

Liberty Holdings Limited

Audited results





For the year ended 31 December 2010



LIBERTY

Own your life

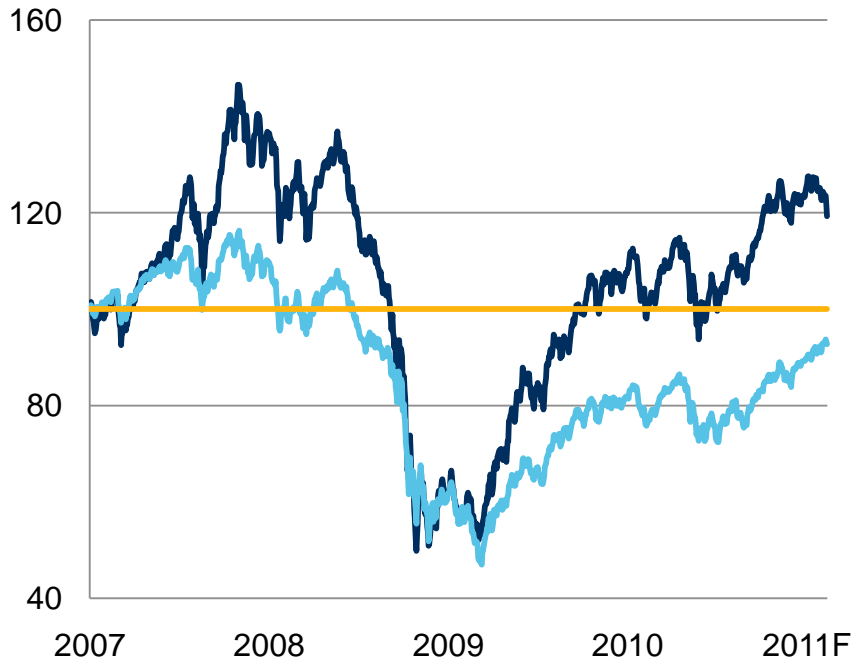
Agenda

-  Macro environment
-  Business review
-  Financial performance
-  Conclusion

■ Macro environment

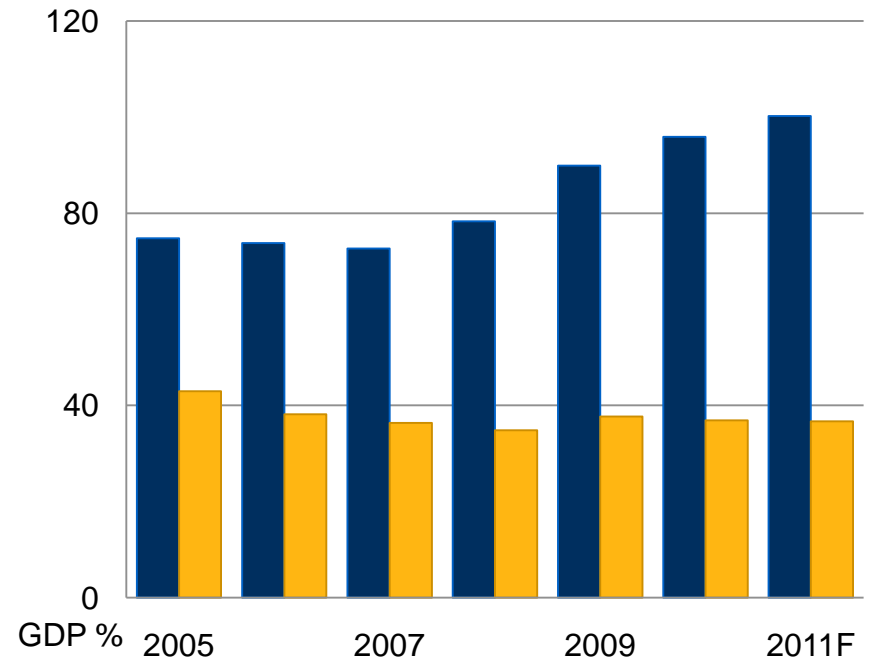
Global markets

Equity market performance



— Emerging markets — Developed markets

Government debt to GDP

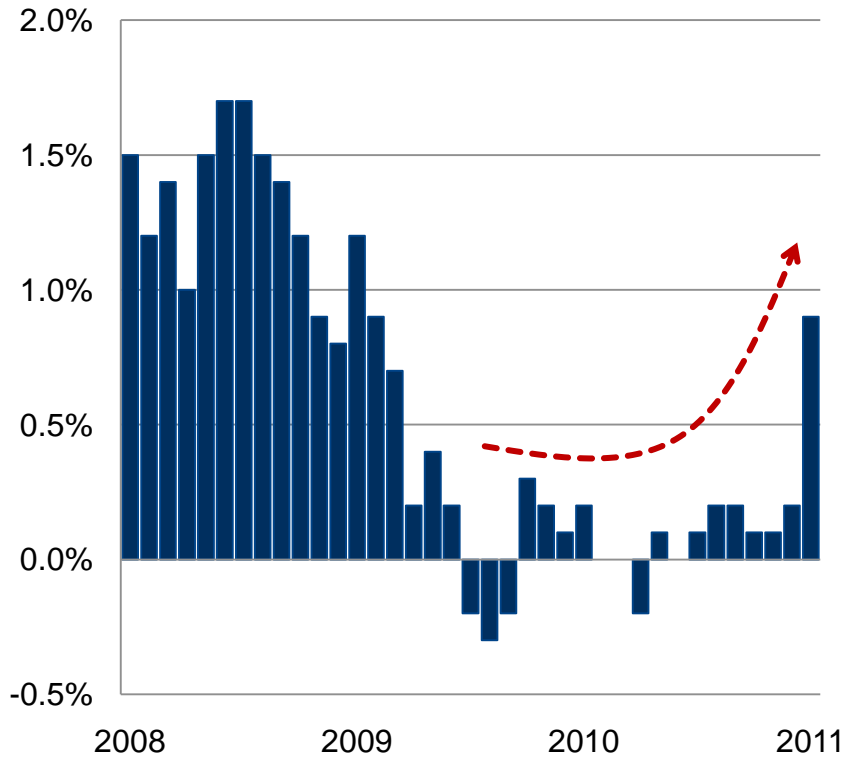


■ Developed economies ■ Emerging economies

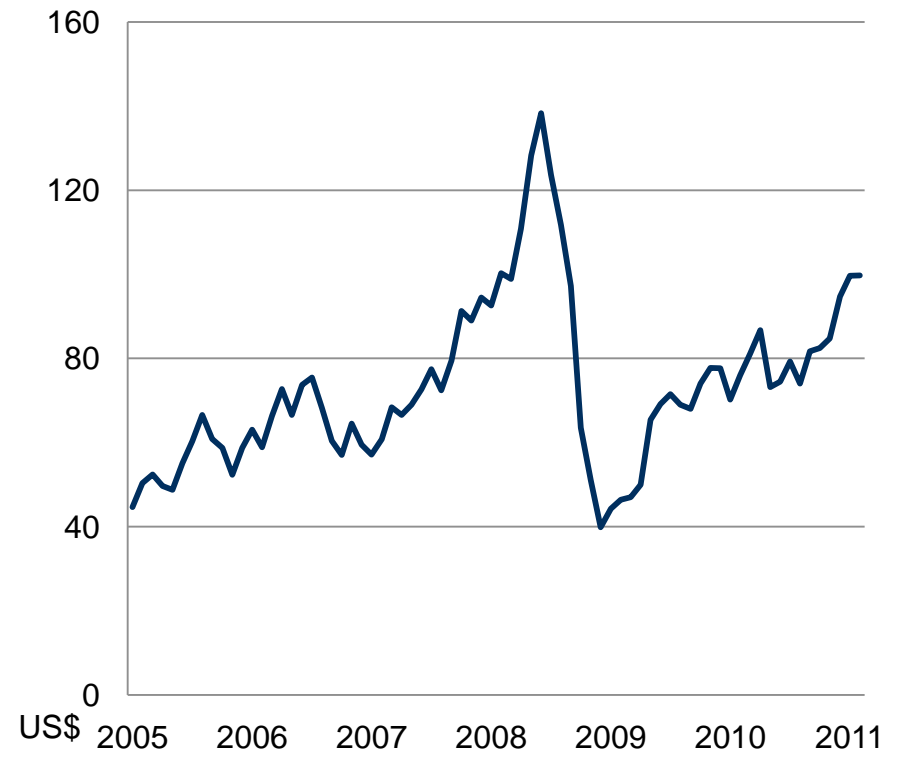
More stable but disparate global growth trends –
emerging markets fared better than developed economies in 2010

