interest cost on projected benefit obligation	24	49
Benefits paid	(9)	(15)
Actuarial gain included in other comprehensive income	(47)	(53)
Present value of unfunded obligation at the end of the period/year	430	459
Current	3	7
Non-current	427	452

The liability obligation has been updated after the most recent actuarial valuation as at 30 June 2020.

RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

as at 30 June 2020

1.4 Sensitivity analysis – Post-retirement medical aid benefit

Shown in the table below are sensitivities of the value of the post-retirement medical aid benefit to changes in the medical inflation rates without changes to the risk discount rate:

	Decrease/(increase) in liability	
Rm	Unaudited 30 June 2020	Audited 31 December 2019
Variable		
1% decrease in medical inflation rate		
– active members	29	32
– pensioners	16	17
1% increase in medical inflation rate		
– active members	(34)	(39)
– pensioners	(19)	(20)

1.5 Assumptions used in the valuation of obligations

	Liberty Group Defined Benefit Pension Fund		Post-retirement medical aid benefit	
The valuation was based on the following principal actuarial assumptions	Unaudited 30 June 2020	Audited 31 December 2019	Unaudited 30 June 2020	Audited 31 December 2019
Anticipated after taxation returns on investments (set on an annual basis)	11,37%	11,37%	Unfunded liability and therefore there is no asset-backing portfolio	
Discount rate	Nominal government bond curve		Nominal government bond curve	
Future salary increases (excluding increases on promotion)	Future salary increases based on inflation curve plus 1% p.a. to each point on the curve		Not applicable	
Medical cost trend rate (applicable to members who retired before 1 January 2013)	Not applicable		Inflation curve adjusted upwards by 1% p.a.	
Medical cost trend rate (applicable to members who retired after 1 January 2013)	Not applicable		Curve implied by the difference between a nominal government bond curve and an index linked gilt	
Mortality assumption – pre-retirement	Based on the SA98 Tables (Ultimate Rates) with allowance for mortality improvements		Based on the SA98 Tables (Ultimate Rates) with allowance for mortality improvements	
Mortality assumption – post-retirement	Based on the SA98 Tables (Ultimate Rates) with allowance for mortality improvements		Based on the SA98 Tables (Ultimate Rates) with allowance for mortality improvements	
Retirement age – executives	63	63	63	63
– others	60 or 65	60 or 65	60 or 65	60 or 65

RELATED PARTIES

for the six months ended 30 June 2020

Unaudited

Standard Bank Group Limited and any subsidiary (excluding Liberty) is referred to as Standard Bank in the context of this section.

The following selected significant related party transactions have occurred in the 30 June 2020 financial period:

1. Summary of related party transactions with Standard Bank

1.1 Summary of movement in investment in ordinary shares held by the group in the group's holding company is as follows:

	Number '000	Fair value Rm	Ownership %
Standard Bank Group Limited			
Balance at 1 January 2020	18 747	3 154	1,18
Purchases	7 724	872	
Sales	(9 998)	(1 148)	
Fair value adjustments		(1 157)	
Balance at 30 June 2020	16 473	1 721	1,03

1.2 Bancassurance

Liberty has extended the bancassurance business agreements with Standard Bank group for the manufacture, sale and promotion of insurance, investment and health products through the Standard Bank's African distribution capability. New business premium income in respect of this business for the six months ended 30 June 2020 amounted to R2 716 million (31 December 2019: R7 908 million, 30 June 2019: R3 847 million). In terms of the agreements, Liberty's group subsidiaries pay profit shares to various Standard Bank operations. The amounts to be paid are in most cases dependent on source and type of business and are paid along geographical lines. The total combined net profit share amounts accrued as payable to the Standard Bank group for the six months ended 30 June 2020 is R745 million (31 December 2019: R1 485 million, 30 June 2019: R690 million).

The bancassurance business agreements are evergreen agreements with a 24-month notice period for termination – as at the date of the approval of these financial statements, neither party had given notice.

1.3 Purchases and sales of financial instruments

As per Liberty's 2019 group annual financial statements, in the normal course of conducting business, Liberty deposits cash with Standard Bank, purchases and sells financial instruments issued by Standard Bank and enters into sale and repurchase agreements and derivative transactions with Standard Bank. These transactions are at arm's length and are primarily used to support investment portfolios for policyholders and shareholders' capital.

DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

as at 30 June 2020

As part of the strategy refresh exercise conducted during 2018, various cash-generating units were identified as either sub-scale or no longer applicable to Liberty's revised strategy. Consequently, the board approved a process of disposals and strategic partnership negotiations with the expectation to lead to loss of control of these cash-generating units during 2019 and 2020.

A number of operations were disposed of in 2019, whilst in 2020 to date the sale of three further operations have been completed, being the short-term insurance operations in Malawi, and the asset management operations in Kenya and Uganda.

