MEDIA RELEASE

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Liberty fulfils its purpose in a challenging environment

A respectable set of results w*hile maintaining capital strength and investing for the future*

Financial highlights:

- Normalised operating earnings R628 million
- Pandemic reserve R2.2 billion net of tax
- Shareholder Investment Portfolio (SIP) earnings of R27 million
- Capital adequacy ratio strong at 1.81 times
- Group long-term insurance indexed new business of R7.3 billion
- Group net external client cash inflows increased to R30 billion
- Total Group assets under management increased to R776 billion

Commenting on the results, David Munro Liberty Group CEO said:
"Liberty fulfilled its purpose in 2020 and delivered a respectable set of results, which reflects our financial strength and balanced delivery for all our stakeholders in extraordinarily difficult times. We have pivoted with the crisis and are aggressively investing in the simplification, competitiveness and transformation of our business. This crisis has not deviated us from the delivery of our strategy.

"Looking ahead, we remain focused on evolving Liberty to meet the changing needs of our customers as accelerated by the COVID-19 pandemic and will seize the opportunity to transform our business to become a modern digital enterprise defined by exceptional client and adviser experience."

We continued investing for the future and implementing our strategy
Liberty incurred a normalised operating loss for the year ended 31 December 2020 of R1 599 million compared to normalised operating earnings of R2 201 million for the year ended 31 December 2019. The normalised operating loss includes the R2 227 million net after tax cost of establishing the pandemic reserve which, if excluded from the result, would reflect normalised operating earnings for the year of R628 million.

The SIP generated a profit of R27 million for the year. Accordingly, Liberty is reporting a normalised headline loss for the year ended 31 December 2020 of R1 572 million, compared to normalised headline earnings of R3 205 million in the prior year.

The headline loss for the year of R1 539 million includes a positive adjustment of R37 million (2019: positive R55 million) arising from the consolidation of the Liberty Two Degrees listed REIT. This compares to headline earnings of R3 254 million for the prior year.

Normalised group equity value per share decreased from R147,82 in the prior year to R128,32. The normalised annual return on group equity value (RoGEV) was negative 10,2% compared to positive 11,5% in the prior year. The negative RoGEV is largely attributable to the operational impacts of COVID-19, including the establishment of the pandemic reserve, certain long-term actuarial assumption changes in the SA insurance operations and lower investment returns on the SIP earnings.

Group long-term insurance indexed new business of R7 302 million has been significantly impacted by lockdown restrictions and is 10,1% below the prior year of R8 125 million. Following the relaxation of South African lockdown restrictions, indexed new business reflected an encouraging improvement in the second half of 2020, particularly in the fourth quarter of 2020.

The group value of new business ('VoNB') declined to R24 million from R407 million in 2019. This decline is mainly attributable to the decline in the SA Retail VoNB from R290 million in the prior year to R30 million, due largely to lower sales volumes whilst acquisition expenses continue to increase at inflationary levels.

Group net external third party client cash inflows increased to R30,2 billion from R13,3 billion in 2019, supported mainly by a robust performance from STANLIB South Africa. Total group assets under management increased to R776 billion (31 December 2019: R738 billion) due mainly to the increase in STANLIB South Africa assets under management, partly offset by the exit of asset management operations in other African territories and the associated transfers of mandates to other external managers of R3,9 billion (31 December 2019: R25,4 billion).

South African insurance operations

SA Retail

Earnings from SA Retail, excluding the cost of establishing the pandemic reserve, amounted to R484 million compared to R1 505 million in 2019. The business experienced lower than anticipated risk profits in the early months of 2020 and higher risk claims for the second half of 2020 amounting to R624 million (net of tax). These additional claims during the second half of 2020 have tracked to expectation based on the COVID-19 reference scenario used and have been absorbed within the pandemic reserve. Poorer persistency was experienced in 2020, reflecting the weakening South African economic climate, with increased client utilisation of risk benefit reduction options offered since the commencement of the lockdown. However, persistency improved during the second half of the year aided by improved early duration risk lapses and premium relief on the investment books.