South African consumer – signs of inflationary pressures

SA food inflation



US\$ per barrel



SA's favourable inflation environment could deteriorate

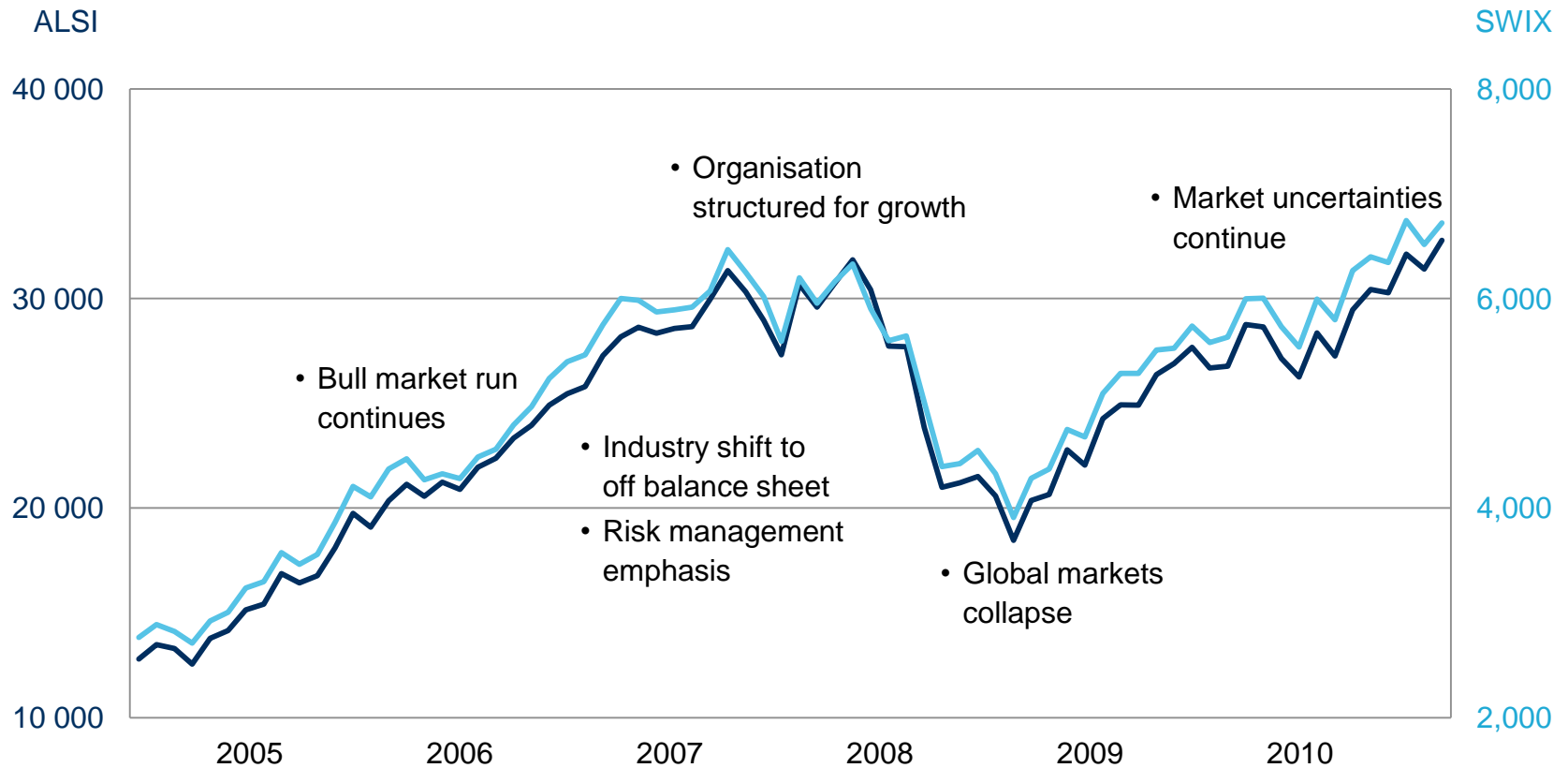
■ Business review



LIBERTY

Own your life

The past 5 years in context



①

- Commitment to growth through diversification

②

- Purchased 100% of STANLIB
- Established LibFin

③

- New Liberty Holdings – Health, Africa, strategic initiatives

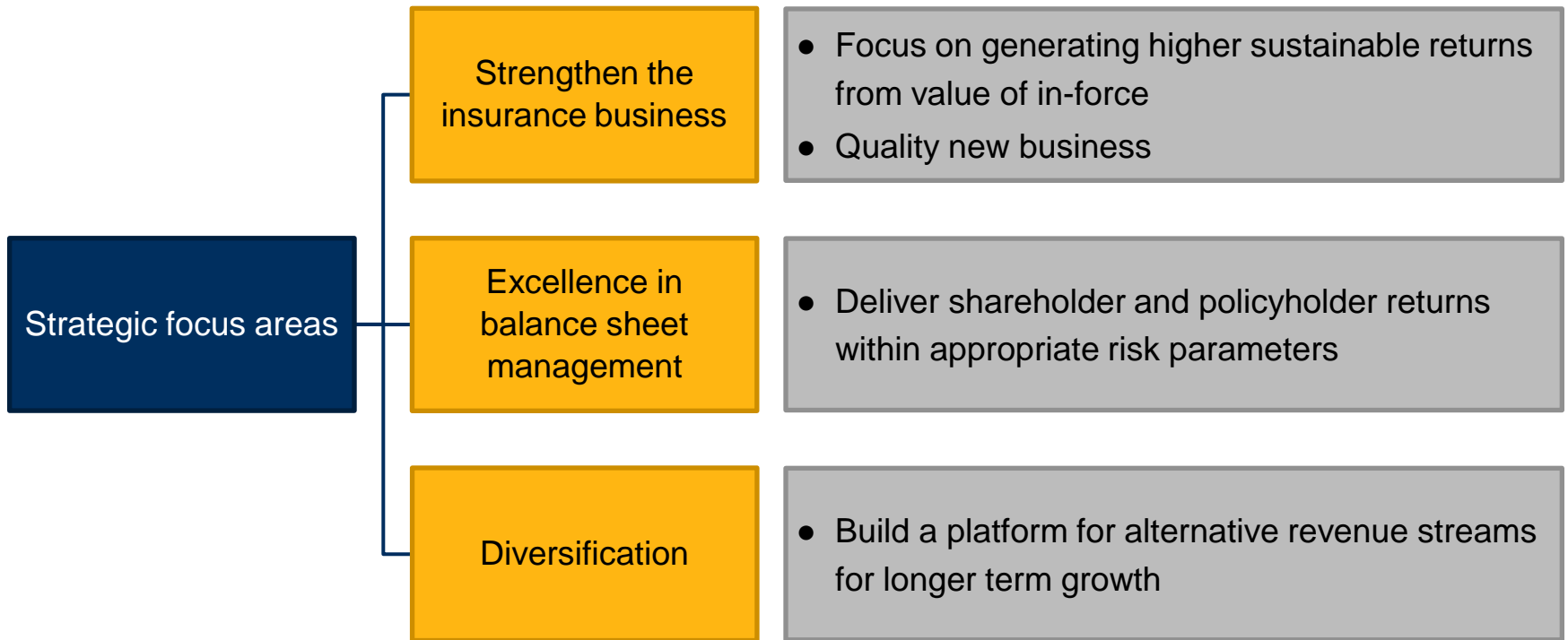
④

- Balance sheet de-risking
- Retention drive strengthened

⑤

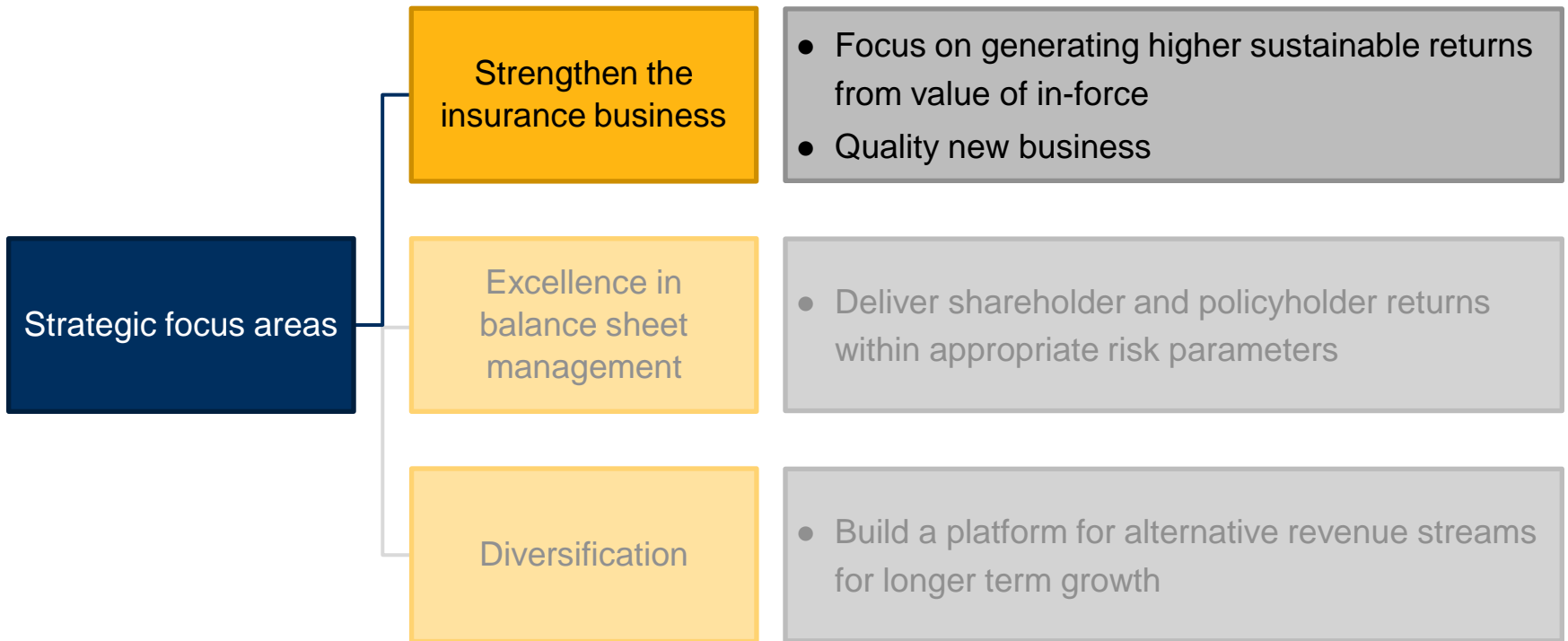
- Continue driving value through strategic focus areas

2010 Strategic focus areas



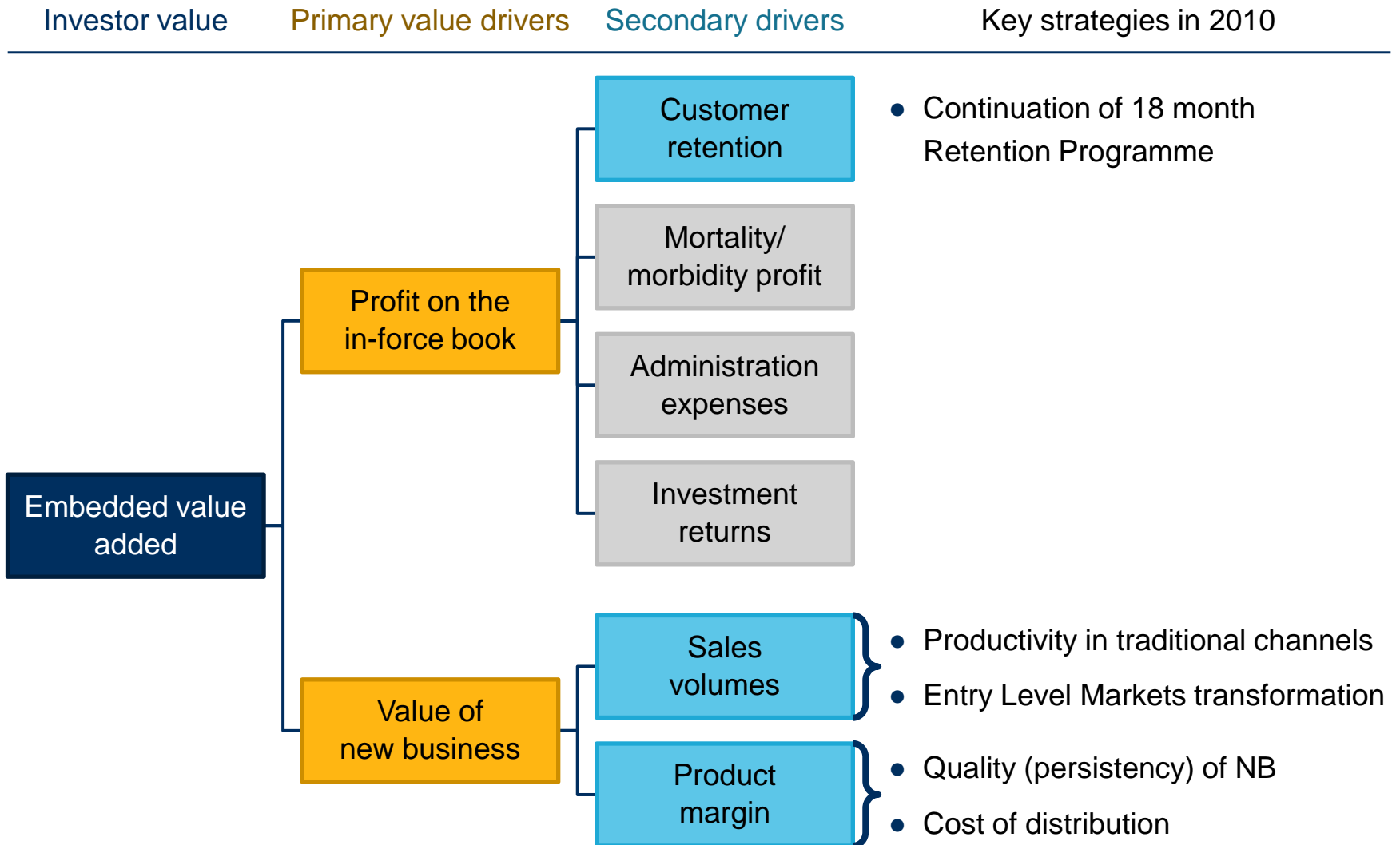
Three strategic focus areas driving value

Retail SA



Three strategic focus areas driving value

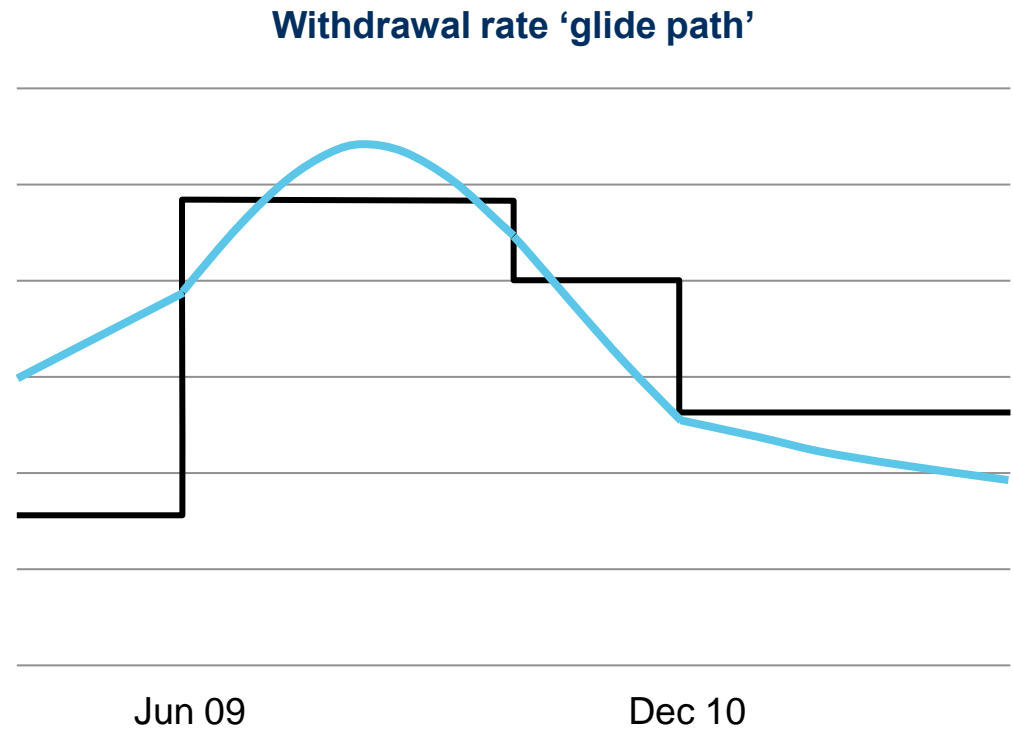
Retail SA – key strategies are aligned to shareholder value creation



Customer retention: where we have come from

June 2009 half year results

- Significant and broad based deterioration of policy withdrawal rates during 2008 and H1 2009
- The actuarial withdrawal assumptions were strengthened at a cost of R685m post tax in June 2009
- Indicated that further adjustments to lapse assumptions on major product lines in second half 2009 a possibility



Customer Management Programme launched, with an 18 month recovery plan

A holistic approach to customer retention

1.

