



MEDIA RELEASE

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LIBERTY HOLDINGS ANNOUNCES YEAR END PROFIT ON STRONG SECOND HALF PERFORMANCE

Salient Features

- Marked improvement in persistency
- Positive earnings for the year - strong recovery in the second half of the year
- Core insurance earnings positive in the second half despite conservative modelling and assumptions
- Costs well controlled
- Diversification and Africa strategy progressing well

Financial Summary

- BEE normalised headline earnings per share 47c (558.3 FY08)
- BEE normalised embedded value per share 84.32c (95.12 FY08)
- Group indexed new business down 8% to R4 412m (R4 782 FY08)
- CAR cover position up 6% on prior year to 2.8 times.
- Full year cash distribution of 455cps, in line with FY 08

Commenting on the results Liberty CEO Bruce Hemphill said:

“The global financial crisis meant that 2009 was a year of two halves, for both the South African economy and for Liberty. The first half was characterised by falling markets and consumer strain against dramatic market recovery in the second half which benefited our balance sheet but not the consumer. We mobilised rapidly to address challenges exacerbated by the economic crisis. This included:

- Focused management on the persistency challenges in the core insurance business - against which we took swift remedial action, and which is already showing positive results.
- Reinforced our conviction about the need for good balance sheet management, which forced us to accelerate the strategy to improve balance sheet management and we are now within market risk appetite.
- Confirmed the need to continue to diversify the business – which is progressing well.

We have made good progress in implementing operational changes and have benefited from strengthened customer retention, resulting from management action, and strong equity markets, ending the year with a positive R135m in BEE normalised headline earnings. As a consequence the business is in much better shape from a risk, operational and financial perspective.”

Overview

The global financial crisis and the ensuing economic recession meant that 2009 was a year of two halves; the first characterised by an unprecedented collapse in markets and deteriorating disposable income. The second half was defined by an equally dramatic recovery in markets leading to a strong balance sheet recovery but a marginal improvement in consumer conditions and consequent marginal impact on sales and revenue.

In the first half of 2009, when it seemed global markets were on the precipice, Liberty accelerated its Board-approved capital risk strategy. Against all expectations, this coincided with the bottom of the market leading to mark to market losses of R519m. Simultaneously, the decline in consumption spending, in an economy that eventually shed over 900 000 jobs, triggered a marked deterioration in Liberty’s persistency (customer retention), which necessitated changes to both short and long term persistency assumptions. This resulted in an insurance loss of R685m and, combined with the mark to market losses, contributed to the headline loss for the first half of the year of R1,2bn.

Liberty made a strong recovery in the second half of the year, with earnings up significantly on the first half. A strong bull market in the second half of the year, together with focused management intervention at the life and asset management businesses, contributed to a dramatic second half improvement, with BEE normalised earnings of R1.3bn for the half and BEE normalised headline earnings of R135m for the full year under review.

Trading conditions were difficult with consumption expenditure deteriorating under the weight of the country's first recession in more than 17 years. Capital adequacy cover is a healthy 2.8x covered, up 6 percent on prior year, and at its highest level in seven years. Full year BEE normalised headline earnings per share was 47.2cents, which is marginally higher than analysts' consensus.

Liberty announced a full year cash distribution of 455c per share, in line with 2008.

Financial Summary

Indexed new business was down 8% to R4,4bn, a satisfactory outcome given economic conditions, while assets under management increased 8% to R363bn. BEE normalised embedded value per share increased from R79 at the half year to R84 for the full year, including the 164 cents per share interim cash distribution paid in the year and after adjusting for the increased cost of capital associated with the restructured shareholder's investment portfolio.

Strategic and Operational Overview

Liberty has benefited from a strategic review of its operations and worked to overcome key challenges to the business including: management of the balance sheet, persistency in the life business and investment performance.

A comprehensive plan to address persistency in the Life business is bearing fruit. The customer retention programme will remain focused on enhancing management information, improving operational practices to limit policy withdrawals, continuing to address internal and external churn on key products, and developing product migration

options. Liberty purchased the balance of the shareholding in STANLIB, to diversify and expand our income base. Despite difficult market conditions in the past two years, STANLIB has generated returns consistent with the original valuation. STANLIB has appointed a highly respected team of investment professionals, headed by Thabo Dloti as Chief Executive, Stewart Rider as CIO, and Patrick Mamathuba as CIO of STANLIB Alternatives.

Another outcome of the strategic review that has already been implemented is ensuring that LibFin is optimally structured. Mandated to build excellence in managing Liberty's balance sheet, LibFin manages the Group's exposure to market, credit and liquidity risks in line with Board-approved market risk appetite as well as delivering appropriate investment performance from asset managers for customers and shareholders.

LibFin carries out its mandate in two distinct components, one being the management of market risk, and secondly the management and investment of the long term shareholder and policyholder assets. In order to make this distinction clearer, we structured LibFin into two defined areas LibFin Markets and LibFin Investments.