New business productivity was severely hampered by the pandemic and the ensuing nationwide lockdown from the second quarter of 2020. Various management actions and digital enablement tools significantly improved sales channel support and buoyed new business from the lows of the second quarter of 2020, contributing to encouraging sales trends in the second half of 2020, with indexed new business for the final quarter of 2020 being 8.1% above the final quarter of 2019. Indexed new business sales of R6 520 million were 0,6% below the prior year with strong growth from the embedded credit channel offset by reduced sales of both risk and investment business. Conventional annuity new business increased strongly throughout the year relative to 2019. Significant management actions are in place to improve new business volumes whilst ensuring an improved cost efficiency.

Liberty Corporate
Liberty Corporate earnings, excluding the cost of establishing the pandemic reserve, decreased to R38 million. The result included high volumes of group life assurance death claims in the first quarter of 2020, which were offset by positive balance sheet optimisation impacts from the annuity book. Elevated risk and funeral claims associated with the pandemic of R172 million net of tax have been set-off against the pandemic reserve. However, the reduced expected profit margin on these elevated claims, which could not be included in the pandemic reserve, remained a strain on the results. Subdued market returns and clients increasingly taking up premium relief options within the retirement books also negatively impacted earnings for the year.

Liberty Corporate remains focused on reducing the levels of retirement fund unclaimed benefits on schemes under administration and is committed to exhausting all reasonable options to trace and facilitate the payment of benefits as soon as possible. Fund rehabilitation costs incurred and provided for relates to the commitment we have made to expediate the reinstatement of legacy retirement funds and supports our drive to simplify the organisation. Efforts to reinstate funds historically terminated remains a focus, with an application made to the high court to reinstate a further 10 terminated funds, following the re-instatement of 25 funds in 2018.

Asset Management
STANLIB South Africa earnings of R466 million in 2020 (2019: R460 million) reflects higher fee income due mainly to strong cash inflows, partly offset by lower investment income. This solid performance in a year of turmoil demonstrates the benefits of having diverse sources of income between the insurance and asset management operations within the Group.

As a leading fixed income manager, STANLIB has benefited throughout the year from increased institutional money market inflows in the current risk averse environment. Net external third party client cash inflows increased to R35 billion. This result was supported by good institutional inflows to money market funds. Intragroup cash outflows for the year amounted to R12,4 billion.

STANLIB continues to elevate its investment performance, making significant progress on our goal of more consistent long-term performance. Most of our funds now ranking in quartile 1 or 2 over one, three and five-year time horizons.

Total assets under management by STANLIB South Africa amounted to R614 billion up 8% on 2019. 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 however recovered to some extent during the second and third quarters of 2020 and the final quarter investment market performance enabled most asset classes to end the year in positive territory. Strong cash inflows as noted above also contributed to the increase in assets under management.

Africa Regions

Africa Regions comprise Liberty Africa Insurance, the STANLIB asset management continuing operations in the Southern African region and the majority of Liberty Health's operations which were reinstated as continuing operations with effect from 1 July 2020.

Earnings of R21 million (excluding the establishment of a pandemic reserve of R15 million) are below the prior year earnings of R54 million. Earnings were positively impacted by good performances in the Kenya short-term insurance and Botswana life insurance businesses. Performance of the asset management businesses was in line with the prior year. These positive impacts were offset by lower returns in weaker investment markets, new business constraints amid COVID-19 restrictions and the inclusion in 2020 of the loss from the Liberty Health operations which were moved back to continuing operations from 1 July 2020 (loss of R43 million). Assets under management were R18,1 billion at 31 December 2020.

Liberty Two Degrees (L2D)

L2D released its results for the year ended 31 December 2020 on 22 February 2021. The results are available at www.liberty2degrees.co.za.

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 increased by 6,2% compared to 2019, largely due to increased credit life sales in South Africa.

Prospects

The year ahead is likely to be unpredictable, and filled with uncertainty and challenge. Notwithstanding these uncertainties, the Group is expected to remain well capitalised and able to provide uninterrupted service to our clients and advisers, continuing to fulfil our purpose.

We remain confident in our strategy to focus on our client and adviser experience, transparent, accessible digital risk and investment solutions, and an unremitting drive for simplicity. We are accelerating the work to become more competitive and flexible, to service and support clients and advisers of the future, offering them simple and intuitive solutions on their journeys towards securing financial freedom.

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