Change management, resourcing and governance

2.

Product

3.

Distribution

4.

Servicing
and
operations

5.

Customer
affinity

6.

Defence

7.

Management information

Customer management programme delivering quality

Now	Future
Product flexibility increased New innovative products in pipeline	New product, service and business innovations
Customer defence practices implemented Saving 1 000 policies per month	Embedded in process
Customer insights and customer segmentation developed Direct campaigns piloted	Informed, targeted, tailored marketing Upsell and cross-sell
Re-investment in brand visibility increasing brand awareness	Brand affinity

Customer management programme delivering quality

Now	Future
Continual customer experience improvements	Segment specific customer experience
Leading management information systems developed	Reward value creation
Multi-faceted adviser proposition in implementation	Contract of choice
Innovative remuneration structures rewarding quality customer care	Superior quality advice and customer loyalty

Persistency initiatives building for tomorrow's opportunities

Entry level markets

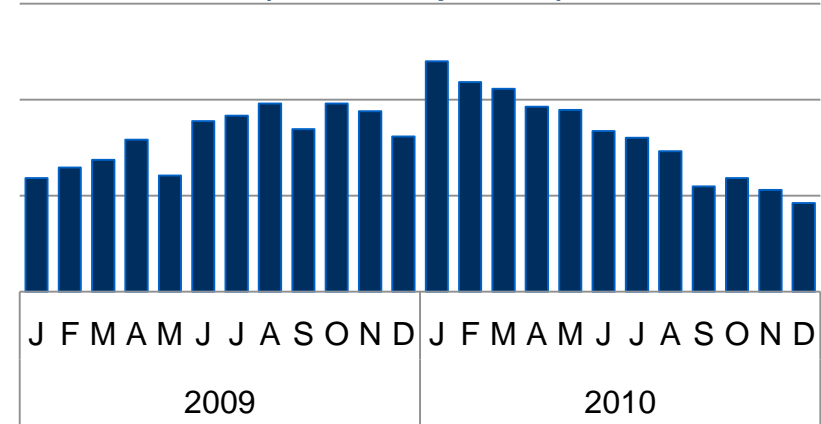
Action taken

- Restructuring of the tied sales force to reduce cost
- Closure of 60 unprofitable broker call centres
- New products and enhancements to existing offerings
- Withdrawal of loss-leading product lines
- A host of operational improvements

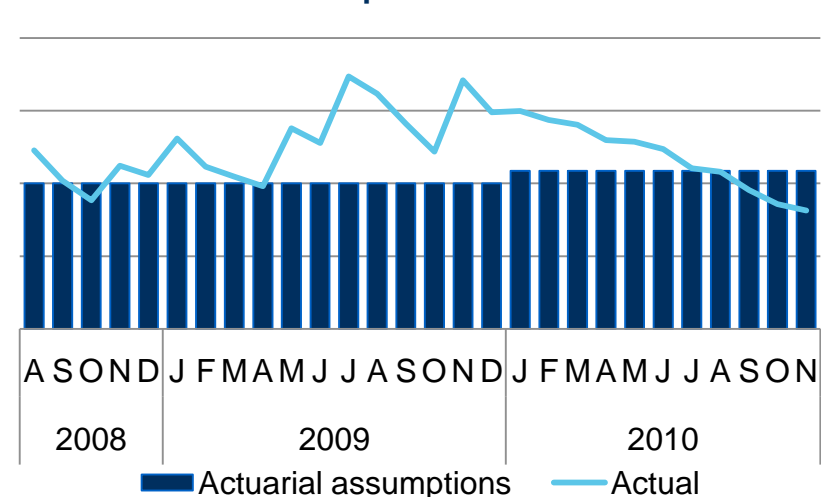
Positive impact

- Improved premium collection rates and policy lapse rates
- Increase in average premium size
- Significantly improved margins in H2 2010

ELM withdrawal
(number of policies)

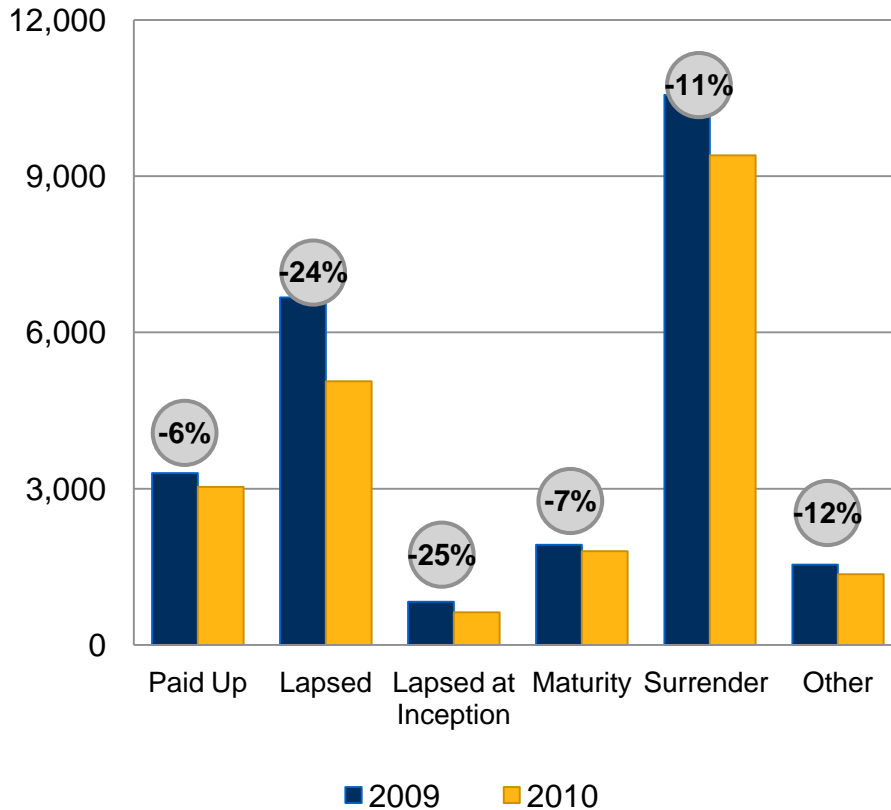


Lapse rates

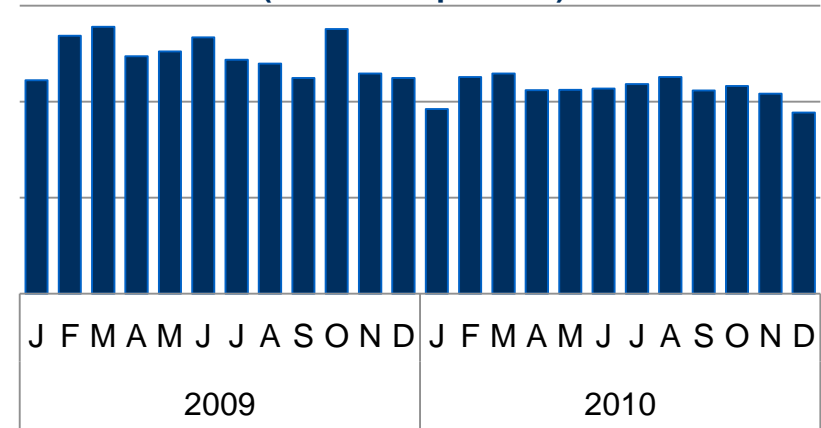


Customer management programme a success across the board

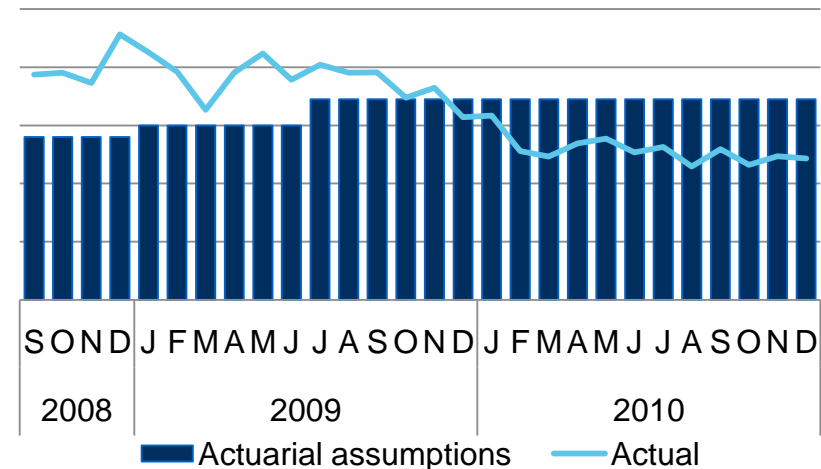
Type of policy withdrawal



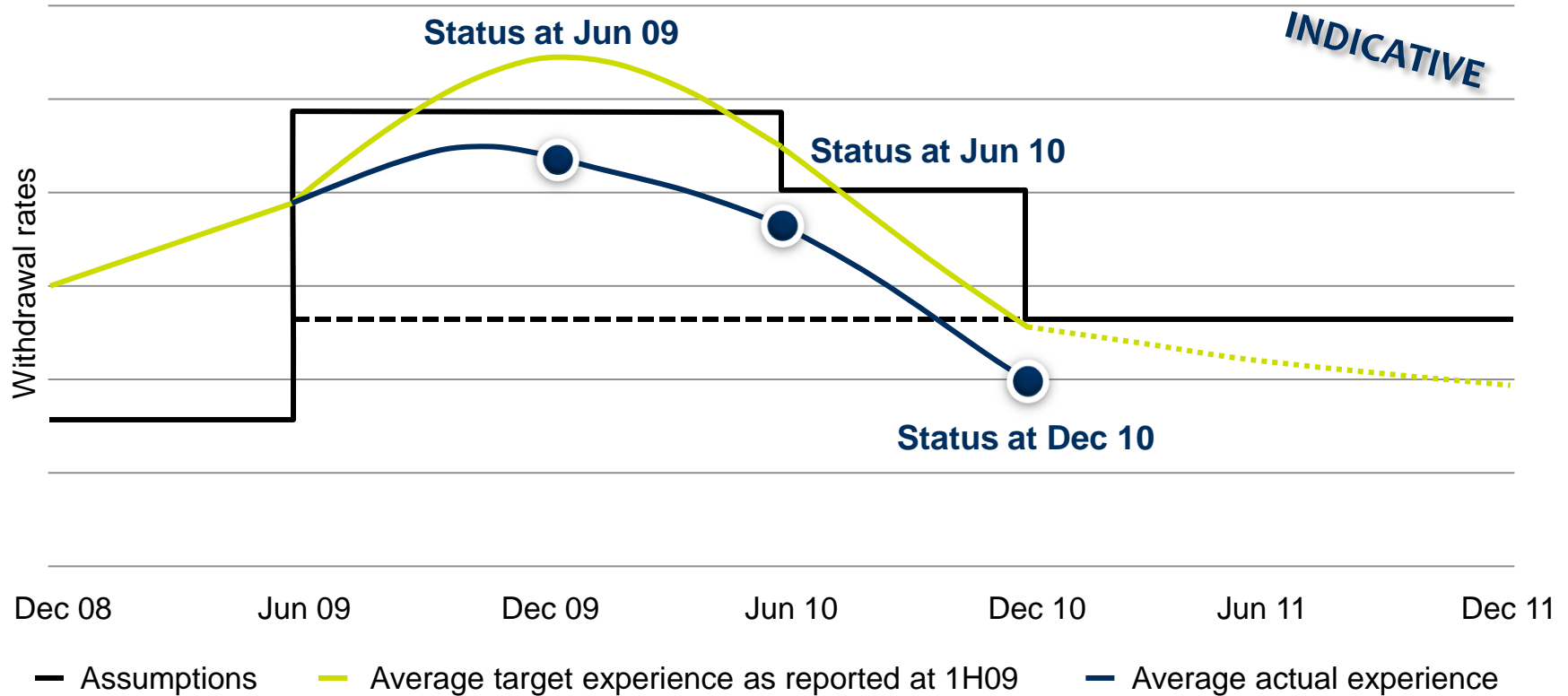
Complex business withdrawals (number of policies)



Risk business lapse rates



Customer management programme a success across the board



Mission accomplished, future opportunities clear

New business sales

Rm – indexed premium	2010	2009	% Δ
Retail SA Insurance new business	3 717	3 995	-7
STANLIB 'off balance sheet' sales	1 362	1 206	13
Total SA Insurance new business	5 079	5 201	-2

