Liberty Holdings Limited

Incorporated in the Republic of South Africa
(Registration number 1968/002095/06)
Share code: LBH
ISIN code: ZAE0000127148
Share Code: LBHP
ISIN Code: ZAE000004040
("Liberty" or "group")

Financial results for the six months ended 30 June 2021 – Short form announcement

Implementation of strategy on track with initial milestones achieved

Financial highlights:

Rm (unless otherwise stated)	**30 June 2021**	30 June 2020	% change
Profit/(loss) before taxation	**1 660**	(4 069)	>100
Normalised headline earnings/(loss)(1)	**288**	(2 173)	>100
Normalised headline earnings/(loss) per share (cents)(1)	**107,3**	(802,5)	>100
Headline earnings/(loss) per share (cents)(2)	**84,3**	(855,2)	>100
Basic earnings/(loss) per share (cents)	**84,3**	(902,4)	>100
Normalised return on IFRS equity (%)(1), (4)	**2,7**	(19,7)	
Normalised group equity value per share (R)(1)	**132,34**	128,80	3
Normalised return on group equity value (%)(1), (4)	**5,8**	(18,9)	
Solvency capital requirement cover ratio of Liberty Group Limited (times covered)(3)	**1,73**	1,83	
Embedded value of new business	**46**	24	92
New business margin (%)	**0,2**	0,2	
Interim dividend	**-**	-	

(1) Normalised: headline earnings/(loss), headline earnings/(loss) per share, return on IFRS equity, group equity value per share and return on group equity value. These measures reflect the economic substance 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) Headline earnings/(loss) includes adjustments for impairment of intangible assets.

(3) 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.

(4) Annualised.

A severe second and the start of a third wave of the COVID-19 pandemic (the pandemic) resulted in continued challenging health and economic conditions during the first half of 2021. South Africa, Liberty's largest market, has been subject to government-imposed lockdown restrictions designed to curb the spread of the virus for almost 17 months. The mass COVID-19 vaccine rollout has commenced in South Africa and is intensifying, but uncertainty related to the evolution and impact of the pandemic and associated waves remains.

Subsequent to 30 June 2021, the KwaZulu Natal and Gauteng provinces of South Africa experienced significant protest action in July 2021. These protests were characterised by deplorable violence, theft and destruction of property, and are also sadly a reflection of the desperation of many South Africans during these difficult times. Regrettably, these actions have been disruptive to the broader South African society and to the country's struggling economy. We were fortunate that Liberty related assets and premises did not suffer damage and we continue to work with our business partners to safeguard our assets.

We extend our sincere condolences to members of the Liberty community who have lost family and friends and are struggling with the trauma and stress induced by these extremely difficult times.

Liberty is proud to have opened a vaccination site to the public at our head office in Braamfontein to assist the South African Government with its vaccination programme. Working in collaboration with Dis-Chem, over 600 vaccinations are being administered per day at our site.

The global economic environment continued to recover in the first half of 2021. This has positively impacted global and South African financial market conditions and contributed positively to returns from the Shareholder Investment Portfolio (SIP) during the period.

Supporting our clients and their families at those most profound moments of human vulnerability lies at the heart of our purpose. As evidence of this, total death and disability claims paid during the six months ended 30 June 2021 amounted to R8,5 billion, a 61,4% increase over the first half of 2020, which is reflective of the severe impact of the pandemic on our clients. Total annuity payments to clients during the period were R4,5 billion, a 10,3% increase on the comparative period representing a critical injection of income into society to sustain many vulnerable people in the latter years of their lives.

A pandemic reserve of R3,1 billion (before tax and non-controlling interests' share in respect of our Liberty Africa Insurance business) was established in 2020 to provide for the expected impact of COVID-19 on Liberty's business. The reserve was calculated on a prospective basis to cover the expected increase in mortality and retrenchment claims together with reduced persistency and increased expense impacts attributable to the pandemic. At 31 December 2020, the reserve amounted to R2 291 million before tax and the share of non-controlling interests'.

Additional death and funeral claims, adverse persistency experience and specific qualifying pandemic related expenditure absorbed within the pandemic reserve during the six-month period to 30 June 2021 amounted to R1 761 million before tax and non-controlling interests. Liberty's actual experience for the six months to 30 June 2021 together with emerging SA population statistics were considered in reassessing the appropriateness of the pandemic reserve at 30 June 2021 which resulted in an increase in the reserve at 30 June 2021 of R1 022 million before tax and non-controlling interests. The pandemic reserve amounted to R1 552 million before tax and non-controlling interests at 30 June 2021.

