Media Release

MEDIA RELEASE
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Decisive actions being taken to restore Liberty's performance and profitability

Full year results reflect improving SA retail insurance earnings and higher returns from investment markets. The group's capital position remains strong.

Financial Highlights

- Normalised headline earnings increased 8% to R2 719 million
- Normalised operating earnings declined 19% to R1 412 million
- Capital adequacy ratio strong at 2.92 times
- Group net customer cash inflows are R6.5 billion
- Insurance indexed new business R8 billion
- Group equity value per share at R140.31
- Assets under management of R720 billion
- Dividend of 691 cents per share

Commenting on the results, David Munro Liberty Group CEO said: *"Liberty has a great core franchise, with a strong team and a large and loyal customer base. But, over the years our business has become layered in complexity and we have become distracted from our core goal of serving our financial advisors and customers at the heart of our business in South Africa. At the same time, we've been operating in a challenging macro environment, and a fiercely competitive market. This has led to pressure on margins and our ability to generate value from new business, reflected in the lower margin for the year.*

"We need to take accountability for our operational performance and execute the necessary measures to improve it. Our leadership team is focused on growing our business and improving margins in our life book. Our immediate priorities are restoring the health of the SA Retail Insurance business; improving investment returns in STANLIB; simplifying our business; and further leveraging our relationship with Standard Bank. We are beginning to see some green shoots, which gives us confidence in our plan to restore Liberty's performance and competitive position."

Financial results reflect tough operating environment

Normalised headline earnings for the year ended 31 December 2017 of R2 719 million were 8% up on 2016, supported by a higher contribution of R1 307 million (31 December 2016: R787 million) from the shareholder investment portfolio (SIP). The improved earnings contribution from Individual Arrangements was offset by lower earnings from Liberty Corporate, STANLIB SA and Rest of Africa. Normalised return on equity was 12,3% (31 December 2016: 11,4%).

The group is well capitalised with the capital adequacy ratio at 2,92 times the regulatory minimum, this remains at the upper end of the target range.

The SA covered business embedded value of R34 billion was preserved, with earnings of R2,8 billion generating a return of 8,2%.

The value of new business (VoNB) and new business margin remained under pressure. The economic environment favoured flows into guaranteed products, which manifested into a weaker mix of business from a margin perspective. A number of interventions were implemented during the year to improve the value of new business. These have started to show positive results with the value of new business improving in the second half relative to the first half of 2017.

Customer cash inflows

Group net customer cash inflows were positive at R6,5 billion despite the poor economic environment. Long-term insurance cash inflows of R1,6 billion reflected an improvement on the prior year inflows of R1,1 billion, supported by lower policy withdrawals and maturities in Individual Arrangements.

Individual Arrangements

The value of new business for individual arrangements reduced to R155 million while new business margins declined to 0,5%. This was largely a result of new business strain arising from acquisition expenses increasing by more than the increase in new business volumes and a deterioration in the mix towards lower margin products. The improvement in the value of new business from R62 million for the six months to 30 June 2017 indicates that initiatives implemented to improve the value of new business are starting to have the desired effect.

Despite the tough environment, the business continued to deliver positive operating variances and has been managed to “better than model” consistently for the last five years.

Asset Management operations

The asset management business in South Africa continued to experience margin pressure due to a less favourable sales mix, costs associated with the termination of the institutional administration outsourcing programme, the launch of new franchises and operational write offs. STANLIB’s assets under management grew R21 billion to R556 billion at 31 December 2017.

STANLIB Rest of Africa continued to be affected mainly by operational losses identified during the remedial programme in East Africa. Efforts to strengthen the operational and control environments have progressed well and risks of further operational losses are significantly reduced.

Operations in the other African territories tracked broadly to expectation. Total assets under management in STANLIB Rest of Africa increased by R1,5 billion to R53 billion at 31 December 2017.

Group Arrangements

Group Arrangements comprising Liberty Corporate, Liberty Africa Insurance and Liberty Health.

Liberty Corporate earnings were impacted by a considerably lower underwriting result due to higher claims experience in respect of Income Protection Plan claims. Liberty Africa Insurance were impacted by negative exchange rate movements and pressure on health margins continued due to pricing and exchange rate movements in Nigeria.

Balance sheet management

LibFin markets which comprises our Asset Liability Management and Credit business, delivered a good result with earnings up 18% on the prior year.

LibFin Investments

The shareholder investment portfolio earnings of R1 307 million were well above 2016 earnings despite the significant rand appreciation in December 2017 which reduced the returns on offshore assets.

Plans in place to turn Liberty around

The challenges facing the group have been identified and management has put in place robust plans to restore its financial performance and competitive position. The immediate priorities for 2018 are:

- Improving the performance of the SA Retail business;
- Improving investment returns delivered by STANLIB SA;
- Simplifying the business;
- Sharpening commercial focus by optimising the outcomes of existing initiatives;
- Enhancing the risk and compliance environment; and
- Leveraging further opportunities with the Standard Bank Group.

Within the next two years, Liberty aims to deliver

- Value of new business margins to 1% to 1.5% range;
- Growth in embedded value that exceeds 12%;
- ROE improvements with a medium-term range of 15% to 18%; and
- Maintain a robust capital position within our target range of 2.5 - 3.0 times