LibFin Markets is responsible for reducing the capital costs and income statement volatility arising primarily from insurance products through an active asset liability management programme. It is LibFin Investments' responsibility to ensure appropriate long run, through the cycle investment performance of shareholder and policy holder assets.

The group's diversification and growth strategy continues to progress well. A number of acquisitions in Africa have laid the platform for a regional consolidation strategy in East and Southern Africa. Liberty Health which was established in 2007 and in which Liberty Holdings now owns 74,9%, has over 240 000 lives under administration. Liberty Properties continued to progress well with earnings up by 24% to R72m. The development project pipeline for Liberty Properties is approximately R3 billion, most of which is scheduled for delivery during 2010.

Detailed Operational Review

Liberty Individual Life (Now Liberty Retail)

The Life business had a challenging year. South Africa slid into recession for the first time in 17 years, eventually resulting in over 900 000 jobs lost. The impact on disposable income was dramatic and was felt by the Life business through both higher policy lapses and lower sales. Compounding matters, new commission regulations came into effect in January 2009, stipulating lower up front commissions' payments on investment and retirement products, which saw many intermediaries increase their focus on sales of risk business, where commission structures remain unchanged.

In the midst of extreme market volatility, fear and uncertainty in investment markets meant customers were less willing to make long term investment decisions and were looking for much lower risk investment propositions, favouring money market and guaranteed products. Liberty had limited supplies of low risk investment products such as Guaranteed Capital Bonds and unlisted property portfolio, which meant that some sales opportunities were missed.

SA Retail indexed new business volumes were down 4% as a result of the impact of persistency initiatives in the second half, a reduction in single premium sales while an earlier cut off for submission of new business gave rise to a shorter sales year with only 51 weeks of sales counted in the 2009 financial year, as opposed to 53 weeks in 2008. Headline earnings were down 86% to R171m. Individual insurance margins improved in the second half but remain below target mainly due to the higher risk discount rate and the impact of the persistency adjustments made in the second half.

Notwithstanding the operating environment, in the second half of the year management took action to address Liberty specific challenges. As a result, the group's persistency experience was better than expectations and no further adjustment to the assumptions on our major product lines was made. This means the current persistency initiatives are taking hold and delivering results.

Looking ahead, the company will continue to focus on the balance of the 18 month retention programme in 2010 and will additionally focus on developing specific strategies to improve productivity and lower distribution costs – this is already better enabled by the fact that the marketing and distribution business is consolidated as part of the retail business.

Corporate

The tough economic climate has had a negative impact on Liberty Corporate's new business levels overall, particularly in the traditional market space of small and medium sized enterprises. Despite difficult market conditions, scheme terminations in 2009 reduced by 25% against 2008 and the business met all its retention targets for 2009. Headline earnings of R118m before the fund administration project decreased by 22% year-on-year. This was largely due to lower management fees on a lower asset base and an increase in the number and size of risk claims.

Net cash flows, showed some improvement against 2008 and I am pleased with the progress being made to improve operational efficiencies.

STANLIB

Volatile equity markets, in the first half of 2009, revealed constraints in parts of the investment management process at STANLIB. Management committed to addressing this by reviewing the management and business processes underpinning the investment approach and has delivered on this commitment.

Rex Tomlinson led a review of people and processes, bringing his extensive leadership skills to bear when they were needed most. Subsequent to the review, Liberty appointed:

- Thabo Dloti as Chief Executive of the institutional cluster which incorporates STANLIB;
- Stewart Rider as CIO;
- Patrick Mamathuba as CIO of STANLIB alternatives, and
- 4 highly respected investment professionals with over 60 years of combined experience in a deliberate attempt to deepen the experience of the team.

Management has reviewed all investment processes and is in the process of standardising equity research; we have tightened accountability for the execution of our investment strategy; and we have improved risk management.

Stanlib's core strength and capabilities is in balanced funds which continued to do well, although certain specialist equity funds underperformed. Good tactical asset allocation and outperformance from bonds, property and offshore asset classes shielded balanced funds from the below benchmark performance of the equity portfolio. The depth and strength of STANLIB's balanced funds is borne out by the fact that the asset manager recently won 7 Raging Bull awards, more than any other investment house.

The performance of the majority of Life Balanced funds was marginally behind benchmark for the 2009 year. Significantly, over the medium term, and typical investment periods of 3 and 5 years these funds outperformed. The underperformance of equity blocks in the life funds was driven by a long term strategy to hold quality stocks within the portfolio during a period when highly geared and risky stocks rallied. Funds with a high equity component in more quality companies have therefore delivered relatively poor performance over the 12 months.

STANLIB sales were up 9% to R151bn. The group purchased the balance of the shareholding in STANLIB in 2007, to diversify and expand its income base. This year's earnings of R353m provide a good return on this investment.

Africa

Liberty Africa contributed R29m to group earnings this year compared to a negative R1 million in 2008 and it is the group's intention to grow its contribution to earnings significantly in 2010. Assets under management ended the year at R23 billion, up by R4 billion, or 22% on 2008 which is a great result in the circumstances.