2010 focus was on sustainable quality business

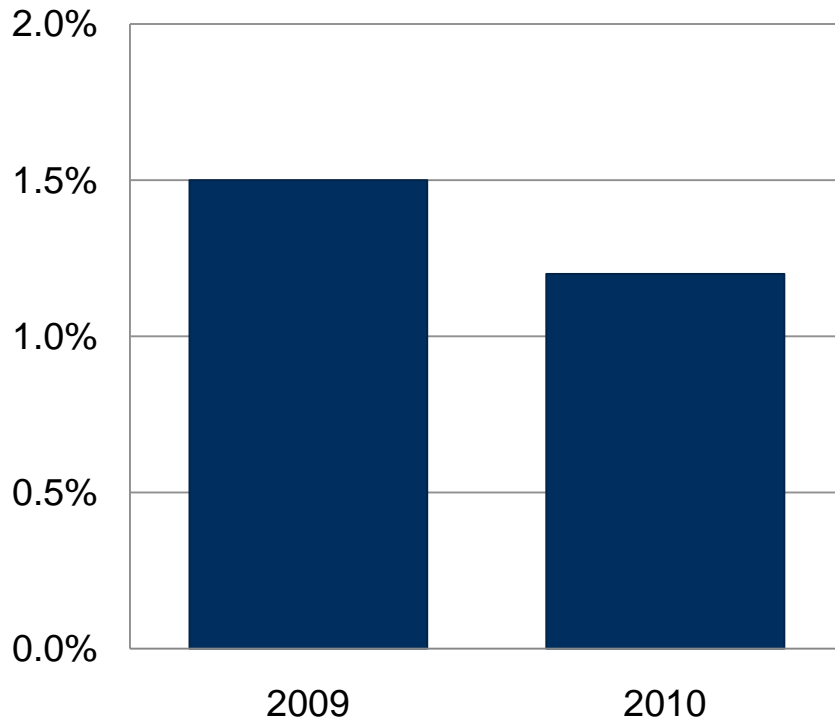
- Liberty terminated in excess of 1 000 unprofitable broker contracts
- Closure of unprofitable call centres in ELM
- Over 100 000 new business policies turned away

In addition sales impacted by

- Normalised credit volumes up 6% but impacted by tighter credit extension
- Limited capacity of GCBs resulted in almost R1bn loss in sales from 2009

Focus on quality of business; short term impact on sales

Embedded Value margin on new business



- Margin erosion in 2009 due to increase in long term persistency assumptions, as well as increased acquisition costs
- Despite significantly improved experience across all products, no improvement in withdrawal assumptions taken in 2010
- Variable cost improvement; fixed cost causing margin strain
- Some margin recovery expected by December 2011. Medium term target remains 2.5%

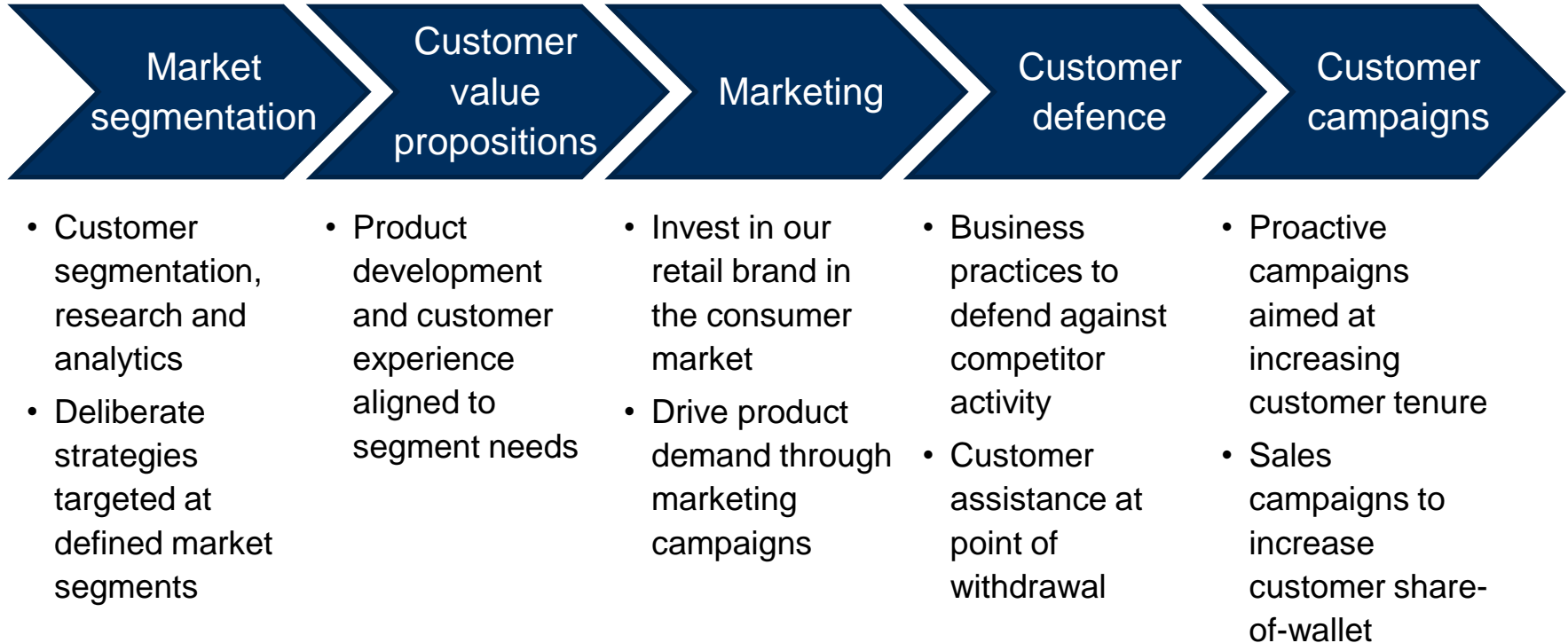
Management focused on margin uplift in the medium term

Looking forward – sales capacity and profitable growth



Liberty is implementing a market leading intermediary proposition to ensure growth of distribution capacity and quality of business

Looking forward – transition to a customer centric business



The retail business invested heavily in customer management capabilities

Retail SA – conclusion

- Customer retention turnaround a success
- Key focus areas
 - Sales capacity and productivity
 - Packaged product solutions
 - Segmented marketing

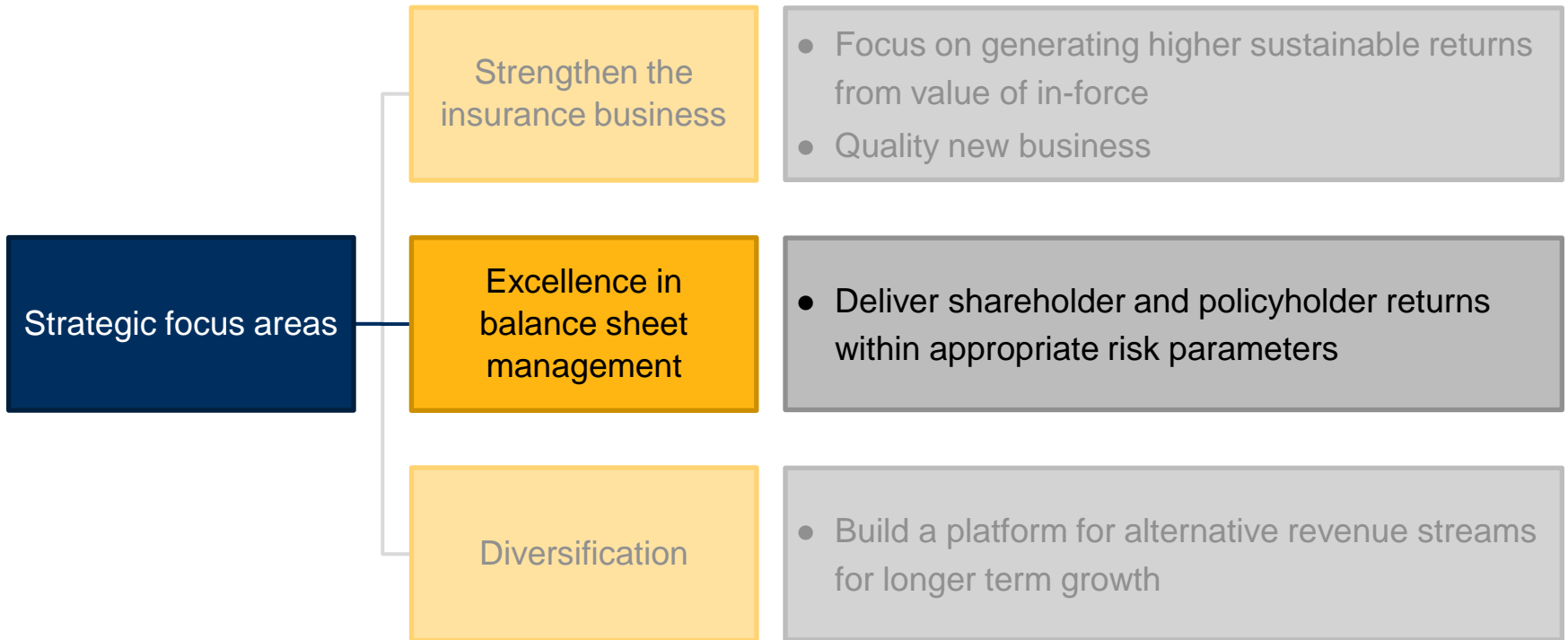
Future objectives clear

Liberty Corporate

- Strategic growth objectives into large fund market
- Appointment of Seelan Gobalsamy to lead the growth objectives
- Achievements in 2010
 - Total profits after tax improved
 - Indexed new business up by 41%
 - Improved client service and productivity metrics
 - A number of product innovations launched and product enhancements sold in excess of R122m