A decision was taken to reclassify the Liberty Health risk solutions operations (with the exception of Total Health Trust Limited in Nigeria) back to continuing operations after no acceptable offers were forthcoming. Remaining operations classified as disposal groups are the short-term insurance operation in Botswana, Liberty Health Administrators (Pty) Ltd (a licensed medical aid administrator in South Africa) and Total Health Trust Limited (a registered Health Maintenance Organisation in Nigeria).

Based on the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the assets and liabilities have been disclosed as disposal groups and are separately disclosed on the statement of financial position. The disposal groups are measured at the lower of carrying amount and fair value less costs to sell, which has lead to various remeasurements, as set out below:

	Unaudited 30 June 2020			Unaudited 30 June 2019			Audited 31 December 2019		
Rm	**Gross**	**Fair value adjustment**	**Net**	Gross	Fair value adjustment	Net	Gross	Fair value adjustment	Net
Total assets classified as held for sale	259	(42)	217	908	(168)	740	891	(307)	584
Total liabilities classified as held for sale	172		172	256		256	246		246
Net assets of disposal groups held for sale	87	(42)	45	652	(168)	484	645	(307)	338

The potential sales are not discontinued operations as defined under IFRS 5 as they are not disposals of separate major lines of business or geographical areas of operation. Profit or loss from cash-generating units within disposal groups have consequently not been separately identified in the statement of comprehensive income.

Disposals of operations during the period

Disposal of Liberty General Insurance Company Limited (Malawi)

Effective 30 June 2020, Liberty concluded the sale of its entire shareholding in its Malawi short-term business to existing shareholders for a nominal amount. The sale was concluded at the carrying value (fair value less costs of sale) estimated at 31 December 2019.

Disposal of STANLIB East Africa operations (Kenya & Uganda)

A transfer of business operations agreement was entered into with ICEA Lion Asset Managers (ILAM) in 2019. By 30 June 2020, effectively the entire business operations in STANLIB Kenya Limited and STANLIB Uganda Limited, encompassing Segregated Mandates, REIT management, Unit Trust management and Umbrella Fund administration have either been transferred to the ILAM or a new asset manager designated by the client. The sale was concluded at the carrying value reflected at 31 December 2019 and therefore no profit or loss on sale was realised.

OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

as at 30 June 2020

The group does not have any financial assets or financial liabilities that are currently subject to offsetting in accordance with IAS 32 *Financial Instruments: Presentation*. The table below sets out the nature of agreements and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement (MNA) or similar agreement.

	NATURE OF AGREEMENT	RELATED RIGHTS
Derivative assets and liabilities	International swaps and derivatives agreements	The agreement allows for offset in the event of default
Repurchase agreements	Global master repurchase agreements	
Collateral deposits payable	Global master securities lending arrangements	

Rm (Unaudited)	**Total**	**Not subject to MNA or similar agreements**	**Subject to MNA or similar agreements**	**Financial collateral[(1)]**	**Net**
30 June 2020					
Assets					
Assets held for trading and for hedging	20 629	(1 246)	19 383	(15 684)	3 699
Total assets	20 629	(1 246)	19 383	(15 684)	3 699
Liabilities					
Liabilities held for trading and for hedging	16 113	(359)	15 754	(15 684)	70
Repurchase agreements liabilities	7 580		7 580	(7 471)	109
Collateral deposits payable	8 423		8 423	(8 423)	
Total liabilities	32 116	(359)	31 757	(31 578)	179

Rm (Unaudited)	Total	Not subject to MNA or similar agreements	Subject to MNA or similar agreements	Financial collateral[(1)]	Net
30 June 2019					
Assets					
Assets held for trading and for hedging	10 436	(1 343)	9 093	(8 070)	1 023
Total assets	10 436	(1 343)	9 093	(8 070)	1 023
Liabilities					
Liabilities held for trading and for hedging	8 398	(298)	8 100	(8 078)	22
Repurchase agreements liabilities	3 310		3 310	(3 271)	39
Collateral deposits payable	4 960		4 960	(4 960)	
Total liabilities	16 668	(298)	16 370	(16 309)	61

Rm (Audited)	Total	Not subject to MNA or similar agreements	Subject to MNA or similar agreements	Financial collateral[(1)]	Net
31 December 2019					
Assets					
Assets held for trading and for hedging	10 003	(1 087)	8 916	(7 645)	1 271
Total assets	10 003	(1 087)	8 916	(7 645)	1 271
Liabilities					
Liabilities held for trading and for hedging	7 932	(214)	7 718	(7 645)	73
Repurchase agreements liabilities	5 929		5 929	(5 810)	119
Collateral deposits payable	6 545		6 545	(6 545)	
Total liabilities	20 406	(214)	20 192	(20 000)	192

(1) *Financial collateral relates to those instruments that are subject to MNA or similar agreements.*

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