Media Release
2 August 2018

Liberty delivers a stabilised operating performance
Progress on turnaround plan

Financial Highlights

- Normalised operating earnings increased 18% to R958 million
- Normalised headline earnings increased 5% to R1 332 million
- Capital adequacy ratio strong at 2,67 times the regulatory minimum
- Group long-term insurance net customer cash inflows are R262 million
- Long-term insurance indexed new business R3 773 million
- Group equity value per share at R138,66
- Assets under management of R719 billion
- Interim dividend of 276 cents per share

Commenting on the results, David Munro Liberty Group CEO said:

"Over the past six months we have made meaningful progress to turn Liberty around. Our results for the half year reflect a stabilisation of our business, but we are still some distance from where we need to be, especially given weak new business volumes. While the tough economic environment is impacting the recovery of our South African businesses, we are making significant strategic shifts to support our financial advisers and deliver excellent customer experience. We have made progress in reducing organisational complexity, improving the resilience of STANLIB, enhancing risk and compliance and optimising our growth initiatives. Our working relationship with the Standard Bank Group continues to grow stronger, enabling us to unlock new opportunities as part of the Universal Financial Services Organisation (UFSO).

"Looking forward, we will continue to prioritise our business in South Africa where we have a robust core franchise. We have a clear strategy, which is progressing to plan and we believe the real evidence of our actions will come through in 2019 and 2020. We are confident that we are on track to deliver."

Stabilised operating performance

Our results for the half year reflect a stabilisation of our business, with normalised operating earnings up by 18%, supported by increased earnings from the South African insurance operations and the STANLIB businesses. We also delivered a 5% growth in normalised headline earnings. The Shareholder Investment Portfolio (SIP) remains under pressure reflecting weak investment markets.

The South African economy contracted by 2.2% in the first quarter of the year with consumer spending constrained by increases in taxes and administered prices, notably multiple fuel price increases. In July 2018, the SARB revised its growth forecast for 2018 down to 1,2%. This suggests that consumer spending could struggle to gain meaningful traction in 2018.

The Value of New Business (VoNB) increased from R86 million for the first half of 2017 to R135 million for the current period, and the new business margin improved from 0.4% to 0.7%.

Group long-term insurance net customer cash inflows amounted to R262 million compared to cash outflows of R665 million in the prior period. This was a result of lower policy withdrawals and maturities in Individual Arrangements and lower scheme termination outflows in Liberty Corporate. STANLIB South Africa net customer cash inflows increased to R8,4 billion from R5,6 billion in the prior period.

The group's capital position remains strong with the capital adequacy ratio at 2,67 times the regulatory minimum at 30 June 2018.

Individual Arrangements

Headline earnings from the group's South African retail business of R704 million were 18% up on the prior period, assisted by improved persistency experience and lower assumption and modelling changes.
Indexed new business sales were 3% down on the prior period impacted by the competitive environment together with the current tough economic conditions. VoNB increased from R62 million in the prior period to R111 million, while the margin improved from 0, 5% at 31 December 2017 to 0,7%. Action taken in 2017 and the first half of 2018 to improve the VoNB and new business margin, including product changes and repricing, are starting to manifest in the result. This has been further supported by an improvement in the product mix and good expense control.

Net customer cash inflows of R750 million reflect favourable withdrawal experience, highlighting the success of ongoing retention initiatives. This was partly offset by lower single premium business, which is the main contributor to net cash inflows being 3% below the prior period.

Asset Management

At STANLIB, the leadership team has taken significant steps to improve investment performance and the general resilience of the business. Actions taken included improving the quality of the investment teams, interrogating investment philosophies and processes, and strengthening the oversight functions.

STANLIB South Africa earnings increased to R175 million from R115 million in the prior period. Fee income was marginally lower in the period mainly due to muted investment market returns. The prior period earnings were impacted by operational write-offs. Management has continued to strengthen the control environment with a focus on improving the overall financial results.

Net customer cash inflows (excluding intergroup) grew to R8,4 billion from R5,6 billion in the prior period. This result was mainly attributable to improved non-money market inflows. Intergroup cash outflows for the period amounted to R6,2 billion.

Total assets under management by STANLIB South Africa amounted to R559 billion.

Group Arrangements

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

Liberty Corporate earnings of R77 million reflected an improved underwriting result supported by stringent expense management. The income protection plan book, which experienced high claim levels in the second half of 2017, has reverted to an acceptable underwriting margin. Liberty Africa Insurance earnings were impacted by high claims in the Kenyan short-term insurance business.

Management remains focused on actively realising the value of this portfolio of businesses.

Organisational redesign to deliver on strategy

Over the period, considerable work has been done in redesigning our organisational structure, which is critical to the delivery of our strategy. Our new design will make our work easier and will enable a reconnected client, financial adviser and employee value chain. It will also ensure increased efficiencies, reduced complexity and enhanced governance.

Delivery of our actions evident in 2019 and 2020

The results reflect a stabilisation of the business with evidence of green shoots. Although our operating environment has been tough and expected to remain so in the near term, we are confident we are prioritising the right things to effectively and efficiently deliver on the strategy. The real evidence of our actions will come through in 2019 and 2020.

Data breach

In June an external party gained unauthorised and illegal access to our IT infrastructure and stole data from us. The breach was restricted to our South African operations and related to largely unstructured data in the form of emails and attachments. We take the safety of our customer's data seriously and no resource was spared to ensure the security of our systems and the information we hold. Importantly no customer suffered any financial loss from the incident. The matter remains subject to a criminal investigation and we are working with the relevant authorities.

Unclaimed benefits

Unclaimed benefits are governed by the Pension Fund Act and are defined as benefits that have not been paid to members in more than two years following termination of their employment from the sponsoring employer. Our Liberty Corporate business has unclaimed benefits in both our sponsored Unclaimed Benefit Funds and other occupational funds, which we administer.

Our sponsored Unclaimed Benefit Funds have unclaimed benefits of approximately R1.0 billion, and we are currently in the process of tracing 75,000 of 105,000 members. As we make progress, we will extend our efforts to the remaining members. This has been made possible through the significant increase in tracing activity and payment capability over the last 12 months. We are also working with the trustees of the occupational funds we administer to improve their tracing activities.

During the de-registration project initiated by the FSB in 2007, Liberty secured the de-registration of approximately 4,600 funds. We however found that we made an error in securing the de-registration of 130 of these funds. We have already successfully applied to the High Court to re-instate 25 of these funds and we will continue the process to reinstate the remaining 105 funds. We are doing this so that we can effectively re-open the funds, appoint new trustees and effect the payment of benefits due to members of these funds. The total Rand value of these funds is approximately R100 million.

Liberty's leadership team takes these matters very seriously and we are doing our best to work with all stakeholders to ensure that those who are due benefits from a pension fund are found and paid as quickly as possible.