In addition, risk claims on short contract boundary business not absorbed by the pandemic reserve amounted to R388 million after tax and non-controlling interests' share. This represents claims that were not covered through the pandemic reserve and represent excess claims not anticipated in the pricing of these books of business.

A proposed transaction was announced on 15 July 2021, whereby Standard Bank Group (SBG) is proposing to buy 100% of Liberty Holdings Limited and to integrate Liberty more closely into the greater group. This will, subject to shareholder and regulatory approvals, lead to the de-listing of Liberty Holdings Limited and Liberty becoming a wholly owned subsidiary of SBG. SBG currently owns 54% of Liberty's issued ordinary shares. This proposed transaction is a strong vote of confidence by SBG in the strength of Liberty's business, its client franchise, and very importantly its adviser networks and teams of people. Further details of the proposed transaction are outlined in the firm intention announcement that was released on 15 July 2021.

The current operating environment has reinforced the importance of our purpose and has led to a deepened focus on, and acceleration of, key initiatives to develop a more competitive and future ready enterprise.

In this context, we have three key focus areas:

- Significantly enhancing the quality of our client and adviser experience;
- Delivering transparent and intuitive risk and investment solutions suitable for the digital age; and
- Aggressively simplifying our whole organisation.

Good progress in advancing our plans was made during the current period, with investments of R169 million net of tax (30 June 2020: R94 million net of tax) made to expedite the build of our client and adviser engagement and investment platforms. These developments represent important milestones in achieving our strategy for the future Liberty and include:

- The launch of the Liberty Adviser Workbench powered by Salesforce to our tied adviser force (Liberty Advisory Partners), which automates, simplifies and digitalises processes, effectively reducing duplication of effort and expediting the sales process. Over 1 500 advisers and sales leaders have already been onboarded and are using the workbench since late May 2021;
- We also recently launched Advice Plus, our new generation goal based financial needs analysis tool, to our advisers. This digital tool allows for best-in-class advice across risk and investment propositions. Over 8 000 client financial needs analysis reports have been issued since the launch of Advice Plus in late May 2021;
- Investment solutions have been enhanced through the launch in early 2021 of our Multi-Strategy portfolio range linked to our revised advice model, as well as a portfolio range launched on STANLIB's LISP, built in conjunction with STANLIB Multi-Manager. This facilitates personalised advice to be provided and customised solutions to be identified to meet the needs of our clients;
- A more refined approach to pricing and risk selection, based on additional risk factors in our commercial and actuarial models, was introduced in the second half of 2020 and continues to be refined. This capability places Liberty in a more competitive position by providing significant agility in both the rating and pricing of our risk solutions; and
- In terms of simplification initiatives, we have continued to retire legacy products, and continued reducing the complexity and streamlining of our SA Retail business both from a product and architecture point of view. 81 products have been rationalised with over 200 000 clients migrated to new generation products, and 31 portfolios have been rationalised with assets of R500 million in respect of 4 000 clients switched into other suitable portfolios in the first half of 2021.

The introduction of digital enablement tools, particularly the Liberty Adviser Workbench and Advice Plus, has significantly improved sales channel support and has started to contribute to the improved SA Retail new business sales performance across all major channels. We will continue with the focused execution of our plans to enhance the client and adviser experience, provide digital tools and solutions to our advisers and clients and to simplify our business.

Liberty's operations remain financially sound and well capitalised, with the Solvency Capital Requirement ('SCR') cover ratio of Liberty Group Limited, the group's main long-term insurance licence, at 1,73 times at 30 June 2021 (31 December 2020: 1,81 times). The 30 June 2021 SCR cover takes account of the required increase in the pandemic reserve, underpinning our ability to fulfil our promises to policyholders and other stakeholders.

Normalised operating earnings before COVID-19 impacts amounted to R652 million, compared to the equivalent prior period earnings of R633 million.

After including the cost of increasing the prospective COVID-19 pandemic reserve net of taxation and non-controlling interests' share of R729 million (30 June 2020: R2 175 million) and current period claims that were not covered through the pandemic reserve amounting to R388 million (net of taxation and non-controlling interests' share), Liberty reflects a normalised operating loss for the six-month period ended 30 June 2021 of R465 million compared to a normalised operating loss of R1 542 million for the comparative period.