Excellent operational delivery

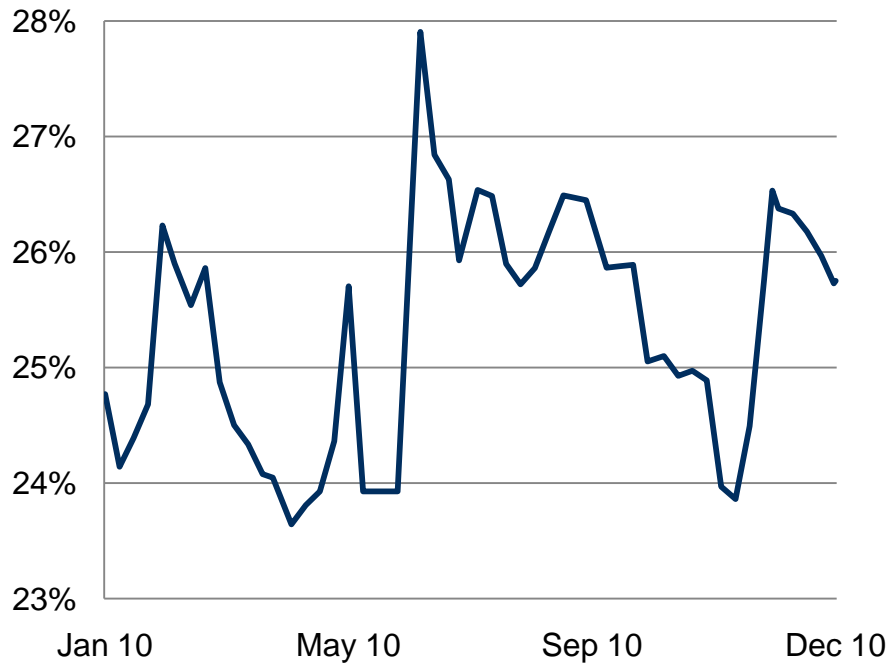
Strategic focus areas



Three strategic focus areas driving value

LibFin Markets

3 year ATM* spot vol in 2010



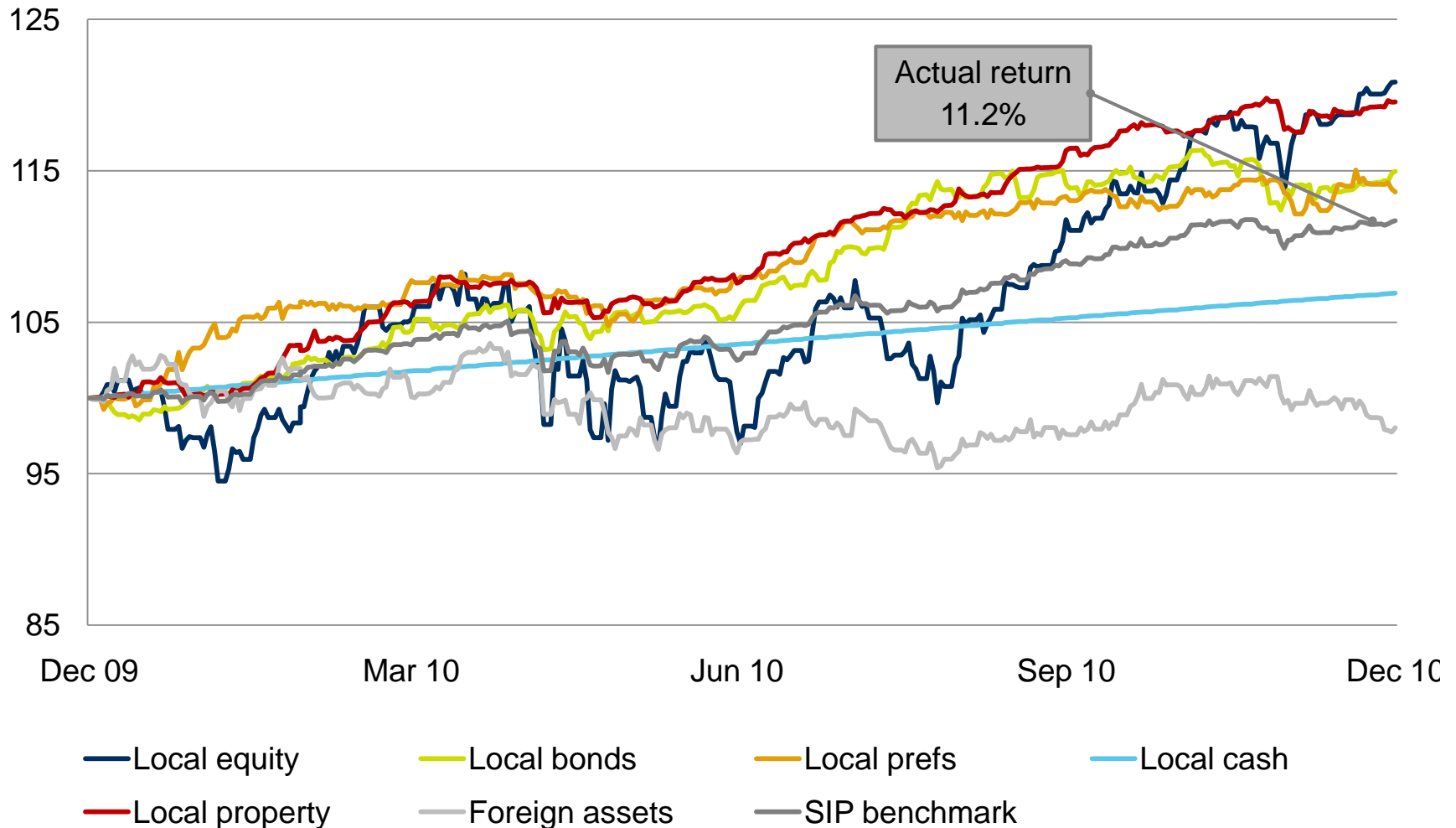
10 year swap rates (SA) in 2010



- Earnings volatility further reduced and capital utilisation remains at improved levels
- Infrastructure and operational projects resulted in more accurate risk analytics

Positive result despite rising volatilities and falling yields

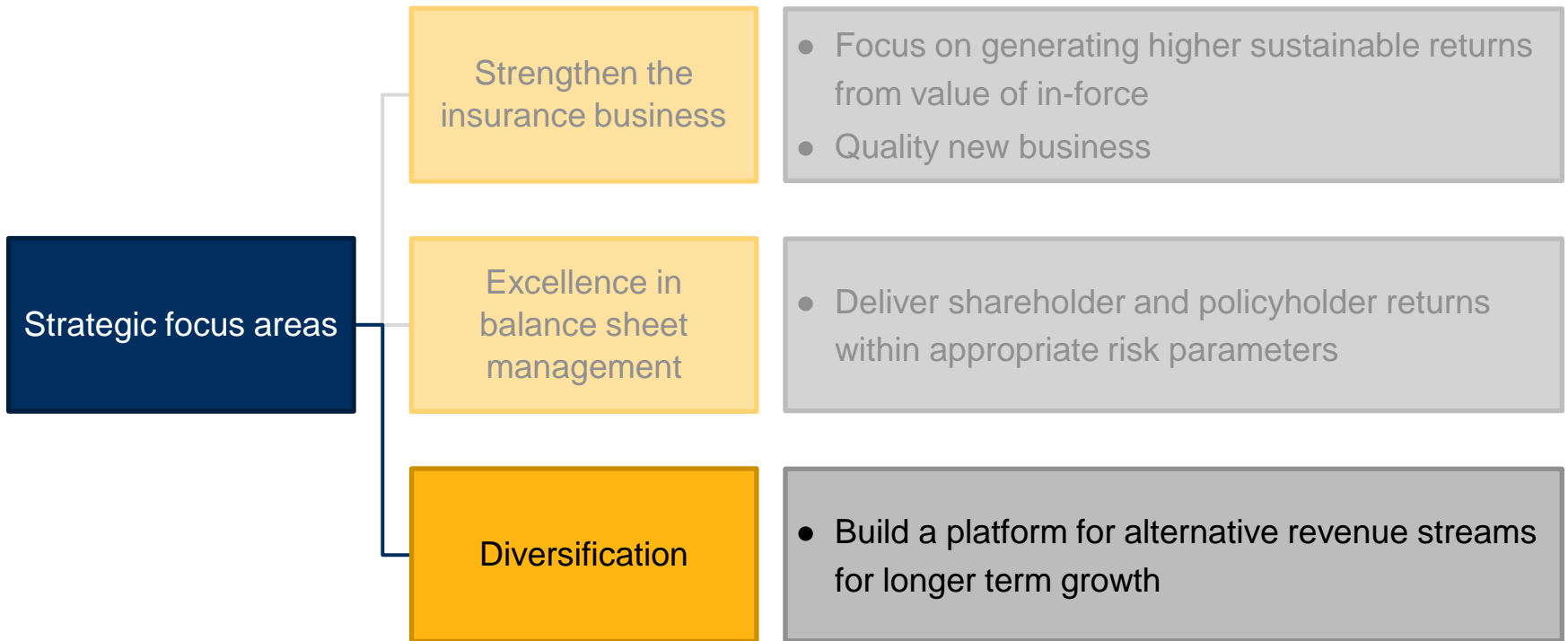
LibFin Investments – asset class performance benchmarks



Superior risk management
will provide multiple opportunities for the business

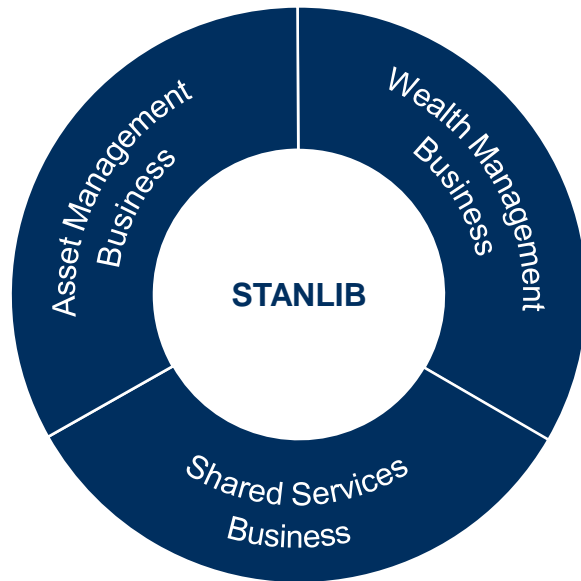
LibFin already demonstrating the role it will play
in Liberty's future market competitiveness

Strategic focus areas



Three strategic focus areas driving value

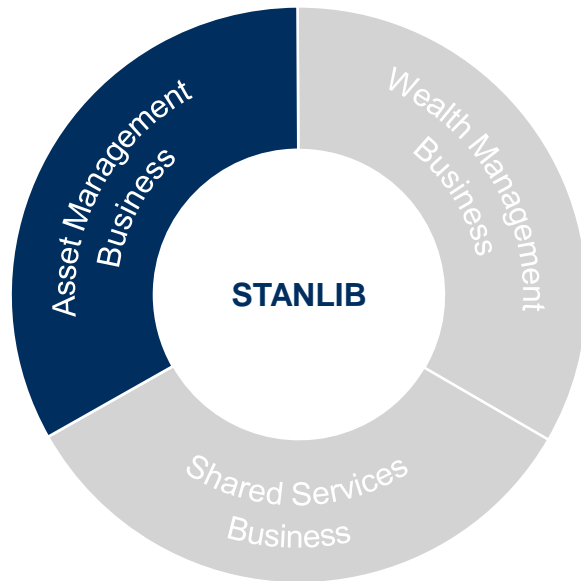
STANLIB



- Mandate to embed the multi-specialist approach as part of the transformation process which began in 2006
- Franchise model reviewed and enhanced

Commitment made to shareholders and investors to build leading asset manager in SA and other emerging markets that delivers on its investment promise to clients

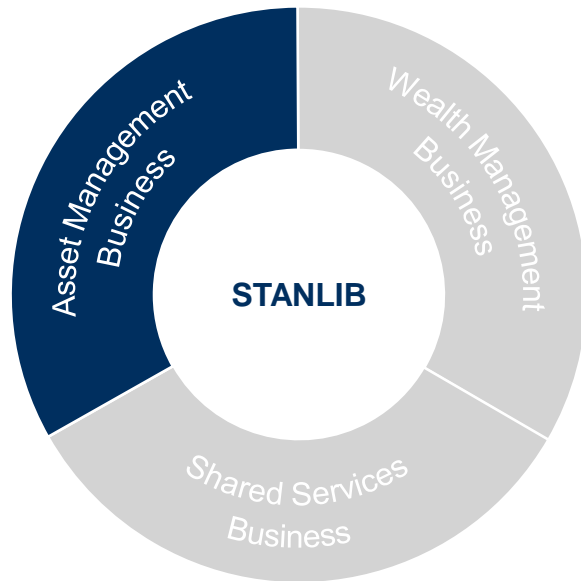
STANLIB



Asset management business

- Multi-specialist structure
- Each specialist team will have a unique investment philosophy aligned to unique skills
- Own investment process can be developed to deliver to client needs
- All underpinned by STANLIB-wide risk management processes and investment management disciplines

STANLIB

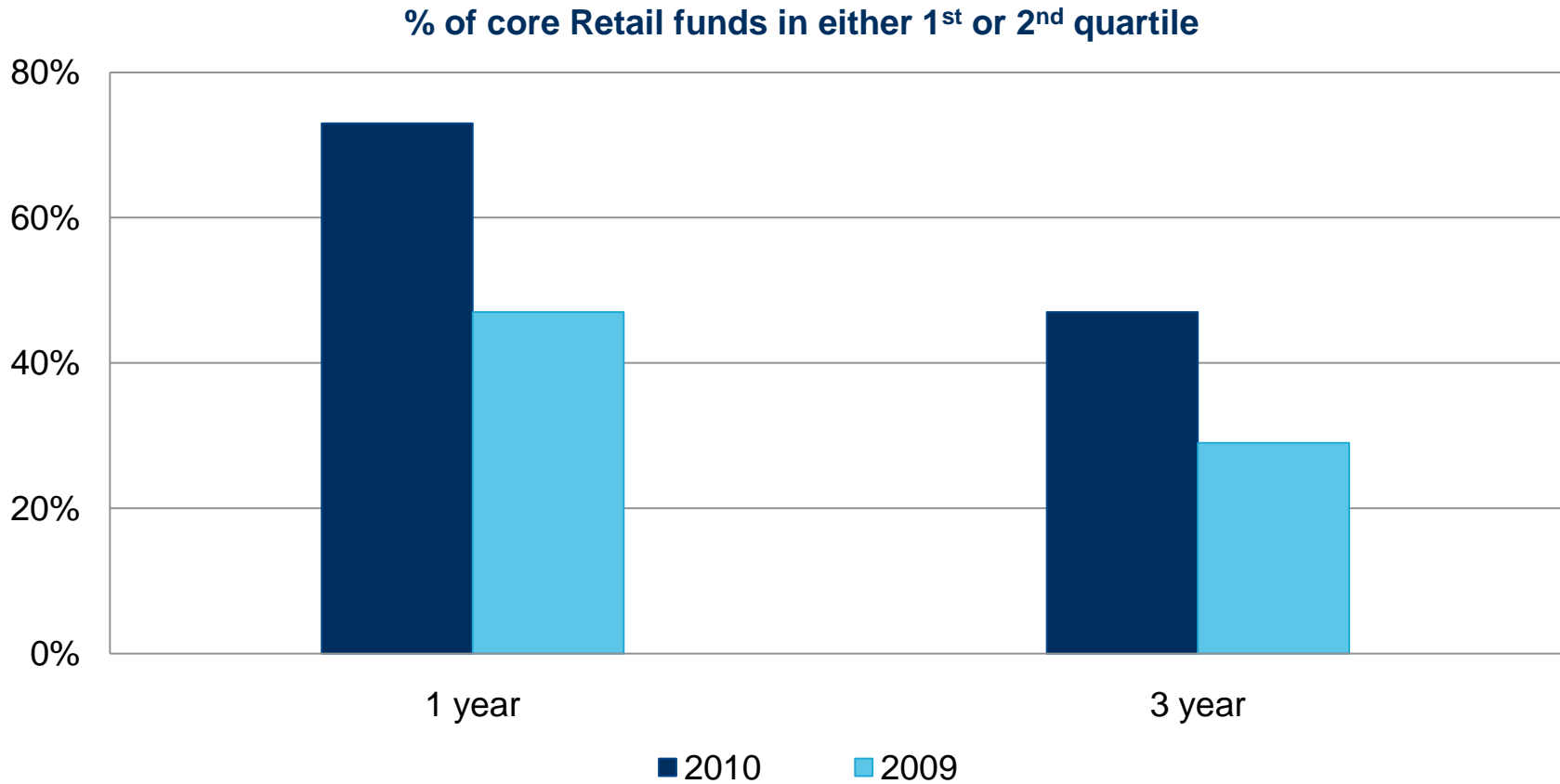


Asset management model – why will this succeed?