The acquisition of the non-banking entities of CfC Stanbic in Kenya was significant in 2009. The CfC deal, which is expected to be finalised shortly, enables Liberty to provide the full spectrum of wealth services in East Africa.

Liberty's regional and product expansion efforts have focused on expanding life, health and short term insurance within the Eastern, Southern and Western regions of Africa. The significant win for 2009 was the acquisition of the non-banking entities of CfC Stanbic in Kenya. Our focus for 2010 will be on bedding down the East Africa business. In Namibia, we acquired United Funeral Insurance and we have concluded a transaction to purchase Standard Bank's share of the asset management and unit trust companies in Namibia.

Health

Liberty Health has grown strongly since it was established in 2007. Revenue was up five-fold to R390m. However significant establishment costs in the business's first year of operations have meant that the business recorded a net operating loss of R62 million, 6% down on FY08.

The strategy for Liberty Health is to differentiate ourselves by offering technology solutions, in addition to healthcare administration and managed care and to expand into Africa. In 2009 we increased our shareholding in Liberty Health by 24.8% which took us to our targeted ownership level of 74.9%. Liberty recently secured the administration of Spectramed in South Africa, which took on the administration of 110 000 lives from January 2010. Liberty Health now administers over 320 000 lives in South Africa. Liberty Health currently operates in eight African countries, and plans to expand to the rest of the 17 countries in which Standard Bank operates. In 2009, Liberty Health acquired a 35% stake in THT, a Nigerian medical insurer with over 200 000 lives under administration. In late 2009 this stake was increased to 40%. THT now uses our IT services. Member and dependent lives receiving both admin and IT services (which is Liberty Health's key measure) have increased from 267 000 12 months ago to almost 600 000 at present.

Properties

New fee income at Liberty Properties was up 35% to R209m for the year, with headlines earnings of R72m up 24% from FY08. In 2009, Properties' expansion into Africa got underway with it securing its first third-party client development mandate for a mixed-use development in Lusaka, valued at R1 billion.

Liberty Properties has a property portfolio exceeding R22 billion. The development project pipeline for Liberty Properties is approximately R3 billion, most of which is scheduled for delivery during 2010. Some of the key projects underway are:

- Phase 1 of the R1.7 billion extension and refurbishment of Sandton City, which is progressing well, and is expected to be completed before the start of the 2010 Soccer World Cup. We expect completion of the full project by 2011.
- Properties also completed phase 1 of the R600 million extension of Eastgate mall.

- The R375 million extension of the Liberty Promenade shopping centre which is due to be completed in the third quarter of 2010.

Results of the strategic and operational review

In August 2009, Liberty undertook to conduct a strategic and operational review. The review recommended the establishment of a structure that allows end-to-end ownership of and accountability for the value drivers of all of the key business areas, particularly the core South African retail businesses.

The business is now structured as follows:

- SA retail business:
 - This is a consolidation of marketing and distribution, individual life, parts of group professional services, such as actuarial and finance, and the retail component of Stanlib.

- Institutional business and Asset Management:
 - This comprises STANLIB, Liberty Properties and Liberty Corporate.

- Business Development:
 - This is the consolidation of various areas into a growth cluster, responsible for:
 - Supporting geographic expansion;

- Broadening our wealth business lines; and
 - Maintaining strategic partnerships.
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- Liberty Africa: will continue to drive our African expansion, focusing specifically on management of operations, marketing and other support functions.
 - LibFin will continue to manage the market, liquidity and credit risks on the balance sheets of all the insurance licenses, and will monitor and review the investment portfolios on behalf of shareholders and policyholders.
 - Group Functions will support the business in the areas of strategic services, information technology and group finance.

People and Transformation

In any organization, people are the driving force behind delivery and there is a well recognised war for talent in South Africa. Liberty was able to reduce staff turnover as well as retain key talent across the business. Staff participation and satisfaction scores improved to above-benchmark levels of 70% in 2009. There has been satisfactory progress considering the financial and economic challenges of 2009. 83.1% of appointments made in 2009 were black while 70.8% of managerial level positions were filled by black appointments.

Going forward

Liberty will continue to convert challenges into opportunities. The Group is seeing the results of new structures and enhanced management teams, and remains operationally strong, with a healthy capital position and balance sheet within market risk appetite.

Concluding on the results presentation, Bruce Hemphill said “The economic crisis highlighted challenges in our business that we have addressed. We have confidence in the streamlining of our core operations and the solid progression of our diversification and growth strategy and that we have the right people and the right processes in place to deliver value to shareholders over the longer term.”

The economic outlook for 2010 is positive as the global economy emerges from recession, however, there is still some uncertainty about economic stability in certain developed economies. Our key domestic focus areas for 2010 will be to grow our core insurance business by improving policyholder persistency and new business margins. We believe that this, together with the impact of corrective actions taken at STANLIB, growth in Liberty Africa, the development of Liberty Health and the positive economic climate positions the group favourably for the future.

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