The SIP generated a profit of R753 million for the current period, compared to a loss of R631 million reported for the six-month period ended 30 June 2020.

Liberty is accordingly reporting normalised headline earnings for the six-month period ended 30 June 2021 of R288 million, compared to a normalised headline loss of R2 173 million in the prior period. Normalised annual return on equity was positive 2,7% compared to negative 19,7% for the six-month period ended 30 June 2020.

Headline earnings for the period of R222 million, which includes a negative adjustment of R64 million (30 June 2020: negative R88 million) arising from the consolidation of the Liberty Two Degrees listed REIT, compares to a headline loss of R2 263 million for the six-month period ended 30 June 2020.

The normalised annual return on group equity value (RoGEV) was positive 5,8% compared to negative 18,9% in the prior period. The improvement in the RoGEV was largely attributable to the impact of better investment returns on the SIP earnings in the current period and the effect of higher than anticipated investment returns on the value of in-force business. In addition, the comparative period was more adversely impacted by the initial establishment of the pandemic reserve.

Group long-term insurance indexed new business of R4 281 million was 24,8% above the comparative period of R3 430 million. This improvement was underpinned by a 30,9% increase in SA Retail indexed new business supported by all major distribution channels.

The group value of new business (VoNB) increased to R46 million from R24 million in the comparative period. Improved overall sales volumes contributed positively, offset by increased acquisition expenses due to increased sales activities.

Group net external third party client cash inflows amounted to R10,3 billion compared to prior period inflows of R14,3 billion, supported mainly by STANLIB South Africa net external third party client cash inflows of R12,8 billion, which were below comparative period net inflows of R14,7 billion. Total group assets under management increased to R823 billion (31 December 2020: R776 billion) due mainly to the increase in STANLIB South Africa assets under management.

The strategically important bancassurance agreement with SBG is applicable across the group's operations. The total indexed new business premiums sold under the agreement increased by 40,0% compared to the prior period, largely due to increased credit life sales in South Africa.

Liberty and SBG have enjoyed a long-standing strategic relationship, with Standard Bank as a majority shareholder, as well as having a highly successful and valuable bancassurance arrangement in place. The proposed transaction is a natural progression in this special relationship, increasing our ability to collaborate to provide the best financial service offerings to our clients through the most effective means.

Dividend

Despite the group's strong capital position, the uncertainty that still exists regarding the ongoing spread of the COVID-19 virus in South Africa in the short term and its economic consequences resulted in the Board deciding to retain its prudent approach to support capital strength, and not to declare a dividend in respect of the six-month period ended 30 June 2021.

Prospects

We expect the South African macro environment to remain challenging for the remainder of the year, with consumers and businesses remaining under pressure. Notwithstanding economic headwinds, we remain committed to the execution of our strategy, which at its core is the delivery of an excellent client and adviser experience. 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 are committed to the simplification and transformation of our business to ensure its long-term competitiveness. We remain confident in our strategy to focus on our client and adviser experience, providing transparent, accessible digital risk and investment solutions, and an unremitting drive for simplicity. We will continue to live by our purpose and play a meaningful role in making our clients' financial freedom possible.

Should Liberty's non-controlling shareholders and the relevant regulatory authorities approve the proposed transaction with SBG, we anticipate the finalisation of all conditions precedent by the first quarter of 2022. We expect that the existing strong alignment of Standard Bank and Liberty's goals should allow for an accelerated and seamless integration of the businesses.

We would like to thank all members of the Liberty community for their extraordinary commitment, resilience and hard work, and our clients for their continued support.

Short form statement

This short form announcement is the responsibility of the directors. It is only a summary of the information contained in the full announcement and does not contain full or complete details. Any investment decision should be based on the full announcement accessible from Wednesday, 4 August 2021, via the JSE link and available on the Company's website at https://www.libertyholdings.co.za/investor/Pages/Results-and-Reports.aspx.

This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34. The full interim report is available on the issuer's website, at the issuer's registered offices and upon request.

Copies of the full announcement may also be requested by contacting Investor Relations by email at sharon.steyn@liberty.co.za and are available for inspection by appointment and observing the necessary COVID-19 restrictions, at the Company's registered office at no charge, weekdays during office hours.

The JSE link is as follows:
https://senspdf.jse.co.za/documents/2021/jse/isse/LBH/HY21RESULT.pdf

4 August 2021
Sponsor:
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