- Promotes autonomy, identity and participation
- Alignment of fund manager and customer interests
- Strength of diversity
 - Multiple capabilities to meet diverse client needs
- The power of focus
 - Each capability and area of expertise can benefit from the power to focus on their area of specialisation

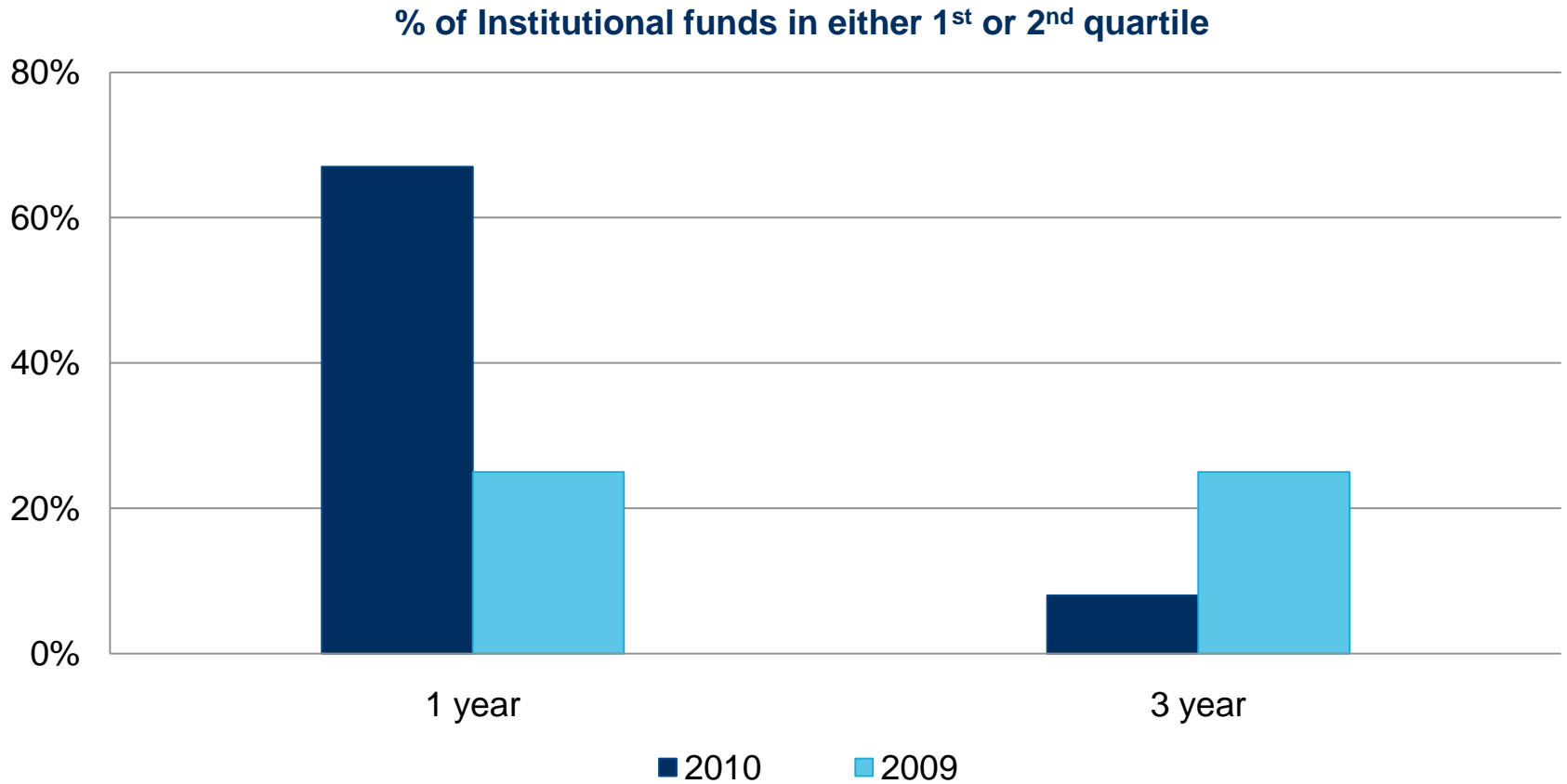
Greater alignment of client, staff and shareholder interests

STANLIB – investment performance: Retail



Short term investment performance significantly improved:
this needs to translate into long term performance

STANLIB – investment performance: Institutional



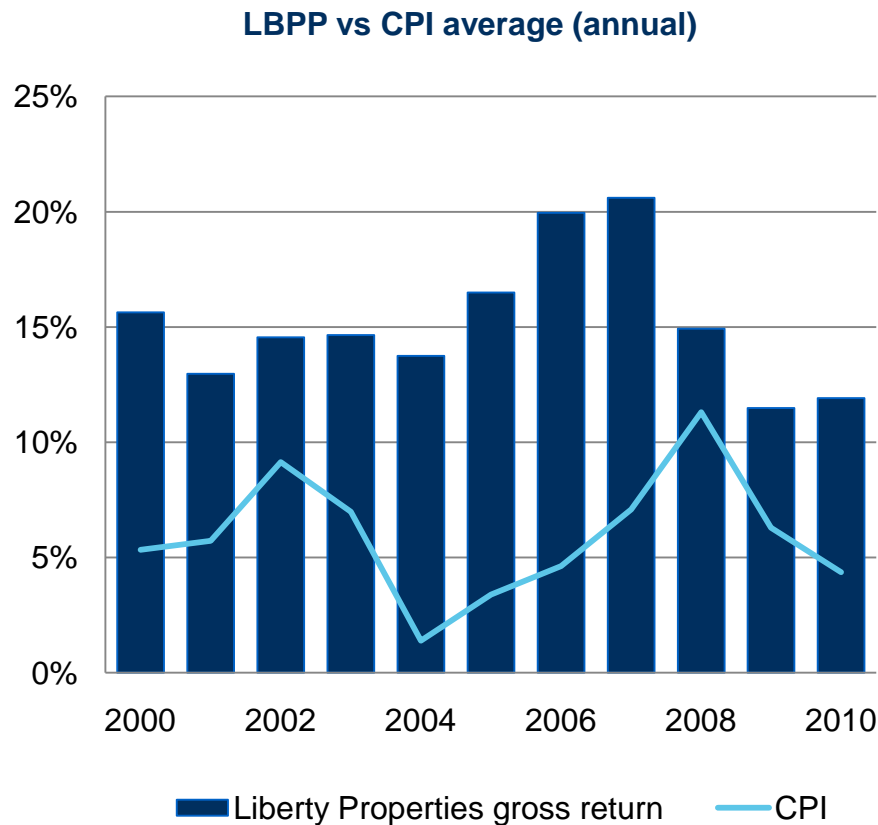
Short term investment performance significantly improved:
this needs to translate into long term performance

STANLIB – financial performance

- Headline earnings flat on 2009
- Positive net cash flows of almost R16bn (excluding inter-group flows)
- Money Market funds attracted R20bn in net flows
- Listed Property and Income funds attracted approximately R3bn in net cash flows more than offsetting revenues lost in the equity and balanced space

STANLIB delivered on 2010 objectives; on track to build 3rd party business

Liberty Properties



- Net income growth of 16%
- Headline earnings growth of 19%
- Investment returns above industry benchmark for direct property
- 27 years of double digit, long term inflation beating returns
- Major projects on track: Sandton, Eastgate, Umhlanga, PMB, Mitchell's Plain
- African footprint: developing Lusaka's first fully enclosed multi-purpose complex. first asset management mandate secured in Botswana

Consistently good performance

Africa, Health

Africa

- Future focus on institutional business accessed via Standard Bank
- Presence in 12 African countries across all business lines
- Finalising CfCIH acquisition; STANLIB Namibia and SIMS Botswana acquisitions completed; United Funeral Insurance integrated into Liberty Life Namibia

Health

- Continues membership growth in Africa
- Revenue growth offset by cost of capacity build and membership attrition in SA
- Strategic rationale remains sound

Frank.net; bancassurance

Frank.net

- Direct offering to target untapped channel and markets launched in late 2010
- Technology infrastructure has potential to enable exploitation of white label and affinity products

Bancassurance

- Standard Bank partnership core to diversification strategy
- Bancassurance contract extended in respect of geographic, channel and product expansion
 - Now covers insurance, health, corporate, asset management
 - SA and Africa

Financial highlights

- Persistency tracking well within assumptions
 - Reserving has been adequate and the EV loss of FY09 now recovered
 - No major assumption changes on any products
- BEE normalised earnings almost R2.6bn – close to 2006-2007 levels
- EV per share at R91.01, up from R84.32 in prior year
- Group new business margin improvement at 1.2% from 1.1% at 1H10
- Total group assets under management R409bn, up 13%
- Strong group net cash flows of R22bn boosted by money markets and improved outflows from the life business
- LGL capital adequacy level strong at 2.67 times cover
- Cash distribution in the form of a dividend maintained at 455 cents per share

■ Financial performance

Group financial summary – full year

Rm (<i>unless stated otherwise</i>)	Dec 10	Dec 09	% Δ
BEE normalised headline earnings	2 597	135	>100
BEE normalised Group Embedded Value per share (R)	91.01	84.32	8
Embedded Value of new business	261	301	-13
Indexed new business	4 327	4 412	-2
Net customer cash flows	21 906	4 022	>100
LGL CAR cover (times covered)	2.67	2.81	-5
Cash distribution (cents per share)	455	455	-
BEE normalised RoEV (%)	13.4	(6.5)	>100
BEE normalised RoE (%)	21.2	1.1	>100

Group financial summary – second half

Rm	2H10	2H09	% Δ
LibFin	1 085	1 149	-6
Retail SA	427	159	>100
Other	78	34	>100
BEE normalised headline earnings	1 590	1 342	18
Embedded Value of new business	146	179	-18
Indexed new business	2 192	2 301	-5
Net customer cash flows	10 438	5 438	92

Business unit BEE normalised headline earnings

Rm (<i>unless stated otherwise</i>)	2H10	1H10	Dec 10	Dec 09	% Δ
Retail SA	427	472	899	(82)	>100
Corporate	38	65	103	(29)	>100
LibFin Investments	1 010	164	1 174	(305)	>100
LibFin Markets	75	194	269	297	-9
STANLIB	197	164	361	362	0
Liberty Properties	53	43	96	80	20
Liberty Africa	8	2	10	29	-66
Liberty Health	(32)	(11)	(43)	(47)	9
Frank Financial Services	(30)	(14)	(44)	(11)	(>100)
Centre	(156)	(72)	(228)	(159)	-43
BEE normalised headline earnings	1 590	1 007	2 597	135	>100
BEE normalised headline earnings per share (cents)			907.6	47.2	>100

Changes in key assumptions

- Risk discount rate decreased 103 bps to 11.07%
(2009: 12.10%)
- Strengthening of mortality assumptions on certain books at older ages
(-R192m earnings and -R152m VIF impact)
- Strengthening of expense assumptions
(-R66m earnings and -R304m VIF impact)
- No material persistency assumption changes

BEE normalised Group Embedded Value profit

Rm	Return on		Return on	
	Dec 10	GEV %	Dec 09	GEV %
LGL Embedded Value				
Expected return on the VIF	1 619	6.7	1 418	5.2
Investment variances and economic assumption changes	290	1.2	(1 576)	-5.8
Return on net worth	347	1.4	253	0.9
Operating variances, modelling and assumption changes	44	0.2	(2 195)	-8.0
Share option allowance	(28)	-0.1	(43)	-0.2
Value of new business	252	1.1	301	1.1
Total LGL Embedded Value	2 524	10.5	(1 842)	-6.8
Other businesses	699	2.9	65	0.3
Liberty Africa	6	0.0		
Capitalised value of non-life subsidiaries	70	0.3		
Non-life subsidiary earnings and other	623	2.6	65	0.3
Group Embedded Value profit	3 223	13.4	(1 777)	-6.5

