

## **FITCH REVISES SOUTH AFRICA'S LIBERTY GROUP LTD'S OUTLOOK TO STABLE, AFFIRMS IFS AT 'AA(ZAF)'**

Fitch Ratings-London/Johannesburg-19 July 2011: Fitch Ratings has revised South Africa-based Liberty Group Limited's (LGL) rating Outlook to Stable from Negative and affirmed its National Insurer Financial Strength (IFS) rating at 'AA(zaf)' and National Long-term rating at 'AA-(zaf)'. Fitch has simultaneously affirmed LGL's subordinated debt issue rating at 'A+(zaf)'.

The revision of the Outlook to Stable reflects the structural improvement in how LGL manages its policyholder persistency. Favourably, the company's actual persistency experience has been better than its forecasted experience and no material persistency assumption changes were made in 2010. Fitch recognises that LGL's new business margins remain low as it continues to be adversely affected by the 2008 and 2009 strengthening of persistency assumptions, the impact of fixed cost strain due to reduced sales volumes and the relative increase in acquisition costs. However, Fitch expects some recovery in these margins in H211 following the company's review of actuarial assumptions that will likely be adjusted to reflect the improved persistency experience. As a result, the agency expects LGL's prospects for reporting better earnings to be placed on a stronger footing.

The rating rationale is based on LGL's robust capital position, its strong and diversified distribution networks, well-established franchise in South Africa and enhanced risk management. Furthermore, Fitch considers the strength and diversity of LGL's distribution network and success in bancassurance with the Standard Bank group as key positive rating factors. Offsetting these positives is earnings volatility stemming from the group's exposure to investment market conditions.

In 2010, the group generated substantially higher headline earnings of ZAR2,522m (2009: ZAR42m) with the return on group embedded value increasing to 13.4% from negative 6.5% at end-2009. This was attributable to the improved performance in the South African life insurance businesses, improved persistency experience and the absence of investment-related losses that marred 2009 results. New life business margin on a present value of new business premiums basis fell slightly to 1.2% in 2010 (2009: 1.3%) due mainly to lower policy volumes as a result of the group focusing on writing sustainable quality business and proportionately higher sales of lower-margin investment products. Fitch believes that LGL remains relatively well-capitalised, with a published capital adequacy requirement cover of 2.7x at end-2010 (end-2009: 2.8x).

Although Fitch expects an upgrade as being unlikely in the near to intermediate term, the key rating drivers that could result in an upgrade include continued improvement in the group's operating performance, an improvement in total life new business margin towards the group's medium-term target of 2.5%, growth in new business volumes and continued capitalisation at strong levels.

The key rating drivers that could result in a downgrade include sustained poor operating performance driven by deterioration in persistency experience and lower new business margins, a significant reduction in the group's capitalisation based on Fitch's own assessment or a drop in LGL's regulatory capital adequacy requirement ratio to below 1.7x, and a severe weakening in the company's market position.

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Applicable criteria, 'Insurance Rating Methodology' dated 31 March 2011; 'Life Insurance Rating Methodology (Global)' dated 31 March 2011; 'National Ratings Criteria' dated 19 January 2011; and 'Insurance Industry: Global Notching Methodology and Recovery Analysis', dated 31 March 2011, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Life Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=612905](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=612905)

National Ratings Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=595885](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=595885)

Insurance Industry: Global Notching Methodology and Recovery Analysis

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=614265](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=614265)

Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=614266](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=614266)

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