Retail SA Insurance – headline earnings

Rm	Dec 10	Dec 09	% Δ
Expected profit	1 508	1 386	9
Variances and assumption changes	(265)	(1 421)	81
Premium escalations	355	356	-
Credit life	147	144	2
New business strain	(462)	(522)	-11
Non-recurring expenses and other	(78)	(3)	(>100)
Tax	(306)	(22)	(>100)
Headline earnings	899	(82)	>100

Retail SA Insurance – key performance measures

Rm (<i>unless stated otherwise</i>)	2H10	1H10	Dec 10	Dec 09	% Δ	
Gross sales	6 624	6 048	12 672	13 660	-7	
Indexed new business	1 860	1 857	3 717	3 995	-7	
Net customer cash flows	572	418	990	2 764	-64	
Embedded Value of new business ¹	124	105	229	288	-20	
Embedded Value new business margin (%)	1.3	1.3	1.3	1.5	-13	
			Dec 10	Dec 09	% Δ	
Margin at beginning of the year				1.5	3.0	-52
Impact of economic changes				0.3	-1.0	>100
Impact of persistency				-	-1.2	100
Impact of lower sales volumes on acquisition overheads				-0.6	-	
Other				0.1	0.7	-86
Margin at end of the period				1.3	1.5	-13

1. Net of cost of capital

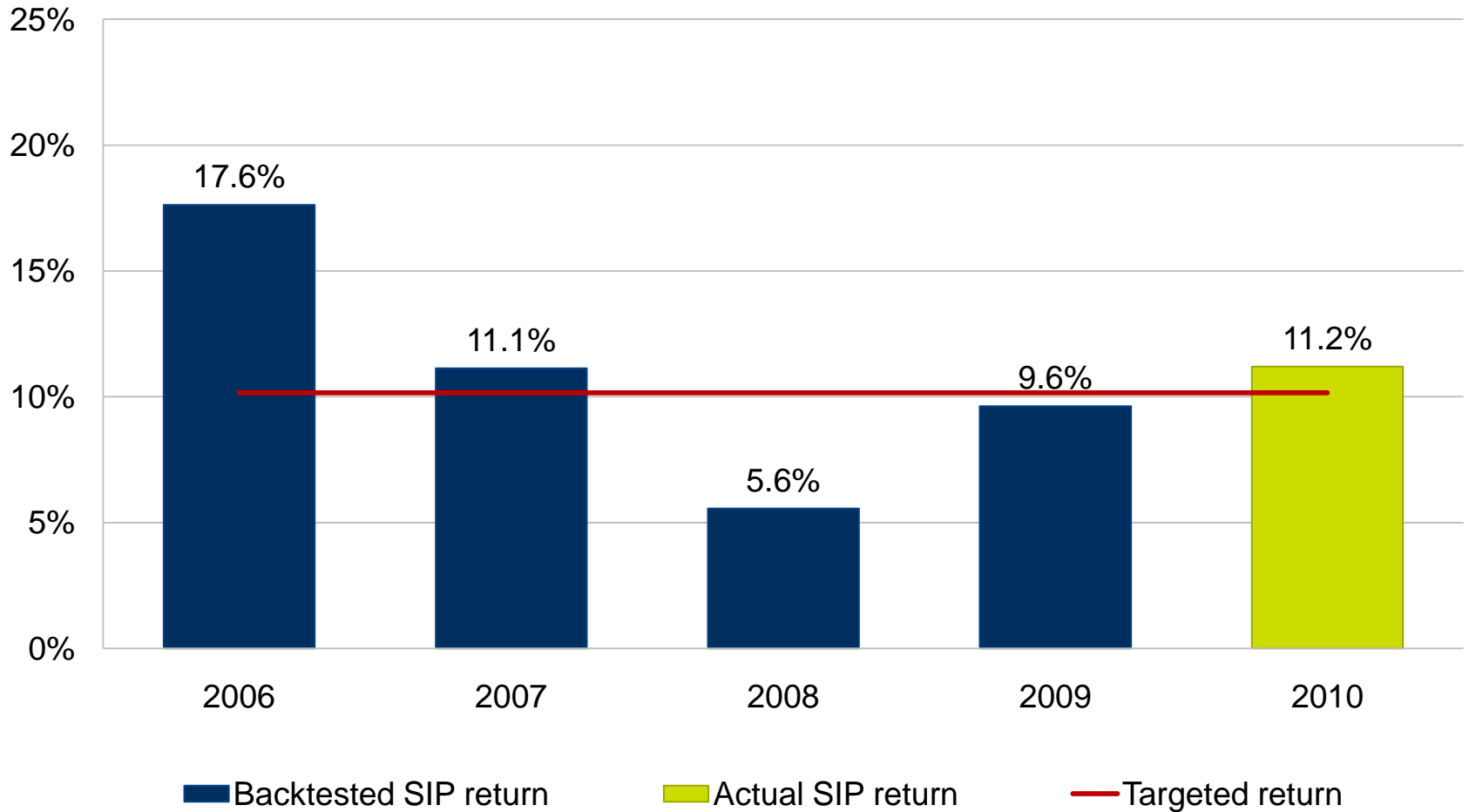
LibFin – headline earnings

Rm – net of tax	2H10	1H10	Dec 10	Dec 09	% Δ
LibFin					
LibFin Investments	1 010	164	1 174	214	>100
LibFin Markets	75	194	269	297	-9
Equity de-risking				(519)	100
Total	1 085	358	1 443	(8)	>100

LibFin – Shareholders' Investment Portfolio

Rm	Dec 10	%	Dec 09	%
Local equities	3 952	23	3 498	21
Local bonds	4 053	23	4 297	26
Local cash	3 445	20	4 490	27
Local preference shares	1 617	9	1 460	9
Local property	1 654	10	116	1
Foreign assets	2 606	15	2 651	16
Total	17 327	100	16 512	100
Assets backing capital	9 043		9 345	
Assets backing life funds	4 457		2 987	
90:10 exposure	3 827		4 180	

LibFin – illustrative return on notional Shareholders' Investment Portfolio*



* Before tax

Liberty Corporate – headline earnings

Rm	Dec 10	Dec 09	% Δ
Gross contribution	789	825	-4
Underwriting margin	357	354	1
Fee income	371	338	10
Pension businesses and other income	61	133	-54
Expenses	(577)	(612)	6
Amortisation of previously acquired business	(52)	(68)	24
Pre-tax operating profit	160	145	10
Taxation	(51)	(49)	-4
Fund termination projects	(6)	(125)	95
Headline earnings	103	(29)	>100

Liberty Corporate – key performance measures

Rm (<i>unless stated otherwise</i>)	2H10	1H10	Dec 10	Dec 09	% Δ
Gross sales	812	676	1 488	1 467	1
Indexed new business	295	247	542	385	41
Net customer cash flows	(775)	(742)	(1 517)	(1 776)	15
Embedded Value of new business	15	1	16	14	14
Embedded Value new business margin (%)	0.5	0.1	0.4	0.3	33

STANLIB – headline earnings

Rm (<i>unless stated otherwise</i>)	Dec 10	Dec 09	% Δ
Net fee income	1 072	1 022	5
Operating expenses	(602)	(552)	-9
Profit before investment income	470	470	0
Other income	29	48	-40
Preference dividends	(2)	(16)	88
Pre-tax profit	497	502	-1
Taxation	(137)	(149)	8
Headline earnings	360	353	2
Attributable to Liberty	361	362	-
Headline earnings	360	353	2
Preference shares	1	9	-89
Cost to income ratio (%)	54.7	51.6	-6

STANLIB – key performance measures

Rm – net client cash flows	2H10	1H10	Dec 10	Dec 09	% Δ
Retail	8 025	2 723	10 748	10 306	4
Collective investments	3 590	324	3 914	4 268	-8
LISP	781	991	1 772	757	>100
Multi-manager	408	(186)	222	607	-63
Money Market	3 246	1 594	4 840	4 674	4
Institutional	1 224	3 727	4 951	(11 878)	>100
Segregated funds	(4 236)	(7 546)	(11 782)	(18 522)	36
Multi-manager	880	1 563	2 443	546	>100
Money Market	4 580	9 710	14 290	6 098	>100
Total before inter-group flows	9 249	6 450	15 699	(1 572)	>100
Liberty inter-group	5 035	(9 919)	(4 884)	(7 626)	36
Total net cash flows	14 284	(3 469)	10 815	(9 198)	>100

STANLIB – key performance measures

Rm – AUM and FUA <i>(unless stated otherwise)</i>	Dec 10	Dec 09	% Δ
Retail	146 618	125 844	17
Institutional	86 076	75 360	14
Liberty inter-group	122 478	116 633	5
Total	355 172	317 837	12
Average AUM	331 214	300 024	10
Average margin (%)	0.31	0.32	-3
Movement	37 335	18 921	97
Net cash flows	10 815	(9 198)	>100
Market movement	26 520	28 119	-6

Liberty Properties – headline earnings

Rm	Dec 10	Dec 09	% Δ
Gross profit	243	209	16
Property management	127	117	9
Asset and hotel management	39	30	30
Property development	77	62	24
Investment and other income	5	7	-29
Operating expenses	(129)	(115)	-12
Pre-tax operating profit	119	101	18
Taxation	(33)	(29)	-14
Headline earnings	86	72	19
Fountainhead	10	8	25
Total headline earnings	96	80	20

Liberty Africa – headline earnings

Rm	Dec 10	Dec 09	% Δ
Attributable to Liberty¹	10	29	-66
Insurance operations	9	36	-75
Asset management	16	15	7
Health	1	1	0
Head office expenses	(16)	(23)	30

1. Dec 2010 includes the bancassurance profit share relating to Liberty Africa of R15m which previously was paid out of Retail SA

Liberty Africa – key performance measures

Rm	2H10	1H10	Dec 10	Dec 09	% Δ
Asset management					
Net cash flows	1 197	5 283	6 480	4 327	50
Assets under management			29 005	22 347	30
Insurance operations					
Indexed new business	37	31	68	32	>100
Net cash flows	204	55	259	77	>100

Liberty Health – headline earnings

Rm	Dec 10	Dec 09	% Δ
Revenue	504	390	29
Operating expenses	(520)	(452)	-15
Net operating loss	(16)	(62)	74
Amortisation and depreciation	(38)	(50)	24
Finance costs	(49)	(50)	2
Loss before taxation	(103)	(162)	36
Taxation	3	51	94
Headline loss	(100)	(111)	10
Attributable to Liberty	(43)	(47)	9
Headline loss	(75)	(65)	-15
Interest on funding loans	32	18	78
Non headline impairments (goodwill and customer contracts) attributable to Liberty	(96)		

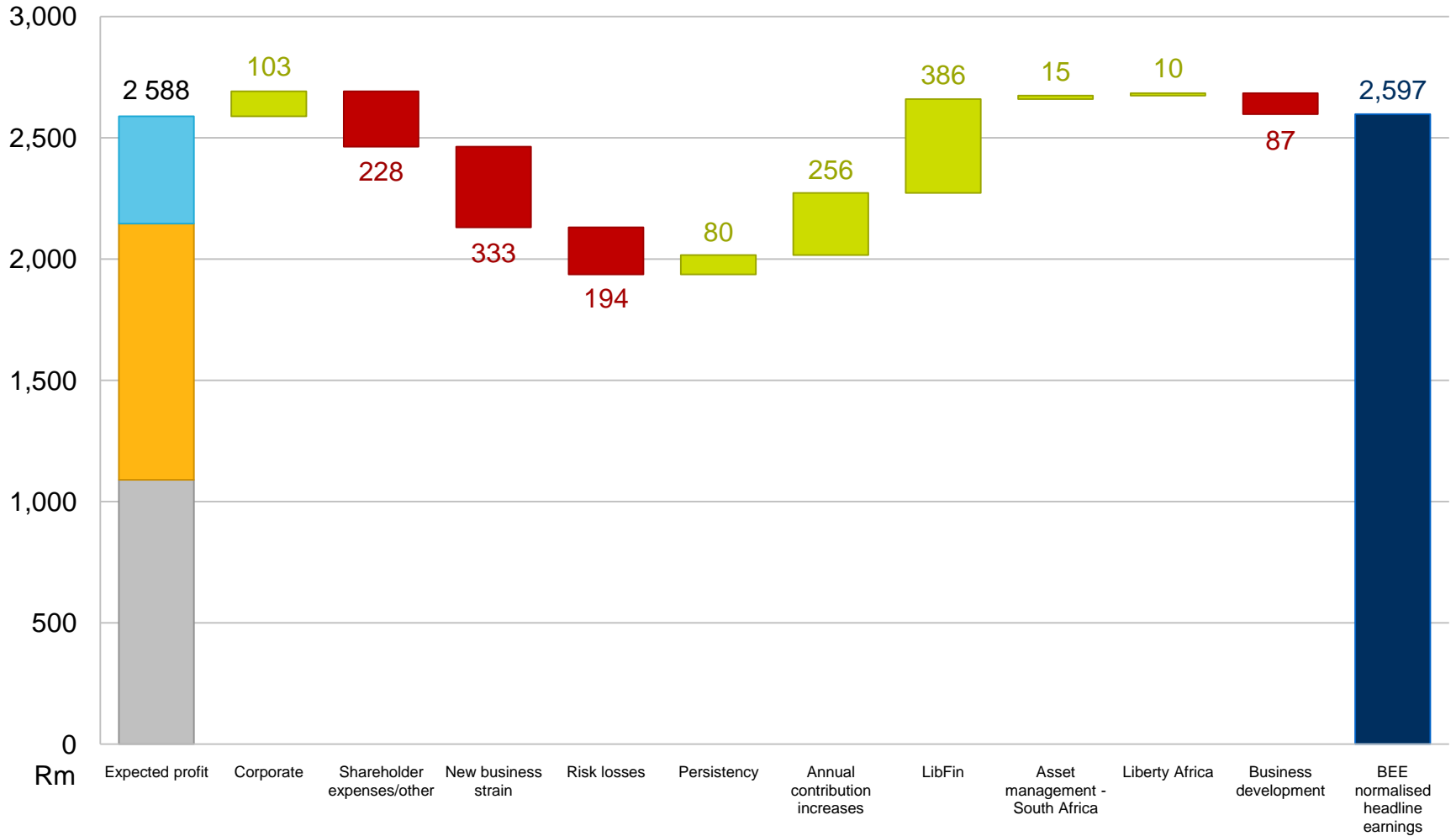
Liberty Health – key performance measures

Thousands	Movements in period			Dec 09	% Δ
	2H10	1H10	Dec 10		
Administration lives	(33)	101	528	460	15
South Africa	(42)	74	257	225	14
Africa	9	27	271	235	15
IT lives	(16)	238	1 085	863	26
South Africa	(35)	140	646	541	19
Africa	19	98	439	322	36
Risk lives – Africa	7	9	33	17	94

Centre

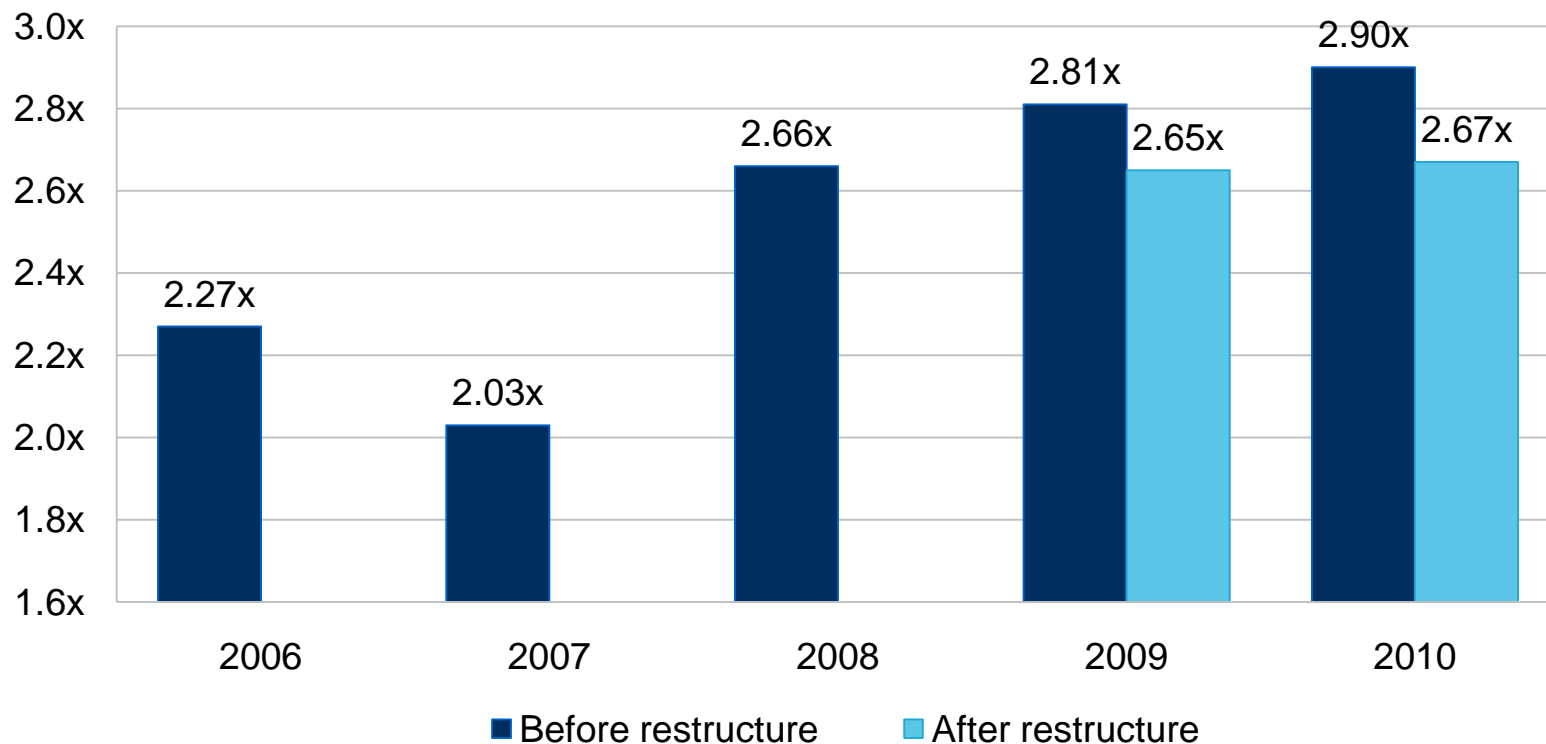
Rm	Dec 10	Dec 09	% Δ
Shareholder expenses and sundry income	(303)	(199)	-52
STC		(53)	100
BEE preference shares income	75	93	-19
Total	(228)	(159)	-43

BEE normalised headline earnings



- Asset management 2009 earnings: R442m
- SIP through the cycle return: R1 057m
- Retailed planned margin and management fees: R1 089

Liberty Group Limited CAR cover



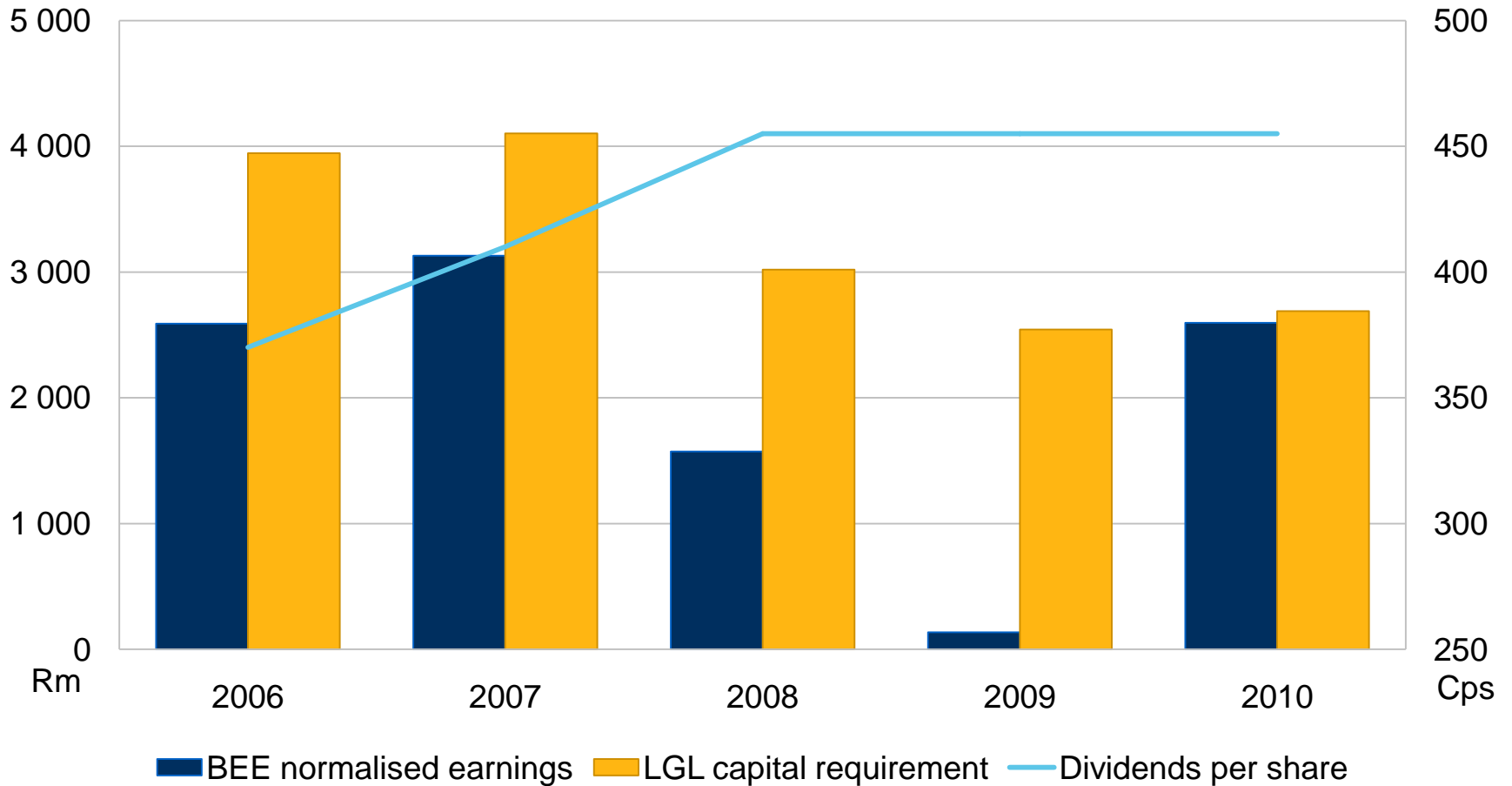
LGL TCAR	3 945*	3 510	3 020*	2 542*	2 532
LGL OCAR	3 315	4 102*	2 204	2 515	2 688*
LGL "Group" CAR cover	1.99x	1.80x	2.14x	2.19x	2.26x

* Applicable CAR

Dividends

Per dividend cycle – cents per share	Dec 10	Dec 09
Interim	164	164
Final	291	291
Total	455	455
Rm – as declared per calendar year		
Interim	469	469
Final	832	832
Total	1 301	1 301
BEE preference dividends and redemption	(117)	(101)
Net distribution	1 184	1 200

Capital management and dividend sustainability



Solvency II, SAM and IFRS4 developments

- Solvency Assessment and Management (SAM)
 - Based on principles of Solvency II
 - Planned implementation January 2014
 - Parallel run during 2013
 - High level of uncertainty re final proposals
- IFRS4
 - Significant comment received to the IASB exposure draft (248 comment letters)
 - Considerable differences of opinion on key aspects (residual margin, acquisition costs, definition, transition proposals, reference discount rates, etc)
 - Standard targeted June 2011 (seems optimistic) with probable 2-3 year implementation period
 - High level of uncertainty re final standard

Financial performance dashboard

Earnings

Operational earnings



Shareholders' Investment Portfolio



Insurance sales, new business strain



Assets under management



Dividends



Group Embedded Value

Expected return \pm variances,
assumption changes



Return on NAV, investment variances,
economic assumption changes



Value of new business



Value of non-life subsidiaries



■ Conclusion

Outlook 2011

Emerging economies will need to contain rising inflation against the desire to maintain a high growth rate

Positive outlook as long as SA generates sustainable increase in investment and employment

Key focus areas 2011

Retail SA

- Focus on volumes, costs, value of new business and product innovation

Asset management and institutional

- STANLIB's new operating model being implemented
- Systematically build STANLIB's ability and reputation for sustainable excellent investment performance
- Leverage market opportunities for the corporate and property businesses

Growth cluster

- Achieving the business cases in respect of CfC, Health, Frank.net and the revised bancassurance agreement

Conclusion – 2010

- Successful customer retention programme
- Liberty Corporate gearing up for growth
- LibFin delivering on its mandate
- STANLIB operating model finalised and investment performance improving
- Liberty Properties continues consistent good delivery
- Growth cluster
 - Bancassurance contract extended
 - Frank.net launched
 - Good potential for Africa and Health

Successful delivery on 2010 objectives; 2011 objectives clear

Questions?



LIBERTY

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LIBERTY HOLDINGS LIMITED

2010 INTERIM RESULTS



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